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PROXY STATEMENT, PROSPECTUS AND
CONSENT SOLICITATION

TESORO PETROLEUM CORPORATION

OFFER TO EXCHANGE 13% EXCHANGE NOTES DUE DECEMBER 1, 2000 FOR UP TO $54,500,000 OF THE AGGREGATE PRINCIPAL AMOUNT OF ITS EXISTING 12 3/4% SUBORDINATED DEBENTURES DUE MARCH 15, 2001

1993 ANNUAL MEETING OF STOCKHOLDERS AT WHICH A VOTE WILL BE TAKEN TO RECLASSIFY 1,319,563 SHARES OF $2.16 CUMULATIVE CONVERTIBLE PREFERRED STOCK INTO APPROXIMATELY 6,465,859 SHARES OF COMMON STOCK AND TO APPROVE AMENDMENTS TO THE CERTIFICATE OF INCORPORATION OF THE COMPANY

This Proxy Statement, Prospectus and Consent Solicitation (the 'Proxy Statement -- Prospectus') constitutes (i) the Prospectus of Tesoro Petroleum Corporation with respect to its 13% Exchange Notes due December 1, 2000 ('Exchange Notes') and shares of Common Stock, $.16 2/3 par value ('Common Stock'), of Tesoro Petroleum Corporation to be issued pursuant to a proposed Recapitalization, (ii) the Proxy Statement of Tesoro Petroleum Corporation to be used in soliciting proxies from its stockholders to be voted at its 1993 Annual Meeting of Stockholders to be held on Wednesday, February 9, 1994 (the 'Annual Meeting') in connection with the proposed Reclassification, certain proposed amendments to its Certificate of Incorporation, the election of directors and other matters and (iii) the Consent Solicitation of Tesoro Petroleum Corporation to be used in soliciting consents from the holders of its 12 3/4% Subordinated Debentures due March 15, 2001 ('Subordinated Debentures') to certain amendments to the indenture governing the Subordinated Debentures. The Recapitalization consists of the Exchange Offer, the Reclassification, the Charter Amendments, the Indenture Amendments and the agreements to be entered into pursuant to the Amended MetLife Memorandum, all as defined and described below.

THE EXCHANGE OFFER

FOR EACH	THE HOLDER WILL RECEIVE
$1,000 Principal Amount of 12 3/4% Subordinated Debentures (up to $54.5 million aggregate principal amount)	$1,000 Principal Amount of 13% Exchange Notes

THE RECLASSIFICATION

1.0 Share of $2.16 Cumulative Convertible Preferred Stock ('$2.16 Preferred Stock'), including all accrued and unpaid dividends	4.9 Shares of Common Stock

The Company will also issue .1 share of Common Stock for each share of $2.16 Preferred Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation. See 'The Recapitalization -- Croyden Associates' Litigation.'

THE AMENDED METLIFE MEMORANDUM

Pursuant to the Amended MetLife Memorandum, MetLife Louisiana, the sole holder of the $2.20 Preferred Stock (as hereinafter defined), will agree, subject to certain conditions, to waive all mandatory redemption requirements, to consider all accrued and unpaid dividends on the $2.20 Preferred Stock to have been paid (aggregating approximately $20.0 million at November 30, 1993), to allow the Company to pay future dividends on the $2.20 Preferred Stock in Common Stock in lieu of cash, to waive or refrain from the exercise of other rights under the $2.20 Preferred Stock, and to grant to the Company an option to purchase all shares of $2.20 Preferred Stock and Common Stock held by MetLife Louisiana, all in consideration for, among other things, the issuance by the Company to MetLife Louisiana of 1,900,075 shares of Common Stock.

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON FEBRUARY 8, 1994, UNLESS EXTENDED. THE RECLASSIFICATION WILL BE VOTED ON AT THE ANNUAL MEETING TO BE HELD ON FEBRUARY 9, 1994.

THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. SEE 'RISK FACTORS.' THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT -- PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

(cover continued on next page)

The date of this Proxy Statement, Prospectus and Consent Solicitation is January 3, 1994.

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This Proxy Statement -- Prospectus, together with the accompanying Consent and Letter of Transmittal, is first being sent on or about January ----, 1994, to all stockholders of record of Tesoro Petroleum Corporation, a Delaware corporation (collectively with its consolidated subsidiaries, unless the context otherwise requires, the 'Company'), and to all the holders of record of Subordinated Debentures (the 'Debentureholders').

The Company hereby offers, upon the terms and subject to the conditions set forth in this Proxy Statement -- Prospectus and in the accompanying Consent and Letter of Transmittal, to exchange $1,000 principal amount of Exchange Notes for each $1,000 principal amount of Subordinated Debentures, up to a maximum aggregate principal amount of $54,500,000 of Subordinated Debentures (the 'Maximum Amount'), as described below. This Proxy Statement -- Prospectus and the Consent and Letter of Transmittal together constitute the 'Exchange Offer.'

If the requisite consents to the Indenture Amendments (as hereinafter defined) are obtained, the Exchange Notes will be senior debt of the Company, senior in right of payment to all subordinated indebtedness of the Company, including the Subordinated Debentures and the ANS Debt (as hereinafter defined). Assuming the requisite consents to the Indenture Amendments are obtained, the Exchange Notes would be pari passu with $27 million of other senior debt as of November 30, 1993 and effectively subordinated to $67.8 million of secured debt and debt of the Company's subsidiaries. If the requisite consents to the Indenture Amendments are not obtained, the Exchange Notes will be senior in right of payment to the ANS Debt and all other subordinated indebtedness of the Company, pari passu with $27 million of other senior debt of the Company as of November 30, 1993 and with the Subordinated Debentures, and effectively subordinated to $67.8 million of secured debt and debt of the Company's subsidiaries. Assuming the minimum amount of Subordinated Debentures are tendered and accepted in the Exchange Offer and the requisite consents to the Indenture Amendments are not obtained, as of November 30, 1993, $129.5 million of debt will be either secured or effectively senior to the Subordinated Debentures such that such debt will rank before the Subordinated Debentures in liquidation or bankruptcy, and $49.5 million of debt will be pari passu with the Subordinated Debentures. Assuming the maximum amount of Subordinated Debentures are tendered and accepted in the Exchange Offer, as of November 30, 1993, $184 million of debt will be either secured or effectively senior to the Subordinated Debentures such that such debt will rank before the Subordinated Debentures upon liquidation or bankruptcy, and $27 million of debt will be pari passu with the Subordinated Debentures. Interest on the Exchange Notes will commence to accrue at the annual rate of 13% as of the date on which the Exchange Notes are issued in exchange for Subordinated Debentures. Interest on Subordinated Debentures accepted for exchange into Exchange Notes will accrue to, but cease on, such date. Such accrued but unpaid interest on Subordinated Debentures will be paid in cash as soon as practicable after the Subordinated Debentures are accepted for exchange. Interest on the Exchange Notes will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 1994. See 'Description of Exchange Notes.'

Concurrently with the Exchange Offer, the Company is soliciting from the Debentureholders consents to amendments (the 'Indenture Amendments') to the Indenture dated as of March 15, 1983 (the 'Existing Indenture'), between the Company and NBD Bank, N.A., formerly National Bank of Detroit, as trustee (the 'Debenture Trustee'), pursuant to which the Subordinated Debentures were issued (the 'Consent Solicitation'). The Indenture Amendments will make the Exchange Notes senior in right of payment to the Subordinated Debentures and modify the restriction that currently prohibits the Company from declaring or paying dividends on the Common Stock, making any distributions to its stockholders or purchasing or redeeming its capital stock. The restriction under the Existing Indenture does not prohibit any aspect of the Recapitalization or prohibit the Company from paying dividends on the $2.16 Preferred Stock or $2.20 Preferred Stock, however, the proposed amendment will afford the Company greater flexibility in purchasing or redeeming shares of $2.20 Preferred Stock and Common Stock in the future. The Company will continue to be prohibited under the Existing Indenture from exercising the Company's MetLife Option (as defined below) in full in

the absence of future earnings or sales of capital stock of the Company. THE VALID TENDER OF SUBORDINATED DEBENTURES BY A DEBENTUREHOLDER PURSUANT TO THE EXCHANGE OFFER WILL INCLUDE THE CONSENT OF SUCH DEBENTUREHOLDER TO THE INDENTURE AMENDMENTS WITH RESPECT TO SUCH TENDERED SUBORDINATED DEBENTURES. The consents of holders of at least a majority in outstanding principal amount of Subordinated Debentures are necessary to effect the Indenture Amendments. As of December 15, 1993, there was approximately $108.8 million aggregate principal amount of Subordinated Debentures outstanding. See 'Proposed Amendments to Existing Indenture -- Solicitation of Consents; Indenture Amendments.'

The Company's obligation to consummate the Exchange Offer is subject to several conditions, including (i) at least $22.5 million in outstanding principal amount of Subordinated Debentures shall have been validly tendered and not withdrawn on or prior to the Expiration Date (as hereinafter defined), and (ii) other customary conditions. The Company reserves the right, subject to certain limitations, to withdraw, cancel, modify or terminate the Exchange Offer. See 'The Exchange Offer -- Conditions of the Exchange Offer.' Subordinated Debentures tendered pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date. See 'The Exchange Offer -- Revocation and Withdrawal.'

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The Exchange Offer will expire at 5:00 p.m., New York City time, on February 8, 1994, subject to extension by the Company by notice to the Exchange Agent as herein provided. The term 'Expiration Date' means 5:00 p.m., New York City time, on February 8, 1994, unless and until such time as the Company shall have extended the period of time for which the Exchange Offer is open, in which event the term 'Expiration Date' shall mean the latest time and date to which the Exchange Offer is extended by the Company. After the Expiration Date, Subordinated Debentures may no longer be tendered for exchange.

This Proxy Statement -- Prospectus also constitutes the Proxy Statement of the Company relating to the Annual Meeting and will be used in the solicitation of proxies from the Company's stockholders in connection with a proposed reclassification (the 'Reclassification') of the $2.16 Preferred Stock into Common Stock and certain amendments to the Company's Certificate of Incorporation (the 'Charter Amendments'), all as described below, and certain other matters described herein. Each outstanding share of $2.16 Preferred Stock (including all accrued and unpaid dividends) will be reclassified into 4.9 shares of Common Stock. In addition, the Company will issue .1 share of Common Stock for each share of $2.16 Preferred Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation. See 'The Recapitalization -- Croyden Associates' Litigation.' At November 30, 1993, accrued and unpaid dividends on the $2.16 Preferred Stock aggregated approximately $8.9 million ($6.75 per share). One Purchase Right ('Purchase Right') will be simultaneously issued with respect to each new share of Common Stock issued in the Reclassification pursuant to the Rights Agreement dated December 16, 1985, as amended, between the Company and Chemical Bank, N.A. ('Chemical Bank'), Trustee, successor to InterFirst Bank Fort Worth, N.A. The Purchase Rights outstanding at the time the Reclassification is consummated will not be affected by the Reclassification. The Company's Certificate of Incorporation will be amended to (i) eliminate staggered terms of directors, (ii) require, in the absence of the approval of 66 2/3% of the disinterested directors, the approval of the holders of at least 80% of the Company's outstanding shares of capital stock to amend, in a manner adverse to the Company, the Amended MetLife Memorandum or an agreement to be entered into between the Company and MetLife Security Insurance Company of Louisiana (together with its affiliates, unless the context otherwise requires, 'MetLife Louisiana'), a wholly-owned subsidiary of Metropolitan Life Insurance Company ('MetLife'), pursuant to which MetLife Louisiana will grant the Company a three-year option to acquire all shares of $2.20 Preferred Stock and Common Stock held by MetLife Louisiana upon effectiveness of the Reclassification, plus any shares of Common Stock issued in lieu of payment of cash dividends on such shares of $2.20 Preferred Stock (the 'Company's MetLife Option'), and (iii) eliminate, upon the occurrence of certain events, the

requirement that certain transactions by the Company with beneficial holders of 10% or more of the Company's outstanding shares of capital stock be approved by the holders of at least 80% of the Company's outstanding shares of capital stock. The proposal relating to the Reclassification and the Charter Amendments to eliminate staggered terms of directors and establish the amendment approval requirement ('Proposal No. 1') requires the approval of the holders of a majority of the outstanding shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class, and the approval of the holders of two-thirds of the outstanding shares of $2.16 Preferred Stock, voting as a separate class. The proposal relating to the Charter Amendments to eliminate the 80% approval requirement ('Proposal No. 2') requires the approval of the holders of 80% of the outstanding shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class.

The sole holder of the $2.20 Preferred Stock is MetLife Louisiana. MetLife Louisiana, which holds shares of $2.20 Preferred Stock and Common Stock constituting approximately 28% of the outstanding shares of capital stock entitled to vote at the Annual Meeting, has indicated to the Company that it intends to vote all its shares in favor of Proposal No. 1 and Proposal No. 2. See 'The Recapitalization -- MetLife Louisiana Conditions.'

Effectiveness of Proposal No. 2 is conditioned upon effectiveness of Proposal No. 1. MetLife Louisiana's agreement to support Proposal No. 1 is subject to effectiveness of Proposal No. 2, consummation of the Exchange Offer and other conditions. See 'The Recapitalization -- MetLife Louisiana Conditions.'

Jefferies & Company, Inc. ('Jefferies') has opined and, as a condition to the Reclassification, will confirm their opinion immediately prior to the consummation of the Reclassification to the effect that the Reclassification is fair from a financial point of view to the holders of $2.16 Preferred Stock and to the holders of Common Stock.

As of December 15, 1993, there were issued and outstanding 14,069,236 shares of Common Stock, 1,319,563 shares of $2.16 Preferred Stock, 2,875,000 shares of $2.20 Preferred Stock and approximately $108.8 million aggregate principal amount of Subordinated Debentures. The Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol TSO, and on December 27, 1993, the closing sale price of the Common Stock on the New York Stock Exchange was $5.625 per share. The $2.16 Preferred Stock is listed on the New York Stock Exchange under the symbol TSO Pr, and on December 27, 1993, the closing sale price of the $2.16 Preferred Stock on the New York Stock Exchange was $21.125 per share. The Subordinated Debentures are listed on the New York Stock Exchange, and on December 27, 1993, the closing sale price of the

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Subordinated Debentures on the New York Stock Exchange was $1001.25 per $1,000 principal amount.

No appraisal rights are available to Debentureholders or stockholders of the Company with respect to any aspect of the Recapitalization.

Smith Barney Shearson Inc. ('Smith Barney') is acting as financial advisor to the Company in connection with the Recapitalization and will be compensated therefor. For information regarding the relationship of Smith Barney to the Company and the indemnification of and the fees to be paid to Smith Barney, see 'Financial Advisor.'

Georgeson & Company Inc. (the 'Information Agent') has agreed to provide certain services as information agent for the Exchange Offer, Bankers Trust Company (the 'Exchange Agent') has agreed to provide certain services as exchange agent for the Exchange Offer and Chemical Bank has agreed to provide certain services as exchange agent for the Reclassification. See 'The Exchange Offer -- Exchange Agent and Information Agent.'

The total expenditures to be incurred in connection with the Recapitalization, including printing, accounting and legal fees, the maximum fees and the expenses of the financial advisor and the fees and expenses of the Information Agent, the exchange agents, New York Stock Exchange and the

Securities and Exchange Commission (the 'Commission'), are estimated to be approximately $4.0 million, all of which will be paid by the Company.

QUESTIONS AND REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES OF THIS PROXY STATEMENT -- PROSPECTUS AND THE ACCOMPANYING CONSENT AND LETTER OF TRANSMITTAL MAY BE DIRECTED TO THE INFORMATION AGENT OR THE EXCHANGE AGENT AS SET FORTH ON THE BACK COVER PAGE OF THIS PROXY STATEMENT -- PROSPECTUS.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROXY STATEMENT -- PROSPECTUS IN CONNECTION WITH THE MATTERS CONTAINED IN THIS PROXY STATEMENT -- PROSPECTUS, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON. THIS PROXY STATEMENT -- PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO PURCHASE, ANY SECURITIES OTHER THAN THE SECURITIES COVERED BY THIS PROXY STATEMENT -- PROSPECTUS, BY THE COMPANY OR ANY OTHER PERSON, OR AN OFFER OR SOLICITATION OF SUCH SECURITIES, OR THE SOLICITATION OF A PROXY OR CONSENT, IN ANY JURISDICTION, TO OR FROM ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION OR SUCH PROXY OR CONSENT SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PROXY STATEMENT -- PROSPECTUS NOR ANY DISTRIBUTION OF THE SECURITIES MADE UNDER THIS PROXY STATEMENT -- PROSPECTUS SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE OF THIS PROXY STATEMENT -- PROSPECTUS.

ADDITIONAL INFORMATION

This Proxy Statement -- Prospectus is a prospectus of the Company delivered in compliance with the Securities Act of 1933, as amended (the 'Act'). A registration statement on Form S-4 (the 'Registration Statement') under the Act has been filed by the Company with the Commission with respect to the securities offered hereby. As permitted by the rules and regulations of the Commission, this Proxy Statement -- Prospectus omits certain information contained in the Registration Statement on file with the Commission. For further information pertaining to the securities offered hereby, reference is made to the Registration Statement, including the exhibits filed as a part thereof. The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the 'Exchange Act'), and, in accordance therewith, files periodic reports, proxy statements and other information with the Commission. The Registration Statement, including the exhibits thereto, as well as such reports, proxy statements and other information, can be inspected and copied at the public reference facilities maintained by the Commission at Northwestern Atrium Center, 500 West Madison Street, 14th Floor, Chicago, Illinois 60661-2511 and 75 Park Place, 14th Floor, New York, New York 10007. Copies of such documents can be obtained from the Commission at prescribed rates by writing to it at 450 Fifth Street, N.W., Washington, D.C. 20549. Reports and other information concerning the Company are also available for inspection and copying at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, and the Pacific Stock Exchange, 115 Sansome, San Francisco, California 94104, on which exchanges certain securities of the Company are listed.

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SUMMARY

The following is a summary of certain information contained in this Proxy Statement -- Prospectus and is qualified in its entirety by the more detailed information, financial statements, including the notes thereto, and pro forma information contained elsewhere in this Proxy Statement -- Prospectus, all of

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which should be carefully reviewed. For the definition of certain terms used herein, see the Glossary set forth as Appendix A hereto.

THE COMPANY

The Company is a natural resource company engaged in the refining of crude oil, the marketing of certain refined products, oil and gas exploration and production, environmental product sales and oil field supply and distribution.

The Company was organized under the laws of the State of Delaware in 1968. Its principal executive offices are located at 8700 Tesoro Drive, San Antonio, Texas 78217, and its telephone number is (210) 828-8484.

BACKGROUND OF THE RECAPITALIZATION

General. The Company's operating results in recent years have been poor. These results have primarily been caused by (i) significantly lower operating results from the Company's refining and marketing operations, (ii) reduced revenues and operating profits from the Company's foreign exploration and production operations, and (iii) lower margins on sales of products from the Company's oil field supply and distribution segment. During the year ended December 31, 1992, the Company experienced a net loss of $65.9 million, or $5.34 per share, and it has experienced losses in five of its past seven fiscal years. Common Stock and Other Stockholders' Equity has declined from $137.0 million as of December 31, 1991, to $44.2 million as of September 30, 1993. During this period, the Company's stockholders' equity was adversely affected by, in addition to the factors discussed above, accrued and unpaid dividends of $27.4 million on the $2.16 Preferred Stock and $2.20 Preferred Stock (sometimes referred to herein collectively as the 'Existing Preferred Stock') and charges of $10.5 million for the settlement of a contractual dispute with the State of Alaska (the 'State'), $20.6 million for the cumulative effect of accounting changes relating to postretirement benefits and income taxes and $9.1 million for expenses to implement a cost reduction program and other employee terminations in 1992.

The Company's operations over the past several years have not generated cash sufficient to meet all of the Company's obligations. As a result, the Company has been unable to pay dividends on the Existing Preferred Stock and has relied, in part, on cash from the sale of assets to meet its other cash requirements.

The Company's Financial Requirements. The Company is subject to a number of significant financial requirements, including the following:

1. Debt service requirements

The Subordinated Debentures require sinking fund payments each March 15 sufficient to retire $11.25 million principal amount of Subordinated Debentures per year through 2000. Under its settlement agreement with the State (the 'ANS Agreement'), the Company is obligated to make variable monthly payments for at least nine years plus a payment of $60 million in 2002, subject to deferral (the 'ANS Debt'). Under a consent order with the U.S. Department of Energy (the 'DOE'), the Company is obligated to make payments aggregating $13.2 million, plus interest at the rate of 6% per annum, during the next nine years.

2. Existing Preferred Stock requirements

Pursuant to the terms of the $2.20 Preferred Stock, and as a result of accumulated dividend arrearages of 12 quarters, MetLife Louisiana currently has the option (the '2.20 Preferred Stock Put Option') to require the Company to redeem all of the outstanding $2.20 Preferred Stock out of funds

legally available therefor at $20 per share (an aggregate of $57.5 million), plus accrued and unpaid dividends (aggregating approximately $20.0 million or $6.97 per share at November 30, 1993). In addition, the $2.20 Preferred Stock provides for annual mandatory redemptions out of funds legally available therefor, beginning February 15, 1994, of 6 2/3% of the number of shares of $2.20 Preferred Stock outstanding on February 15, 1994, at a redemption price of $20 per share, plus accrued and unpaid dividends. Pursuant to an agreement dated March 24, 1993 (the 'MetLife Forbearance Agreement'), as amended, between the Company and MetLife Louisiana, the $2.20 Preferred Stock Put Option is not exercisable and the 1994 mandatory redemption is not required to be made until March 10, 1994, or earlier under certain circumstances. See 'The Recapitalization -- Background -- The Recapitalization.' The $2.20 Preferred Stock has an annual cash dividend obligation of approximately $6.3 million.

The terms of the $2.16 Preferred Stock require that, in connection with any redemption of the $2.20 Preferred Stock, all accrued and unpaid dividends on the $2.16 Preferred Stock (aggregating approximately $8.9 million or $6.75 per share at November 30, 1993) be paid. The $2.16 Preferred Stock has an annual cash dividend obligation of approximately $2.9 million.

The Existing Indenture includes covenants that currently prohibit the Company from redeeming the Existing Preferred Stock for cash. Moreover, even absent such prohibitions, the Company does not believe that its current financial resources are sufficient to make the payments that would be required upon exercise of the $2.20 Preferred Stock Put Option, and the Company may not be permitted under the Delaware General Corporation Law (the 'Delaware Law') to make such payment.

3. Working capital requirements

On October 29, 1993, in order to avoid a $700,000 facility fee, the Company elected to terminate its secured Letter of Credit Facility Agreement ('Letter of Credit Facility') with a group of banks. Letters of credit are issued to obtain crude oil feedstocks for the Company's refinery and for other operating and corporate needs. In connection with the termination, the Company negotiated

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certain interim credit arrangements in order to meet its near term operating and corporate credit requirements. With respect to these interim credit arrangements, the Company has entered into several uncommitted letter of credit facilities which provide for the issuance of letters of credit on a cash-secured basis and has entered into a substitution agreement with the Company's largest supplier of crude oil, to secure its purchases from this supplier through the end of 1994.

In order to provide the Company with additional financial liquidity, during October 1993, Tesoro Exploration and Production Company, a wholly-owned subsidiary of the Company ('Tesoro E&P'), entered into a $30 million reducing revolving credit facility (the 'E&P Facility') which is secured principally by its natural gas properties in the Company's South Texas gas field (the 'Bob West Field') and contains restrictions that prohibit borrowings under the facility to be used by Tesoro E&P or the Company for debt service, including interest and principal on the Subordinated Debentures, or for payment of common or preferred dividends. See 'The Recapitalization -- Background -- The Company's Financial Requirements.' In addition, the Company initiated discussions with several financial institutions with regard to providing a long-term credit facility to finance the Company's working capital requirements. Based on these discussions, the Company believes it will be able to enter into a long-term credit facility on terms more favorable than the Company's terminated Letter of Credit Facility upon successful completion of the proposed Recapitalization. If the Company is unsuccessful in completing the Recapitalization, and is thereafter unable to arrange a long-term credit facility, or is otherwise unable to arrange such a facility, the Company may be required to reduce its refinery throughput to reduce its working capital requirements. The Company is unable to predict if it would be able to operate the refinery at an economically viable rate under such circumstances.

4. Capital expenditure requirements

The Company anticipates that it will incur capital expenditures of approximately $40 million during 1993, approximately $29 million of which are expected to be incurred for the continuing development of the Bob West Field, and approximately $9 million of which are expected to be incurred to fund capital expenditures at the Company's Alaska refinery and to expand or enhance the Company's Alaska retail and wholesale marketing operations. Through September 30, 1993, the Company had incurred approximately $26 million of capital expenditures. Management of the Company has under consideration total capital expenditures for fiscal 1994 ranging from approximately $70 million to $80 million which would include approximately $29 million for the continued development of the Bob West Field and $32 million for the Alaska refinery, including $25 million associated with the upgrading of refinery hardware through the installation of a vacuum unit which will allow the Company to upgrade residual fuel oil into higher value products. The Board of Directors of the Company (the 'Board of Directors') has not approved the Company's proposed capital expenditures for fiscal 1994 and the Company anticipates that such approval will be subject to, among other things, the Board of Directors being satisfied with the Company's ability to finance such capital expenditures, and the consummation of the Recapitalization. The aggregate capital expenditures the Company will be able to incur in 1994 will also depend upon the Company's ability to generate funds from operations, financings and other sources.

The Company's Initial Response. In response to the factors described above, the Board of Directors made changes in management of the Company and the Company took the following actions:

1. Developed and implemented a market-driven operational strategy for the Company's refining and marketing operations. This strategy includes reducing refinery throughput and altering the mix of feedstocks, which is intended to enable the Company to match its refined product yield more closely to the product demand in Alaska.

2. Concentrated its domestic exploration and production activities in the Bob West Field and increased its net proved natural gas reserves in such field from 37 billion cubic feet at December 31, 1991, to 102 billion cubic feet at September 30, 1993.

3. Sold various interests in oil and gas properties in Indonesia and certain domestic properties outside of the Bob West Field for cash of $8.7 million during 1992.

4. Reduced general and administrative expenses by approximately 27% for the nine months ended September 30, 1993 when compared with the nine months ended September 30, 1992 as a result of asset sales, consolidations and cost reduction programs and other employee terminations.

5. Entered into the ANS Agreement, which settled its contractual dispute with the State concerning the price paid by the Company to the State in the past for Alaska North Slope royalty crude oil.

The Recapitalization. Management of the Company determined that the foregoing actions, although significant, would not be sufficient to solve the Company's financial difficulties. Accordingly, during the first quarter of 1993, the Company retained Smith Barney as Financial Advisor to assist the Company in reviewing the Company's financial condition and alternatives to improve such financial condition. As a result of its discussions with Smith Barney, management of the Company determined that, in light of the cash demands on the Company, it would be desirable to reduce its near-term debt sinking fund requirements and to reclassify the Existing Preferred Stock into other equity

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securities and thereby eliminate the $2.20 Preferred Stock Put Option, increase equity, reduce future cash obligations and provide that dividends and mandatory redemption payments on preferred stock be payable at the option of the Company in cash or shares of Common Stock or any combination thereof.

Based upon the market prices of the Common Stock and the $2.16 Preferred Stock, continuing discussions with various securityholders of the Company, including certain holders of a substantial principal amount of the Subordinated Debentures, continuing input from the Company's advisors,

the fact that the reclassification was not consummated prior to November 15, 1993 at which time an additional date for payment of dividends on the $2.16 Preferred Stock and the $2.20 Preferred Stock passed without payment thereof, and further consideration by the Special Committee of the Board of Directors (as hereinafter defined), the Company decided to propose the following:

1. The exchange of a minimum of $22.5 million and a maximum of $54.5 million of Subordinated Debentures for Exchange Notes.
2. The reclassification of the $2.16 Preferred Stock into an aggregate of approximately 6,465,859 shares of Common Stock.
3. The amendment of the Existing Indenture to modify the restriction that currently prohibits the Company from declaring or paying dividends on the Common Stock, making any distributions to its stockholders or purchasing or redeeming its capital stock.
4. An agreement with MetLife Louisiana, the sole holder of the $2.20 Preferred Stock, pursuant to which MetLife Louisiana (a) will agree to waive the $2.20 Preferred Stock Put Option and other $2.20 Preferred Stock mandatory redemption requirements, (b) will consider all accrued and unpaid dividends on the $2.20 Preferred Stock to have been paid, (c) will allow the Company to pay future dividends on $2.20 Preferred Stock in Common Stock in lieu of cash, (d) will waive or refrain from the exercise of certain other rights under the $2.20 Preferred Stock and (e) will grant to the Company an option to purchase all shares of $2.20 Preferred Stock and Common Stock held by MetLife Louisiana.

Since the $2.20 Preferred Stock will remain outstanding after consummation of the Recapitalization, the Company and MetLife Louisiana have entered into an Amended and Restated Memorandum of Understanding dated December 14, 1993 (the 'Amended MetLife Memorandum') pursuant to which MetLife Louisiana will agree to waive or refrain from taking action with respect to certain rights under the $2.20 Preferred Stock, including waiving the $2.20 Preferred Stock Put Option and the other annual mandatory redemption requirements of the $2.20 Preferred Stock, considering all accrued and unpaid dividends on the $2.20 Preferred Stock to have been paid and agreeing to allow the Company to pay future dividends on the $2.20 preferred Stock in Common Stock in lieu of cash. MetLife Louisiana will grant the Company a three-year option to acquire all shares of $2.20 Preferred Stock and Common Stock held by MetLife Louisiana at an initial aggregate option price of $51.5 million, subject to adjustments. Pursuant to the Amended MetLife Memorandum, the Company has agreed to issue to MetLife Louisiana upon consummation of the Reclassification an aggregate of 1,900,075 shares of Common Stock. See 'The Recapitalization -- Background -- The Recapitalization.'

PURPOSES AND EFFECTS OF THE RECAPITALIZATION

General. The Recapitalization consists of the following components: (i) the Exchange Offer, (ii) the Indenture Amendments, (iii) the Reclassification, (iv) the Charter Amendments and (v) the agreements to be entered into pursuant to the Amended MetLife Memorandum. The primary purposes of the Recapitalization are to improve the short-term and long-term liquidity of the Company and increase its equity capital.

As a result of the Recapitalization, on a pro forma basis at September 30, 1993, assuming consumation of the Reclassification and assuming a maximum acceptance of the Exchange Offer, ($54.5 million) total long-term debt and redeemable preferred stock would decrease from $257 million to approximately $186 million, current liabilities (excluding the current portion of long-term debt and amounts currently due on the $2.20 Preferred Stock) would decrease from approximately $77 million to approximately $68 million and Common Stock and Other Stockholders' Equity would increase from $44 million to $120 million. Under the same pro forma assumptions, book value per share of Common Stock would increase from $.80 to $2.78 and the number of shares of Common

Stock outstanding would increase from 14,069,799 to 22,567,689. See '-- Pro Forma Capitalization.'

Under the same assumptions, on a pro forma basis for the year ending December 31, 1992, interest expense would decrease from $21.1 million to $20.4 million and preferred stock dividends would decrease from $9.2 million to $6.3 million. See '-- Pro Forma Capitalization.' In addition, the dividends on the $2.20 Preferred Stock will, subject to certain conditions, be payable at the Company's option in shares of Common Stock. See '-- Selected Summary Pro Forma Financial Data.'

The Recapitalization will (1) satisfy the annual sinking fund requirements of $11.25 million on the unexchanged Subordinated Debentures until at least 1996

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and possibly until 1998 (because the Subordinated Debentures acquired in the Exchange Offer can be tendered in satisfaction of the sinking fund requirements), (2) waive the $2.20 Preferred Stock Put Option and the annual cash redemption requirements of the $2.20 Preferred Stock, which begin in 1994, and create an annual obligation of the Company to offer to purchase the $2.20 Preferred Stock or, if issued in lieu thereof, the Future Preferred Stock (as hereinafter defined), beginning in 1998, under which the purchase price may be paid in cash or, subject to certain conditions, shares of Common Stock or any combination thereof, (3) enable the Company to make future dividend payments on the $2.20 Preferred Stock in cash or, subject to certain conditions, shares of Common Stock or any combination thereof, (4) reclassify all amounts representing the $2.20 Preferred Stock and accrued and unpaid dividends on the $2.16 Preferred Stock as equity, and extinguish the accrued and unpaid dividends on the Existing Preferred Stock ($28.9 million at November 30, 1993), and (5) allow the Company the option to repurchase the entire equity interest in the Company currently held by MetLife Louisiana.

The Exchange Offer. The Company is offering to exchange $1,000 principal amount of Exchange Notes for each $1,000 principal amount of Subordinated Debentures, up to the Maximum Amount. In the event that Subordinated Debentures in excess of the Maximum Amount are tendered, Subordinated Debentures will be accepted on a pro rata basis, except that tenders from Small Lot Holders (as hereinafter defined) will be accepted first.

The Consent Solicitation. Concurrently with the Exchange Offer, the Company is soliciting from Debentureholders consents to the Indenture Amendments. The Indenture Amendments will make the Exchange Notes senior in right of payment to the Subordinated Debentures and modify the restriction which currently prohibits the Company from declaring and paying dividends on its Common Stock, making any distributions to its stockholders, or purchasing or redeeming its capital stock. See 'Proposed Amendments to Existing Indenture.'

Proposal No. 1. Proposal No. 1 consists of the proposal to approve the Reclassification and the Charter Amendments to eliminate staggered terms of directors and to restrict amendments to the Company's MetLife Option. The Board of Directors has proposed that each share of $2.16 Preferred Stock (including accrued and unpaid dividends) be reclassified into 4.9 shares of Common Stock. In addition, the Company will issue .1 share of Common Stock for each share of $2.16 Preferred Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation. See 'The Recapitalization -- Croyden Associates' Litigation.' At November 30, 1993, accrued and unpaid dividends on the $2.16 Preferred Stock aggregated approximately $8.9 million ($6.75 per share).

As a result of the proposed amendment to the Company's Certificate of Incorporation to eliminate staggered terms of directors, the terms of all directors would extend only until the next annual meeting of stockholders of the Company or until their respective successors are duly elected and qualified. See 'The Annual Meeting -- Proposal No. 3 -- Election of Directors.' The Board of Directors has also proposed an amendment to the Company's Certificate of Incorporation to require,

in the absence of the approval of 66 2/3% of the disinterested directors, the approval of the holders of at least 80% of the Company's outstanding shares of capital stock to amend, in a manner adverse to the Company, the agreement between the Company and MetLife Louisiana pursuant to the Amended MetLife Memorandum which will contain, among other terms, the Company's MetLife Option.

Proposal No. 2. Proposal No. 2 consists of the proposal to approve the Charter Amendment to eliminate, in the event the Company's MetLife Option terminates without being exercised in full, the requirement that certain transactions by the Company with beneficial holders of 10% or more of the Company's outstanding shares of capital stock be approved by the holders of at least 80% of the Company's outstanding shares of capital stock. Upon adoption of such amendment, subject to the requirements of the Delaware Law, approval only by the Board of Directors and, under certain limited circumstances, the holders of a majority of the Company's outstanding shares of capital stock would be required for approval of all transactions by the Company with any beneficial holder of 10% or more of the Company's outstanding shares of capital stock, including MetLife Louisiana.

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED PROPOSAL NO. 1 AND PROPOSAL NO. 2.

MetLife Louisiana, the holder of all the outstanding $2.20 Preferred Stock and 2,184,085 shares of Common Stock, which together constitute approximately 28% of the outstanding shares of capital stock entitled to vote on Proposal No. 1 and Proposal No. 2, has indicated to the Company that it intends to vote all of its shares in favor of Proposal No. 1 and Proposal No. 2. MetLife Louisiana's willingness to vote in favor of Proposal No. 1 is subject to certain conditions. See 'The Recapitalization -- MetLife Louisiana Conditions.'

The Amended MetLife Memorandum. Pursuant to the Amended MetLife Memorandum, MetLife Louisiana will grant to the Company the Company's MetLife Option and will agree to certain waivers and to refrain from taking certain actions in connection with the $2.20 Preferred Stock. MetLife Louisiana will agree that it will accept the payment of dividends on the $2.20 Preferred Stock in Common Stock, provided that the Company continues to pay all quarterly dividends when due, either in Common Stock or in cash. MetLife Louisiana will also agree to refrain from exercising the conversion rights under the terms of

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the $2.20 Preferred Stock, to refrain from requiring the Company to repurchase or redeem any of the shares of the $2.20 Preferred Stock under the terms thereof, and to consider all accrued and unpaid dividends (aggregating approximately $20.0 million or $6.97 per share at November 30, 1993) on the $2.20 Preferred Stock to have been paid as of the date of the Reclassification. The Company will agree not to exercise its rights to optionally redeem the $2.20 Preferred Stock at any time prior to the fourth anniversary of the date of the Reclassification and in the event that the Company's MetLife Option is not exercised in full, will agree to exchange, upon request of MetLife Louisiana, on a share for share basis, the $2.20 Preferred Stock for a new series of Preferred Stock (the 'Future Preferred Stock') having substantially the same terms as the $2.20 Preferred Stock but modified to reflect the agreements and waivers contemplated by the Amended MetLife Memorandum, will agree to offer to repurchase 287,500 shares of the $2.20 Preferred Stock or, if issued in lieu thereof, the Future Preferred Stock, each year commencing June 30, 1998, and will agree to issue 1,900,075 shares of Common Stock to MetLife Louisiana on the date of the Reclassification. See 'Description of Future Preferred Stock' for a description of such new series of preferred stock. Pursuant to the terms of the Company's MetLife Option, upon completion of the Recapitalization, the Company will initially be entitled to purchase from MetLife Louisiana 2,875,000 shares of $2.20 Preferred Stock, having a liquidation preference of $57.5 million, and 4,084,160 shares of Common Stock, having a pro forma net book value of approximately $11.4 million at September 30, 1993, in consideration for cash in the amount of $51.5 million. See 'The Recapitalization -- Background.'

Croyden Associates' Litigation. In October 1993, Croyden Associates, a holder of shares of $2.16 Preferred Stock, filed a class action suit in Delaware Chancery Court on behalf of itself and all

other holders of the $2.16 Preferred Stock. The suit alleges that the Company and its directors have breached their fiduciary duties to the holders of the $2.16 Preferred Stock based on the terms of the proposed recapitalization as described in this Proxy Statement -- Prospectus as originally filed with the Commission on September 2, 1993. The plaintiff in this litigation has advised that it is satisfied with the terms of the reclassification of the $2.16 Preferred Stock and has agreed in principle to recommend that the court approve a settlement based upon the terms set forth in this Proxy Statement - Prospectus. See 'The Recapitalization -- Croyden Associates' Litigation.'

CONDITIONS TO THE RECAPITALIZATION

Consummation of the Exchange Offer is conditioned upon, among other matters, (i) the tender and acceptance of at least $22.5 million in principal amount of the outstanding Subordinated Debentures and (ii) other customary conditions. Consummation of the Exchange Offer is not conditioned upon effectiveness of Proposal No. 1 or Proposal No. 2 or the adoption of the Indenture Amendments. Adoption of the Indenture Amendments will require the consent of the holders of a majority in principal amount of the outstanding Subordinated Debentures but is not conditioned on any other component of the Recapitalization. The valid tender of Subordinated Debentures pursuant to the Exchange Offer will include the consent to the Indenture Amendments with respect to such tendered Subordinated Debentures.

Proposal No. 1 requires the approval of the holders of a majority of the outstanding shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class, and the approval of the holders of two-thirds of the outstanding shares of $2.16 Preferred Stock, voting as a separate class. Proposal No. 2 requires the approval of the affirmative vote of the holders of 80% of the shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class. Effectiveness of Proposal No. 2 is conditioned upon effectiveness of Proposal No. 1. See 'General Information Concerning Proxies.' All directors and executive officers of the Company as a group beneficially own 16.912% of the shares of Common Stock outstanding as of December 15, 1993.

The approval by MetLife Louisiana of Proposal No. 1 is conditioned on, among other matters, effectiveness of Proposal No. 2, consummation of the Exchange Offer and MetLife Louisiana's satisfaction with the membership of the Board of Directors upon effectiveness of the Reclassification. Proposal No. 1 is effectively conditioned on consummation of the Exchange Offer and cannot occur alone, unless MetLife Louisiana waives the condition that the Exchange Offer be consummated prior to its approval of Proposal No. 1. MetLife Louisiana has not advised the Company of any circumstances under which it might waive such condition. See 'The Recapitalization -- MetLife Louisiana Conditions.'

The provisions of the Amended MetLife Memorandum relating to the $2.20 Preferred Stock and the Company's MetLife Option are conditioned on the Reclassification. In the event Proposal No. 1 is not approved but the requisite consents to the Indenture Amendments are obtained, MetLife Louisiana will have the right under the $2.20 Preferred Stock Put Option, beginning as soon as March 10, 1994, or earlier under certain circumstances, to require a cash redemption of the entire issue of $2.20 Preferred Stock out of funds legally available therefor at an aggregate price of $57.5 million, together with accrued and unpaid dividends (aggregating approximately $20.0 million or $6.97 per share as of November 30, 1993).

CERTAIN RISK FACTORS

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Investment in the Exchange Notes and the Common Stock issuable in the Recapitalization involves a high degree of risk. See 'Risk Factors' for a description of various risk factors.

PROCEDURES

Tendering and Giving Consents. Debentureholders electing to tender Subordinated Debentures or to consent to the Indenture Amendments (whether or not also tendering Subordinated Debentures) must complete and sign the Consent and Letter of Transmittal in accordance with the instructions contained therein and forward it (together with any other required documents in the case of a tender) to the Exchange Agent at its address set forth on the back cover of this Proxy Statement -- Prospectus or request a broker or bank to effect the transaction for such Debentureholders. Debentureholders whose Subordinated Debentures are registered in the name of a broker, dealer, commercial bank, trust company or other nominee are urged to contact such registered holder promptly if they wish to accept the Exchange Offer. See 'The Exchange Offer -- Procedures for Tendering' and the Consent and Letter of Transmittal. CONSENTS AND LETTERS OF TRANSMITTAL AND SUBORDINATED DEBENTURES SHOULD NOT BE SENT TO THE COMPANY. SUBORDINATED DEBENTURES, TOGETHER WITH CONSENTS AND LETTERS OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS, SHOULD BE SENT TO THE EXCHANGE AGENT ONLY.

Proration. If an aggregate principal amount of Subordinated Debentures greater than the Maximum Amount is validly tendered and not properly withdrawn prior to the Expiration Date, the Company will, upon the terms and subject to the conditions of the Exchange Offer, accept for exchange and payment on a pro rata basis an aggregate principal amount of Subordinated Debentures so tendered and not properly withdrawn equal to the Maximum Amount. See 'The Exchange Offer -- Proration' for information regarding the order of priority in which tendered Subordinated Debentures will be accepted.

Small Lot Holders. Notwithstanding the foregoing, upon the terms and subject to the conditions of the Exchange Offer, the Company will give priority in accepting for exchange and payment tenders by Debentureholders who beneficially own $10,000 or less aggregate principal amount of Subordinated Debentures. See 'The Exchange Offer -- Proration Priority for Tenders by Small Lot Holders.'

Delivery of Exchange Notes. Exchange Notes will be delivered in exchange for Subordinated Debentures accepted in the Exchange Offer promptly after the acceptance thereof and the satisfaction or waiver of all conditions to the Exchange Offer. See 'The Exchange Offer -- Acceptance of Subordinated Debentures for Exchange; Delivery of Exchange Notes.'

Withdrawal and Revocation. Tenders of Subordinated Debentures are revocable at any time prior to the Expiration Date. If any Debentureholder who has consented to the adoption of the Indenture Amendments and who has tendered Subordinated Debentures subsequently effects a valid revocation of consent to the Indenture Amendments, such action will render the prior tender of Subordinated Debentures defective, and the Company will have the right, which it may waive, to reject such tender as invalid and ineffective. See 'The Exchange Offer -- Revocation and Withdrawal' and 'Proposed Amendments to Existing Indenture -- Solicitation of Consents; Indenture Amendments.'

ANNUAL MEETING OF STOCKHOLDERS

General. The Annual Meeting will be held at The Hotel Intercontinental, 111 East 48th Street, New York, New York, at 10:00 a.m., New York City time, on Wednesday, February 9, 1994. The close of business on December 15, 1993, has been fixed by the Board of Directors as the date of determining the stockholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournment thereof. See 'The Annual Meeting.'

The Annual Meeting is being held (1) to act on Proposal No. 1 and Proposal No. 2, (2) to elect four directors, (3) to approve the Executive Long-Term Incentive Plan of the Company, (4) to ratify the appointment of Deloitte & Touche as the Company's independent auditors for 1993, and (5) to transact such other business as may properly come before the meeting or any adjournment

thereof. The terms of the four directors will be until the next annual meeting of stockholders of the Company if Proposal No. 1 becomes effective, and will otherwise be until the 1996 annual meeting of stockholders of the Company. See 'The Annual Meeting -- Proposal No. 3 -- Election of Directors.'

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED PROPOSAL NO. 1 AND PROPOSAL NO. 2 AND RECOMMENDS THAT STOCKHOLDERS VOTE IN FAVOR OF PROPOSAL NO. 1 AND PROPOSAL NO. 2.

Voting Rights. Holders of record of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock at the close of business on December 15, 1993 are entitled to notice of and to vote at the Annual Meeting. On December 15, 1993, there were issued and outstanding 14,069,236 shares of Common Stock, 1,319,563 shares of $2.16 Preferred Stock and 2,875,000 shares of $2.20 Preferred Stock.

Each share of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock is entitled to one vote with respect to each matter brought before the Annual Meeting. Proposal No. 1 requires the approval of the holders of a majority of the outstanding shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class, and the approval of the holders of two-thirds of the outstanding shares of $2.16 Preferred Stock, voting as a separate class. Proposal No. 2 requires the approval of the holders of 80%

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of the shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class. The election of directors and each other matter brought before the Annual Meeting requires the approval of the holders of a plurality of the shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock present or represented at the Annual Meeting, voting together as a single class. See 'General Information Concerning Proxies.'

MetLife Louisiana, which owns all the outstanding shares of $2.20 Preferred Stock and 2,184,085 shares of Common Stock, which together constitute approximately 28% of the outstanding shares of capital stock entitled to vote at the Annual Meeting, has indicated to the Company that it intends to vote all of its shares in favor of Proposal No. 1 and Proposal No. 2. MetLife Louisiana's willingness to vote in favor of Proposal No. 1 is subject to certain conditions. See 'The Recapitalization -- MetLife Louisiana Conditions.'

FINANCIAL ADVISOR, EXCHANGE AGENT AND INFORMATION AGENT

Smith Barney, 350 California Street, 21st Floor, San Francisco, California 94104, 415-955-1698 (collect calls will be accepted), is acting as financial advisor to the Company in connection with the Recapitalization. The exchange agent in connection with the Exchange Offer is Bankers Trust Company, Corporate Trust and Agency Group, 123 Washington St., 1st Floor, New York, New York, 10006, 800-829-5628, and the exchange agent in connection with the Reclassification is Chemical Bank, N.A. The Information Agent is Georgeson & Company, Inc., Wall Street Plaza, New York, New York 10005, 800-223-2064 or 212-509-6240 (Banks and Brokers). See 'The Exchange Offer -- Exchange Agent and Information Agent.'

FEDERAL INCOME TAX CONSEQUENCES

For a discussion of certain federal income tax considerations relating to the Recapitalization, see 'Certain Federal Income Tax Considerations.'

APPRAISAL RIGHTS

No appraisal rights are available to Debentureholders or stockholders of the Company with respect to any aspect of the Recapitalization.

REGULATORY APPROVALS

The Company is not aware of any regulatory approvals necessary to complete the Recapitalization or any component thereof.

PRO FORMA CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1993, adjusted to give effect to the Recapitalization, assuming (i) the Exchange Offer is consummated at the maximum tender level, so that $54.5 million in principal amount of Subordinated Debentures is exchanged for $54.5 million in principal amount of the Exchange Notes; the holder of the $2.20 Preferred Stock waives the mandatory redemption requirements thereon, considers accrued and unpaid dividends thereon to have been paid and is issued 1,900,075 shares of Common Stock; the $2.16 Preferred Stock, including accrued and unpaid dividends thereon, is reclassified into 6,465,859 shares of Common Stock; and the Company will issue 131,956 shares of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation (the Recapitalization), (ii) only the debt exchange described in the Recapitalization occurs (the Exchange Offer Only) and (iii) only the waivers and considerations indicated above relating to the $2.20 Preferred Stock, the reclassification of the $2.16 Preferred Stock and the issuance of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation described in the Recapitalization occur (the Reclassification Only). The Exchange Notes and Common Stock issued in the Recapitalization are recorded at their estimated fair market value. The $2.20 Preferred Stock is recorded at its liquidation value.

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1993		
	HISTORICAL	RECAPITALIZATION	EXCHANGE OFFER ONLY
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS; NUMBER OF SHARES IN THOUSANDS)		
<S>	<C>	<C>	<C>
Current Liabilities(2)	$ 76,541	67,821	76,253
Long-Term Debt and Other Obligations:			
Exchange Notes	$ --	54,500	54,500
Liability to State of Alaska	61,633	61,633	61,633
Liability to Department of Energy	13,194	13,194	13,194
Other	8,015	8,015	8,015
Subordinated Debentures	97,656	48,716	48,716
Total Long-Term Debt and Other Obligations	180,498	186,058(3)	186,058
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding	76,461	-- (3)	76,461

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Common Stock and Other Stockholders' Equity:(4)			
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding(4)	--	57,500	--
$2.16 Preferred Stock; $1 stated value; 1,319,563 shares issued and outstanding	1,320	--	1,320
Common stock, par value $.16 2/3; authorized 50,000,000 shares; 14,069,799 shares issued and outstanding; 8,497,890 additional shares to be issued in the Recapitalization and in the Reclassification Only	2,345	3,762	2,345
Additional paid-in capital	86,987	111,683	86,987
Accumulated deficit	(46,214)	(52,431)	(55,031)
Deferred compensation	(263)	(263)	(263)
Total Common Stock and Other Stockholders' Equity	44,175	120,251(3)	35,358
Total Capitalization	$ 301,134	306,309	297,877
Shares of Common Stock Issued and Outstanding	14,070	22,568	14,070
Book Value Per Common Share(5)(6)	$ .80	2.78	.17
Ratio of Long-Term Debt and Redeemable Preferred Stock to Total Capitalization	85%	61%	88%

<CAPTION>

<S>	RECLASSIFICATION ONLY(1) <C>
Current Liabilities(2)	68,109
Long-Term Debt and Other Obligations:	
Exchange Notes	--
Liability to State of Alaska	61,633
Liability to Department of Energy	13,194
Other	8,015
Subordinated Debentures	97,656
Total Long-Term Debt and Other Obligations	180,498
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding	--
Common Stock and Other Stockholders' Equity:(4)	
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding(4)	57,500
$2.16 Preferred Stock; $1 stated value; 1,319,563 shares issued and outstanding	--
Common stock, par value $.16 2/3; authorized 50,000,000 shares; 14,069,799 shares issued and outstanding; 8,497,890 additional shares to be issued in the Recapitalization and in the Reclassification Only	3,762
Additional paid-in capital	111,683
Accumulated deficit	(47,614)
Deferred compensation	(263)
Total Common Stock and Other Stockholders' Equity	125,068
Total Capitalization	305,566
Shares of Common Stock Issued and Outstanding	22,568
Book Value Per Common Share(5)(6)	2.99
Ratio of Long-Term Debt and Redeemable Preferred Stock to Total Capitalization	59%

- ------------

(1) The Reclassification is effectively conditioned upon consummation of the Exchange Offer and cannot occur alone unless MetLife Louisiana waives a related condition. MetLife Louisiana has not advised the Company of any circumstances under which it might waive such condition. See 'The Recapitalization -- MetLife Louisiana Conditions.'

(2) Current Liabilities on this table exclude the current portion of Long-Term Debt and Other Obligations and current amounts of $2.20 Preferred Stock, which amounts are included in the respective line items on this table. The Historical and pro forma amounts excluded from current liabilities were $38.8 million, $4.8 million, $27.6 million and $16.0 million, respectively.

(3) As a result of the Recapitalization, on a pro forma basis at September 30, 1993, and assuming the consummation of the Reclassification and a minimum acceptance of the Exchange Offer ($22.5 million), versus the maximum acceptance assumed above, Total Long-Term Debt and Redeemable Preferred Stock would be $183 million and Common Stock and Other Stockholders' Equity

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would be $124 million.

(4) The Company has entered into an agreement with MetLife Louisiana pursuant to which MetLife Louisiana will give the Company a three-year option, subject to certain conditions, to acquire all of the $2.20 Preferred Stock and all of the Common Stock of the Company held by MetLife Louisiana at the date of the Reclassification (2,875,000 shares of $2.20 Preferred Stock and 4,084,160 shares of Common Stock, based on MetLife Louisiana's holdings at December 15, 1993), plus any shares of Common Stock issued in lieu of cash payment of dividends on the $2.20 Preferred Stock for an initial option price of $51.5 million, increasing by approximately 12% per annum through December 31, 1995, and by approximately 14% per annum thereafter.

(5) Book Value Per Common Share represents Total Common Stock and Other Stockholders' Equity reduced by the liquidation preference of $33 million for the $2.16 Preferred Stock under the Historical and Exchange Offer Only scenarios, or reduced by the liquidation preference of $58 million for the $2.20 Preferred Stock under the Recapitalization and Reclassification Only scenarios, divided by the number of shares of Common Stock issued and outstanding.

(6) Assuming minimum acceptance of the Exchange Offer ($22.5 million), versus the maximum acceptance assumed above, the Historical and pro forma Book Value Per Common Share as of September 30, 1993 would be $.80, $2.94, $.43 and $2.99, respectively.

</TABLE>

SELECTED SUMMARY PRO FORMA FINANCIAL DATA

The following sets forth certain financial information on a historical basis and as adjusted to give effect to the Recapitalization, assuming (i) the Exchange Offer is consummated at the maximum tender level, so that $54.5 million in principal amount of Subordinated Debentures is exchanged for $54.5 million in principal amount of the Exchange Notes (bearing interest at 13% per annum); the holder of the $2.20 Preferred Stock waives the mandatory redemption requirements thereon, considers accrued and unpaid dividends thereon to have been paid and is issued 1,900,075 shares of Common Stock; the $2.16 Preferred Stock, including accrued and unpaid dividends thereon, is reclassified into 6,465,859 shares of Common Stock; and the Company will issue 131,956 shares of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation (the Recapitalization), (ii) only the debt exchange described in the Recapitalization occurs (the Exchange Offer Only) and (iii) only the waiver and considerations indicated above relating to the $2.20 Preferred Stock, the reclassification of the $2.16 Preferred Stock and the issuance of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation described in the Recapitalization occur (the Reclassification Only). The Exchange Notes and Common Stock issued in the Recapitalization are recorded at their estimated fair market value. The $2.20 Preferred Stock is recorded at liquidation value.

The pro forma financial information is not necessarily indicative of the Company's results of operations or financial position in the future or of what the Company's results of operations or financial position would have been had the Recapitalization been consummated during the periods, or as of the dates, for which pro forma financial information is presented. This information should be read in conjunction with the historical and pro forma financial statements and related notes to historical and pro forma financial statements of the Company included elsewhere herein.

<TABLE>

STATEMENT OF OPERATIONS DATA:

<CAPTION>

	YEAR ENDED DECEMBER 31, 1992			
	HISTORICAL	RECAPITALIZATION	EXCHANGE OFFER ONLY	RECLASSIFICATION ONLY(1)
	(DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS; NUMBER OF SHARES IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Revenues(2)	$ 954.4	954.4	954.4	954.4
Costs and expenses:				
Cost of sales and operating expenses	926.1	926.1	926.1	926.1
General and administrative	25.9	25.9	25.9	25.9
Depreciation, depletion and amortization	16.6	16.6	16.6	16.6
Interest	21.1	20.4(3)	20.4(3)	21.1
Other	4.6	4.6	4.6	4.6
Total costs and expenses	994.3	993.6	993.6	994.3
Loss before income taxes, extraordinary loss and cumulative effect of accounting changes	(39.9)	(39.2)	(39.2)	(39.9)
Income tax provision	5.4	5.4	5.4	5.4
Loss before extraordinary loss and cumulative effect of accounting changes(4)	(45.3)	(44.6)	(44.6)	(45.3)
Extraordinary loss(5)	--	(7.4)	(7.4)	--

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Cumulative effect of accounting changes	(20.6)	(20.6)	(20.6)	(20.6)
Net loss	(65.9)	(72.6)	(72.6)	(65.9)
Preferred stock dividend requirements	9.2	6.3	9.2	6.3
Net loss applicable to common stock	$ (75.1)	(78.9)	(81.8)	(72.2)
Loss per primary and fully diluted* share before extraordinary loss and cumulative effect of accounting changes(4)(6)	$ (3.87)	(2.26)	(3.83)	(2.29)
Average common shares outstanding(6)	14,063	22,561	14,063	22,561
Ratio of earnings to fixed charges(7)(8)	(9)	(9)	(9)	(9)
Ratio of earnings to combined fixed charges and preferred stock dividend requirements(7)(10)	(11)	(11)	(11)	(11)

- ------------
* Anti-dilutive
</TABLE>

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1993			
	HISTORICAL	RECAPITALIZATION	EXCHANGE OFFER ONLY	RECLASSIFICATION ONLY(1)
	(DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS; NUMBER OF SHARES IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Revenues(2)	$ 627.9	627.9	627.9	627.9
Costs and expenses:				
Cost of sales and operating expenses	581.6	581.6	581.6	581.6
General and administrative	10.9	10.9	10.9	10.9
Depreciation, depletion and amortization	15.3	15.3	15.3	15.3
Interest	12.8	12.8(3)	12.8(3)	12.8
Other	4.6	4.6	4.6	4.6
Total costs and expenses	625.2	625.2	625.2	625.2
Earnings before income taxes	2.7	2.7	2.7	2.7
Income tax provision	2.4	2.4	2.4	2.4
Net earnings(4)	.3	.3	.3	.3
Preferred stock dividend requirements	6.9	4.7	6.9	4.7
Net loss applicable to common stock	$ (6.6)	(4.4)	(6.6)	(4.4)
Loss per primary and fully diluted* share(4)(6)	$ (.47)	(.19)	(.47)	(.19)
Average common shares outstanding(6)	14,070	22,568	14,070	22,568
Ratio of earnings to fixed charges(7)(8)	1.15	1.15	1.15	1.15
Ratio of earnings to combined fixed charges and preferred stock dividend requirements(7)(10)	(11)	(11)	(11)	(11)

- ------------
* Anti-dilutive
</TABLE>

<TABLE>
BALANCE SHEET DATA:
<CAPTION>

	SEPTEMBER 30, 1993			
	HISTORICAL	RECAPITALIZATION	EXCHANGE OFFER ONLY	RECLASSIFICATION ONLY(1)
	(IN MILLIONS EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
Current assets	$ 185.6	181.3	181.3	181.6
Total assets	$ 414.7	411.1	411.1	410.7
Current liabilities(12)	$ 76.5	67.8	76.3	68.1
Long-term debt and other obligations:				
Exchange Notes	$ --	54.5	54.5	--
Liability to State of Alaska	$ 61.6	61.6	61.6	61.6
Liability to Department of Energy	$ 13.2	13.2	13.2	13.2
Subordinated Debentures	$ 97.7	48.7	48.7	97.7
Other	$ 8.0	8.0	8.0	8.0
$2.20 Preferred Stock	$ 76.5	--	76.5	--
Common stock and other stockholders' equity	$ 44.2	120.3	35.4	125.1
Capital expenditures	$ 26.3	26.3	26.3	26.3
Book value per common share(13)(14)	$ .80	2.78	.17	2.99

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(1) The Reclassification is effectively conditioned upon consummation of the Exchange Offer and cannot occur alone unless MetLife Louisiana waives a related condition. MetLife Louisiana has not advised the Company of any circumstances under which it might waive such condition. See 'The Recapitalization -- MetLife Louisiana Conditions.'

(2) The Company is currently involved in a dispute with Tennessee Gas Pipeline Company ('Tennessee Gas') relating to a gas contract. For additional information concerning this dispute, see 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements.

(3) As a result of the Recapitalization, on a pro forma basis for the year ended December 31, 1992, and assuming the consummation of the Reclassification and a minimum acceptance of the Exchange Offer ($22.5 million), versus the maximum acceptance assumed above, interest expense under the Recapitalization and Exchange Offer Only would be $21.0 million. Under the same pro forma assumptions for the nine months ended September 30, 1993 interest expense under the Recapitalization and Exchange Offer Only would be $ 12.9 million.

(Footnotes continued on following page)

(4) The Selected Pro Forma Financial Data assume that the Exchange Offer is consummated at the maximum tender level. If the Exchange Offer is consummated at the minimum tender level, then (a) $22.5 million principal amount of Subordinated Debentures would be exchanged for $22.5 million principal amount of Exchange Notes at January 1, 1992; (b) the Historical and pro forma net earnings for the nine months ended September 30, 1993 would be $.3 million; (c) the Historical and pro forma loss per primary and fully diluted share for the nine months ended September 30, 1993 would be $(.47), $(.20), $(.47) and $(.20), respectively; (d) the Historical and pro forma loss before extraordinary loss and cumulative effect of accounting changes for the year ended December 31, 1992 would be $(45.3) million, $(45.1) million, $(45.1) million and $(45.3) million, respectively; and (e) the Historical and pro forma loss per primary and fully diluted share before extraordinary loss and cumulative effect of accounting changes for the year ended December 31, 1992 would be $(3.87), $(2.28), $(3.86) and $(2.29), respectively.

(5) The completion of the Exchange Offer for the Subordinated Debentures will result in the recognition of an extraordinary loss from the early extinguishment of debt equal to the excess of the estimated market value of the Exchange Notes over the carrying value of the Subordinated Debentures exchanged, increased by applicable unamortized debt issuance costs.

(6) If the Company elected to pay the dividends on the $2.20 Preferred Stock solely in shares of Common Stock (assuming a market price of $6 per share): (a) the historical and pro forma average common shares outstanding for the nine months ended September 30, 1993 would be 14,069,937; 22,837,161; 14,069,937 and 22,837,161, respectively; (b) the Historical and pro forma average common shares outstanding for the year ended December 31, 1992 would be 14,063,258; 22,963,320; 14,063,258 and 22,963,320, respectively; (c) the Historical and pro forma loss per primary and fully diluted share for the nine months ended September 30, 1993 would be $(.47), $(.19), $(.47), and $(.19), respectively; and (d) the Historical and pro forma loss per primary and fully diluted share before extraordinary loss and cumulative effect of accounting changes for the year ended December 31, 1992 would be $(3.87), $(2.22), $(3.83) and $(2.25), respectively.

(7) For purposes of calculating the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividend requirements, earnings consists of net earnings before the cumulative effect of accounting changes, extraordinary loss, income taxes and fixed charges. Fixed charges consist of interest expense and that portion of rental costs estimated to be equivalent to interest.

(8) If the Exchange Offer is consummated at the minimum tender level, as discussed in (4) above, the Historical and pro forma Ratio of Earnings to Fixed Charges for the nine months ended September 30, 1993 would be 1.15, 1.14, 1.14 and 1.15, respectively. The Historical and pro forma earnings for the year ended December 31, 1992 would be inadequate to cover fixed charges assuming the minimum tender level. The coverage deficiencies would be $39.9 million, $39.7 million, $39.7 million and $39.9 million, respectively.

(9) The Historical and pro forma earnings for the year ended December 31, 1992 were inadequate to cover fixed charges. The coverage deficiencies were $39.9 million, $39.2 million, $39.2 million and $39.9 million, respectively.

(10) If the Exchange Offer is consummated at the minimum tender level, as discussed in (4) above, the Historical and pro forma earnings for the nine months ended September 30, 1993 would be inadequate to cover combined fixed charges and preferred stock dividend requirements. The coverage deficiencies would be $4.1 million, $2.1 million, $4.2 million and $2.0 million, respectively. The Historical and pro forma earnings for the year ended December 31, 1992 would be inadequate to cover combined fixed charges and preferred stock dividend requirements. The coverage deficiencies would be $49.1 million, $46.0 million, $48.9 million and $46.2 million,

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respectively.

(11) The Historical and pro forma earnings for the nine months ended September 30, 1993 were inadequate to cover combined fixed charges and preferred stock dividends requirements. The coverage deficiencies were $4.1 million, $2.0 million, $4.1 million and $2.0 million, respectively. The Historical and pro forma earnings for the year ended December 31, 1992 were inadequate to cover combined fixed charges and preferred stock dividends. The coverage deficiencies were $49.1 million, $45.5 million, $48.4 million and $46.2 million, respectively.

(12) Current Liabilities in this table exclude the current portion of Long-Term Debt and Other Obligations and amounts currently due on the $2.20 Preferred Stock, which amounts are included in the respective line items on this table. The Historical and pro forma amounts excluded from current liabilities were $38.8 million, $4.8 million, $27.6 million and $16.0 million, respectively.

(13) Book value per common share represents Total Common Stock and Other Stockholders' Equity reduced by the liquidation preference of $33 million for the $2.16 Preferred Stock under the Historical and Exchange Offer Only scenarios or reduced by the liquidation preference of $58 million for the $2.20 Preferred Stock under the Recapitalization and Reclassification Only scenarios, divided by the number of shares of Common Stock issued and outstanding.

(14) Assuming minimum acceptance of the Exchange Offer ($22.5 million), versus the maximum acceptance assumed above, the Historical and pro forma book value per common share as of September 30, 1993 would be $.80, $2.94, $.43 and $2.99, respectively.

</TABLE>

<TABLE>

SUMMARY OF SELECTED HISTORICAL FINANCIAL AND OPERATIONS DATA
(DOLLARS IN MILLIONS EXCEPT PER SHARE)

<CAPTION>

	YEARS ENDED SEPTEMBER 30,				THREE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30,	
	1988	1989	1990	1991	1991	1992	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF CONSOLIDATED OPERATIONS DATA:								
Revenues(1)	$ 1,171.8	767.0	1,006.5	1,091.0	243.9	954.4	718.8	627.9
Cost of Sales and Operating Expenses	1,059.2	718.6	920.5	1,015.9	228.6	926.1	688.4	581.6
General and Administrative	29.7	33.9	20.2	17.0	2.8	25.9	15.0	10.9
Depreciation, Depletion and Amortization	28.4	21.9	12.8	15.0	4.2	16.6	12.4	15.3
Settlement with Department of Energy	27.0	--	--	--	--	--	--	--
Interest	28.5	17.7	20.8	18.8	5.0	21.1	15.9	12.8
Other	3.9	6.1	5.9	5.3	.7	4.6	3.4	4.6
Income Tax Provision (Benefit)(primarily foreign)	14.5	(.7)	3.6	15.1	3.0	5.4	4.1	2.4
Cumulative Effect of Accounting Changes	--	--	--	--	--	(20.6)	(20.6)	--
Net Earnings (Loss)	(19.4)	(30.5)	22.7	3.9	(.4)	(65.9)	(41.0)	.3
Preferred Stock Dividend Requirements	9.2	9.2	9.2	9.2	2.3	9.2	6.9	6.9
Net Earnings (Loss) Applicable to Common Stock	$ (28.6)	(39.7)	13.5	(5.3)	(2.7)	(75.1)	(47.9)	(6.6)
Earnings (Loss) Per Primary and Fully Diluted* Share	$ (2.04)	(2.83)	.96	(.37)	(.19)	(5.34)	(3.41)	(.47)
Dividends Paid on Preferred Stock	$ 3.8	9.2	6.9	8.0	--	--	--	--
Earnings (Loss) Before Interest, Taxes, Cumulative Effect of Accounting Changes and Depreciation, Depletion and Amortization (EBITDA)(2)	$ 52.3	8.6	60.1	53.0	11.8	(2.2)	12.0	31.0
Ratio of Earnings to Fixed Charges	(3)	(3)	2.12	1.79	1.39	(3)	(3)	1.15
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements	(4)	(4)	1.52	1.30	1.03	(4)	(4)	(4)
OTHER SELECTED FINANCIAL DATA:								
Capital Expenditures	$ 6.0	13.2	23.1	24.5	3.9	15.4	10.3	26.3
Working Capital	$ 110.8	105.1	117.9	95.4	106.1	122.6	85.8	70.2
Property, Plant and Equipment,								

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Net---------------------------	$ 209.8	200.1	192.0	207.5	207.2	198.5	197.6	209.3
Total Assets--------------------	$ 484.9	445.3	504.9	496.8	494.7	446.7	469.8	414.7
Long-Term Debt and Other Obligations, Including Current Portion-----------------------	$ 186.0	163.2	168.0	184.7	189.4	201.7	195.7	180.5
Redeemable Preferred Stock------	$ 57.3	57.4	57.4	57.4	57.4	71.7	70.1	76.5
Common Stock and Other Stockholders' Equity----------	$ 164.6	125.4	141.4	137.4	137.0	50.7	77.8	44.2

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* Anti-dilutive

(1) The Company is currently involved in a dispute with Tennessee Gas relating to a gas contract. For additional information concerning this dispute, see 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements.

(2) EBITDA represents earnings (loss) before cumulative effect of accounting changes, interest, income taxes and depreciation, depletion and amortization. EBITDA, while not purporting to reflect any measure of the Company's operations or cash flow, is presented for additional analysis as the Company believes that certain investors use EBITDA as one measure of an issuer's historical ability to service debt.

(3) Earnings were inadequate to cover fixed charges by $4.8 million, $31.3 million, $39.9 million, and $16.2 million for the years ended September 30, 1988, September 30, 1989 and December 31, 1992 and the nine months ended September 30, 1992, respectively.

(4) Earnings were inadequate to cover combined fixed charges and preferred stock dividend requirements by $14.0 million, $40.5 million, $49.1 million, $23.2 million and $4.1 million for the years ended September 30, 1988, September 30, 1989 and December 31, 1992 and the nine months ended September 30, 1992 and September 30, 1993, respectively.

</TABLE>

<TABLE>

SUMMARY OF SELECTED HISTORICAL FINANCIAL AND OPERATIONS DATA

<CAPTION>

	YEARS ENDED SEPTEMBER 30,				THREE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30,	
	1988	1989	1990	1991	1991	1992	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
OPERATING STATISTICS:								
REFINING AND MARKETING:								
Refinery Capacity (average daily barrels)-------------	72,000	72,000	72,000	72,000	72,000	72,000	72,000	72,000
Refinery Throughput (average daily barrels)-------------	71,784	65,045	67,904	68,192	67,323	61,425	62,574	50,503
Total Product Sales Excluding Residual Fuel Oil Sales (average daily barrels)----	66,735	59,413	65,417	61,426	57,363	63,509	64,892	53,551
Residual Fuel Oil Sales (average daily barrels)(1)----------------	35,536	27,502	28,332	28,729	28,197	23,931	22,929	16,290
OIL FIELD SUPPLY AND DISTRIBUTION:								
Product Sales (average daily barrels)--------------------	5,943	6,455	7,846	10,470	12,859	8,476	8,517	7,114
NATURAL GAS -- UNITED STATES:								
Net Production (average daily Mcf)-----------------------	12,421	292	727	7,435	9,741	13,960	12,618	32,313
Average Sales Prices (dollars per Mcf)(1)----------------	$ 1.89	1.66	1.40	1.88	2.49	3.68	2.38	3.45
NATURAL GAS -- BOLIVIA:								
Net Production (average daily Mcf)-----------------------	--	--	12,668	19,322	18,793	19,421	19,502	19,183
Average Sales Prices (dollars per Mcf)-------------------	$ --	--	2.74	3.06	2.42	1.67	1.82	1.20
CRUDE OIL--INDONESIA (sold effective May 1, 1992):								
Net Production (average daily barrels)----	2,562	1,994	2,565	3,315	2,892	2,714	2,714	--
Net Sales Price (dollars per barrel)--------------------	$ 17.65	15.89	17.95	24.39	20.57	18.20	18.20	--
PROVED RESERVES AT END OF PERIOD:								
Natural Gas (millions of cubic feet):								
United States----------------	208	568	11,118	33,141	36,884	73,753	*	101,598
Bolivia----------------------	--	--	85,040	115,229	113,465	107,008	*	* (2)
Crude Oil (thousands of barrels):								
United States----------------	4	--	4	5	4	--	*	*

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Bolivia	--	--	2,058	2,828	2,771	2,263	*	*	(2)
Indonesia	--	3,815	11,226	4,504	5,571	--	--	--	
STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED RESERVES (MILLIONS OF DOLLARS):									
United States(3)	$ .3	.5	6.5	30.4	30.9	87.1	*	*	
Bolivia	$ --	--	37.0	54.3	50.9	23.6	*	*	
Indonesia	$ --	6.3	58.9	4.4	5.2	--	--	--	

- ------------

(1) All sales of residual fuel oil represent sales of residual fuel oil produced at the Company's refinery.

(2) At April 30, 1993, proved reserves in Bolivia were approximately 103,293 million cubic feet of natural gas and 2,291 thousand barrels of crude oil.

(3) The Company is involved in a dispute with Tennessee Gas relating to a gas contract. For additional information concerning this dispute, see 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements.

* Data not available.

</TABLE>

COMPARISON OF EXCHANGE NOTES AND SUBORDINATED DEBENTURES

The following is a comparison of some of the principal features of the Exchange Notes and the Subordinated Debentures. Such comparisons are summaries which do not purport to be complete and are qualified in their entirety by reference to the more complete descriptions under 'Description of Exchange Notes' herein and 'Description of Subordinated Debentures' in Appendix E. Capitalized terms used below and not otherwise defined herein are as defined in the indenture governing the Exchange Notes or the Subordinated Debentures, as the case may be.

<TABLE>
<CAPTION>

<S>	EXCHANGE NOTES <C>	SUBORDINATED DEBENTURES <C>
Issuer	Tesoro Petroleum Corporation.	Tesoro Petroleum Corporation.
Interest Rate:	13% per annum payable semiannually on June 1 and December 1.	12 3/4% per annum payable semiannually on March 15 and September 15.
Maturity:	December 1, 2000.	March 15, 2001.
Optional Redemption:	At the option of the Company, at 100% of principal amount plus accrued interest, except that no optional redemption may be made unless an equal principal amount of, or all the outstanding, Subordinated Debentures are concurrently redeemed.	At the option of the Company, at 100% of principal amount plus accrued interest.
Sinking Fund:	None.	$11,250,000 on March 15 of each year, up to and including 2000, with credit for the principal amount of Subordinated Debentures otherwise acquired and retired by the Company. Upon consummation of the Exchange Offer, the annual sinking fund requirements will be satisfied until at least 1996 and possibly until 1998.
Ranking:	If the requisite consents to the Indenture Amendments are obtained, the Exchange Notes will be pari passu with all other senior indebtedness, and senior to all subordinated indebtedness of the Company, including the Subordinated Debentures and the ANS Debt. If the requisite consents to the Indenture Amendments are not obtained, the Exchange Notes will be pari passu with the other senior debt of the Company and with the Subordinated Debentures, and senior in right of payment to the ANS Debt and all other subordinated indebtedness of the Company.	Subordinated indebtedness ranking junior to all Senior Indebtedness, including indebtedness under the Company's letter of credit facilities.
Limitation on Dividends:	Prohibition on the payment of dividends or distributions on, or purchasing or acquiring, equity securities of the Company (except dividends on the Company's preferred stock and stock dividends) unless, giving effect to such transaction (1) no event of default shall occur and (2) the	Prohibition on the payment of cash dividends on the Common Stock or making distributions on or purchasing or acquiring capital stock in an amount in excess of the sum of (1) consolidated net income of the Company subsequent to September 30, 1982; (2) net proceeds from the sale of its capital stock

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	aggregate amount expended for such purposes subsequent to September 30, 1993 is less than the sum of (a) 50% of the aggregate consolidated income of the Company earned subsequent to September 30, 1993 or 100% if such aggregate consolidated net income for such period is negative and (b) the net proceeds from the sale after September 30, 1993 of certain equity securities of the Company and indebtedness which has been converted into certain equity securities of the Company; provided, however, that the Company may make redemptions and repurchases of Common Stock and preferred stock in an aggregate amount not to exceed $30,465,000 (approximately equal to the accrued and unpaid dividends that will exist on the Existing Preferred Stock at January 31, 1994) and from the proceeds of contemporaneous sales of certain capital stock and may make dividend payments on preferred stock.	subsequent to September 30, 1982; (3) net proceeds from the sale of its indebtedness subsequent to September 30, 1982 which is subsequently converted into capital stock; (4) dividends or distributions subsequent to September 30, 1982, or sale proceeds, in respect of its interest in Trinidad-Tesoro Petroleum Company Limited; and (5) $30,000,000, subject to certain limitations; provided, however, that regular cash dividends on the $2.20 Preferred Stock and the $2.16 Preferred Stock may be paid. The limitation on dividends will be modified to parallel the limitation of dividends included in the indenture governing the Exchange Notes upon receipt of the requisite consents to the Indenture Amendments.
Listing:----------------------	New York Stock Exchange (applied for).	New York Stock Exchange.

</TABLE>

COMPARISON OF $2.16 PREFERRED STOCK, $2.20 PREFERRED STOCK AND COMMON STOCK

The following is a comparison of some of the principal features of the $2.16 Preferred Stock, $2.20 Preferred Stock and Common Stock. Such comparisons are summaries which do not purport to be complete.

<TABLE>
<CAPTION>

	$2.16 PREFERRED STOCK	$2.20 PREFERRED STOCK	COMMON STOCK
<S>	<C>	<C>	<C>
Dividends:-------------------	Cumulative annual cash dividends of $2.16 per share, payable on March 15, June 15, September 15 and December 15 of each year ($8.9 million in arrears at December 15, 1993), but only out of funds legally available therefor. Ranks senior to the Common Stock and pari passu with the $2.20 Preferred Stock as to dividends.	Cumulative annual cash dividends of $2.20 per share, payable on February 15, May 15, August 15 and November 15 of each year (aggregating $19.8 million in arrears at December 15, 1993), but only out of funds legally available therefor. Ranks senior to the Common Stock and pari passu with the $2.16 Preferred Stock as to dividends. The Company will agree with MetLife Louisiana that dividends may be paid at the election of the Company in any combination of cash or, subject to certain conditions, shares of Common Stock, with shares of Common Stock being valued at the average closing price on the New York Stock Exchange for the 10 trading days commencing on the first trading day after the Company announces its intention to pay the dividend in Common Stock. MetLife Louisiana will also agree with the Company to consider all accrued and unpaid dividends on the $2.20 Preferred Stock to have been paid.	Dividends, when and as declared by the Board of Directors, but only out of funds legally available therefor, subject to the rights of the holders of shares ranking prior to Common Stock as to dividends and distributions. Ranks junior to the Existing Preferred Stock as to dividends. The Company is presently prohibited from paying cash dividends on the Common Stock. See Note H of Notes to Consolidated Financial Statements included elsewhere herein.
Liquidation Rights:----------	Liquidation preference of $25 per share, plus accrued and unpaid dividends, before any distribution of assets is made to holders of Common Stock or any other junior stock. If assets available	Liquidation preference of $20 per share, plus accrued and unpaid dividends, before any distribution of assets is made to holders of Common Stock or any other junior stock. If assets available	After the amounts payable upon liquidation on the Existing Preferred Stock have been paid, the remaining net assets of the Company will be distributed pro rata to the holders of Common Stock.

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	for distribution are in-sufficient to pay the full liquidation preference, all classes of capital stock, if any, ranking on a parity as to liquidation rights with the $2.16 Preferred Stock (currently only the $2.20 Preferred Stock) are entitled to share ratably in any distribution.	for distribution are in-sufficient to pay the full liquidation preference, all classes of capital stock, if any, ranking on a parity as to liquidation rights with the $2.20 Preferred Stock (currently only the $2.16 Preferred Stock) are entitled to share ratably in any distribution.	
Voting Rights:---------------	One vote per share, voting together as a single class with the holders of shares of Common Stock and $2.20 Preferred Stock and any other class entitled to vote with the holders of Common Stock, on all matters on which the shares of Common Stock may vote, including elections of directors.	One vote per share, voting together as a single class with the holders of shares of Common Stock and $2.16 Preferred Stock and any other class entitled to vote with the holders of Common Stock, on all matters on which the shares of Common Stock may vote, including elections of directors.	One vote per share for all purposes.

</TABLE>

<TABLE>
<CAPTION>

<S>	$2.16 PREFERRED STOCK <C>	$2.20 PREFERRED STOCK <C>	COMMON STOCK <C>
	Holders of two-thirds of the outstanding shares, voting as a separate class, are required: (i) to authorize or increase the authorized amount of any additional class of stock ranking prior to the $2.16 Preferred Stock, or (ii) to amend, alter or repeal the voting powers, preferences or rights of the $2.16 Preferred Stock in any respect adverse to the holders thereof. Holders of a majority of the outstanding shares, voting as a single class, are required to authorize or increase the authorized amount of any additional class of stock ranking on parity with the $2.16 Preferred Stock.	Holders of two-thirds of the outstanding shares, voting as a separate class, are required: (i) to authorize or increase the authorized amount of any additional class of stock ranking prior to the $2.20 Preferred Stock, or (ii) to amend, alter or repeal the voting powers, preferences or rights of the $2.20 Preferred Stock in any respect adverse to the holders thereof. Holders of a majority of the outstanding shares, voting as a single class, are required to authorize or increase the authorized amount of any additional class of stock ranking on parity with the $2.20 Preferred Stock.	
Failure to pay dividends (or redeem $2.20 Preferred Stock):----------	If the Company fails to pay dividends on the $2.16 Preferred Stock for at least six quarters (whether or not consecutive), the holders of the $2.16 Preferred Stock, voting together as a single class with the holders of $2.20 Preferred Stock, have the right to elect two additional members of the Board of Directors. As of December 15, 1993, the Company had omitted dividends on the $2.16 Preferred Stock for a total of 12 1/2 quarters.	If the Company fails to pay dividends on the $2.20 Preferred Stock for at least six quarters (whether or not consecutive), the holders of the $2.20 Preferred Stock, voting together as a single class with the holders of the $2.16 Preferred Stock, have a right to elect two additional members of the Board of Directors. As of November 15, 1993, the Company had omitted dividends on the $2.20 Preferred Stock for a total of 12 1/2 quarters. If the Company fails to make redemptions of $2.20 Preferred Stock when required on any two redemption dates, and if the default in dividends described in the preceding paragraph is not then in effect, the holders of the $2.20 Preferred Stock, voting as a separate class, have the right to elect two additional members of the Board of Directors.	None.

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	$2.16 PREFERRED STOCK	$2.20 PREFERRED STOCK	COMMON STOCK
Optional Redemption:----------------	At the option of the Company, on a pro rata basis, at $25 per share plus accrued and unpaid dividends (totalling $31.75 per share at November 30, 1993), but only out of funds legally available therefor.	At the option of the Company, on a pro rata basis, at $20 per share plus accrued and unpaid dividends (totalling $26.97 per share at November 30, 1993), but only out of funds legally available therefor. The Company will agree with MetLife Louisiana not to redeem the $2.20 Preferred Stock prior to the fourth anniversary date of the Reclassification. The Company reserves the right to redeem the $2.20 Preferred Stock during such period if such agreement with MetLife Louisiana terminates or is waived for any reason.	None.

	$2.16 PREFERRED STOCK	$2.20 PREFERRED STOCK	COMMON STOCK
Mandatory Redemption or Offer to Purchase:------	None.	If not redeemed earlier, on each February 15, beginning on February 15, 1994, the Company is required to redeem, but only out of funds legally available therefor, 6 2/3% of the shares of $2.20 Preferred Stock outstanding on February 15, 1994. In addition, if the Company fails to pay dividends on the $2.20 Preferred Stock for at least 12 quarters (whether or not consecutive), the Company is required to redeem, at the option of MetLife Louisiana or its affiliates, but only out of funds legally available therefor, all of the outstanding shares of $2.20 Preferred Stock. As of November 15, 1993, the Company had omitted dividends on the $2.20 Preferred Stock for a total of 12 1/2 quarters. MetLife Louisiana will agree to waive and not to require the Company to effect, any and all mandatory redemptions which a holder of $2.20 Preferred Stock has the right to require. The Company will agree with MetLife Louisiana that on June 30, 1998 and on June 30 of each subsequent year through 2007, the Company must offer to purchase, but only out of funds legally available therefor, 287,500 shares of $2.20 Preferred Stock or, if issued in lieu thereof, the Future Preferred Stock, on a cumulative basis. The purchase price shall be $20 per share, plus accrued and unpaid dividends, payable at the election of the Company in any combination of cash or, subject to certain conditions, shares of Common Stock, with shares of Common Stock being valued at the	None.

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		average closing price on the New York Stock Exchange for the 10 trading days commencing on the first trading day after the Company announces its intention to make such purchase with Common Stock.	
Conversion:------------------	Convertible, at the option of the holder, into 1.7241 shares of Common Stock for each share of $2.16 Preferred Stock, subject to adjustment.	Convertible, at the option of the holder, into .8696 shares of Common Stock for each share of $2.20 Preferred Stock, subject to adjustment. MetLife Louisiana will agree to refrain from exercising the conversion rights under the terms of the $2.20 Preferred Stock.	None.
Listing:---------------------	New York Stock Exchange.	Unlisted.	New York Stock Exchange and Pacific Stock Exchange.

</TABLE>

RISK FACTORS

Retention of Subordinated Debentures, the exchange of Subordinated Debentures for Exchange Notes, the reclassification of shares of $2.16 Preferred Stock into shares of Common Stock and the adoption of the Charter Amendments are each subject to a number of risks, including those discussed below. Prior to deciding whether to tender Subordinated Debentures pursuant to the Exchange Offer or to vote for Proposal No. 1 or Proposal No. 2, as applicable, each Debentureholder and stockholder of the Company should carefully consider the following risk factors, together with all other information set forth in this Proxy Statement -- Prospectus. Such risk factors have been listed in five sections: (i) risk factors of not effecting the Recapitalization; (ii) risk factors for all securityholders; (iii) risk factors for Debentureholders following consummation of the Exchange Offer; (iv) risk factors for holders of Exchange Notes; (v) risk factors for holders of Existing Preferred Stock; and (vi) risk factors for holders of Common Stock.

RISK FACTORS OF NOT EFFECTING THE RECAPITALIZATION

High Leverage and Adverse Financial Condition. The Company is highly leveraged, with significant funding requirements for near-term obligations. At September 30, 1993, the Company had $257 million of long-term debt and redeemable preferred stock outstanding. The Subordinated Debentures require sinking fund payments sufficient to retire $11.25 million principal amount of Subordinated Debentures per year, and the $2.20 Preferred Stock provides for annual mandatory redemptions, beginning in 1994, of 6 2/3% of the number of shares of $2.20 Preferred Stock outstanding at the time of the first redemption, at a redemption price of $20 per share, plus accrued and unpaid dividends. In addition, pursuant to the $2.20 Preferred Stock Put Option, since the Company is in default in the payment of 12 full quarterly dividends on the $2.20 Preferred Stock, the holder of the $2.20 Preferred Stock has the option to require the Company to redeem, out of funds legally available therefor, all the $2.20 Preferred Stock at $20 per share (an aggregate of $57.5 million), plus accrued and unpaid dividends (approximately $20.0 million or $6.97 per share at November 30, 1993). MetLife Louisiana, the current holder of the $2.20 Preferred Stock, has agreed, subject to certain conditions, that it will not exercise the $2.20 Preferred Stock Put Option before March 10, 1994 or earlier under certain circumstances. The terms of the $2.16 Preferred Stock require that, in connection with any redemption of the $2.20 Preferred Stock, all accrued and unpaid dividends on the $2.16 Preferred Stock (aggregating approximately $8.9 million or $6.75 per share at November 30, 1993) be paid.

The Company's operations over the past several years have not generated cash sufficient to meet all of the Company's obligations. As a result, the Company has been unable to pay dividends on the Existing Preferred Stock and has relied, in part, on cash from the sale of assets to meet its other cash requirements. Poor operating results have in large part been caused by significantly lower operating results from the Company's refining and marketing operations, which have been principally due to the deterioration of gross margins on sales of the Company's refined products, particularly residual fuel oil, which has approximated 40% of the total output of the refinery during the last three fiscal years. The Company cannot predict future prices for residual fuel oil; however, the Company does not believe there will be any meaningful improvement in the residual fuel oil market in the foreseeable future.

The Recapitalization will (1) satisfy the annual sinking fund requirements of $11.25 million on the unexchanged Subordinated Debentures until at least 1996 and possibly until 1998 (because the Subordinated Debentures acquired in the Exchange Offer can be tendered in satisfaction of the sinking fund requirements), (2) waive the $2.20 Preferred Stock Put Option and the annual cash redemption requirements of the $2.20 Preferred Stock, which begin in 1994, and create an annual obligation of the Company to offer to purchase the $2.20 Preferred Stock or, if issued in lieu thereof, the Future Preferred Stock, beginning in 1998, under which the purchase price may be paid in cash or, subject to certain conditions, shares of Common Stock or any combination thereof, (3) enable the Company to make future dividend payments on the $2.20

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Preferred Stock in cash or, subject to certain conditions, shares of Common Stock or any combination thereof, (4) reclassify all amounts

representing the $2.20 Preferred Stock and accrued and unpaid dividends on the $2.16 Preferred Stock as equity, and extinguish the accrued and unpaid dividends on the Existing Preferred Stock ($28.9 million at November 30, 1993), and (5) allow the Company the option to repurchase the entire equity interest in the Company currently held by MetLife Louisiana.

For information concerning the Company's response to its financial condition, see 'The Recapitalization -- Background.'

Termination of Letter of Credit Facility. On October 29, 1993, in order to avoid a $700,000 facility fee, the Company elected to terminate its secured Letter of Credit Facility with a group of banks. Letters of credit are issued to obtain crude oil feedstocks for the Company's refinery and for other operating and corporate needs. In connection with the termination, the Company negotiated certain interim credit arrangements in order to meet its near term operating and corporate credit requirements. See 'The Recapitalization -- Background -- The Company's Financial Requirements.' In addition, the Company initiated discussions with several financial institutions with regard to providing a long-term credit facility to finance the Company's working capital requirements. Based on these discussions, the Company believes it will be able to enter into a long-term credit facility on terms more favorable than the Company's terminated Letter of Credit Facility upon successful completion of the proposed Recapitalization. If the Company is unsuccessful in completing the Recapitalization, and is thereafter unable to arrange a long-term credit facility, or is otherwise unable to arrange such a facility, the Company may be required to reduce its refinery throughput to reduce its working capital requirements. The Company is unable to predict if it would be able to operate the refinery at an economically viable rate under such circumstances.

Requirements for Financial Responsibilities. The State requires the Company, as the operator of a terminal, pipeline or tanker vessel, to have a satisfactory contingency plan concerning oil spills and to maintain proof of certain minimum standards of financial responsibility. Such minimum standards of financial responsibility are also required under The Oil Pollution Act of 1990 and by the agreement covering the Company's transportation of feedstock through the Trans Alaska Pipeline System. During any period in which the $2.20 Preferred Stock Put Option is exercisable, the Company might not meet such minimum standards. In the event the Company were unable to meet such minimum standards, its ability to operate could be materially adversely affected.

Earnings and Fixed Charges. Earnings were inadequate to cover combined fixed charges and preferred stock dividend requirements by $49.1 million and $4.1 million during fiscal 1992 and the nine months ended September 30, 1993, respectively.

RISK FACTORS FOR ALL SECURITYHOLDERS

Risk Factors Specific to the Company

Concentration of Oil and Gas Operations. 100% of the Company's operating profit during 1992, and approximately 87% of its operating profit during the nine months ended September 30, 1993, were attributable to its oil and gas operations. Oil and gas production is subject to interruption as a result of a variety of conditions and events, including natural disaster, reservoir damage, mechanical difficulties, unavailability of equipment and supplies, normal production declines, transportation problems, title and contractual controversies, governmental regulation and others. Because the Company's domestic oil and gas production is confined to the Bob West Field and its international oil and gas production is confined to two blocks in Bolivia, the effect of any of such conditions or events on the Company could be particularly adverse. Any interruption of oil and gas production in any one or more of the Company's areas of operation could have a material adverse effect on the Company.

Interruption of Feedstock Availability. The Company's Alaska refinery currently utilizes crude oil which is transported through the Trans Alaska Pipeline to Valdez and from there to the refinery by the Company's time-chartered American flag vessel. The Company has a contract through 1994 with the State which presently provides for the purchase of approximately 27,500 barrels of oil per day of Alaska North Slope crude oil, which constituted approximately 54% of the Company's feedstock

requirements during the first nine months of 1993. The remainder of the Company's feedstock requirements are generally met through short-term contracts and spot market purchases. In the event of any significant interruption in this supply or transportation system, the Company might not have ready access to any other source of feedstocks, which situation could have a material adverse effect on the Company's operations.

Damage to Refinery; Natural Hazards. All refinery operations are conducted at the Company's facility in Kenai, Alaska. As a result, the operations of the Company would be subject to significant interruption if its refinery or its associated dock facilities were to experience a major accident or were damaged by severe weather or other natural disaster. The Company, however, maintains business interruption insurance in amounts which management of the Company believes to be adequate to cover any material losses which might be incurred in such event.

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New Refining and Marketing Operational Strategy. The Company's poor operating results in recent years have been caused in large part by significantly lower operating results from the Company's refining and marketing operations, which have been principally due to the deterioration of gross margins on sales of the Company's refined products, particularly residual fuel oil. To address this situation, the Company's new management has developed and implemented a market-driven operational strategy for the refining and marketing operations. This strategy includes reducing refinery throughput and altering the mix of feedstocks, which is intended to enable the Company to match its refined product yield more closely to the product demand in Alaska, its primary market, and reduce shipments of refined products to less profitable markets. The strategy is also intended to reduce the Company's working capital requirements and reduce the volume of residual fuel oil produced by the Company's Alaska refinery, which has approximated 40% of the total output of the refinery during the past three fiscal years. Implementation of this strategy has resulted in a decrease in total refinery production from 60,900 barrels per day in 1992 to 49,700 barrels per day during the nine months ended September 30, 1993 and a decrease in the level of residual fuel oil production from approximately 23,400 barrels per day in 1992 to approximately 17,600 barrels per day during the nine months ended September 30, 1993. The Company's ability to further reduce production of residual fuel oil, other than by further reducing total refinery production, is currently limited by constraints on the supply of lighter feedstocks. The new strategy has been implemented only recently, and there can be no assurance that it will ultimately prove successful.

Possible Adverse Impact of Pending Litigation. The Company is involved in certain litigation in Texas state court regarding a gas purchase contract expiring in January 1999 with Tennessee Gas Pipeline Company ('Tennessee Gas'). Two producing acreage units within the Bob West Field are subject to such contract, pursuant to which Tennessee Gas is currently paying in excess of $7.50 per thousand cubic feet ('Mcf') of gas, which is greatly in excess of the spot market price for natural gas ($1.88 per Mcf during October 1993). During the nine months ended September 30, 1993, the Tennessee Gas contract price was paid with respect to 26% of the Company's net production from the Bob West Field. As of September 30, 1993, the cumulative difference between the amount which Tennessee Gas has paid for gas purchases under the gas purchase agreement and the price that would have been paid based on spot market prices totaled approximately $22.3 million. During the remainder of 1993, the Company expects this difference to continue to increase as the Company continues development of the Bob West Field. The trial court judgment in the case in favor of the Company was reversed in part and remanded to the trial court by the Court of Appeals. Tennessee Gas has filed a motion for rehearing with the Court of Appeals regarding the portions of its decisions upholding the judgment of the trial court. An adverse judgment in this case could have a material adverse effect on the Company. If Tennessee Gas ultimately prevails in the litigation, the Company could be required to return to Tennessee Gas the $22.3 million representing the difference between the spot price for gas and the contract price. See 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements.

Possible Limitation on Company's Use of its Net Operating Loss Carryforwards and General Business Credits. Under Sections 382 and 383 of the Internal Revenue Code of 1986, if the Company has an 'ownership change,' as defined therein, the Company's use of its net operating loss carryforwards and general business credits after the ownership change will be subject to an annual limit (the '382 Limit'). Under certain interpretations of the existing Treasury regulations, the Reclassification will result in an ownership change. The Company intends to take the position that an ownership change under existing law has not occurred prior to the Reclassification and will not occur as a result thereof. Because there are substantial interpretive questions concerning such Sections 382 and 383 and there is uncertainty as to events which may occur after the Recapitalization, there can be no assurance that an ownership change will not occur as a result of the Recapitalization or future events. If an ownership change occurs, the 382 Limit would be approximately $7.4 million per year based upon the Company's estimate of the value of its outstanding stock as of December 27, 1993. See 'Certain Federal Income Tax Considerations -- Federal Income Tax Consequences of the Recapitalization to the Company.'

Bankruptcy and Insolvency Considerations. If the Company were to seek protection or become the subject of a filing of an involuntary bankruptcy petition under the Bankruptcy Code, the Company believes that the ability of its securityholders, including holders of Subordinated Debentures and Exchange Notes, to recover their investment may be significantly impaired as a result of various factors. See 'Certain Bankruptcy and Insolvency Considerations.'

General Industry Risk Factors

Environmental Regulations and Liabilities. The Company is subject to extensive federal, state and local laws and regulations governing releases into the environment and the storage, transportation, disposal and cleanup of hazardous waste materials. Future environmental regulations could result in increased capital expenditures and operating costs that may adversely affect the Company's results of operation and financial condition. At present, the Company has been identified by the EPA as a potentially responsible party ('PRP') pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ('CERCLA') for the D.L. Mud, Inc. ('Mud') and Gulf Coast Vacuum Services ('Gulf Coast') Superfund sites in Abbeville, Louisiana. See 'Management's

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Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources and Liquidity,' 'Business -- Government Regulation and Legislation' and 'Legal Proceedings -- Mud and Gulf Coast Superfund Sites.' While the Company has from time to time been, and presently is, the subject of litigation and investigations relating to environmental and related matters, management of the Company does not believe that such litigation and investigations will have a material adverse effect on the earnings or competitive position of the Company. However, there can be no assurance that the Company will not become involved in further litigation or other proceedings, or that if the Company were to be held responsible for damage in any litigation or proceedings (including existing ones), such costs would not be material. See 'Business -- Government Regulation and Legislation.'

Possible Liability for Underground Storage Tanks. In the past, the Company has operated service stations in various jurisdictions which have had underground fuel storage tanks. The Company currently operates service stations in Alaska which have underground fuel storage tanks. All such storage tanks are subject to governmental regulation and legislation. See 'Business -- Government Regulation and Legislation.' The operation of underground storage tanks poses certain risks apart from costs associated with regulatory requirements. These risks are predominately damages associated with the underground leaks of petroleum products. The Company currently has leak detection and tank testing programs in effect to mitigate the threat of such risks. In addition, the majority of the Company's operating service stations are in non-residential locations further reducing the risks associated with contamination of residential areas. However, there can be no assurance that the Company will not become liable for damages from its underground storage tanks at some future date. See 'Legal Proceedings -- Stanislaus County Matters.'

Volatility of Earnings and Cash Flows. The feedstocks for the Company's Alaska refinery and the refined products produced at the refinery are commodities and their prices are subject to considerable volatility. An increase in crude oil prices could adversely affect the Company's operating margins. The markets and prices for the Company's refined products depend upon factors beyond the control of the Company, including the demand for crude oil, gasoline and other refined products, which fluctuates with changes in the economy, price levels and seasons, the level of domestic production and refinery utilization rates, the availability of imports, the availability and marketing of competitive fuels, the impact of energy conservation efforts and the extent of governmental regulation and taxation. Additionally, worldwide residual fuel oil markets have been extremely depressed since the Persian Gulf War, and such depressed prices have had and continue to have a significantly negative effect on the Company's results. The Company cannot predict either the future markets and prices for the Company's refined products or, specifically, whether the market for residual fuel oil will improve in the foreseeable future.

Competition. The oil and gas industry is highly competitive in all phases, including the refining and marketing of crude oil and petroleum products and the search for and development of oil and gas reserves. This industry also competes with industries that supply the energy and fuel requirements of industrial, commercial, individual and other consumers. The Company competes with a substantial number of major integrated oil companies and other companies having materially greater financial and other resources. These competitors have a greater ability to bear the economic risks inherent in all phases of this industry. In addition, unlike the Company, many competitors also produce large volumes of crude oil which may be used in connection with their operations.

Uncertainty in Estimating Oil and Gas Reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves of oil and gas and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the Company. The reserve data set forth in this Proxy Statement -- Prospectus represent only estimates. In addition, the estimates of future net cash flow from proved reserves of the Company and the present value thereof are based upon certain assumptions about future production levels, prices and costs that may not prove correct over time. For information concerning the risk of litigation which, if adversely determined, could affect such estimates, see '-- Risk Factors for all Securityholders -- Litigation.'

Depletion of Reserves, Risk of Oil and Gas Operations. The Company must continually acquire or explore for and develop new oil and gas reserves to replace those being depleted by production. Without successful acquisition or drilling ventures, the Company's oil and gas assets, production and reserves will decline. To the extent the Company engages in drilling activities, such activities carry the risk that no commercially viable oil and gas production will be obtained. The cost of drilling, completing and operating wells is often uncertain. Moreover, drilling may be curtailed, delayed or canceled as a result of many factors, including title problems, weather conditions and shortages or delays in delivery of equipment, as well as the financial instability of well operators, major working interest owners and well servicing companies. Also, the availability of a ready market for the Company's oil and gas production depends on numerous factors beyond its control, including the demand for and supply of oil and gas, the proximity of the Company's gas reserves to pipelines, the capacity of such pipelines, fluctuations in seasonal demand, the effects of inclement weather and government regulation.

Risk of Oil Field Supply and Distribution. The Company's oil field supply and distribution business is largely dependent upon the level and nature of

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domestic oil and gas drilling and workover activity. The levels of drilling activity are influenced by numerous factors, including general economic conditions, demand for and price of oil and gas, development of alternative energy sources, availability of equipment and materials, availability of new oil leases or concessions, governmental regulations and other political conditions. In recent years, the level of drilling activity has been depressed. Therefore, no assurance can be given as to the level of future demand for the Company's oil field supply and distribution business.

Operations in Foreign Countries. A portion of the Company's operations are conducted in foreign countries where the Company is also subject to risks of a political nature and other risks inherent in foreign operations. The Company's operations outside the United States have been, and in the future may be, materially affected by host governments through increases or variations in taxes, royalty payments, export taxes and export restrictions and adverse economic conditions in the foreign countries, the future effects of which the Company is unable to predict.

Personal Injury and Property Damage Liabilities. The Company's refining and oil and gas operations are hazardous due to the combination of individuals and machines operating in restricted work areas and the highly flammable nature of crude oil, natural gas and refined products. As a result, the Company has experienced personal injury and property damage incidents in the past and expects such incidents to occur in the future. The frequency and severity of such incidents affect the Company's operating costs and insurability and its relationship with customers, employees and regulators. Any significant increase in the frequency or severity of such incidents, or the general level of compensation awards with respect thereto, could affect the ability of the Company to obtain insurance and could have a material adverse effect on the Company.

New Energy Tax. The Revenue Reconciliation Act of 1993 imposed a new 4.3 per gallon 'transportation fuels tax' effective October 1, 1993, and a tax on commercial aviation fuel effective October 1, 1995. The Company is uncertain of the impact, if any, such taxes may have on the Company's operations.

RISK FACTORS FOR DEBENTUREHOLDERS FOLLOWING CONSUMMATION OF THE EXCHANGE OFFER

Sinking Fund Requirements. The Company's mandatory sinking fund requirements under the Subordinated Debentures will be met to the extent Subordinated Debentures are tendered and accepted in the Exchange Offer. Assuming that the minimum tender condition is met and the Exchange Offer is consummated, the Company will have no mandatory sinking fund requirements under the Subordinated Debentures until at least 1996 and possibly until 1998. The resulting increase in the average life of the remaining Subordinated Debentures could adversely affect their market price.

Effect of the Indenture Amendments. If the requisite consents to the Indenture Amendments are obtained, a supplemental indenture amending the Existing Indenture will be executed, to become effective on completion of the Exchange Offer. Any persons who remain Debentureholders following consummation of the Exchange Offer, including those who have not consented to the Indenture Amendments, will hold unexchanged Subordinated Debentures that no longer will be entitled to the benefits of the covenant currently prohibiting the Company from declaring or paying dividends on the Common Stock, making any distributions to its stockholders and purchasing or redeeming any of its capital stock currently contained in the Existing Indenture. If the requisite consents to the Indenture Amendments are obtained, the Exchange Notes will constitute 'Senior Indebtedness' as defined in the Existing Indenture. Accordingly, the indebtedness represented by the Exchange Notes will rank senior in right of payment to the indebtedness represented by the Subordinated Debentures that remain outstanding after consummation of the Exchange Offer, including with regard to their respective claims upon any liquidation or bankruptcy of the Company. As a result, upon liquidation or bankruptcy of the Company, holders of such Subordinated Debentures may recover ratably less than holders of Exchange Notes. See 'Proposed Amendments to Existing Indenture.'

Possible Limited Liquidity and Effect on Market Price of Subordinated Debentures. To the extent that Subordinated Debentures are tendered and accepted in the Exchange Offer, the trading market for any Subordinated Debentures that remain outstanding after the Exchange Offer is consummated will become more limited. Trading in a security with a smaller aggregate principal amount outstanding may be less liquid, and such a security may command a lower price than a comparable security with a greater aggregate principal amount outstanding. Therefore, the liquidity of and the market price for any Subordinated Debentures that remain outstanding after the Exchange

Offer is consummated may be adversely affected to the extent that the Subordinated Debentures tendered pursuant to the Exchange Offer reduce the aggregate outstanding principal amount of Subordinated Debentures. The reduced aggregate outstanding principal amount may also make the trading price of any remaining Subordinated Debentures more volatile.

Maturity. The Exchange Notes will have an earlier maturity date than the Subordinated Debentures and the principal of the Exchange Notes is scheduled to be paid in its entirety prior to the final maturity of the Subordinated Debentures.

Possible Constructive Exchange of Subordinated Debentures. If the

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Indenture Amendments are deemed to be material modifications to the Subordinated Debentures within the meaning of Section 1001 of the Code and the regulations thereunder, a holder of Subordinated Debentures who did not tender his Subordinated Debentures would nevertheless be deemed to have exchanged his Subordinated Debentures for new debt instruments. Although tax counsel believes the changes to the Existing Indenture resulting from the Indenture Amendments will not be treated as a constructive exchange by a non-tendering holder of an 'old' Subordinated Debenture for a 'new' Subordinated Debenture, the issue is not free from doubt. See 'Federal Income Tax Consequences to a Holder Who Does Not Receive Exchange Notes in Exchange for All of Its Subordinated Debentures' for a discussion of the effect upon a holder of Subordinated Debentures of a determination that the Indenture Amendments will cause such a constructive exchange. The balance of this Proxy Statement -- Prospectus assumes that the Indenture Amendments will not cause such a constructive exchange, except as noted to the contrary.

RISK FACTORS FOR HOLDERS OF EXCHANGE NOTES

No Previous Trading Market. No Exchange Notes have previously been issued. The Company intends to apply to list the Exchange Notes on the New York Stock Exchange, but no assurance can be given that the Exchange Notes will be listed. In addition, no assurance can be given as to the relationship that the market price of the Exchange Notes will bear to the market price of the Subordinated Debentures, either currently or in the future.

Certain Differences between Exchange Notes and Subordinated Debentures. The Subordinated Debentures require sinking fund payments each March 15 sufficient to retire $11.25 million principal amount of Subordinated Debentures each year through year 2000. The Exchange Notes do not have a sinking fund requirement. The Existing Indenture currently prohibits the Company from declaring or paying dividends on the Common Stock and purchasing or redeeming any of its capital stock. The indenture governing the Exchange Notes will contain less restrictive prohibitions which will afford the Company greater flexibility in purchasing or redeeming shares of $2.20 Preferred Stock and Common Stock in the future. See 'Comparison of Exchange Notes and Subordinated Debentures' and 'Proposed Amendments to Existing Indenture -- General.'

Fraudulent Transfer. Under revelant federal and state fraudulent transfer or conveyance statutes, generally stated, if a court found that the Company, in exchanging Exchange Notes for Subordinated Debentures, (i) intended to hinder, delay or defraud creditors or (ii) was insolvent or rendered insolvent by reason of such exchange, (iii) was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital or (iv) intended to incur, or believed that it would incur, debts beyond its ability to pay as they matured, the court could take action that could include, under certain circumstances, invalidating such exchange. The Company does not believe that such exchange would constitute a fraudulent transfer on any of the grounds described above, but there is no assurance that a court would agree with such belief. The measure of insolvency for purposes of the foregoing will vary depending upon the law of the jurisdiction which is being applied. See 'Certain Bankruptcy and Insolvency Considerations -- Fraudulent Transfer.'

Gain Recognition Upon Receipt of Exchange Note. The holder of a Subordinated Debenture will recognize, for federal income tax purposes, on the receipt of an Exchange Note in exchange for a Subordinated Debenture gain in an amount equal to the lesser of (i) the gain realized on the Debt

Exchange (as defined herein) and (ii) the cash and fair market value of property treated as being received by the holder in the Debt Exchange. In addition, if either the Subordinated Debentures or the Exchange Notes do not constitute 'securities' for federal income tax purposes, an exchanging holder of a Subordinated Debenture will recognize all gain realized in the exchange. Counsel believes that the Subordinated Debentures are securities for federal income tax purposes, and also believes, although the issue is not free from doubt, that the Exchange Notes are securities for federal income tax purposes. See 'Certain Federal Income Tax Considerations -- Federal Income Tax Consequences of the Exchange Offer and Indenture Amendments to Holders of Subordinated Debentures.'

RISK FACTORS FOR HOLDERS OF EXISTING PREFERRED STOCK

Loss of Preference. Presently, the $2.16 Preferred Stock ranks senior to the Common Stock upon any liquidation or bankruptcy of the Company. Following the Reclassification, in the event of liquidation or bankruptcy of the Company, former holders of $2.16 Preferred Stock will share pro rata with other holders of Common Stock in any distributions to be made to such holders and, therefore, may recover less than they would have recovered absent the Reclassification.

Use of Common Stock for Dividends or Purchases. As a result of the Amended MetLife Memorandum, dividends on the $2.20 Preferred Stock and purchases of the $2.20 Preferred Stock pursuant to the Company's obligation to make offers to purchase may, at the election of the Company, be made in cash or, subject to certain conditions, shares of Common Stock or any combination thereof. See '-- Risk Factors for Holders of Common Stock.'

Elimination of Accrued and Unpaid Dividends. At November 30, 1993, there were approximately $8.9 million ($6.75 per share) of accrued and unpaid dividends on the $2.16 Preferred Stock and approximately $20.0 million ($6.97 per share) of accrued and unpaid dividends on the $2.20 Preferred Stock. As a result of the Reclassification and the Amended MetLife Memorandum, all accrued and unpaid dividends on the Existing Preferred Stock will be extinguished.

Elimination of Existing Redemption Requirements. As a result of the Amended MetLife Memorandum, the annual mandatory redemption requirements of the

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$2.20 Preferred Stock and the $2.20 Preferred Stock Put Option will be waived.

Elimination of Right to Elect Two Directors. Under the terms of the $2.20 Preferred Stock and the $2.16 Preferred Stock, the holders thereof as a single class currently have the right to elect two additional members to the Board of Directors due to the Company's failure to pay dividends in an amount equal to at least six quarterly dividends. If the Reclassification is consummated, the $2.16 Preferred Stock will cease to exist and, therefore, will no longer have a right to elect two additional directors. The right of the holder of $2.20 Preferred Stock to elect two additional directors will no longer be immediately exercisable because MetLife Louisiana, as the sole holder of the $2.20 Preferred Stock, will agree pursuant to the Amended MetLife Memorandum that all accrued and unpaid dividends on the $2.20 Preferred Stock will be considered to have been paid. Following the Reclassification, the holders of $2.20 Preferred Stock will continue to have the right to elect two additional members to the Board of Directors if the Company again fails to pay dividends in an amount equal to at least six quarterly dividends.

Reclassification Only. If the Exchange Offer is not consummated but the Reclassification is consummated, the Company would be obligated to make sinking fund payments of $11,250,000 with respect to the Subordinated Debentures on March 15 of each year, including 1994, with a resulting reduction in the Company's liquidity. In addition, without the Indenture Amendments, the Company would not be able to exercise in full the Company's MetLife Option except with the proceeds from the issuance of capital stock or substantial future earnings. This would substantially reduce the Company's flexibility to fund the exercise of the Company's MetLife Option. MetLife Louisiana's agreement to vote its shares of $2.20 Preferred Stock in favor of the Reclassification is conditioned upon consummation of the Exchange Offer. MetLife Louisiana has not advised the Company of any

circumstances under which it might waive the condition that the Exchange Offer be consummated prior to its approval of Proposal No. 1.

Possible Taxable Dividend from Reclassification to Holders of $2.16 Preferred Stock. With respect to the 4.9 shares of Common Stock to be received in the Reclassification the holders of $2.16 Preferred Stock will have a constructive distribution in an amount equal to the lesser of (i) the excess of the fair market value (as determined for federal income tax purposes) of the 4.9 shares of Common Stock received in exchange for one share of $2.16 Preferred Stock over $25 or (ii) the dividends in arrears on a share of $2.16 Preferred Stock determined, in each case, immediately after the Reclassification. Based on the value of the Common Stock as of December 27, 1993, the Reclassification would result in a constructive distribution of approximately $2.87 per share of $2.16 Preferred Stock. The Company believes it has sufficient accumulated earnings and profits for such constructive distributions to be taxed as a dividend. See 'Certain Federal Income Tax Considerations-- Federal Income Tax Consequences of the Reclassification.'

Possible Taxable Dividend to $2.16 Preferred Stock Holders from Croyden Associates' Litigation. Although the federal income tax consequences are subject to substantial interpretive questions and counsel does not express an opinion regarding these consequences, it is likely that holders of $2.16 Preferred Stock will have a distribution equal to such holder's proportionate share of the fair market value of the 131,956 shares of Common Stock set aside and available to pay, and the money of the Company used to pay, the attorneys representing such class. The Company believes it has sufficient accumulated earnings and profits for all such distributions to be taxed as dividends. See 'Certain Federal Income Tax Considerations -- Federal Income Tax Consequences Related to Croyden Associates' Litigation.'

Possible Taxable Dividend from Amended MetLife Memorandum. MetLife Louisiana will receive a constructive distribution on each share of $2.20 Preferred Stock in an amount equal to the lesser of (i) the fair market value of the Common Stock received for each share of $2.20 Preferred Stock held plus the amount, if any, by which the fair market value of a share of the 'new' $2.20 Preferred Stock exceeds $20, and (ii) the dividend arrearages on the $2.20 Preferred Stock, determined, in each case, immediately after the Reclassification. Based on the Company's estimate of the value of Common Stock and 'old' $2.20 Preferred Stock as of December 27, 1993, the Company estimates that MetLife Louisiana will have a constructive distribution equal to approximately $10.8 million. Since the Company believes it has sufficient accumulated earnings and profits, such constructive distributions will be taxed as dividends. See 'Certain Federal Income Tax Considerations -- Federal Income Tax Consequences of the Amended MetLife Memorandum.'

See '-- Risk Factors for Holders of Common Stock.'

RISK FACTORS FOR HOLDERS OF COMMON STOCK

Issuance of Additional Shares of Common Stock. If the Reclassification is completed, approximately 6,465,859 additional shares of Common Stock will be issued to holders of $2.16 Preferred Stock, 131,956 additional shares of Common Stock will be issued on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation and 1,900,075 additional shares of Common Stock will be issued to MetLife Louisiana, an increase of approximately 60% over the 14,069,236 shares of Common Stock outstanding at December 15, 1993. Accordingly, approval of the Reclassification will result in substantial dilution to holders of Common Stock.

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Pursuant to the terms of the Amended MetLife Memorandum, dividends on the $2.20 Preferred Stock will be payable at the election of the Company in cash or, subject to certain conditions, shares of Common Stock or any combination thereof. Additionally, the Company will be required annually to offer to purchase, beginning June 30, 1998, 287,500 shares of $2.20 Preferred Stock or, if issued in lieu thereof, Future Preferred Stock, if the Company's MetLife Option shall have expired without being exercised in full. The purchase price payable pursuant to each such offer may be paid at the election of the Company in cash or, subject to certain conditions, shares of Common Stock or any combination thereof. Accordingly, additional shares of Common Stock may in the future be issued to holders of the $2.20 Preferred Stock, or the Future Preferred Stock issued in lieu thereof.

Voting Concentration. As of December 15, 1993, MetLife Louisiana owned Common Stock and $2.20 Preferred Stock constituting approximately 28% of the outstanding capital stock of the Company entitled to vote. Upon completion of the Reclassification, MetLife Louisiana will beneficially own 4,084,160 shares of Common Stock and 2,875,000 shares of $2.20 Preferred Stock, constituting approximately 27% of the outstanding shares of capital stock of the Company entitled to vote. If the Company pays dividends on the $2.20 Preferred Stock in Common Stock or repurchases shares of $2.20 Preferred Stock, or Future Preferred Stock issued in lieu thereof, with Common Stock pursuant to its obligation to make offers to purchase, MetLife Louisiana's percentage holdings of Common Stock could increase.

Other major stockholders include Oakville N.V. and United Partners, which own approximately 10% and 9%, respectively, of the outstanding shares of capital stock of the Company at December 15, 1993 and, after giving effect to the Reclassification, will each own approximately 7% of the outstanding shares of capital stock of the Company.

Five of the 13 current directors of the Company are associated with or have been recommended by major stockholders of the Company. Upon consummation of the Reclassification and the expansion of the Board of Directors as required by the Amended MetLife Memorandum, eight of the 16 directors of the Company will be associated with or will have been recommended by major stockholders of the Company. See 'The Recapitalization -- MetLife Louisiana Conditions.'

If Proposal No. 2 is approved and as a result the 80% voting requirement of Article Seventh of the Company's Certificate of Incorporation later ceases to be effective, a transaction set forth in Article Seventh between the Company and any beneficial owner of 10% or more of the outstanding shares of the capital stock of the Company entitled to vote in the election of directors, including MetLife Louisiana, including a merger with, sale of substantially all the assets of the Company to, or the issuance of voting stock of the Company to any such owner, will no longer require such 80% vote. In that event, unless certain provisions of the Delaware Law requiring a greater vote were applicable to the specific transaction, such a transaction would require at most a vote of the majority of stockholders and might, depending on the transaction, not require stockholder approval at all.

Lack of Dividends. No dividends have been declared on the Common Stock since 1986, and the Company does not anticipate paying dividends on the Common Stock in the foreseeable future. See 'Description of Exchange Notes' and 'Proposed Amendments to Existing Indenture.' For information on market prices of the Common Stock, see 'Trading and Market Prices.'

THE RECAPITALIZATION

BACKGROUND

General. The Company's operating results in recent years have been poor. These results have primarily been caused by (i) significantly lower operating results from the Company's refining and marketing operations, which have been principally due to the deterioration of gross margins on sales of its refined products, particularly residual fuel oil, which has approximated 40% of the total output of the Company's Alaska refinery during the past three fiscal years, (ii) reduced revenues and operating profits from the Company's foreign exploration and production operations, and (iii) lower margins on sales of products from the Company's oil field supply and distribution segment. During the year ended December 31, 1992, the Company experienced a net loss of $65.9 million, or $5.34 per share, and it has experienced losses in five of its past seven fiscal years. Common Stock and Other Stockholders' Equity has declined from $137.0 million as of December 31, 1991, to $44.2 million as of September 30, 1993. During this period, the Company's stockholders' equity was adversely affected by, in addition to the factors discussed above, accrued and unpaid dividends of $27.4 million on the Existing Preferred Stock and charges of $10.5 million for the settlement of a contractual dispute with the State, $20.6 million for the cumulative effect of accounting changes relating to postretirement benefits and income taxes and $9.1 million for expenses to implement a cost reduction program and other employee terminations in 1992.

The Company's operations over the past several years have not generated cash sufficient to meet all of the Company's obligations. As a result, the Company has been unable to pay dividends on the Existing Preferred Stock and has relied, in part, on cash from the sale of assets to meet its other cash requirements.

The Company's Financial Requirements. The Company is subject to a number

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of significant financial requirements, including the following:

1. Debt service requirements

The Subordinated Debentures require sinking fund payments each March 15 sufficient to retire $11.25 million principal amount of Subordinated Debentures per year through 2000. Under the ANS Agreement, the Company is obligated to make variable monthly payments for at least nine years plus a payment of $60 million in 2002, subject to deferral. Under a consent order with the U.S. Department of Energy, the Company is obligated to make payments aggregating $13.2 million, plus interest at the rate of 6% per annum, during the next nine years.

Earnings were inadequate to cover combined fixed charges and preferred stock dividend requirements by $49.1 million and $4.1 million during fiscal 1992 and the nine months ended September 30, 1993, respectively.

2. Existing Preferred Stock requirements

Pursuant to the terms of the $2.20 Preferred Stock, and as a result of accumulated dividend arrearages of 12 quarters, MetLife Louisiana currently has the option to require the Company to redeem all of the outstanding $2.20 Preferred Stock out of funds legally available therefor at $20 per share (an aggregate of $57.5 million), plus accrued and unpaid dividends. At November 30, 1993, accrued and unpaid dividends on the $2.20 Preferred Stock aggregated approximately $20.0 million ($6.97 per share). Dividend arrearages on the $2.20 Preferred Stock exceeded 12 full quarterly dividends on November 15, 1993. MetLife Louisiana has agreed, subject to certain conditions, that it will not exercise the $2.20 Preferred Stock Put Option before March 10, 1994. See '-- The Recapitalization.' In addition, the $2.20 Preferred Stock provides for annual mandatory redemptions, beginning February 15, 1994, of 6 2/3% of the number of shares of $2.20 Preferred Stock outstanding on February 15, 1994, at a redemption price of $20 per share, plus accrued and unpaid dividends. Pursuant to the MetLife Forbearance Agreement, as amended, the $2.20 Preferred Stock Put Option is not exercisable and the 1994 mandatory redemption is not required to be made until March 10,

1994, or earlier under certain circumstances. See 'Background -- The Recapitalization.' The $2.20 Preferred Stock has a cumulative annual cash dividend of $2.20 per share, payable quarterly, out of funds legally available therefor, which results in an annual cash dividend obligation of approximately $6.3 million.

The terms of the $2.16 Preferred Stock require that, in connection with any redemption of the $2.20 Preferred Stock, all accrued and unpaid dividends on the $2.16 Preferred Stock be paid. At November 30, 1993, accrued and unpaid dividends on the $2.16 Preferred Stock aggregated approximately $8.9 million ($6.75 per share). The $2.16 Preferred Stock has a cumulative annual cash dividend of $2.16 per share, payable quarterly, which results in an annual cash dividend obligation of approximately $2.9 million.

The Existing Indenture includes covenants that currently prohibit the Company from redeeming the $2.20 Preferred Stock for cash. Moreover, even absent such prohibitions, the Company does not believe that its current financial resources are sufficient to make the payments that would be required upon exercise of the $2.20 Preferred Stock Put Option, and the Company may not be permitted under the Delaware Law to make such payment.

3. Working capital requirements

On October 29, 1993, in order to avoid a $700,000 facility fee, the Company elected to terminate its secured Letter of Credit Facility with a group of banks. Letters of credit are issued to obtain crude oil feedstocks for the Company's refinery and for other operating and corporate needs. In connection with the termination, the Company negotiated certain interim credit arrangements in order to meet its near term operating and corporate credit requirements. In addition, the Company has initiated discussions with several financial institutions with regard to providing a long-term credit facility to finance the Company's working capital requirements. Based on these discussions, the Company believes it will be able to enter into a long-term credit facility on terms more favorable than the Company's terminated Letter of Credit Facility Agreement upon successful completion of the proposed Recapitalization. If the Company is unsuccessful in completing the Recapitalization, and is thereafter unable to arrange a long-term credit facility, or is otherwise unable to arrange such a facility, the Company may be required to reduce its refinery throughput to reduce its working capital requirements. The Company is unable to predict if it would be able to operate the refinery at an economically viable rate under such circumstances.

During September 1993 and subsequent, the Company negotiated several interim credit arrangements in order to meet its operating and corporate credit requirements. With respect to these interim credit arrangements, the Company has entered into several uncommitted letter of credit facilities which provide for the issuance of letters of credit on a cash-secured basis and has entered into an agreement (the 'Substitution Agreement') with the Company's largest supplier of crude oil to secure the Company's purchases from this supplier through the end of 1994 principally with the Company's crude oil and refined product inventory in Alaska.

In order to provide the Company with additional financial liquidity, during October 1993, Tesoro E&P entered into the $30 million E&P Facility which is secured principally by Tesoro E&P's natural gas properties in the Bob West Field. The E&P Facility is subject to a quarterly borrowing base determination which was initially determined to be $20 million. Although the E&P Facility contains restrictions that prohibit borrowings under the facility to be used by

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Tesoro E&P or the Company for debt service, including interest and principal on the Subordinated Debentures, or for payment of common or preferred dividends, the Company can use loan proceeds for capital requirements associated with development of the Company's South Texas natural gas properties, the acquisition and development of other oil and gas properties and, subject to certain limitations, general working capital requirements of the Company.

4. Capital expenditure requirements

The Company anticipates that it will incur capital expenditures of approximately $40 million during 1993, approximately $29 million of which are expected to be incurred for the continuing development of the Company's Bob West Field and approximately $9 million of which are expected to be incurred to fund capital expenditures at the Company's Alaska refinery and to expand or enhance the Company's Alaska retail and wholesale marketing operations. Through September 30, 1993, the Company had incurred approximately $26 million of capital expenditures. Management of the Company has under consideration total capital expenditures for fiscal 1994 ranging from approximately $70 million to $80 million which would include approximately $29 million for the continued development of the Bob West Field and $32 million for the Alaska refinery, including $25 million associated with the upgrading of refinery hardware through the installation of a vacuum unit which will allow the Company to upgrade residual fuel oil into higher value products. The Board of Directors has not approved the Company's proposed capital expenditures for fiscal 1994 and the Company anticipates that such approval will be subject to, among other things, the Board of Directors being satisfied with the Company's ability to finance such capital expenditures, and the consummation of the Recapitalization. The aggregate capital expenditures the Company will be able to incur in 1994 will also depend upon the Company's ability to generate funds from operations, financings and other sources.

The Company's Initial Response. In response to the factors described above, in early 1992 the Board of Directors initiated a review of the Company's financial condition and began to formulate and implement a strategy to increase liquidity and stockholders' equity and improve the financial results of the Company in order to achieve greater financial stability. In furtherance of these goals, the Board of Directors made changes in management of the Company. Management has developed new operational and financial strategies, reduced general and administrative expenses, sold certain assets and resolved the Company's dispute with the State regarding the pricing of crude oil feedstocks.

Since July 1992, several new executive officers have joined the Company. In July 1992, Michael D. Burke joined the Company as President and Chief Executive Officer. Mr. Burke had previously served as President and Chief Executive Officer of T.E. Products Pipeline Company, L.P., an affiliate of Texas Eastern Corporation, from 1990 to 1992. In September 1992, Bruce A. Smith joined the Company as Vice President and Chief Financial Officer. Mr. Smith had previously served as Vice President and Treasurer of Valero Energy Corporation from 1986 to 1992. In January 1993, Gaylon H. Simmons joined the Company as Senior Vice President, Refining, Marketing and Crude Supply. Mr. Simmons had served as President and Chief Executive Officer of Permian Corporation from 1989 to 1991 and Vice President, Supply and Marketing for MAPCO Petroleum, Inc. from 1985 through 1989. In September 1993, Mr. Smith was promoted to Executive Vice President and Chief Financial Officer and Mr. Simmons was promoted to Executive Vice President.

The Company's poor operating results in recent years have been caused in large part by significantly lower operating results from the Company's refining and marketing operations, which have been principally due to the deterioration of gross margins on sales of the Company's refined products, particularly residual fuel oil. To address this situation, the Company's new management has developed and implemented a market-driven operational strategy for the refining and marketing operations. This strategy includes reducing refinery throughput and altering the mix of feedstocks, which is intended to enable the Company to match its refined product yield more closely to the product demand in Alaska, its primary market, and therefore reduce shipments of refined products to less profitable markets. The strategy is also intended to reduce the Company's working capital requirements and reduce the volume of residual fuel oil produced by the Company's Alaska refinery, which has approximated 40% of the total output of the refinery during the past three fiscal years. Implementation of this strategy has resulted in a decrease in total refinery production from 60,900 barrels per day in 1992 to 49,700 barrels per day during the nine months ended September 30, 1993 and a decrease in the level of residual fuel oil production from approximately 23,400 barrels per day

in 1992 to approximately 17,600 barrels per day during the nine months ended September 30, 1993. The Company's ability to further reduce production of residual fuel oil, other than by further reducing total refinery production, is currently limited by constraints on the supply of lighter feedstocks. The new strategy has been implemented only recently, and there can be no assurance that it will ultimately prove successful.

During 1992 and 1993, the Company has concentrated its domestic exploration and production activities in the Bob West Field, which was discovered in 1990. The Company has increased its net proven natural gas reserves in such field from 37 billion cubic feet at December 31, 1991 to 102 billion cubic feet at

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September 30, 1993. Six wells were drilled and completed during 1992 and ten wells have been since drilled and completed, bringing the number of producing wells to 20. Fifteen additional well locations have currently been selected for further development of the 3,800 acre field, of which six are expected to be drilled during the remainder of 1993. During November 1993, net production from the Bob West Field averaged 57.4 million cubic feet per day. The Company, which does not operate the field, owns an average 54% revenue interest in approximately two-thirds of the field and a 28% revenue interest in the remainder. The Company owns a 70% interest in the central gas processing facility which is currently capable of handling 125 million cubic feet of production per day. The Company owns a 70% interest in Starr County Gathering System's ten-inch diameter pipeline, which transports gas eight miles from the field to common carrier pipeline facilities.

Two producing acreage units within the Bob West Field, each consisting of 352 acres, are subject to a gas purchase contract with Tennessee Gas expiring in January 1999, pursuant to which Tennessee Gas is currently paying in excess of $7.50 per Mcf of gas, which is significantly in excess of the spot market price for natural gas ($1.88 per Mcf during October 1993). During the nine months ended September 30, 1993, the Tennessee Gas contract price was paid with respect to approximately 26% of the Company's gas production from the Bob West Field. The gas purchase contract is presently the subject of litigation with Tennessee Gas. See 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements included elsewhere herein.

During 1992, the Company sold its 100% interest in two contracts with the state-owned petroleum company of Indonesia for cash of $6.6 million and the assumption by the purchaser of liabilities of approximately $6.3 million, resulting in a pretax net gain to the Company of approximately $5.8 million after related expenses. In addition, during 1992, the Company sold its interest in certain domestic producing and undeveloped oil and gas properties outside of its Bob West Field for cash of $2.1 million.

The Company's general and administrative expenses have been reduced by approximately 27% for the nine months ended September 30, 1993 when compared with the nine months ended September 30, 1992. These reductions have primarily been the result of asset sales, consolidations and cost reduction programs and other employee terminations which have reduced the Company's administrative employee complement by approximately 30% from January 1992 to September 1993. The Company incurred costs of $9.1 million during 1992 in connection with these programs.

In January 1993, the Company purchased $11.25 million in principal amount of the Subordinated Debentures at their then current market value (aggregate of $9.7 million) and used such purchases to satisfy the March 1993 sinking fund requirement under the Subordinated Debentures.

The Company's present and certain past contracts with the State contained provisions which would have required the Company to pay the State additional retroactive amounts if the State had prevailed in the ANS Royalty Litigation against the producers of North Slope crude oil (the 'Producers'). The State settled with each of the Producers, with the last settlement occurring in April 1992. As a result of the settlements between the State and the Producers, the State claimed that the crude oil it sold to the Company and others was undervalued to the extent that the Producers undervalued their oil. The State's claim against the Company amounted to $141.9 million (including

interest), of which $44.8 million (the 'Chevron Portion') was reimbursable to the Company under a crude oil purchase/sale agreement with Chevron U.S.A. Inc. ('Chevron').

In January 1993, the Company entered into the ANS Agreement that settled this contractual dispute. The ANS Agreement provides that $97.1 million (which does not include the Chevron Portion) is owed to the State by the Company and that the Company would cooperate with the State in seeking to recover the Chevron Portion. Under the ANS Agreement, the State has released the Company from liability for the Chevron Portion.

Under the ANS Agreement, the Company paid the State approximately $10.3 million in January 1993, and agreed to make variable monthly payments to the State over the next nine years based on a per barrel charge that increases over the nine-year term from 16 to 33 on the volume of feedstock processed at the Company's Alaska refinery. At the end of the nine-year period, the Company is obligated to pay the State $60 million; provided, however, that such payment may be deferred indefinitely by continuing the variable monthly payments to the State beginning at 34 per barrel in 2002 and increasing one cent per barrel annually thereafter. The variable monthly payments will not reduce the $60 million obligation to the State. The $60 million obligation is evidenced by a security bond, and the bond and the variable monthly payments are secured by a second mortgage on the Alaska refinery. The Company's obligations under the ANS Agreement and the mortgage may be subordinated to current and future senior debt obligations (including, without limitation, principal, interest and related expenses) of up to $175 million, plus any indebtedness incurred in the future to improve the Alaska refinery.

In 1992, the Company recorded charges totaling $38.9 million for accounting changes and certain other significant transactions. The principal charges included approximately $20.6 million, or $1.47 per share, resulting from the cumulative effect of adopting statements of Financial Accounting Standards No. 106, 'Employer's Accounting for Postretirement Benefits Other Than Pensions,' and No. 109, 'Accounting for Income Taxes,' both effective January 1, 1992,

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approximately $10.5 million related to the ANS Agreement, $9.1 million related to the Company's cost reduction program and other employee terminations, $4.4 million for environmental provisions and $1.8 million on assets held for sale. These charges were partially offset by the gain on the sale of the Company's Indonesian operations of approximately $5.8 million and a transportation rebate of $1.7 million. See 'Management's Discussion and Analysis of Financial Condition and Results of Operations -- Summary of Operations.'

The Recapitalization. Management of the Company determined that the foregoing steps, although significant, would not be sufficient to solve the Company's financial difficulties. Accordingly, during the first quarter of 1993, the Company retained Smith Barney as financial advisor to assist the Company in reviewing the Company's financial condition and alternatives to improve such financial condition. As a result of its discussions with Smith Barney, management of the Company determined that, in light of the cash demands on the Company, it would be highly desirable to reduce its near-term debt sinking fund requirements and to reclassify the Existing Preferred Stock into other equity securities and thereby eliminate the $2.20 Preferred Stock Put Option, increase equity, reduce future cash obligations and provide that dividends and mandatory redemption payments on preferred stock be payable at the option of the Company in cash or shares of Common Stock or any combination thereof.

Accordingly, management of the Company initiated discussions with representatives of MetLife Louisiana who were not directors of or otherwise affiliated with the Company regarding both a deferral of the $2.20 Preferred Stock Put Option and the February 1994 mandatory partial redemption of the $2.20 Preferred Stock and a reclassification of the $2.20 Preferred Stock into other securities. In March 1993, the Company and MetLife Louisiana entered into the MetLife Forbearance Agreement, pursuant to which MetLife Louisiana agreed not to exercise the $2.20 Preferred Stock Put Option and to take no action to enforce the February 1994 mandatory partial redemption of the $2.20 Preferred Stock before the earlier of May 10, 1994 or the day after a reduction of 15% or

more of the commitment of the banks participating in the Letter of Credit Facility as a result of either (i) a refusal of any one or more of the banks to issue letters of credit under the Letter of Credit Facility or (ii) the Company no longer being contractually entitled to obtain any further letters of credit under the Letter of Credit Facility from any one or more of the banks.

As a result of the Company eliminating its Letter of Credit Facility, the Company and MetLife Louisiana amended the MetLife Forbearance Agreement in November 1993. The MetLife Forbearance Agreement, as amended, defers the initial redemption of the $2.20 Preferred Stock scheduled for February 1994 and MetLife Louisiana's right to accelerate redemption of the $2.20 Preferred Stock upon the occurrence of a default in the payment of dividends, as described above, to the earlier of March 10, 1994, or the day following an occurrence of either (i) an event of default under the E&P Facility or the Substitution Agreement or (ii) any event which has resulted in or is likely to result in a material adverse effect on the assets, business, operations, financial condition or cash flow of the Company and its subsidiaries taken as a whole.

In June 1993, the Board of Directors met and heard a presentation regarding the discussions with MetLife Louisiana, which had resulted in an agreement in principle as to the reclassification of the $2.20 Preferred Stock. At that meeting, the Board of Directors reviewed and discussed a possible structure for a recapitalization, which consisted of an offer to exchange a maximum $76.125 million principal amount of new 10% senior secured notes for an equal principal amount of Subordinated Debentures, the reclassification of each share of $2.20 Preferred Stock (including accrued and unpaid dividends) into .6122 shares of Common Stock and one share of a new series of preferred stock substantially identical to the Future Preferred Stock and the reclassification of each share of $2.16 Preferred Stock (including accrued and unpaid dividends) into three shares of Common Stock and .2563 shares of the new series of preferred stock. At the meeting, the directors were also advised by Jefferies that, at that time, Jefferies believed that the Reclassification would be fair to the holders of $2.16 Preferred Stock and Common Stock from a financial point of view. After review and discussion, the Board of Directors authorized management of the Company to proceed with the preparation of a registration statement and other appropriate documentation reflecting those terms.

On August 31, 1993, the Company entered into the MetLife Memorandum of Understanding (the 'MetLife Memorandum') with MetLife Louisiana, subject to the approval of the board of directors of MetLife Louisiana, whereby if the Reclassification was approved, the 2,875,000 shares of $2.20 Preferred Stock currently held by MetLife Louisiana would be exchanged for 2,875,000 shares of a new series of preferred stock and 1,760,075 shares of Common Stock.

On September 2, 1993, the Company filed a Registration Statement on Form S-4 with the Commission which included a prospectus and proxy statement relating to the proposed reclassification of the $2.16 Preferred Stock into Common Stock, or, at the option of the holder thereof, into Common Stock and a new series of preferred stock, to the proposed reclassification of the $2.20 Preferred Stock into the same new series of preferred stock, and to a proposed exchange offer of the Subordinated Debentures into 9 3/4% secured notes.

Based upon the market prices of the Common Stock and the $2.16 Preferred Stock, continuing discussions with various securityholders of the Company, including certain holders of a substantial principal amount of the Subordinated Debentures, continuing input from the Company's advisors, the fact that the reclassification was not consummated prior to November 15, 1993 at which time an

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additional date for payment of dividends on the $2.20 Preferred Stock passed without payment thereof, and further consideration by the Special Committee of the Board of Directors (as hereinafter defined), the Company decided to modify certain terms of the proposed Recapitalization. The Company decided to eliminate the option to convert part of the $2.16 Preferred Stock into a new series of preferred stock and elected not to propose the reclassification of the existing $2.20 Preferred Stock into a new series of $2.20 Preferred Stock. The Company also decided to change the terms of the debt instrument to be offered in exchange for the Subordinated Debentures to eliminate the lien on the Company's Alaskan refinery because of the Company's belief that the Company would not

obtain appropriate benefit for the secured aspects of the debt instruments originally proposed. At the same time, the Company elected to limit the maximum amount of Exchange Notes to be offered to the minimal amount necessary to obtain the consents to the Indenture Amendments because of the Company's belief that the Company may be required to pay a higher interest rate on the Exchange Notes and the Company's desire to avoid paying such rate on a principal amount in excess of that required to obtain the exchange of the majority of the Subordinated Debentures.

Since the $2.20 Preferred Stock will remain outstanding after consummation of the Proposed Recapitalization, the Company and MetLife Louisiana have entered into the Amended MetLife Memorandum pursuant to which MetLife Louisiana will agree to waive or refrain from taking action with respect to certain rights under the $2.20 Preferred Stock, including waiving the $2.20 Preferred Stock Put Option and the other annual $2.20 Preferred Stock mandatory redemption requirements, considering all accrued and unpaid dividends on the $2.20 Preferred Stock to have been paid and agreeing to allow the Company to pay future dividends on the $2.20 Preferred Stock in Common Stock in lieu of cash. Pursuant to the Amended MetLife Memorandum, the Company has agreed to issue to MetLife Louisiana upon the reclassification of the $2.16 Preferred Stock an aggregate of 1,900,075 shares of Common Stock. The Amended MetLife Memorandum continues to provide for the Company's MetLife Option, pursuant to which, if the Recapitalization is consummated, MetLife Louisiana will grant the Company a three-year option to acquire all shares of $2.20 Preferred Stock and Common Stock held by MetLife Louisiana upon effectiveness of the Reclassification and any shares of Common Stock received by MetLife Louisiana in payment of dividends on the $2.20 Preferred Stock at an initial aggregate option price of $51.5 million, reduced by the proceeds of any sales of Common Stock by MetLife Louisiana and by any cash dividend payments on the $2.20 Preferred Stock. The option price will be increased on the first day of each quarter, beginning on January 1, 1994, through the quarter ending December 31, 1995, by 3% of the unpaid option price and by 3.5% of the unpaid option price thereafter. The Company's MetLife Option is subject to early termination if certain requirements beginning in 1994 are not satisfied. To keep the Company's MetLife Option in effect for calendar year 1995, the Company must have exercised such option in part, prior to January 1, 1995, and the portion of such exercise must have been at least $5.0 million, subject to adjustment. To keep the Company's MetLife Option in effect after December 31, 1995, the Company must have exercised such option, in part, one or more times, prior to January 1, 1996, and the aggregate of the portions of such exercises must have been at least $15 million, subject to adjustment. Notwithstanding the minimum annual exercise requirements, the Company's MetLife Option will not expire before the third anniversary of the Reclassification if the Company pays all regular quarterly dividends on the $2.20 Preferred Stock which become due and payable after the Reclassification in cash on the regular payment date.

MetLife Louisiana will also agree not to sell any shares of its $2.20 Preferred Stock, unless the buyer agrees that such shares will be subject to the Company's MetLife Option and the other agreements and waivers relating to the $2.20 Preferred Stock, and the Company has agreed with MetLife Louisiana not to redeem any shares of $2.20 Preferred Stock pursuant to the optional redemption provisions of the $2.20 Preferred Stock until the fourth anniversary of the Reclassification. The Company reserves the right to redeem shares of $2.20 Preferred Stock during such period if such agreement with MetLife Louisiana terminates or is waived for any reason. In the event the Company's MetLife Option is terminated without being exercised in full, the Company will, upon request of MetLife Louisiana, exchange, on a share for share basis, the $2.20 Preferred Stock for a new series of preferred stock (the Future Preferred Stock) having substantially the same terms as the $2.20 Preferred Stock but modified to reflect the agreements and waivers contemplated by the Amended MetLife Memorandum, will grant certain registration rights for the shares of the Future Preferred Stock and the Common Stock held by MetLife Louisiana and will cause the Purchase Rights associated with the Common Stock to cease to exist. See 'Description of Future Preferred Stock' for a description of the terms of such new series of preferred stock.

The Amended MetLife Memorandum provides that the approval by MetLife Louisiana of Proposal No. 1 is conditioned on, among other matters, effectiveness of Proposal No. 2, consummation of the Exchange Offer and MetLife Louisiana's satisfaction with the membership of the Board of Directors upon effectiveness of the Reclassification. To satisfy the requirements of MetLife Louisiana with respect to the membership of the Board of Directors, the current

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directors intend, upon effectiveness of the Reclassification, to increase the size of the Board of Directors from 13 to 16 directors and to elect three new directors proposed by MetLife Louisiana to fill the vacancies created thereby. In addition, MetLife Louisiana has required as a condition to its support of Proposal No. 1 an amendment to the By-Laws of the Company (the 'By-Laws') to provide that in the event a majority of the 16-member Board of Directors cannot be obtained on a consistent basis, any eight directors may call a special meeting of stockholders to elect one additional director. See '-- MetLife Louisiana Conditions.'

PURPOSES AND EFFECTS OF THE RECAPITALIZATION

General. The Recapitalization consists of the following components: (i) the Exchange Offer, (ii) the Indenture Amendments, (iii) the Reclassification, (iv) the Charter Amendments and (v) the agreements to be entered into pursuant to the Amended MetLife Memorandum. The primary purposes of the Recapitalization are to improve the short-term and long-term liquidity of the Company and increase the Company's equity capital. The proposed changes are intended to improve the financial condition of the Company and allow the Company to execute its new strategy of improving its refining and marketing operations and accelerating the growth of its oil and gas exploration and production activities, with the goal of returning the Company to profitability.

As a result of the Recapitalization, on a pro forma basis at September 30, 1993, assuming consummation of the Reclassification and assuming a maximum acceptance of the Exchange Offer ($54.5 million), total long-term debt and redeemable preferred stock would decrease from $257 million to approximately $186 million, current liabilities (excluding the current portion of long-term debt and the current amounts due on the $2.20 Preferred Stock) would decrease from approximately $77 million to approximately $68 million and Common Stock and Other Stockholders' Equity would increase from $44 million to $120 million. Under the same pro forma assumptions, book value per share of Common Stock would increase from $.80 to $2.78 and the number of shares of Common Stock outstanding would increase from 14,069,799 to 22,567,689. See 'Pro Forma Capitalization.'

Under the same assumptions, on a pro forma basis for the year ending December 31, 1992, interest expense would decrease from $21.1 million to $20.4 million and preferred stock dividends would decrease from $9.2 million to $6.3 million. See 'Pro Forma Capitalization.' In addition, the dividends on the $2.20 Preferred Stock will, at the Company's option be payable in any combination of cash or, subject to certain conditions, in shares of Common Stock. See 'Pro Forma Condensed Consolidated Financial Information.'

The Recapitalization will (1) satisfy the annual sinking fund requirements of $11.25 million on the unexchanged Subordinated Debentures until at least 1996 and possibly until 1998 (because the Subordinated Debentures acquired in the Exchange Offer can be tendered in satisfaction of the sinking fund requirements), (2) waive the $2.20 Preferred Stock Put Option and the annual cash redemption requirements of the $2.20 Preferred Stock (which begin in 1994) and create an annual obligation of the Company to offer to purchase the $2.20 Preferred Stock, or, if issued in lieu thereof, the Future Preferred Stock, beginning in 1998, under which the purchase price may be paid in cash or, subject to certain conditions, shares of Common Stock or any combination thereof, (3) enable the Company to make future dividend payments on the $2.20 Preferred Stock in cash or, subject to certain conditions, shares of Common Stock or any combination thereof, (4) reclassify all amounts representing the $2.20 Preferred Stock and accrued and unpaid dividends on the $2.16 Preferred Stock as equity, and extinguish the accrued and unpaid dividends on the Existing Preferred Stock ($28.9 million at November 30, 1993), and (5) allow the Company the option to repurchase the entire equity interest in the Company currently held by MetLife Louisiana.

The Exchange Offer. The Company is offering to exchange $1,000 principal amount of Exchange Notes for each $1,000 principal amount of Subordinated Debentures, up to the Maximum Amount. In the event that Subordinated Debentures in excess of the Maximum Amount are tendered, Subordinated Debentures will be accepted on a pro rata basis, except that tenders from Small Lot Holders will be accepted first. If the requisite consents to the Indenture Amendments (as hereinafter defined) are obtained, the Exchange Notes will be senior debt of the Company, senior in right of payment to all subordinated indebtedness of the Company, including the Subordinated Debentures and the ANS Debt (as hereinafter defined). Assuming the requisite consents to the Indenture Amendments are obtained, the Exchange Notes would be pari passu with $27 million of other senior debt as of November 30, 1993 and effectively subordinated to $67.8 million of secured debt and debt of the Company's subsidiaries. If the requisite consents to the Indenture Amendments are not obtained, the Exchange Notes will be senior in right of payment to the ANS Debt, and all other subordinated indebtedness of the Company, pari passu with $27 million of other senior debt of the Company as of November 30, 1993 and with the Subordinated Debentures, and effectively subordinated to $67.8 million of secured debt and debt of the Company's subsidiaries. Assuming the minimum amount of Subordinated Debentures are tendered and accepted in the Exchange Offer and the requisite consents to the Indenture Amendments are not obtained, as of November 30, 1993, $129.5 million of debt will be either secured or effectively senior to the Subordinated Debentures such that such debt will rank before the Subordinated Debentures in liquidation or bankruptcy, and $49.5 million of debt will be pari passu with the Subordinated Debentures. Assuming the maximum amount of Subordinated Debentures are tendered and accepted in the

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Exchange Offer, as of November 30, 1993, $184 million of debt will be either secured or effectively senior to the Subordinated Debentures such that such debt will rank before the Subordinated Debentures upon liquidation or bankruptcy, and $27 million of debt will be pari passu with the Subordinated Debentures.

The Consent Solicitation. Concurrently with the Exchange Offer, the Company is soliciting from Debentureholders consents to the Indenture Amendments. The Indenture Amendments will make the Exchange Notes senior in right of payment to the Subordinated Debentures and modify the restriction which currently prohibits the Company from declaring and paying dividends on its Common Stock, making any distributions to its stockholders, or purchasing or redeeming its capital stock. THE VALID TENDER OF SUBORDINATED DEBENTURES BY A DEBENTUREHOLDER PURSUANT TO THE EXCHANGE OFFER WILL CONSTITUTE THE CONSENT OF SUCH DEBENTUREHOLDER TO THE INDENTURE AMENDMENTS WITH RESPECT TO SUCH TENDERED SUBORDINATED DEBENTURES.

Proposal No. 1. Proposal No. 1 consists of the proposal to approve the Reclassification and the Charter Amendments to eliminate staggered terms of directors and to restrict amendments to the Company's MetLife Option. The Board of Directors has proposed that each share of $2.16 Preferred Stock (including all accrued and unpaid dividends) be reclassified into 4.9 shares of Common Stock. In addition, the Company will issue .1 share of Common Stock for each share of $2.16 Preferred Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation. See 'The Recapitalization -- Croyden Associates' Litigation.' At November 30, 1993, accrued and unpaid dividends on the $2.16 Preferred Stock aggregated approximately $8.9 million ($6.75 per share). One Purchase Right will be simultaneously issued with respect to each new share of Common Stock issued in the Reclassification. The Purchase Rights outstanding at the time the Reclassification is consummated will not be affected by the Reclassification.

As a result of the proposed amendment to the Company's Certificate of Incorporation to eliminate staggered terms of directors, each incumbent director whose term is scheduled to extend beyond the 1994 annual meeting of stockholders has agreed to resign upon adoption of such amendment. Such directors will then be reappointed by the remaining directors for one-year terms. As a result, upon the adoption of such amendment and the occurrence of such resignations and reappointments, the terms of all directors would extend only until the next annual meeting of

stockholders of the Company or until their respective successors are duly elected and qualified. See 'The Annual Meeting -- Proposal No. 3 -- Election of Directors.' In addition, the provisions of the Delaware Law which permit the removal of a director elected to a staggered term only for cause would no longer apply, and a director could be removed without cause by a majority vote of stockholders. The Board of Directors has also proposed an amendment to the Company's Certificate of Incorporation to require, in the absence of the approval of 66 2/3% of the disinterested directors, the approval of the holders of at least 80% of the Company's outstanding shares of capital stock to amend, in a manner adverse to the Company, the Amended MetLife Memorandum or an agreement to be entered into between the Company and MetLife Louisiana which will contain the Company's MetLife Option.

Proposal No. 2. Proposal No. 2 consists of the proposal to approve the Charter Amendment to eliminate, in the event the Company's MetLife Option terminates without being exercised in full, the requirement that certain transactions by the Company with beneficial holders of 10% or more of the Company's outstanding shares of capital stock be approved by the holders of at least 80% of the Company's outstanding shares of capital stock. Upon adoption of such amendment, subject to the requirements of the Delaware Law, approval only by the Board of Directors and, under certain limited circumstances, the holders of a majority of the Company's outstanding shares of capital stock would be required for approval of all transactions by the Company with any beneficial holder of 10% or more of the Company's outstanding shares of capital stock, including MetLife Louisiana.

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED PROPOSAL NO. 1 AND PROPOSAL NO. 2. The recommendation of the Board of Directors is based on the recommendation of a special committee of the Board of Directors (the 'Special Committee'), comprised of Michael D. Burke, Robert J. Caverly, Steven H. Grapstein, John J. McKetta, Jr. and Charles Wohlstetter, appointed to consider the fairness of the Reclassification to stockholders of the Company (other than MetLife Louisiana) and a fairness opinion of Jefferies. The Special Committee retained Jefferies to consider the fairness of various aspects of the Recapitalization, and Jefferies has opined and, as a condition to the Reclassification, will confirm their opinion immediately prior to the consummation of the Reclassification, to the effect that the Reclassification is fair from a financial point of view to the holders of $2.16 Preferred Stock and to the holders of Common Stock. A copy of the opinion of Jeffries is set forth in Appendix B hereto.

MetLife Louisiana, the holder of all the outstanding $2.20 Preferred Stock and 2,184,085 shares of Common Stock, which together constitute approximately 28% of the outstanding shares of capital stock entitled to vote on Proposal No. 1 and Proposal No. 2, has indicated to the Company that it intends to vote all of its shares in favor of Proposal No. 1 and Proposal No. 2. MetLife Louisiana's willingness to vote in favor of Proposal No. 1 is subject to certain conditions. See '-- MetLife Louisiana Conditions.'

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The Amended MetLife Memorandum. Pursuant to the Amended MetLife Memorandum, MetLife Louisiana will grant to the Company the Company's MetLife Option and will agree to certain waivers and to refrain from taking certain actions in connection with the $2.20 Preferred Stock. MetLife Louisiana will agree that it will accept the payment of dividends on the $2.20 Preferred Stock in Common Stock provided that the Company continues to pay all quarterly dividends when due, either in Common Stock, or in cash. For purposes of determining the number of shares of Common Stock to be issued in payment as dividends, the Common Stock will be valued at the average closing price of the Common Stock on the New York Stock Exchange for the ten trading days commencing on the first trading day after the Company publicly announces its intention to use Common Stock in lieu of cash to pay the dividend. MetLife Louisiana will also agree to refrain from exercising the conversion rights under the terms of the $2.20 Preferred Stock, to refrain from requiring the Company to repurchase or redeem any of the shares of the $2.20 Preferred Stock under the terms thereof, and to consider all accrued and unpaid dividends (aggregating approximately $20.0 million or $6.97 per share at November 30, 1993) on the $2.20 Preferred Stock to have been paid as of the

date of the Reclassification. The Company will agree not to exercise its rights to optionally redeem the $2.20 Preferred Stock at any time prior to the fourth anniversary of the date of the Reclassification, will agree to issue to MetLife Louisiana upon request a new series of preferred stock in the event that the Company's MetLife Option is not exercised in full, will agree to offer to repurchase 287,500 shares of the $2.20 Preferred Stock, or if issued in lieu thereof, the Future Perferred Stock, each year commencing June 30, 1998, and will agree to issue 1,900,075 shares of Common Stock to MetLife Louisiana on the date of the Reclassification. See 'Description of Future Preferred Stock' for a description of the Future Preferred Stock. Pursuant to the terms of the Company's MetLife Option, upon completion of the Recapitalization, the Company will initially be entitled to purchase from MetLife Louisiana 2,875,000 shares of $2.20 Preferred Stock, having a liquidation preference of $57.5 million, and 4,084,160 shares of Common Stock, having a pro forma net book value of approximately $11.4 million at September 30, 1993, in consideration for cash in the amount of $51.5 million. See '--Background -- The Recapitalization.' The Company's ability to exercise the Company's MetLife Option may be subject to, among other matters, legal restrictions, the terms of agreements relating to the Company's existing or future indebtedness and the Company's financial condition. There can be no assurance that the Company will elect to exercise the Company's MetLife Option.

CONDITIONS TO THE RECAPITALIZATION

Consummation of the Exchange Offer is conditioned upon, among other matters, (i) the tender and acceptance of at least $22.5 million in principal amount of the outstanding Subordinated Debentures and (ii) other customary conditions. Consummation of the Exchange Offer is not conditioned upon effectiveness of Proposal No. 1 and Proposal No. 2 or the adoption of the Indenture Amendments. Adoption of the Indenture Amendments will require the consent of the holders of a majority in principal amount of the outstanding Subordinated Debentures but is not conditioned on any other component of the Recapitalization. The valid tender of Subordinated Debentures pursuant to the Exchange Offer will include the consent to the Indenture Amendments with respect to such tendered Subordinated Debentures.

Proposal No. 1 requires the approval of the holders of a majority of the outstanding shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class, and the approval of the holders of two-thirds of the outstanding shares of $2.16 Preferred Stock, voting as a separate class. Proposal No. 2 requires the approval of the affirmative vote of the holders of 80% of the shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class. Effectiveness of Proposal No. 2 is conditioned upon effectiveness of Proposal No. 1. Proposal No. 1 is effectively conditioned on consummation of the Exchange Offer and cannot occur alone, unless MetLife Louisiana waives the condition that the Exchange Offer be consummated prior to its approval of Proposal No. 1. MetLife Louisiana has not advised the Company of any circumstances under which it might waive such condition. See 'General Information Concerning Proxies.'

In the event Proposal No. 1 is not approved but the requisite consents to the Indenture Amendments are obtained, MetLife Louisiana will have the right under the $2.20 Preferred Stock Put Option, beginning as soon as March 10, 1994, or earlier under certain circumstances, to require a cash redemption of the entire issue of $2.20 Preferred Stock out of funds legally available therefor at an aggregate price of $57.5 million, together with accrued and unpaid dividends on the $2.20 Preferred Stock (approximately $20.0 million as of November 30, 1993). However, the indenture governing the Exchange Notes will contain a covenant restricting certain restrictive payments, including, but not limited to, redemption of the $2.20 Preferred Stock, pursuant to the $2.20 Preferred Stock Put Option. Moreover, even absent such restrictions, the Company does not believe that its current financial resources are sufficient to make the payment that would be required under the $2.20 Preferred Stock Put Option, and the Company may not be permitted under the Delaware Law to make such payments. In addition, the terms of the $2.16 Preferred Stock require that, in

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connection with any redemption of the $2.20 Preferred Stock, all accrued and unpaid dividends on the $2.16 Preferred Stock (approximately $8.9 million or $6.75 per share at November 30, 1993) be paid.

If the Exchange Offer is not consummated but the Reclassification is consummated, the Company would be obligated to make sinking fund payments of $11,250,000 with respect to the Subordinated Debentures on March 15 of each year, including 1994, with a resulting reduction in the Company's liquidity. In addition, without the Indenture Amendments, the Company would not be able to exercise in full the Company's MetLife Option except with the proceeds from the issuance of capital stock or substantial future earnings. This would substantially reduce the Company's flexibility to fund the exercise of the Company's MetLife Option. MetLife Louisiana's agreement to vote its shares of $2.20 Preferred Stock in favor of the Reclassification is conditioned upon consummation of the Exchange Offer. MetLife Louisiana has not advised the Company of any circumstances under which it might waive the condition that the Exchange Offer be consummated prior to its approval of Proposal No. 1.

METLIFE LOUISIANA CONDITIONS

MetLife Louisiana's approval of Proposal No. 1 is conditioned on, among other matters, the following items: (i) the adoption of Proposal No. 2 (the Charter Amendment relating to the elimination of the 80% approval requirement); (ii) the consummation of the Exchange Offer; (iii) approval by the MetLife Louisiana board of directors; (iv) the Recapitalization being legal and permissible under applicable insurance law; (v) no material adverse change having occurred in the financial condition of the Company; and (vi) documentation reasonably acceptable to MetLife Louisiana and consistent with the Amended MetLife Memorandum. The provisions of the Amended MetLife Memorandum relating to the $2.20 Preferred Stock and the Company's MetLife Option are conditioned on the Reclassification.

In the negotiations between the Company and non-director MetLife Louisiana representatives, MetLife Louisiana conditioned its willingness to make economic and structural concessions and to support the Reclassification upon an acceptable change in the composition of the existing Board of Directors. During the negotiations, MetLife Louisiana's position was that a majority of the members of the Board of Directors after the Reclassification must be recommended by the major stockholders of the Company. Certain members of the Board of Directors who were not recommended or elected at the request of the major stockholders did not agree to this condition and expressed their belief that the directors that are associated with or recommended by the major stockholders should not control or constitute a majority of the Board of Directors. As a compromise, Mr. Wohlstetter, Chairman of the Board of Directors, proposed even-numbered membership of the Board of Directors, half of whom were to be associated with or recommended by the major stockholders, and, on the understanding that none of the existing members of the Board of Directors wished to resign, Mr. Nagler proposed a 16-member Board of Directors, the election of three new directors (including a representative of the United Partners group) from a list to be proposed by MetLife Louisiana to fill the vacancies created thereby upon effectiveness of the Reclassification and an amendment to the Certificate of Incorporation or By-Laws to allow for the calling of a special meeting of stockholders to elect one additional director in the event a majority of the 16-member Board of Directors cannot be obtained on a consistent basis. The Board of Directors agreed to these proposals and subsequently MetLife Louisiana proposed three persons to the Nominating Committee of the Board of Directors to fill the vacancies which will be created by the expansion of the Board of Directors. The Nominating Committee and the Board of Directors have approved those persons. The following is information on the three persons proposed by MetLife Louisiana and whom the Board of Directors will elect to fill the three vacancies created by the expansion of the Board of Directors upon consummation of the Reclassification.

Fred Manocherian, age 61, has been a private real estate developer in New York for the past 30 years. For more than the past five years, Mr. Manocherian has been the owner of Pan Am Equities,

Inc., New York, New York, a real estate management company which manages and operates his real estate holdings in New York and other areas of the United States, and is the founder of the New York Racquet Club. Mr. Manocherian is associated with United Partners, a group of investors who own approximately 9% of the voting stock of the Company.

James Q. Riordan, age 66, was the President of Bekaert Corporation from 1989 until his retirement in 1992, and is the former Senior Vice President and Vice Chairman of Mobil Corporation. Mr. Riordon is also a director of Dow Jones & Co., Inc., Tri-Continental Corporation (and a director or trustee of each of the Seligman Group Investment Companies), Brooklyn Union Gas, Public Broadcasting Service, and a trustee of the Brooklyn Museum. He is a trustee of the Committee for Economic Development and Co-Chairman of the Policy Council of the Tax Foundation.

William S. Sneath, age 67, was President and Chief Operating Officer of Union Carbide Corporation from 1971 to 1976, and Chairman of the Board and Chief Executive Officer from 1977-1981. Mr. Sneath is a Director of Union Carbide Corporation, Metropolitan Life Insurance Company and Rockwell International.

If the Reclassification is consummated and the three new directors are elected, then four of the 16 directors (Messrs. Nagler, Luce, Adam and Sneath) will be current or former directors or officers of MetLife and one additional director (Mr. Riordan) will have been proposed for election by MetLife

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Louisiana; one director (Mr. Manocherian), who was proposed by MetLife Louisiana to fill one of the vacancies when the Board of Directors is expanded to 16 members, will be associated with United Partners; one director (Mr. Grapstein) will be associated with Oakville N.V.; and one director (Mr. Spitzer) will be the beneficial owner of approximately 1% of the Common Stock.

Under the terms of the $2.20 Preferred Stock and the $2.16 Preferred Stock, the holders thereof as a single class have the right to elect two additional members to the Board of Directors of the Company if dividends on the Existing Preferred Stock are six quarters or more in arrears. On July 2, 1993, MetLife Louisiana made a written request of the Company to hold a special meeting of the holders of the Existing Preferred Stock to elect two additional directors. Subsequently, MetLife Louisiana indicated to the Board of Directors that it would not take further action with respect to the request as long as the Company was making progress satisfactory to MetLife Louisiana in submitting the proposed Recapitalization to the Company's stockholders. If the Reclassification is consummated, the $2.16 Preferred Stock will cease to exist and, therefore, will no longer have a right to elect two additional directors. Pursuant to the Amended MetLife Memorandum, MetLife Louisiana will agree to consider all dividends on the $2.20 Preferred Stock which are accrued and unpaid at the time the Reclassification is consummated to have been paid, which will result in the $2.20 Preferred Stock losing the right to elect two additional directors until the dividends on the $2.20 Preferred Stock or Future Preferred Stock are again six quarters or more in arrears.

FAIRNESS OPINION

The Special Committee has retained Jefferies to consider the fairness of various aspects of the Reclassification, and Jefferies has opined and, as a condition to the Reclassification, will confirm its opinion immediately prior to the consummation of the Reclassification, to the effect that the Reclassification is fair from a financial point of view to the holders of $2.16 Preferred Stock and to the holders of Common Stock. The text of the opinion is set forth in Appendix B to this Proxy Statement -- Prospectus.

Jefferies is a nationally recognized investment banking firm that regularly engages 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. The Special Committee selected Jefferies on the basis of such valuation experience and specifically for its experience in valuing companies in the energy industry. In requesting the opinion, the Special Committee did not give any special instructions to Jefferies or impose any limitations upon the scope of the investigation that

Jefferies deemed necessary to enable it to deliver its opinion. Jefferies did not participate in negotiating the terms of any aspect of the Recapitalization. The terms of the Reclassification, including the number of shares of Common Stock into which each share of $2.16 Preferred Stock will be reclassified, were recommended and approved by the Special Committee on December 28, 1993.

The Company has agreed to pay Jefferies a fee of $125,000 upon delivery of Jefferies' fairness opinion. In addition, the Company has agreed to reimburse Jefferies for its reasonable out-of-pocket expenses and to indemnify Jefferies against certain liabilities, including liabilities under the federal securities laws, or to contribute to payments Jefferies may be required to make in respect of such liabilities.

In the course of its review, Jefferies: (i) analyzed certain public and non-public operating data of the Company prepared by the Company; (ii) discussed the historical operating results and the future prospects of the business with the management of the Company; (iii) reviewed the recent performance, liquidity and volatility of the Company's existing equity securities; (iv) considered the value of certain intangible benefits which would accrue to the Company as a result of the Reclassification; (v) took into account its general experience in similar transactions; and (vi) undertook such additional reviews, analyses and inquiries as it deemed relevant under the circumstances.

Jefferies also analyzed published information regarding the financial and market performance of a limited group of companies that Jefferies deemed comparable to the Company, including independent exploration and production companies and refining and marketing companies. The independent exploration and production companies analyzed included: Basin Exploration, Coho Resources, Devon Energy Corporation, Gerrity Oil & Gas Corporation, Snyder Oil Corporation, Vintage Petroleum and Wainoco. The refining and marketing companies analyzed included: Crown Central, Giant Industries, Holly Corporation, Tosco Corporation and Total Petroleum (North America) Limited.

Financial performance of the comparable group of companies was measured by estimated earnings, cash flow, and earnings before interest, income taxes and depreciation, depletion and amortization ('EBITDA') for the fiscal periods 1993 and 1994. Market performance was determined by deriving multiples of earnings, cash flow, and EBITDA for each comparable company. The Company's financial and market performance was measured on a relative basis against the average performance of the group of comparable companies.

The Company's implied enterprise value was computed by multiplying the Company's projected operating data by comparable company multiples previously determined. Asset valuation was determined by adding cash and subtracting debt to yield a total enterprise value range per share.

COMPLIANCE WITH NEW YORK STOCK EXCHANGE STOCKHOLDER APPROVAL POLICY

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of the New York Stock Exchange by the stockholders of the issuance of Common Stock and Future Preferred Stock to MetLife Louisiana pursuant to the terms of the Amended MetLife Memorandum.

CROYDEN ASSOCIATES' LITIGATION

In October 1993, Croyden Associates, a holder of shares of $2.16 Preferred Stock, filed a class action suit in Delaware Chancery Court on behalf of itself and all other holders of the $2.16 Preferred Stock. The suit alleges that the Company and its directors have breached their fiduciary duties to the holders of the $2.16 Preferred Stock based on the terms of the proposed recapitalization as described in this Proxy Statement-Prospectus as originally filed with the Commission on September 2, 1993 which provided for the reclassification of a share of $2.16 Preferred Stock into either 3.5 shares of Common Stock or 2.75 shares of Common Stock and .25 shares of a new issue of preferred stock. The suit seeks, among other things, to enjoin the Recapitalization and monetary damages.

After Croyden Associates filed the lawsuit, representatives of the Company and representatives of Croyden Associates, including the attorneys for the holders of $2.16 Preferred Stock, had numerous discussions over a period of four months concerning the possible settlement of the litigation. During the course of such discussions, various rates for exchanging the $2.16 Preferred Stock into Common Stock were proposed by the parties, ranging from four shares to six shares of Common Stock per share of $2.16 Preferred Stock. In addition, the parties discussed the possibility of issuing shares of Common Stock based on the market price for such shares during a period immediately before or after consummation of the Recapitalization. During the course of such discussions, Croyden Associates proposed a fixed rate of five shares of Common Stock per share of $2.16 Preferred Stock and, the parties ultimately reached agreement on such rate. Discussions then took place between attorneys for the Company and the attorneys for the holders of the $2.16 Preferred Stock with respect to payment of fees and expenses of the attorneys for the holders of the $2.16 Preferred Stock, which fees and expenses are the obligations of the holders of the $2.16 Preferred Stock, the class benefiting from the services of such counsel. As a result of these discussions, the Company agreed to pay up to $500,000 in cash of the fees and expenses awarded by the Chancery Court, and the attorneys for the holders of the $2.16 Preferred Stock agreed to limit their fee application to $500,000 in cash plus .1 share of Common Stock for each share of $2.16 Preferred Stock. The Company agreed to issue .1 share of Common Stock for each share of $2.16 Preferred Stock on behalf of the holders of $2.16 Preferred Stock so that such shares will be available to pay the fees and expenses of such attorneys if awarded by the Chancery Court.

Croyden Associates has agreed in principle to recommend that the court approve a settlement based upon the terms set forth in this Proxy Statement - Prospectus.

PRO FORMA CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1993, adjusted to give effect to the Recapitalization, assuming (i) the Exchange Offer is consummated at the maximum tender level, so that $ 54.5 million in principal amount of Subordinated Debentures is exchanged for $54.5 million in principal amount of the Exchange Notes; the holder of the $2.20 Preferred Stock waives the mandatory redemption requirements thereon, considers accrued and unpaid dividends thereon to have been paid and is issued 1,900,075 shares of Common Stock; the $2.16 Preferred Stock, including accrued and unpaid dividends thereon, is reclassified into 6,465,859 shares of Common Stock; and the Company will issue 131,956 shares of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation (the Recapitalization), (ii) only the debt exchange described in the Recapitalization occurs (the Exchange Offer Only) and (iii) only the waiver and considerations indicated above relating to the $2.20 Preferred Stock, the reclassification of the $2.16 Preferred Stock and the issuance of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation described in the Recapitalization occur (the Reclassification Only). The Exchange Notes and Common Stock issued in the Recapitalization are recorded at their estimated fair market value. The $2.20 Preferred Stock is recorded at liquidation value.

<TABLE>
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	SEPTEMBER 30, 1993		
	HISTORICAL	RECAPITALIZATION	EXCHANGE OFFER ONLY
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS; NUMBER OF SHARES IN THOUSANDS)		
<S>	<C>	<C>	<C>
Current Liabilities(2)	$ 76,541	67,821	76,253

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Long-Term Debt and Other Obligations:			
Exchange Notes	$ --	54,500	54,500
Liability to State of Alaska	61,633	61,633	61,633
Liability to Department of Energy	13,194	13,194	13,194
Other	8,015	8,015	8,015
Subordinated Debentures	97,656	48,716	48,716
Total-Long Term Debt and Other Obligations	180,498	186,058(3)	186,058
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding	76,461	-- (3)	76,461
Common Stock and Other Stockholders' Equity:(4)			
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding(4)	--	57,500	--
$2.16 Preferred Stock; $1 stated value; 1,319,563 shares issued and outstanding	1,320	--	1,320
Common stock, par value $.16 2/3; authorized 50,000,000 shares; 14,069,799 shares issued and outstanding; 8,497,890 additional shares to be issued in the Recapitalization and in the Reclassification Only	2,345	3,762	2,345
Additional paid-in capital	86,987	111,683	86,987
Accumulated deficit	(46,214)	(52,431)	(55,031)
Deferred compensation	(263)	(263)	(263)
Total Common Stock and Other Stockholders' Equity	44,175	120,251(3)	35,358
Total Capitalization	$ 301,134	306,309	297,877
Shares of Common Stock issued and outstanding	14,070	22,568	14,070
Book Value Per Common Share(5)(6)	$ .80	2.78	.17
Ratio of Long-Term Debt and Redeemable Preferred Stock to Total Capitalization	85%	61%	88%

<CAPTION>

<S>	RECLASSIFICATION ONLY (1) <C>
Current Liabilities(2)	68,109
Long-Term Debt and Other Obligations:	
Exchange Notes	--
Liability to State of Alaska	61,633
Liability to Department of Energy	13,194
Other	8,015
Subordinated Debentures	97,656
Total-Long Term Debt and Other Obligations	180,498
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding	--
Common Stock and Other Stockholders' Equity:(4)	
$2.20 Preferred Stock; $1 stated value; 2,875,000 shares issued and outstanding(4)	57,500
$2.16 Preferred Stock; $1 stated value; 1,319,563 shares issued and outstanding	--
Common stock, par value $.16 2/3; authorized 50,000,000 shares; 14,069,799 shares issued and outstanding; 8,497,890 additional shares to be issued in the Recapitalization and in the Reclassification Only	3,762
Additional paid-in capital	111,683
Accumulated deficit	(47,614)
Deferred compensation	(263)
Total Common Stock and Other Stockholders' Equity	125,068
Total Capitalization	305,566
Shares of Common Stock issued and outstanding	22,568
Book Value Per Common Share(5)(6)	2.99
Ratio of Long-Term Debt and Redeemable Preferred Stock to Total Capitalization	59%

- ------------

(1) The Reclassification is effectively conditioned upon consummation of the Exchange Offer and cannot occur alone unless MetLife Louisiana waives a related condition. MetLife Louisiana has not advised the Company of any

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circumstances under which it might waive such condition. See 'The Recapitalization -- MetLife Louisiana Conditions.'

(2) Current Liabilities on this table exclude the current portion of Long-Term Debt and Other Obligations and current amounts of $2.20 Preferred Stock, as such amounts are included in the respective line items on this table. The Historical and pro forma amounts excluded from current liabilities were $38.8 million, $4.8 million, $27.6 million and $16.0 million, respectively.

(3) As a result of the Recapitalization, on a pro forma basis at September 30, 1993, and assuming the consummation of the Reclassification and a minimum acceptance of the Exchange Offer ($22.5 million), versus the maximum acceptance assumed above, Total Long-Term Debt and Redeemable Preferred Stock would be $183 million and Total Common Stock and Other Stockholders' Equity would be $124 million.

(4) The Company has entered into an agreement with MetLife Louisiana pursuant to which MetLife Louisiana will give the Company a three-year option, subject to certain conditions, to acquire all of the $2.20 Preferred Stock and all of the Common Stock of the Company held by MetLife Louisiana at the date of the Reclassification (2,875,000 shares of $2.20 Preferred Stock and 4,084,160 shares of Common Stock, based on MetLife Louisiana's holdings at November 30, 1993, plus any shares of common stock issued in lieu of cash payment of dividends on the $2.20 Preferred Stock) for an initial option price of $51.5 million, increasing by approximately 12% per annum through December 31, 1995, and by approximately 14% per annum thereafter.

(5) Book Value Per Common Share represents Total Common Stock and Other Stockholders' Equity reduced by the liquidation preference of $33 million for the $2.16 Preferred Stock under the Historical and Exchange Offer Only scenarios or reduced by the liquidation preference of $58 million for the $2.20 Preferred Stock under the Recapitalization and Reclassification Only scenarios, divided by the number of shares of Common Stock issued and outstanding.

(6) Assuming minimum acceptance of the Exchange Offer ($22.5 million), versus the maximum acceptance assumed above, the Historical and pro forma Book Value Per Common Share as of September 30, 1993 would be $.80, $2.94, $.43 and $2.99, respectively.

</TABLE>

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The pro forma financial statements set forth the Company's historical financial statements adjusted to give effect to the Recapitalization, assuming (i) the Exchange Offer is consummated at the maximum tender level, so that $54.5 million in principal amount of Subordinated Debentures is exchanged for $54.5 million in principal amount of the Exchange Notes (bearing interest at 13% per annum); the holder of the $2.20 Preferred Stock waives the mandatory redemption requirements thereon, considers accrued and unpaid dividends thereon to have been paid and is issued 1,900,075 shares of Common Stock; the $2.16 Preferred Stock, including accrued and unpaid dividends thereon, is reclassified into 6,465,859 shares of Common Stock; and the Company will issue 131,956 shares of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation (the Recapitalization), (ii) only the debt exchange described in the Recapitalization scenario occurs (the Exchange Offer Only) and (iii) only the waiver and considerations indicated above relating to the $2.20 Preferred Stock, the reclassification of the $2.16 Preferred Stock and the issuance of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation described in the Recapitalization occur (the Reclassification Only). The Exchange Notes and Common Stock issued in the Recapitalization are recorded at their estimated fair market value. The $2.20 Preferred Stock is recorded at its liquidation value.

The pro forma financial statements have been prepared as if the Recapitalization occurred on September 30, 1993 for balance sheet presentation purposes and as of January 1, 1992 for statement of operations presentation purposes, subject to the assumptions and adjustments in the accompanying Notes to Pro Forma Condensed Consolidated Balance Sheets and Notes to Pro Forma Statements of Condensed Consolidated Operations. The pro forma financial information is not necessarily indicative of the Company's results of operations or financial position in the future or of what the Company's results of operations or financial position would have been had the Recapitalization been consummated during the periods, or as of the dates for which pro forma financial information is presented. These statements should be read in conjunction with the historical financial statements of the Company included elsewhere herein.

The Exchange Offer is being accounted for as an early extinguishment of debt. Therefore, the Company will recognize an extraordinary loss on such transactions equal to the excess of the estimated market value of the Exchange Notes over the carrying value of the Subordinated Debentures, increased by the applicable unamortized debt issue costs. The Reclassification is being accounted for as equity transactions whereby (i) the liquidation value of the $2.20 Preferred Stock, based upon the waiver of its mandatory redemption requirements by the holder thereof, is classified as permanent equity and (ii) the excess of the carrying value of the $2.16 Preferred Stock and the accrued and unpaid dividends on the $2.20 Preferred Stock and the $2.16 Preferred Stock over the estimated market value of the Common Stock issued is reflected as an increase in additional paid-in capital.

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PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1993
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

		RECAPITALIZATION		EXCHANGE OFFER ONLY		RECLASSIFICATION ONLY (1)	
	HISTORICAL	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED
Assets:							
Current Assets-------	$ 185,557	(288)(a) (4,000)(d)	181,269	(288)(a) (4,000)(d)	181,269	(4,000)(d)	181,557
Net Property, Plant and Equipment-------------	209,273		209,273		209,273		209,273
Other Assets---------	19,821	1,400(d) (657)(a)	20,564	1,400(d) (657)(a)	20,564		19,821
	$ 414,651		411,106		411,106		410,651
Liabilities and Stockholders' Equity:							
Current Portion of Subordinated Debentures------------	$ 11,250	(11,250)(a)	--	(11,250)(a)	--		11,250
Other Current Liabilities-----------	104,134	(8,432)(c) (288)(a) (22,808)(b)	72,606	(288)(a)	103,846	8,432)(c) (22,808)(b)	72,894
Other Liabilities-------	36,976		36,976		36,976		36,976
Exchange Notes----------	--	54,500(a)	54,500(e)	54,500(a)	54,500		--
Other Long-term Debt and Other Obligations-----	164,463	(37,690)(a)	126,773(e)	(37,690)(a)	126,773		164,463
$2.20 Preferred Stock-----------------	53,653 (b)	(53,653)(b)	--		53,653	(53,653)(b)	--
Common Stock and Other Stockholders' Equity:							
$2.16 Preferred Stock---------------	1,320	(1,320)(c)	--		1,320	(1,320)(c)	--
$2.20 Preferred Stock---------------	--	57,500(b)	57,500		--	57,500(b)	57,500
Common Stock-------	2,345	317(b) 1,100(c)	3,762		2,345	317(b) 1,100(c)	3,762
Additional Paid-in Capital----------	86,987	(2,600)(d) 8,652(c) 18,644(b)	111,683		86,987	(2,600)(d) 8,652(c) 18,644(b)	111,683
Accumulated Deficit-----------	(46,214)	(6,217)(a)	(52,431)	(2,600)(d) (6,217)(a)	(55,031)	(1,400)(d)	(47,614)
Deferred Compensa- tion----------------	(263)		(263)		(263)		(263)
Total Common Stock and Other Stockholders' Equity--------------	44,175		120,251(e)		35,358		125,068
	$ 414,651		411,106		411,106		410,651
Book Value Per Common Share(f)----------------	$ .80		2.78		.17		2.99
Shares of Common Stock Issued and Outstand- ing-------------------	14,070		22,568		14,070		22,568
Working Capital-----------	$ 70,173		108,663		77,423		97,413

- ------------

(1) The Reclassification is effectively conditioned upon consummation of the Exchange Offer and cannot occur alone unless MetLife Louisiana waives a related condition. MetLife Louisiana has not advised the Company of any circumstances under which it might waive such condition. See 'The Recapitalization -- MetLife Louisiana Conditions.'

</TABLE>

See Notes to Pro Forma Condensed Consolidated Balance Sheets.

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NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEETS

(a) The Recapitalization and Exchange Offer Only scenarios assume $54.5 million principal amount of Subordinated Debentures is exchanged for $54.5 million principal amount of Exchange Notes on September 30, 1993.

The completion of the Exchange Offer of the Subordinated Debentures for the Exchange Notes will be accounted for as an early extinguishment of debt. The resulting extraordinary loss will be equal to the excess of the estimated market value of the Exchange Notes over the carrying amount of the Subordinated Debentures, increased by the applicable unamortized debt issue costs, calculated as follows:

	AS OF SEPTEMBER 30, 1993 ($000)
Carrying amount of Subordinated Debentures	$ 48,940
Market value of Exchange Notes	(54,500)
Unamortized debt issue costs	(657)
Extraordinary loss	$ (6,217)

These scenarios assume payment of $288,000 of accrued interest on the Subordinated Debentures acquired in the exchange. No tax benefit has been provided for the extraordinary loss of $6.2 million as the Company has provided a 100% valuation allowance to the extent of its deferred tax assets.

(b) The Recapitalization and Reclassification Only scenarios assume the $2.20 Preferred Stock and $19.0 million of related accrued and unpaid dividends are reclassified into $2.20 Preferred Stock having a liquidation preference of $57.5 million and 1,900,075 shares of Common Stock. At September 30, 1993, 6 2/3% ($3.8 million) of the $2.20 Preferred Stock has been recorded in current liabilities as that portion of the issue will be required to be redeemed within one year under the existing terms of the $2.20 Preferred Stock. Therefore, the total amount reclassified from Other Current Liabilities under the Recapitalization and Reclassification Only scenarios associated with the existing $2.20 Preferred Stock is $22.8 million.

(c) The Recapitalization and Reclassification Only scenarios assume that $33 million of liquidation preference of $2.16 Preferred Stock and $8.4 million of related accrued and unpaid dividends are reclassified into 6,465,859 shares of Common Stock and the Company issues 131,956 shares of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses in connection with the settlement of certain litigation.

(d) All scenarios assume issuance costs of $4 million. The Recapitalization scenario assumes stock issuance costs of $2.6 million and debt issue costs of $1.4 million. In the Exchange Offer Only and the Reclassification Only scenarios, the issue costs associated with the transaction not completed are assumed to be charged to expense.

(e) As a result of the Recapitalization, on a pro forma basis at September 30, 1993, and assuming minimum acceptance of the Exchange Offer, versus the maximum acceptance assumed above, (i) the Exchange Notes would be $22.5 million; (ii) Long-term Debt and Other Obligations would be $155.5 million; and (iii) Total Common Stock and Other Stockholders' Equity would be $123.9 million.

(f) Book Value Per Common Share represents Total Common Stock and Other Stockholders' Equity reduced by the liquidation preference of $33 million for the $2.16 Preferred Stock under the Historical and Exchange Offer Only scenarios or reduced by the liquidation preference of $57.5 million for the $2.20 Preferred Stock under the Recapitalization and Reclassification Only, scenarios divided by the number of shares of Common Stock issued and outstanding. Assuming minimum acceptance of the Exchange Offer, versus the maximum acceptance assumed above, the Historical and pro forma Book Value Per Common Share as of September 30, 1993 would be $.80, $2.94, $.43 and $2.99, respectively.

PRO FORMA STATEMENTS OF CONDENSED CONSOLIDATED OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 1993
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS; NUMBER OF SHARES IN THOUSANDS)

		RECAPITALIZATION		EXCHANGE OFFER ONLY		RECLASSIFICATION ONLY(1)	
	HISTORICAL	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED
Revenues(2)	$ 627,848		627,848		627,848		627,848
Cost of Sales and Operating Expenses	581,536		581,536		581,536		581,536

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General and Administrative Expenses(b)	10,946		10,946		10,946		10,946
Depreciation, Depletion and Amortization	15,350		15,350		15,350		15,350
Interest Expense	12,801	(17)(c)	12,784(i)	(17)(c)	12,784		12,801
Other	4,441		4,441		4,441		4,441
Total Costs and Expenses	625,074		625,057		625,057		625,074
Earnings Before Income Taxes	2,774		2,791		2,791		2,774
Income Tax Provision(j)	2,435		2,435		2,435		2,435
Net Earnings(h)	339		356		356		339
Preferred Stock Dividend Requirements	6,906	(2,162) (d)	4,744		6,906	(2,162)(d)	4,744
Net Loss Applicable to Common Stock(h)	$ (6,567)		(4,388)		(6,550)		(4,405)
Loss Per Primary and Fully Diluted* Share(e)(h)	$ (.47)		(.19)		(.47)		(.19)
Average Shares of Common Stock Outstanding:							
Primary(e)	14,070		22,568		14,070		22,568
Fully Diluted(m)	18,845		25,068		18,845		25,068
EBITDA(3)	$ 31,071		31,071		31,071		31,071
Capital Expenditures	$ 26,286		26,286		26,286		26,286
Ratio of EBITDA to Total Interest	2.4		2.4		2.4		2.4
Ratio of Earnings to Fixed Charges(k)	1.15		1.15		1.15		1.15
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements(l)	(g)		(g)		(g)		(g)

- ------------
(1) The Reclassification is effectively conditioned upon consummation of the Exchange Offer and cannot occur alone unless MetLife Louisiana waives a related condition. MetLife Louisiana has not advised the Company of any circumstances under which it might waive such condition. See 'The Recapitalization -- MetLife Louisiana Conditions.'
(2) The Company is currently involved in a dispute with Tennessee Gas relating to a gas contract. For additional information concerning this dispute, see 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements.
(3) EBITDA represents earnings before interest, income taxes and depreciation, depletion and amortization. EBITDA, while not purporting to reflect any measure of the Company's operations or cash flow, is presented for additional analysis as the Company understands that certain investors use EBITDA as one measure of an issuer's historical ability to service debt.
 * Anti-dilutive

</TABLE>

See Notes to Pro Forma Statements of Condensed Consolidated Operations.

PRO FORMA STATEMENTS OF CONDENSED CONSOLIDATED OPERATIONS
YEAR ENDED DECEMBER 31, 1992
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS; NUMBERS OF SHARES IN THOUSANDS)

<TABLE>
<CAPTION>

		RECAPITALIZATION		EXCHANGE OFFER ONLY		RECLASSIFICATION ONLY(1)
	HISTORICAL	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS	ADJUSTED	ADJUSTMENTS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues(2)	$ 954,372		954,372		954,372	
Cost of Sales and Operating Expenses	926,082		926,082		926,082	
General and Administrative Expenses(b)	25,849		25,849		25,849	
Depreciation, Depletion and						

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Amortization	16,552		16,552		16,552	
Interest Expense	21,115	(645)(c)	20,470(i)	(645)(c)	20,470	
Other	4,636		4,636		4,636	
Total Costs and Expenses	994,234		993,589		993,589	
Loss Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes	(39,862)		(39,217)		(39,217)	
Income Tax Provision(j)	5,383		5,383		5,383	
Loss Before Extraordinary Loss and Cumulative Effect of Accounting Changes(h)	(45,245)		(44,600)		(44,600)	
Extraordinary Loss	--	(7,370)(a)	(7,370)	(7,370)(a)	(7,370)	
Cumulative Effect of Accounting Changes	(20,630)		(20,630)		(20,630)	
Net Loss	(65,875)		(72,600)		(72,600)	
Preferred Stock Dividend Requirements	9,207	(2,882)(d)	6,325		9,207	(2,882)(d)
Net Loss Applicable to Common Stock(h)	$ (75,082)		(78,925)		(81,807)	
Loss Per Primary and Fully Diluted* Share:(e)(h)						
Loss Before Extraordinary Loss	$ (3.87)		(2.26)		(3.83)	
Extraordinary Loss	--		(.33)		(.52)	
Cumulative Effect of Accounting Changes	(1.47)		(.91)		(1.47)	
Net Loss	$ (5.34)		(3.50)		(5.82)	
Average Common Shares Outstanding:(e)						
Primary	14,063		22,561		14,063	
Fully Diluted(m)	18,838		25,061		18,838	
EBITDA(3)	$ (2,000)		(2,000)		(2,000)	
Ratio of Earnings to Fixed Charges(k)	(f)		(f)		(f)	
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements (l)	(g)		(g)		(g)	

<CAPTION>

<S>	ADJUSTED <C>
Revenues(2)	954,372
Cost of Sales and Operating Expenses	926,082
General and Administrative Expenses(b)	25,849
Depreciation, Depletion and Amortization	16,552
Interest Expense	21,115
Other	4,636
Total Costs and Expenses	994,234
Loss Before Income Taxes, Extraordinary Loss and Cumulative Effect of Accounting Changes	(39,862)
Income Tax Provision(j)	5,383
Loss Before Extraordinary Loss and Cumulative Effect of Accounting Changes(h)	(45,245)
Extraordinary Loss	--
Cumulative Effect of Accounting Changes	(20,630)
Net Loss	(65,875)
Preferred Stock Dividend Requirements	6,325
Net Loss Applicable to Common Stock(h)	(72,200)
Loss Per Primary and Fully Diluted* Share:(e)(h)	

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Loss Before Extraordinary Loss	(2.29)
Extraordinary Loss	--
Cumulative Effect of Accounting Changes	(.91)
Net Loss	(3.20)
Average Common Shares Outstanding:(e)	
Primary	22,561
Fully Diluted(m)	25,061
EBITDA(3)	(2,000)
Ratio of Earnings to Fixed Charges(k)	(f)
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements (l)	(g)

- ------------

(1) The Reclassification is effectively conditioned upon consummation of the Exchange Offer and cannot occur alone unless MetLife Louisiana waives a related condition. MetLife Louisiana has not advised the Company of any circumstances under which it might waive such condition. See 'The Recapitalization -- MetLife Louisiana Conditions.'

(2) The Company is currently involved in a dispute with Tennessee Gas relating to a gas contract. For additional information concerning this dispute, see 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements.

(3) EBITDA represents loss before extraordinary loss, cumulative effect of accounting changes, interest, income taxes and depreciation, depletion and amortization. EBITDA, while not purporting to reflect any measure of the Company's operations or cash flow, is presented for additional analysis as the Company understands that certain investors use EBITDA as one measure of an issuer's historical ability to service debt.

* Anti-dilutive

</TABLE>

See Notes to Pro Forma Statements of Condensed Consolidated Operations.

NOTES TO PRO FORMA STATEMENTS OF CONDENSED CONSOLIDATED OPERATIONS

(a) The Recapitalization and Exchange Offer Only scenarios assume $54.5 million principal amount of Subordinated Debentures is exchanged for $54.5 million principal amount of Exchange Notes as of January 1, 1992.

The completion of the Exchange Offer of the Subordinated Debentures for the Exchange Notes will be accounted for as an early extinguishment of debt. The resulting extraordinary loss will be equal to the excess of the estimated market value of the Exchange Notes over the carrying amount of the Subordinated Debentures, increased by applicable unamortized debt issue costs, calculated as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1992 ($000)
Carrying amount of Subordinated Debentures	$ 47,948
Market value of Exchange Notes	(54,500)
Unamortized debt issue costs	(818)
Extraordinary loss	$ (7,370)

</TABLE>

(b) All scenarios assume issuance costs of $4 million. The Recapitalization scenario assumes stock issuance costs of $2.6 million and debt issue costs of $1.4 million. In the Exchange Offer Only and the Reclassification Only scenarios, the issue costs associated with the transaction not completed would be charged to expense. As these charges are non-recurring charges directly attributable to the Exchange Offer Only and the Reclassification Only scenarios they have not been considered in the calculation of the pro forma results for the nine months ended September 30, 1993 or the year ended December 31, 1993.

(c) The Recapitalization and Exchange Offer Only scenarios assume a net decrease in interest expense and amortization of debt issuance costs relating to the Exchange Notes as the result of a reduction in interest expense and amortization of debt issue costs relating to the Subordinated Debentures exchanged. The amounts are calculated as follows:

<TABLE>
<CAPTION>

NINE MONTHS ENDED SEPTEMBER 30, 1993	YEAR ENDED DECEMBER 31, 1992

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	RECAPITALIZATION	EXCHANGE OFFER ONLY	RECLASSIFICATION ONLY	RECAPITALIZATION	EXCHANGE OFFER ONLY
			($000)		
<S>	<C>	<C>	<C>	<C>	<C>
Interest on Exchange Notes--------	$ 5,299	5,299	--	7,085	7,085
Amortization of debt issue costs relating to Exchange Notes------	150	150	--	200	200
Interest and amortization of discount on Subordinated Debentures----------------------	(5,400)	(5,400)	--	(7,842)	(7,842)
Amortization of debt issue costs relating to Subordinated Debentures----------------------	(66)	(66)	--	(88)	(88)
Net decrease in interest expense and amortization of debt issuance cost-------------------	$ (17)	(17)	--	(645)	(645)

<CAPTION>

	RECLASSIFICATION ONLY
<S>	<C>
Interest on Exchange Notes--------	--
Amortization of debt issue costs relating to Exchange Notes------	--
Interest and amortization of discount on Subordinated Debentures----------------------	--
Amortization of debt issue costs relating to Subordinated Debentures----------------------	--
Net decrease in interest expense and amortization of debt issuance cost-------------------	--

</TABLE>

(d) The Recapitalization and Reclassification Only scenarios include dividend requirements on the $2.20 Preferred Stock of $4.7 million and $6.3 million for the nine months ended September 30, 1993 and the year ended December 31, 1992, respectively, and the elimination of the dividend requirements on the $2.16 Preferred Stock aggregating $2.2 million and $2.9 million for the nine months ended September 30, 1993 and the year ended December 31, 1992, respectively.

(e) If the Company elects to pay the dividends on the $2.20 Preferred Stock solely in shares of Common Stock (assuming a market price of $6 per share): (i) the Historical and pro forma average common shares outstanding for the nine months ended September 30, 1993 would be 14,069,937; 22,837,161; 14,069,937 and 22,837,161, respectively; (ii) the Historical and pro forma average common shares outstanding for the year ended December 31, 1992 would be 14,063,258; 22,963,320; 14,063,258 and 22,963,320, respectively; (iii) the Historical and pro forma loss per primary and fully diluted share for the nine months ended September 30, 1993 would be $(.47), $(.19), $(.47) and $(.19), respectively; and (iv) the Historical and pro forma loss per primary

and fully diluted share before extraordinary loss and cumulative effect of accounting changes for the year ended December 31, 1992 would be $(3.87), $(2.22), $(3.83) and $(2.25), respectively.

(f) The Historical and pro forma earnings for the year ended December 31, 1992 were inadequate to cover fixed charges. The coverage deficiencies were $39.9 million, $39.2 million, $39.2 million and $39.9 million, respectively.

(g) The Historical and pro forma earnings for the nine months ended September 30, 1993 were inadequate to cover combined fixed charges and preferred stock dividend requirements. The coverage deficiencies were $ 4.1 million, $2.0 million, $4.1 million and $2.0 million, respectively. The Historical and pro forma earnings for the year ended December 31, 1992 were inadequate to cover combined fixed charges and preferred stock dividend requirements. The coverage deficiencies were $49.1 million, $45.5 million, $48.4 million and $46.2 million, respectively.

(h) The Pro Forma Statements of Condensed Consolidated Operations assume the Exchange Offer is consummated at the maximum tender level. If the Exchange Offer is consummated at the minimum tender level, then (i) $22.5 million principal amount of Subordinated Debentures would be exchanged for $22.5 million principal amount of Exchange Notes at January 1, 1992; (ii) the Historical and

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pro forma earnings for the nine months ended September 30, 1993 would be $.3 million for all scenarios; (iii) the Historical and pro forma loss per primary and fully diluted share for the nine months ended September 30, 1993 would be $(0.47), $(.20), $(.47) and $(.20), respectively; (iv) the Historical and pro forma loss before extraordinary loss and cumulative effect of accounting changes for the year ended December 31, 1992 would be $(45.3) million, $(45.1) million, $(45.1) million and $(45.3) million, respectively; and (v) the Historical and pro forma loss per primary and fully diluted share before extraordinary loss and cumulative effect of accounting changes for the year ended December 31, 1992 would be $(3.87), $(2.28), $(3.86) and $(2.29), respectively.

(i) As a result of the Recapitalization, on a pro forma basis for the year ending December 31, 1992 and assuming minimum acceptance of the Exchange Offer ($22.5 million), versus the maximum acceptance assumed above, interest expense under the Recapitalization would be $21.0 million. Under the same pro forma assumptions, interest expense under the Recapitalization for the nine months ended September 30, 1993 would be $12.9 million.

(j) No tax effect has been reflected in the above adjustments to the Pro Forma Statements of Condensed Consolidated Operations, as the Company has provided a 100% valuation allowance to the extent of its net deferred tax assets.

(k) If the Exchange Offer is consummated at the minimum tender level, as discussed in (h) above, then the Historical and pro forma Ratio of Earnings to Fixed Charges for the nine months ended September 30, 1993 would be 1.15, 1.14, 1.14 and 1.15, respectively. The Historical and pro forma earnings for the year ended December 31, 1992 would be inadequate to cover fixed charges assuming the minimum tender level. The coverage deficiencies would be $39.9 million, $39.7 million, $39.7 million and $39.9 million, respectively.

(l) If the Exchange Offer is consummated at the minimum tender level, as discussed in (h) above, then the Historical and pro forma earnings for the nine months ended September 30, 1993 would be inadequate to cover combined fixed charges and preferred stock dividend requirements. The coverage deficiencies would be $4.1 million, $2.1 million, $4.2 million and $2.0 million, respectively. The Historical and pro forma earnings for the year ended December 31, 1992 would be inadequate to cover combined fixed charges and preferred stock dividend requirements. The coverage deficiencies would be $49.1 million, $46.0 million, $48.9 million and $46.2 million, respectively.

(m) Each share of $2.20 Preferred Stock is convertible by its terms into .8696 shares of Common Stock; however, the Company has entered into an agreement with MetLife Louisiana, pursuant to which MetLife Louisiana has agreed not to convert the $2.20 Preferred Stock into Common Stock.

SELECTED FINANCIAL DATA

The selected financial data for the four years ended September 30, 1991, the three months ended December 31, 1991 and the year ended December 31, 1992 is taken from the selected financial data contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1992. The selected financial data for the nine months ended September 30, 1992 and September 30, 1993 is taken from the Company's Condensed Consolidated Financial Statements contained in the Company's Quarterly Reports on Form 10-Q for the quarters ended September 30, 1992 and September 30, 1993, respectively. Certain amounts for the nine months ended September 30, 1992 have been restated for the adoption of Statements of Financial Accounting Standards No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions,' and No. 109, 'Accounting for Income Taxes,' both effective January 1, 1992. The historical financial data below should be read in conjunction with the Consolidated Financial Statements and Notes thereto and 'Management's Discussion and Analysis of Financial Condition and Results of Operations' included elsewhere in this Proxy Statement -- Prospectus.

<TABLE>
<CAPTION>

	YEARS ENDED SEPTEMBER 30,				THREE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30
	1988	1989	1990	1991	1991	1992(1)(2)	1992(2)
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Gross Operating Revenues(3)	$ 1,124,133	762,597	996,554	1,084,954	240,586	946,446	710,859
Net Earnings (Loss):							
Earnings (Loss) Before the Cumulative Effect of Accounting Changes	$ (19,355)	(30,520)	22,702	3,939	(416)	(45,245)	(20,375)
Cumulative Effect of Accounting Changes	--	--	--	--	--	(20,630)	(20,630)
Net Earnings (Loss)	$ (19,355)	(30,520)	22,702	3,939	(416)	(65,875)	(41,005)
Earnings (Loss) per Primary and Fully Diluted* Share:							

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Earnings (Loss) Before the Cumulative Effect of Accounting Changes	$ (2.04)	(2.83)	.96	(.37)	(.19)	(3.87)	(1.94)
Cumulative Effect of Accounting Changes	--	--	--	--	--	(1.47)	(1.47)
Net Earnings (Loss)	$ (2.04)	(2.83)	.96	(.37)	(.19)	(5.34)	(3.41)
Capital Expenditures	$ 6,046	13,206	23,082	24,484	3,858	15,446	10,292
Total Assets	$ 484,938	445,348	504,914	496,826	494,706	446,722	469,756
Working Capital	$ 110,784	105,090	117,857	95,448	106,119	122,583	85,839
Long-Term Debt and Other Obligations, Including Current Portion	$ 186,016	163,209	167,960	184,738	189,398	201,748	195,688
Redeemable Preferred Stock, Including Current Portion	$ 57,328	57,360	57,392	57,424	57,432	71,695	70,106
Common Stock and Other Stockholders' Equity(4)	$ 164,573	125,402	141,385	137,373	136,971	50,665	77,839

<CAPTION>

<S>	NINE MONTHS ENDED SEPTEMBER 30, 1993 <C>
Gross Operating Revenues(3)	624,581
Net Earnings (Loss):	
Earnings (Loss) Before the Cumulative Effect of Accounting Changes	339
Cumulative Effect of Accounting Changes	--
Net Earnings (Loss)	339
Earnings (Loss) per Primary and Fully Diluted* Share:	
Earnings (Loss) Before the Cumulative Effect of Accounting Changes	(.47)
Cumulative Effect of Accounting Changes	--
Net Earnings (Loss)	(.47)
Capital Expenditures	26,286
Total Assets	414,651
Working Capital	70,173
Long-Term Debt and Other Obligations, Including Current Portion	180,498
Redeemable Preferred Stock, Including Current Portion	76,461
Common Stock and Other Stockholders' Equity(4)	44,175

- ------------

* Anti-Dilutive

(1) The Company's fiscal year was changed from September 30 to December 31, effective January 1, 1992.

(2) The following significant transactions (increased) decreased the net loss reflected for 1992:

</TABLE>

<TABLE>
<CAPTION>

(IN MILLIONS) <S>	YEAR ENDED DECEMBER 31, 1992 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1992 <C>
Settlement with State of Alaska	$ (10.5)	--
Cost Reduction Program and Other Employee Terminations	(9.1)	(3.5)
Environmental Provisions	(4.4)	(1.5)
Loss on Assets Held for Sale	(1.8)	(1.1)
Gain on Sale of Indonesian Operations	5.8	5.8
Transportation Rebate	1.7	1.7
Cumulative Effect of Accounting Changes	(20.6)	(20.6)
	$ (38.9)	(19.2)

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(3) The Company is currently involved in a dispute with Tennessee Gas relating to a gas contract. For additional information concerning this dispute, see 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements.

(4) No dividends were paid on common shares during the periods presented above.

</TABLE>

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

CAPITAL RESOURCES AND LIQUIDITY

Although the Company's net working capital at September 30, 1993 totaled $70.2 million, including $58.3 million of cash and short-term investments, the Company currently has significant short-term and long-term cash requirements. The Company's operations over the past several years have not generated cash sufficient to meet all of the Company's obligations. In large part, this was caused by significantly lower operating results from the Company's refining and marketing operations. As a result, the Company has been unable to pay dividends on its preferred stock and has relied, in part, on cash from the sale of assets to meet its other cash requirements.

In the past two years, management has reviewed various alternatives with respect to the Company's overall capitalization and liquidity, including its (i) credit arrangements and working capital requirements; (ii) debt service requirements with respect to the Subordinated Debentures; (iii) preferred stock redemption obligations; and (iv) preferred stock dividend requirements, including arrearages. During the first quarter of 1993, the Company retained Smith Barney as its financial advisor to assist the Company in reviewing such matters and alternatives.

With respect to the Company's refining and marketing operations, during the second quarter of 1993 the Company implemented a market-driven operational strategy which emphasizes the upgrading of refinery feedstocks and matching production from the Company's Alaska refinery with the refined product demand within Alaska. A positive result of this strategy has been to reduce the production of less profitable residual fuel oil and shipments of other refined products into less profitable markets.

In implementing the Company's operational strategy, the Company has reduced its daily refinery throughput during the first nine months of 1993 by 19% from the comparable prior year period. This reduction in throughput has enabled the Company to reduce the portion of lower quality crude oil in the feedstock blend. By utilizing a greater percentage of higher quality feedstocks (which results in production yields with greater margins than production yields from a higher percentage of lower quality Alaska North Slope crude oil), the Company can successfully operate the refinery at the reduced throughput levels. Operating the refinery at lower throughput levels results in less production of certain products, particularly residual fuel oil, for which there is no market in Alaska and which therefore must be exported from Alaska and sold into less profitable West Coast and Far Eastern markets. For the past two quarters, implementation of this strategy has resulted in an improvement in the Company's aggregate refinery gross margin, enabling the Company to operate the refinery more profitably at the lower throughput level. An ancillary benefit of this strategy has been to reduce the level of working capital required for the refinery operations resulting in reduced letter of credit requirements for purchases of crude oil feedstocks.

Another major element in the Company's operating strategy has been to focus on the continued development of its natural gas reserves in the Bob West Field in South Texas. Even though substantial amounts of capital will be required to fund the drilling of additional development wells, the Company believes such capital commitment will significantly increase the Company's cash flow and proved natural gas reserves, which will benefit the Company's long-term capital resources.

During 1992, the Company completed the sale of its Indonesian oil and gas assets and operations and received $6.6 million in cash and the purchaser assumed liabilities of $6.3 million. Also during 1992, the Company sold certain domestic producing and undeveloped oil and gas properties outside of its Bob West Field for approximately $2.1 million in cash. The Company has explored the possibility of selling certain other noncore assets; however, the Company did not receive offers that management considered to be representative of the value of such assets. Accordingly, management is developing strategies to maximize the value of these assets and is not actively seeking the sale of any of its assets or operations at the present time.

Long-Term Debt and Preferred Stock Requirements

Letters of credit are issued to obtain crude oil feedstocks for the Company's refinery and for other operating and corporate needs. As of September 30, 1993, the Company had arranged for the issuance of outstanding letters of credit of $45 million. As noted above, the Company's letter of credit requirements have been significantly reduced due to the Company's new operating strategy.

On October 29, 1993, in order to avoid a $700,000 facility fee, the Company elected to terminate its secured Letter of Credit Facility dated July 27, 1989, between the Company, two of its wholly-owned subsidiaries, The Chase Manhattan

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Bank, N.A., as Agent, and a consortium of other banks. The facility, which was scheduled to expire in March 1994, was secured by the Company's refinery, a second lien on the Company's Bob West Field gas reserves and a security interest in substantially all of the current assets of the Company, including cash, accounts receivables and inventory. The Company had previously amended the Letter of Credit Facility on September 30, 1993 to reduce the commitment under the facility from $80 million to $40 million and to permit the Company to issue up to $30 million of letters of credit with other banks. The Company has initiated discussions with several financial institutions with regard to providing a long-term credit facility to finance the Company's working capital requirements. Based on these discussions, the Company believes it will be able to enter into a long-term credit facility on terms more favorable than the Company's terminated Letter of Credit Facility upon successful completion of the proposed recapitalization. If the Company is unsuccessful in completing the Recapitalization, and is thereafter unable to arrange a long-term credit facility, or is otherwise unable to arrange such a facility, the Company may be required to reduce its refinery throughput to reduce its working capital requirements. The Company is unable to predict if it would be able to operate the refinery at an economically viable rate under such circumstances.

During September 1993 and subsequent, the Company negotiated several interim credit arrangements collateralized by either cash or inventory to permit it to secure the purchases of crude oil feedstocks and to meet other operating and corporate credit requirements. With respect to these interim credit arrangements, the Company has entered into several uncommitted letter of credit facilities which provide for the issuance of letters of credit on a cash-secured basis. Total availability pursuant to the uncommitted letter of credit arrangements is in excess of $65 million.

In addition, effective September 30, 1993, the Company entered into the Substitution Agreement with the State of Alaska, the Company's largest supplier of crude oil. Under the Substitution Agreement, the Company has pledged the capital stock of Tesoro Alaska Petroleum Company ('Tesoro Alaska'), a wholly-owned subsidiary of the Company, and substantially all of its crude oil and refined product inventory in Alaska to secure its purchase of royalty crude oil from the State. The Substitution Agreement has allowed the Company to reduce its letter of credit requirements to $28 million as of November 1, 1993. This agreement extends through 1994 and contains various covenants and restrictions customary to inventory financing transactions.

Effective October 29, 1993, Tesoro E&P entered into the $30 million E&P Facility which is secured by the capital stock of Tesoro E&P and its natural gas properties in the Bob West Field. Proceeds from the E&P Facility may be used for capital requirements associated with the development of the Company's South Texas natural gas properties, the acquisition and development of other oil and gas properties and, subject to certain limitations, the repayment of outstanding borrowings or advances to the Company. The E&P Facility is subject to a quarterly borrowing base determination which was initially determined to be $20 million. Based on discussions with its lenders, the Company expects that its borrowing base will increase upon redetermination effective as of December 31, 1993. Since the Company does not have any immediate requirement for additional borrowing availability, it does not expect to request an increase in the amount of borrowing capacity under the E&P Facility as a result of anticipated increases in the borrowing base. The facility, which expires December 31, 1996, is guaranteed by the Company, contains certain financial covenants that must be maintained by Tesoro E&P and bears interest at prime plus 1% or, at Tesoro E&P's option, Libor plus 2.5%. The

E&P Facility contains restrictions that prohibit borrowings under the facility to be used by Tesoro E&P or the Company for debt service, including interest and principal on the Company's Subordinated Debentures, or for payment of common or preferred dividends.

The Company's funded debt obligations as of September 30, 1993 include approximately $108.8 million of Subordinated Debentures, which require sinking fund payments sufficient to annually retire $11.25 million principal amount of Subordinated Debentures. During January 1993, the Company satisfied its initial sinking fund obligation by purchasing $11.25 million face amount of Subordinated Debentures for approximately $9.7 million. The Existing Indenture contains certain covenants, including a restriction which prevents the current payment of dividends on the Common Stock and currently limits the Company's ability to purchase or redeem any shares of its capital stock. This restriction is proposed to be modified. See 'Proposed Amendments to Existing Indenture.'

The Subordinated Debentures bear interest at the rate of 12 3/4% per annum and require sinking fund payments sufficient to retire $11.25 million principal amount of Subordinated Debentures per year through 2000. Under the ANS Agreement, the Company is obligated to make variable monthly payments for at least nine years plus a payment of $60 million in 2002, subject to deferral. Under a consent order with the U.S. Department of Energy, the Company is obligated to make payments aggregating $13.2 million, plus interest at the rate of 6% per annum, during the next nine years.

Earnings were inadequate to cover combined fixed charges and dividend requirements on the Existing Preferred Stock by $49.1 million and $4.1 million during 1992 and the nine months ended September 30, 1993, respectively.

The Company has deferred and continues to defer its regular quarterly dividends on its preferred stocks and, as of September 30, 1993, dividends in arrears on preferred stocks totaled $26.4 million. Under the terms of the $2.20

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Preferred Stock, the holder, currently MetLife Louisiana, has the right to require the Company to redeem out of funds legally available therefor all of the $2.20 Preferred Stock at $20 per share ($57.5 million aggregate) plus accrued and unpaid dividends to the date of redemption, if at any time the Company (i) shall be in default in the payment of dividends on the $2.20 Preferred Stock by an amount at least equal to 12 full quarterly dividends or (ii) fails to make three annual mandatory redemptions which are scheduled to commence in 1994. Upon any such redemption, the Company would also be required to pay the dividend arrearages on the $2.16 Preferred Stock. Since the Company has continued to defer the payment of dividends, 12 1/2 quarterly dividends on the $2.20 Preferred Stock were in arrears as of November 15, 1993. In March 1993, the Company entered into the MetLife Forbearance Agreement, that was subsequently amended in November 1993, which defers the initial redemption of the $2.20 Preferred Stock scheduled for February 1994 and MetLife's right to accelerate redemption of the $2.20 Preferred Stock upon the occurrence of a default in the payment of dividends, as described above, to the earlier of March 10, 1994, or the day following an occurrence of either (i) an event of default under the E&P Facility or the Substitution Agreement or (ii) any event which has resulted in or is likely to result in a material adverse effect on the assets, business, operations, financial condition or cash flow of the Company and its subsidiaries taken as a whole. Under the terms of the Existing Indenture, the Company is currently prohibited from making any cash redemption of its common and preferred stocks, including the total or partial redemption of its $2.20 Preferred Stock, unless such proceeds are from the issuance of capital stock. MetLife currently owns $2.20 Preferred Stock and Common Stock representing about 28% of the Company's voting securities. Based upon the terms and conditions of the $2.20 Preferred Stock and the MetLife Forbearance Agreement, as amended, accrued dividends on the Existing Preferred Stock and 6 2/3% of redeemable $2.20 Preferred Stock are classified as current liabilities at September 30, 1993.

Cash Flows From Operating, Investing and Financing Activities

During the nine months ended September 30, 1993, cash and cash equivalents increased by $10.0 million and short-term investments decreased by $18.5 million. At September 30, 1993, the Company's cash and short-term investments totaled $58.3 million, which included restricted funds of $22.4 million as collateral for outstanding letters of credit. Net cash from operating activities of $28.6

million during this period was primarily due to net earnings for the period and reduced working capital requirements (receivables and inventories), partially offset by payments totaling $12.3 million to the State under the ANS Agreement entered into in January 1993. Net cash used in investing activities of $7.8 million during the nine months ended September 30, 1993 included capital expenditures of $26.3 million, mainly for exploration and production activities in the Bob West Field. During 1993, the Company has completed the expansion of a gas processing facility and pipeline and the drilling of ten development gas wells in this field. In addition, drilling of three development wells in the Bob West Field and three exploratory wells in other areas of South Texas were in progress at September 30, 1993. These uses of cash in investing activities were partially offset by the net decrease of $18.5 million in short-term investments. Net cash used in financing activities of $10.8 million during the nine months ended September 30, 1993 included the repurchase of $11.25 million principal amount of the Subordinated Debentures for $9.7 million in cash.

During 1992, cash and cash equivalents decreased by $14.2 million and short-term investments increased by $20.0 million. Cash flows from operating activities of $11.4 million included a net loss, offset by certain significant non-cash charges including the cumulative effect of accounting changes, depreciation, depletion and amortization and the settlement with the State and by reduced working capital requirements. See '-- Summary of Operations' below. Net cash used in investing activities of $21.1 million in 1992 was mainly due to capital expenditures of $15.4 million, primarily for continued exploration and production activities in the Bob West Field and capital improvements in Alaska, and to the purchase of short-term investments of $24.0 million. During 1992, the Company began investing in short-term debt securities with original maturities in excess of 90 days. These investments are classified as short-term investments on the Consolidated Balance Sheets. Partially offsetting cash used in investing activities in 1992 were net proceeds of $12.9 million from sales of assets. During 1992, the Company received, before expenses, $6.8 million for the sale of the Company's Indonesian operations, $3.3 million for the sale of the corporate aircraft and related assets and $2.1 million for the sale of certain exploration and production properties outside of the Bob West Field. Cash flows used in financing activities of $4.5 million in 1992 included the repayment of $6.5 million of long-term debt, primarily borrowings under a secured financing agreement for development of natural gas reserves in the Bob West Field. This financing arrangement, under which the Company borrowed $2.0 million in 1992, was terminated by the Company in December 1992. The Company deferred all four quarterly preferred stock dividend payments in 1992.

During 1991, cash and cash equivalents decreased $16.1 million. Cash flows from operating activities of $17.9 million included net earnings of $3.9 million, partially offset by a $5.2 million annual payment to the DOE. See ' -- Summary of Operations' below. Net cash used in investing activities of $24.7 million in 1991 was primarily comprised of capital expenditures for exploration and production activities in the Bob West Field and improvements in Alaska. Cash flows used in financing activities of $9.3 million in 1991 was

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primarily for dividend payments on Existing Preferred Stock for three and one-half quarters which totaled $8.0 million.

During 1990, cash and cash equivalents increased $6.8 million. Operating activities, which provided $17.8 million in net cash flows, included net earnings of $22.7 million partially offset by a $5.2 million annual payment to the DOE, a $2.8 million payment in settlement of litigation with the Government of Trinidad and Tobago and increased working capital requirements. Operating activities are further discussed in ' -- Summary of Operations' below. Net cash used in investing activities of $3.0 million during 1990 included capital expenditures of $23.1 million, primarily for exploration and production activities in the Bob West Field and capital improvements in Alaska. Partially offsetting the use of cash in investing activities were proceeds of $19.8 million from sales of assets, the majority of which related to the sales of substantially all of the Company's oil field tool rental assets and business. Net cash used in financing activities of $8.0 million during 1990 included dividend payments on preferred stocks for three quarters totaling $6.9 million and long-term debt repayments of $1.1 million.

Capital Expenditures

The Company anticipates that it will incur expenditures of approximately $40 million for existing operations during 1993, compared to $15.4 million during 1992. The most significant capital expenditures which the Company expects to incur during 1993 relate to its strategy to develop the Bob West Field. In this regard, the Company expects to participate in the drilling of 13 development gas wells during 1993, of which ten had been completed at September 30, 1993, and the Company has completed an expansion of the field's gas processing facility and pipeline. Further, the Company expects to participate in drilling three exploratory wells in other areas of South Texas. Total 1993 capital expenditures for the Bob West Field are projected to be approximately $29 million. In addition, the Company anticipates 1993 capital projects associated with its refining and marketing operations to total approximately $9 million. A majority of such amount represents costs associated with various capital projects at the Company's Alaska refinery and expenditures to expand or enhance the Company's Alaska retail and marketing operations.

Management of the Company has under consideration total capital expenditures for fiscal 1994 ranging from approximately $70 million to $80 million which would include approximately $29 million for the continued development of the Bob West Field and $32 million for the Alaska refinery, including $25 million associated with the upgrading of refinery hardware through the installation of a vacuum unit which will allow the Company to upgrade residual fuel oil into higher value products. The Board of Directors has not approved the Company's proposed capital expenditures for fiscal 1994 and the Company anticipates that such approval will be subject to, among other things, the Board of Directors being satisfied with the Company's ability to finance such capital expenditures, and the consummation of the Recapitalization. The aggregate capital expenditures the Company will be able to incur in 1994 will also depend upon the Company's ability to generate funds from operations, financings and other sources.

Proposed Recapitalization

The Recapitalization is intended to improve the financial condition of the Company, facilitate the Company's development of long-term financing and allow the Company to execute its new strategy of improving its refining and marketing operations and accelerating the growth of its oil and gas exploration and production activities, with the goal of returning the Company to profitability. Assuming the Exchange Offer is consummated at the minimum tender level, no sinking fund payments, currently $11.25 million annually, will be required until 1996, and interest payments on the combined Exchange Notes and Subordinated Debentures will be substantially unchanged. Further, assuming the Reclassification is consummated, preferred stock dividend requirements will be reduced from the current level of $9.2 million annually to $6.3 million annually and, under certain conditions, such dividends can be paid in shares of Common Stock. See 'The Recapitalization.'

RESULTS OF OPERATIONS

The selected financial data included in the remainder of this section should be read in conjunction with the consolidated financial statements and related footnotes thereto included elsewhere in this Proxy Statement -- Prospectus.

In September 1992, the Company's fiscal year-end was changed from September 30 to December 31, effective January 1, 1992. Accordingly, the information contained herein addresses the Company's results of operations for the year ended December 31, 1992, compared to the two prior years ended September 30, 1991 and 1990, respectively. The results of operations for the three-month period from October 1, 1991 to December 31, 1991 are discussed separately. Also included herein are the Company's results of operations for the nine months ended September 30, 1993 compared with the nine months ended September 30, 1992.

SUMMARY OF OPERATIONS

Operating profit (loss) by segment is presented below. Operating profit represents pretax earnings (loss) before certain corporate expenses, interest income and interest expense.

<TABLE>

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<CAPTION>

				NINE MONTHS ENDED SEPTEMBER 30,	
	1990	1991	1992	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>
Segment Results of Operations (Dollars in millions):					
Operating Profit (Loss), Including Gain or Loss on Sales of Assets:					
Refining and Marketing	$ 48.2	19.3	(14.9)	(1.4)	5.4
Exploration and Production	16.8	35.6	29.1	20.1	24.5
Oil Field Supply and Distribution	2.9	(.5)	(4.7)	(2.8)	(1.9)
Total Operating Profit	$ 67.9	54.4	9.5	15.9	28.0
Operating Statistics:					
Refining and Marketing:					
Refinery throughput (average daily barrels)	67,904	68,192	61,425	62,574	50,503
Product sales (average daily barrels)	93,749	90,155	87,440	87,821	69,841
Natural Gas -- United States:					
Net production (average daily Mcf)	727	7,435	13,960	12,618	32,313
Average sales price (dollars per Mcf)	$ 1.40	1.88	3.68	2.38	3.45
Natural Gas -- Bolivia:					
Net production (average daily Mcf)	12,668	19,322	19,421	19,502	19,183
Average sales price (dollars per Mcf)	$ 2.74	3.06	1.67	1.82	1.20
Crude Oil -- Indonesia (sold effective May 1, 1992):					
Net production (average daily barrels)	2,565	3,315	2,714	2,714	--
Average sales price (dollars per barrel)	$ 17.95	24.39	18.20	18.20	--
Oil Field Supply and Distribution:					
Product sales (average daily barrels)	7,846	10,470	8,476	8,517	7,114

</TABLE>

The following table highlights certain significant transactions recorded in 1992 and their impact on the Company's operating segments:

<TABLE>
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	REFINING AND MARKETING	EXPLORATION AND PRODUCTION	OIL FIELD SUPPLY AND DISTRIBUTION	CORPORATE AND OTHER	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Certain Significant 1992 Transactions (Dollars in millions):					
Settlement with State of Alaska	$ (10.5)	--	--	--	(10.5)
Cost Reduction Program and Other Employee Terminations	(1.1)	(.1)	(.1)	(7.8)	(9.1)
Environmental Provisions	(2.1)	--	(1.4)	(.9)	(4.4)
Loss on Assets Held for Sale	--	--	--	(1.8)	(1.8)
Gain on Sales of Indonesian Operations	--	5.8	--	--	5.8
Transportation Rebate	1.7	--	--	--	1.7
Cumulative Effect of Accounting Changes	--	--	--	(20.6)	(20.6)
	$ (12.0)	5.7	(1.5)	(31.1)	(38.9)

</TABLE>

The Company's net loss in 1992 of $65.9 million compares to net earnings of $3.9 million in 1991 and net earnings of $22.7 million in 1990. The comparability of the Company's operating results is affected by accounting changes of $20.6 million and certain other significant transactions of $18.3 million in 1992. The Company adopted Statements of Financial Accounting Standards No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions,' and No. 109, 'Accounting for Income Taxes,' both effective January 1, 1992 (see Note A of Notes to Consolidated Financial Statements included elsewhere herein).

Excluding the significant transactions presented above, the decrease in results of operations in 1992 as compared to 1991 was primarily due to lower operating results from the Company's refining and marketing operations and reduced revenues from the Company's Bolivian and Indonesian operations, partially offset by increased production and sales prices of natural gas from the Bob West Field. The decrease in net earnings in 1991 as compared to 1990 also reflected lower operating results from the Company's refining and marketing operations, partially offset by increased natural gas production volumes in Bolivia and higher crude oil prices in Indonesia.

A discussion and analysis of the factors contributing to these results are presented below. The consolidated financial statements and related footnotes, included elsewhere herein, together with the following information, are intended

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to provide shareholders and investors with a reasonable basis for assessing the Company's operations, but should not serve as the sole criterion for predicting the future performance of the Company.

SEGMENT RESULTS OF OPERATIONS

Refining and Marketing

The following table reflects average daily sales volumes and average sales price per barrel of refined products sold in the Refining and Marketing segment during the years ended September 30, 1990, September 30, 1991 and December 31, 1992 and the nine months ended September 30, 1992 and September 30, 1993:

				NINE MONTHS ENDED SEPTEMBER 30,	
	1990	1991	1992	1992	1993
Sales Volume (average daily barrels):					
Gasoline	29,646	25,883	25,196	26,317	23,219
Jet fuel	16,256	15,055	19,060	18,506	11,107
Other distillates	19,515	20,488	19,253	20,069	19,225
Residual fuel oil	28,332	28,729	23,931	22,929	16,290
Total	93,749	90,155	87,440	87,821	69,841
Sales Price (dollars per barrel):					
Gasoline	$ 29.83	30.69	28.89	28.82	28.01
Jet fuel	$ 30.43	35.15	27.76	27.22	28.18
Other distillates	$ 27.72	29.78	25.78	25.51	26.50
Residual fuel oil	$ 14.85	15.15	11.60	11.13	11.73

The following table reflects average sales prices, margins and volumes for sales of refined products produced at the Company's refinery and sales of refined products purchased for resale during the years ended September 30, 1990, September 30, 1991 and December 31, 1992 and the nine months ended September 30, 1992 and September 30, 1993:

				NINE MONTHS ENDED SEPTEMBER 30,	
	1990	1991	1992	1992	1993
Sales of Refinery Production:					
Sales price (dollars per barrel)	$ 23.10	24.40	21.30	21.24	22.45
Margin (dollars per barrel)	$ 3.33	2.77	1.18	2.24	4.06*
Volume (average daily barrels)	65,786	66,837	62,218	60,934	50,730
Sales of Products Purchased for Resale:					
Sales price (dollars per barrel)	$ 29.35	31.48	27.58	27.34	27.50
Margins (dollars per barrel)	$ 2.34	.37	1.09	1.98	1.24
Volume (average daily barrels)	27,963	23,318	25,222	26,887	19,111

* Excludes the effect of a non-cash charge of $5.0 million for an inventory liquidation discussed in Note C to Consolidated Financial Statements included elsewhere herein.

Nine Months Ended September 30, 1993 Compared to the Nine Months Ended September 30, 1992. Revenues from the sales of refined products declined 20% in the first nine months of 1993 when compared to the same period of 1992. This decrease was primarily attributable to the 20% decrease in sales volumes in 1993 over the 1992 period. Average sales prices during the two periods were essentially unchanged; however, average margins increased in 1993, particularly with regard to the sales of refined products produced at the Company's refinery. The reduction in sales volumes and the improvement in margins were primarily the result of the implementation of the Company's market-driven operational strategy during 1993 which reduced the overall production of refined products at the Company's refinery, but which more significantly reduced the production of residual fuel oil sold into a continuing depressed market. Refinery throughput during the 1993 period averaged 50,503 barrels per day, a 19% reduction from the 1992 period average of 62,574 barrels per day. Sales of residual fuel oil, all of which is produced at the Company's refinery, decreased to 16,290 barrels per day during the 1993 period as compared to 22,929 barrels per day in the comparable prior year period. Operating profit during the 1993 period reflected an improvement of $6.8 million over the comparable 1992 period primarily as a result of greater refined product sales margins; however, operating profit was adversely impacted by a non-cash charge to earnings of $5.0 million in the 1993 period for the effect of a LIFO inventory valuation. In addition, during the

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early months of 1993, the Company was required to produce more costly oxygenated gasoline. The additional cost to produce the oxygenated gasoline was not offset by a comparable increase in sales prices causing gasoline margins to be negatively impacted.

1992 Compared to 1991; 1991 Compared to 1990. Revenues from the sales of refined products decreased 15% in fiscal 1992. Although volumes decreased only 3%, average sales prices decreased almost 12%. Revenues in fiscal 1991 were essentially unchanged from fiscal 1990. Decreases in sales volumes in 1991 were substantially offset by increases in refined product sales prices. The operating loss of $14.9 million for 1992 decreased $34.2 million from the $19.3 million operating profit in 1991. This decrease was primarily due to a further deterioration of gross margins on refined product sales, particularly residual fuel oil. The recovery of crude oil costs at the Company's Alaska refinery continued to be adversely impacted by weak markets for the refinery's output of residual fuel oil, which approximated 40% of the total output of the refinery during 1992 and the prior two fiscal years. Residual fuel oil markets have been weak due to the global oversupply of this product since the Persian Gulf War and current projections indicate that such markets will continue to be weak in the future. During the latter months of 1992, the Company also incurred additional costs to produce oxygenated gasoline. The market for oxygenated gasoline was such that the additional cost to produce the oxygenated gasoline could not be entirely recovered with increased sales prices. In addition to increased costs for environmental issues and reductions in workforce, as presented above in the Certain Significant 1992 Transactions table, operating results for 1992 also included higher costs of

sales resulting from the settlement of a contractual dispute with the State for the purchase of crude oil (see Note H of Notes to Consolidated Financial Statements included elsewhere herein). Both 1992 and 1991 results benefitted from cost recoveries consisting of a transportation rebate in 1992 and an insurance reimbursement in 1991. The 1991 operating profit of $19.3 million decreased $28.9 million, or 60%, from the $48.2 million operating profit in 1990, due also primarily to the lower gross margins on refined product sales.

Exploration and Production

Nine Months Ended September 30, 1993 Compared to the Nine Months Ended September 30, 1992. The improvement of $4.4 million in operating profit resulted primarily from the significant increase in the Company's natural gas production and average sales prices from the Bob West Field. Net production from this field increased to 32,313 Mcf per day during the first nine months of 1993 as compared to 12,618 Mcf per day in the comparable period of 1992. Sales prices from this production averaged $3.45 per Mcf in the first nine months of 1993 as compared to $2.38 per Mcf in the 1992 period. This increase was partially offset by the May 1992 sale of the Company's Indonesian operations and the reduction in the contractual sales price for the Company's natural gas production in Bolivia.

1992 Compared to 1991; 1991 Compared to 1990. Operating profit of $29.1 million in 1992 declined $6.5 million from the $35.6 million operating profit in 1991, which was an $18.8 million improvement from the $16.8 million operating profit in 1990. The decrease in 1992 was primarily due to reduced sales prices and production levels of crude oil from the Company's former Indonesian operations, which were sold effective May 1, 1992, and contractually reduced sales prices for the Company's natural gas production in Bolivia, also effective May 1, 1992. Under a sales contract with Yacimientos Petroliferos Fiscales Bolivianos ('YPFB'), the Bolivian state-owned oil and gas company, the Company's Bolivian natural gas production is sold to YPFB, which in turn sells the natural gas to the Republic of Argentina. This contract, including the pricing provision, is subject to renegotiation in April 1994 for another two-year period. These decreases in 1992 were partially offset by the $5.8 million gain from the sales of the Company's Indonesian operations and increased natural gas production and sales prices from the Company's Bob West Field. See 'Legal Proceedings' and Notes I and N of Notes to Consolidated Financial Statements included elsewhere herein for information regarding litigation involving the contract for the sale of gas from the Bob West Field. During 1991, operating profit increased above 1990 levels primarily due to increased production volumes and higher average sales prices of crude oil in Indonesia and natural gas in Bolivia. Operating profit of $21.2 million from the Company's Bolivian operations in 1991 included earnings from an additional 25% interest acquired in one of the Company's Contracts of Operation in Bolivia effective October 1, 1990. During 1990, the Company received $1.3 million in settlement of a natural gas price dispute relating to certain of its domestic operations.

Oil Field Supply and Distribution

Nine Months Ended September 30, 1993 Compared to the Nine Months Ended September 30, 1992. Revenues from these operations during the 1993 period decreased when compared to the 1992 period due to the discontinuance of the operations, in the 1992 second quarter, of a wholesale distribution facility in Oklahoma. In addition, the decrease in crude oil prices during the 1993 period had a correlating decrease in refined product prices. Margins, however, improved during the 1993 period as a result of the Company's efforts to consolidate certain locations and eliminate marginally profitable locations, including the facility in Oklahoma. Effective December 31, 1992, the Company acquired the remaining 50% interest in Tesoro-Leevac Petroleum Company, a joint venture, which has allowed the Company to consolidate certain of its marine terminals; however, the Company does not anticipate that this acquisition will have a material effect on the revenues and margins of this segment.

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1992 Compared to 1991; 1991 Compared to 1990. Revenues from the sales of refined products decreased in fiscal 1992 as compared to fiscal 1991 primarily as a result of the Company's discontinuance, in the second quarter of fiscal 1992, of the operation of a wholesale distribution facility in Oklahoma which had commenced operations in fiscal 1991. In addition, sales prices and refined product margins decreased in fiscal 1992 as compared to the prior year, as a result of a generally weak U.S. economy, continuing overall depressed drilling activity and an oversupply of refined products

following the Persian Gulf crisis. Operating expenses decreased during the 1992 period due to a decrease in business activity and the Company's efforts to consolidate operations. During 1991, revenues from sales of refined products increased over 1990 levels, primarily as a result of the increased volumes from the operations of a wholesale distribution facility which commenced during the third quarter of fiscal 1991. In addition, average sales prices increased during fiscal 1991 even though margins remained weak due to the continuing concern over the Persian Gulf crisis and its effect on crude oil prices. Operating expenses during 1991 increased over 1990 levels primarily as the result of operations of the wholesale distribution facility referred to above and because of the initial costs of commencing operations of the segment's bioremediation subsidiary. The operating loss of $4.7 million in 1992 was a further deterioration from the operating loss of $.5 million in 1991. This decrease in operating results was mainly attributable to lower margins on refined product sales, partially offset by reduced operating expenses. The operating loss in 1991 was a decrease of $3.4 million from the $2.9 million operating profit in 1990. The decrease in operating results was attributable primarily to higher operating margins in 1990 than in 1991 and gains from sales of surplus oil field tool rental equipment during 1990.

CONSOLIDATED RESULTS OF OPERATIONS

<TABLE>
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				NINE MONTHS ENDED SEPTEMBER 30,	
	1990	1991	1992	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>
Results of Operations (Dollars in millions):					
Total revenues	$ 1,006.5	1,091.0	954.4	718.8	627.9
Costs of sales and operating expenses	920.5	1,015.9	926.1	688.4	581.6
General and administrative	20.2	17.0	25.9	15.0	10.9
Depreciation, depletion and amortization	12.8	15.0	16.6	12.4	15.3
Interest expense	20.8	18.8	21.1	15.9	12.8
Other expense	5.9	5.3	4.6	3.4	4.6
Income tax provision	3.6	15.1	5.4	4.1	2.4
Cumulative effect of accounting changes	--	--	(20.6)	(20.6)	--
Net earnings (loss)	$ 22.7	3.9	(65.9)	(41.0)	.3
Earnings (Loss) Per Primary and Fully Diluted* Share:					
Earnings (loss) before the cumulative effect of accounting changes	.96	(.37)	(3.87)	(1.94)	(.47)
Cumulative effect of accounting changes	--	--	(1.47)	(1.47)	--
Net earnings (loss)	$ .96	(.37)	(5.34)	(3.41)	(.47)

- ------------

* Anti-dilutive

</TABLE>

NINE MONTHS ENDED SEPTEMBER 30, 1993 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 1992

Net earnings of $.3 million (a loss of $.47 per primary and fully diluted share after preferred dividend requirements) for the first nine months of 1993 represented an improvement of $41.3 million from the net loss of $41.0 million ($3.41 per primary and fully diluted share) recorded during the first nine months of 1992. The 1992 period has been restated for the $20.6 million ($1.47 per share) cumulative effect and the $1.0 million ($.07 per share) period effect of accounting changes related to the Company's adoption of Statements of Financial Accounting Standards No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions,' and No. 109, 'Accounting for Income Taxes,' both effective as of January 1, 1992. The decrease of $90.9 million in total revenues was primarily due to lower refined product sales volumes which averaged 76,955 barrels per day in the 1993 period as compared to 96,338 average daily barrels in the comparable prior year period. In addition, revenues from the Company's Bolivian operations were lower due to the reduced contractual sales price for the decreased natural gas production. The 1992 period also included operating revenues of $6.0 million and a gain of $5.8 million resulting from the Company's former Indonesian operations. Partially

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offsetting these decreases were increased revenues from the Company's Bob West Field natural gas production. In addition, the 1993 period included a $1.4 million gain from the retirement of $11.25 million face amount of Subordinated Debentures in January 1993. The decrease of $106.8 million in cost of sales and operating expenses was also attributable to the

lower refined product volumes and the effect of the disposition of Indonesian operations. General and administrative expenses decreased by $4.1 million primarily due to the 1992 charge of $1.3 million for expenses associated with a cost reduction program, with the remaining decrease in 1993 attributable to the savings from this program. Depreciation, depletion and amortization increased by $2.9 million due to the increase in volumes of natural gas production from the Company's Bob West Field. The decrease of $3.1 million in interest expense resulted mainly from a settlement of certain tax issues. Income taxes decreased by $1.7 million due to reduced earnings from foreign operations.

1992 COMPARED TO 1991

Total revenues of $954.4 million for 1992 decreased $136.6 million, or 13%, from 1991, primarily due to lower refined product sales prices on reduced volumes. Additionally, total revenues decreased due to the disposition of the Company's Indonesian operations, effective May 1, 1992, which had provided $29.5 million of revenues in 1991 compared to $6.0 million in 1992. Revenues from the Company's Bolivian operations decreased by $6.7 million, primarily due to reduced sales prices under a contract for the Company's natural gas production. Partially offsetting these decreases in 1992 were increases of $21.3 million in sales of crude oil by the Company's refining and marketing operations and $13.7 million in revenues from natural gas production from the Company's Bob West Field, together with a $4.0 million net gain from sales of assets. The gain from sales of assets included a $5.8 million gain from the disposition of the Company's Indonesian operations, partially offset by a $1.8 million loss resulting from the sale of drilling rigs and costs related to the disposition of the Company's remaining oil field tool rental assets.

Costs of sales and operating expenses of $926.1 million in 1992 decreased $89.8 million, or 9%, from 1991, primarily due to lower crude oil and refined product volumes and prices, together with a reduction in operating expenses resulting from the disposition of the Company's Indonesian operations. These decreases in 1992 were partially offset by increased crude oil costs, primarily resulting from the additional accrual associated with the settlement of a contractual dispute with the State and higher expenses for environmental issues and workforce reductions.

General and administrative expenses of $25.9 million in 1992 increased $8.9 million from 1991, largely due to expenses for a cost reduction program and other employee terminations which totaled $9.1 million, of which $1.3 million was charged to the operating segments. The increase of $1.6 million in depreciation, depletion and amortization in 1992 primarily resulted from increased natural gas production in the Bob West Field, partially offset by the effects of the disposition of the Company's Indonesian operations.

The income tax provision of $5.4 million in 1992 decreased by $9.7 million from the prior year, primarily due to lower foreign income taxes resulting from reduced revenues from the Company's Bolivian and former Indonesian operations.

1991 COMPARED TO 1990

Total revenues of $1.1 billion for 1991 increased $84.5 million, or 8%, from 1990, primarily due to higher sales prices of refined products. In addition, increased production volumes from the Company's exploration and production operations experienced higher average sales prices for crude oil in Indonesia and natural gas in Bolivia. Partially offsetting these increases in total revenues in 1991 was a decline in interest income, resulting primarily from lower interest rates on cash available for investment. Other income also decreased, mainly due to the settlement of a natural gas price dispute and gains from sales of surplus oil field tool rental equipment in 1990.

Costs of sales and operating expenses increased $95.4 million, or 10%, in 1991, compared to 1990, primarily due to higher crude oil and refined product prices.

General and administrative expenses of $17.0 million in 1991 decreased $3.2 million from the prior year, primarily due to reduced professional fees. The increase of $2.2 million in depreciation, depletion and amortization in 1991 was mainly attributable to natural gas exploration and production activities in the Bob West Field, partially offset by a reduction in expenses related to the Company's oil field tool rental business, which was sold in 1990. Other expense for 1991 included a $2.0 million charge for an arbitration award involving a royalty dispute on Indonesian crude oil production, while 1990 included a $2.8 million settlement with the Government of Trinidad and Tobago.

The income tax provision of $15.1 million for 1991 increased by $11.5 million from the prior year, primarily due to higher foreign taxes resulting from increased revenues from the Company's Indonesian and Bolivian operations.

THREE MONTHS ENDED DECEMBER 31, 1991 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 1990

The Statement of Consolidated Operations and Statement of Consolidated Cash Flows for the three months ended December 31, 1991 are presented in the Consolidated Financial Statements included elsewhere herein. For discussion purposes, results for the three months ended December 31, 1991 are compared to

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the unaudited three-month period ended December 31, 1990, as set forth in Note B of Notes to Consolidated Financial Statements included elsewhere herein.

The net loss of $.4 million for the three months ended December 31, 1991 (the '1991 quarter') represented a decrease of $5.3 million from the net earnings of $4.9 million recorded during the three months ended December 31, 1990 (the '1990 quarter'). Total revenues of $243.9 million for the 1991 quarter decreased $92.3 million, or 27%, from the 1990 quarter, largely due to lower sales prices for refined products. The 1990 quarter had been impacted by escalating refined product and crude oil prices during the conflict in the Persian Gulf. During the 1991 quarter, the Company's exploration and production operations in Indonesia realized lower sales prices on reduced crude oil production as compared to the 1990 quarter. Also contributing to the decrease in total revenues in the 1991 quarter was reduced interest income resulting from lower interest rates on less cash available for investment. Partially offsetting these decreases in the 1991 quarter were revenues from the Company's convenience store operations in Alaska and other income resulting from settlement of a matter in litigation. Costs of sales and operating expenses decreased $83.4 million, or 27%, in the 1991 quarter as compared to the 1990 quarter, due primarily to the lower prices of crude oil and refined products, partially offset by costs from the Company's convenience store operations.

The Refining and Marketing segment's operating profit of $1.7 million in the 1991 quarter was a decrease of $.8 million from the $2.5 million operating profit recorded in the 1990 quarter. The decrease was primarily due to lower sales prices for residual fuel oil, which continued to be adversely impacted by the weak markets for this product.

The Exploration and Production segment's operating profit of $7.4 million in the 1991 quarter decreased $8.2 million from the $15.6 million operating profit recorded in the 1990 quarter. The decrease was mainly due to lower crude oil sales prices on reduced production volumes from the Company's Indonesian operations. The Company's Indonesian crude oil production decreased by 1,435 barrels per day, with an average sales price of $20.57 per barrel during the 1991 quarter as compared to $29.39 per barrel during the 1990 quarter. The Company's operations in Bolivia also experienced lower natural gas sales prices on reduced production volumes in the 1991 quarter. Natural gas production from the Company's Bolivian operations decreased by 487 Mcf per day with an average sales price of $2.42 per Mcf during the 1991 quarter as compared to $2.92 per Mcf in the 1990 quarter. The Company's natural gas production in the Bob West Field increased during the 1991 quarter; however, revenues from this production were substantially offset by increased depreciation and depletion, insurance costs and legal fees associated with these operations.

The Oil Field Supply and Distribution segment's operating loss of $1.2 million in the 1991 quarter was a decrease of $2.8 million from the $1.6 million operating profit recorded in the 1990 quarter. This decrease in operating results was primarily attributable to lower margins on refined product sales caused by the decline in drilling rig activity in the United States. The 1990 quarter included the effect of increased demand experienced during the Persian Gulf conflict.

General and administrative expenses of $2.8 million for the 1991 quarter decreased by $1.2 million from the 1990 quarter, primarily due to an insurance reimbursement during the 1991 quarter for certain costs incurred in defense of litigation in prior years. Depreciation, depletion and amortization expense of $4.2 million in the 1991 quarter increased by $1.2 million from the 1990 quarter, due mainly to exploration and production activities in the Bob West Field. The income tax provision of $3.0 million in the 1991 quarter decreased by $3.8 million from the 1990 quarter, primarily due to lower foreign taxes resulting from reduced revenues from the Company's operations in Indonesia.

LITIGATION AND ENVIRONMENTAL

The Company is subject to certain commitments and contingencies, including a contingency relating to a natural gas sales contract dispute with Tennessee Gas. The Company receives payment from Tennessee Gas for the purchase of a portion of the natural gas from the Bob West Field at a contract price substantially greater than spot market prices. Tennessee Gas filed suit, claiming, among other things, that the contract is not in effect and, in the alternative, that the contract price has been incorrectly calculated. The Company prevailed on all issues at the trial court level, and Tennessee Gas appealed the judgment to the Court of Appeals for the Fourth Supreme Judicial District of Texas. On August 25, 1993, the Court of Appeals affirmed the validity of the gas contract as to the Company's properties and held that the price payable by Tennessee Gas for the gas was the contract price. The Court of Appeals determined, however, (i) that the trial court erred in its summary judgment ruling that the gas contract was not an output contract under the Texas Business and Commerce Code ('TBCA') and (ii) that a fact issue exists as to whether the increases in the volumes of gas tendered to Tennessee Gas under the gas contract were made in bad faith or were unreasonably disproportionate to prior tenders in contravention of the provisions of Section 2.306 of the TBCA. Accordingly, the Court of Appeals directed that this issue be remanded back to the trial court in Bexar County, Texas. The Company has filed a motion for rehearing with the Appellate Court regarding its decision that the gas contract creates an output contract governed by the TBCA. Tennessee Gas has also filed a motion for rehearing with the Appellate Court regarding those portions of its decision upholding the judgment of the trial court. If Tennessee Gas should prevail in an appeal of the Court of Appeals decision, the case could be sent

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back to the trial court for further proceedings or the Company could be required to return to Tennessee Gas the difference between the spot price for gas and the contract price. If the decision of the Court of Appeals is affirmed, the only issue for trial will be whether the increases in the volumes of gas tendered to Tennessee Gas from the Company's properties may have been made in bad faith or were unreasonably disproportionate. Management of the Company believes its tenders were reasonable under the gas contract and the market conditions at the time and will vigorously defend on this issue if put to trial.

Although the outcome of any litigation is uncertain, management believes that the Tennessee Gas claims are without merit and, based upon advice from outside legal counsel, is confident that the decision of the trial court will ultimately be upheld as to the validity of the gas contract and the contract price; and that with respect to the output contract issue, the Company believes that, if this issue is tried, the development of its gas properties and the resulting increases in volumes tendered to Tennessee Gas will be found to have been reasonable and in good faith. The Company continues to receive payment from Tennessee Gas based upon the contract price; however, if Tennessee Gas appeals the Court of Appeals decision, and ultimately prevails in the litigation, the impact on the Company's future cash flows and liquidity would be material. For further information, see 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements included elsewhere herein.

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites or install additional controls or other modifications or changes in use for certain emission sources. The Company is currently involved in remedial response and has incurred cleanup expenditures associated with environmental matters at a number of sites, including certain of its own properties. Although it is difficult to quantify the potential impact of compliance with environmental protection laws, management believes that the ultimate aggregate cost to the Company of environmental remediation with regard to these sites will not result in a material adverse effect on the Company's financial condition. Although the level of future expenditures for environmental purposes, including cleanup obligations, is impossible to determine with any degree of probability, it is management's opinion that, based on current knowledge and the extent of such expenditures to date, the ultimate aggregate cost of environmental remediation will not have a material adverse effect on the Company's financial condition.

BUSINESS

GENERAL

The Company is a natural resource company engaged in the refining of crude oil, marketing of certain refined products, oil and gas exploration and production, environmental product sales and oil field supply and distribution. The Company was incorporated in Delaware in 1968 (a successor by merger to a California corporation incorporated in 1939). The Company changed its fiscal year-end from September 30 to December 31, effective January 1, 1992. For financial information relating to industry segments, see 'Management's Discussion and Analysis of Financial Condition and Results of Operations' and Note L of Notes to Consolidated Financial Statements included elsewhere herein.

REFINING AND MARKETING

Refining and Marketing

The Company conducts refining operations in Alaska and sells products to a wide variety of customers in Alaska, in the area west of the Rocky Mountains and in certain Far Eastern markets. During 1992, products from the Company's Alaska refinery accounted for approximately 77% of such sales, including products received on exchange in the West Coast market, with the balance being purchased from other refiners and suppliers.

The refinery, which is located in Kenai, Alaska, has a rated throughput capacity of 72,000 barrels per day and is capable of producing liquefied petroleum gas, motor gasoline, jet fuel, diesel fuel, heating oil and residual fuel oil. The refinery is designed to process crude oil with a sulphur content of up to 1%. Alaska North Slope ('ANS') and Cook Inlet crude oils, the primary crude oils currently used as feedstock for the refinery, are below this limit. To assure the availability of crude oil to the refinery, the Company holds a royalty crude oil purchase contract with the State. See '-- Crude Oil Supply.' During the second quarter of 1993, the Company implemented a market-driven operational strategy for the Company's refining and marketing operations. This strategy includes reducing refinery throughput and upgrading the mix of feedstocks, which is intended to enable the Company to match its refined product yield more closely to the product demand in Alaska, its primary market, and reduce shipments of refined products to less profitable markets. The strategy is also intended to reduce the Company's working capital requirements and reduce the volume of residual fuel oil produced by the Company's Alaska refinery. Implementation of this strategy has resulted in a decrease in total refinery production from 60,900 barrels per day in 1992 to 49,700 barrels per day during the nine months ended September 30, 1993 and a decrease in the level of residual fuel oil production from approximately 23,400 barrels per day in 1992 to approximately 17,600 barrels per day during the nine months ended September 30, 1993. The Company's ability to further reduce production of residual fuel oil, other than by further reducing total refinery production, is currently limited by constraints on the supply of lighter feedstocks. The new strategy has been

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implemented only recently, and there can be no assurance that it will ultimately prove successful. See '-- Government Regulation and Legislation -- Environmental Controls' for a discussion of the effect of governmental regulations on the production of low sulphur diesel fuel for on-highway use in Alaska.

During the nine months ended September 30, 1993, the refinery processed approximately 69% ANS crude oil, 23% Cook Inlet crude oil and 8% of other refinery feedstocks which yielded refined products consisting of approximately 24% gasoline, 24% jet fuel, 16% diesel fuel and other distillates and 36% residual fuel oil. Of the refinery production in 1992, the Company distributed approximately 76% of the gasoline to end-users in the State, either by retail sales through its 7-Eleven convenience store operations, by wholesale sales through 99 branded and 20 unbranded dealers and jobbers or by exchange deliveries to major oil companies, with the remaining 24% being transported to the West Coast. Virtually all of the jet fuel production is marketed in Alaska to commercial airlines through sales or exchange deliveries. Substantially all of the diesel fuel and other distillate production is marketed through exchange deliveries or sales in Alaska. During 1992, substantially all of the residual fuel oil production was sold to customers in Far Eastern markets. In recent years, such residual fuel

oil sales have been unprofitable. Since early 1993, under its new marketing strategy, the Company commenced selling and transporting a substantial volume of its residual fuel oil production to a customer in California.

In addition to its own refining capacity, the Company estimates the other refiners in Alaska have the capacity to process approximately 153,000 barrels of crude oil per day, all of which is ANS crude oil. After processing the crude oil and removing the lighter-end products, such as gasoline and jet fuel, which represent approximately 30% of each barrel processed, these refiners are permitted, by paying a fee and because of their proximity to the Trans Alaska Pipeline System, to return the remainder of the processed crude back into the pipeline system as 'return oil.'

At current throughput levels, the production of gasoline by all refiners in Alaska, including the Company, exceeds the market demand by approximately 2,400 barrels per day. The excess production is required to be exported from Alaska, generally during the winter months when the demand for gasoline in Alaska is lowest. The demand for jet fuel in Alaska currently exceeds the production of the refiners in the State, and several marketers, including the Company, import jet fuel into the State to meet this excess demand. The primary market for diesel fuel in Alaska is the commercial fishing fleet. Generally, the production of diesel fuel by refiners in Alaska and the demand for such diesel fuel is in balance; however, because of the high variability of the demand, there are occasions when diesel fuel is imported into or exported from the State. The Company is the only producer in Alaska of residual fuel oil for sale. Since there is no current demand for residual fuel oil in Alaska, the residual fuel oil is exported from the State, generally to other refiners on the West Coast or in the Far East where it is generally used as a refinery feedstock.

The Company conducts domestic wholesale marketing operations primarily in California, Oregon and Washington, with its principal office in Long Beach, California. During 1992, this operation sold, at wholesale, approximately 36,000 barrels per day of refined products, of which approximately 40% was received from major oil companies in exchange for refined products from the Company's Alaska refinery, approximately 11% was received directly from the Company's Alaska refinery and the balance was purchased from other suppliers. The Company sells its refined products in the bulk market and through 22 terminal locations, of which three are owned by the Company.

The Company is the owner of all 7-Eleven convenience store operations in Alaska and operates in 39 locations, 32 of which sell the Company's branded gasoline and other petroleum products.

The following table summarizes the Company's refinery throughput and product sales for the years ended September 30, 1990, September 30, 1991 and December 31, 1992 and the nine months ended September 30, 1992 and September 30, 1993:

<TABLE>
<CAPTION>

				NINE MONTHS ENDED SEPTEMBER 30,	
(AVERAGE DAILY BARRELS)	1990	1991	1992	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>
Refinery Throughput	67,904	68,192	61,425	62,574	50,503
Refining and Marketing Product Sales:					
Gasoline	29,646	25,883	25,196	26,317	23,219
Jet fuel	16,256	15,055	19,060	18,506	11,107
Other distillates	19,515	20,488	19,253	20,069	19,225
Residual fuel oil	28,332	28,729	23,931	22,929	16,290
Total	93,749	90,155	87,440	87,821	69,841

</TABLE>

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Crude Oil Supply

The Company has a contract through 1994 with the State which provides for the purchase of certain quantities of the State's Prudhoe Bay North Slope royalty crude oil, based on a percentage of all Prudhoe Bay North Slope royalty crude oil produced. At current levels of Prudhoe Bay production, this contract provides for the purchase of approximately 37,500 barrels per day at the weighted

average net-back price of all North Slope producers at Pump Station No. 1. In connection with its market-driven operational strategy, effective January 1, 1993, the Company exercised its right under this contract to reduce purchases to approximately 27,500 barrels per day.

Additional ANS crude oil, other than that which is purchased from the State, is acquired by the Company through various purchase and exchange agreements with the Producers. All ANS crude oil is delivered to the Company's Alaska refinery by tanker at the Kenai Pipeline Company marine terminal. In addition, the Company obtains available Cook Inlet crude oil, which is delivered by tanker or through an existing pipeline to the refinery. This Cook Inlet crude oil is acquired through term contracts and spot purchases.

The Company from time to time evaluates the economic viability of processing foreign crude oil in its Alaska refinery and occasionally purchases spot quantities to supplement its normal crude oil supply. This foreign crude oil is also delivered to the refinery by tanker through the Kenai Pipeline Company marine terminal.

Transportation

The Company charters an American flag vessel, the Overseas Washington, under an agreement expiring in 1994 with a two-year renewal option. The Overseas Washington is used primarily to transport North Slope crude oil from the Trans Alaska Pipeline System terminal at Valdez, Alaska, to the Company's Alaska refinery. The Company also has a charter for an American flag vessel, the Baltimore Trader, under an agreement expiring in July 1994 with a six-month renewal option remaining. The Baltimore Trader is used primarily to transport residual fuel oil to California and occasionally to transport feedstocks to the Company's Alaska refinery. From time to time, the Company also charters tankers and ocean-going barges to transport petroleum products to its customers within Alaska, on the West Coast and in the Far East.

The Company operates a common carrier petroleum products pipeline from the Company's Alaska refinery to its terminal in Anchorage. This ten-inch diameter pipeline removes the uncertainty of transporting light products in the winter months when icing conditions in the Cook Inlet restrict marine transportation. During 1992, the pipeline transported an average of approximately 28,500 barrels of petroleum products per day, all of which was transported for the Company. The pipeline has a capacity of approximately 40,000 barrels of petroleum products per day.

For further information on transportation in Alaska see '-- Government Regulation and Legislation.'

EXPLORATION AND PRODUCTION

United States

During 1992, the Company concentrated its activities in the Bob West Field, which is located in the southern part of the Wilcox Trend, Starr and Zapata Counties, Texas. Continued successful development of this field, discovered in 1990, has resulted in net proven natural gas reserves increasing from 37 billion cubic feet at December 31, 1991 to 102 billion cubic feet at September 30, 1993. Six wells were drilled and completed during 1992 and ten wells have since been drilled and completed, bringing the number of producing wells to 20 at September 30, 1993. Fifteen additional well locations have been selected for further development of the 3,800 acre field, of which six are expected to be drilled during the remainder of 1993. During November 1993, net production from the Bob West Field wells averaged 57.4 million cubic feet per day. The Company, which does not operate the field, owns an average 54% revenue interest in approximately two-thirds of the field acreage and a 28% revenue interest in the remainder. The Company owns a 70% interest in the central gas processing facility which is currently capable of handling 125 million cubic feet of production per day. The Company owns a 70% interest in Starr County Gathering System's ten-inch diameter pipeline, which transports gas eight miles from the field to common carrier pipeline facilities.

Two producing acreage units within the Bob West Field, each consisting of 352 acres, are subject to a gas purchase contract expiring in January 1999, with Tennessee Gas pursuant to which Tennessee Gas is currently paying in excess of $7.50 per Mcf of gas, which is greatly in excess of the spot market price for natural gas ($1.88 per Mcf for the month of October 1993). During the nine months ended September 30, 1993, the Tennessee Gas contract price was paid with respect to approximately 26% of the Company's net production from the Company's Bob West Field. The gas purchase contract is presently the subject of litigation with Tennessee Gas. See 'Legal Proceedings --Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements included elsewhere herein.

During 1992, the Company sold its interest in all domestic producing and undeveloped properties outside of the Bob West Field for $2.1 million in cash.

Bolivia

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The Company is the operator of a joint venture which holds two Contracts of Operation with YPFB, the Bolivian state-owned oil and gas company. The Company has a 75% interest in a Contract of Operation, which expires in 2007, covering approximately 93,000 acres in Block XVIII. The Company and its joint venture participant are entitled to receive a quantity of hydrocarbons equal to 40% of the total production, net of Bolivian taxes on production. After payment of taxes on production, YPFB is entitled to the remainder. Under the sales contract with YPFB covering hydrocarbons produced from the La Vertiente, Escondido and Taiguati Fields in this block, the Company and its joint venture participant have contracted to sell approximately 18,000 Mcf of natural gas per day to YPFB. Effective May 1, 1992, the contractual sales price for natural gas production from the Company's Bolivian operations was substantially reduced. At December 31, 1992, the Company was receiving $1.22 per Mcf, as compared to an average price received during fiscal 1991 of $3.06 per Mcf. This contract, including the pricing provision, is subject to renegotiation in April 1994 for another two-year period. During 1992, the condensate produced in association with the natural gas was sold to YPFB. Also during 1992, the Escondido Field was approved for commercial production and the Company completed construction of an 11-mile pipeline connecting the Escondido Field, previously shut-in, to the La Vertiente gas distribution facility.

The Company has a 72.6% interest in a Contract of Operation, which expires in 2008, covering approximately 1.2 million acres in Block XX. The Company and its joint venture participant are entitled to receive a quantity of hydrocarbons equal to 50% of the total production, net of Bolivian taxes on production, with YPFB receiving the remainder. One successful commercial gas discovery well, the Los Suris, has been drilled on the block and is shut-in pending the approval by the Government of Bolivia of a commercialization agreement. A request by the Company for postponement of YPFB's selection of inactive parcels was granted in January 1993. The Company is currently considering the prospects of industry participation in exploratory drilling opportunities on numerous undeveloped structures in Block XX and has presented a plan of development for Block XX to YPFB for its approval in order to postpone the relinquishment of inactive acreage under the Contract of Operation. Under the plan of development, the Company will be required to drill and complete an exploratory well by December 31, 1993, in order to postpone the relinquishment of inactive acreage until January 15, 1994. The drilling of the second exploratory well must be started after December 31, 1993 and completed by September 30, 1994, and the drilling of a third exploratory well must be started no later than the fourth quarter of fiscal 1994 and completed by April 30, 1995, in order to postpone the relinquishment of inactive acreage until July 15, 1995. To guarantee the drilling of the exploratory wells, the Company has submitted a bank guarantee to YPFB for the drilling of the first exploratory well in the amount of $2 million and must submit by January 15, 1994, a bank guarantee or guarantees in the aggregate amount of $4 million for the drilling of the second and third wells. The Company may further postpone the selection of inactive acreage until July 15, 1996, by submitting no later than July 1, 1995, an additional two-well drilling program that is acceptable to YPFB. The plan of development has been approved by YPFB and is awaiting final approval from the Government of

Bolivia. If the plan is not accepted by the Government of Bolivia, the Company could be required to forfeit a significant amount of acreage in Block XX, possibly including the Los Suris well.

The joint venture has an agreement with the Government of Bolivia and YPFB for the collection of receivables for the sale of natural gas and condensate sales to YPFB, which in turn sells the natural gas to the Republic of Argentina. The agreement allowed the joint venture to receive countertrade in the form of Argentine commodities as payment by the Government of Bolivia and YPFB for approximately $83.1 million of receivables due as of December 31, 1987. Of the $83.1 million, $38.0 million was distributed free of restrictions and $45.1 million was deposited into a restricted bank account (the 'Restricted Account') from which payments for investments and expenses in Bolivia could be made. The agreement provides for direct receipts free of restrictions for sales of condensate. The agreement further provided that receipts from natural gas sales would also be placed in the Restricted Account until April 1992, or until cumulative deposits to the Restricted Account equaled $90.0 million. Cumulative deposits to the Restricted Account have totaled $90.0 million and receipts for natural gas sales are now free of restrictions to the joint venture.

For further information regarding the Company's operations in Bolivia, see Note E of Notes to Consolidated Financial Statements included elsewhere herein.

Indonesia

Effective May 1, 1992, the Company sold its 100% interest in two separate contracts of operations with Pertamina, the state-owned petroleum company of Indonesia. The sales included all of the Company's interests in fixtures, wells, pipelines, tanks, compressors, rigs and other equipment in the contract areas, and inventories of crude oil and material and supplies. The consideration received by the Company totaled $6.6 million in cash and the assumption by the purchaser of liabilities of approximately $6.3 million and all remaining expenditure commitments. During 1992, these transactions resulted in pretax net gains to the Company of approximately $5.8 million after related expenses.

Operating Statistics

The following table summarizes the Company's net natural gas and crude oil production for the years ended September 30, 1990, September 30, 1991 and December 31, 1992 and the nine months ended September 30, 1992 and September 30,

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1993:

<TABLE>
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<S>	1990 <C>	1991 <C>	1992 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1992 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1993 <C>
Net Natural Gas Production (average daily Mcf):					
United States	727	7,435	13,960	12,618	32,313
Bolivia	12,668	19,322	19,421	19,502	19,183
Total	13,395	26,757	33,381	32,120	51,496
Net Crude Oil Production (average daily barrels):					
United States	2	11	3	3	1
Bolivia (condensate)	433	663	660	665	660
Indonesia (sold effective May 1, 1992)	2,565	3,315	2,714	2,714	--
Total	3,000	3,989	3,377	3,382	661

</TABLE>

The following table summarizes the Company's average realized prices for the sale of natural gas and crude oil production during the years ended September 30, 1990, September 30, 1991 and December 31, 1992 and the nine months ended September 30, 1992 and September 30, 1993:
<TABLE>
<CAPTION>

<S>	1990 <C>	1991 <C>	1992 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1992 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1993 <C>
Natural Gas (dollars per Mcf):					
United States(1)	$ 1.40	1.88	3.68	2.38	3.45
Bolivia	$ 2.74	3.06	1.67	1.82	1.20
Crude Oil (dollars per barrel):					
United States	$ 26.27	20.98	18.41	18.39	19.24
Bolivia (condensate)	$ 16.09	21.11	17.65	18.32	15.00
Indonesia	$ 17.95	24.39	18.20	18.20	--

- ------------
(1) See 'Legal Proceedings -- Tennessee Gas Contract' and Notes I and N of Notes to Consolidated Financial Statements included elsewhere herein regarding litigation concerning the Tennessee Gas gas purchase contract.

</TABLE>

The following table summarizes the Company's average production (lifting) cost and depletion rates for the years ended September 30, 1990, September 30, 1991 and December 31, 1992 and the nine months ended September 30, 1992 and September 30, 1993:
<TABLE>
<CAPTION>

<S>	1990 <C>	1991 <C>	1992 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1992 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1993 <C>
Average Production (Lifting) Cost (dollars per net equivalent Mcf):					
United States	$ .41	.44	.74	.73	.51
Bolivia	$ .13	.09	.08	.08	.16
Indonesia	$ 1.66	1.35	1.94	1.94	--
Depletion Rates (dollars per net equivalent Mcf):					
United States	$ .81	1.06	.95	1.02	.78
Indonesia	$ .19	.22	.15	.15	--

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The following table summarizes the Company's net wells drilled during the years ended September 30, 1990, September 30, 1991 and December 31, 1992 and the nine months ended September 30, 1993:

	1990	1991	1992	NINE MONTHS ENDED SEPTEMBER 30, 1993
Net Exploratory Wells Drilled:				
United States:				
Net productive wells	.70	1.46	1.00	--
Net dry holes	.60	--	.50	--
Net Development Wells Drilled:				
Net productive wells:				
United States	.92	1.43	3.85	4.87
Indonesia	4.00	3.00	--	--
Total	4.92	4.43	3.85	4.87
Net dry holes:				
United States	--	1.00	--	--
Indonesia	1.00	2.00	--	--
Total	1.00	3.00	--	--

Acreage and Wells

The following tables set forth the Company's gross and net acreage and productive wells at September 30, 1993:

	DEVELOPED ACREAGE		UNDEVELOPED ACREAGE	
	GROSS	NET	GROSS	NET
Acreage (in thousands):				
United States	3	2	10	3
Bolivia	38	29	1,210	880
Total	41	31	1,220	883

	OIL		GAS	
	GROSS	NET	GROSS	NET
Gross and Net Productive Wells:				
United States	--	--	20	8.8
Bolivia	--	--	14	10.5
Total(1)	--	--	34	19.3

- ------------

(1) Included in total productive wells are 1 gross (.6 net) well in the United States and 8 gross (6.0 net) wells in Bolivia with multiple completions. At September 30, 1993, the Company was participating in the drilling of 6 gross (2.7 net) wells in the United States.

For further information regarding the Company's exploration and production activities, see Note N of Notes to Consolidated Financial Statements included elsewhere herein.

OIL FIELD SUPPLY AND DISTRIBUTION

Refined Products Supply and Distribution

The Company sells lubricants, fuels and specialty petroleum products primarily to onshore and offshore drilling contractors. The Company's products are sold through six land terminals and 14 marine terminals located in various cities in Texas and Louisiana. These products are used to power and lubricate machinery on drilling and production locations. The Company also provides

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products for marine, commercial and industrial applications.

Effective December 31, 1992, the Company acquired all of the interest of its partner in Tesoro-Leevac Petroleum Company ('Tesoro-Leevac'), a joint venture formed in 1990. Acquisition of this interest allowed the Company to completely integrate the marine terminals operated by Tesoro-Leevac into the Company's existing operations.

Environmental Products Supply and Distribution

The Company is the exclusive worldwide distributor of hydrocarbon-digesting bacteria products manufactured by Petroleum Environmental Services, Inc. ('PES'), located in San Antonio, Texas. PES products provide for the degradation and removal of hydrocarbon contamination in the environment, including contamination in soils, slurries and open pits; porous and nonporous surfaces; and rocks and concrete bulkheads along shorelines. Currently, these products are sold from offices in Texas, California and Alaska. The Company has funded a Sponsored Research Agreement with The University of Texas at San Antonio for the research and development of new and improved bioremediation products.

EMPLOYEES

As of September 30, 1993, the Company employed approximately 900 persons worldwide, of which approximately 35 employees are located in foreign countries. None of the Company's employees are represented by a union for collective bargaining purposes. The Company considers its relations with its employees to be satisfactory.

GOVERNMENT REGULATION AND LEGISLATION

United States

Natural Gas Regulations. Historically, all domestic natural gas sold in so-called 'first sales' was subject to federal price regulations under the Natural Gas Act of 1978 (the 'NGPA'), the Natural Gas Act (the 'NGA'), and the regulations and orders issued by the Federal Energy Regulatory Commission (the 'FERC') in implementing such Acts. Under the Natural Gas Wellhead Decontrol Act of 1989 ('Decontrol Act'), all remaining natural gas wellhead pricing, sales, certificate and abandonment regulation of first sales by the FERC was terminated on January 1, 1993.

The FERC also regulates interstate natural gas pipeline transportation rates and service conditions, which affect the marketing of gas produced by the Company, as well as the revenues received by the Company for sales of such natural gas. Since the latter part of 1985, through its Order Nos. 436, 500 and 636 rulemakings, the FERC has endeavored to make natural gas transportation more accessible to gas buyers and sellers on an open and non-discriminatory basis, and the FERC's efforts have significantly altered the marketing and pricing of natural gas. A related effort has been made with respect to intrastate pipeline operations pursuant to the FERC's authority under ^ 311 of the NGPA, under which the FERC establishes rules by which intrastate pipelines may participate in certain interstate activities without becoming subject to full NGA jurisdiction. These Orders have gone through various permutations, but have generally remained intact as promulgated. The FERC considers these changes necessary to improve the competitive structure of the interstate natural gas pipeline industry and to create a regulatory framework that will put gas sellers into more direct contractual relations with gas buyers than has historically been the case.

The FERC's latest action in this area, Order No. 636, issued April 8, 1992, reflected the FERC's finding that under the current regulatory structure, interstate pipelines and other gas merchants, including producers, do not compete on an equal basis. The FERC asserted that Order No. 636 was designed to equalize that marketplace. This equalization process is being implemented through negotiated settlements in individual pipeline service restructuring proceedings, designed specifically to 'unbundle' those services (e.g ., transportation, sales and storage) provided by many interstate pipelines so that producers of natural gas may secure services from the most economical source, whether interstate pipelines or other parties. In many instances, the result of the FERC initiatives has been to substantially reduce or bring to an end the interstate pipelines' traditional role as wholesalers of natural gas in favor of providing only storage and transportation services for others which will buy and sell natural gas. The FERC has issued final orders in numerous restructuring proceedings and it is anticipated that final orders in the remaining restructuring proceedings resulting from Order No. 636 will be issued during 1993.

Although Order No. 636 does not regulate gas producers such as the Company, the FERC has stated that Order No. 636 is intended to foster increased competition within all phases of the natural gas industry. It is unclear what impact, if any, increased competition within the natural gas industry under Order No. 636 will have on the Company and its gas marketing efforts. In addition, numerous petitions seeking judicial review of Orders Nos. 636, 636A and 636B have already been filed. Because the restructuring requirements that emerge from this lengthy administrative and judicial review process may be significantly different from those of Order No. 636 as originally promulgated, it is not possible to predict what, if any, effect the final rule resulting from Order No. 636 will have on the Company. The Company does not believe, however, it will be affected by any action taken with respect to Order No. 636 any differently than other gas producers and marketers with which it competes.

Environmental Controls. Federal, state, area and local laws, regulations and ordinances relating to the protection of the environment affect all operations of the Company to some degree. One example of a federal environmental law that would require operational additions and modifications is the Clean Air

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Act, which was amended in 1990. While the Company believes that its facilities generally are in substantial compliance with current regulatory standards for air emissions, its facilities may be required to comply with new requirements being adopted and to be promulgated by the U.S. Environmental Protection Agency (the 'EPA') and the states in which the Company operates over the next several years. These regulations may necessitate the installation of additional controls or other modifications or changes in use for certain emission sources. At this time, the Company cannot estimate when new standards will be imposed by the EPA or relevant state agencies or what technologies or changes in processes the Company may have to install or undertake to achieve compliance with any applicable new requirements.

The passage of the federal Clean Air Act Amendments of 1990 prompted adoption of regulations by the State obligating the Company to produce oxygenated gasoline for delivery to the Anchorage and Fairbanks, Alaska markets starting on November 1, 1992. Controversies surrounding the potential health effects in arctic regions of oxygenated gasoline containing methyl tertiary butyl ether ('MTBE') prompted the early discontinuance of the program in Fairbanks in December 1992. On October 21, 1993, the United States Congress granted the State one additional year of exemption from requiring the use of oxygenated gasoline. However, state and local officials may still require the use of these fuels at their option. In addition, the EPA has been directed to conduct additional studies of potential health effects of oxygenated fuel in Alaska. Additional federal regulations promulgated on August 21, 1990, and scheduled to go into effect on October 1, 1993, set limits on the quantity of sulphur in on-highway diesel fuels which the Company produces. The State filed an application with the federal government in February 1993 for a waiver from this requirement since only 5% of the diesel fuel sold in Alaska is for on-highway vehicles. The EPA supported the State's position and the formalities for obtaining the exemption were completed on September 27, 1993. The EPA, in a letter

to the State dated September 30, 1993, indicated that the EPA was completing the final documentation regarding the waiver and that Alaska would have a low priority for enforcement of the diesel fuel regulations, pending the publication of the final decision. The ultimate resolution of this matter is not expected to have a material effect on the Company. The Company estimates that substantial capital expenditures would be required to enable the Company to produce low-sulphur diesel fuel to meet these federal regulations. If the State is unable to obtain a waiver from the federal regulations, the Company would discontinue the sales of diesel fuel for on-highway use. The Company estimates that such sales accounted for less than 1% of its refined product sales in Alaska during the nine months ended September 30, 1993. The Company is unable to predict the outcome of these matters; however, the Company believes that the ultimate resolution of these matters will not have a material impact on the Company's operations.

Regulations promulgated by the EPA on September 23, 1988 require that all underground storage tanks used for storing gasoline or diesel fuel either be closed or upgraded not later than December 22, 1998, in accordance with standards set forth in the regulations. The Company's service stations subject to the upgrade requirements are limited to locations within the State of Alaska, the majority of which are located in non-residential areas. Although the Company continues to monitor, test and make physical improvements in its current operations which result in a cleaner environment, the Company was not required to make any material capital expenditures for environmental control purposes during 1992. The Company may be required to make significant expenditures for removal or upgrading of underground storage tanks at several of its current and former service station locations by December 22, 1998; however, the Company does not expect to make any material capital expenditures for such purposes during 1993 and 1994 and does not expect that such expenditures subsequent to 1994 will have a material adverse effect on the financial condition of the Company. See 'Legal Proceedings -- Stanislaus County Matters.'

The Company currently charters a vessel to transport crude oil from the Valdez, Alaska pipeline terminal through Prince William Sound and Cook Inlet to its Alaska refinery. In addition, the Company routinely charters, on a term or spot basis, additional tankers and barges for the shipment of crude oil and refined products through Cook Inlet. The Federal Oil Pollution Act of 1990 requires, as a condition of operation, that the Company submit an oil spill contingency plan for its Alaska refinery terminal facility located on Cook Inlet that demonstrates the capability to respond to the 'worst case discharge' to the maximum extent practicable. Alaska law requires a contingency plan for that terminal providing for containment or control, and cleanup, within 72 hours, of a spill equal to the volume of the terminal's largest storage tank. With respect to the charter vessels employed by the Company to transport crude oil through Prince William Sound and Cook Inlet to the Company's Alaska refinery, federal and Alaska law both require contingency plans as a condition of navigation. The Company has obtained State approval for its Cook Inlet Oil Discharge Contingency Plan and conditional approval, which allows operations pending final State review, for a Tanker Spill Prevention and Response Plan for Prince William Sound. The federal plan must demonstrate the capability to respond to the 'worst case discharge' to the maximum extent practicable, while the Alaska plan must be based on containment or control, and cleanup, of a 50,000 barrel discharge within 72 hours. To meet those standards, the Company has entered into a contract with Alyeska Pipeline Service Company ('Alyeska') to provide the

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initial spill response services in Prince William Sound with the Company to assume those responsibilities after mutual agreement with Alyeska and the State and Federal On-Scene Spill Response Coordinators. The Alaska legislature passed legislation in 1992, providing limited immunity for spill response contractors, which has facilitated access to contract extensions that will not be dependent on further legislative action. The Company has also entered into an agreement with Cook Inlet Spill Prevention and Response for oil spill response services in Cook Inlet. The Company believes these contracts provide the additional services necessary to meet the spill response requirements established by Alaska and federal law.

For further information regarding environmental matters, see 'Legal Proceedings.'

Bolivia

The Company's operations in Bolivia are subject to the General Law of Hydrocarbons and various other laws and regulations. The General Law of Hydrocarbons imposes certain limitations on the Company's ability to conduct its operations in Bolivia. In the Company's opinion, neither the General Law of Hydrocarbons nor other limitations imposed by governmental laws, regulations and practices will have a material adverse effect upon its Bolivian operations.

TAXES

United States

The Revenue Reconciliation Act of 1993 imposed a new 4.3 per gallon 'transportation fuels tax' effective October 1, 1993, and a tax on commercial aviation fuel effective October 1, 1995. The Company is uncertain of the impact, if any, such taxes may have on the Company's operations.

Bolivia

The Company is subject to taxation in Bolivia at the rate of 30% of the gross production of hydrocarbons at the wellhead which is retained and paid by YPFB for the Company's account. In 1987, the Bolivian General Corporate Income Tax Law was replaced by a tax system, including a Value Added Tax, which is not imposed on net income. As a result, it is uncertain whether the Company can treat the Bolivian hydrocarbons tax as creditable in the United States for federal income tax purposes. However, due to the Company's net operating loss carryforwards, the Company does not now, or in the near future, expect to use these taxes as credits for federal income tax purposes.

In 1990, the Bolivian Government passed a new General Law of Hydrocarbons containing provisions designed to ensure the creditability, for United States federal income tax purposes, of these hydrocarbon taxes if the Company makes an election which may subject it to a higher Bolivian tax rate in the future. Regulations under this new law have not been issued; however, the Company does not anticipate that this new law will have a material effect on the Company's Bolivian operations.

MANAGEMENT

The following is a list of the Company's executive officers, their ages and their positions with the Company as of December 27, 1993.

<TABLE>
<CAPTION>

NAME	AGE	POSITION	PRESENT POSITION HELD SINCE
<S>	<C>	<C>	<C>
Michael D. Burke--------------	49	President and Chief Executive Officer	July 1992
Gaylon H. Simmons-------------	53	Executive Vice President	September 1993
Bruce A. Smith----------------	50	Executive Vice President and Chief Financial Officer	September 1993
James W. Queen----------------	53	Senior Vice President, Oil Field Products Distribution	February 1992
Don E. Beere------------------	52	Vice President, Controller	February 1992
James E. Duncan---------------	49	Vice President, Corporate Development	March 1993
James C. Reed, Jr.------------	48	Vice President, General Counsel and Secretary	September 1993
William M. Sims---------------	49	Vice President, Environmental Products	January 1992
William T. Van Kleef----------	41	Vice President, Treasurer	March 1993

</TABLE>

There are no family relationships among the officers listed, and there are no arrangements or understandings pursuant to which any of them were elected as officers. Officers are elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders, each to hold office until the corresponding meeting of the Board of Directors in the next year or until his successor shall have been elected or shall have qualified.

All of the Company's executive officers have been employed by the Company or its subsidiaries in an executive capacity for at least the past five years, except for those named below who have had the business experience indicated during that period. Positions, unless otherwise specified, are with the Company.

<TABLE>

<S>	<C>
Michael D. Burke------------------------------	President and Chief Executive Officer from July 1992. Group Vice President of Texas Eastern Corporation from 1986 to 1992.

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	President and Chief Executive Officer of T. E. Products Pipeline Company, L.P., an affiliate of Texas Eastern Corporation, from 1990 to 1992. President of Texas Eastern Products Pipeline Company from 1986 to 1990.
Gaylon H. Simmons----------------------------	Executive Vice President from September 1993. Senior Vice President, Refining, Marketing and Crude Supply from January 1993 to September 1993. President and Chief Executive Officer of Simmons Technology Group, Inc. from 1991 to December 1992. President and Chief Executive Officer of the Permian Corporation from 1989 to 1991. Vice President, Supply and Marketing for MAPCO Petroleum, Inc. from 1985 through 1989.
Bruce A. Smith-------------------------------	Executive Vice President and Chief Financial Officer from September 1993. Vice President and Chief Financial Officer from September 1992 to September 1993. Vice President and Treasurer of Valero Energy Corporation from 1986 to 1992.
Don E. Beere---------------------------------	Vice President, Controller from February 1992. Vice President, Internal Audit and Management Systems of Tesoro Petroleum Companies, Inc. from February 1990 to 1992. Director, Internal Audit and Management Systems from December 1989 to 1990. Director, Internal Audit from February 1986 to 1989.

</TABLE>

<TABLE>

<S>	<C>
James E. Duncan------------------------------	Vice President, Corporate Development from March 1993. Vice President, Treasurer from February 1992 to 1993. Vice President, Controller of Tesoro Petroleum Companies, Inc. from February 1990 to 1992. Director, Corporate Accounting from April 1985 to 1990.
James C. Reed, Jr.---------------------------	Vice President, General Counsel and Secretary from September 1993. Vice President, Secretary from December 1992 to September 1993. Vice President, Secretary of Tesoro Petroleum Companies, Inc. from February 1992 to December 1992. Vice President, Assistant Secretary of Tesoro Petroleum Companies, Inc. from February 1990 to 1992. Assistant General Counsel and Assistant Secretary from August 1982 to 1990.
William T. Van Kleef-------------------------	Vice President, Treasurer from March 1993. Financial Consultant from January 1992 to February 1993. Consultant to Parker & Parsley (successor to the assets and operations of Damson Oil Corporation and its affiliates) from February 1991 to December 1991. Vice President and Chief Financial Officer of Damson Oil Corporation from 1986 to February 1991.

</TABLE>

For information concerning the members of the Board of Directors, see 'The Annual Meeting -- Proposal No. 3.' For information concerning compensation paid to officers and directors of the Company, see 'Executive Compensation.'

LEGAL PROCEEDINGS

Tennessee Gas Contract. The Company is selling gas from its Bob West Field to Tennessee Gas under a 1979 Gas Purchase and Sales Agreement (the 'Gas Contract') which expires in January 1999. The Gas Contract provides that the price of gas shall be the maximum price as calculated in accordance with the then effective Section 102(b)(2) (the 'Contract Price') of the Natural Gas Policy Act of 1978 ('NGPA').

In August 1990, Tennessee Gas filed a civil action in the District Court of Bexar County, Texas against the Company and several other companies, seeking a Declaratory Judgment that the Gas Contract is not applicable to the Company's properties. Tennessee Gas claimed, among other things, that certain leases covered by the Gas Contract had terminated and therefore were automatically released from the Gas Contract, eliminating the obligation of Tennessee Gas to purchase gas from the Company. Tennessee Gas also challenged the quantity of gas which can be sold under the Gas Contract and contended that the gas sales price was to be calculated under the provisions of Section 101 of the NGPA rather than the Contract Price. At September 30, 1993, the Section 101 price of $4.45 per Mcf was $3.16 per Mcf less than the Contract Price, but $2.14 per Mcf above spot market prices.

On June 24, 1992, the District Court trial judge returned a verdict in favor of the Company. The District Court's judgment, entered on July 8, 1992, ruled that Tennessee Gas must honor the Gas Contract pursuant to its terms. Tennessee Gas filed a motion for reconsideration in the District Court on the issue of the price to be paid for the gas under the Gas Contract, which was denied by the court. On September 11, 1992, Tennessee Gas appealed the judgment to the Court of Appeals for the Fourth Supreme Judicial District of Texas. On August 25, 1993, the Court of Appeals affirmed the validity of the Gas Contract as to the Company's properties and held that the price payable by Tennessee Gas for the gas was the Contract Price. The Court of Appeals determined, however, (i) that the trial court erred in its summary judgment ruling that the Gas Contract was not an output contract under the Texas Business and Commerce Code ('TBCA') and (ii) that a fact issue exists as to whether the increases in the volumes of gas tendered to Tennessee Gas under the Gas Contract were made in bad faith or were unreasonably disproportionate to prior tenders in contravention of the provisions of Section 2.306 of the TBCA. Accordingly, the Court of Appeals directed that this issue be remanded

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back to the trial court in Bexar County, Texas. The Company has filed a motion for rehearing with the appellate court regarding its decision that the Gas Contract creates an output contract governed by the TBCA. Tennessee Gas has also filed a motion for rehearing with the appellate court regarding the portions of its decision upholding the judgment of the trial court. If Tennessee Gas should prevail in an appeal of the Court of Appeals' decision, the case could be sent back to the trial court for further proceedings or the Company could be required to return to Tennessee Gas the difference between the spot price for gas and the Contract Price. The Company continues to receive payment from Tennessee Gas based on the Contract Price. If the decision of the Court of Appeals is affirmed, the only issue for trial will be whether the increases in the volumes of gas tendered to Tennessee Gas from the Company's properties may have been made in bad faith or were unreasonably disproportionate. Management of the Company believes its tenders were reasonable under the Gas Contract and the market conditions at the time and will vigorously defend on this issue if put to trial.

Although the outcome of any litigation is uncertain, management believes that the Tennessee Gas claims are without merit and, based upon advice from outside legal counsel, is confident that the decision of the trial court will ultimately be upheld as to the validity of the Gas Contract and the Contract Price; and that with respect to the output contract issue, the Company believes that, if this issue is tried, the development of its gas properties and the resulting increases in volumes tendered to Tennessee Gas will be found to have been reasonable and in good faith. Accordingly, the Company has recognized revenues, net of production taxes and marketing charges, for natural gas sales through September 30, 1993, under the Gas Contract based on the Contract Price, which net revenues aggregated $12.1 million more than the Section 101 prices and $22.3 million in excess of the spot market prices. An adverse judgment in this case could have a material adverse effect on the Company. If Tennessee Gas ultimately prevails in the litigation, the Company could be required to return to Tennessee Gas $22.3 million, representing the difference between the spot price for gas and the Contract Price.

ADEC Consent Order. In March 1991, the Company entered into a Consent Order with the Alaska Department of Environmental Conservation ('ADEC'), substantially similar to the Consent Orders reached with the EPA in September 1989. These Consent Orders provide for the investigation and cleanup of hydrocarbons in the soil and groundwater at the Company's Alaska refinery which resulted from the sewer hub seepage associated with the underground oil/water sewer system. The Consent Orders formalized the Company's efforts, which commenced in 1987, to remedy the presence of hydrocarbons in the soil and groundwater and provide for the performance of additional future work. The Company has replaced or rebuilt the drainage hubs and has initiated a subsurface monitoring and interception system designed to identify the extent of hydrocarbons present in the groundwater and to remove the hydrocarbons. The Company estimates that annual expenditures of approximately $1.5 million will be required in the future to operate these subsurface monitoring and interception systems, the majority of which will be covered by insurance through 1995.

Clean Air Act Matters. On March 19, 1992, the Company received a Compliance Order and Notice of Violation dated March 16, 1992 (the 'Notice') from the EPA alleging possible violations by the Company of the New Source Performance Standards under the Clean Air Act at its Alaska refinery. The Notice alleged that the Company (i) failed to install a fuel gas combustion monitoring device by October 2, 1991; (ii) failed to keep documentation on two storage vessels reflecting quantities of petroleum liquid stored, the period of storage and the maximum true vapor pressure of the liquid stored; (iii) failed to submit documentation on two gas turbines (a) verifying the accuracy of the monitoring system for recording fuel consumption and ratio of fuel to water being fired in the turbines and (b) monitoring sulphur and nitrogen content of the fuel being fired in the turbines; (iv) failed to conduct a monitoring and repair program under the Standards for Equipment Leaks of Volatile Organic Compounds with respect to one of the refinery units; and (v) failed to (a) equip the Company's south bulk gasoline terminal with a vapor recovery system, (b) assure the loading of liquid products into tanks with a compatible vapor collection system, and (c) conduct performance tests and submit subsequent written reports to the EPA to determine compliance with vapor collection systems

installed at the Company's south bulk terminal. The EPA has the statutory authority to assess civil penalties for the alleged violations of up to $25,000 per day for each violation, but the EPA has not assessed a penalty against the Company for its alleged violations to date. The Company continues to discuss these issues with the EPA, and no final resolution has been reached. However, the Company believes that the ultimate resolution of this matter will not have a material adverse effect upon the Company's business or financial condition.

Mud and Gulf Coast Superfund Sites. The Company has been identified by the EPA as a PRP pursuant to CERCLA for the Mud and Gulf Coast Superfund sites in Abbeville, Louisiana. These sites are contiguous and at one time were owned by the same company. Over 100 parties have been identified as PRPs for these sites. The Company arranged for the disposal of a minimal amount of materials at these locations. CERCLA imposes joint and several liability on PRPs; each PRP is therefore responsible for 100% of the costs of the response actions necessary to

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remediate the sites in the event a settlement with the EPA cannot be reached. The EPA is seeking reimbursement for its response costs incurred to date at each site, as well as a commitment from PRPs either to conduct future remedial activities or to finance such activities.

The EPA has completed its investigation of the Gulf Coast site to determine the type and extent of contamination. The EPA issued the Record of Decision and sent out notice letters to PRPs. The Company has agreed to enter into a de minimis settlement with the EPA at the Gulf Coast site. The Company's total liability will be approximately $2,500 if the settlement is approved.

One of the larger PRPs in the Mud site has taken the lead in investigating the site to determine the extent of contamination. Initial technical reports have been reviewed by the EPA and are undergoing further preparation; however, the reports are not yet available. At this time, the Company is unable to determine the extent of the Company's liability related to the Mud site; however, based on its proposed settlement in the Gulf Coast site, the Company believes that the aggregate amount of such liability, if any, would not have a material adverse effect on the Company.

Stanislaus County Matters. On September 25, 1990, the Company was identified by the Department of Environmental Resources of Stanislaus County, California ('DER') as a responsible party for hydrocarbon contamination present at a service station location formerly leased and operated by the Company. On February 24, 1993, the DER demanded that the Company and three other entities named as responsible parties undertake action to remediate the contamination. The owner of the location, Briggsmore Plaza Co. ('Briggsmore'), instituted litigation in the California state court seeking compensation from the Company for damages resulting from the contamination. Also named as a defendant was a third party which became the operator of the service station in 1985, and which filed for protection under the federal bankruptcy laws a short time after the lawsuit commenced. In November 1993, a settlement agreement was entered into by the Company and Briggsmore, which provides that the Company will assume responsibility for the management and expense of remediating the location in accordance with DER requirements. It is estimated that remediation to closure will cost the Company $300,000 to $500,000. In addition, the Company has agreed to pay Briggsmore approximately $48,000, representing past-due rent and property taxes. Briggsmore has released all claims against the Company except the remediation obligations arising under the settlement agreement.

Croyden Associates' Litigation. For information concerning a class action lawsuit challenging the Recapitalization that was filed by a holder of the Company's $2.16 Preferred Stock, see 'The Recapitalization -- Croyden Associates' Litigation.'

PROPOSAL NO. 1

GENERAL

The Board of Directors has unanimously authorized amendments to the Company's Certificate of Incorporation pursuant to which (i) Article Fourth thereof would be amended to give effect to the reclassification of the $2.16 Preferred Stock into Common Stock (the 'Reclassification Amendment'), (ii) Article Fifth thereof would be eliminated to remove the provisions relating to the division of directors into three classes, and (iii) Article Seventh thereof would be amended to require, in the absence of the approval of 66 2/3% of the disinterested directors, an 80% vote of stockholders to amend, in a manner adverse to the Company, the Amended MetLife Memorandum or an agreement to be entered into between the Company and MetLife Louisiana upon consummation of the Recapitalization pursuant to which MetLife Louisiana will grant the Company's MetLife Option. A copy of the Company's Restated Certificate of Incorporation, which reflects such Charter Amendments, is set forth in full in Appendix C to this Proxy Statement -- Prospectus, and the following description summarizes the material provisions of such Charter Amendments but does not purport to be complete and is qualified in its entirety by reference to such Appendix. A copy of Articles Fourth, Fifth and Seventh of the Company's current Certificate of Incorporation are set forth in full at Appendix D to this Proxy Statement -- Prospectus.

THE RECLASSIFICATION

The Reclassification Amendment would reclassify each outstanding share of $2.16 Preferred Stock (including accrued and unpaid dividends) into 4.9 shares of Common Stock. In addition, the Company will issue .1 share of Common Stock for each share of $2.16 Preferred Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses. See 'The Recapitalization -- Croyden Associates' Litigation.' At November 30, 1993, accrued and unpaid dividends on the $2.16 Preferred Stock aggregated approximately $8.9 million ($6.75 per share). One Purchase Right will be simultaneously issued with respect to each new share of Common Stock issued in the Reclassification. The Purchase Rights outstanding at the time the Reclassification is consummated will not be affected by the Reclassification.

As of December 27, 1993, there were outstanding 1,319,563 shares of $2.16 Preferred Stock with an aggregate liquidation value of approximately $42.0 million and an aggregate market value of $27.9 million (based on a closing price of $21.125 per share on December 27, 1993). As of December 27, 1993, there were outstanding 14,069,236 shares of Common Stock. The closing price per share of Common Stock on December 27, 1993 was $5.625.

No fractional shares of Common Stock will be issued upon conversion of the $2.16 Preferred Stock in the Reclassification. In lieu thereof, such number of shares will be rounded to the next higher whole number.

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The Reclassification Amendment is being submitted for stockholder approval as part of the Recapitalization, which also includes the Exchange Offer, the Indenture Amendments, the Charter Amendments and the agreements to be entered into pursuant to the Amended MetLife Memorandum. The Company believes that the benefits of the Recapitalization, which will result in a reduction in the Company's near term cash sinking fund requirements, the elimination of future dividend and redemption obligations relating to its $2.16 Preferred Stock, the waiver of the mandatory redemption provisions of the $2.20 Preferred Stock, and the ability of the Company to pay dividends on the $2.20 Preferred Stock in Common Stock in lieu of cash, will improve the Company's financial position and increase its flexibility in financing its future operations. See 'The Recapitalization -- Background.'

The Amended MetLife Memorandum and the adoption of the Reclassification Amendment would eliminate the Company's substantial and increasing accrued and unpaid dividends on the $2.16 Preferred Stock (approximately $8.9 million or $6.75 per share at November 30, 1993) and the

$2.20 Preferred Stock (approximately $20.0 million or $6.97 per share at November 30, 1993), and eliminate the liquidation preferences of the $2.16 Preferred Stock (approximately $33.0 million), in exchange for approximately 8,365,934 shares of Common Stock with an aggregate market value of approximately $47.1 million (based on a closing price of $5.625 per share on December 27, 1993).

In addition, the Amended MetLife Memorandum and the adoption of the Reclassification Amendment would eliminate (a) annual redemption requirements on the $2.20 Preferred Stock beginning in 1994, of 6 2/3% of the number of shares of $2.20 Preferred Stock outstanding on the date of the first redemption, and (b) annual dividends on the $2.16 Preferred Stock at the rate of $2.16 per share (approximately $2.9 million aggregate).

The provisions of the Amended MetLife Memorandum relating to the $2.20 Preferred Stock and the Company's MetLife Option are conditioned on the Reclassification.

The Reclassification Amendment will eliminate the $2.16 Preferred Stock from the Company's capital structure, with the result that all powers and preferences, privileges, voting and other special or relative rights and qualifications of the $2.16 Preferred Stock will be terminated. See 'Description of Capital Stock -- $2.16 Preferred Stock.'

The issuance of 1,900,075 shares of Common Stock pursuant to the Amended MetLife Memorandum, 6,465,859 shares of Common Stock pursuant to the Reclassification and 131,956 shares of Common Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses, the settlement of certain litigation will result in substantial dilution to holders of Common Stock. The combined result is an increase of approximately 60% over the 14,069,236 shares of Common Stock outstanding at December 15, 1993. Based on the assumptions used in preparing the pro forma financial information, the Reclassification Amendment will result in the transfer of approximately $80.9 million to Common Stock and Other Stockholders' Equity. See 'Pro Forma Capitalization.'

The following table sets forth, as of December 15, 1993 (i) the aggregate voting power of the holders of the indicated classes of securities at such date, and (ii) the pro forma aggregate voting power of the former holders of $2.16 Preferred Stock and $2.20 Preferred Stock, and the holders of Common Stock, assuming completion of the Reclassification.

<TABLE>
<CAPTION>

HOLDERS OF	VOTING POWER AT DECEMBER 15, 1993	PRO FORMA VOTING POWER
<S>	<C>	<C>
$2.16 Preferred Stock	7.2%	25.9%
$2.20 Preferred Stock	15.8	18.8
Common Stock	77.0	55.3
	100%	100%

</TABLE>

Chemical Bank, N.A., New York, New York, has been selected to act as exchange agent to facilitate the exchange of certificates representing Common Stock for certificates representing $2.16 Preferred Stock after the Reclassification Amendment becomes effective. One year after such time, the duties of such exchange agent will terminate and thereafter, subject to applicable escheat laws, the Company or its agent will be responsible for the exchange of certificates and the payment of any dividends and distributions on such shares of Common Stock.

Pursuant to the Reclassification, each share of $2.16 Preferred Stock will be reclassified into 4.9 shares of Common Stock. In addition, the Company will issue .1 share of Common Stock for each share of $2.16 Preferred Stock on behalf of the holders of $2.16 Preferred Stock to pay certain legal fees and expenses, the settlement of certain litigation. See 'The Recapitalization -- Croyden Associates' Litigation.' Promptly after the Reclassification

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Amendment becomes effective, former holders of $2.16 Preferred Stock entitled to receive certificates representing shares of Common Stock into which such $2.16 Preferred Stock was reclassified will be sent detailed instructions concerning the procedures to be followed for the surrender to the exchange agent of certificates formerly

representing $2.16 Preferred Stock. Until such surrender, certificates formerly representing $2.16 Preferred Stock will be deemed to represent the number of shares of Common Stock into which such $2.16 Preferred Stock was reclassified, except that the holders of such certificates formerly representing $2.16 Preferred Stock will not be entitled to receive dividends or distributions from the Company until such certificates are so surrendered.

ELIMINATION OF STAGGERED TERMS OF DIRECTORS

The Board of Directors has unanimously authorized an amendment to the Company's Certificate of Incorporation pursuant to which Article Fifth thereof would be amended to remove the provisions relating to the division of the Board of Directors into three classes. Such Charter Amendment is being proposed pursuant to the requirements of the Amended MetLife Memorandum. Each incumbent director whose term is scheduled to extend beyond the 1994 annual meeting of stockholders has agreed to resign upon adoption of such amendment. Such directors will then be reappointed by the remaining directors for a one year term. As a result, the term of all directors would thereafter extend only until the next annual meeting of stockholders or until their respective successors are duly elected and qualified. The Charter Amendment regarding the elimination of staggered terms of directors will facilitate the election of a majority of the Board of Directors by the holders of a majority of the capital stock of the Company and enable the stockholders to remove directors without cause. Under the Delaware Law, directors elected to a staggered term may be removed only for cause.

The Company's Certificate of Incorporation currently provides that the Board of Directors shall be divided into three classes as nearly equal in number of directors as possible and that the terms of office of the directors in each class shall expire at different times in annual succession, such that one class of directors is elected each year, with each director serving a term of three years. The elimination of Article Fifth will remove such provisions. The Certificate of Incorporation also currently provides, and as proposed to be amended will provide, that the number of directors which shall constitute the whole Board of Directors shall be as specified pursuant to the By-Laws. Section 2.1 of the By-Laws provides that the number of directors may be fixed from time to time by resolution of the Board of Directors, but shall not be less than three. Such section will be amended, to provide substantially as follows: 'The number of directors which shall constitute the whole Board of Directors shall be equal to the number fixed from time to time by the Board of Directors, which number shall be not less than three. Directors who are elected at an annual meeting of stockholders, and directors elected in the interim to fill vacancies and newly created directorships shall hold office until the next annual meeting of stockholders or until their successors are elected and qualified or until their earlier resignation or removal. A director need not be a stockholder.' Currently, the number of directors is fixed at 13. However, in connection with the Recapitalization, the number of directors will be increased to 16. See 'The Recapitalization -- MetLife Louisiana Conditions.'

The Board of Directors has proposed the amendment to the Company's Certificate of Incorporation to remove the provisions relating to the division of the Board of Directors into three classes because MetLife Louisiana conditioned its willingness to make economic and structural concessions and to support the Reclassification upon such an amendment. Because the amendment makes it less time-consuming to change the composition of the Board of Directors, major stockholders, including MetLife Louisiana, will be able to more quickly gain control of the Board of Directors under certain circumstances. The decrease in difficulty in changing the composition of the Board of Directors will reduce the difficulty of effecting certain transactions, whether or not beneficial to the Company's stockholders, that may result in a change of control of the Company.

ESTABLISHMENT OF AMENDMENT APPROVAL REQUIREMENT

The Board of Directors has unanimously authorized an amendment to the Company's Certificate of Incorporation pursuant to which Article Seventh thereof would be added to provide that, in the absence of the approval of 66 2/3% of the disinterested directors, the affirmative vote or consent of the holders of not less than 80% of the outstanding shares of capital stock of the Company entitled to vote

in elections of directors, voting together as a single class, shall be required to amend, in a manner adverse to the Company, the Amended MetLife Memorandum or an agreement to be entered into between the Company and MetLife Louisiana which will contain the Company's MetLife Option.

After the Recapitalization, absent adoption of proposed new Article Seventh, an amendment to the Amended MetLife Memorandum or an agreement to be entered into between the Company and MetLife Louisiana which will contain the Company's MetLife Option, would require only the approval of the Board of Directors. However, new Article Seventh provides the Company with additional protection by requiring, in the absence of approval of 66 2/3% of the

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disinterested directors, the affirmative vote of the holders of not less than 80% of the outstanding shares of capital stock of the Company entitled to vote in elections of directors, voting together as a single class, to amend, in a manner adverse to the Company, Amended MetLife Memorandum or an agreement to be entered into between the Company and MetLife Louisiana which will contain the Company's MetLife Option. The Board of Directors believes this protection is appropriate because if the Reclassification is consummated, four of the 16 directors will be current or former directors or officers of MetLife, and one additional director will have been proposed for election by MetLife Louisiana. The establishment of the amendment approval requirement is intended to prevent MetLife Louisiana or other major stockholders from using their influence on the Board of Directors and the ownership of the Company's capital stock to amend, in a manner adverse to the Company, the Amended MetLife Memorandum or an agreement to be entered into between the Company and MetLife Louisiana which will contain the Company's MetLife Option. New Article Seventh provides the Company and its stockholders with additional protection in this regard. MetLife Louisiana has indicated to the Company that it supports adoption of new Article Seventh.

CONDITIONS TO EFFECTIVENESS

Proposal No. 1 requires the approval of the holders of a majority of the outstanding shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class, and the approval of the holders of two-thirds of the outstanding shares of $2.16 Preferred Stock, voting as a separate class.

The approval by MetLife Louisiana of Proposal No. 1 is conditioned on, among other matters, effectiveness of Proposal No. 2, consummation of the Exchange Offer and its satisfaction with the membership of the Board of Directors upon effectiveness of the Reclassification. To satisfy the requirements of MetLife Louisiana with respect to the membership of the Board of Directors, the current directors, as a condition to consummation of the Reclassification, intend, upon effectiveness of the Reclassification, to increase the size of the Board of Directors from 13 to 16 directors and to elect three new directors proposed by MetLife Louisiana to fill the vacancies created thereby. MetLife Louisiana has recommended three persons to fill such vacancies to the Nominating Committee of the Board of Directors, and the Nominating Committee and the Board of Directors have approved such recommendations. For information concerning such persons, see 'The Recapitalization -- MetLife Louisiana Conditions.' In addition, MetLife Louisiana has required, as a condition to its support of Proposal No. 1, an amendment to the By-Laws to provide that in the event a majority of the 16-member Board of Directors cannot be obtained on a consistent basis, any eight directors may call a special meeting of stockholders to elect one additional director.See 'The Recapitalization -- MetLife Louisiana Conditions.'

BOARD RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE HOLDERS OF COMMON STOCK, $2.16 PREFERRED STOCK AND $2.20 PREFERRED STOCK VOTE IN FAVOR OF PROPOSAL NO. 1.

At December 15, 1993, MetLife Louisiana held 2,184,085 shares of Common Stock and all of the outstanding shares of $2.20 Preferred Stock. As a result of a potential conflict of interest of certain board members due to their affiliation with MetLife Louisiana, the Board of Directors appointed the

Special Committee, comprised of Michael D. Burke, Robert J. Caverly, Steven H. Grapstein, John J. McKetta, Jr. and Charles Wohlstetter, to consider the fairness of the Reclassification to stockholders of the Company (other than to MetLife Louisiana) and to obtain a fairness opinion from a firm to be selected by the Special Committee. The foregoing recommendation of the Board of Directors is based upon the recommendation of the Special Committee and the Jefferies fairness opinion.

PROPOSAL NO. 2

GENERAL

The Board of Directors has unanimously authorized amendments to the Company's Certificate of Incorporation pursuant to which Articles Seventh and Eighth thereof, which require the affirmative vote of not less than 80% of the outstanding shares of capital stock of the Company entitled to vote in elections of directors, voting together as a single class, to approve certain transactions by the Company, would be eliminated upon the occurrence of certain conditions in the future. The elimination of Articles Seventh and Eighth will enable the Company to engage in certain transactions with the approval of the Board of Directors and, under limited circumstances, subject to the requirements of the Delaware Law, the holders of a majority of the Company's capital stock. A copy of the Company's Restated Certificate of Incorporation, which reflects such Charter Amendment is set forth in full in Appendix C to this Proxy Statement -- Prospectus, and the following description of such Charter Amendment summarizes the material provisions of such Charter Amendment but does not purport to be complete and is qualified in its entirety by reference to such Appendix. A copy of Articles Seventh and Eighth of the Company's current Certificate of Incorporation are set forth in full at Appendix D to this Proxy Statement -- Prospectus.

The amendment to Articles Seventh and Eighth will become effective in the event the Company's MetLife Option has not been exercised in full on the third anniversary of the date of the Reclassification, on which date the Company's

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MetLife Option will expire, or in the event the Company's MetLife Option terminates on an earlier date unexercised. The Company's MetLife Option will terminate on an earlier date if the Company does not satisfy minimum partial exercises of the Company's MetLife Option prior to January 1, 1995 and January 1, 1996 and the Company fails to pay all regular quarterly dividends with respect to the $2.20 Preferred Stock which become due and payable after the Reclassification in cash on the regular payment dates. See 'The Recapitalization -- Background -- the Recapitalization' for more information regarding the Company's MetLife Option.

The Company's Certificate of Incorporation currently provides that the affirmative vote of the holders of at least 80% of the outstanding shares of capital stock of the Company entitled to vote in the elections of directors, voting together as a single class, is required: (i) to adopt any agreement for the merger or consolidation of the Company with or into any other person, (ii) to authorize any sale, lease, transfer, exchange, mortgage or pledge or other disposition to any other person of all or substantially all of the assets of the Company, or any part of such assets having a then fair market value equal to or greater than 50% of the then fair market value of the total assets of the Company; or (iii) to authorize the issuance or transfer by the Company of any voting securities of the Company in exchange or payment for the securities or assets of any other person, if, in any such case, such other person is, or at any time within the preceding twelve months has been, the beneficial owner of 10% or more of the outstanding shares of stock of the Company entitled to vote in the elections of directors. The above provisions are not applicable to any transaction if the Board of Directors by resolution shall have approved a memorandum of understanding with such other person setting forth the principal terms of such transaction and such transaction is substantially consistent therewith, provided that a majority of those members of the Board of Directors voting in favor of such resolution were duly elected and acting members of the Board of Directors prior to the time such other person became the beneficial owner of 10% or more of the outstanding shares of stock of the Company entitled to vote in the elections of directors. Such super-majority voting provision may discourage or

render more difficult certain transactions, whether or not beneficial to the Company's stockholders, and could discourage certain types of tactics that involve an actual or threatened change of control of the Company. Articles Seventh and Eighth were adopted prior to the promulgation of Section 203 of the Delaware Law, which provides similar protection to stockholders under similar circumstances. Section 203, however, allows greater flexibility to a corporation by providing additional exceptions for certain transactions and by increasing the beneficial ownership requirement from 10% to 15%. The Company proposes to remove the charter provisions because MetLife Louisiana has conditioned its approval of the Reclassification on the effectiveness of Proposal No. 2, because the Company believes such provisions are unduly broad and because the stockholders of the Company will continue to have the protection of Section 203. Section 203 of the Delaware Law is not pertinent to transactions with interested stockholders who have been such for a period of more than three years or who were interested stockholders at the introduction of Section 203 into the Delaware General Assembly on December 23, 1987. Section 203 is not applicable to MetLife Louisiana since MetLife Louisiana has been an interested stockholder for more than three years and was an interested stockholder on December 23, 1987.

MetLife Louisiana has conditioned its approval of the Reclassification on the effectiveness of Proposal No. 2 because the amendment will eliminate the 80% vote requirement for the Company to engage in any of the following transactions with MetLife Louisiana, or any other owner of 10% or more of the outstanding shares of the Company's capital stock entitled to vote in the election of directors: a merger, a disposition of all or substantially all the Company's assets, or a transaction which results in the issuance or transfer of its voting securities in exchange for the securities or assets of MetLife Louisiana or such other owner. The elimination of the 80% vote requirement will make it less difficult for MetLife Louisiana or such other owner to use its influence on the Board of Directors and its ownership of the Company's capital stock to cause the Company to engage in the transactions discussed above. Following the elimination of the 80% vote requirement, the Company will be able to engage in the above transactions with the approval of the Board of Directors and, under limited circumstances, subject to the requirements of Delaware Law, the holders of a majority of the Company's capital stock. As discussed above, Section 203 of the Delaware Law is not applicable to MetLife Louisiana since it has been an interested stockholder for more than three years and was an interested stockholder on December 23, 1987.

Pursuant to Article Eighth of the Certificate of Incorporation, the affirmative vote or consent of the holders of 80% of the outstanding shares of capital stock of the Company entitled to vote in the elections of directors, voting together as a single class, is required to repeal or amend (i) Section 2.1 of the By-Laws and (ii) provisions in the Company's Certificate of Incorporation relating to (A) business combinations, (B) the composition of the Board of Directors as a classified board, (C) the ability of the Board of Directors to repeal or amend the By-Laws and (D) the provisions requiring the approval of 80% of the outstanding shares of stock of the Company entitled to vote in the elections of directors in respect of the foregoing matters, unless such amendment is unanimously approved by the Board of Directors, in which event the vote of the stockholders holding a majority of the outstanding shares of

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capital stock of the Company entitled to vote in the election of directors, voting together as a single class, is required to repeal or modify any or all of such provisions. In the event the Company's MetLife Option is not excercised in full, such provisions of Article Eighth are also proposed to be removed pursuant to the Charter Amendments in light of the removal of the other provisions discussed above.

CONDITIONS TO EFFECTIVENESS

Proposal No. 2 must be approved by the affirmative vote of the holders of 80% of the shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class. Effectiveness of Proposal No. 2 is conditioned upon effectiveness of Proposal No. 1. See 'General Information Concerning Proxies.'

BOARD RECOMMENDATION

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE HOLDERS OF COMMON STOCK, $2.16 PREFERRED STOCK AND $2.20 PREFERRED STOCK VOTE IN FAVOR OF PROPOSAL NO. 2.

The foregoing recommendation of the Board of Directors is based upon the recommendation of the Special Committee.

THE EXCHANGE OFFER

EXCHANGE TERMS

The Company hereby offers to exchange, upon the terms and subject to the conditions set forth in this Proxy Statement -- Prospectus and the Consent and Letter of Transmittal, $1,000 principal amount of Exchange Notes for each $1,000 principal amount of Subordinated Debentures, up to the Maximum Amount. Upon the terms and subject to the conditions set forth in this Proxy Statement -- Prospectus and the Consent and Letter of Transmittal, the Company will accept for exchange Subordinated Debentures that are properly tendered in accordance with the terms of the Exchange Offer on or prior to the Expiration Date and not withdrawn, and the Exchange Agent will deliver Exchange Notes, promptly after the later of (i) the Expiration Date or (ii) the satisfaction or waiver of the conditions specified in the Exchange Offer. The Company expressly reserves, in its sole discretion, the right to delay acceptance of any of the Subordinated Debentures or terminate the Exchange Offer and not accept for exchange any Subordinated Debentures not theretofore accepted. See '-- Acceptance of Subordinated Debentures for Exchange; Delivery of Exchange Notes.'

In the event that the aggregate principal amount of Subordinated Debentures validly tendered and not properly withdrawn is in excess of the Maximum Amount, the principal amount of Subordinated Debentures accepted for exchange and payment shall be prorated and rounded to the next higher multiple of $1,000; provided, however, that the Company will first accept for exchange and payment on a pro rata basis the principal amount of Subordinated Debentures validly tendered and not properly withdrawn by Small Lot Holders (as hereinafter defined), until all tenders made by such holders have been accepted, and then, to the extent that the Maximum Amount has not already been accepted, accept for exchange and payment on a pro rata basis the principal amount of Subordinated Debentures validly tendered and not properly withdrawn by all other Debentureholders. See '-- Proration' and '-- Proration Priority for Tenders by Small Lot Holders.'

As of December 15, 1993, approximately $108.8 million aggregate principal amount of Subordinated Debentures was outstanding and there were approximately 247 registered holders of Subordinated Debentures, including Depository Trust Company. It is a condition of the Exchange Offer that the holders of at least $22.5 million of the outstanding principal amount of Subordinated Debentures consent to the Indenture Amendments and such consents have not been revoked. THE VALID TENDER OF SUBORDINATED DEBENTURES BY A DEBENTUREHOLDER PURSUANT TO THE EXCHANGE OFFER WILL INCLUDE THE CONSENT OF SUCH DEBENTUREHOLDER TO THE INDENTURE AMENDMENTS WITH RESPECT TO SUCH TENDERED SUBORDINATED DEBENTURES. Consents included with tenders of Subordinated Debentures will only be utilized if the tenders are accepted. The consents of holders of at least a majority in outstanding principal amount of Subordinated Debentures are necessary to effect the Indenture Amendments. See '-- Conditions of the Exchange Offer' and 'Proposed Amendments to Existing Indenture.'

The Company expressly reserves the right, in its sole discretion and subject to applicable law, (i) to delay acceptance for exchange or, regardless of whether such Subordinated Debentures were theretofore accepted for exchange, to delay exchange of any Subordinated Debentures to be exchanged by the Company pursuant to the Exchange Offer, or to terminate the Exchange Offer and not accept for exchange any Subordinated Debentures not theretofore accepted for exchange, by giving oral or written notice of such delay or termination to the Exchange Agent; (ii) at any time or

from time to time, to amend the Exchange Offer in any respect; (iii) to waive any condition to the Exchange Offer and accept all Subordinated Debentures previously tendered pursuant thereto; or (iv) to modify the form or amount of the consideration to be paid pursuant to the Exchange Offer. The reservation by the Company of the right to delay acceptance for exchange of or payment for Subordinated Debentures is subject to the provisions of Rule 14e-1 under the Exchange Act, which requires that the Company pay the consideration offered or return the Subordinated Debentures deposited by or on behalf of Debentureholders promptly after the termination of the Exchange Offer.

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Tendering Debentureholders will not be obligated to pay brokerage commissions or fees or to pay transfer taxes with respect to their exchange of Subordinated Debentures unless the box entitled 'Special Issuance Instructions' in the Consent and Letter of Transmittal has been completed, as described in the Instructions to the Consent and Letter of Transmittal, or unless Exchange Notes are to be issued to any person other than the holder of Subordinated Debentures accepted for exchange. The Company will pay all other charges and expenses in connection with the Exchange Offer. See '-- Expenses' below.

EXPIRATION DATE; EXTENSION; AMENDMENT; TERMINATION

The Exchange Offer will expire at 5:00 p.m., New York City time, on February 8, 1994, unless extended by the Company. The Company reserves the right to extend the Exchange Offer for such period or periods as it may determine in its sole discretion from time to time by giving written or oral notice to the Exchange Agent and by making a public announcement by press release to the Dow Jones News Service prior to 9:00 a.m., New York City time, on the next business day following the previously scheduled Expiration Date, as defined below. During any such extension, all Subordinated Debentures previously tendered and not accepted for exchange will remain subject to the Exchange Offer and may, subject to the terms and conditions thereof, be accepted for exchange by the Company, except to the extent such Subordinated Debentures may be withdrawn. See '-- Revocation and Withdrawal.' The term 'Expiration Date' means 5:00 p.m., New York City time, on February 8, 1994, unless and until such time as the Company shall have extended the period of time for which the Exchange Offer is open, in which event the term 'Expiration Date' shall mean the latest time and date to which the Exchange Offer is so extended by the Company.

The Commission has taken the position that the minimum period during which an offer must remain open following material changes in the terms of or information concerning such offer, other than a change in the price offered or a change in percentage of securities sought, will depend upon the facts and circumstances, including the relative materiality of the terms or information changed. With respect to a change in price or a change in percentage of securities sought, a minimum period of 10 business days is required by the Exchange Act to allow for adequate dissemination. Except as required by the Securities Act, the Exchange Act and the rules and regulations thereunder, the Company does not intend to give written notification of any such changes to Debentureholders.

The Company expressly reserves the right, in its sole discretion and subject to applicable law, (i) to terminate the Exchange Offer and not to accept for exchange any Subordinated Debentures, if any of the conditions specified under 'Conditions of the Exchange Offer' below shall not have been satisfied, or (ii) to amend the terms of the Exchange Offer in any respect. If the Company exercises its right to terminate or amend the Exchange Offer, the Company shall give written or oral notice of such termination or amendment to the Exchange Agent and make a public announcement thereof. Without limiting the manner in which the Company may choose to make public announcement of termination or amendment, the Company shall have no obligation to publish, advertise or otherwise communicate any such public announcement, other than by making a press release to the Dow Jones News Service.

PROCEDURES FOR TENDERING

For a Debentureholder to validly tender Subordinated Debentures pursuant to the Exchange Offer, the Subordinated Debentures, together with a properly completed and duly executed Consent

and Letter of Transmittal or facsimile thereof, with any signature guarantees and any other documents required by the Instructions to the Consent and Letter of Transmittal, must be received by the Exchange Agent at its address set forth on the back cover of this Proxy Statement -- Prospectus on or prior to the Expiration Date, or the tendering Debentureholder must comply with the guaranteed delivery procedure described below. SUBMISSION OF A DULY EXECUTED CONSENT AND LETTER OF TRANSMITTAL BY A DEBENTUREHOLDER WILL CONSTITUTE A CONSENT TO THE INDENTURE AMENDMENTS WITH RESPECT TO THE TENDERED SUBORDINATED DEBENTURES. Consents included with tenders of Subordinated Debentures will only be utilized if the tenders are accepted. No Consent and Letter of Transmittal or Subordinated Debentures should be sent to the Company or the Debenture Trustee. SUBORDINATED DEBENTURES TOGETHER WITH CONSENTS AND LETTERS OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS SHOULD BE SENT TO THE EXCHANGE AGENT ONLY.

The authenticity of the signature on any Consent and Letter of Transmittal must be guaranteed by a commercial bank or trust company having an office or branch in the United States or by a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. (each of which is an 'Eligible Institution'), unless (a) the applicable Consent and Letter of Transmittal is signed by the registered holder of the Subordinated Debentures tendered therewith, and Exchange Notes are to be issued directly to such holder and neither the 'Special Issuance Instructions' box nor the 'Special Delivery Instructions' box on the applicable Consent and Letter of Transmittal has been completed, (b) such Subordinated Debentures are being tendered for the account of an Eligible Institution, or (c) a consent in respect of such Subordinated Debentures is being given by the registered holder thereof with respect to the Indenture Amendments but such Subordinated Debentures are not being tendered. If Subordinated Debentures are registered in the name of a person other than the signer of a Consent and Letter of Transmittal, the Subordinated Debentures must be endorsed or accompanied by bond powers signed by the registered holder, with the signature on the

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endorsement or bond powers guaranteed in each case by an Eligible Institution.

The method of delivery of Subordinated Debentures and other documents to the Exchange Agent is at the election and risk of the tendering Debentureholder. If delivery is by mail, it is recommended that the Debentureholder use properly insured, registered mail with return receipt requested, and that the mailing be made sufficiently in advance of the Expiration Date to permit delivery to the Exchange Agent on or before the Expiration Date.

If any Subordinated Debentures are delivered to the Exchange Agent by or on behalf of any Debentureholder in an amount in excess of the amount tendered by the accompanying Consent and Letter of Transmittal, the Exchange Agent will cause the Company to split such Subordinated Debentures into two Subordinated Debentures (but only in denominations authorized under the Existing Indenture), the aggregate principal amount of which will equal the principal amount of such delivered Subordinated Debentures. The Exchange Agent will then return to the tendering Debentureholder, unless otherwise requested by such Debentureholder under 'Special Delivery Instructions' in the Consent and Letter of Transmittal, as promptly as practicable following the expiration, withdrawal or termination of the Exchange Offer, a new Subordinated Debenture in the principal amount of the portion of such delivered Subordinated Debenture not tendered.

BOOK-ENTRY TRANSFER FACILITIES

The Exchange Agent will seek to establish an account with respect to the Subordinated Debentures at each of The Depository Trust Company, the Midwest Securities Trust Company and the Philadelphia Depository Trust Company (each a 'Book-Entry Transfer Facility') promptly after the date of this Proxy Statement - -- Prospectus. A financial institution that is a participant in a Book-Entry Transfer Facility's system may make book-entry delivery of Subordinated Debentures by causing such Book-Entry Transfer Facility to transfer such Subordinated Debentures into the

Exchange Agent's account at such Book-Entry Transfer Facility in accordance with the Book-Entry Transfer Facility's procedure for such transfer. Although delivery of such Subordinated Debentures may be effected through book-entry delivery at a Book-Entry Transfer Facility, in any case either (i) the Consent and Letter of Transmittal (or facsimile thereof), with any required signature guarantees and all other required documents, must be transmitted to and received by the Exchange Agent at its address set forth on the back cover of this Proxy Statement -- Prospectus on or before the Expiration Date, or (ii) the guaranteed delivery procedure set forth below must be followed. DELIVERY OF DOCUMENTS TO A BOOK-ENTRY TRANSFER FACILITY IN ACCORDANCE WITH SUCH BOOK-ENTRY TRANSFER FACILITY'S PROCEDURE DOES NOT CONSTITUTE DELIVERY TO THE EXCHANGE AGENT.

GUARANTEED DELIVERY

If a Debentureholder desires to tender Subordinated Debentures pursuant to the Exchange Offer and such Subordinated Debentures are not lost but are not immediately available or time will not permit all required documents to reach the Exchange Agent prior to the Expiration Date, a tender may be effected if all of the following are satisfied:

(a) such tender is made by or through an Eligible Institution;

(b) prior to the Expiration Date, the Exchange Agent receives from such Eligible Institution a properly completed and duly executed Notice of Guaranteed Delivery (by telegram, facsimile transmission, mail or hand delivery), substantially in the form provided by the Company, signed and dated, setting forth the name(s) and address(es) of the Debentureholder(s) and the principal amount of Subordinated Debentures tendered, stating that the tender is being made thereby and guaranteeing that, within eight New York Stock Exchange trading days after the date of execution of such Notice of Guaranteed Delivery, the duly executed Consent and Letter of Transmittal (or facsimile thereof), together with the Subordinated Debentures and all other documents required by the Consent and Letter of Transmittal, will be deposited by the Eligible Institution with the Exchange Agent;

(c) prior to the Expiration Date, the Debentureholder consents to the Indenture Amendments by completing and executing the form of consent included in such Notice of Guaranteed Delivery; and

(d) all tendered Subordinated Debentures in proper form for transfer, together with a properly completed and duly executed Consent and Letter of Transmittal (or facsimile thereof) and any signature guarantees, and all other documents required by such Consent and Letter of Transmittal, are received by the Exchange Agent within eight New York Stock Exchange trading days after the Expiration Date.

Notwithstanding any other provision of the Exchange Offer, issuance of Exchange Notes in exchange for Subordinated Debentures tendered and accepted for exchange pursuant to the Exchange Offer will occur, in all cases, only after timely receipt by the Exchange Agent of the tendered Subordinated Debentures, together with a properly completed and duly executed Consent and Letter of Transmittal and all other required documents.

If a Debentureholder desires to tender Subordinated Debentures pursuant to the Exchange Offer but is unable to locate the Subordinated Debentures to be tendered, such Debentureholder should write to or telephone the Debenture Trustee at the address or telephone number listed below, about procedures for obtaining replacement certificates for Subordinated Debentures or arranging for indemnification or about any other matter which requires handling by the Debenture Trustee:

NBD Bank, N.A., formerly National Bank of Detroit
611 Woodward Avenue

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Detroit, Michigan 48226
Attention: Corporate Trust Administration
Telephone: (313) 225-1000

The interpretation of the terms and conditions of the Exchange Offer (including the Consent and Letter of Transmittal and the instructions thereto) and all questions as to the form of all documents and validity (including time of receipt) and acceptance of all tenders will be determined by the Company in its sole discretion, which determination shall be final and binding. The Company reserves the absolute right, in its sole discretion, to reject any or all tenders that are not in proper form or the acceptance of which would, in the Company's opinion, be unlawful. The Company also reserves the right to waive any defects, irregularities or conditions of tender as to particular Subordinated Debentures. The Company's interpretations of the terms and conditions of the Exchange Offer (including the instructions in the Consent and Letter of Transmittal) will be final and binding. Any defect or irregularity in connection with tenders must be cured within such time as the Company determines, unless waived by the Company. No alternative, conditional or contingent tenders will be accepted. Tenders of Subordinated Debentures will not be deemed to have been made until all defects and irregularities have been waived by the Company or cured. None of the Company, the Exchange Agent, the Information Agent or any other person will be under any duty to give notice of any defects or irregularities in tenders, or will incur any liability for failure to give any such notice.

The tender of Subordinated Debentures pursuant to any of the procedures described above and acceptance thereof by the Company will constitute an agreement between the tendering Debentureholder and the Company upon the terms and conditions of the Exchange Offer.

If the Consent and Letter of Transmittal is signed by a person or persons other than the registered holder or holders of Subordinated Debentures, such Subordinated Debentures must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders that appear on such Subordinated Debentures. If the Consent and Letter of Transmittal or any Subordinated Debentures or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and, unless waived by the Company, proper evidence satisfactory to the Company of their authority to so act must be submitted to the Exchange Agent.

BACKUP WITHHOLDING

Federal income tax law requires that a Debentureholder whose tendered Subordinated Debentures are accepted for exchange must provide the Exchange Agent (as payor) with such Debentureholder's correct taxpayer identification number, which, in the case of a Debentureholder who is an individual, is such Debentureholder's social security number, or otherwise establish a basis for exemption from backup withholding. If the Exchange Agent is not provided with the correct taxpayer identification number or adequate basis for exemption, the Debentureholder will be subject to a $50 penalty imposed by the Internal Revenue Service (the 'IRS') and backup withholding at a rate of 31%. If withholding results in an overpayment of taxes, a refund may be obtained.

To prevent backup withholding, each tendering Debentureholder must complete and sign the substitute Form W-9 included in the Consent and Letter of Transmittal and either (a) provide his correct taxpayer identification number and certify under penalties of perjury that the taxpayer identification number provided is correct (or that such Debentureholder is awaiting a taxpayer identification number), and that (i) the Debentureholder has not been notified by the IRS that the Debentureholder is subject to backup withholding as a result of failure to report all interest or dividends, or (ii) the IRS has notified the Debentureholder that the Debentureholder is no longer subject to backup withholding; or (b) provide an adequate basis for an exemption.

REVOCATION AND WITHDRAWAL

Consents

Any Debentureholder who has consented (or whose predecessor in interest with respect to Subordinated Debentures has consented) to the adoption of the Indenture Amendments may revoke

such consent by delivering written notice of such revocation to the Exchange Agent or the Debenture Trustee at any time prior to the Expiration Date. However, if a Debentureholder who has tendered Subordinated Debentures subsequently effects a valid revocation of consent to the Indenture Amendments, such action will render the prior tender of Subordinated Debentures defective, and the Company will have the right, which it may waive, to reject the prior tender as invalid and ineffective. To be effective, any such notice of revocation of consents must indicate the certificate number or numbers of Subordinated Debentures to which it relates and the aggregate principal amount represented by such Subordinated Debentures and (a) be signed by the Debentureholder in the same manner as the original Consent and Letter of Transmittal, or (b) be accompanied by evidence satisfactory to the Company that the Debentureholder revoking consent has succeeded to beneficial ownership of such Subordinated Debentures. See 'Proposed Amendments to Existing Indenture -- Solicitation of Consents; Indenture Amendments.' None of the Company, the

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Exchange Agent, the Information Agent or any other person will be under any duty to give notice to any Debentureholder of any defect or irregularity in any notice of revocation of consent or will incur any liability for failure to give any such notification.

Tenders

Except as otherwise provided below, tenders of Subordinated Debentures pursuant to the Exchange Offer are irrevocable and no withdrawal rights are being afforded to Debentureholders.

For a withdrawal to be effective, a written, telegraphic, or facsimile transmission notice of withdrawal must be timely received by the Exchange Agent before acceptance by the Company of the Subordinated Debentures relating to such withdrawal. Any such notice of withdrawal must specify the name of the person who tendered the Subordinated Debentures, the principal amount of Subordinated Debentures to be withdrawn and (where certificates for Subordinated Debentures have been tendered) the names in which Subordinated Debentures in registered form are registered, if different from that of the person tendering such Subordinated Debentures. If Subordinated Debentures have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of such Subordinated Debentures, the serial numbers shown on the particular Subordinated Debentures to be withdrawn and a notice of withdrawal signed by the Debentureholder in the same manner as the original Consent and Letter of Transmittal with the signature(s) guaranteed by the Eligible Institution (except in the case of Subordinated Debentures tendered by an Eligible Institution) must be submitted prior to the physical release of the Subordinated Debentures to be withdrawn. Withdrawals of tenders of Subordinated Debentures may not be rescinded and any Subordinated Debentures withdrawn will thereafter be deemed not validly tendered for purposes of the Exchange Offer. However, tendered Subordinated Debentures withdrawn pursuant to the withdrawal rights described above may be retendered at any subsequent time prior to the Expiration Date by following the procedures described in 'Procedures for Tendering' above. Compliance with the procedures for withdrawal of Subordinated Debentures will revoke a consent to adoption of the Indenture Amendments.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal and revocations will be determined by the Company, in its sole discretion, which determination will be final and binding. None of the Company, the Exchange Agent, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or revocation or incur any liability for failure to give such notification.

ACCEPTANCE OF SUBORDINATED DEBENTURES FOR EXCHANGE; DELIVERY OF EXCHANGE NOTES

Upon the terms and subject to the conditions of the Exchange Offer, the Company will accept for exchange, and issue Exchange Notes in exchange for, Subordinated Debentures validly tendered and not withdrawn promptly after the later of (i) the Expiration Date, or (ii) the satisfaction or waiver of the conditions specified in the Exchange Offer. The Company will not accept Subordinated Debentures for exchange prior to the Expiration Date. The Company expressly reserves the right, in its sole discretion, to delay the issuance of Exchange Notes in exchange for Subordinated Debentures

accepted for exchange (subject to Rule 14e-1 under the Exchange Act, which requires that the Company pay the consideration offered or return the Subordinated Debentures deposited by or on behalf of the Debentureholders promptly after the termination or withdrawal of the Exchange Offer), if any of the conditions of the Exchange Offer shall not have been satisfied or in order to comply in whole or in part with any applicable law. The Company expressly reserves the right, in its sole discretion, to accept for exchange, and issue Exchange Notes in exchange for, Subordinated Debentures validly tendered and not withdrawn promptly after the satisfaction or waiver of such conditions. In all cases, Exchange Notes will be delivered in exchange for Subordinated Debentures accepted for exchange pursuant to the Exchange Offer only after timely receipt by the Exchange Agent of Subordinated Debentures, a properly completed and duly executed Consent and Letter of Transmittal (or facsimile thereof) and all other documents required by the Consent and Letter of Transmittal.

Tenders of Subordinated Debentures with respect to the Exchange Offer will be accepted only in principal amounts equal to $1,000 or integral multiples thereof. No fractional Exchange Notes will be issued in the Exchange Offer. If less than the entire principal amount of any Subordinated Debentures evidenced by a submitted certificate(s) is tendered, the tendering Debentureholder should fill in the principal amount tendered in the appropriate box on the Consent and Letter of Transmittal with respect to the deposit being made, but only to the extent of the principal amount of Subordinated Debentures being tendered. The entire principal amount represented by the certificates for all Subordinated Debentures deposited with the Exchange Agent will be deemed to have been tendered unless otherwise indicated.

For purposes of the Exchange Offer, the Company shall be deemed to have accepted for exchange Subordinated Debentures tendered to the Company pursuant thereto when, as and if the Company gives oral or written notice to the Exchange Agent of its acceptance for exchange of such Subordinated Debentures. Upon the terms and subject to the conditions of the Exchange Offer, delivery of Exchange Notes for Subordinated Debentures accepted for exchange pursuant to the Exchange Offer will be made by the Exchange Agent as soon as practicable after issuance and receipt of Exchange Notes by the Exchange Agent. The Exchange Agent will act as agent for the tendering Debentureholders for the purpose of receiving

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Exchange Notes and transmitting such Exchange Notes to such holders.

If, for any reason, acceptance for exchange of, or delivery of Exchange Notes in exchange for, Subordinated Debentures pursuant to the Exchange Offer is delayed or the Company is unable to accept for exchange, or issue or deliver Exchange Notes in exchange for, Subordinated Debentures or the Note Trustee (as hereinafter defined) or the transfer agent and registrar for the Exchange Notes is unable to countersign or deliver Exchange Notes, as the case may be, pursuant to the Exchange Offer, then, without prejudice to the rights of the Company under '-- Expiration Date; Extension; Amendment; Termination' and '-- Revocation and Withdrawal' above and '-- Conditions of the Exchange Offer' below, and subject further to Rule 14e-1 under the Exchange Act, which requires that the Company pay the consideration offered or return the Subordinated Debentures tendered promptly after the termination or withdrawal of the Exchange Offer, the Exchange Agent may, nevertheless, on behalf of the Company, retain tendered Subordinated Debentures and such Subordinated Debentures may not be withdrawn except to the extent tendering holders are entitled to withdrawal rights as described in '-- Revocation and Withdrawal' above.

In the event of an increase in the consideration offered to Debentureholders in the Exchange Offer, Debentureholders whose Subordinated Debentures have previously been accepted for exchange by the Company will receive such increase in consideration.

INTEREST ON SUBORDINATED DEBENTURES AND EXCHANGE NOTES

Interest on the Exchange Notes will commence to accrue at the annual rate of 13% as of the date on which the Exchange Notes are issued in exchange for Subordinated Debentures. Interest on Subordinated Debentures accepted for exchange into Exchange Notes will accrue to, but not accrue

on, such date. Such accrued but unpaid interest on Subordinated Debentures will be paid in cash as soon as practicable after the Subordinated Debentures are accepted for exchange. Interest on the Exchange Notes will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 1994. See 'Description of Exchange Notes.'

PRORATION

If an aggregate principal amount of Subordinated Debentures greater than the Maximum Amount is validly tendered and not properly withdrawn prior to the Expiration Date, the Company will, upon the terms and subject to the conditions of the Exchange Offer, accept for exchange and payment an aggregate principal amount of Subordinated Debentures so tendered and not properly withdrawn equal to the Maximum Amount, pro rata in the following order of priority: (i) first on a pro rata basis from the Small Lot Holders, until all Subordinated Debentures validly tendered and not properly withdrawn by such Small Lot Holders have been accepted and (ii) then on a pro rata basis from all other Debentureholders, in each case according to the principal amount of Subordinated Debentures validly tendered by each such Debentureholder and not properly withdrawn prior to the Expiration Date (calculated in all cases in units of $1,000 principal amount). If the aggregate principal amount of Subordinated Debentures validly tendered and not properly withdrawn prior to the Expiration Date is less than or equal to the Maximum Amount and equal to or greater than $22.5 million, the Company will, upon the terms and subject to the conditions of the Exchange Offer, accept for exchange and payment all Subordinated Debentures so tendered and not properly withdrawn.

Because of the difficulty of determining the aggregate principal amount of Subordinated Debentures validly tendered and not properly withdrawn, the Company may not be able to announce the final results of such proration until at least approximately seven New York Stock Exchange trading days after the Expiration Date. Preliminary results of proration will be announced by press release as promptly as practicable after the Expiration Date. Debentureholders may obtain such preliminary information from the Information Agent and may be able to obtain such information from their brokers. THE COMPANY WILL NOT PAY FOR ANY SUBORDINATED DEBENTURES ACCEPTED FOR EXCHANGE AND PAYMENT PURSUANT TO THE EXCHANGE OFFER, OR RETURN SUBORDINATED DEBENTURES DELIVERED TO THE EXCHANGE AGENT BUT NOT TENDERED, OR RETURN SUBORDINATED DEBENTURES TENDERED BUT NOT ACCEPTED FOR EXCHANGE AND PAYMENT BECAUSE OF PRORATION, UNTIL THE FINAL PRORATION FACTORS ARE KNOWN.

PRORATION PRIORITY FOR TENDERS BY SMALL LOT HOLDERS

Upon the terms and subject to the conditions of the Exchange Offer, the Company will give priority in accepting for exchange and payment tenders by Debentureholders who (i) beneficially owned (either directly or indirectly, through one or more accounts or certificates), as of the close of business on December 15, 1993 and continue to own beneficially as of the Expiration Date, $10,000 or less aggregate principal amount of Subordinated Debentures, (ii) validly tendered and did not properly withdraw prior to the Expiration Date all of such Subordinated Debentures and (iii) properly completed the box captioned 'Tenders by Small Lot Holders' on the Consent and Letter of Transmittal.

The priority accorded to the Small Lot Holders is not available to Debentureholders who beneficially owned, as of close of business on December 15, 1993 or the Expiration Date, Subordinated Debentures in an aggregate principal amount of more than $10,000, even if such Debentureholders had separate accounts or certificates of Subordinated Debentures in principal amounts of $10,000 or less.

IN ORDER TO BE TREATED AS A SMALL LOT HOLDER FOR PURPOSES OF THIS EXCHANGE OFFER, THE DEBENTUREHOLDER MUST TENDER THE ENTIRE PRINCIPAL OF ALL SUBORDINATED DEBENTURES BENEFICIALLY OWNED BY SUCH DEBENTUREHOLDER AND MUST SATISFY EACH OF

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THE OTHER REQUIREMENTS SET FORTH ABOVE. PARTIAL TENDERS WILL HAVE THE EFFECT OF DISQUALIFYING THE DEBENTUREHOLDER FROM THE PRORATION PRIORITY OTHERWISE ACCORDED TO

SMALL LOT HOLDERS AND SUCH PARTIAL TENDERS WILL THEREFORE BE TREATED AS ANY OTHER TENDER PURSUANT TO THE EXCHANGE OFFER.

CONDITIONS OF THE EXCHANGE OFFER

It is a condition of the Exchange Offer that at least $22.5 million of the outstanding principal amount of Subordinated Debentures be validly tendered and not withdrawn prior to the Expiration Date.

Notwithstanding any other provision of the Exchange Offer, the Company shall not be required to accept for exchange, or issue Exchange Notes in exchange for, Subordinated Debentures and may terminate, extend or amend the Exchange Offer as provided in '-- Expiration Date; Extension; Amendment; Termination' above, and may, subject to Rule 14e-1 under the Exchange Act, postpone the acceptance for exchange of, and issuance of Exchange Notes for, Subordinated Debentures tendered unless, prior to the time of acceptance for exchange of, or issuance of Exchange Notes in exchange for, Subordinated Debentures:

(a) there shall not have been instituted or threatened or be pending any action or proceeding before or by any court or governmental regulatory or administrative agency or instrumentality, or by any other person, in connection with the Exchange Offer, and there shall not have occurred any material adverse development with respect to any action or proceeding concerning the Company;

(b) there shall not have occurred any material change in the Company's assets, liabilities, operations or financial condition; and

(c) receipt of any necessary regulatory consents and approvals shall have been obtained.

The conditions stated in the immediately preceding paragraph and the conditions stated in the first paragraph of this section are for the sole benefit of the Company and may be waived by the Company, in whole or in part, at any time and from time to time in its sole discretion, except as otherwise required by law. The Board of Directors has not made a decision as to what circumstances would lead it to waive any such conditions, and any such waiver would depend on circumstances prevailing at the time of such waiver. Any determination by the Company concerning the events described in this paragraph shall be final and binding upon all persons.

In addition, the Company will not accept for exchange any Subordinated Debentures tendered, and no Exchange Notes will be issued in exchange for any Subordinated Debentures, at any time at which there shall be a stop order issued by the Commission which remains in effect with respect to the Registration Statement of which this Proxy Statement -- Prospectus forms a part.

EXCHANGE AGENT AND INFORMATION AGENT

Bankers Trust Company has been appointed Exchange Agent for the Exchange Offer. All deliveries and correspondence sent to the Exchange Agent should be directed to one of the addresses set forth on the back cover of this Proxy Statement -- Prospectus. Requests for additional copies of this Proxy Statement -- Prospectus and the Consent and Letter of Transmittal should be directed to Georgeson & Company, Inc., as Information Agent, at one of its addresses set forth on the back cover of this Proxy Statement -- Prospectus.

EXPENSES

The Company has agreed to pay the Exchange Agent and the Information Agent reasonable and customary fees for their services and to reimburse the Exchange Agent and the Information Agent for their reasonable out-of-pocket expenses in connection therewith. The Company has agreed to indemnify the Exchange Agent and the Information Agent for certain liabilities, including liabilities under the federal securities laws. In connection with the Exchange Offer, the Company has retained the services of Georgeson & Company, Inc. to assist in the solicitation of consents and to assist it in the

solicitation of proxies in connection with the Annual Meeting. See 'General Information Concerning Proxies.' The Company has agreed to pay Georgeson a fee of $40,000, plus $6.00 per call made by Georgeson to stockholders and Debentureholders. In addition, the Company has agreed to reimburse Georgeson for certain expenses and to indemnify Georgeson against certain liabilities. None of the compensation to be paid to Georgeson is conditioned upon consummation of any part of the Recapitalization. The Company will also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this Proxy Statement -- Prospectus and related documents to the beneficial owners of the Subordinated Debentures and in handling or forwarding tenders of their customers.

PROPOSED AMENDMENTS TO EXISTING INDENTURE

GENERAL

Set forth is a brief description of the Indenture Amendments, and a description of the effects of the Indenture Amendments on Debentureholders following consummation of the Exchange Offer. The following statements relating to the Indenture Amendments summarize the material elements of such Indenture Amendments but do not purport to be complete and are qualified in their entirety by reference to the form of proposed supplemental indenture, a copy of which is filed as an exhibit to the Registration Statement of which this Proxy

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Statement -- Prospectus forms a part and is incorporated herein by reference. Copies of the proposed supplemental indenture setting forth the Indenture Amendments are available upon request to the Company, 8700 Tesoro Drive, San Antonio, Texas 78217, Attention: Investor Relations, telephone (210) 828-8484, and a copy of the proposed Supplemental Indenture is on file at the principal office of the Trustee in the City of Detroit, State of Michigan, for inspection by all Debentureholders. Each capitalized term used in this section of this Proxy Statement -- Prospectus and not otherwise defined herein shall have the meaning assigned to such term in the Existing Indenture.

Currently, the Existing Indenture prohibits the Company from declaring dividends or making distributions on the Common Stock or purchasing or acquiring capital stock in an amount in excess of the sum of (1) consolidated net income of the Company subsequent to September 30, 1982; (2) net proceeds from the sale of its capital stock subsequent to September 30, 1982; (3) dividends or distributions subsequent to September 30, 1982, or sale proceeds, in respect of its interest in Trinidad-Tesoro Petroleum Company Limited; and (4) $30,000,000, subject to certain limitations. The Indenture Amendments will modify this covenant to prohibit the payment of dividends or distributions on, or purchasing or acquiring, equity securities of the Company (except stock dividends) unless, giving effect to such transaction (1) no event of default shall occur and (2) the aggregate amount expended for such purposes subsequent to September 30, 1993 is less than the sum of (a) 50% of the aggregate consolidated income of the Company earned subsequent to September 30, 1993 or 100% if such aggregate consolidated net income for such period is negative and (b) the net proceeds from the sale after September 30, 1993 of certain equity securities of the Company and indebtedness which has been converted into certain equity securities of the Company; provided, however, that the Company may make redemptions and repurchases of Common Stock and preferred stock in an aggregate amount not to exceed $30,465,000 (approximately equal to the accrued and unpaid dividends that will exist on the Existing Preferred Stock at January 31, 1994) and from the proceeds of contemporaneous sales of certain capital stock and make dividend payments on preferred stock of the Company. The payment of cash dividends on preferred stock and redemptions and repurchases of Common Stock and preferred stock pursuant to the proviso to the preceding sentence will not reduce the amount determined in accordance with (2) of the immediately preceding sentence. See 'Description of Exchange Notes -- Certain Covenants -- Limitation on Restricted Payments' for a description of the parallel limitation in the New Indenture.

The Indenture Amendments will also amend the definition of 'Senior Indebtedness' to expressly include the Exchange Notes. In the absence of such amendment, it is not clear whether the Exchange Notes would rank senior in right of payment to the Subordinated Debentures.

It is not a condition of the Exchange Offer that the Indenture Amendments be approved. As of December 15, 1993, approximately $108.8 million aggregate principal amount of Subordinated Debentures was outstanding. The principal purpose of the Indenture Amendments is to modify the current restrictions on dividends, distribution to stockholders and purchases and redemptions of capital stock and to ensure that the Exchange Notes rank senior to the Subordinated Debentures.

SOLICITATION OF CONSENTS; INDENTURE AMENDMENTS

The valid tender of Subordinated Debentures by a Debentureholder pursuant to the Exchange Offer will include the consent of such Debentureholder to the Indenture Amendments with respect to such tendered Subordinated Debentures. The Company is also soliciting consents from Debentureholders who do not desire to accept the Exchange Offer. Pursuant to the terms of the Consent and Letter of Transmittal, the completion, execution and delivery thereof will include the consent to the Indenture Amendments. Consents included with tenders of Subordinated Debentures will only be utilized if the tenders are accepted. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as the Company shall determine. None of the Company, the Exchange Agent, the Information Agent or any other person shall be under any duty to give notification of defects or irregularities in such tenders or shall incur liabilities for failure to give such notification.

The purpose of limiting participation in the Exchange Offer to Debentureholders who consent to the proposed amendments to the Existing Indenture is to encourage the greatest number of such holders to consent.

Debentureholders who do not tender their Subordinated Debentures and who wish to consent to the Indenture Amendments should complete the enclosed Consent and Letter of Transmittal in accordance with the Instructions and return it promptly to the Exchange Agent.

For the Indenture Amendments to become effective, the holders of at least a majority in outstanding principal amount of Subordinated Debentures must consent thereto and a supplemental indenture amending the Existing Indenture must be executed by the Company and the Debenture Trustee. The effectiveness of the supplemental indenture will be conditioned upon the closing of the Exchange Offer and receipt by the Debenture Trustee of certain opinions of counsel and certificates from the Company.

Only registered holders of Subordinated Debentures can effectively consent to the Indenture Amendments. However, subsequent transfers of Subordinated Debentures on the records of the Company will not have the effect of revoking any consent theretofore given by such holder and such consent will remain valid,

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unless revoked in accordance with the procedures described above under 'The Exchange Offer -- Revocation and Withdrawal.'

In addition to the use of the mails, consents to the Indenture Amendments may be solicited by directors, officers and employees of the Company in person or by telephone, telegram or other means of communication. The Financial Advisor and the Information Agent may also assist the Company in the solicitation of consents to the Indenture Amendments.

FINANCIAL ADVISOR

The Company has retained Smith Barney to act as Financial Advisor with respect to the Recapitalization. Smith Barney is an internationally recognized investment banking firm with substantial experience in advising clients with respect to recapitalizations. Smith Barney has advised the Company on the appropriate terms, from the Company's perspective, of the Recapitalization. Smith Barney will oversee the solicitation of tenders of Subordinated Debentures pursuant to the Exchange Offer, may assist in the solicitation of votes of the holders of the $2.16 Preferred Stock and certain large holders of Common Stock with respect to Proposal No. 1 and Proposal No. 2, and the solicitation of consents of the holders of the Subordinated Debentures with respect to the Indenture Amendments.

For the services of Smith Barney as Financial Advisor, the Company has agreed to pay Smith Barney a fee in the amount of $200,000 plus .85% of the principal amount of Subordinated Debentures tendered and accepted in the Exchange Offer and 1.25% of the sum of the liquidation preference of the $2.16 Preferred Stock and all accrued and unpaid dividends thereon, and .50% of the sum of the liquidation preference of the $2.20 Preferred Stock and all accrued and unpaid dividends thereon, or a minimum of $700,000. In addition, the Company has agreed to fully reimburse Smith Barney for all reasonable and necessary expenses (including certain fees and disbursements of its counsel) incurred in performance of such services. Smith Barney has not been retained to render an opinion as to the fairness of the Recapitalization. Smith Barney has provided financial advisory services to the Company in the past for which it has received customary compensation.

The Company has agreed to indemnify Smith Barney against certain civil liabilities, including liabilities under the Securities Act of 1933, and against certain liabilities and expenses arising out of the Company's retention of Smith Barney in connection with the Recapitalization.

FAIRNESS OPINION

The Special Committee has retained Jefferies to consider the fairness of various aspects of the Recapitalization, and Jefferies has opined and, as a condition to the Reclassification, will confirm its opinion immediately prior to the consummation of the Reclassification, to the effect that the Reclassification is fair from a financial point of view to the holders of $2.16 Preferred Stock and to the holders of Common Stock. The text of the opinion is set forth in Appendix B to this Proxy Statement -- Prospectus.

Jefferies is a nationally recognized investment banking firm that regularly engages 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. The Special Committee selected Jefferies on the basis of such valuation experience and specifically its experience in valuing companies in the energy industry. In requesting the opinion, the Special Committee did not give any special instructions to Jefferies or impose any limitations upon the scope of the investigation that Jefferies deemed necessary to enable it to deliver its opinion. Jefferies did not participate in negotiating the terms of the Recapitalization. The terms of the Reclassification, including the number of shares of Common Stock into which each share of $2.16 Preferred Stock will be reclassified, were recommended and approved by the Special Committee on December 28, 1993.

The Company has agreed to pay Jefferies a fee of $125,000 upon delivery of Jefferies' fairness opinion. In addition, the Company has agreed to reimburse Jefferies for its reasonable out-of-pocket expenses and to indemnify Jefferies against certain liabilities, including liabilities under the federal securities laws, or to contribute to payments Jefferies may be required to make in respect of such liabilities.

In the course of its review, Jefferies: (i) analyzed certain public and non-public operating data of the Company prepared by the Company; (ii) discussed the historical operating results and the future

prospects of the business with the management of the Company; (iii) reviewed the recent performance, liquidity and volatility of the Company's existing equity securities; (iv) considered the value of certain intangible benefits which would accrue to the Company as a result of the Reclassification; (v) took into account its general experience in similar transactions; and (vi) undertook such additional reviews, analyses and inquiries as it deemed relevant under the circumstances.

Jefferies also analyzed published information regarding the financial and market performance of a limited group of companies that Jefferies deemed comparable to the Company, including independent exploration and production companies and refining and marketing companies. The independent exploration and production companies analyzed included Basin Exploration, Coho Resources, Devon

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Energy Corporation, Gerrity Oil & Gas Corporation, Snyder Oil Corporation, Vintage Petroleum and Wainoco. The refining and marketing companies analyzed included Crown Central, Giant Industries, Holly Corporation, Tosco Corporation and Total Petroleum (North America) Limited.

Financial performance of the comparable group of companies was measured by estimated earnings, cash flow and earnings before interest, income taxes and depreciation, depletion and amortization ('EBITDA') for the fiscal periods 1993 and 1994. Market performance was determined by deriving multiples of earnings, cash flow, and EBITDA for each comparable company. The Company's financial and market performance was measured on a relative basis against the average performance of the group of comparable companies.

The Company's implied enterprise value was computed by multiplying the Company's projected operating data by comparable company multiples previously determined. Asset valuation was determined by adding cash and subtracting debt to yield a total enterprise value range per share.

TRADING AND MARKET PRICES

SUBORDINATED DEBENTURES

The Subordinated Debentures are listed on the New York Stock Exchange. As of December 27, 1993, approximately $108.8 million aggregate principal amount of Subordinated Debentures was outstanding and there were 247 registered holders of Subordinated Debentures, including Depository Trust Company. The following table sets forth the high and low sales prices of the Subordinated Debentures on the New York Stock Exchange -- Composite Tape, as reported by the Dow Jones News/Retrieval Service, for each of the quarterly periods indicated. All prices for the Subordinated Debentures are expressed per $100 principal amount.

	HIGH	LOW
1991:		
First	$ 83 1/2	68
Second	$ 91	82 1/2
Third	$ 92	86 7/8
Fourth	$ 88 5/8	78
1992:		
First	$ 89 3/8	79 5/8
Second	$ 89 7/8	84 3/4
Third	$ 92 1/4	85 5/8
Fourth	$ 88	68
1993:		
First	$ 97 1/2	81 1/4
Second	$ 100 1/8	96
Third	$ 101 1/2	98 3/8
Fourth (through December 27)	$ 102 3/8	98 1/2

$2.16 PREFERRED STOCK

The $2.16 Preferred Stock is listed on the New York Stock Exchange under the symbol TSO Pr. The following table sets forth the high and low sales prices of the $2.16 Preferred Stock on the New York Stock Exchange -- Composite Tape, as reported by the Dow Jones/Retrieval Service, for each of the quarterly periods indicated. No dividends were paid in respect of shares of $2.16 Preferred Stock during such periods. For a description of restrictions on the payment of dividends and dividend arrearages on the shares of $2.16 Preferred Stock and other matters, see 'Description of Capital Stock -- $2.16 Preferred Stock.' As of December 27, 1993, there were 961 holders of record of $2.16 Preferred Stock.

	HIGH	LOW
1991:		
First	$ 16 1/4	12 1/2
Second	$ 19 1/8	16
Third	$ 17	12 1/2
Fourth	$ 13 7/8	10
1992:		
First	$ 14	10 1/2
Second	$ 13 3/8	10 3/4
Third	$ 12 3/4	10 1/8
Fourth	$ 10 1/4	7 5/8
1993:		
First	$ 16 5/8	9
Second	$ 19 3/4	16 1/8
Third	$ 23 1/2	18 3/4
Fourth (through December 27)	$ 23 1/2	19 3/4

COMMON STOCK

The Common Stock is listed on the New York Stock Exchange under the symbol

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TSO. The following table sets forth the high and low sales prices of the Common Stock on the New York Stock Exchange -- Composite Tape, as reported by the Dow Jones/Retrieval Service, for each of the quarterly periods indicated. No dividends were paid in respect of shares of Common Stock during such periods. For a description of restrictions on the payment of dividends on the Common Stock and other matters, see 'Description of Capital Stock -- Common Stock.' As of December 27, 1993, there were 3,875 holders of record of Common Stock.

	HIGH	LOW
1991:		
First	$ 8 1/4	5 3/4
Second	$ 9 3/8	7 3/8
Third	$ 7 7/8	6 1/4
Fourth	$ 6 7/8	4 3/8
1992:		
First	$ 6 5/8	4 5/8
Second	$ 5 3/8	4 1/4
Third	$ 5 1/2	3
Fourth	$ 3 5/8	2 1/2
1993:		
First	$ 5 5/8	3
Second	$ 6 5/8	5
Third	$ 7 3/4	5 1/8
Fourth (through December 27)	$ 7 1/2	5 1/8

DESCRIPTION OF EXCHANGE NOTES

The Exchange Notes are to be issued under an Indenture to be dated as of the date of the Recapitalization (the 'New Indenture'), between the Company and Bankers Trust Company, as trustee (the 'Note Trustee'), a copy of the form of which is filed as an exhibit to the Registration Statement of which this Proxy Statement -- Prospectus forms a part. The following description summarizes the material provisions of the Exchange Notes and the New Indenture but does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Exchange Notes and the New Indenture, including the definitions therein of certain terms.

GENERAL

The Exchange Notes will be general unsecured obligations of the Company limited to $54,500,000 principal amount. Each Exchange Note will mature on December 1, 2000 and will bear interest at 13% per annum from the date of issuance, payable semiannually on June 1 and December 1 of each year to the person in whose name the Exchange Note is registered at the close of business on the May 15 or November 15 preceding such interest payment date. Principal and interest will be payable at the office or agency of the Company maintained in The City of New York for such purpose, provided that, at the option of the Company, payment of interest may be made by check mailed to the address of the person entitled thereto as it appears in the register of the Exchange Notes maintained by the Note Trustee. The Exchange Notes will be transferable and exchangeable at the office of the Note Trustee and will be issued in fully registered form, without coupons, in denominations of $1,000 and any integral multiple thereof. The Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with certain transfers and exchanges.

If the requisite consents to the Indenture Amendments are obtained, the Exchange Notes will be senior debt of the Company, senior in right of payment to all subordinated indebtedness of the Company, including the Subordinated Debentures and the ANS Debt. If the requisite consents to the Indenture Amendments are not obtained, the Exchange Notes will be senior in right of payment to the ANS Debt, pari passu with the other senior debt of the Company and with the Subordinated Debentures, and senior in right of payment to all other subordinated indebtedness of the Company. As a result, the Exchange Notes may share in assets of the Company with other senior debt at a time when the holders of Subordinate Debentures may be obligated to turn over assets otherwise payable to the holders of the Subordinated Debentures to the holders of senior debt but would not be obligated to turn over assets to the holders of the Exchange Notes.

OPTIONAL REDEMPTION

The Exchange Notes will be redeemable, at the option of the Company, in whole or in part, at any time on not less than 30 days' or more than 60 days' prior notice, mailed by first-class mail to the last address of each holder of Exchange Notes as they shall appear in the register of the Exchange Notes maintained by the Note Trustee, at the principal amount thereof together with interest accrued to the redemption date. If at the time the Exchange Notes are called for redemption Subordinated Debentures are outstanding, the Company will not call the Exchange Notes for redemption unless it also calls either an equal principal amount of the Subordinated Debentures, or all the outstanding Subordinated Debentures for redemption.

If less than all of the outstanding Exchange Notes are to be redeemed, the Exchange Notes will be redeemed by lot. The New Indenture will provide that, if

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any Exchange Note is to be redeemed in part only, the notice which relates to such Exchange Note shall state the portion of the principal amount to be redeemed and shall state that, after the redemption date, upon surrender of such Exchange Note, a new Exchange Note or Exchange Notes having a principal amount equal to the unredeemed portion thereof will be issued. (Article Three)

CERTAIN COVENANTS

Limitations on Restricted Payments. The New Indenture will provide that the Company shall not, and shall not permit any of its respective Subsidiaries to, declare or pay any dividend or make

any distribution on account of any Equity Securities of the Company (except dividends or distributions payable in such Equity Securities, other than Equity Securities that have mandatory redemption or repurchase requirements or are exchangeable for, or convertible into, (x) Equity Securities that have such requirements or (y) property or securities other than Equity Securities), or purchase, redeem or otherwise acquire or retire for value any Equity Securities of the Company (except in exchange for Equity Securities, other than Equity Securities that have mandatory redemption or repurchase requirements or are exchangeable for, or convertible into, (x) Equity Securities that have such requirements or (y) property or securities other than Equity Securities), if, upon giving effect thereto (a) an Event of Default shall occur and be continuing or (b) the aggregate amount expended for such purposes subsequent to September 30, 1993 shall exceed the sum of (i) 50% of the aggregate Consolidated Net Income of the Company earned subsequent to September 30, 1993 or 100% if such aggregate Consolidated Net Income for such period is negative, (ii) the net proceeds from the sale after September 30, 1993 of Equity Securities (other than Equity Securities that have mandatory redemption or repurchase requirements or are exchangeable for, or convertible into, (x) Equity Securities that have such requirements or (y) Property or securities other than Equity Securities) of the Company; and (iii) the net proceeds from the sale after September 30, 1993 of any indebtedness of the Company which has been converted into Equity Securities (other than Equity Securities that have mandatory redemption or repurchase requirements or are exchangeable for, or convertible into, (x) Equity Securities that have such requirements or (y) Property or securities other than Equity Securities) of the Company; provided, however, that the foregoing will not prevent (A) the payment of cash dividends on preferred stock of the Company, whether outstanding on the date of the New Indenture or issued thereafter, (B) the repurchase, redemption or acquisition of Common Stock or preferred stock of the Company, provided that the aggregate price paid in all repurchases, redemptions or acquisitions under this clause (B) shall not exceed $30,465,000, (C) the repurchase, redemption or retirement of any Equity Securities of the Company by exchange for, or out of the proceeds of the substantially concurrent sale of, other Equity Securities of the Company (other than Equity Securities that have mandatory redemption or repurchase requirements or are exchangeable for, or convertible into, (x) Equity Securities that have such requirements or (y) Property or securities other than Equity Securities) and neither such repurchase, redemption or retirement nor the proceeds of any such sale or exchange shall be included in any computation made under clause (b) above, or (D) the payment of any dividend within 60 days after the date of declaration thereof if at said date of declaration such payment would comply with these provisions. Any payments made in reliance on clauses (A) or (B) of the immediately preceding sentence shall not reduce the amount determined in accordance with clause (b) of the immediately preceding sentence. (Section 4.03)

Transactions with Affiliates. The New Indenture will provide that the Company shall not, and shall not permit any of its respective Subsidiaries to, (a) sell, lease, exchange, swap, transfer or otherwise dispose of any of its properties, assets or securities to, (b) purchase or lease any property, assets or securities from, (c) make any investment in, or (d) enter into any contract or agreement with or for the benefit of, an affiliate (an 'Affiliate Transaction'); other than Affiliate Transactions that are on terms at least as favorable to the Company or the Subsidiary contemplating such Affiliate Transaction as could be obtained from an unaffiliated party; provided, however, that this limitation shall not limit, or be applicable to, any idemnification or similar payment made to any director or officer (x) in accordance with the corporate charter or By-Laws of the Company or any Subsidiary, (y) under any agreement or (z) under applicable law. (Section 4.11)

Highly Leveraged Transactions. The New Indenture provides, under certain circumstances, that the Company shall not engage in certain transactions with its affiliates. Other than this covenant, the New Indenture will not have any covenants or provisions that may afford holders of Exchange Notes protection in the event of a highly leveraged transaction, including a leveraged buyout initiated or supported by the Company, the management of the Company or any affiliate of either such party.

Certain Definitions. The term 'Consolidated Net Income' means, for any period, the aggregate net income (or loss) of the Company and its respective Subsidiaries for such period on a consolidated basis, determined in accordance with generally accepted accounting principles, but exclusive of any gains or losses realized on sales of property; provided that (a) the net income or loss of any other

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person in which the Company or any of its respective Subsidiaries have an interest (which interest does not cause the net income of such other person to be consolidated with the net income of the Company in accordance with generally accepted accounting principles) shall be excluded and instead an amount equal to any dividends or distributions paid to the Company or its respective Subsidiaries by such other person in such period shall be included and (b) the net income (or loss) of any other person acquired in a pooling of interest transaction for any period prior to the date of such acquisition shall be excluded.

The term 'Equity Securities' of a corporation means capital stock of or other equity interests in such corporation, or warrants, options or other rights to acquire capital stock or other equity interests in such corporation (but excluding any debt security that is convertible into, or exchangeable for, capital stock prior to its conversion or exchange).

The term 'Subsidiary' means (i) a corporation a majority of whose outstanding capital stock with voting power, under ordinary circumstances, to elect directors is at the time, directly or indirectly, owned by the Company, by one or more Subsidiaries or by the Company and one or more Subsidiaries or (ii) any other person (other than a corporation) in which the Company, one or more Subsidiaries or the Company and one or more Subsidiaries, directly or indirectly, at the date of determination thereof, has at least a majority beneficial ownership interest.

EVENTS OF DEFAULT

The term 'Event of Default' when used in the New Indenture means any one of the following: (i) failure to pay interest for 30 days or principal when due; (ii) failure to observe and perform any other covenants for 60 days after notice; (iii) the occurrence of any event of default under any instrument evidencing or securing any indebtedness of the Company or any Subsidiary for borrowed money, in either case in excess of $1,000,000, resulting in the acceleration of other indebtedness, which acceleration is not rescinded or annulled pursuant to the terms of such instrument; and (iv) certain events of bankruptcy, insolvency or reorganization. (Section 6.01)

The New Indenture will provide that the Note Trustee shall, within 90 days after the occurrence of a default, give notice to the holders of Exchange Notes of all uncured defaults known to it (the term 'default' to include the events specified above without grace or notice); provided that, except in the case of default in the payment of principal of or interest on any of the Exchange Notes, the Note Trustee is protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the holders of Exchange Notes. (Section 9.03)

In case an Event of Default (other than an Event of Default relating to certain events of bankruptcy, insolvency or reorganization) shall have occurred and be continuing, the Note Trustee or the holders of at least 25% in aggregate principal amount of the Exchange Notes then outstanding, by notice in writing to the Company (and to the Note Trustee, if given by holders of Exchange Notes), may declare the principal of and accrued but unpaid interest on all the Exchange Notes to be due and payable immediately. Such declaration may be annulled and past defaults (except, unless theretofore cured, a default in payment of principal of or interest on the Exchange Notes) may be waived by the holders of a majority in principal amount of outstanding Exchange Notes, upon the conditions provided in the New Indenture. (Section 6.02)

In case an Event of Default relating to certain events of bankruptcy, insolvency or reorganization shall have occurred, then the principal of and any accrued interest to the date of such Event of Default shall be immediately due and payable. (Section 6.03)

The New Indenture includes a covenant that the Company will file quarterly with the Note Trustee a statement regarding compliance by the Company with the terms thereof and specifying the occurrence of any defaults of which the signers may have knowledge. (Section 4.07)

MODIFICATIONS OF THE NEW INDENTURE

Under the New Indenture, the rights and obligations of the Company and the rights of the holders of Exchange Notes may be modified by the Company and the Note Trustee, except in certain limited circumstances, only with the consent of the holders of a majority in principal amount of the Exchange Notes then outstanding, but no extension of the maturity of any Exchange Notes, reduction

in the interest rate or extension of the time of payment of interest, any Exchange Note, or any other modification in the terms of payment of the principal of or interest on the Exchange Notes or reducing the percentage required for modification of the New Indenture will be effective against any holder of Exchange Notes without his or her consent. (Section 12.02) Modifications and amendments of the New Indenture may be made by the Company and the Note Trustee without the consent of any holders of Exchange Notes in certain limited circumstances, including (a) to cure any ambiguity, defect or inconsistency, provided such action is not inconsistent with the terms of the New Indenture, (b) to provide for the continuation of the Company's obligations under the New Indenture upon merger, consolidation or other reorganization of the Company, or (c) to add covenants and agreements of the Company for the protection or benefit of the holders of Exchange Notes. (Section 12.01)

SUCCESSOR CORPORATION

The New Indenture will provide that the Company shall not consolidate with, merge into or sell, lease or transfer all or substantially all of its assets to another person unless (a) the resulting, surviving or transferee person is a

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corporation, partnership, other business association or trust organized and existing under the laws of the United States or any state thereof or the District of Columbia, (b) such person expressly assumes, by an indenture supplemental hereto, executed and delivered to the Note Trustee, in a form satisfactory to the Note Trustee, all of the obligations of the Company under the New Indenture and under the Exchange Notes and (c) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing. (Section 5.01)

SATISFACTION AND DISCHARGE OF NEW INDENTURE

The New Indenture will be discharged and canceled upon payment or redemption of all the Exchange Notes and may be discharged and canceled upon the written request of the Company upon deposit with the Note Trustee, within not more than six months prior to the maturity of the Exchange Notes, of funds sufficient for such payment or redemption, plus costs and expenses to be incurred by the Note Trustee. (Section 10.01 and 10.02)

GOVERNING LAW

The New Indenture will provide that it and the Exchange Notes will be governed by, and construed in accordance with, the laws of the State of New York. (Section 13.06)

THE NOTE TRUSTEE

Bankers Trust Company will be the Note Trustee and the initial Paying Agent under the New Indenture. Its address is Four Albany Street, New York City, New York 10006. (Section 13.01)

The New Indenture will contain certain limitations on the right of the Note Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Note Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Trust Indenture Act of 1939), it must eliminate such conflict or resign within 90 days of the occurrence of an Event of Default. (Section 9.05)

The holders of a majority in principal amount of all outstanding Exchange Notes have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Note Trustee under the New Indenture. (Section 6.06). The New Indenture will provide that in case an Event of Default shall occur (and be continuing), the Note Trustee will be required to use the degree of care and skill of a prudent man in the conduct of his own affairs. (Section 9.02) Subject to such provisions, the Note Trustee will be under no obligation to exercise any of its powers under the New Indenture at the request of any of the holders of the Exchange Notes, unless such holders shall have offered the Note Trustee reasonable security or indemnity. (Section 9.01)

DESCRIPTION OF CAPITAL STOCK

GENERAL

The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock, of which 1,319,563 shares have been designated as $2.16 Preferred Stock, 2,875,000 shares have been designated as $2.20 Preferred Stock, and 250,000 shares have been designated as Series A Participating Preferred Stock, no par value. At December 15, 1993, there were outstanding 14,069,236 shares of Common Stock, 1,319,563 shares of $2.16 Preferred Stock and 2,875,000 shares of $2.20 Preferred Stock. Upon the effectiveness of the Reclassification Amendment, the shares of $2.16 Preferred Stock (including accrued and unpaid dividends) will be reclassified into shares of Common Stock. At November 30, 1993, accrued and unpaid dividends on the $2.16 Preferred Stock aggregated approximately $8.9 million ($6.75 per share). One Purchase Right will be simultaneously issued with respect to each new share of Common Stock issued in the Reclassification. The Purchase Rights outstanding at the time the Reclassification is consummated will not be affected by the Reclassification. Each share of $2.16 Preferred Stock has a liquidation value of $25 (plus accrued and unpaid dividends) and each share of $2.20 Preferred Stock has a liquidation value of $20 (plus accrued and unpaid dividends). Chemical Bank N.A. is the transfer agent and registrar for the Common Stock and the Existing Preferred Stock.

Each outstanding share of the Company's capital stock is fully paid and nonassessable.

The following descriptions summarize the material terms and provisions of the Company's capital stock but do not purport to be complete and are qualified in their entirety by reference to the Certificate of Incorporation, which has been filed as Appendix D to the Registration Statement of which this Proxy Statement -- Prospectus forms a part and which is incorporated herein by reference.

COMMON STOCK

Dividends

Holders of the Common Stock are entitled to dividends, when and if declared by the Board of Directors, but only out of funds legally available therefor, subject to (i) the rights of the holders of shares ranking prior to Common Stock as to dividends and distributions, including the Existing Preferred Stock and, after the Reclassification, the New Preferred Stock, and (ii) limitations on the payment of dividends on Common Stock contained in certain of the Company's outstanding debt instruments. Holders of Existing Preferred Stock are entitled to the payment of dividends for the current and all prior quarterly periods before any dividend may be declared upon Common Stock or before any other payment on account of, or the setting aside of money for, the purchase,

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redemption or other retirement of Common Stock may be made. The Company is presently prohibited from paying dividends on its Common Stock and Existing Preferred Stock. See Note H of Notes to Consolidated Financial Statements included elsewhere herein.

Liquidation Rights

Upon the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, each share of each class of Existing Preferred Stock is entitled, before any distribution is made to holders of Common Stock, to receive the amount of the liquidation value of such class of Existing Preferred Stock, together with all accrued and unpaid dividends to the date fixed for distribution. After the stated amounts payable upon liquidation on the Existing Preferred Stock have been paid in full or provision for the payment has been made, the remaining net assets of the Company will be distributed pro rata to the holders of Common Stock.

Voting Rights

Each share of Common Stock is entitled to one vote for all purposes, except as otherwise provided by law or as expressly provided in the Certificate of Incorporation.

$2.16 PREFERRED STOCK

Dividends

Holders of $2.16 Preferred Stock are entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available therefor, cumulative cash dividends presently payable at, but not exceeding, the rate of $2.16 per share per annum. Dividends are payable quarterly, in cash, on March 15, June 15, September 15 and December 15, and are cumulative. The Company is prohibited from declaring and paying dividends on any junior stock and from redeeming, repurchasing or making a sinking fund payment on any junior stock unless all prior dividends accumulated on the $2.16 Preferred Stock, including the current quarterly period, have been paid or declared and set aside for payment. See '-- Ranking.'

Liquidation Rights

The $2.16 Preferred Stock has a liquidation preference of $25 per share, plus accrued and unpaid dividends, before any distribution of assets is made to holders of Common Stock or any other junior stock. If assets available for distribution are insufficient to pay the full liquidation preference, all classes of capital stock, if any, ranking on a parity as to liquidation rights with the $2.16 Preferred Stock (currently only the $2.20 Preferred Stock) are entitled to share ratably in any such distribution.

Redemption

The $2.16 Preferred Stock is redeemable, but only out of funds legally available therefor, at the option of the Company, in whole or in part, on not more than 60 and not less than 45 days' notice, at $25 per share plus dividends accrued to the redemption date. The Company may not redeem any shares of $2.16 Preferred Stock (i) unless all outstanding shares of $2.16 Preferred Stock are simultaneously redeemed or (ii) until all dividend payment defaults on the $2.16 Preferred Stock have been cured.

Ranking

The $2.16 Preferred Stock ranks senior to the Common Stock and on a parity with the $2.20 Preferred Stock as to liquidation and dividends. All accrued and unpaid dividends on $2.16 Preferred Stock must be paid before shares of $2.20 Preferred Stock can be redeemed.

Conversion

The shares of $2.16 Preferred Stock are convertible, at the option of the holder thereof, into shares of Common Stock at a rate of 1.7241 shares of Common Stock for each share of $2.16 Preferred Stock. The conversion rate is subject to adjustment in certain events, including (i) dividends (and other distributions) payable to all holders of Common Stock in shares of the Company's capital stock, including Common Stock, (ii) the issuance to all holders of Common Stock of rights or warrants which entitle them to subscribe for or purchase Common Stock at a price per share less than the current market price (as defined), (iii) subdivisions, combinations and reclassifications of Common Stock, and (iv) distributions to all holders of Common Stock of evidences of indebtedness of the Company or assets (including securities, but excluding those rights or warrants referred to above and dividends and distributions paid in cash out of current or retained earnings). In case of certain consolidations or mergers to which the Company is a party or the sale or transfer of all or substantially all of the assets of the Company, each share of $2.16 Preferred Stock then outstanding and entitled to be converted after such consolidation, merger, sale or transfer would become convertible into the kind and amount of securities, cash and other property receivable upon the

consolidation, merger, sale or transfer by a holder of a number of shares of Common Stock equal to the number of shares into which such share of $2.16 Preferred Stock might have been converted immediately prior to such consolidation, merger, sale or transfer. Fractional shares of Common Stock are not to be issued upon conversion, but, in lieu thereof, the Company will pay a cash amount based on the then-current market price of the Common Stock.

Voting Rights

The holders of $2.16 Preferred Stock are entitled to one vote per share, voting together as a single class with the holders of shares of Common Stock and

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$2.20 Preferred Stock and any other class or series which may similarly be entitled to vote with the holders of Common Stock, on all matters on which the shares of Common Stock may vote, including the elections of directors.

The affirmative vote of the holders of two-thirds of the outstanding shares of $2.16 Preferred Stock, voting as a separate class, is required: (i) to authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking prior to the $2.16 Preferred Stock as to the payment of dividends or the distribution of assets, (ii) to amend, alter or repeal the voting powers, preferences or rights of the $2.16 Preferred Stock in any respect adverse to the holders thereof, or (iii) to authorize the merger or consolidation of the Company if such merger or consolidation would have an effect on the $2.16 Preferred Stock substantially similar to those described in (i) or (ii) above.

In addition, the affirmative vote of the holders of a majority of the outstanding shares of Existing Preferred Stock, voting together as a single class, is required in order to authorize any increase in authorized Existing Preferred Stock or authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking on parity with the $2.16 Preferred Stock as to the payment of dividends or the distribution of assets.

Failure to Pay Dividends

If the Company fails to pay dividends on the $2.16 Preferred Stock in an amount equal to at least six quarterly dividends (whether or not consecutive), the number of directors then constituting the Board of Directors shall be increased by two and the holders of the $2.16 Preferred Stock, voting together as a single class with the holders of $2.20 Preferred Stock, and any other series of preferred stock having such voting rights shall have the right to elect the two additional members of the Board of Directors. Such right will expire when all accrued but unpaid dividends on the preferred stock have been paid and dividends on the preferred stock for the then current quarterly period have been paid or declared and set apart. As of December 15, 1993, the Company had omitted dividends on the $2.16 Preferred Stock for a total of 12 1/2 quarters. See Note H of Notes to Consolidated Financial Statements included elsewhere herein. As a result, holders of the Existing Preferred Stock have the right, which has not been exercised to date, to elect two additional members to the Board of Directors at the Annual Meeting to serve until the earliest of (i) the completion of the Reclassification, (ii) the date on which dividend arrearages on the Existing Preferred Stock are eliminated or (iii) the date of the next annual meeting of stockholders.

$2.20 PREFERRED STOCK

Dividends

Holders of $2.20 Preferred Stock are entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available therefor, cumulative cash dividends presently payable at, but not exceeding, the rate of $2.20 per share per annum. Dividends are payable quarterly, in cash, on February 15, May 15, August 15 and November 15, and are cumulative. The Company is prohibited from declaring and paying dividends on any junior stock and from redeeming, repurchasing or making a sinking fund payment on any junior stock or stock on a parity with the $2.20

Preferred Stock in the payment of dividends unless all prior dividends accumulated on the $2.20 Preferred Stock, including the current quarterly period, have been paid or declared and set aside for payment. See '-- Ranking.'

Liquidation Rights

The $2.20 Preferred Stock has a liquidation preference of $20 per share, plus accrued and unpaid dividends, before any distribution of assets is made to holders of Common Stock or any other junior stock. If assets available for distribution are insufficient to pay the full liquidation preference, all classes of capital stock, if any, ranking on a parity as to liquidation rights with the $2.20 Preferred Stock (currently only the $2.16 Preferred Stock) are entitled to share ratably in any such distribution.

Redemption

The $2.20 Preferred Stock is redeemable, but only out of funds legally available therefor, at the option of the Company, in whole or in part, on not more than 45 and not less than 30 days' notice, at $20 per share plus dividends accrued to the redemption date. If not sooner redeemed, on each February 15, beginning on February 15, 1994, the Company is required to set aside funds and effect the redemption of 6 2/3% (subject to certain credits) of the number of shares of $2.20 Preferred Stock outstanding on February 15, 1994. If the Company fails to pay dividends on the $2.20 Preferred Stock in an amount equal to at least 12 quarterly dividends (whether or not consecutive) or if the Company fails to make redemptions of $2.20 Preferred Stock when required with respect to at least the number of shares to be redeemed in any three-year period, and if all of the outstanding shares of $2.20 Preferred Stock are held by MetLife Louisiana or by its affiliates, the Company is required to redeem, out of funds legally available therefor, at the option of MetLife Louisiana or its affiliates, within 60 days of the occurrence thereof, all of the outstanding shares of $2.20 Preferred Stock at the applicable redemption price plus dividends accrued to the redemption date. Prior to any such redemption, the Company shall pay or make provision for payment of all accrued and unpaid dividends on all shares of Existing Preferred Stock. As of November 30, 1993,

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accrued and unpaid dividends on the $2.20 Preferred Stock aggregated approximately $20.0 million ($6.97 per share). Dividend arrearages on the $2.20 Preferred Stock exceeded 12 full quarterly dividends on November 15, 1993. Pursuant to the MetLife Forbearance Agreement, MetLife Louisiana has agreed, subject to certain conditions, that it will not exercise the $2.20 Preferred Stock Put Option and to take no action to enforce the February 1994 mandatory partial redemption of the $2.20 Preferred Stock before March 10, 1994. See Note J of Notes to Consolidated Financial Statements included elsewhere herein.

Ranking

The $2.20 Preferred Stock ranks senior to the Common Stock and on parity with the $2.16 Preferred Stock as to liquidation and dividends.

Conversion

The shares of $2.20 Preferred Stock are convertible, at the option of the holder thereof, into shares of Common Stock at a rate of 0.8696 shares of Common Stock for each share of $2.20 Preferred Stock. The conversion price is subject to adjustment in certain events, including (i) dividends (and other distributions) payable to all holders of Common Stock in shares of the Company's capital stock, including Common Stock, (ii) the issuance to all holders of Common Stock of rights or warrants which entitle them to subscribe for or purchase Common Stock at a price per share less than the current market price (as defined), (iii) subdivisions, combinations and reclassifications of Common Stock, and (iv) distributions to all holders of Common Stock of evidences of indebtedness of the Company or assets (including securities, but excluding those rights or warrants referred to above and dividends and distributions paid in cash out of current or retained earnings). In case of certain consolidations or mergers to which the Company is a party or the sale or transfer of all or substantially all of the assets of the Company, each share of $2.20 Preferred Stock then outstanding is

entitled to be converted after such consolidation, merger, sale or transfer into the kind and amount of securities, cash and other property receivable upon the consolidation, merger, sale or transfer by a holder of a number of shares of Common Stock into which such share of $2.20 Preferred Stock might have been converted immediately prior to such consolidation, merger, sale or transfer. Fractional shares of Common Stock are not to be issued upon conversion, but, in lieu thereof, the Company will pay a cash adjustment based on market price.

Voting Rights

The holders of $2.20 Preferred Stock are entitled to one vote per share, voting together as a single class with the holders of shares of Common Stock and $2.16 Preferred Stock and any other class or series which may similarly be entitled to vote with the holders of Common Stock, on all matters on which the shares of Common Stock may vote, including the elections of directors.

The affirmative vote of the holders of two-thirds of the outstanding shares of $2.20 Preferred Stock, voting as a separate class, is required: (i) to authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking prior to the $2.20 Preferred Stock as to the payment of dividends or the distribution of assets, (ii) to amend, alter or repeal the voting powers, preferences or rights of the $2.20 Preferred Stock in any respect adverse to the holders thereof, or (iii) to authorize the merger or consolidation of the Company if such merger or consolidation would have an effect on the $2.20 Preferred Stock substantially similar to (i) or (ii) above.

In addition, the affirmative vote of the holders of a majority of the outstanding shares of Existing Preferred Stock, voting together as a single class, is required in order to authorize any increase in authorized Existing Preferred Stock or authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking on parity with the $2.20 Preferred Stock as to the payment of dividends or the distribution of assets.

Failure to Redeem $2.20 Preferred Stock or Pay Dividends

If the Company fails to make redemptions of $2.20 Preferred Stock when required with respect to at least the number of shares to be redeemed on any two redemption dates, and if the default in dividends described in the next paragraph is not then in effect ('Dividend Default'), the number of directors then constituting the Board of Directors shall be increased by two and the holders of the $2.20 Preferred Stock, voting separately as a single class, shall have the right to elect the two additional members of the Board of Directors. Such right will expire when the arrearage in such redemptions has been cured or when a Dividend Default has occurred.

If the Company fails to pay dividends on the $2.20 Preferred Stock in an amount equal to at least six quarterly dividends (whether or not consecutive), the number of directors then constituting the Board of Directors shall be increased by two and the holders of the $2.20 Preferred Stock, voting together as a single class with the holders of the $2.16 Preferred Stock and any other series of preferred stock having similar voting rights, shall have the right to elect the two additional members of the Board of Directors. Such right will expire when all accrued but unpaid dividends on the preferred stock have been paid and dividends on the preferred stock for the then current quarterly period have been paid or declared and set apart.

As of November 15, 1993, the Company had omitted dividends on the $2.20 Preferred Stock for a total of 12 1/2 quarters. See Note H of Notes to

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Consolidated Financial Statements included elsewhere herein. As a result, holders of the Existing Preferred Stock have the right, which has not been exercised to date, to elect two additional members to the Board of Directors at the Annual Meeting to serve until the earlier of (i) the completion of the Reclassification, (ii) the date on which dividend arrearages on the Existing Preferred Stock are eliminated or (iii) the date of the next annual meeting of stockholders.

The Amended MetLife Memorandum

The Company and MetLife Louisiana have entered into the Amended MetLife Memorandum, pursuant to which MetLife Louisiana will agree to (i) waive or refrain from taking action with respect to certain rights under the $2.20 Preferred Stock, including waiving the $2.20 Preferred Stock Put Option and the other annual mandatory redemption requirements, (ii) consider all accrued and unpaid dividends on the $2.20 Preferred Stock to have been paid and (iii) allow the Company to pay dividends on the $2.20 Preferred Stock in Common Stock in lieu of cash provided that the Company continues to pay all quarterly dividends either in Common Stock or in cash. For purposes of determining the number of shares of Common Stock to be issued in payment in lieu of a cash dividend, the Common Stock will be valued at the average closing price for the Common Stock on the New York Stock Exchange for the ten trading days commencing on the first trading day after the Company publicly announces its intention to use Common Stock in lieu of cash to pay the dividend. MetLife Louisiana will also agree to refrain from exercising the conversion rights under the terms of the $2.20 Preferred Stock and to refrain from requiring the Company to repurchase or redeem any of the shares of the $2.20 Preferred Stock under the terms thereof.

Pursuant to the Amended MetLife Memorandum, the Company will agree not to exercise its rights to optionally redeem the $2.20 Preferred Stock at any time prior to the fourth anniversary of the date of the Reclassification, will agree to issue to MetLife Louisiana a new series of preferred stock in the event that the Company's MetLife Option is not exercised in full, will agree to offer to repurchase 287,500 shares of the $2.20 Preferred Stock or, if issued in lieu thereof, the Future Preferred Stock, each year commencing June 30, 1998, and will agree to issue 1,900,075 shares of Common Stock to MetLife Louisiana on the date of the Reclassification.

RIGHTS AGREEMENT AND PARTICIPATING PREFERRED STOCK

Effective December 16, 1985, the Board of Directors declared a distribution of one preferred stock purchase right on each outstanding share of Common Stock. Each right entitles stockholders until December 16, 1995 (or such later date as the Company may provide) to purchase one one-hundredth of a share of Participating Preferred Stock, no par value ('Participating Preferred Stock'), at an initial exercise price of $35.00 for each one one-hundredth of a share. Certificates delivered upon transfer or new issuance of Common Stock contain a notation incorporating by reference the agreement pursuant to which such rights have been issued.

The rights are not exercisable, or transferable apart from the Common Stock, until 10 days after any person acquires shares of the Company's capital stock having at least 20% of the general voting power without approval of the Board of Directors. Separate certificates representing the rights will be mailed to holders of Common Stock as of such date.

If, after any person acquires shares of the Company's capital stock having 20% of the general voting power in a transaction not approved by the Board of Directors, the Company were to be acquired in a merger or other business combination transaction, each right would require that provision be made for its holder to be allowed to purchase, at the then current exercise price of the right, that number of shares of common stock of the surviving company which at the time of such transaction would have a market value of two times the exercise price of the right. Thus, for example, if the market value of the acquiring company's common stock at the time of the transaction were $17.50 per share and the exercise price of the rights were $35.00 per right, each right would entitle a holder to receive upon exercise four shares of the acquiring company's common stock.

If the Company were the surviving corporation in the merger and the Common Stock was not changed, provision would be made so that each holder of a right would receive upon its exercise that number of shares of Participating Preferred Stock having a market value of two times the exercise price of the right.

In order to allow for flexibility, the rights are subject to redemption at the election of the Board of Directors at $.05 per right at any time prior to 10 days after someone acquires shares of the

Company's capital stock having 20% of the general voting power. Once any party acquires such 20% interest and such ten-day period has elapsed, the rights become nonredeemable. The rights have no voting or dividend rights.

The Participating Preferred Stock is nonredeemable and ranks on a parity with other series of Preferred Stock. Each share has a minimum preferential quarterly dividend rate of $1.00 per share, but is entitled to an aggregate dividend of 100 times any dividend declared on the Common Stock (other than a dividend payable in shares of Common Stock).

In the event of liquidation, the holders of the Participating Preferred Stock will be entitled to receive a preferred liquidation payment of $35 per share, but will be entitled to receive an aggregate liquidation payment equal to

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such $35 per share plus 100 times any payment made per share of Common Stock. Each share of Participating Preferred Stock will be entitled to 100 votes, voting together with the Common Stock and any other class of the Company's capital stock having general voting power. Finally, in the event of any merger, consolidation or other transaction in which shares of Common Stock are exchanged for or changed into other stock or securities, cash or other property, the Participating Preferred Stock requires that provision be made so that each share of Participating Preferred Stock will receive 100 times the amount received per share of Common Stock. The foregoing rights of the Participating Preferred Stock are protected against dilution. Fractional shares of Participating Preferred Stock in integral multiples of 1/100 of a share will be issuable. Because of the nature of the Participating Preferred Stock dividend, liquidation and voting rights, the value of a one one-hundredth interest in a share of Participating Preferred Stock purchasable with each right should generally approximate the value of one share of Common Stock.

Pursuant to the Amended MetLife Memorandum, the Company has agreed to cause the preferred stock purchase rights to cease to exist in the event the Company has not, by the third anniversary date of the Reclassification, exercised its option to purchase all shares of capital stock of the Company held by MetLife Louisiana or earlier, if the Company's MetLife Option expires unexercised.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

INTRODUCTION

The following summary sets forth the material federal income tax considerations of the Recapitalization applicable to holders of the Subordinated Debentures, holders of Existing Preferred Stock and the Company and of the ownership and disposition of the Exchange Notes and Common Stock which are acquired pursuant to the Recapitalization. The summary is based upon laws, regulations, rulings and decisions now in effect, which are subject to change. Moreover, the summary does not discuss all aspects of federal income taxation that may be relevant to a particular investor in light of his personal investment circumstances or to certain types of investors subject to special treatment under the federal income tax laws (for example, life insurance companies, tax exempt organizations and foreign taxpayers) and does not discuss any aspects of state, local or foreign tax laws. In addition, as noted below in each such case, certain of the matters discussed below are covered by recent changes made by legislation and Treasury regulations as to which there are substantial interpretive questions. Further, this discussion is limited to (1) holders who hold the Subordinated Debentures as capital assets and will hold the Exchange Notes as capital assets and (2) holders of shares of Existing Preferred Stock who hold such shares as capital assets and will hold any shares of stock received as capital assets.

Except as otherwise indicated, legal conclusions stated herein regarding tax consequences are the opinion of Fulbright & Jaworski L.L.P., counsel to the Company. Those opinions assume the accuracy of certain facts and information set forth herein and in a certificate of the Company which is included in the Registration Statement of which this Proxy Statement-Prospectus is part and are based upon the Internal Revenue Code of 1986, as amended (the 'Code'), existing regulations, rulings and decisions interpreting such provisions and where noted upon proposed Treasury regulations.

No ruling has been requested from the Internal Revenue Service (the 'IRS') with respect to any of the federal income tax consequences of the matters which are discussed herein and the IRS may not agree with some of the conclusions set forth in this section, particularly those conclusions as to which counsel's opinion is qualified or as to which counsel does not express an opinion. If the IRS contests a conclusion set forth herein, no assurance can be given that the Company, a holder of Existing Preferred Stock or a holder of a Subordinated Debenture would ultimately prevail in a final determination by a court.

BECAUSE THE TAX CONSEQUENCES OF THE RECAPITALIZATION WILL DEPEND ON THE INDIVIDUAL CIRCUMSTANCES OF A PARTICULAR HOLDER, EACH HOLDER SHOULD CONSULT HIS OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO HIM, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX LAWS.

FEDERAL INCOME TAX CONSEQUENCES OF THE EXCHANGE OFFER AND INDENTURE AMENDMENTS TO HOLDERS OF SUBORDINATED DEBENTURES

Holder Which Exchanges All of His Subordinated Debentures for Exchange Notes

General. The federal income tax consequences of the exchange by a holder of all his Subordinated Debentures for Exchange Notes (the 'Debt Exchange') depend in part upon whether the Subordinated Debentures and Exchange Notes qualify as securities for federal income tax purposes. Although the Code and Regulations do not provide clear guidelines and the administrative rulings and judicial decisions do not answer all the questions and in some instances are in conflict so that the resolution of the issue is not free from doubt, counsel is of the opinion that the Exchange Notes constitute securities for federal income tax purposes. Counsel is also of the opinion that the Subordinated Debentures constitute securities for federal income tax purposes. The opinions of

counsel are based upon the nature and terms of the Subordinated Debentures and Exchange Notes and the Company's anticipated sources and schedule for repayment of the Exchange Notes.

If either the Subordinated Debentures or the Exchange Notes are not securities for federal income tax purposes, the following tax consequences will

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result: (1) any gain or loss realized by a tendering holder of Subordinated Debentures will be recognized; (2) the initial tax basis of the Exchange Notes in the hands of the tendering holder of Subordinated Debentures will equal the fair market value of the Subordinated Debentures on the date the Debt Exchange is consummated; and (3) the holding period of the Exchange Notes will commence on the date after the Debt Exchange is consummated.

The remaining discussion in this Section ' -- Federal Income Tax Consequences to a Holder Which Exchanges All of His Subordinated Debentures for Exchange Notes' and all of the discussion in 'Holder Who Retains All or Some of His Subordinated Debentures' assumes that both the Subordinated Debentures and the Exchange Notes constitute 'securities' for federal income tax purposes.

Loss. The holders of the Subordinated Debentures will not recognize loss upon the Debt Exchange.

Gain. A holder of a Subordinated Debenture will recognize gain upon the receipt of an Exchange Note in exchange for a Subordinated Debenture in an amount equal to the lesser of (i) the fair market value of an Exchange Note reduced by his adjusted tax basis in that Subordinated Debenture and (ii) cash and other property (in either case, 'boot') received by the holder as provided in Section 356 of the Code. 'Boot' includes any cash which is paid as interest on a Subordinated Debenture for the period prior to the Exchange Date but which is not allocated for federal income tax purposes to such interest. The Company will not treat any portion of the cash, paid as interest on the Subordinated Debentures for the period prior to the Exchange Date, as 'boot'. If this allocation were not respected, the portion of the cash paid that is not deemed to be attributable to accrued and unpaid interest on the Subordinated Debentures would be treated as 'boot'. In any event, a cash method holder will recognize on the Exchange Date the amount of Exchange Notes received that are allocated to interest that has accrued on each Subordinated Debenture on or prior to the Exchange Date. The balance of the discussion in 'Certain Federal Income Tax Considerations' assumes that the Company's treatment of the cash will be respected for federal income tax purposes.

Section 356(d) of the Code treats as 'boot' the fair market value of the excess, if any, of the 'principal amount' of the Exchange Note over the 'principal amount' of the Subordinated Debenture. The meaning of 'principal amount' for purposes of such Section 356(d) has not been definitively addressed by either the courts or the IRS. If 'principal amount' means 'adjusted issue price,' that is issue price plus accrued original issue discount, the Company estimates the fair market value of such excess amount would be approximately $96 for each $1,000 face amount of Subordinated Debentures surrendered; assuming the Debt Exchange occurs on January 31, 1994 and further assuming the issue price of an Exchange Note on that date were equal to its face amount. Such amount will increase or decrease as the fair market value of a Subordinated Debenture increases or decreases after that date and as OID accrues after that date. On the other hand, if 'principal amount' means face amount, then such excess amount would be zero and the holders of the Subordinated Debentures would not recognize any gain in the Debt Exchange. The Company believes that the IRS will likely take the position that 'principal amount' means 'adjusted issue price'.

Any gain recognized on the receipt of an Exchange Note in exchange for a Subordinated Debenture would be a capital gain, but any gain so recognized on the exchange of one Subordinated Debenture may not be reduced by any loss which is realized, but not recognized, on the exchange of another Subordinated Debenture.

Tax Basis and Holding Period. The initial aggregate tax basis of any Exchange Notes received by a tendering holder in the Debt Exchange will be equal to the tax basis of the holder in the

Subordinated Debentures exchanged therefor, increased by any gain recognized in the Debt Exchange; and the holding period of the Exchange Notes will include the period for which a tendering holder held such Subordinated Debentures.

Holder Who Retains All or Some of His Subordinated Debentures

If the Indenture Amendments are deemed to be material modifications to the Subordinated Debentures within the meaning of Section 1001 of the Code and the regulations thereunder, a holder of Subordinated Debentures who retains some or all of such Subordinated Debentures would be deemed to have exchanged the retained Subordinated Debentures for new debt instruments.

Although the issue is not free from doubt, counsel is of the opinion that the Indenture Amendments will not cause the Subordinated Debentures to be deemed to be exchanged for federal income tax purposes for 'new' Subordinated Debentures. Because of the uncertainty surrounding the application of a recent Supreme Court decision and the lack of any subsequent final regulations, cases or rulings interpreting this decision, the law in this area is currently in an uncertain state (although under recently proposed regulations which are not to be effective until issued in final form, the Indenture Amendments would likely not constitute material modifications to the Subordinated Debentures).

If the Indenture Amendments are not deemed to constitute material modifications to the Subordinated Debentures, then a holder of a Subordinated Debenture who exchanges a Subordinated Debenture for an Exchange Note will have tax consequences for such exchange as described in '-- Holder Which Exchanges All of His Subordinated Debentures for Exchange Notes'.

If a holder of a Subordinated Debenture is treated as exchanging all of his retained Subordinated Debentures for new instruments because the Indenture Amendments do cause a constructive exchange, then such holder will recognize gain equal to the lesser of (i) the gain realized on the constructive exchange

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and (ii) the 'boot' received by the holder. A holder of a Subordinated Debenture will realize gain to the extent the fair market value of a 'new' Subordinated Debenture constructively received exceeds the holder's adjusted tax basis in the 'old' Subordinated Debenture. For a general discussion of gain recognition see '-- Holder Which Exchanges All of His Subordinated Debentures for Exchange Notes - Gain' above.

A holder who receives Exchange Notes for only a portion of his Subordinated Debentures would be deemed to receive a portion of a 'new' Subordinated Debenture and a portion of an Exchange Note in exchange for each 'old' Subordinated Debenture. The gain or loss realized upon the exchange of each 'old' Subordinated Debenture will be equal to the fair market value of the portion of the 'new' Subordinated Debenture and the fair market value of the portion of the Exchange Note received in exchange for the 'old' Subordinated Debenture over the adjusted tax basis of the Subordinated Debenture received in exchange therefor. No loss which is realized upon the exchange of an 'old' Subordinated Debenture will be recognized if the 'old' Subordinated Debentures are securities and at least one of the 'new' Subordinated Debentures and the Exchange Notes are securities. All of any gain which is realized may be recognized.

The 'new' Subordinated Debentures will have an issue price which will be equal to the fair market value of the 'old' Subordinated Debenture on the date of the Debt Exchange which will be used to determine whether such 'new' Subordinated Debentures have original issue discount and the rate at which any such original issue discount will accrue.

FEDERAL INCOME TAX CONSEQUENCES OF HOLDING THE EXCHANGE NOTES

Original Issue Discount. OID is generally defined by Section 1273(a) of the Code as the excess of the stated redemption price at maturity of a debt instrument over the issue price of the debt instrument. For purposes of determining the amount of OID on an Exchange Note, the 'stated redemption price at maturity' is the $1,000 face amount thereof. The issue price of an Exchange Note will be equal to the fair market value on the date of the Debt Exchange of a Subordinated

Debenture. If the Debt Exchange had occurred on December 27, 1993, the Company estimates that the amount of 'OID' on the Exchange Notes would be zero. Changes in the fair market value of a Subordinated Debenture between December 27, 1993 and the occurrence of the Debt Exchange could result in OID.

A holder of an Exchange Note having OID will be required to include in gross income an amount equal to the sum of the 'daily portions' of such OID for all days during the taxable year in which he holds the debt instrument, including the acquisition date and excluding the disposition date. Such daily portion of OID is a pro rata portion of the OID on such debt instrument which is attributable to the 'accrual period' in which such day is included.

OID Reduction. Proposed Treasury Regulation Section 1.1271-2 would extend the definition of 'purchase' under Section 1272(d)(1) of the Code to include the Debt Exchange. Based on such extended definition of purchase, in the case of a holder whose initial tax basis in an Exchange Note ('Exchange Tax Basis') exceeds the issue price, but is less than the face amount of the Exchange Note, the amount of the daily portions of OID required to be included in income will be reduced to be (i) the daily portions of OID otherwise includable in income pursuant to the rules described in the preceding paragraph, multiplied by (ii) a fraction, the numerator of which is the excess of the holder's Exchange Tax Basis over the issue price of the Exchange Note and the denominator of which is the excess of the face amount of an Exchange Note over the issue price of the Exchange Note.

Purchase at Premium Exception. Based on the extended definition of purchase under Proposed Treasury Regulation Section 1.1271-2, if a holder's initial tax basis in an Exchange Note exceeds its face amount, such holder will be considered to have purchased the security at a 'premium' under Section 1272(c)(1) of the Code. As a result, such a holder will not be required to include OID in income with respect to such Exchange Note. In addition, if a proper election is made, such holder will be able to deduct any bond premium under Section 171 of the Code over the term of the Exchange Note. The premium amortization may either serve as a deduction or as an offset to interest income. The amount of the amortization is generally determined by a constant-yield method, based upon the holder's adjusted tax basis in the Exchange Note.

Reporting. The Company will report to the holder of an Exchange Note and to the IRS for each calendar year the amount of OID attributable to the Exchange Note for such year. A holder whose tax basis in an Exchange Note exceeds the issue price of the Exchange Note will reduce such reported amount in the manner described under '-- OID Reduction' and '-- Purchase at Premium Exception' above to arrive at the OID includable in his taxable income.

Effect on Tax Basis. The holder's basis in an Exchange Note will be increased by the OID included by the holder in taxable income under the foregoing rules with respect to such Exchange Note, and such basis will be decreased by the deductions allowed (or the amount allowable as an offset of interest income) by reason of amortization of any bond premium on the Exchange Note.

Sale, Exchange or Redemption. In general, except as discussed below under '-- Market Discount,' the sale, exchange or redemption of an Exchange Note will result in capital gain or loss equal to the difference between the amount realized (which will exclude any amount attributable to the payment of accrued interest) and the holder's tax basis in the Exchange Note immediately before

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such sale, exchange or redemption.

Market Discount. Special rules will apply with respect to Subordinated Debentures and Exchange Notes with 'market discount.' The portion of market discount that accrued while a holder owned a Subordinated Debenture and has not otherwise been included in income at the time of the Debt Exchange and is not recognized as gain in the Debt Exchange will be carried over to the Secured Notes and treated as ordinary income when the holder disposes of the Exchange Notes received in Debt Exchange (unless otherwise included in income pursuant to an election made by the holder thereof). See '-- Federal Income Tax Consequences of the Exchange Offer and Indenture Amendments to Holders of Subordinated Debentures'.

FEDERAL INCOME TAX CONSEQUENCES OF THE RECLASSIFICATION

Recapitalization

General. As described below under 'Constructive Distribution,' some of the 4.9 shares of Common Stock received in the Reclassification in exchange for a share of $2.16 Preferred Stock may be treated as a constructive distribution. The balance of the shares of Common Stock which are received in the Reclassification in exchange for such share of $2.16 Preferred Stock will be treated as having been received pursuant to a recapitalization within the meaning of Section 368(a)(1)(E) of the Code. Except as provided under '-- Constructive Distribution' below, the results of such exchange to the holder of $2.16 Preferred Stock will be as follows:

(a) Gain or Loss. No gain or loss will be recognized by the holders of the $2.16 Preferred Stock upon the exchange of a share of $2.16 Preferred Stock for shares of Common Stock (other than the shares of Common Stock which are received as a distribution) pursuant to the Reclassification.

(b) Tax Basis. The aggregate tax basis of the Common Stock received as a result of the Reclassification (other than the shares of Common Stock which are received as a distribution) will be the same as the aggregate tax basis of the $2.16 Preferred Stock which is reclassified.

(c) Holding Period. The holding period of the Common Stock received will include the period that such holder held the $2.16 Preferred Stock which is reclassified.

Constructive Distribution

General. Under Section 305(c) of the Code and the Treasury regulations promulgated thereunder, the Reclassification will result in a constructive distribution to the holder of a share of $2.16 Preferred Stock in an amount equal to the lesser of (i) the excess of the fair market value (as determined for federal income tax purposes) of the 4.9 shares of Common Stock received in exchange for one share of $2.16 Preferred Stock over $25 and (ii) the dividend arrearages on the share of $2.16 Preferred Stock at the time of the Reclassification, in each case, as determined immediately after the Reclassification. The Company believes that it has sufficient accumulated earnings and profits for any such constructive distribution to be treated as a dividend. If the Reclassification had occurred on December 27, 1993, then a holder of $2.16 Preferred Stock would have received a dividend of approximately $2.87 per share of $2.16 Preferred Stock.

See '-- Federal Income Tax Consequences of Holding $2.20 Preferred Stock and Common Stock -- Dividends' for a discussion of dividend treatment, including extraordinary dividend treatment to corporate holders, and deductions related thereto.

Basis in Common Stock. A holder of $2.16 Preferred Stock who receives shares of the Common Stock as a constructive distribution in the Reclassification will have a tax basis in such shares equal to the fair market value of such Common Stock immediately after the Reclassification.

Holding Period of Common Stock. A holder of shares of $2.16 Preferred Stock who receives shares of Common Stock as a constructive distribution in the Reclassification will have a holding period for such Common Stock beginning on the date after the Reclassification.

FEDERAL INCOME TAX CONSEQUENCES RELATED TO CROYDEN ASSOCIATES' LITIGATION

Although the issue is subject to substantial interpretive and factual questions and counsel does not render an opinion with respect to these consequences, it is likely that a holder of $2.16 Preferred Stock will have a distribution equal to such holder's proportionate share of the fair market value of the 131,956 shares of Common Stock set aside and available to pay, and the money of the Company used to pay, the fees and expenses of the attorneys for such holders. The Company believes it has sufficient accumulated earnings and profits for such distribution to be taxed as a dividend. Such holder's tax basis in the shares of Common Stock received as a

distribution will equal the fair market value of such shares and the holding period for such shares will begin on the day after such distribution. See '-- Federal Income Tax Consequences of Holding $2.20 Preferred Stock and Common Stock -- Dividends' for a discussion of dividend treatment, including extraordinary dividend treatment to corporate holders, and deductions related thereto.

A holder of $2.16 Preferred Stock will be treated as if he sold the shares

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of Common Stock used to pay attorneys' fees and expenses for an amount equal to the fair market value of such shares. If the shares of Common Stock received as a distribution are properly allocated to the payment of such attorney fees and expenses, such holder will have no recognized gain. However, if such allocation is not respected, a holder will recognize gain equal to the excess, if any, of the fair market value of such holder's proportionate share of the Common Stock actually used to pay the class' attorneys' fees and expenses over such holder's adjusted basis in such shares of Common Stock. It is unclear whether a holder's share of the class' attorneys' fees and expenses will be deductible or will be required to be capitalized and thereby increase the tax basis in such holder's share of Common Stock.

FEDERAL INCOME TAX CONSEQUENCES OF THE AMENDED METLIFE MEMORANDUM

Recapitalization

General. Although the issue is not free from doubt, counsel for the Company is of the opinion that the agreements with respect to the terms and conditions of the $2.20 Preferred Stock included in the Amended MetLife Memorandum would constitute an exchange for federal income tax purposes and, accordingly, will be treated as the receipt, for federal income tax purposes, of 'new' $2.20 Preferred Stock and Common Stock in exchange for the 'old' $2.20 Preferred Stock. As discussed below under 'Constructive Distribution', a portion of such shares will be treated as a constructive distribution. The exchange of the balance of the shares for the 'old' $2.20 Preferred Stock will constitute a recapitalization within the meaning of Section 368(a)(1)(E) of the Code. If the agreements with respect to the $2.20 Preferred Stock pursuant to the Amended MetLife Memorandum do not constitute an exchange for federal income tax purposes, then the receipt of Common Stock would constitute a constructive distribution equal to the fair market value of such Common Stock received. The balance of this discussion assumes that the agreements with respect to the $2.20 Preferred Stock pursuant to the Amended MetLife Memorandum do constitute an exchange for federal income tax purposes. The results of such constructive exchange to MetLife Louisiana will be as follows:

(a) Gain or Loss. No gain or loss will be recognized by MetLife Louisiana.

(b) Tax Basis. The tax basis of the stock received will be the same as the basis of the 'old' $2.20 Preferred Stock.

(c) Holding Period. The holding period of the stock received will include the period that MetLife Louisiana held the 'old' $2.20 Preferred Stock.

Constructive Distribution

General. As a result of the receipt of Common Stock pursuant to the Amended MetLife Memorandum, MetLife Louisiana will have a constructive distribution on each share of $2.20 Preferred Stock equal to the lesser of (i) the fair market value of the Common Stock received attributable to one share of $2.20 Preferred Stock plus the amount, if any, by which the fair market value of one share of the 'new' $2.20 Preferred Stock exceeds $20 and (ii) the dividend arrearages on a share of the $2.20 Preferred Stock determined in each case immediately after the recapitalization. Based on the Company's estimate of the value of Common Stock and 'old' $2.20 Preferred Stock as of December 27, 1993, the Company estimates that MetLife Louisiana will have a constructive distribution equal to approximately $10.8 million.

Dividend Treatment. The Company believes it has accumulated earnings and profits sufficient to treat the distributions resulting from the receipt of Common Stock by MetLife Louisiana as

dividends. See '-- Federal Income Tax Consequences of Holding $2.20 Preferred Stock and Common Stock -- Dividends' for a discussion of dividend treatment, including extraordinary dividend treatment to corporate holders, and deductions related thereto.

Basis in Common Stock. The stock received by MetLife as a constructive distribution will have a tax basis equal to the fair market value of such stock.

Holding Period of Common Stock. The stock received as a constructive distribution will have a holding period beginning on the date after such constructive distribution is paid.

FEDERAL INCOME TAX CONSEQUENCES OF HOLDING $2.20 PREFERRED STOCK AND COMMON STOCK

Tax Consequences of Holding $2.20 Preferred Stock and Common Stock

Dividends. A distribution made with respect to $2.20 Preferred Stock or Common Stock (other than a distribution in redemption of such stock or in liquidation of the Company) will be a dividend for federal income tax purposes to the extent made out of the current or accumulated earnings and profits, as determined for federal income tax purposes, of the Company. Although no assurance can be given, the Company expects to have sufficient earnings and profits so that each distribution (other than a distribution in redemption of $2.20 Preferred Stock or Common Stock or in liquidation of the Company) will be out of its earnings and profits. If a distribution exceeds the earnings and profits of the Company, such distribution would be treated first as a return of capital to the extent of the holder's adjusted basis in such stock and thereafter would be treated as gain realized from the sale or exchange of such stock.

A domestic corporation which holds $2.20 Preferred Stock and/or Common Stock will be entitled to the 70 percent dividends received deduction with respect to dividends received thereon, subject however to generally applicable limitations thereon which are discussed below. (The special rule that the

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dividends received deduction is 80 percent for a stockholder who owns 20 percent by vote and value of the stock of the Company is not discussed herein.) The dividends received deduction (taking into account dividends received from the Company and from other corporations) may not exceed 70 percent of the taxable income (adjusted as provided in Section 246(b) of the Code) of the corporate stockholder. Moreover, the dividends received deduction is completely disallowed if the Common Stock is not held for 46 days or more (91 days or more for dividends paid with respect to $2.20 Preferred Stock that are attributable to a period or periods of 366 days or more) or the holder of the $2.20 Preferred Stock and/or Common Stock is obligated to make related payments with respect to a position in substantially similar or related property. Certain special rules for determining the holding period are included in Section 246(c) of the Code. The dividends received deduction is reduced under Section 246A of the Code to the extent that a holder of $2.20 Preferred Stock and/or Common Stock incurs indebtedness directly attributable to his investment in such stock. A corporate holder must reduce its basis, but not below zero, in $2.20 Preferred Stock and/or Common Stock with respect to any extraordinary dividends which are not subject to tax by reason of the dividends received deduction. An 'extraordinary dividend' on $2.20 Preferred Stock or Common Stock will be, with an exception that excludes qualified preferred dividends within the meaning of Section 1059(e)(3) of the Code from classification thereas, a dividend with respect to $2.20 Preferred Stock or Common Stock held for two years or less on the dividend announcement date (i) that exceeds five percent with respect to $2.20 Preferred Stock, 10 percent with respect to Common Stock, of the holder's basis in such stock, treating all dividends having ex-dividend dates within an 85-day period as one dividend, or (ii) that exceeds 20 percent of the holder's basis in such stock, treating all dividends having ex-dividend dates within a 365-day period as one dividend. Fair market value, if it can be established by the holder to the satisfaction of the IRS, may be substituted for basis for purposes of the preceding sentence. In addition, an amount treated as a dividend in the case of a redemption of stock that is not pro rata as to all stockholders and an amount which is a dividend and is part of a partial liquidation, is an extraordinary dividend without regard to the length of time that the stock has been held.

Dividend income that is not subject to regular corporate taxation as a consequence of the dividends received deduction may give rise to alternative minimum tax liability.

Sale, Exchange or Redemption. Generally, any redemption of Common Stock or $2.20 Preferred Stock will be treated as a sale or exchange thereof if the redemption (a) results in a complete termination of the holder's stock interest in the Company, (b) is substantially disproportionate with respect to the holder or (c) is not essentially equivalent to a dividend with respect to the holder, in each case within the meaning of Section 302(b) of the Code. In determining whether any of these tests has been met, stock which is constructively owned by reason of Section 318 of the Code (pursuant to which a holder will be deemed to own stock owned (actually or constructively) by certain related individuals and entities and to own stock subject to option), as well as stock actually owned, is taken into account. A distribution will generally be treated as substantially disproportionate if the percentage of the voting stock of the Company which is owned immediately after the redemption is less than 80 percent of the percentage of the voting stock of the Company which is owned immediately before the redemption and if the percentage of the common stock of the Company which is owned by such person is also so reduced. A distribution will not be essentially equivalent to a dividend if it results in a 'meaningful reduction' in a holder's stock interest in the Company. The IRS has stated in published rulings that a redemption that results in a reduction in the actual and constructive stock interest of a minority stockholder, whose relative actual and constructive stock interest is minimal and who exercises no control over corporate affairs, will generally be treated as not essentially equivalent to a dividend. If a redemption does not satisfy any of the Section 302 tests, the amount received in the redemption will be treated as a distribution which is made by the Company with respect to the stock so redeemed which is taxable as provided in '--Dividends' above, and the adjusted tax basis of the stock so redeemed will be transferred to any retained stock interest in the Company.

The amount of gain a holder will realize upon a sale, exchange or redemption of the $2.20 Preferred Stock or Common Stock is equal to the difference between the sum of the cash and fair market value of property received and the holder's tax basis in the $2.20 Preferred Stock and/or Common Stock. Any gain or loss realized upon a sale, exchange or redemption will generally be recognized. However, any realized gain or loss resulting from a redemption of the $2.20 Preferred Stock with Common Stock will generally not be recognized, except to the extent that such Common Stock received is attributable to accrued and unpaid dividends. Any basis reduction resulting from dividend received deductions attributable to extraordinary dividends on the $2.20 Preferred Stock or Common Stock, plus any such dividend received deductions in excess of such corporate holder's tax basis in the $2.20 Preferred Stock or Common Stock, will increase the realized gain or decrease the realized loss to such corporate holder upon a sale, exchange or redemption of the $2.20 Preferred Stock or Common Stock.

Tax Consequences Applicable to Holding $2.20 Preferred Stock

Extraordinary Dividends. If the issue price of the combination of the $2.20 Preferred Stock and the agreements pursuant to the Amended MetLife Memorandum exceeds its $20 liquidation preference, all dividends thereon will be

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treated as extraordinary dividends.

Redemption Premium. MetLife Louisiana may be considered under Section 305(c) of the Code to have constructively received a distribution if the combination of the $2.20 Preferred Stock and the agreements pursuant to the Amended MetLife Memorandum is considered to bear an unreasonable redemption premium. Redemption premium is the excess of the redemption price over the issue price. The amount and reasonableness of any redemption premium is a question of fact which will depend upon the determined fair market value of the stock on the date of consummation of the Reclassification. In addition, Section 305(c) was amended in 1990 to authorize the Treasury to issue regulations requiring the economic accrual of any redemption premium in excess of a de minimis amount and requiring the economic accrual of an unreasonable redemption premium irrespective of the callable nature of the stock. The Treasury, however, has not issued nor proposed any such

regulations. For these reasons, counsel has not rendered an opinion with respect to, and the Company cannot determine, the amount, if any, and timing of any constructive dividends on the combination of the $2.20 Preferred Stock and the agreements pursuant to the Amended MetLife Memorandum under Section 305(c) of the Code relating to the existence of any redemption premium.

Common Stock in Lieu of Cash Dividends. If the Company elects to pay dividends to MetLife Louisiana with Common Stock, the receipt of such Common Stock will be a distribution equal to the fair market value of the Common Stock taxable as a dividend to the extent of current or accumulated earnings and profits of the Company. See '-- Federal Income Tax Consequences of Holding $2.20 Preferred Stock and Common Stock -- Dividends' for a discussion of dividend treatment and deductions related thereto for certain corporate holders.

$2.20 Preferred Stock Exchange Option. The exercise by MetLife Louisiana of its option under the MetLife Memorandum to exchange the $2.20 Preferred Stock for the Future Preferred Stock should, under current law, be characterized as a recapitalization under section 368(a)(1)(E) of the Code. As a recapitalization, such exchange should be tax free, except to the extent, and have the same general tax consequences, described under the caption '-- Federal Income Tax Consequences of the Reclassification.'

REPORTING REQUIREMENTS

Treasury regulations require that every holder of Existing Preferred Stock or Subordinated Debentures who receives stock or securities or other property in a tax-free exchange in the Recapitalization must include in his income tax return for the taxable year in which the exchange takes place a complete statement of all facts pertinent to the non-recognition of gain or loss upon such exchange including (1) a statement of the cost or other basis of the stock or securities transferred in the exchange and (2) a statement of the fair market value of the stock or securities and other property or money received from the exchange. In addition, the Treasury regulations require that the above information be kept in the permanent records of every such taxpayer.

BACKUP WITHHOLDING

Any federal income tax liability of a holder resulting from interest paid on the Exchange Notes or dividends paid on the $2.20 Preferred Stock or Common Stock ordinarily will not be collected by withholding. However, a withholding of such tax at a rate of 31% ('backup withholding') may be required by reason of the events specified by Section 3406 of the Code and Treasury regulations promulgated thereunder, which include failure of a holder to supply the Company or its agent with such holder's taxpayer identification number under penalty of perjury. Corporations generally are not subject to backup withholding, provided they properly establish their status when required to do so. Backup withholding may also apply to other holders who are otherwise exempt from such withholding if such holders fail to properly document their status as exempt recipients.

FEDERAL INCOME TAX CONSEQUENCES OF THE RECAPITALIZATION TO THE COMPANY

Limitation on Net Operating Loss Carryforwards. The Company estimates it has as of December 31, 1992 approximately $63.2 million of net operating loss carryforwards and $8.2 million of general business credits. Under Sections 382 and 383 of the Code, a corporation's future use of its net operating loss carryforwards, built-in losses and general business and minimum tax credits will be limited after the occurrence of an 'ownership change' to an amount which is, in general, the value of the stock of the Company at the time of the ownership change multiplied by the value of the long-term tax-exempt rate at that time. An ownership change is a transaction or series of transactions resulting in the increase in the percentage of the value of the stock of the Company owned by one or more five-percent shareholders by more than 50 percentage points over the lowest percentage of the value of the stock of the Company owned by such five-percent shareholders during any three-year 'testing period.' In determining whether an ownership change has occurred, certain complex rules (the '382 Rules') will apply. Currently the 382 Rules are contained in temporary regulations. The

Treasury, however, has issued additional proposed regulations under section 382 of the Code which will, if adopted, substantially modify the 382 Rules.

The determination as to whether an ownership change will occur as a result of the Recapitalization is subject to substantial interpretative questions. The Company intends to take the position that an ownership change has not occurred prior to the Recapitalization and will not occur as a result thereof. Although

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counsel has not rendered an opinion on whether the Reclassification will result in an ownership change, counsel believes that the Company's position is based upon a reasonable interpretation of the 382 Rules. No assurance can be given that the IRS or the courts would agree with the position of the Company.

Because there is substantial uncertainty on this point, there can be no assurance that an ownership change will not occur as a result of the Recapitalization or future events.

In the event of an ownership change, the Company is permitted to reduce taxable income in each year subsequent to the ownership change with net operating losses and/or general business credits (to the extent attributable to the tax liability related to such taxable income, the discussion of which is not included herein) which arose prior to the ownership change in an amount which the Company estimates would be approximately $7.4 million (the '382 Limit') if the ownership change were to have occurred on December 27, 1993. Increases and decreases in the value of the stock of the Company and in the long-term tax exempt rate between December 27, 1993 and the date of any ownership change will increase or decrease, respectively, the 382 Limit.

OID Deduction. Subject to certain limitations, which are described below, the Company will be entitled to deduct as interest the amount of interest, including OID, which accrues on the Exchange Notes. See '-- Federal Income Tax Consequences of Holding the Exchange Notes -- Original Issue Discount.'

Limitations Relating to Certain High Yield Discount Obligation. The Code imposes limitations on 'High Yield Discount Obligation.' An Exchange Note will be a high yield discount obligation if its yield to maturity exceeds the applicable Federal rate, for the calendar month of the issue, plus five percentage points and such Exchange Note has 'significant' OID. A debt instrument is treated as having significant OID if the aggregate amount which would be includable in gross income with respect to such instrument for periods before the close of any accrual period ending after the date five years after the date of issue exceeds the sum of (a) the aggregate amount of interest to be paid under the instrument before the close of such accrual period and (b) the product of the issue price of the instrument and its yield to maturity.

See '-- Federal Income Tax Consequences of Holding the Exchange Notes -- Original Issue Discount.'

If, however, the Exchange Notes have significant OID, (1) a portion of the OID on the Exchange Notes may not be deductible by the Company at any time (the 'disqualified portion'), (2) the remaining OID will not be deductible until paid, and (3) a corporate holder may be entitled to a dividends-received deduction equal to 70% of the disqualified portion of the OID. See '-- Federal Income Tax Consequences of Holding $2.20 Preferred Stock and Common Stock -- Dividends' for a discussion of dividend treatment and deductions related thereto for certain corporate holders.

Cancellation of Indebtedness Income. Based upon the Company's estimate of the fair market value of the Exchange Notes as of December 27, 1993, the Company does not anticipate the Debt Exchange will result in any cancellation of indebtedness income. Should the fair market value of a $1,000 face amount Subordinated Debenture decrease below $904 (the fair market value on December 27, 1993 of a Subordinated Debenture was approximately $1,001.25) before consummation of the Debt Exchange, the Company could realize cancellation of indebtedness income. Even if the Company should recognize cancellation of indebtedness income, the Company anticipates that it will have sufficient net operating losses to offset all or substantially all of such income. Absent a ruling from the IRS, a portion of the cancellation of indebtedness income will be allocated to that period, if

any, of the Company's taxable year after there is a Section 382 ownership change. The amount of net operating losses that may be used to offset such cancellation of indebtedness so allocated would be limited by the 382 Limit. In addition, only ninety percent of the cancellation of debt income may be offset by net operating losses for purposes of calculating alternative minimum taxable income with the result that any such cancellation of debt income will be subject to a tax of at least 2 percent under current law. See ' -- Limitations on Net Operating Loss Carryforwards' above.

CERTAIN BANKRUPTCY AND INSOLVENCY CONSIDERATIONS

GENERAL

Under the Bankruptcy Code, or other applicable bankruptcy and insolvency laws, completion of the Exchange Offer may have, among other things, the consequences indicated below.

If the Company voluntarily or involuntarily becomes a debtor under the Bankruptcy Code, the ability of holders of the Company's debt securities, including the Subordinated Debentures, to recover their investment may be impaired. Given the risks inherent in the reorganization process, including (i) the potential deterioration of the business of the Company and its subsidiaries during a bankruptcy proceeding, (ii) the possible loss of a significant number of employees, and (iii) the additional administrative expense associated with a bankruptcy case, it is not possible to determine what percentage of their investment holders of Subordinated Debentures and other debt security holders of the Company are likely to recover in a bankruptcy reorganization. Ultimate recovery would depend, among other things, on the impact of the bankruptcy proceedings on the business of the Company, the treatment of the debt in a plan of reorganization and the length of time necessary to complete the reorganization process. It is not unusual for complex bankruptcy proceedings to continue for a period of years before a plan of reorganization is confirmed and

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payments under the plan are made. A reorganization could affect the Company's ability to generate revenues from operations or asset sales and could significantly diminish the saleable value of its assets. Alternatively, the Company could be required to liquidate its assets under Chapter 7 or a liquidating plan under Chapter 11. The foregoing factors, in addition to those factors described below, would also be applicable with respect to the Exchange Notes in the event a bankruptcy petition is filed after completion of the Exchange Offer.

FRAUDULENT TRANSFER

One of three fraudulent transfer statutes may be applicable to the Exchange Offer: (i) the Uniform Fraudulent Transfer Act ('UFTA') as codified by the state of Texas (the state in which the Company's headquarters are located); (ii) the Uniform Fraudulent Conveyance Act ('UFCA') as codified by the state of Delaware (the state in which the Company is incorporated); and (iii) section 548 of the Bankruptcy Code. Section 548 of the Bankruptcy Code governs fraudulent conveyance as a matter of federal law applicable to persons or corporations who are debtors in cases pending in the federal bankruptcy courts and is substantially based upon the UFCA. The UFTA is generally modeled after both the UFCA and section 548 of the Bankruptcy Code; each provides for the avoidance of transfers made with actual intent to defraud creditors, or made with constructively fraudulent intent. Alaska's law provides only that transfers made with the intent to hinder, delay or defraud creditors are void. Alaska courts look to the existence of various 'badges of fraud,' i.e., inadequate consideration, transfer of property in anticipation of a pending suit and transfer when debtor was insolvent, to determine intent.

To sustain a constructive fraud finding under section 548 of the Bankruptcy Code, the UFCA and the UFTA, a two-prong test is applied involving: (1) the value given and (2) the financial condition of the transferor. For the constructive fraud provisions to apply, the court must find that the transfer or obligation was for less than 'fair consideration' (under the UFCA) or for less than a 'reasonably equivalent value' (under Section 548 of the Bankruptcy Code or the UFTA). In addition to the finding of lack of fair consideration or reasonably equivalent value, the court must find that the

transfer (1) was made while the transferor was insolvent or rendered the transferor insolvent, (2) would leave the transferor with insufficient capital, or (3) would place the transferor in a position to incur debts which it is unable to pay. The definition of 'insolvent' varies under the three statutes.

The measure of insolvency for purposes of the foregoing will vary depending upon the law of the jurisdiction which is being applied. The Company would be considered insolvent, under Texas law, if the sum of all its liabilities is greater than the value of all its assets at a fair valuation or if it were generally not able to pay its debts as they become due. Under the Bankruptcy Code, the Company would be considered insolvent if the sum of all its liabilities is greater than the value of all its property at a fair valuation. Under Delaware law, the Company would be insolvent if the present fair saleable value of its assets is less than the amount required to repay its probable liability on its debts as they become absolute and matured. The foregoing italicized terms are terms included in the UFTA (Texas) and are applied on a case-by-case basis to determine the insolvency of a particular person. Because there can be no assurance which jurisdiction's fraudulent transfer law would be applied by a court, there can be no assurance as to what standard a court would apply in order to determine insolvency.

If a court in a lawsuit by or on behalf of an unpaid creditor or a representative of creditors, such as a trustee in bankruptcy or the Company as debtor-in-possession, were to find that, at the time of the Exchange Offer, (a) the Company received less than fair consideration or reasonably equivalent value in exchange for the Exchange Notes pursuant to the Exchange Offer, and (b) the Company (i) was insolvent, or was rendered insolvent as a result of the Exchange Offer, (ii) had unreasonably small capital for its business, or (iii) intended to incur or believed it would incur, debts beyond its ability to pay as such debts matured, such court could, among other remedies, avoid the Exchange Offer as a fraudulent transfer, reinstate, in full and without modification, the rights and claims evidenced by the Subordinated Debentures and/or order holders of Exchange Notes issued in the Exchange Offer to return to the Company or to a fund for the benefit of its creditors an amount equal to any excess in value that they received.

VOIDABLE PREFERENCE

If the Exchange Offer is consummated and the Company becomes subject to a petition for relief under the Bankruptcy Code within 90 days (or, with respect to insiders of the Company, within one year) after the delivery of the Exchange Notes pursuant to the Exchange Offer and certain other conditions are met, the delivery of the Exchange Notes could be avoided as a preferential transfer to the recipients thereof and, to the extent avoided, the value of such transfer could be recovered from such recipients and from subsequent transferees.

A bankruptcy trustee, or the Company as debtor-in-possession, may avoid as a preference a transfer of property of the debtor to a creditor on account of an antecedent debt while the debtor was insolvent, where that creditor received more than it would have received in a liquidation of the Company under Chapter 7 of the Bankruptcy Code had the payment not been made, and if the payment was made within 90 days of the date the bankruptcy case was commenced, or within one year before the commencement of the bankruptcy case if the transfer is to or for the benefit of a creditor that is found to have been an 'insider,' as defined in

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the Bankruptcy Code. The debtor is rebuttably presumed to have been insolvent during the 90 days preceding the commencement of the bankruptcy case. If, at any time, all of these conditions are present with respect to any payment of the principal of, and/or accrued interest on, (i) the Exchange Notes, (ii) the Subordinated Debentures prior to completion of the Exchange Offer, or (iii) the untendered Subordinated Debentures which remain outstanding after the Exchange Offer, such payment could constitute a preferential transfer to the holder thereof, and to the extent avoided, could be recovered from such holder.

Further, a bankruptcy trustee, or the Company as debtor-in-possession, could seek to avoid the Exchange Offer as preferential if, and to the extent that, the value of the Exchange Notes received in the Exchange Offer exceeds the value of the Subordinated Debentures exchanged.

DESCRIPTION OF FUTURE PREFERRED STOCK

The following is a description of the Future Preferred Stock which is a new series of preferred stock that the Company will, after expiration of the Company's MetLife Option without being exercised in full and upon request of MetLife Louisiana, exchange on a share for share basis for $2.20 Preferred Stock then owned by MetLife Louisiana. The Future Preferred Stock has substantially the same terms as the $2.20 Preferred Stock but is modified to reflect the agreements and waivers contemplated by the Amended MetLife Memorandum. See 'The Recapitalization -- Background -- The Recapitalization.' The following description of the Future Preferred Stock summarizes the material provisions of the Future Preferred Stock.

DIVIDENDS

Holders of shares of Future Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, annual dividends of $2.20 per share, payable at the election of the Company in cash or shares of Common Stock or any combination thereof. Such dividends will be cumulative, will be payable in equal quarterly installments on March 30, June 30, September 30 and December 30 of each year and will begin accruing on the date on which the Future Preferred Stock is issued; provided that the first dividend payment date will be the thirtieth (30th) day of the last month of the first full calendar quarter beginning after the date on which the Future Preferred Stock is issued. Dividends will be payable to holders of record of Future Preferred Stock as they appear on the stock transfer books of the Company on such record dates as are fixed by the Board of Directors.

If the Company pays all or a portion of a dividend in shares of Common Stock, the number of shares of Common Stock to be issued by the Company in payment of such dividend or portion thereof will be the dollar amount of such dividend divided by the average of the Closing Sales Prices (as defined below) of the Common Stock for the ten (10) consecutive trading days beginning on the first trading date after the Company publicly announces its intention to pay the dividend in Common Stock. The Company must make such announcements not less than 20 trading days and not more than 30 trading days prior to the dividend payment date.

The 'Closing Sales Price' as of a certain date will mean the average closing price, regular way, as of such date, of the Common Stock on the New York Stock Exchange, or, in case no sales take place on such date, the average of the reported closing bid and asked prices, regular way, on such date on the New York Stock Exchange Composite Tape, or, if the Common Stock is not listed or admitted to trading on such exchange, the principal national securities exchange on which the Common Stock is listed or admitted to trading, or if the Common Stock is not listed or admitted to trading on any national securities exchange, the closing sale prices, or, if there are no closing sale prices, the average of the closing bid and asked prices, in the over-the-counter market as reported by the National Association of Securities Dealers Automated Quotation System, or, if not so reported, as reported by the National Quotation Bureau, Incorporated, or any successor thereof, or, if not so reported, the average of the closing bid and asked prices as furnished by any member of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose.

The Company will be prohibited from declaring and paying dividends on any junior stock and from redeeming, repurchasing or making a sinking fund payment on any junior stock unless all prior dividends accumulated on the Future Preferred Stock, including dividends for the current quarterly period, have been paid or declared and set aside for payment. See '-- Ranking.'

LIQUIDATION RIGHTS

Each share of Future Preferred Stock will have a liquidation preference of $20 per share. In the event of any liquidation, dissolution or winding up of the Company, the holders of shares of Future Preferred Stock will be entitled to receive the liquidation preference of $20 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is

made to holders of Common Stock or any other junior stock, and all series or classes of capital stock of the Company hereafter issued that rank on a parity as to liquidation rights with the Future Preferred Stock will be entitled to share ratably, in accordance with the respective preferential amounts payable on such stock, in any distribution which is not sufficient to pay in full the aggregate of the amounts payable thereon. After payment in full of the

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liquidation preference of the shares of Future Preferred Stock, the holders of such shares will not be entitled to any further participation in any distribution of assets by the Company. Neither a consolidation, merger or other business combination of the Company with or into another corporation or other entity nor a sale or transfer of all or part of the Company's assets for cash, securities or other property will be considered a liquidation, dissolution or winding up of the Company. See '--Ranking.'

RANKING

The Future Preferred Stock will rank senior to the Common Stock as to liquidation and dividends. See '-- Dividends' and '-- Liquidation Rights.'

REDEMPTION

The Future Preferred Stock will not be subject to any sinking fund provision or any mandatory redemption other than through the exercise of the Purchase Obligation (as defined below). The Future Preferred Stock will be redeemable, but only out of funds legally available therefor, on at least 45 but not more than 60 days' notice, at the option of the Company, in whole or in part, at a redemption price equal to $20 per share, plus dividends accrued and accumulated but unpaid to the redemption date.

Pursuant to the terms of the Amended MetLife Memorandum, the Company has agreed not to redeem any shares of $2.20 Preferred Stock, or the Future Preferred Stock for which they are exchanged, prior to the fourth anniversary date of the Reclassification. Such terms may be modified or waived at any time with the consent of MetLife Louisiana. The Company reserves the right to redeem $2.20 Preferred Stock or Future Preferred Stock during such period if such agreement with MetLife Louisiana terminates or is waived for any reason.

PURCHASE OBLIGATION

The Company will be required, but only out of funds legally available therefor, to offer to purchase ('Purchase Obligation'), on each June 30 beginning June 30, 1998 and ending June 30, 2007, (i) 287,500 shares of Future Preferred Stock, plus (ii) with respect to years after 1998, the number of shares subject to, but not purchased pursuant to, the previous year's offer (including prior year carryovers). The purchase price payable pursuant to each such offer shall be $20 per share, plus accrued and unpaid dividends to the date of such purchase, which shall be payable at the election of the Company in cash or shares of Common Stock or any combination thereof. The shares to be purchased will be selected pro rata (as nearly as may be) so that the number of shares purchased from each holder will be the same proportion of all the shares to be purchased that the total number of shares then held by such holder bears to the total number of shares then outstanding.

If the Company pays all or a portion of the Purchase Obligation in shares of Common Stock, the number of shares of Common Stock to be issued by the Company in payment of such Purchase Obligation or portion thereof will be the dollar amount of such Purchase Obligation divided by the average of the Closing Sales Prices of the Common Stock for the ten (10) consecutive trading days beginning on the first trading date after the Company publicly announces its intention to pay the Purchase Obligation in Common Stock. The Company must make such announcements not less than 20 trading days and not more than 30 trading days prior to the relevant purchase obligation payment date.

VOTING RIGHTS

The holders of Future Preferred Stock will be entitled to one vote per share, voting together as a single class with the holders of shares of Common Stock and any other class or series which may similarly be entitled to vote with the holders of Common Stock, on all matters on which the shares of Common Stock may vote, including the elections of directors.

The affirmative vote of the holders of a majority of the outstanding shares of Future Preferred Stock, voting as a separate class, will be required: (i) to authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking prior to the Future Preferred Stock as to the payment of dividends or the distribution of assets, (ii) to amend, alter or repeal the voting powers, preferences or rights of the Future Preferred Stock in any respect adverse to the holders thereof or (iii) to authorize the merger or consolidation of the Company if such merger or consolidation would have an effect on the Future Preferred Stock substantially similar to (i) or (ii) above.

In addition, the affirmative vote of the holders of a majority of the outstanding shares of all series of preferred stock, voting together as a single class, will be required in order to authorize any increase in the authorized amount of all series of preferred stock or authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking prior to or on parity with the Future Preferred Stock as to the payment of dividends or the distribution of assets.

FAILURE TO PAY DIVIDENDS

If the Company fails to pay dividends on the Future Preferred Stock in an amount equal to at least six quarterly dividends (whether or not consecutive), the number of directors then constituting the Board of Directors will be increased by two, and the holders of the Future Preferred Stock, voting together as a single class with the holders of any other series of preferred stock having similar voting rights, shall have the right to elect the two additional members of the Board of Directors. Such right shall expire when all accrued but unpaid dividends on the Future Preferred Stock and such other preferred stock, if any,

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have been paid and dividends on the Future Preferred Stock and such other preferred stock, if any, for the then current quarterly period have been paid or declared and set apart. In the event the Company fails to pay a dividend in cash or Common Stock, the Company's right to pay dividends or to make repurchases in Common Stock will terminate.

MISCELLANEOUS

The Future Preferred Stock will not be convertible into, or exchangeable for, shares of Common Stock, and holders of the Future Preferred Stock will have no preemptive rights with respect to any securities of the Company. The shares of Future Preferred Stock, when issued, will be duly and validly issued, fully paid and nonassessable.

DESCRIPTION OF SUBORDINATED DEBENTURES

Holders of Subordinated Debentures should read Appendix E for a summary of the material provisions of the Subordinated Debentures.

LEGAL OPINIONS

The validity of the Exchange Notes issuable in the Exchange Offer and the shares of Common Stock issuable in connection with the Reclassification are being passed upon by Fulbright & Jaworski L.L.P., San Antonio, Texas.

EXPERTS

The consolidated financial statements as of December 31, 1992 and September 30, 1991, for the years ended December 31, 1992, September 30, 1991 and September 30, 1990 and for the three-month period ended December 31, 1991 included in this Proxy Statement -- Prospectus and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte & Touche, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

Information set forth in this Proxy Statement -- Prospectus, including the information included in Note N of Notes to Consolidated Financial Statements, relating to estimated proved reserves of oil and gas and the related estimates of future net cash flows and present values thereof (except for estimates of future income tax expense related thereto) as of September 30, 1990; September 30, 1991; December 31, 1991; December 31, 1992 and September 30, 1993 for properties in the United States and as of September 30, 1990; September 30, 1991; December 31, 1992 and April 30, 1993 for properties in Bolivia have been prepared by Netherland, Sewell & Associates, Inc., independent petroleum engineers, and are included herein and incorporated by reference herein upon the authority of such firm as an expert in petroleum engineering.

GENERAL INFORMATION CONCERNING PROXIES

SOLICITATION OF PROXIES

This Proxy Statement -- Prospectus is furnished in connection with the solicitation by the Board of Directors of the Company of proxies to be voted at the Annual Meeting of Stockholders of the Company, which will be held on Wednesday, February 9, 1994 at The Hotel Intercontinental, 111 East 48th Street, New York, New York, and at any adjournments thereof. The mailing address of the executive offices of the Company is 8700 Tesoro Drive, San Antonio, Texas 78217.

The enclosed form of proxy is solicited by the Board of Directors. The Company has employed Georgeson to assist in the solicitation of proxies. See 'The Exchange Offer -- Expenses.' The cost of this solicitation will be borne by the Company. Solicitation is being made by the use of the mails, but may also be made by telephone, telegram and personal interviews.

VOTING OF PROXIES

Shares represented by proxies received by the Board of Directors will be voted at the Annual Meeting in accordance with the directions made therein by the stockholders, unless authority to do so is withheld. If no direction is made in the proxy, shares represented by any unrevoked proxy in the enclosed form, if such proxy is properly executed and is received by the Company prior to the Annual Meeting, or any adjournment thereof, will be voted (1) FOR the proposal to approve the Reclassification, the Charter Amendment relating to the elimination of staggered terms for directors and the Charter Amendment relating to the 90% approval requirement (Proposal No. 1), (2) FOR the Charter Amendment relating to elimination of the 80% approval requirement (Proposal No. 2), (3) FOR the election to the Board of Directors of the nominees listed herein, (4) FOR approval of the Executive Long-Term Incentive Plan of the Company and (5) FOR ratification of the appointment of Deloitte & Touche as the Company's independent auditors for 1993. If any other matters are brought before the Annual Meeting (including any adjourned meeting) and submitted to a vote, all proxies will be voted in accordance with the judgment of the persons voting the respective proxies unless authority is withheld. The Company knows of no other business to be brought before the Annual Meeting.

RECORD DATE

Holders of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock of record at the close of business on December 15, 1993 are entitled to notice of and to vote at the Annual Meeting.

On December 15, 1993, there were issued and outstanding 14,069,236 shares of Common Stock, 1,319,563 shares of $2.16 Preferred Stock and 2,875,000 shares of $2.20 Preferred Stock.

No dissenters' rights of appraisal exist with respect to approval of the

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Reclassification or with respect to any other facet of the Recapitalization.

VOTING RIGHTS

Each share of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock is entitled to one vote with respect to each matter brought before the Annual Meeting. Proposal No. 1 requires the approval of the holders of a majority of the outstanding shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class, and the approval of the holders of two-thirds of the outstanding shares of $2.16 Preferred Stock, voting as a separate class. Proposal No. 2 requires the approval of the holders of 80% of the shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock, voting together as a single class. The election of directors and each other matter brought before the Annual Meeting requires the approval of the holders of a plurality of the shares of Common Stock, $2.16 Preferred Stock and $2.20 Preferred Stock present or represented at the Annual Meeting, voting together as a single class.

MetLife Louisiana, which owns all the outstanding shares of $2.20 Preferred Stock and 2,184,085 shares of Common Stock, which together constitute approximately 28% of the outstanding shares of capital stock entitled to vote at the Annual Meeting, has indicated to the Company that it intends to vote all of its shares in favor of Proposal No. 1 and Proposal No. 2. MetLife's willingness to vote in favor of Proposal No. 1 is subject to certain conditions. See 'The Recapitalization -- MetLife Louisiana Conditions.'

Shares represented by proxies that reflect abstentions will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum. An abstention has no effect with respect to the election of directors, since a plurality is required for the election of directors. However, with respect to any proposal for which at least a majority vote is required, an abstention has the same effect as a vote against the proposal. Broker non-votes will be included in the determination of the number of shares present and entitled to vote for purposes of determining the presence of a quorum. However, broker non-votes are not counted for purposes of determining whether a proposal has been approved.

REVOCATION OF PROXY

A stockholder who has executed and returned a proxy may revoke it at any time before it is voted by executing and returning a proxy bearing a later date, by giving written notice of revocation to the Secretary of the Company or by attending the Annual Meeting and voting in person.

PROPOSALS OF STOCKHOLDERS

Proposals of stockholders to be presented at the 1994 annual meeting of stockholders of the Company must be received for inclusion in the Company's proxy statement and form of proxy by February 7, 1994.

THE ANNUAL MEETING

PROPOSAL NO. 3 -- ELECTION OF DIRECTORS

Under the Certificate of Incorporation, the Board of Directors is currently divided into three classes as nearly equal in number as possible, with the term of office in one class expiring each year. Currently there are 13 directors of the Company. Therefore, at the Annual Meeting, four directors are to be elected for three-year terms. The Nominating Committee of the Board of Directors has nominated John J. McKetta, Jr., Charles F. Luce, Stewart G. Nagler and Arthur Spitzer for reelection to another three-year term. Unless otherwise specified, all duly executed proxies will be voted for the election of the four nominees set forth above. Each of such nominees has indicated his willingness to

serve as a director, if elected, and the Company has no reason to believe that any nominee will be unable to serve. The persons designated as proxies, however, reserve full discretion to cast votes for other persons in the event that any one or more of the nominees are unable to serve.

Pursuant to a condition imposed by MetLife Louisiana, the Board of Directors has proposed an amendment to the Company's Certificate of Incorporation to eliminate staggered terms of directors. See 'The Recapitalization -- MetLife Louisiana Conditions.' Each incumbent director whose term is scheduled to extend beyond the 1994 annual meeting has agreed to resign upon adoption of such amendment. Such directors will then be reappointed by the remaining directors for one-year terms. As a result, the term of all directors, including those elected at the Annual Meeting, would thereafter be extended only until the next annual meeting of stockholders of the Company or until their respective successors are duly elected and qualified. The 1994 annual meeting of stockholders is currently intended to be held in June 1994. In addition, upon adoption of such amendments, the provisions of the Delaware Law which permit the removal of a director elected to a staggered term to be made only for cause would no longer apply and a director could be removed without cause by a majority vote of the stockholders.

INFORMATION CONCERNING DIRECTORS, NOMINEES AND COMMITTEES OF THE BOARD OF DIRECTORS

Certain information as to each nominee for director and each other person whose term of office as director will continue after the Annual Meeting is set forth in the table below and in the following paragraphs. The information appearing in the table and the notes thereto regarding beneficial ownership of securities has been furnished to the Company by the respective directors and nominees.

<TABLE>
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COMMON STOCK

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NAME	AGE AT DECEMBER 15, 1993	SERVED AS DIRECTOR OF THE COMPANY OR PREDECESSOR COMPANIES FROM	OTHER POSITIONS AND OFFICES WITH THE COMPANY	COMMON STOCK OWNED BENEFICIALLY ON DECEMBER 15, 1993(1)		OWNED BENEFICIALLY AFTER THE RECLASSIFICATION	
				NUMBER OF SHARES	PERCENT OF CLASS	NUMBER OF SHARES	PERCENT OF CLASS
Nominees For Terms Expiring in 1996:							
Charles F. Luce	76	1988	(2)(3)	--	--	--	--
John J. McKetta, Jr.	77	1980	(4)(5)	1,565	.011%	1,565	.007%
Stewart G. Nagler(6)	50	1991	(5)	--	--	--	--
Arthur Spitzer	81	1992(7)	(2)(5)	207,630	1.476%	207,630	.920%
Directors Whose Terms Expire in 1995:							
Robert J. Caverly	74	1992	(3)(4)	3,000	.021%	3,000	.013%
Steven H. Grapstein	35	1992	(2)(3)	1,769,100(8)	12.574%	1,769,100(8)	7.839%
Raymond K. Mason, Sr.	66	1983	(4)	3,528	.025%	3,528	.016%
Murray L. Weidenbaum	66	1992	(4)(5)	100	.001%	100	--
Directors Whose Terms Expire in 1994:							
Ray C. Adam(9)	73	1992	(3)(4)	--	--	--	--
Michael D. Burke	49	1992	(2)(3)(10)	293,000(11)	2.056%	293,000(11)	1.300%
Peter M. Detwiler	65	1967	(2)(4)(5)	8,715	.062%	8,715	.039%
M. Richard Stewart	50	1989	(5)	26,100(12)	.186%	26,100(12)	.116%
Charles Wohlstetter	83	1978(13)	(2)(3)(14)	3,106	.022%	3,106	.013%

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(1) Unless otherwise indicated below, each director and nominee possesses sole voting and investment power with respect to the shares shown to be owned by him.
(2) Member of the Nominating Committee (Mr. Wohlstetter, Chairman).
(3) Member of the Executive Committee (Mr. Burke, Chairman).
(4) Member of the Compensation, Stock Award and Retirement Committee (Mr. Detwiler, Chairman).
(5) Member of the Audit Committee (Mr. Nagler, Chairman).

(Footnotes continued on following page)

(6) Elected by the Board in May 1991 pursuant to the Stockholders Agreement between the Company and MetLife Louisiana. See 'Security Ownership of Certain Beneficial Owners' for information regarding the securities of the Company owned by MetLife Louisiana.
(7) Mr. Spitzer previously served as a director of the Company from 1978 to 1984.
(8) Mr. Grapstein is an officer of Oakville N.V., which owns 1,769,100 shares of the Company's Common Stock. Mr. Grapstein, as an officer, shares voting and investment power with respect to such shares.
(9) Elected by the Board of Directors in August 1992 after the request (later withdrawn) of MetLife Louisiana for a special meeting of the preferred stockholders to elect Mr. Adam and one other director. See 'Security Ownership of Certain Beneficial Owners' for information regarding the securities of the Company owned by MetLife Louisiana.
(10) Mr. Burke was elected by the Board of Directors as President and Chief Executive Officer effective July 27, 1992.
(11) Includes 80,000 shares of Common Stock which Mr. Burke has the right to purchase pursuant to a stock award, 60,000 of which shares are subject to substantial restrictions and conditions of forfeiture over a remaining three-year period. In addition, the shares shown include 100,000 shares of Common Stock which Mr. Burke had the right to acquire through the exercise of options which were exercisable on December 15, 1993, or within 60 days thereafter.
(12) The shares shown include 2,226 shares of Common Stock credited to the account of Mr. Stewart under the Company's Thrift Plan.
(13) Mr. Wohlstetter previously served as a director of the Company from 1968 to 1975.
(14) Chairman of the Board of Directors.

</TABLE>

Ray C. Adam was Chairman of the Board of Directors and Chief Executive Officer of NL Industries, Inc., from 1974 until his retirement in 1983. Mr. Adam is also a director of Mueller Industries, Inc., and is a member of the Business Council.

Michael D. Burke was elected President and Chief Executive Officer of the Company effective July 27, 1992. Prior to joining the Company, Mr. Burke was Group Vice President of Texas Eastern Corporation from 1986 to 1992. Mr. Burke was President and Chief Executive Officer of T. E. Products Pipeline Company, L.P., an affiliate of Texas Eastern Corporation, from 1990 to 1992, and he was President of Texas Eastern Products Pipeline Company from 1986 to 1990.

Robert J. Caverly is a consultant and investor. For the last five years he has performed interim management assignments for various real estate development projects and has been a consultant on real estate matters to financial

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institutions and law firms. Mr. Caverly was a director of Contel Corporation from 1975 to March 1991. Mr. Caverly was a director from 1970 through 1992 of three investment funds which are owned and managed by Home Life Insurance Company, and he is Chairman of the Board of Directors of Moscom Business Centers Inc., a subsidiary of Americom International Corporation.

Peter M. Detwiler is Chairman of the Board of Detwiler & Company, Inc., a consulting company. He is the former Vice Chairman of the Board of Directors of E.F. Hutton & Company Inc. and the E.F. Hutton Group, New York, New York, a major financial firm, with which he had been associated since 1961.

Steven H. Grapstein has been a Vice President of Kuo Investment Company and subsidiaries, an international investment group, since September 1985. He is a director of several of the Kuo companies and a board member of several unrelated real estate development companies. Mr. Grapstein has been a Vice President of Oakville N.V. since 1989. See 'Security Ownership of Certain Beneficial Owners' for information regarding the securities of the Company owned by Oakville N.V.

Charles F. Luce has been Special Counsel to MetLife since March 1987. MetLife Louisiana is a wholly owned subsidiary of MetLife. See 'Security Ownership of Certain Beneficial Owners' for information regarding the securities of the Company owned by MetLife Louisiana. Mr. Luce has been a consultant to Consolidated Edison Company of New York, Inc. since September 1, 1982.

Raymond K. Mason, Sr., has been Chairman of the Board of Directors of American Banks of Florida, Inc., since 1978. Mr. Mason has served as Chairman of the Board of Directors of American

Security Life Assurance Company of North Carolina ('ASLNC') and its parent, American Security Life Assurance Company of Florida ('ASLF'). During December 1990, ASLNC and ASLF voluntarily consented to administrative rehabilitation. Pursuant to rehabilitation, Mr. Mason's authority as Chairman of the Board of Directors of ASLNC and ASLF was automatically suspended. Both of these companies are presently in liquidation.

Dr. John J. McKetta, Jr., is Professor Emeritus of Chemical Engineering at The University of Texas at Austin. Dr. McKetta has been associated with The University of Texas since 1946. Dr. McKetta is a director of Howell Corporation.

Stewart G. Nagler has been Senior Executive Vice-President of MetLife since 1986 and Chief Financial Officer of MetLife since April 1, 1993. MetLife Louisiana is a wholly-owned subsidiary of MetLife. See 'Security Ownership of Certain Beneficial Owners' for information regarding the securities of the Company owned by MetLife Louisiana.

Arthur Spitzer is engaged in personal investments and has been the owner of Spitzer Investments since 1984. He is on the board of the Pepperdine University and the Founders of the Music Center in Los Angeles, and he is a founder and trustee of the Caribbean Central American Action Group.

M. Richard Stewart is President, Chief Executive Officer and a director of Sanchez Venture Capital Company. Mr. Stewart was the President and Chief Operating Officer of the Company from April 1989 until July 27, 1992, and was acting Chief Executive Officer of the Company from January 2, 1992, until July 27, 1992. Mr. Stewart was a partner in the law firm of Martin & Drought from August 1988 to April 1989, during which time Martin & Drought provided certain legal services to the Company. Mr. Stewart was Senior Vice President, General Counsel and Secretary of the Company from January 1981 to August 1988.

Dr. Murray L. Weidenbaum is an economist and educator and holds the Mallinckrodt Distinguished University Professorship at Washington University in St. Louis, Missouri, where he also serves as Director of the University Center for the Study of American Business. He has been a faculty member at Washington University since 1964. Dr. Weidenbaum is a director of May Department Stores Company, Medicine Shoppe International and Harbour Group, Ltd.

Charles Wohlstetter was elected Chairman of the Board of Directors of the Company effective July 1, 1992. Mr. Wohlstetter has been Vice Chairman of the Board of Directors of GTE Corporation since March 14, 1991, the date on which Contel Corporation merged into GTE Corporation. Mr. Wohlstetter was Chairman of the Board of Directors of Contel Corporation from 1961 to March 14, 1991. Mr. Wohlstetter is also a director of Contel Cellular Corporation and Fifth Dimension, Inc.

No director of the Company has a family relationship with any other director or executive officer of the Company.

In connection with the acquisition of securities of the Company by two life insurance subsidiaries of The Charter Company (the 'Charter Subsidiaries'), a Stockholders Agreement was entered into among the Company, The Charter Company and the Charter Subsidiaries. The Stockholders Agreement provided, among other things, that the Company would use its best efforts to elect two persons designated by the Charter Subsidiaries to the Board of Directors. The Stockholders Agreement also contained restrictions concerning the right of the Charter Subsidiaries to vote, acquire, sell, and take certain other action with respect to securities of the Company. The Stockholders Agreement was for a term of ten years, commencing January 26, 1983, subject to early termination in certain circumstances. In 1985, The Charter Company sold the Charter Subsidiaries to MetLife. On December 31, 1990, one of the former Charter Subsidiaries transferred all of the securities of the Company held by it to MetLife Louisiana. See 'Security Ownership of Certain Beneficial Owners' for information regarding the securities of the Company owned by MetLife Louisiana.

The Stockholders Agreement with MetLife Louisiana terminated on November 15, 1991.

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Messrs. Charles F. Luce and Stewart G. Nagler were initially elected to the Board of Directors pursuant to the right of MetLife Louisiana under the Stockholders Agreement to designate persons as nominees for the Board of Directors.

On July 27, 1992, Mr. Stewart resigned as acting Chief Executive Officer, President and Chief Operating Officer of the Company. Effective August 9, 1992, Mr. Stewart entered into an agreement with the Company under which he will serve as a consultant to the Company. In consideration for his consultative and advisory services, Mr. Stewart received a payment of $300,000 on September 1, 1992, and receives equal monthly payments of $50,000 which began on October 1, 1992 and will continue through December 31, 1993. In the event of his death, the Company will continue to pay the monthly fee to his estate throughout the term of the agreement. At the time of his resignation, Mr. Stewart also received $1,259,307, including previously advanced tax payments, in exchange for his interests in the Company's Executive Security Plans.

The Board of Directors met nine times during fiscal year 1992. Each member of the Board of Directors attended at least 75% of the meetings of the Board of Directors and committees on which such directors served during fiscal year 1992. The Board of Directors has an Executive Committee and the following standing committees: Audit Committee; Compensation, Stock Award and Retirement Committee; and Nominating Committee.

The Executive Committee's primary functions are (i) to consider and make recommendations to the Board of Directors regarding management proposals on long-term strategies, major asset sales and acquisitions, profit plans and capital budgets, finance, dividend policies, and related matters; (ii) to provide communication, as necessary, between the Board of Directors and management; and (iii) to act on behalf of the Board of Directors, subject to certain limitations, in the event circumstances exist which require immediate action by the Board of Directors and a quorum of its members cannot be readily assembled in person or by telephone. The Executive Committee met four times during fiscal year 1992.

The Audit Committee's primary functions are (i) to aid the individual directors of the Board of Directors as a whole in performing and fulfilling their oversight responsibilities for financial reporting to the public; (ii) to aid in maintaining the corporate image and credibility as it relates to financial reporting; (iii) to recommend and support, with management and/or the Board of Directors as appropriate, efforts to improve and maintain standards and procedures for financial control and quality financial reporting; (iv) to provide communication, as necessary, between the Board of Directors and control and accounting, legal, internal auditing and the external auditors; and (v) to recommend and support, with management and/or the Board of Directors, as appropriate, efforts to assure the Company's compliance with the requirements of the Foreign Corrupt Practices Act of 1977, as amended. The Audit Committee met three times during fiscal year 1992.

The functions of the Compensation, Stock Award and Retirement Committee (the 'Compensation Committee') are (i) to review the compensation of the officers of the Company and to recommend to the Board of Directors reasonable compensation therefor; and (ii) to review management proposals concerning retirement matters, to consider amendments to the Company's retirement plans, and to make recommendations to the Board of Directors in respect to such amendments and proposals. The Compensation Committee met four times during fiscal year 1992.

The Nominating Committee considers and recommends to the Board of Directors from time to time suitable candidates for membership on the Board of Directors. The Nominating Committee will consider nominees recommended by stockholders. Stockholders wishing to submit a recommendation should write to the Nominating Committee. The Nominating Committee met two times during fiscal year 1992.

The following table shows the beneficial ownership, reported to the Company as of December 15, 1993, of Common Stock, including shares as to which a right to acquire ownership exists (for example, through the exercise of stock options or through the conversion of securities) within the meaning of Rule 13d-3(d)(1) under the Exchange Act for the Chief Executive Officer and the named executive officers and all directors and executive officers as a group.

<TABLE>
<CAPTION>

	BENEFICIAL OWNERSHIP ON DECEMBER 15, 1993		BENEFICIAL OWNERSHIP AFTER THE RECLASSIFICATION	
	COMMON STOCK		COMMON STOCK	
NAME	SHARES	PERCENT OF CLASS	SHARES	PERCENT OF CLASS
<S>	<C>	<C>	<C>	<C>
Michael D. Burke	293,000(1)	2.056%	293,000(1)	1.300%
James E. Duncan	4,415(2)	.031%	4,415(2)	.020%
James W. Queen	16,923(3)	.120%	16,923(3)	.075%
William W. Sims	5,502(4)	.039%	5,502(4)	.024%

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Perry W. Woofter	13,690(5)	.097%	13,690(5)	.061%
All directors and executive officers as a group (22 individuals)	2,424,633(6)	16.912%	2,424,633(6)	10.618%

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(1) Includes 80,000 shares which Mr. Burke has the right to purchase, all of which shares are subject to substantial restrictions and conditions of forfeiture over a remaining four-year period. In addition, the shares shown include 100,000 shares of Common Stock which Mr. Burke had the right to acquire through the exercise of options which were exercisable on December 15, 1993, or within 60 days thereafter.

(2) The shares shown include 2,099 and 88 shares of Common Stock credited to the account of Mr. Duncan under the Company's Thrift Plan and Employee Stock Ownership Plan, respectively. In addition, the shares shown include 2,017 shares of Common Stock which Mr. Duncan had the right to acquire through the exercise of options which were exercisable on December 15, 1993, or within 60 days thereafter.

(3) The shares shown include 88 shares of Common Stock credited to the account of Mr. Queen under the Company's Employee Stock Ownership Plan and 15,060 shares of Common Stock which Mr. Queen had the right to acquire through the exercise of options which were exercisable on December 15, 1993, or within 60 days thereafter.

(4) The shares shown include 60 shares of Common Stock credited to the account of Mr. Sims under the Company's Employee Stock Ownership Plan and 5,442 shares of Common Stock which Mr. Sims had the right to acquire through the exercise of options which were exercisable on December 15, 1993, or within 60 days thereafter.

(5) The shares shown include 88 shares of Common Stock credited to the account of Mr. Woofter under the Company's Employee Stock Ownership Plan and 12,070 shares of Common Stock which Mr. Woofter had the right to acquire through the exercise of options which were exercisable on December 15, 1993, or within 60 days thereafter. Mr. Woofter retired from the Company in September 1993.

(6) The shares shown include 5,207 and 500 shares of Common Stock credited to the accounts of directors and officers under the Company's Thrift Plan and Employee Stock Ownership Plan, respectively, and 267,508 shares of Common Stock which directors and executive officers have the right to acquire through the exercise of options or awards which were exercisable on December 15, 1993, or within 60 days thereafter. The shares shown also include 3,000 shares of Common Stock acquired in the name of an executive officer's mother with respect to which such executive officer has voting and investment power.

</TABLE>

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and holders of more than 10% of the Company's voting stock to file with the Commission initial reports of ownership and reports of changes in ownership of Common Stock or other equity securities of the Company. The Company believes that during the fiscal years ended December 31, 1992 and September 30, 1991, its directors, executive officers and holders of more than 10% of the Company's voting stock complied with all Section 16(a) filing requirements with the following exceptions: Ray C. Adam, Robert J. Caverly, Steven H. Grapstein, Arthur Spitzer and Murray L. Weidenbaum, each was late in filing Form 3, 'Initial Statement of Beneficial Ownership of Securities,' following his election as a director of the Company. Steven N. Janzen, who served as Vice President of the Company until

February 13, 1992, had one late report covering one transaction, which was subsequently reported on a Form 5.

PROPOSAL NO. 4 -- APPROVAL OF EXECUTIVE LONG-TERM INCENTIVE PLAN

The Company has maintained various incentive stock option plans for the purpose of attracting and retaining qualified employees and encouraging stock ownership by those employees. The Board of Directors believes there is a need for greater flexibility in fashioning appropriate incentives for employees serving in various capacities with the Company. Many other companies have addressed this issue in recent years by replacing separate single purpose plans with a single 'omnibus' type of plan.

The Board of Directors has adopted the Tesoro Petroleum Corporation Executive Long-Term Incentive Plan (the '1993 Plan'), subject to the approval of the stockholders. The 1993 Plan will replace the Amended Incentive Stock Plan of 1982 (the '1982 Plan'). No future grants will be made under the 1982 Plan after the 1993 Plan becomes effective, although grants made before such date that have not been fully exercised will remain outstanding pursuant to their terms. The following description summarizes the material provisions of the 1993 Plan but is qualified in its entirety by reference to the full text of the 1993 Plan, which is set forth in Appendix F to this Proxy Statement -- Prospectus. Since the target goals specified in the 1993 Plan, and upon which benefit calculations will be based, have not yet been established, the benefits to be paid pursuant to the 1993 Plan are not determinable.

General

Persons eligible to participate in the 1993 Plan include all full-time, active employees of the Company, including directors who are also employees of

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the Company. The 1993 Plan will be administered by the Long-Term Executive Compensation Committee, an ad hoc committee comprised entirely of independent directors, or any other committee appointed by the Board of Directors consisting of directors who are not employees of the Company (the 'Committee'). Subject to the provisions of the 1993 Plan, the Committee may, from time to time, select from all eligible employees, those to whom awards will be granted. The Committee is currently considering approximately 30 employees for grants under the 1993 Plan. No member of the Committee will be eligible to receive any award, nor may any member of the Committee receive an award under any other similar plan during the year prior to service on the Committee.

The 1993 Plan is a flexible plan that will give the Committee broad discretion to fashion the terms of awards in order to provide eligible participants with stock-based incentives as the Committee deems appropriate. It will permit the issuance of awards in a variety of forms, including (i) restricted stock, (ii) incentive stock options, (iii) nonqualified stock options (incentive and nonqualified stock options are referred to collectively as 'options'), (iv) stock appreciation rights and (v) performance share and performance unit awards.

The 1993 Plan provides for the grant of up to 1,250,000 shares of the Common Stock of the Company. The closing price per share of the Company's Common Stock as traded on the New York Stock Exchange on December 27, 1993, was $5.625. If any award granted under the 1993 Plan is canceled, terminates, expires or lapses for any reason, subject to certain limited exceptions, any shares subject to such award will become available for additional awards under the 1993 Plan. However, in the event that prior to the award's cancellation, termination, expiration or lapse, the holder of the award at any time received one or more 'benefits of ownership' pursuant to such award (as defined by the Commission, pursuant to any rule or interpretation promulgated under Section 16 of the Exchange Act), the shares subject to such award will not be made available for regrant under the 1993 Plan. In the event of a stock dividend, stock split, recapitalization or similar event, the Committee will equitably adjust the aggregate number of shares subject to the 1993 Plan, the number of shares subject to each outstanding award and the exercise prices of outstanding options.

The 1993 Plan may be amended, modified or terminated by the Board of Directors. However, without stockholder approval, no such amendment, modification or termination may: (a) with limited exceptions, materially increase the total number of shares which may be issued, (b) materially modify the eligibility requirements for participation or (c) materially increase the benefits accruing to

participants. Unless earlier terminated by the Board of Directors or stockholders, the issuance of awards under the 1993 Plan will cease as of September 15, 2003.

AWARDS UNDER THE 1993 PLAN

Stock Options

Stock options granted under the 1993 Plan will provide for purchase of shares of Common Stock at prices determined by the Committee; provided that the option price shall not be less than the fair market value thereof on the date the option is granted unless such option is granted in connection with a deferral election under the 1993 Plan.

Options granted under the 1993 Plan shall be exercisable at such times and subject to such restrictions and conditions as the Committee shall approve, but in no event may any option be exercisable prior to six months following its grant. Options may only be transferred under the laws of descent and distribution and shall be exercisable only by the participant during the participant's lifetime. The option exercise price is payable in cash or in shares of Common Stock having a fair market value equal to the exercise price or in a combination of cash and such shares. The Committee may also allow, along with other means of exercise, cashless exercise as permitted under the Federal Reserve Board's Regulation T, subject to applicable securities laws. Upon the death, disability or retirement of a participant, all outstanding options shall immediately vest and shall be exercisable for the shorter of their remaining term or one year after termination of employment in the case of death or disability, and three years after termination of employment in the case of retirement. Upon termination of employment of a participant for any reason other than set forth in the preceding sentence, all options held by the participant which are not vested as of the effective date of termination shall be forfeited and options which are vested as of the effective date of termination may be exercised for three months following the effective date of termination of employment; provided, however, the Committee, in its sole discretion, may immediately vest all or any portion of the options of a participant not vested as of such date. If employment of a participant is terminated by the Company for cause, all outstanding options held by the participant are forfeited immediately to the Company and no additional exercise period is allowed, regardless of whether any of the options are vested.

Stock Appreciation Rights

Stock Appreciation Rights ('SARs') granted under the 1993 Plan may take the form of Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination of these forms of SARs. Affiliated SARs may be granted in connection with related stock options and may be automatically exercised upon exercise of the related stock option, with the grant price being equal to the option price of the related stock option. Freestanding SARs may be granted independent of the grant

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of any stock option with a grant price at least equal to the fair market value of a share of Common Stock on the date of grant. Tandem SARs are granted in conjunction with a related stock option at a grant price equal to the option price of the related stock option. Either the stock option or the Tandem SAR will be adjusted for exercise of the other since the exercise of a stock option or the Tandem SAR requires the surrender of the right to exercise the equivalent portion of the stock option or the Tandem SAR, as applicable. The term of any SAR granted under the 1993 Plan may not exceed ten years.

Upon exercise of an SAR, the participant will receive the difference between the fair market value of one share of Common Stock on the date of exercise and the grant price, multiplied by the number of shares with respect to which the SAR is exercised. Payment due upon exercise of an SAR may be in cash, in shares of Common Stock having a fair market value equal to the value of the SAR being exercised, or partly in cash and partly in shares of Common Stock, as determined by the Committee in its discretion. The Committee may impose restrictions on the exercise of SARs, including the imposition of window periods for exercise of an SAR for persons required to file reports pursuant to the provisions of Section 16 of the Exchange Act. Upon the death, disability or retirement of a participant, all outstanding SARs which are exercisable on the termination date shall remain exercisable for the shorter of their remaining term or one year after termination of employment in the case of death or disability and three years after termination of employment in the case of retirement. Upon the death, disability or retirement of a participant, all outstanding SARs which are not

exercisable on the termination date shall be forfeited regardless of whether termination is due to death, disability or retirement. Upon termination of employment of a participant for any reason other than set forth in the preceding sentence, all SARs held by the participant which are not vested as of the effective date of termination shall be forfeited and SARs which are vested as of the effective date of termination may be exercised for three months following the effective date of termination of employment; provided, however, that the Committee, in its sole discretion, may immediately vest all or any portion of the SARs of a participant not vested as of such date. If employment of a participant is terminated by the Company for cause, all outstanding SARs held by the participant are forfeited immediately to the Company and no additional exercise period is allowed, regardless of whether any of the SARs are vested. SARs may only be transferred under the laws of descent and distribution and shall be exercisable during his or her lifetime only by the participant.

Restricted Stock

The Committee may grant restricted shares of Common Stock to eligible employees, in such amounts, and subject to such terms and conditions (which may depend upon or be related to performance goals and other conditions) as the Committee shall determine in its discretion. Certificates for the shares of Common Stock covered by the award shall have appropriate restrictive legends placed on them with respect to such restrictions. Subject to the applicable restrictions, the grantee shall have the rights of a stockholder with respect to such shares. The shares of restricted stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable restriction period established by the Committee or upon earlier satisfaction of any other conditions specified by the Committee in its sole discretion. In addition, no restricted stock granted under the 1993 Plan may become vested in a participant sooner than six months following the date of its grant. In the event employment of a participant is terminated by reason of death, disability or retirement, all unvested shares of restricted stock shall immediately be forfeited; provided, however, that the Committee, in its sole discretion, shall have the right to provide for accelerated vesting of some or all unvested shares of restricted stock. In the event employment of a participant shall terminate for any other reason, all shares of restricted stock held by the participant which are not vested as of the effective date of the termination of employment shall be immediately forfeited and returned to the Company; provided, however, that the Committee, in its sole discretion, shall have the right, except in the case of termination of employment for cause, to provide for the lapse of restrictions on the restricted stock following employment termination, upon such terms and provisions as it deems proper.

Performance Shares and Performance Units

The Committee may grant Performance Shares and Performance Units awards to eligible employees, in such amounts, and subject to such terms and conditions as the Committee shall in its discretion determine. The grantee of such awards shall receive payment of the value of Performance Shares and Performance Units earned in cash or shares of Common Stock, or in a combination of cash and shares of Common Stock, which have an aggregate fair market value equal to the value of the earned Performance Shares at the close of the applicable performance period, in such combination as the Committee shall, in its sole discretion, determine. In the event the employment of a participant is terminated by reason of death, disability, retirement or involuntary termination without cause during the performance period, the participant shall receive a prorated payout of the Performance Units and Performance Shares earned, which shall be determined by the Committee, in its sole discretion, and shall be based upon the length of time the participant held the award during the performance period and shall be further adjusted based upon the achievement of the preestablished performance goals. Such payment in the event of termination shall be made at the same time as payments are made to participants who did not terminate employment during the

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applicable performance period; provided, however, that the Committee, in its sole discretion, shall have the power to accelerate the payment of the Performance Units and Performance Shares to participants whose employment has terminated. In the event that a participant's employment terminates for any reason other than the foregoing reasons, all Performance Units and Performance Shares shall be forfeited by the participant to the Company. Performance Units and Performance Shares may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by

the laws of descent and distribution. During the participant's lifetime, the participant's rights under the 1993 Plan shall be exercisable only by the participant or the participant's legal representative.

CHANGE-IN-CONTROL

In the event that (i) any 'person,' as that term is defined under the Exchange Act (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), acquires beneficial ownership of more than 50% of the outstanding voting securities, (ii) a majority of the individuals who constitute the Board of Directors at any time shall cease to be made up of 'Qualified Directors,' and (iii) the stockholders of the Company approve a merger or consolidation with or involving any other corporation, other than in a transaction that would result in the voting securities of the Company outstanding immediately prior to such transaction continuing to represent at least 50% of the outstanding voting securities of the Company immediately after such transaction, then any stock option or SAR outstanding shall become fully vested and fully exercisable, any restriction periods and restrictions imposed on restricted stock shall lapse, the target value obtainable under all Performance Units and Performance Shares shall be deemed to have been fully earned for the entire performance period and the Committee may, in its discretion, make any other modifications to any awards as determined by the Committee to be deemed appropriate before the effective date of such transaction.

A 'Qualified Director' is a director who meets any of the following criteria: (1) was a director immediately after the effective date of the Reclassification, including the three new directors elected in connection therewith; (2) was a director immediately after the Company's 1994 Annual Meeting of Stockholders; or (3) any director nominated for election as a director or elected to the Board of Directors by the directors to fill a vacancy by a vote of directors, and at the time of such nomination or election at least a majority of the directors were Qualified Directors.

ACCOUNTING TREATMENT OF 1993 PLAN AWARDS

Under current accounting rules, the grant of a stock option does not require a charge to net income reported by the Company, except when the stock option exercise price is below the fair market value at grant. However, the grant of a stock option may have a dilutive effect on earnings per share. If an SAR is granted, there will be a charge to income that will be adjusted (up or down) during subsequent accounting periods to reflect the amount by which the value of the shares subject to the award has changed since grant. The exercise of a stock option does not require a charge to net income, except in the case of an exercise through the delivery of previously acquired shares that have been held by the optionee for less than six months. If the Committee grants compensation in substitution for exercise of a stock option, the Company will count the amount as a compensation expense; also, such settlement may have a dilutive effect on earnings per share if payment is made in Common Stock. Upon the grant of a restricted stock award or a Performance Share award, a charge to income will be reported by the Company equal to the excess of the fair market value of a share of Common Stock over the purchase price (if any) multiplied by the number of shares a participant is entitled to receive pursuant to such grant. This charge is generally accrued over the restriction or performance period; in the case of a Performance Share award, the charge is subject to subsequent adjustment as described above. If a restricted stock or performance award expires due to the participant's failure to satisfy the applicable conditions, the accrual of the award would be reversed. Shares subject to a restricted stock award are considered to be issued and outstanding; under certain circumstances shares that may be awarded pursuant to a Performance Share award may also be considered issued and outstanding.

On June 30, 1993 the Financial Accounting Standards Board issued a proposed Statement of Financial Accounting Standards, titled 'Accounting for Stock-based Compensation,' that will significantly change employers' accounting for employee stock option and other employee stock-based compensation plans. If the proposed statement is adopted, it will require that employers recognize as compenstion expense the fair value of stock-based compensation awarded to employees. The fair value is to be determined on the date of grant based on the stock price/option value on that date and the best estimate of the outcome of service- and performance-related conditions (including vesting,

performance targets and the expected option life). Compensation expense would be adjusted in future periods only to reflect the outcome of performance criteria and service-related factors, not for fluctuations in the stock price subsequent to granting the award to the employee.

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FEDERAL INCOME TAX CONSEQUENCES OF 1993 PLAN AWARDS

The following brief description of the tax consequences of awards under the 1993 Plan is based upon present federal tax laws and does not purport to be a complete description of the federal tax consequences of the 1993 Plan.

There are generally no federal tax consequences either to the optionee or to the Company upon the grant of a stock option. On exercise of an incentive stock option, the optionee will not recognize any income and the Company will not be entitled to a deduction for tax purposes, although such exercise may give rise to liability for the optionee under the alternative minimum tax provisions of the Code. Generally, if the optionee disposes of shares acquired upon exercise of an incentive stock option within two years of the date of grant or one year of the date of exercise, the optionee will recognize compensation income and the Company will be entitled to a deduction for tax purposes in the amount of the excess of the fair market value of the shares of Common Stock on the date of exercise over the stock option exercise price (or the gain on sale, if less). Otherwise, the Company will not be entitled to any deduction for tax purposes upon disposition of such shares, and the entire gain for the optionee will be treated as a capital gain. On exercise of a nonqualified stock option, the amount by which the fair market value of the Common Stock on the date of exercise exceeds the stock option exercise price will generally be taxable to the optionee as compensation income and will generally be deductible for tax purposes by the Company. The disposition of shares of Common Stock acquired upon exercise of a nonqualified stock option will generally result in a capital gain or loss for the optionee but will have no tax consequences for the Company.

The grant of an SAR or Performance Share award will not result in taxable income for the grantee or in a tax deduction for the Company. Upon the settlement of such a right or award, the grantee will recognize ordinary income equal to the fair market value of any shares of Common Stock and/or any cash received and the Company will be entitled to a tax deduction in the same amount. An award of restricted shares of Common Stock will not result in income for the grantee or in a tax deduction for the Company until such time as the shares are no longer subject to forfeiture, unless the grantee elects otherwise. At that time, the grantee generally will recognize ordinary income equal to the fair market value of the shares less any amount paid for them, and the Company will be entitled to a tax deduction in the same amount. Dividends paid on forfeitable restricted shares are treated as compensation for federal tax purposes.

VOTING ON PROPOSAL NO. 4

The Board of Directors recommends a vote FOR the adoption of the 1993 Plan.

PROPOSAL NO. 5 -- APPOINTMENT OF AUDITORS

The Board of Directors considers it desirable that its appointment of the firm of Deloitte & Touche as independent auditors for the Company and its subsidiaries for 1993 be ratified by the stockholders. Representatives of Deloitte & Touche are expected to be present at the Annual Meeting and to be available to respond to appropriate questions. Such representatives will have the opportunity to make a statement at the Annual Meeting if they desire to do so.

VOTING ON PROPOSAL NO. 5

The Board of Directors recommends a vote FOR the appointment of the firm of Deloitte & Touche as independent auditors for the Company and its subsidiaries for 1993.

EXECUTIVE COMPENSATION

SUMMARY OF COMPENSATION

The following table contains information concerning the annual and long-term compensation for services in all capacities to the Company for the fiscal years ended December 31, 1992, September 30, 1991, and September 30, 1990, and the three months ended December 31,1991, of those persons who were on December 31, 1992, (i) the chief executive officer and (ii) the other four most highly compensated executive officers of the Company (the 'named executive officers').

SUMMARY COMPENSATION TABLE(1)

[CAPTION]
<TABLE>

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS		ALL OTHER COMPENSA-TION($)(2)
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSA-TION($)(3)	RESTRICTED STOCK AWARD(S) ($)(4)	STOCK OPTIONS (SHARES)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Michael D.							
Burke,	1990	--	--	--	--	--	--
President	1991	--	--	--	--	--	--
and Chief	Three Months Ended						
Executive	December 31, 1991	--	--	--	--	--	--
Officer	1992	188,655	--	6,666	458,333	500,000	15,000
James W.							
Queen,	1990	160,000	--	--	--	--	--
Senior	1991	160,000	12,800	--	--	--	--

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Vice	Three Months Ended						
President	December 31, 1991	36,923	--	--	--	--	--
	1992	166,154	--	--	--	--	28,090
Perry W.							
Woofter,	1990	160,000	--	--	--	--	
Senior	1991	160,000	12,800	--	--	--	--
Vice	Three Months Ended						
President	December 31, 1991	36,923	--	--	--	--	--
	1992	166,154	--	--	--	--	56,582
James E.							
Duncan,	1990	99,996	--	--	--	--	--
Vice	1991	110,242	8,000	--	--	--	--
President	Three Months Ended						
	December 31, 1991	26,543	--	--	--	--	--
	1992	119,444	--	--	--	--	46,197
William M.							
Sims,	1990	117,000	--	--	--	--	
Vice	1991	124,000	16,380	--	--	--	--
President	Three Months Ended						
	December 31, 1991	30,000	--	--	--	--	--
	1992	135,000	--	--	--	--	43,481

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(1) The amounts shown in the Summary Compensation Table do not include any compensation paid to Mr. Bruce A. Smith, employed by the Company on September 14, 1992, as Vice President and Chief Financial Officer, or to Mr. Gaylon H. Simmons, employed by the Company on January 4, 1993, as Senior Vice President, Refining, Marketing and Crude Supply. See '-- Employment Contracts and Change-In-Control Arrangements' for information related to employment agreements with Mr. Smith and Mr. Simmons.

(2) In accordance with the transitional provisions applicable to the revised rules on executive compensation disclosure adopted by the Commission, amounts of All Other Compensation are excluded for fiscal years 1991 and 1990 and the three months ended December 31, 1991. All Other Compensation includes relocation expenses of $15,000 for Mr. Burke; amounts contributed to the Company's Thrift Plan of $2,954, $4,985 and $3,583 for Mr. Queen, Mr. Woofter and Mr. Duncan, respectively; and amounts contributed by the Company and earnings on the respective executive officer's account in the Funded Executive Security Plan of $25,136, $51,597, $42,614 and $43,481 for Mr. Queen, Mr. Woofter, Mr. Duncan and Mr. Sims, respectively.

(3) In accordance with the transitional provisions applicable to the revised rules on executive compensation disclosure adopted by the Commission, amounts of Other Annual Compensation are excluded for fiscal years 1991 and 1990 and the three months ended December 31, 1991. Other Annual Compensation for Mr. Burke represents income tax reimbursements during fiscal year 1992. The aggregate amount of perquisites and other personal benefits was less than either

$50,000 or 10% of the total annual salary and bonus reported for each of the named executive officers.

(4) At December 31, 1992, Mr. Burke had not yet received certificates representing 80,000 shares of Common Stock under the terms of a stock award dated July 27, 1992, pending payment by Mr. Burke of the par value thereof. Mr. Burke's right to sell these shares accrues in four equal installments of 20,000 shares each on the first, second, third and fourth anniversaries of the date of grant, July 27, 1992. At December 31, 1992, the value of restricted stock which the named executive officers owned or had the right to purchase was $226,666, $6,222 and $6,664 for Mr. Burke, Mr. Queen and Mr. Woofter, respectively, representing the difference between the closing stock price on December 31, 1992, and the purchase price of the shares to the named executive officers. Mr. Burke, Mr. Queen and Mr. Woofter are entitled to receive dividends declared and paid on restricted shares which they own. No dividends have been paid on the Common Stock since 1986.

</TABLE>

OPTION GRANTS AND EXERCISES

The following table sets forth information concerning individual grants of stock options pursuant to the 1982 Plan during the fiscal year ended December 31, 1992, to the named executive officers. No stock appreciation rights were granted under the 1992 Plan during fiscal year 1992.

OPTION GRANTS IN 1992

<TABLE>
<CAPTION>

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	OPTIONS GRANTED(#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1992	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE	5%($)	10%($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Michael D. Burke-----------	500,000(1)	83%	$ 4.84(2)	July 26, 2002	1,521,922	3,856,854

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James W. Queen-------------	--	--	--	--	--	--
Perry W. Woofter(3)--------	--	--	--	--	--	--
James E. Duncan------------	--	--	--	--	--	--
William M. Sims------------	--	--	--	--	--	--

- ------------

(1) The option granted to Mr. Burke is exercisable on the eighth anniversary of the date of grant; however, the right to exercise the option may be accelerated to no fewer than five equal installments of 100,000 shares each beginning one year from the date of grant. Such acceleration is based on the passage of time and on the Company's achievement of specified share price objectives (except for the first such installment for which no minimum share price is required). The per share price objectives for the second, third, fourth and fifth anniversaries are $7.00, $9.00, $11.00 and $13.00, respectively, based on the average closing price of the Common Stock at the end of each of the 30 days immediately preceding the respective anniversary date. If any installment fails to become exercisable because the per share price objective was not achieved, such installment will become exercisable if the targeted average per share price for such installment is achieved on any subsequent anniversary date of the date of grant.

(2) The exercise price per share of this option is the average of the closing price of the Common Stock for the ten trading days immediately preceding the date of grant.

(3) Mr. Woofter retired from the Company in September 1993.

</TABLE>

AGGREGATED OPTION/SAR EXERCISES IN 1992 AND OPTION/SAR VALUES AT DECEMBER 31, 1992

The following table reflects unexercised options to purchase shares of the Common Stock and unexercised SARs granted to the named executive officers during fiscal year 1992 and prior years under the 1982 Plan. None of the named executive officers exercised any stock options or SARs during 1992.

<TABLE>
<CAPTION>

			NUMBER OF UNEXERCISED OPTIONS/SARS AT DECEMBER 31, 1992(#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT DECEMBER 31, 1992($)(1)	
NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Michael D. Burke--------------	--	--	--	500,000	--	--
James W. Queen----------------	--	--	29,915	3,956	--	--
Perry W. Woofter(2)-----------	--	--	22,467	4,238	--	--
James E. Duncan---------------	--	--	6,222	--	--	--
William M. Sims---------------	--	--	11,956	2,180	--	--

- ------------

(1) Based on the closing price of the Common Stock on December 31, 1992, no exercisable or unexercisable stock options or SARs were 'in-the-money.'

(2) Mr. Woofter retired from the Company in September 1993.

</TABLE>

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Act, or the Exchange Act that might incorporate future filings, including this Proxy Statement -- Prospectus, in whole or in part, the following report and the Performance Graph shall not be incorporated by reference into any such filing.

REPORT OF COMPENSATION COMMITTEE

The Compensation Committee is composed entirely of non-employee directors and is chaired by Peter M. Detwiler. The other members of the Compensation Committee are Ray C. Adam, Robert J. Caverly, Raymond K. Mason, Sr., John J. McKetta, Jr., and Murray L. Weidenbaum. The Compensation Committee is responsible for reviewing all elements of executive compensation. The Compensation Committee makes recommendations to the Board of Directors, which ultimately is responsible for aligning the Company's compensation programs to achieve the near-term goals of resolving the significant operational and financial issues of the Company and to develop a new business strategy. Ultimately the Compensation Committee has the responsibility for assuring stockholders that total compensation programs are effective, responsible and competitive when compared to other energy companies. This Committee Report documents the basis on which 1992 compensation determinations were made and further describes the components of officer compensation programs for the Company, particularly the President and Chief Executive Officer and the other officers named in the Summary Compensation Table.

Compensation Philosophy and Objectives of Executive Compensation Programs

It is the philosophy of the Company and the Compensation Committee that the executive compensation program be directly linked to performance. In particular, the Compensation Committee encourages officers to acquire and retain appropriate levels of stock ownership so that the executives are focused on managing the

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Company from the perspective of a stockholder. From time to time, the Compensation Committee works with executive compensation consultants who assist with the design, implementation and communication of various compensation plans.

With the objective of returning the Company to profitability, the Board of Directors recently hired three key executives: Michael D. Burke as President and Chief Executive Officer; Gaylon H. Simmons as Senior Vice President, Refining, Marketing and Crude Supply; and Bruce A. Smith as Vice President and Chief Financial Officer. The Board of Directors and the Compensation Committee believe it is paramount to have an executive incentive program that motivates and rewards these executives and the management team of the Company to restore profitability and increase stockholder value. As a result, the Compensation Committee, with the assistance of its compensation

consultants, has extensively reviewed the Company's executive compensation program and established criteria to reward performance.

The Compensation Committee has developed the following compensation guidelines as the principles upon which compensation decisions are made.

* Provide a competitive total compensation package that enables the Company to attract and retain key executives.
* Integrate all compensation components with the Company's annual and long-term business objectives and strategy and motivate executives to perform in a manner consistent with those objectives.
* Provide variable (at-risk) compensation opportunities that are linked with the financial performance of the Company or strategic objectives judged to be critical to achieving increased shareholder value.
* Provide incentives to improve corporate performance and stockholder value.

Executive Compensation Program Components

The Company's executive compensation program components for executive officers is comprised of base salary, annual performance-related incentives, performance-based stock options, other stock options and restricted stock awards. The compensation program components, which are overseen by the Compensation Committee, are further explained below.

Base Salaries

A competitive base salary is vital to support the philosophy of management development and career orientation of executives and, therefore, base salaries for the executive officers are reviewed on an annual basis. The Compensation Committee examines independent survey data reflecting the compensation of executives at peer group companies who hold positions of similar responsibility. The companies referenced in the Performance Graph are reflective of the energy-related companies represented in these survey data sources. Energy-related surveys are used because the scope of the Company's business activities support this specific industry comparison adjusted to reflect the Company's revenue size. While there is no specific weighting of these factors, competitive positioning is the primary consideration in setting the executives' salaries. Base salaries for the Company's executive officers, including the named executive officers, are generally at or near the average of the surveyed data given the Company's size and complexity relative to the surveyed companies. The named executive officers, excluding Mr. Burke, received an increase in base salary effective January 1, 1993. With the exception of certain salary increases associated with office promotions, the last salary increase for these officers occurred in December 1990.

Annual Incentive Compensation

Pursuant to their employment contracts, Messrs. Burke, Smith and Simmons have a significant portion of their total compensation at risk through annual incentive opportunities that are linked to key financial and operational objectives for the Company on a consolidated basis. This part of the overall compensation policy is designed to deliver competitive levels of compensation to attain the short-term objectives which the Compensation Committee believes are essential to achieving increased stockholder value over time. The Compensation Committee from time to time uses an independent compensation consultant to assist in determining target annual bonus levels that are competitive among the petroleum industry. Bonuses are recommended by the Compensation Committee to the Board of Directors at the end of the year and are generally paid in cash. The amounts of such bonuses are determined by the Board of Directors and are paid upon the achievement of performance objectives established by the Board of Directors during each year pursuant to discussions conducted in good faith with the executives. The employment contract target award of 40% for the President and Chief Executive Officer is somewhat below the industry norm of 50%. No awards

were paid in fiscal year 1992; however, Messrs. Burke and Smith were each paid a discretionary cash bonus in 1993 for their performance during 1992.

Long-Term Incentive Compensation

The Compensation Committee supports increased stock ownership by key executives and believes that stock-based long-term incentives retain executive management and focus the attention of participants on managing the Company from a long-term investor's perspective. Therefore, executives are eligible to receive stock options, performance options and awards of restricted stock from time to time, giving them the right to purchase shares of stock or to receive shares at specified future dates and/or when performance goals have been met.

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The size of awards under this plan is based on competitive practices, with the value of any stock options estimated using the Black-Scholes option valuation model. During 1992, no stock options were granted as part of the ongoing executive compensation. Grants to Mr. Burke and Mr. Smith were awarded in 1992 and to Mr. Simmons in 1993 in conjunction with their initial employment as follows:

NAME	COMMON STOCK	
	STOCK OPTIONS	RESTRICTED STOCK AWARD
Michael D. Burke	500,000	100,000
Gaylon H. Simmons	150,000	--
Bruce A. Smith	100,000	--

The Compensation Committee believes that a long-term incentive plan is important as a means of retaining senior management over the long term. The plan is reviewed annually to ensure an appropriate mix of base salary, annual bonus and long-term rewards within the philosophy of providing competitive total direct compensation opportunities.

Other Executive Programs

The Company also provides certain executive benefits and perquisites that are considered necessary to offer fully competitive opportunities to its officers. These include, but are not limited to, supplemental retirement arrangements, employment agreements and change-in-control contracts.

Summary

The Compensation Committee, in making its recommendations to the Board of Directors, has the responsibility for ensuring that the Company's compensation program is in the best interest of its stockholders. The Compensation Committee believes the program is competitive when compared to other companies in its industry. Targeted awards under the annual incentive bonus and stock-based long-term incentives are based on energy industry competitive (average) practices. Actual payouts, if any, under these two components are contingent upon the attainment of performance goals and/or stock appreciation. In addition, the Compensation Committee believes the executive compensation programs emphasize compensation that is sensitive to operational, financial and stock performance, industry standards and comparisons, and that decisions made by the Compensation Committee in 1992 are consistent with its stated compensation philosophy.

Discussion of 1992 Compensation for the President and Chief Executive Officer

For fiscal year 1992, the Compensation Committee made the following determinations regarding the compensation for Mr. Burke:

Base salary. Base salary was set at $450,000 on Mr. Burke's employment date of July 27, 1992. The Committee determined that his base salary was competitive relative to industry standards and necessary in attracting Mr. Burke to become President and Chief Executive Officer.

Annual incentive award. No annual incentive payments were made to Mr. Burke during 1992 under the provisions of the plan. Under terms of his employment agreement and the Board of Directors' opinion that Mr. Burke is guiding the Company in a positive direction toward

profitability, a discretionary bonus of $77,706 has been paid in 1993 to Mr. Burke for his performance during 1992.

Restricted stock awards. A restricted stock award of 100,000 shares, exercisable at par value, was made in July 1992 to Mr. Burke as part of his employment agreement. Restrictions on Mr. Burke's right to sell his restricted stock will lapse in five equal annual installments of 20,000 shares each, with the first installment effective July 27, 1992.

Stock options. A stock option grant of 500,000 shares with an exercise price of $4.84 per share was made on July 27, 1992, that is exercisable on the eighth anniversary of the date of grant; however, the right to exercise the option may be accelerated to not fewer than five equal installments of 100,000 shares each beginning one year from the date of grant. Such acceleration is based on the passage of time and, except for the first installment for which no minimum share price is required, on the achievement of specified per share share price objectives for the second, third, fourth and fifth anniversaries of $7.00, $9.00, $11.00 and $13.00, respectively.

COMPENSATION, STOCK AWARD AND RETIREMENT COMMITTEE
OF THE BOARD OF DIRECTORS
Peter M. Detwiler, Chairman
Ray C. Adam
Robert J. Caverly
Raymond K. Mason, Sr.
John J. McKetta, Jr.
Murray L. Weidenbaum

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PERFORMANCE GRAPH

The Stock Price Performance Graph below compares the cumulative total return of the Common Stock to the cumulative total return of the S&P 500 Composite Index and a composite Peer Group which the Company considers representative of companies with operations comparable to the Company. Companies in this Peer Group are as follows: Ashland Oil, Inc.; Diamond Shamrock Corporation; Getty Petroleum Corporation; Holly Corporation; Kerr-McGee Corporation; Maxus Energy Corporation; Murphy Oil Corporation; Oryx Energy; Pennzoil Company; Quaker State Corporation; Sun Company, Inc.; Tosco Corporation; Total Petroleum (North America) Ltd.; Union Texas Petroleum Holdings, Inc.; and Valero Energy Corporation. (This line graph is for the period of five fiscal years commencing September 30, 1987 and ended December 31, 1992 and includes the transitional period from October 1, 1991 through December 31, 1991.)

LINE GRAPH OF DATA IN TABLE BELOW

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
AMONG THE COMPANY, S&P 500 INDEX AND A COMPOSITE PEER GROUP

YEAR END (Sept. start date)	1987	1988	1989	1990	1991	Dec. 1991	Dec. 1992
Tesoro Petro. Corp.	100.00	84.9	67.2	52.9	46.2	30.3	20.2
S&P 500 Index	100.00	87.6	116.4	105.6	138.4	149.9	161.3
Industry Peer Group	100.00	94.3	108.1	108.2	96.1	95.1	89.3

- ------------
* Assumes that the value of the investment in Common Stock and each index was $100 on September 30, 1987, and that all dividends were reinvested. Investment is weighted on the basis of market capitalization.

- ------------

NOTE: The stock price performance shown on the graph is not necessarily indicative of future price performance.

OTHER BENEFITS

The Company maintains a noncontributory qualified Retirement Plan which covers officers and other salaried employees. Benefits under the plan are payable on a straight life annuity basis and are based on the average monthly earnings and years of service of participating employees. Average monthly earnings used in calculating retirement benefits are primarily salary and bonus received by the participating employee during the 36 consecutive months of the last 120 months of service which produces the highest average monthly rate of earnings.

In addition, the Company maintains an unfunded Executive Security Plan ('Amended Executive Security Plan') for executive officers and other key personnel selected by the Chief Executive Officer. The Amended Executive Security Plan provides for a monthly retirement income payment during retirement equal to a percentage of a participant's Earnings. Earnings is defined under the Amended Executive Security Plan to mean a participant's average monthly rate of total compensation, primarily salary and bonus earned, for the 36 consecutive calendar months which produce the highest average monthly rate of compensation for the participant. The monthly retirement benefit percentage is defined as the sum of 4% of Earnings for each of the first ten years of employment, plus 2% of Earnings for each of the next ten years of employment, plus 1% of Earnings for each of the next ten years of employment. The maximum percentage is 70%. The Amended Executive Security Plan provides for the payment of the difference, if any, between (a) the total retirement income payment calculated above and (b) the sum of retirement income payments from the Company's Retirement Plan and Social Security benefits.

The Company also maintains a Funded Executive Security Plan ('Funded Plan') which covers only persons who participate in the Amended Executive Security Plan and provides participants with substantially the same after-tax benefits as the Amended Executive Security Plan. Advance payments are made to the extent a participant is expected to incur a pre-retirement tax liability as a result of his participation in the Funded Plan. The Funded Plan is funded separately for each participant on an actuarially determined basis through a bank trust whose primary asset is an insurance contract providing for a guaranteed rate of return for certain periods. Amounts payable to participants from the Funded Plan reduce amounts otherwise payable under the Amended Executive Security Plan.

The following table shows the estimated annual benefits payable upon retirement under the Company's Retirement Plan, Amended Executive Security Plan and the Funded Plan for employees in specified compensation and years of benefit service classifications without reference to any amount payable upon retirement under the Social Security law or any amount advanced before retirement. The estimated annual benefits shown are based upon the assumption that the plans continue in effect and that the participant receives payment for life. As of January 1, 1993, the federal tax law generally limits maximum annual retirement benefits payable by the Retirement Plan to any employee to $115,641, as adjusted annually to reflect increases in the cost of living and adjusted actuarially for retirement age. However, since the Amended Executive Security Plan and the Funded Plan are not qualified under Section 401 of the Internal Revenue Code, it is possible for certain retirees to receive annual benefits in excess of this tax limitation.

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<TABLE>
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HIGHEST AVERAGE ANNUAL RATE OF COMPENSATION	NUMBER OF YEARS OF BENEFIT SERVICE				
	10	15	20	25	30
$ 50,000	$ 20,000	25,000	30,000	32,500	35,000
$100,000	$ 40,000	50,000	60,000	65,000	70,000
$150,000	$ 60,000	75,000	90,000	97,500	105,000
$200,000	$ 80,000	100,000	120,000	130,000	140,000
$250,000	$ 100,000	125,000	150,000	162,500	175,000
$300,000	$ 120,000	150,000	180,000	195,000	210,000
$350,000	$ 140,000	175,000	210,000	227,500	245,000
$400,000	$ 160,000	200,000	240,000	260,000	280,000
$450,000	$ 180,000	225,000	270,000	292,500	315,000
$500,000	$ 200,000	250,000	300,000	325,000	350,000
$550,000	$ 220,000	275,000	330,000	357,500	385,000

</TABLE>

The years of benefit service as of December 31, 1992, for the named executive officers were as follows: Mr. Burke, none; Mr. Queen, 24 years; Mr. Woofter, 11 years; Mr. Duncan, 20 years; and Mr. Sims, 9 years.

In addition to the retirement benefits described above, the Amended Executive Security Plan provides for a pre-retirement death benefit payable over eight years of four times a participant's annual base pay as of December 1 preceding a participant's date of death, less the amount payable from the Funded Plan at the date of death. The amount payable from the Funded Plan at death is based on the actuarial value of the participant's vested accrued benefit, payable in 96 monthly installments or as a life annuity if a surviving spouse is the designated beneficiary.

COMPENSATION OF DIRECTORS

Each member of the Board of Directors who is not an officer of the Company receives compensation at the rate of $18,000 per year, and an additional $2,000 for each meeting of the Board of Directors or any committee thereof attended in person, and $1,000 for each telephone meeting, including committee meetings held on the same day as a meeting of the Board of Directors. Mr. Wohlstetter also receives $100,000 per year for his services as Chairman of the Board of Directors. In addition, the Chairman of the Audit Committee and the Chairman of the Compensation Committee each receive $5,000 per year for their service in such positions. The Company provides group life insurance benefits in the amount of $100,000 and accidental death and dismemberment insurance up to a maximum of $100,000 for each of the members of the Board of Directors who are not employees of the Company. The premium for such insurance ranged from $136 to $4,260 for each of these directors during fiscal year 1992. The Company currently provides health insurance to non-employee members of the Board of Directors, who are not otherwise eligible for employer-provided health benefit insurance, on the same basis as for active employees, with the director paying his pro rata share of health insurance premiums. Mr. Detwiler is the only non-employee director provided health insurance by the Company. During the fiscal year 1992, the Company paid $32,401 to Mr. Detwiler or to the providers of medical services as reimbursement for medical expenses for Mr. Detwiler and his spouse.

EMPLOYMENT CONTRACTS AND CHANGE-IN-CONTROL ARRANGEMENTS

Under an employment agreement dated July 27, 1992, Mr. Burke is employed until July 27, 1995, at an annual base salary of not less than $450,000. In addition to his annual base salary, the agreement provides that Mr. Burke shall have the opportunity to earn an annual cash bonus of up to 40% of his base salary earned during the year. The amount of such bonus is to be based on Mr. Burke's performance as determined by the Board of Directors according to objectives established by the Board of Directors each year pursuant to discussions conducted in good faith with Mr. Burke.

Under an employment agreement dated September 14, 1992, Mr. Bruce A. Smith is employed by the Company as Vice President and Chief Financial Officer. Mr. Smith is employed until September 24, 1995, at an annual base salary of not less than $200,000. In addition to his annual base salary, the agreement provides that Mr. Smith shall have the opportunity to earn an annual cash bonus of up to 35% of his base salary earned during the year. The amount of such bonus is to be based on Mr. Smith's performance as determined by the Board of Directors according to objectives established by the Board of Directors each year pursuant to discussions conducted in good faith with Mr. Smith. Mr. Smith was promoted to Executive Vice President and Chief Financial Officer in September 1993.

Under an employment agreement dated January 4, 1993, Mr. Gaylon H. Simmons is employed by the Company as the Senior Vice President, Refining, Marketing and Crude Supply. Mr. Simmons is employed until January 4, 1996, at an annual base salary of not less than $250,000. In addition to his annual base salary, the agreement provides that Mr. Simmons shall have the opportunity to earn an annual cash bonus of up to 37.5% of his base salary earned during the year. The amount of such bonus is to be based on Mr. Simmons' performance as determined by the Board of Directors

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according to objectives established by the Board of Directors each year pursuant to discussions conducted in good faith with Mr. Simmons. Mr. Simmons was promoted to Executive Vice President in September 1993.

The employment agreements with Mr. Burke, Mr. Smith and Mr. Simmons provide that in the event the Company should terminate their employment without cause or if they should resign their employment for 'good reason' (as 'good reason' is defined in the employment agreement), they will be paid the greater of (i) a lump sum payment equal to his base salary at the then-current rate for the remaining months under the original term of the employment agreement and (ii) a lump sum equal to one year of base salary under the employment agreement at the then-current base salary rate. The employment agreements further provide that in the event their employment is terminated within two years of a change-of-control, they shall be paid within ten days of such termination a lump sum equal to three years base salary at the then-current rate. A change of control shall be deemed to have occurred if (i)(a) more than 30% of the combined voting power of the Company's then outstanding securities is acquired, directly or indirectly, and (b) at any time during the 24-month period thereafter, at least a majority of the Board of Directors shall cease to consist of directors of the Company who either were directors at the beginning of such 24-month period or who subsequently became directors and whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period, or (ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or such surviving entity) at least 60% of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the company approve a plan of complete liquidation of the Company or an agreement for sale or disposition by the Company of all or substantially all of the company assets. Base salary for purposes of this payment is defined to include the greatest annual amount paid to such executive officer during each of the two years prior to the date of such termination under all bonus and incentive compensation plans of the Company. The agreements further provide that should such termination payments to such executive officer exceed the permitted 'parachute' payment limits described in Section 280G of the Code, so that an excise tax is imposed on such executive officer under Section 4999 of the Code, then such termination payments to such executive officer shall also include a 'gross-up' payment to make such executive officer whole for the tax liability resulting from such termination and other payments.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information, to the best of the Company's knowledge, as to each person or group who on December 15, 1993, beneficially owned more than 5% of the outstanding shares of any class of the voting securities of the Company, and as adjusted to reflect ownership of such shares after the Reclassification.

<TABLE>
<CAPTION>

		AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP BEFORE THE RECLASSIFICATION(1)		AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP AFTER THE RECLASSIFICATION(1)	
TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES	PERCENT OF CLASS	NUMBER OF SHARES	PERCENT OF CLASS
<S>	<C>	<C>	<C>	<C>	<C>
Common Stock-----------------	MetLife Security Insurance Company of Louisiana 72 Eagle Rock Avenue East Hanover, NJ 07936	2,184,085	15.5%	4,084,160	18.1%
Common Stock-----------------	United Partners(2) c/o Pan Am Equities, Inc. 3 New York Plaza, 19th Floor New York, New York 10004	1,685,112(3)	11.9%	1,818,500	8.1%
Common Stock-----------------	Oakville N.V.(4) c/o Kuo Investment Company 805 Third Avenue, 14th Floor New York, New York 10022	1,769,100	12.6%	1,769,100	7.8%
$2.20 Preferred Stock(5)-----	MetLife Security Insurance Company of Louisiana 72 Eagle Rock Avenue East Hanover, NJ 07936	2,875,000	100.0%	2,875,000	100%

- ------------

(1) To the best of the Company's knowledge, the beneficial owners indicated above possess sole voting and investment power with respect to the shares shown to be owned by them.

(2) According to Schedule 13Ds on file with the Commission, 'United Partners' is comprised of a number of individuals who agreed to act as a 'group' as

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defined in Rule 13d-3 and Rule 13d-5(b)(1) under the Exchange Act. The reported basis for the group is that such persons intend to act together in order to attempt to protect and enhance the value of the shares of Common Stock. The following persons together comprise United Partners: Fraydun Manocherian, Atlantic Energy (U.S.A.) Corp., Amir Manocherian, Fame Equities Company, Eskandar Manocherian, Berdar Equities Company, Parviz Yari, Alan Kaufman, M.D., Louis Caiola, Kevin Flannery, Jed Manocherian, Greg Manocherian, Caroline Manocherian, and Kimberly Strelov. The Schedule 13Ds indicate that the individuals comprising 'United Partners' act independently with respect to the voting and disposition of their shares and there is no agreement or understanding among such persons in this respect.

(3) United Partners owns 42,000 shares of $2.16 Preferred Stock at December 15, 1993. The shares of Common Stock shown as beneficially owned by United Partners before the Reclassification include 72,412 shares of Common Stock which would be issuable upon the conversion of the 42,000 shares of $2.16 Preferred Stock into Common Stock at a conversion rate of 1.7241 shares of Common Stock for each share of $2.16 Preferred Stock.

(4) According to Schedule 13Ds on file with the Commission, Oakville N.V., a Netherlands Antilles corporation ('Oakville'), is a wholly-owned subsidiary of Kuo Investment Limited, a Cayman Islands corporation ('Kuo'). According to a Schedule 13D filed by Oakville in 1987, the following persons are its directors and executive officers: (a) Peter Yun Siak Fu, President and Director of Oakville; Director and officer of Kuo, (b) Peter Chong Cheng Fu, Director and Secretary of Oakville; Director and officer of Kuo, (c) Ong Beng Seng, Vice President and Director of Oakville; Director and officer of Kuo, (d) David Song Long Ban, Treasurer and Director of Oakville; Director and officer of Kuo and (e) Holland Intertrust (Curacao) N.V., a Netherlands Antilles corporation, a Director of Oakville. Oakville N.V. reports that it has sole voting and dispositive power over its voting securities.

(5) Each share of $2.20 Preferred Stock is convertible into .8696 shares of Common Stock and votes with the Common Stock on all matters on which the Common Stock is eligible to vote. Pursuant to the Amended MetLife Memorandum, MetLife Louisiana will agree not to convert the $2.20 Preferred Stock into Common Stock.

</TABLE>

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Tesoro Petroleum Corporation

We have audited the accompanying consolidated balance sheets of Tesoro Petroleum Corporation and subsidiaries as of December 31, 1992 and September 30, 1991, and the related consolidated statements of operations, common stock and other stockholders' equity and cash flows for the years ended December 31, 1992, September 30, 1991 and September 30, 1990 and for the three-month period ended December 31, 1991. 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 includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of Tesoro Petroleum Corporation and subsidiaries at December 31, 1992 and September 30, 1991, and the results of

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their operations and their cash flows for the years ended December 31, 1992, September 30, 1991 and September 30, 1990 and for the three-month period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed in Note A of Notes to the Consolidated Financial Statements, in 1992 the Company changed its methods of accounting for postretirement benefits other than pensions and accounting for income taxes.

DELOITTE & TOUCHE
San Antonio, Texas
February 19, 1993
(March 24, 1993 as to Notes H and J)

<TABLE>

TESORO PETROLEUM CORPORATION
STATEMENTS OF CONSOLIDATED OPERATIONS
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<CAPTION>

	YEARS ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30, (UNAUDITED)	
	1990	1991	1991	1992	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:						
Gross operating revenues (Note I)	$ 996,554	1,084,954	240,586	946,446	710,859	624,581
Interest income	5,840	4,209	682	3,170	2,528	1,406
Gain on sales of assets (Note D)	1,669	119	9	4,024	4,825	64
Other	2,456	1,734	2,596	732	630	1,797
Total Revenues	1,006,519	1,091,016	243,873	954,372	718,842	627,848
Costs and Expenses:						
Costs of sales and operating expenses (Notes C and H)	920,548	1,015,859	228,569	926,082	688,391	581,536
General and administrative	20,226	17,003	2,849	25,849	14,985	10,946
Depreciation, depletion and amortization	12,761	15,005	4,225	16,552	12,402	15,350
Interest expense	20,797	18,804	4,966	21,115	15,919	12,801
Other	5,883	5,312	722	4,636	3,391	4,441
Total Costs and Expenses	980,215	1,071,983	241,331	994,234	735,088	625,074
Earnings (Loss) Before Income Taxes and the Cumulative Effect of Accounting Changes	26,304	19,033	2,542	(39,862)	(16,246)	2,774
Income Tax Provision (Note G)	3,602	15,094	2,958	5,383	4,129	2,435
Earnings (Loss) Before the Cumulative Effect of Accounting Changes	22,702	3,939	(416)	(45,245)	(20,375)	339
Cumulative Effect of Accounting Changes (Note A)	--	--	--	(20,630)	(20,630)	--
Net Earnings (Loss)	$ 22,702	3,939	(416)	(65,875)	(41,005)	339
Net Earnings (Loss) Applicable to Common Stock	$ 13,495	(5,268)	(2,717)	(75,082)	(47,911)	(6,567)
Earnings (Loss) Per Primary and Fully Diluted* Share:						
Earnings (Loss) Before the Cumulative Effect of Accounting Changes	$ .96	(.37)	(.19)	(3.87)	(1.94)	(.47)
Cumulative Effect of Accounting Changes (Note A)	--	--	--	(1.47)	(1.47)	--
Net Earnings (Loss)	$ .96	(.37)	(.19)	(5.34)	(3.41)	(.47)

- ------------
* Anti-dilutive

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

TESORO PETROLEUM CORPORATION

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CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

<CAPTION>

ASSETS	SEPTEMBER 30, 1991	DECEMBER 31, 1992	SEPTEMBER 30, 1993 (UNAUDITED)
Current Assets (Note H):			
Cash and cash equivalents (includes restricted cash of $22,425 at September 30, 1993 as collateral for letters of credit)	$ 62,710	46,869	56,834
Short-term investments	--	20,021	1,477
Receivables, less allowance for doubtful accounts of $6,069; $2,587 and $2,279, respectively	104,172	77,173	66,385
Inventories (Note C):			
Crude oil, refined products and merchandise	69,614	70,875	49,104
Materials and supplies	4,761	3,636	3,168
Prepaid expenses and other	5,935	9,803	8,589
Total Current Assets	247,192	228,377	185,557
Property, Plant and Equipment (Notes D and H):			
Refining and marketing	271,363	275,213	279,251
Exploration and production, full-cost method of accounting:			
Properties being amortized	37,611	45,182	65,381
Properties not yet evaluated	8,242	1,482	3,366
Oil field supply and distribution	16,115	16,365	15,395
Corporate	16,027	10,431	11,026
	349,358	348,673	374,419
Less accumulated depreciation, depletion and amortization	141,857	150,191	165,146
Net Property, Plant and Equipment	207,501	198,482	209,273
Other Assets:			
Investment in Tesoro Bolivia Petroleum Company (Note E)	15,450	2,786	4,191
Other	26,683	17,077	15,630
Total Other Assets	42,133	19,863	19,821
	$ 496,826	446,722	414,651

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

TESORO PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY	SEPTEMBER 30, 1991	DECEMBER 31, 1992	SEPTEMBER 30, 1993 (UNAUDITED)
Current Liabilities:			
Accounts payable	$ 68,640	49,120	42,946
Accrued interest	7,748	14,401	6,389
Income taxes (Note G)	1,854	213	730
Other accrued liabilities	15,724	15,773	18,044
Accrued dividends on preferred stocks and current portion of redeemable preferred stock (Notes J and K)	--	--	31,240
Current portion of long-term debt and other obligations (Note H)	57,778	26,287	16,035
Total Current Liabilities	151,744	105,794	115,384
Other Liabilities:			
Accrued postretirement benefits (Note F)	--	21,939	23,745
Deferred income taxes (Note G)	8,771	7,402	5,925
Other (Note K)	14,554	13,766	7,306
Total Other Liabilities	23,325	43,107	36,976

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Long-Term Debt and Other Obligations, Less Current Portion (Note H)	126,960	175,461	164,463
Commitments and Contingencies (Note I)			
$2.20 Redeemable Cumulative Convertible Preferred Stock, Less Current Portion; $1 stated value; 2,875,000 shares issued and outstanding; redemption and liquidation value of $63,825; $71,731 and $76,475, respectively (Note J)	57,424	71,695	53,653
Common Stock and Other Stockholders' Equity (Notes H and K):			
Preferred stock, no par value; authorized 5,000,000 shares including redeemable preferred shares:			
$2.16 Cumulative convertible preferred stock; $1 stated value; 1,319,576; 1,319,563 and 1,319,563 shares issued and outstanding, respectively; liquidation value of $35,721; $39,283 and $41,421, respectively	1,320	1,320	1,320
Common stock, par value $.16 2/3; authorized 50,000,000 shares; 14,068,165; 14,071,040 and 14,069,799 shares issued and outstanding, respectively	2,345	2,345	2,345
Additional paid-in capital	86,664	86,992	86,987
Retained earnings (deficit)	47,209	(39,647)	(46,214)
	137,538	51,010	44,438
Less deferred compensation	165	345	263
	137,373	50,665	44,175
	$ 496,826	446,722	414,651

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

TESORO PETROLEUM CORPORATION

STATEMENTS OF CONSOLIDATED COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY

(INFORMATION FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1993 IS UNAUDITED)

(DOLLARS IN THOUSANDS)

<CAPTION>

	$2.16 CUMULATIVE CONVERTIBLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	DEFERRED COMPENSATION
	SHARES	AMOUNT	SHARES	AMOUNT			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balances at September 30, 1989	1,319,576	$1,320	14,061,839	$2,343	$ 86,630	$ 35,542	$ (433)
Net earnings	--	--	--	--	--	22,702	--
Cash dividends on preferred stocks	--	--	--	--	--	(6,882)	--
Exercise of stock options	--	--	2,507	1	19	--	--
Restricted common stock awards	--	--	(4,394)	(1)	(41)	--	217
Other	--	--	--	--	--	(32)	--
Balances at September 30, 1990	1,319,576	1,320	14,059,952	2,343	86,608	51,330	(216)
Net earnings	--	--	--	--	--	3,939	--
Cash dividends on preferred stocks	--	--	--	--	--	(8,028)	--
Restricted common stock awards	--	--	8,213	2	56	--	51
Other	--	--	--	--	--	(32)	--
Balances at September 30, 1991	1,319,576	1,320	14,068,165	2,345	86,664	47,209	(165)
Net loss	--	--	--	--	--	(416)	--
Restricted common stock awards	--	--	(1,120)	(1)	(6)	--	29
Other	--	--	--	--	--	(8)	--
Balances at December 31, 1991	1,319,576	1,320	14,067,045	2,344	86,658	46,785	(136)
Net loss	--	--	--	--	--	(65,875)	--
Accrued dividends on preferred stocks, currently not declared or paid	--	--	--	--	--	(20,525)	--
Conversion of preferred stock to common stock	(13)	--	22	--	--	--	--
Restricted common stock							

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awards	--	--	4,095	1	334	--	(209)
Other	--	--	(122)	--	--	(32)	--
Balances at December 31, 1992	1,319,563	1,320	14,071,040	2,345	86,992	(39,647)	(345)
Net earnings	--	--	--	--	--	339	--
Accrued dividends on preferred stocks, currently not declared or paid	--	--	--	--	--	(6,882)	--
Restricted common stock awards	--	--	(1,241)	--	(5)	--	82
Other	--	--	--	--	--	(24)	--
Balances at September 30, 1993	1,319,563	$1,320	14,069,799	$2,345	$ 86,987	$ (46,214)	$ (263)

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

TESORO PETROLEUM CORPORATION
STATEMENTS OF CONSOLIDATED CASH FLOWS
(DOLLARS IN THOUSANDS)

<CAPTION>

	YEARS ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30,	
	1990	1991	1991	1992	1992	1993
					(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Cash Flows From (Used In) Operating Activities:						
Net earnings (loss)	$ 22,702	3,939	(416)	(65,875)	(41,005)	339
Adjustments to reconcile net earnings (loss) to net cash from (used in) operating activities:						
Cumulative effect of accounting changes	--	--	--	20,630	20,630	--
Depreciation, depletion and amortization	12,761	15,005	4,225	16,552	12,402	15,350
Gain on sales of assets	(1,669)	(119)	(9)	(4,024)	(4,825)	(64)
Other	2,209	2,704	599	4,231	3,474	703
Changes in assets and liabilities:						
Receivables	(53,930)	33,531	6,524	12,320	17,353	10,795
Inventories	(526)	(20,663)	(10,620)	7,986	6,540	22,237
Investment in Tesoro Bolivia Petroleum Company	(7,920)	(5,991)	8,756	3,908	3,607	(1,405)
Other assets	1,322	2,899	(4,748)	3,484	4,867	2,257
Accounts payable and other current liabilities	48,886	(11,253)	(3,877)	(5,282)	4,414	(10,961)
Payments of liability to State of Alaska	--	--	--	--	--	(12,264)
Other liabilities and obligations	(6,072)	(2,107)	(774)	17,458	(2,617)	1,585
Net cash from (used in) operating activities	17,763	17,945	(340)	11,388	24,840	28,572
Cash Flows From (Used In) Investing Activities:						
Capital expenditures	(23,082)	(24,484)	(3,858)	(15,446)	(10,292)	(26,286)
Proceeds from sales of assets, net of expenses	19,771	2,087	35	12,905	12,089	141
Purchases of short-term investments	--	--	--	(23,976)	(23,976)	(20,293)
Sales of short-term investments	--	--	--	3,955	--	38,837
Other	334	(2,298)	1	1,478	(306)	(250)
Net cash used in investing activities	(2,977)	(24,695)	(3,822)	(21,084)	(22,485)	(7,851)
Cash Flows From (Used In) Financing Activities:						
Repurchase of debentures	--	--	--	--	--	(9,675)
Payments of other long-term debt	(1,052)	(1,272)	(512)	(6,468)	(2,342)	(1,076)
Issuance of long-term debt	--	--	3,000	2,024	2,024	--
Dividends on preferred stocks	(6,882)	(8,028)	--	--	--	--
Other	(8)	(25)	(7)	(20)	(20)	(5)
Net cash from (used in) financing activities	(7,942)	(9,325)	2,481	(4,464)	(338)	(10,756)

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Increase (Decrease) in Cash and Cash Equivalents	6,844	(16,075)	(1,681)	(14,160)	2,017	9,965
Cash and Cash Equivalents at Beginning of Period	71,941	78,785	62,710	61,029	61,029	46,869
Cash and Cash Equivalents at End of Period	$ 78,785	62,710	61,029	46,869	63,046	56,834
Supplemental Cash Flow Disclosures:						
Interest paid	$ 17,800	17,839	234	17,805	17,538	17,543
Income taxes paid	$ 5,015	13,694	3,425	6,446	5,601	3,448

</TABLE>

See Notes to Consolidated Financial Statements.

TESORO PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(INFORMATION FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1992 AND 1993 IS UNAUDITED)

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Tesoro Petroleum Corporation and its subsidiaries (collectively the 'Company' or 'Tesoro'). Certain accounts were consolidated during 1991 as a result of the Company's acquisition of the remaining interest in a convenience store operation.

All material intercompany accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current presentation of financial information.

Interim Reporting

The interim consolidated financial statements are unaudited but, in the opinion of management, incorporate all adjustments necessary for a fair presentation of the Company's financial position and results of operations for such interim periods. Such adjustments are of a normal recurring nature. For information regarding an inventory liquidation charge, see Note C. The results of operations for any interim period are not necessarily indicative of results for the full year.

Accounting Changes

In January 1993, the Company announced its decision to adopt Statements of Financial Accounting Standards ('SFAS') No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions,' and No. 109, 'Accounting for Income Taxes,' both effective as of January 1, 1992. Previous interim periods of 1992 were restated as a result of the adoption of these accounting standards.

SFAS No. 106 requires that the projected future cost of providing postretirement benefits other than pensions, such as health care and life insurance, be recognized as an expense as employees render service instead of when benefits are paid. The Company had historically expensed these benefits on a pay-as-you-go basis. The adoption of SFAS No. 106 resulted in a net charge of $21.6 million, or $1.54 per share, for the cumulative effect of the change in accounting principle for periods prior to 1992, which were not restated. In addition, the adoption of SFAS No. 106 resulted in an increase of $1.2 million, or $.09 per share, in the net loss before the cumulative effect of accounting changes for 1992.

Pursuant to SFAS No. 109, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The cumulative effect of the change in the method of accounting for income taxes from SFAS No. 96 for periods prior to 1992 was a net benefit of $1.0 million, or $.07 per share. Periods prior to 1992 were not restated. The adoption of SFAS No. 109 did not have a significant effect on the 1992 net loss before the cumulative effect of accounting changes.

Cash and Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. During 1992, the Company began investing in short-term debt securities with original maturities in excess of 90 days. These investments are classified as short-term investments on the Company's Consolidated Balance Sheets. Cash equivalents and short-term investments are stated at cost, which approximates market value. For information regarding restricted cash, see Note H.

In 1992, the Company adopted a policy to classify outstanding checks as reductions of cash rather than accounts payable. Prior period amounts have been reclassified to conform to the current policy.

Inventories

The Company follows the lower of cost (last-in, first-out basis -- LIFO) or market method for valuing inventories of wholesale refined products and crude

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oil. All other inventories are valued principally at the lower of cost (generally on a first-in, first-out or weighted average basis) or market.

Futures and Options Hedge Contracts

The Company uses commodity futures and options contracts primarily to hedge the impact of price fluctuations on anticipated purchases of crude oil. Gains and losses on commodity futures and options hedge contracts are deferred until recognized in income when the related crude oil is charged to costs of sales.

Property, Plant and Equipment

The Company uses the full-cost method of accounting for oil and gas properties. Under this method, all costs associated with property acquisition and exploration and development activities are capitalized into cost centers that are established on a country-by-country basis. For each cost center, the capitalized costs are subject to a limitation so as not to exceed the present value of future net revenues from estimated production of proved oil and gas reserves net of income tax effect plus the lower of cost or estimated fair value of unproved properties included in the cost center. Capitalized costs within a cost center, together with estimates of costs for future development, dismantlement and abandonment, are amortized on a unit-of-production method using the proved oil and gas reserves for each cost center. The Company's investment in certain oil and gas properties is excluded from the amortization base until the properties are evaluated. No gain or loss is recognized on the sale of oil and gas properties except in the case of the sale of properties involving significant remaining reserves. Proceeds from the sale of insignificant reserves and undeveloped properties are applied to reduce the costs in the cost centers.

Assets recorded under capital leases have been capitalized in accordance with promulgations from the Financial Accounting Standards Board. Amortization of such assets is recorded over the shorter of lease terms or useful lives under methods which are consistent with the Company's depreciation policy for owned assets.

Depreciation of other property is provided using primarily the straight-line method with rates based on the estimated useful lives of the properties and with an estimated salvage value of 20% for refinery assets and generally 10% for other assets. Amortization of leasehold improvements is provided using the straight-line method over the term of the respective lease or the useful life of the asset, whichever period is less.

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when

environmental assessments and/or remedial efforts are probable, and the cost can be reasonably estimated. Generally, the timing of these accruals coincides with completion of a feasibility study or the Company's commitment to a formal plan of action.

Deferred Compensation

Deferred compensation represents the excess of market value over the sales price of restricted common stock awarded to certain officers of the Company. The deferred compensation is being amortized over the period from the date of award to the dates the shares become unrestricted (the period for which the payment for services is being made).

Earnings (Loss) Per Share

Primary earnings (loss) per share is calculated on net earnings (loss) after deducting dividend requirements on preferred stocks and is based on the weighted average number of common and common equivalent shares outstanding during the period. Fully diluted earnings (loss) per share is the same as primary earnings (loss) per share, since the assumed conversion of preferred stocks to common shares would be anti-dilutive.

NOTE B -- CHANGE IN FISCAL YEAR-END

The Company changed its fiscal year-end from September 30 to December 31, effective January 1, 1992. The Statement of Consolidated Operations and the Statement of Consolidated Cash Flows for the three months ended December 31, 1991 are presented in the accompanying Consolidated Financial Statements. Comparative financial information is presented below:

<TABLE>
STATEMENTS OF CONSOLIDATED OPERATIONS
($000)
<CAPTION>

	THREE MONTHS ENDED DECEMBER 31,	
	1990	1991
	(UNAUDITED)	
<S>	<C>	<C>
Revenues:		
Gross operating revenues	$ 334,098	240,586
Interest income	1,410	682
Gain on sales of assets	177	9
Other	499	2,596

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Total Revenues	336,184	243,873
Costs and Expenses:		
Costs of sales and operating expenses	312,047	228,569
General and administrative	4,033	2,849
Depreciation, depletion and amortization	3,058	4,225
Interest expense	4,639	4,966
Other	761	722
Total Costs and Expenses	324,538	241,331
Earnings Before Income Taxes	11,646	2,542
Income Tax Provision	6,793	2,958
Net Earnings (Loss)	$ 4,853	(416)
Net Earnings (Loss) Applicable to Common Stock	$ 2,552	(2,717)
Earnings (Loss) Per Primary and Fully Diluted* Share	$ .18	(.19)

- ------------
* Anti-dilutive
</TABLE>

<TABLE>
STATEMENTS OF CONSOLIDATED CASH FLOWS
($000)
<CAPTION>

<S>	THREE MONTHS ENDED DECEMBER 31, 1990 (UNAUDITED) <C>	1991 <C>
Cash Flows From (Used In) Operating Activities:		
Net earnings (loss)	$ 4,853	(416)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation, depletion and amortization	3,058	4,225
Gain on sales of assets	(177)	(9)
Other	836	599
Changes in assets and liabilities:		
Receivables	14,313	6,524
Inventories	(24,687)	(10,620)
Investment in Tesoro Bolivia Petroleum Company	(4,383)	8,756
Other assets	(3,325)	(4,748)
Accounts payable and other current liabilities	(8,307)	(3,877)
Other liabilities and obligations	1,105	(774)
Net cash used in operating activities	(16,714)	(340)
Cash Flows From (Used In) Investing Activities:		
Capital expenditures	(6,136)	(3,858)
Proceeds from sales of assets, net of expenses	692	35
Other	(829)	1
Net cash used in investing activities	(6,273)	(3,822)
Cash Flows From (Used In) Financing Activities:		
Payments of long-term debt	(409)	(512)
Issuance of long-term debt	--	3,000
Dividends on preferred stocks	(2,294)	--
Other	2	(7)
Net cash from (used in) financing activities	(2,701)	2,481
Decrease in Cash and Cash Equivalents	(25,688)	(1,681)
Cash and Cash Equivalents at Beginning of Period	78,785	62,710
Cash and Cash Equivalents at End of Period	$ 53,097	61,029
Supplemental Cash Flows Disclosures:		
Interest paid	$ 218	234
Income taxes paid	$ 2,663	3,425

</TABLE>

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NOTE C -- INVENTORIES

In 1993, implementation of a market-driven strategy by the Company's refining and marketing operations resulted in a reduction in inventory levels at the Company's refinery. The Company has determined that the inventories will remain at reduced levels and will not be replaced at the 1993 year-end. Accordingly, in September 1993, the Company recorded a non-cash LIFO charge of $5.0 million for this inventory reduction.

Inventories valued by the LIFO method amounted to approximately $42.2 million, $63.7 million and $61.3 million at September 30, 1993, December 31, 1992 and September 30, 1991, respectively. At September 30, 1993, December 31, 1992 and September 30, 1991, inventories valued using LIFO

were lower than replacement cost by approximately $15.4 million, $9.6 million and $3.5 million, respectively.

NOTE D -- PROPERTY, PLANT AND EQUIPMENT

Effective May 1, 1992, the Company's subsidiaries, Tesoro Indonesia Petroleum Company and Tesoro Tarakan Petroleum Company (collectively 'Tesoro Indonesia'), sold their 100% interest in two separate contracts of operations with Pertamina, the state-owned petroleum company of Indonesia. The sales included all of Tesoro Indonesia's interests in fixtures, wells, pipelines, tanks, compressors, rigs and other equipment in the contract areas, and inventories of crude oil and materials and supplies. The consideration received by Tesoro Indonesia totaled $6.6 million in cash and the assumption by the purchaser of liabilities of approximately $6.3 million and all remaining expenditure commitments. During 1992, these sales transactions resulted in pretax net gains to the Company of approximately $5.8 million after related expenses.

In 1992, the Company sold its corporate airplane and related assets for $3.3 million in cash with no significant pretax gain to the Company. The Company also sold certain oil and gas properties in South Texas for $2.1 million in cash, which proceeds reduced the carrying value of the Company's oil and gas properties and no gain or loss was recognized. In addition, the Company sold its remaining drilling rigs resulting in cash proceeds of $1.6 million and a pretax loss of $1.1 million during 1992.

During May 1991, the Company acquired the remaining interest in a convenience store operation in Alaska. Prior to this time, the Company had a 50% interest in the joint venture that owned these convenience store operations. For further information regarding the impact of the acquisition, see Notes H and I.

During 1990, the Company completed the sale of substantially all of its oil field tool rental assets and business for approximately $16.1 million with no significant pretax gain to the Company.

NOTE E -- INVESTMENT IN TESORO BOLIVIA PETROLEUM COMPANY

The Company's subsidiary, Tesoro Bolivia Petroleum Company ('Tesoro Bolivia'), holds an interest in a joint venture agreement to explore for and produce hydrocarbons in Bolivia. Effective October 1, 1990, Tesoro Bolivia increased its ownership interest in this joint venture. The joint venture has an agreement with the Bolivian Government and YPFB, the Bolivian state-owned oil company, for collection of receivables for sales of natural gas and condensate to YPFB, which in turn sells the natural gas to the Republic of Argentina. The agreement allowed the joint venture to receive countertrade in the form of Argentine commodities as payment by Bolivia and YPFB for approximately $83.1 million of receivables due as of December 31, 1987. Of the $83.1 million, $38.0 million was received free of restrictions and $45.1 million was deposited into a restricted bank account ('Restricted Account') from which only payments for investments and expenses in Bolivia could be made. The agreement provides for direct receipts free of restrictions for sales of condensate.

The agreement further provided that receipts from natural gas sales subsequent to December 31, 1987 would also be placed in the Restricted Account until April 1992, or until cumulative deposits to the Restricted Account equal $90.0 million. Cumulative deposits to the Restricted Account have totaled $90.0 million and receipts for natural gas sales are now free of restrictions to the joint venture. The decrease in the book value of this investment during 1992 represented the excess of net cash received free of restrictions over net earnings of Tesoro Bolivia.

NOTE F -- EMPLOYEE BENEFIT PLANS

Retirement Plan

For all eligible employees, the Company provides a qualified noncontributory retirement plan. Plan benefits are based on years of service and compensation. It is the Company's policy to fund costs accrued to the extent such costs are tax deductible.

The components of net pension expense (income) for the Company's retirement plan are presented below:

	1990	1991	1992
		($000)	
Service Costs	$ 714	762	717
Interest Cost	3,316	3,482	3,492
Actual (Return) Loss on Plan Assets	1,400	(7,646)	(1,763)
Net Amortization and Deferral	(6,294)	3,167	(2,231)

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Net Pension Expense (Income)	$ (864)	(235)	215

For the nine months ended September 30, 1993 and September 30, 1992 and the three months ended December 31, 1991, net pension expense for the Company's retirement plan totaled $207,000, $305,000 and $90,000, respectively.

In addition to the retirement plan pension expense (income) above, during the nine months ended September 30, 1992, the Company recognized a curtailment gain of $1.0 million for employee terminations in conjunction with a cost reduction program. During 1990, the Company incurred costs of $1.4 million for special termination benefits offered to early retirees and recognized a curtailment gain of $.8 million for employee terminations in conjunction with sales of assets.

The funded status of the Company's retirement plan and amounts included in the Company's Consolidated Balance Sheets are set forth in the following table:

<TABLE>
<CAPTION>

	SEPTEMBER 30,		DECEMBER 31,
	1990	1991	1992
		($000)	
<S>	<C>	<C>	<C>
Actuarial Present Value of Benefit Obligation:			
Vested benefit obligation	$ 33,450	33,959	34,806
Accumulated benefit obligation	$ 34,927	35,556	36,460
Plan Assets at Fair Value	$ 36,255	39,772	39,326
Projected Benefit Obligation	39,108	40,305	40,989
Plan Assets Less Than Projected Benefit Obligation	(2,853)	(533)	(1,663)
Unrecognized Net Loss	9,282	5,889	7,222
Unrecognized Prior Service Costs	(850)	(779)	(588)
Unrecognized Net Transition Asset	(10,900)	(9,664)	(8,120)
Accrued Pension Expense Liability	$ (5,321)	(5,087)	(3,149)

</TABLE>

Retirement plan assets are primarily comprised of common stock and bond funds. The actuarial assumptions used in determining net pension costs for the Company's retirement plan in each of the periods presented above included a discount rate and expected long-term return on plan assets of 9% per annum and an increase in compensation levels of 6% per annum. The Company anticipates that the discount rate at December 31, 1993 may be lower than 9%; therefore, the benefit obligation at that date could be materially higher than presented above.

Executive Security Plan

The Company's executive security plan ('ESP') provides executive officers and other key personnel with supplemental death or retirement benefits in addition to those benefits available under the Company's group life insurance and retirement plans. These supplemental retirement benefits are

provided by a nonqualified, noncontributory plan and are based on years of service and compensation. Funding is provided based upon the estimated requirements of the plan. The components of net pension expense for the ESP are presented below:

<TABLE>
<CAPTION>

	1990	1991	1992
		($000)	
<S>	<C>	<C>	<C>
Service Costs	$ 341	581	293
Interest Cost	509	546	353
Actual Return on Plan Assets	(643)	(628)	(1,004)
Net Amortization and Deferral	474	590	994
Net Pension Expense	$ 681	1,089	636

</TABLE>

For the nine months ended September 30, 1993 and September 30, 1992 and the three months ended December 31, 1991, net pension expense for the ESP totaled $556,000, $476,000 and $242,000, respectively.

During the nine months ended September 30, 1993 and September 30, 1992, and the year ended December 31, 1992, the Company incurred additional ESP expense of $.5 million, $3.3 million and $3.5 million, respectively, for settlement losses

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and other benefits resulting from the cost reduction program, other employee terminations and sales of assets. Additional ESP expense incurred during 1990 amounted to $1.0 million in settlement losses and special termination benefits, of which $.4 million related to expenses associated with sales of assets.

The funded status of the ESP and amounts included in the Company's Consolidated Balance Sheets are set forth in the following table:

	SEPTEMBER 30, 1990	SEPTEMBER 30, 1991	DECEMBER 31, 1992
		($000)	
Actuarial Present Value of Benefit Obligation:			
Vested benefit obligation	$ 5,240	6,368	2,410
Accumulated benefit obligation	$ 5,240	6,420	2,464
Plan Assets at Fair Value	$ 6,503	6,658	2,924
Projected Benefit Obligation	5,240	6,420	2,738
Plan Assets in Excess of Projected Benefit Obligation	1,263	238	186
Unrecognized Net Loss	1,741	2,147	1,409
Unrecognized Prior Service Costs	1,421	1,287	679
Unrecognized Net Transition Obligation	2,653	2,412	1,254
Prepaid Pension Expense	$ 7,078	6,084	3,528

Assets of the ESP consist of a group annuity contract. The actuarial assumptions used in determining net pension costs for the ESP in each of the periods presented above included a discount rate and expected long-term return on plan assets of 9% per annum and an increase in compensation levels of 5% per annum. The Company anticipates that the discount rate at December 31, 1993 may be lower than 9%; therefore, the benefit obligation at that date could be materially higher than presented above.

Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the Company provides health care and life insurance benefits to retirees and eligible dependents who were participating in the Company's group insurance program at retirement. These benefits are provided through unfunded defined benefit plans. The health care plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The life insurance plan is noncontributory.

As discussed in Note A, the Company adopted SFAS No. 106 effective January 1, 1992 and incurred a net charge of $21.6 million ($16.1 million for health care benefits and $5.5 million for life insurance benefits) for the cumulative effect of the change in accounting principle. Net periodic postretirement benefits expense, other than pensions, for 1992 included the following components:

	HEALTH CARE	LIFE INSURANCE	TOTAL
		($000)	
Service Costs	$ 400	100	500
Interest Costs	1,332	457	1,789
Net Periodic Postretirement Expense	$ 1,732	557	2,289

For the nine-month periods ended September 30, 1993 and 1992, postretirement health care benefits amounted to $1,362,000 and $1,299,000, respectively, and postretirement life insurance benefits amounted to $444,000 and $418,000, respectively. Prior to 1992, the costs of providing health care and life insurance benefits to retired employees were expensed as claims were paid. In 1991 and 1990, the costs of providing retirees with health care benefits amounted to $751,000 and $621,000, respectively, and life insurance benefits amounted to $299,000 and $288,000, respectively. For the three months ended December 31, 1991, retiree health care and life insurance benefits totaled $191,000 and $59,000, respectively.

The Company continues to fund the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis. The following table shows the

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combined status of the plans reconciled with the amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1992:

	HEALTH CARE	LIFE INSURANCE	TOTAL
		($000)	
Accumulated Postretirement Benefit Obligation:			
Retirees	$ 12,183	4,038	16,221
Active participants eligible to retire	625	615	1,240
Other active participants	4,144	1,154	5,298
	16,952	5,807	22,759
Unrecognized Net Loss	(820)	--	(820)
Accrued Postretirement Benefit Costs	$ 16,132	5,807	21,939

The weighted average annual assumed rate of increase in the per capita cost of covered health care benefits was assumed to be 12% for 1993, decreasing gradually to 7% by the year 2010 and remaining at that level thereafter. This health care cost trend rate assumption has a significant effect on the amount of the obligation and periodic cost reported. For example, an increase in the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement obligation as of December 31, 1992 by $3.0 million and the aggregate of service cost and interest cost components of net periodic postretirement benefits for the year then ended by $.3 million.

The weighted average discount rate and the compensation increase rate used in determining the accumulated postretirement benefit obligation as of December 31, 1992 and 1991 were 8.5% per annum and 6% per annum, respectively.

Thrift Plan

The Company's employee thrift plan provides for contributions by eligible employees into designated investment funds, with a matching contribution by the Company of 50% of the employee's basic contribution. The Company's contributions amounted to $474,000, $439,000 and $410,000 during 1992, 1991 and 1990, respectively. For the nine months ended September 30, 1993 and September 30, 1992 and the three months ended December 31, 1991, the Company's contributions amounted to $326,000, $342,000 and $107,000, respectively.

Cost Reduction Program and Other Employee Terminations

In addition to the ESP settlement losses and other benefits and the retirement plan curtailment gain discussed above, during the year ended December 31, 1992 and the nine months ended September 30, 1992, the Company incurred charges of $6.6 million and $1.1 million, respectively, for expenses to implement a cost reduction program and for other employee terminations.

NOTE G -- INCOME TAXES

The income tax provision includes the following:

	YEARS ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	NINE MONTHS ENDED SEPTEMBER 30,	
	1990	1991	1991	1992	1992	1993
					(UNAUDITED)	
			($000)			
Federal:						
Current	$ (447)	455	--	418	--	--
Deferred	(1,051)	(201)	80	(454)	(585)	--
Foreign -- Current	5,057	14,661	2,826	5,104	4,258	2,449
State -- Current	43	179	52	315	456	(14)
	$ 3,602	15,094	2,958	5,383	4,129	2,435

Deferred income taxes and benefits under SFAS No. 109 are provided for differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Temporary differences and the resulting deferred tax assets and liabilities at December 31, 1992 and September 30, 1993 are summarized as follows:

	DECEMBER 31, 1992	SEPTEMBER 30, 1993

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	(UNAUDITED)	
	($000)	
Deferred Tax Assets:		
Net operating losses available for utilization through the year 2007	$ 21,501	27,080
Settlement with the State of Alaska	24,476	20,967
Accrued postretirement benefits	6,947	6,947
Settlement with Department of Energy	4,616	4,616
Other	12,137	8,107
Total Deferred Tax Assets	69,677	67,717
Deferred Tax Liabilities:		
Accelerated depreciation and property-related items	(42,475)	(40,738)
Deferred Tax Assets Before Valuation Allowance	27,202	26,979
Valuation Allowance	(27,202)	(26,979)
State Income and Alternative Minimum Taxes	(742)	(742)
Other	(6,660)	(5,183)
Net Deferred Tax Liability	$ (7,402)	(5,925)

</TABLE>

The following table sets forth the components of the Company's results of operations and a reconciliation of the normal statutory federal income tax with the provision for income taxes:

<TABLE>
<CAPTION>

	YEARS ENDED SEPTEMBER 30, 1990	YEARS ENDED SEPTEMBER 30, 1991	THREE MONTHS ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	NINE MONTHS ENDED SEPTEMBER 30, 1992 (UNAUDITED)	NINE MONTHS ENDED SEPTEMBER 30, 1993 (UNAUDITED)
			($000)			
Earnings (Loss) Before Income Taxes and the Cumulative Effect of Accounting Changes:						
United States	$ 11,121	(15,581)	(4,493)	(60,117)	(35,082)	(2,325)
Foreign	15,183	34,614	7,035	20,255	18,836	5,099
	$ 26,304	19,033	2,542	(39,862)	(16,246)	2,774
Income Taxes at Statutory U.S. Corporate Tax Rate	$ 8,943	6,471	864	(13,553)	(5,524)	943
Effect of:						
Foreign income taxes, net of U.S. tax benefit	5,057	14,661	2,826	5,104	4,258	2,449
State income taxes, net of U.S. tax benefit	43	179	52	315	456	(14)
Accounting limitation on operating loss tax benefit	--	--	--	13,553	5,524	(943)
Utilization of net operating loss carryforwards	(8,943)	(6,471)	(864)	--	--	--
Alternative minimum tax	(571)	455	--	--	--	--
Other	(927)	(201)	80	(36)	(585)	--
Income Tax Provision	$ 3,602	15,094	2,958	5,383	4,129	2,435

</TABLE>

At December 31, 1992, the Company's net operating loss carryforwards were approximately $63.2 million for regular tax and approximately $46.2 million for alternative minimum tax. These tax loss carryforwards are available for future years and, if not used, will begin to expire in the year 2004. Also at December 31, 1992, the Company had approximately $8.2 million of investment tax credits and employee stock ownership credits available for carryover to subsequent years. These credits, if not used, will begin to expire in the year 2001.

NOTE H -- LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-term debt and other obligations consist of the following:

<TABLE>
<CAPTION>

SEPTEMBER 30, 1991	DECEMBER 31, 1992	SEPTEMBER 30, 1993
	($000)	

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<S>	<C>	<C>	<C>
12 3/4% Subordinated Debentures due 2001	$ 105,138	107,510	97,656
Liability to State of Alaska	51,166	71,989	61,633
Liability to Department of Energy	17,898	13,194	13,194
Industrial Revenue Bonds	4,579	3,483	3,118
Capital Lease Obligations (interest at 11%)	4,909	4,368	4,053
Other (interest from 7% to 11%)	1,048	1,204	844
	184,738	201,748	180,498
Less Current Portion	57,778	26,287	16,035
	$ 126,960	175,461	164,463

</TABLE>

Based on the closing market price, the Company estimated that the fair value of the 12 3/4% Subordinated Debentures, exclusive of accrued interest, was approximately $99.3 million at December 31, 1992. The carrying value of the other long-term debt and obligations approximated the Company's estimate of the fair value of such items.

Aggregate maturities and sinking fund requirements for long-term debt issues and obligations for each of the five years following December 31, 1992 are as follows:

<TABLE>
<CAPTION>

<S>	<C> ($000)
1993	$ 26,287
1994	$ 16,012
1995	$ 16,963
1996	$ 18,511
1997	$ 18,696

</TABLE>

Letter of Credit Requirements

On October 29, 1993, in order to avoid a $700,000 facility fee, the Company elected to terminate its secured Letter of Credit Facility Agreement ('Credit Facility') dated July 27, 1989, between the Company, two of its wholly-owned subsidiaries, The Chase Manhattan Bank, N.A., as Agent, and a consortium of other banks. The facility, which was scheduled to expire in March 1994, was secured by the Company's refinery, a second lien on the Company's Bob West Field gas reserves and a security interest in substantially all of the current assets of the Company, including cash, accounts receivable and inventory. The Company had previously amended the Credit Facility on September 30, 1993 to reduce the commitment under the facility from $80 million to $40 million and to permit the Company to issue up to $30 million of letters of credit with other banks. The early termination of the Agreement by the Company eliminated a $700,000 facility fee which would have been incurred to keep the facility outstanding through March 10, 1994.

Under the terms of the previous Credit Facility, which was amended from time to time, the Company was required to maintain a minimum $30.0 million cash balance and specified levels of equity and working capital. At December 31, 1992, the Company's equity was approximately $9.7 million above the required level. The previous Credit Facility did not include direct borrowing capability. Among other matters, the previous Credit Facility limited, with certain exceptions, the ability of the Company to (i) encumber its assets; (ii) incur additional indebtedness, except that the Company could incur additional indebtedness not to exceed $25.0 million to provide temporary working capital, up to $50.0 million in aggregate amount at any time outstanding and as to which recourse was limited to liens against domestic oil and gas properties and up to $25.0 million for capital asset purchases and acquisitions under certain conditions; (iii) make investments, advances or loans to other persons; (iv) sell assets or sell and leaseback real or personal property; (v) pay dividends on or purchase common stock; and (vi) make redemptions of preferred stocks. The previous Credit Facility contained other covenants customary in letter of credit agreements of this kind. Although the Credit Facility did not contain a restriction on preferred dividend payments, the requirement to maintain a specified level of equity limited the Company's ability to pay preferred dividends. At December 31, 1992, under the terms of the previous Credit Facility, the Company had outstanding letters of credit of $63 million and a remaining unused credit line of $17 million.

During September 1993 and subsequent, the Company negotiated several interim credit arrangements collateralized by either cash or inventory to permit it to secure the purchases of crude oil feedstocks and to meet other operating and corporate credit requirements. With respect to these interim credit arrangements, the Company has entered into several uncommitted letter of credit facilities which provide for the issuance of letters of credit on a cash-secured basis. Total availability pursuant to the uncommitted letter of credit arrangements is in excess of $65 million. As of September 30, 1993, the Company had arranged for the issuance of $45 million of outstanding letters

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of credit. Cash restricted for use as collateral for outstanding letters of credit amounted to $22.4 million at September 30, 1993.

In addition, effective September 30, 1993, the Company entered into a waiver and substitution of collateral agreement ('Substitution Agreement') with the State of Alaska, the Company's largest supplier of crude oil. Under the Substitution Agreement, the Company has pledged the stock of Tesoro Alaska Petroleum Company ('Tesoro Alaska'), a wholly-owned subsidiary of the Company, and substantially all of its crude oil and refined product inventory in Alaska to secure its purchases of royalty crude oil. The Substitution Agreement has allowed the Company to reduce its letter of credit requirements to $28 million as of November 1, 1993. This agreement extends through 1994 and contains various covenants and restrictions customary to inventory financing transactions.

Exploration and Production Financing

Effective October 29, 1993, Tesoro Exploration and Production Company ('Tesoro E&P'), a wholly-owned subsidiary of the Company, entered into a $30 million reducing revolving credit facility ('E&P Facility') secured by the capital stock of Tesoro E&P and its natural gas properties in the Bob West Field in South Texas. Proceeds from the E&P Facility may be used for capital requirements associated with the development of the Company's South Texas natural gas properties, the acquisition and development of other oil and gas properties and, subject to certain limitations, the repayment of outstanding borrowings or advances to the Company.

The E&P Facility is subject to a quarterly borrowing base determination which was initially determined to be $20 million. The facility, which expires December 31, 1996, is guaranteed by the Company, contains certain financial covenants that must be maintained by Tesoro E&P and bears interest at prime plus 1% or, at Tesoro E&P's option, Libor plus 2.5%. The E&P Facility contains restrictions that prohibit borrowings under the facility to be used by Tesoro E&P or the Company for debt service, including interest and principal on the Company's 12 3/4% Subordinated Debentures, or for payment of common or preferred dividends.

Subordinated Debt

In 1983, the Company issued $120,000,000 of 12 3/4% Subordinated Debentures at a price of 84.559% of the principal amount, due March 15, 2001. The debentures are redeemable at the option of the Company at 100% of principal amount plus accrued interest. Sinking fund payments sufficient to retire $11,250,000 principal amount of debentures annually are required beginning March 15, 1993. The Company has satisfied the 1993 requirement by purchasing $11,250,000 principal amount of debentures at market value on January 26, 1993. At September 30, 1993, December 31, 1992 and September 30, 1991, subordinated debt amounted to $97,656,000 (net of discount of $11,094,000), $107,510,000 (net of discount of $12,490,000) and $105,138,000 (net of discount of $14,862,000), respectively. The indenture governing the subordinated debentures contains restrictions on payment of dividends on the Company's common stock and purchases or redemptions of common or preferred stocks. Due to losses which have been incurred, the Company must generate approximately $148 million of future net earnings applicable to common stock or from the issuance of capital stock before future dividends can be paid on common stock or before purchases or redemptions can be made of common or preferred stocks.

State of Alaska

On January 19, 1993, the Company and its subsidiary, Tesoro Alaska, entered into an agreement ('Agreement') with the State of Alaska ('State') that settled Tesoro Alaska's contractual dispute with the State. In addition to $62 million accrued through September 30, 1992, a charge of $10.5 million for the settlement was included in the Company's operations during the fourth quarter of 1992.

Under the provisions of the Agreement, Tesoro Alaska paid the State $10.3 million in January 1993. In addition, Tesoro Alaska will make variable monthly payments to the State over the next nine years based on a per barrel charge that increases over the nine-year period from 16 cents to 33 cents on the

volume of feedstock processed at the Company's Alaska refinery. At the end of the nine-year period, Tesoro Alaska is obligated to pay the State $60 million; provided, however, that such payment may be deferred indefinitely by continuing the variable monthly payments to the State beginning at 34 per barrel in 2002 and increasing one cent per barrel annually thereafter. Variable monthly payments made after the nine-year period will not reduce the $60 million obligation to the State. The imputed rate of interest used by the Company on the $60 million obligation was 13%. The $60 million obligation is evidenced by a security bond, and the bond and the throughput barrel obligations are secured by a second mortgage on the Company's Alaska refinery. Tesoro Alaska's obligations under the Agreement and the mortgage may be subordinated to current and future senior debt obligations (including without limitation, principal, interest and related expenses) of up to $175 million plus any indebtedness incurred in the future to improve the Company's Alaska refinery.

The State's claim against Tesoro Alaska arose out of certain provisions in present and past contracts with the State that required Tesoro Alaska to pay the State additional retroactive amounts if the State prevailed in its ANS Royalty Litigation against the producers of North Slope crude oil ('Producers'). As a result of settlements between the State and the Producers, the State claimed that the royalty oil it sold Tesoro Alaska and others was undervalued to the

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extent that the Producers undervalued their oil.

Department of Energy

A Consent Order entered into by the Company with the Department of Energy ('DOE') settled all issues relating to the Company's compliance with federal petroleum price and allocation regulations from 1973 through decontrol in 1981. Under the provisions of the Consent Order, the Company has paid $40.5 million to the DOE since 1989. The Company's remaining obligation is to pay $13.2 million, plus interest at 6% per annum, over the next nine years.

Industrial Revenue Bonds and Other

The industrial revenue bonds mature in 1998 and require semiannual payments of approximately $365,000. The bonds bear interest at a variable rate (4 1/2% at December 31, 1992) which is equal to 75% of the National Bank of Alaska's prime rate. The bonds are collateralized by the sulphur recovery unit at the Company's Alaska refinery. The sulphur recovery unit had a carrying value of approximately $7.3 million at December 31, 1992.

Capital Lease Obligations

The Company is the lessee of certain buildings and equipment under capital leases with remaining lease terms of 4 to 25 years. These buildings and equipment are used in the Company's convenience store operation in Alaska. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments. Property, plant and equipment at December 31, 1992 included assets held under capital leases of $6.1 million with a net book value of $3.7 million.

NOTE I -- COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has various noncancellable operating leases related to convenience stores, vessels, equipment, property and other facilities. Lease terms range from one year to 40 years and generally contain multiple renewal options. Future minimum annual payments for operating leases, as of December 31, 1992, are as follows:

<TABLE>
<CAPTION>

<S>	($000) <C>
1993	$ 20,525
1994	15,750
1995	3,471
1996	2,678
1997	2,441
Thereafter	15,897
Total	$ 60,762

</TABLE>

Total rental expense for the years ended September 30, 1990, September 30, 1991 and December 31, 1992, the three months ended December 31, 1991, and the nine months ended September 30, 1992 and September 30, 1993 was $10.0 million, $19.9 million, $24.3 million, $6.0 million, $18.2 million and $24.5 million, respectively. Rental expense for the years ended September 30, 1991 and December 31, 1992, the three months ended December 31, 1991 and the nine months ended September 30, 1992 and September 30, 1993 included $9.9 million, $12.0 million, $2.9 million, $8.8 million and $17.2 million, respectively, for the lease of two vessels used to transport crude oil to or refined products from the Company's Alaska refinery. The lease for one of these vessels extends through October 1994 with a renewal option available through October 1996. The lease for the second vessel extends through July 1994 with a renewal option available through January 1995.

Gas Purchase and Sales Contract

The Company is selling gas from its Bob West Field to Tennessee Gas under a 1979 Gas Purchase and Sales Agreement (the 'Gas Contract') which expires in January 1999. The Gas Contract provides that the price of gas shall be the maximum price as calculated in accordance with the then effective Section 102(b)(2) (the 'Contract Price') of the Natural Gas Policy Act of 1978 ('NGPA').

In August 1990, Tennessee Gas filed a civil action in the District Court of Bexar County, Texas against the Company and several other companies, seeking a Declaratory Judgment that the Gas Contract is not applicable to the Company's properties. Tennessee Gas claimed, among other things, that certain leases covered by the Gas Contract terminated and therefore were automatically released from the Gas Contract, eliminating the obligation of Tennessee Gas to purchase gas from the Company. Tennessee Gas also challenged the quantity of gas which can be sold under the Gas Contract and contended that the gas sales price was to be calculated under the provisions of Section 101 of the NGPA rather than the Contract Price. At September 30, 1993, the Section 101 price of $4.45 per Mcf was $3.16 per Mcf less than the Contract Price, but $2.14 per Mcf above spot market prices.

On June 24, 1992, the District Court trial judge returned a verdict in favor of the Company. The District Court's judgment, entered on July 8, 1992, ruled that Tennessee Gas must honor the Gas Contract pursuant to its terms. Tennessee Gas filed a motion for reconsideration in the District Court on the issue of the price to be paid for the gas under the Gas Contract, which was

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denied by the court. On September 11, 1992, Tennessee Gas appealed the judgment to the Court of Appeals for the Fourth Supreme Judicial District of Texas. On August 25, 1993, the Court of Appeals affirmed the validity of the Gas Contract as to the Company's properties and held that the price payable by Tennessee Gas

for the gas was the Contract Price. The Court of Appeals determined, however, (i) that the trial court erred in its summary judgment ruling that the Gas Contract was not an output contract under the Texas Business and Commerce Code ('TBCA') and (ii) that a fact issue exists as to whether the increases in the volumes of gas tendered to Tennessee Gas under the Gas Contract were made in bad faith or were unreasonably disproportionate to prior tenders in contravention of the provisions of Section 2.306 of the TBCA. Accordingly, the Court of Appeals directed that this issue be remanded back to the trial court in Bexar County, Texas. The Company has filed a motion for rehearing with the appellate court regarding its decision that the Gas Contract creates an output contract governed by the TBCA. Tennessee Gas has also filed a motion for rehearing with the appellate court regarding the portions of its decision upholding the judgment of the trial court. If Tennessee Gas should prevail in an appeal of the Court of Appeals decision, the case could be sent back to the trial court for further proceedings or the Company could be required to return to Tennessee Gas the difference between the spot price for gas and the Contract Price. The Company continues to receive payment from Tennessee Gas based on the Contract Price. If the decision of the Court of Appeals is affirmed, the only issue for trial will be whether the increases in the volumes of gas tendered to Tennessee Gas from the Company's properties may have been made in bad faith or were unreasonably disproportionate. Management of the Company believes its tenders were reasonable under the Gas Contract and the market conditions at the time and will vigorously defend on this issue if put to trial.

Although the outcome of any litigation is uncertain, management believes that the Tennessee Gas claims are without merit and, based upon advice from outside legal counsel, is confident that the decision of the trial court will ultimately be upheld as to the validity of the Gas Contract and the Contract Price; and that with respect to the output contract issue, the Company believes that, if this issue is tried, the development of its gas properties and the resulting increases in volumes tendered to Tennessee Gas will be found to have been reasonable and in good faith. Accordingly, the Company has recognized revenues, net of production taxes and marketing charges, for natural gas sales through September 30, 1993, under the Gas Contract based on the Contract Price, which net revenues aggregated $12.1 million more than the Section 101 prices and $22.3 million in excess of the spot market prices. For further information concerning the effect of the Gas Contract on certain of the Company's revenues and cash flows, see Note N.

Other

On March 23, 1992, the Company received a Notice of Violation and Compliance Order dated March 16, 1992 from the U.S. Environmental Protection Agency ('EPA') alleging possible violations by the Company of the New Source Performance Standards under the Clean Air Act at its Alaska refinery. The Company continues to discuss the alleged violations with the EPA, and no final resolution has been reached.

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. The Company is currently involved with two waste disposal sites in Louisiana at which it has been named a potentially responsible party under the Federal Superfund law. Although this law might impose joint and several liability upon each party at any site, the extent of the Company's allocated financial contribution to the cleanup of these sites is expected to be limited based on the number of companies and the volumes of waste involved. At each site, a number of large companies have also been named as potentially responsible parties and are expected to cooperate in the cleanup. The Company is also involved in remedial response and has incurred cleanup expenditures associated with environmental matters at a number of other sites including certain of its own properties.

At September 30, 1993, the Company had $3.7 million of environmental accruals included in other accrued liabilities. Based on currently available information, including the participation of other parties or former owners in remediation actions, the Company believes these accruals are adequate. Conditions which require additional expenditures may exist for various Company sites, including, but not limited to, the Company's refinery, services stations (current and closed locations)

and petroleum product terminals, and compliance with the Clean Air Act. The amount of such future expenditures cannot presently be determined by the Company.

NOTE J -- REDEEMABLE PREFERRED STOCK (MANDATORY)

In March 1983, the Company sold 2,875,000 shares of a series of redeemable preferred stock at $20 per share. The stock is held by a life insurance company ('MetLife Louisiana') which is a subsidiary of Metropolitan Life Insurance Company. The class of stock, of which there were 2,875,000 shares authorized, issued and outstanding at September 30, 1991, December 31, 1992 and September

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30, 1993, has been designated the $2.20 Cumulative Convertible Preferred Stock ('$2.20 Preferred Stock'). This series has one vote per share, is convertible into .8696 shares of common stock for each share of preferred stock, has a stated value of $1 per share and a liquidation price and a mandatory redemption price of $20 per share and is redeemable at the option of the Company at $20 per share plus accrued dividends. The redeemable preferred stock ranks in parity with the $2.16 Cumulative Convertible Preferred Stock as to liquidation and dividends. Beginning February 15, 1994, and each year following as long as shares are outstanding, the Company is required to set aside an amount sufficient to annually redeem 6 2/3% of the shares outstanding on February 15, 1994. However, the Company is currently prohibited from redeeming this stock under provisions of the indenture for the 12 3/4% Subordinated Debentures.

The redeemable preferred stock was recorded at fair value on the date of issuance less issue costs. The excess of the redemption value over the carrying value is being accreted by periodic charges to retained earnings over the life of the issue.

During the three months ended December 31, 1991, the year ended December 31, 1992 and the nine months ended September 30, 1993, the Company continued to omit the regular quarterly dividends on its preferred stocks. As of September 30, 1993, preferred stock dividends in arrears amounted to approximately $18.2 million, or $6.32 1/2 per share, on the $2.20 Preferred Stock. During the nine months ended September 30, 1993 and the year ended December 31, 1992, the carrying value of the redeemable preferred stock was increased for mandatorily redeemable accumulated dividends, currently not declared or paid, resulting in a charge to retained earnings. For information regarding restrictions on dividend payments, see Note H.

Pursuant to the terms and conditions of the $2.20 Preferred Stock, MetLife Louisiana has the option to require the Company to redeem the stock (including accrued dividends) from funds legally available if the Company is in arrears in the payment of 12 or more quarterly dividends or fails to make three annual mandatory redemptions which are scheduled to commence February 15, 1994. Upon any such redemption, the Company would also be required to pay the accrued and unpaid dividends on the Company's $2.16 Cumulative Convertible Preferred Stock. Since the Company has continued to defer the payment of dividends, 12 1/2 quarterly dividends on the $2.20 Preferred Stock are in arrears as of November 15, 1993. In March 1993, the Company entered into a Forbearance Agreement with MetLife Louisiana, which was subsequently amended in November 1993, which defers the initial redemption of the $2.20 Preferred Stock scheduled for February 1994 and MetLife Louisiana's right to accelerate redemption of the $2.20 Preferred Stock upon the occurrence of a default in the payment of dividends, as described above, to the earlier of March 10, 1994 or the day following an occurrence of either (i) an event of default under the E&P Facility or the Substitution Agreement or (ii) any event which has resulted in or is likely to result in a material adverse effect on the assets, business, operations, financial condition or cash flow of the Company and its subsidiaries taken as a whole. Pursuant to the terms and conditions of the $2.20 Preferred Stock, and the aforementioned Forbearance Agreement, the Company is required to annually redeem 6 2/3% of such shares outstanding commencing in March 1994, and all dividends in arrears on both preferred stocks are required to be paid prior to such redemption. Accordingly, the preferred shares redeemable in March 1994 and all accrued dividends are classified as current liabilities at September 30, 1993. MetLife Louisiana currently owns redeemable preferred stock and common stock representing about 28% of the Company's voting securities.

NOTE K -- COMMON STOCK AND OTHER STOCKHOLDERS' EQUITY

Preferred Stock

The Company has designated a class of preferred stock, of which there were 1,319,563 shares outstanding at September 30, 1993 and December 31, 1992 and 1,319,576 shares outstanding at September 30, 1991, and 200,000 shares reserved for the granting of options under a stock option plan of the Company. This class, designated the $2.16 Cumulative Convertible Preferred Stock ('$2.16 Preferred Stock'), has voting rights, is convertible into common stock at the rate of 1.7241 shares of common stock for each share of preferred stock, has a stated value of $1 per share and a liquidation value of $25 per share, and is repurchasable at the option of the Company at liquidation value plus accrued dividends. The $2.16 Preferred Stock ranks in parity with the redeemable preferred stock as to liquidation and dividends.

During the three months ended December 31, 1991, the year ended December 31, 1992 and the nine months ended September 30, 1993, the Company continued to omit the regular quarterly dividends on its preferred stock. As of September 30, 1993, preferred dividends in arrears amounted to approximately $8.2 million, or $6.21 per share, on the $2.16 Preferred Stock. During the nine months ended September 30, 1993 and the year ended December 31, 1992, the liability for accumulated dividends, currently not declared or paid, on the $2.16 Preferred Stock was accrued by a charge to retained earnings. For information regarding restrictions on dividend payments, see Note H.

Preferred Stock Purchase Rights

In November 1985, the Company's Board of Directors declared a distribution of one preferred stock purchase right for each share of the Company's common stock. Each right will entitle the holder to buy 1/100 of a share of a newly authorized Series A Participating Preferred Stock at an exercise price of $35 per right. The rights become exercisable on the tenth day after public announcement that a person or group has acquired 20% or more of the Company's

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common stock. The rights may be redeemed by the Company prior to becoming exercisable by action of the Board of Directors at a redemption price of $.05 per right. If the Company is acquired by any person after the rights become exercisable, each right will entitle its holder to purchase stock of the acquiring company having a market value of twice the exercise price of each right. At September 30, 1993 and December 31, 1992, there were 14,069,799 and 14,071,040 rights outstanding, respectively, which will expire in December 1995, unless extended.

Incentive Stock Plans

The Company has an incentive stock plan providing for the granting of stock incentives in the form of stock options, stock appreciation rights and stock awards to officers and key employees. The stock options are exercisable in accordance with the option plans and expire no later than ten years from the date of grant.

Stock appreciation rights are exercisable in three to five annual installments, normally beginning with the first anniversary date of the grant, and expire ten years from the date of grant. The stock appreciation rights entitle the employee to receive, without payment to the Company, the incremental increase in market value of the related stock from date of grant to date of exercise, payable in cash. Compensation expense related to stock appreciation rights is charged to earnings over periods earned and amounted to a credit of $30,000 in 1990 due to a decrease in the market value of the Company's common stock. During the nine months ended September 30, 1993 and 1992, the years ended December 31, 1992 and September 30, 1991 and the three months ended December 31, 1991, the market value of the Company's common stock remained below the exercise price resulting in no impact on results of operations.

Restricted common stock awards totaling 100,000 shares and 12,000 shares were granted at par value to certain officers of the Company in 1992 and 1991, respectively. Compensation expense of $367,000 and $83,000 was deferred in 1992 and 1991, respectively, in conjunction with these stock awards.

At September 30, 1993, December 31, 1992 and September 30, 1991 and 1990, the Company had 260,065, 392,566, 852,381 and 853,098 unoptioned shares, respectively, available for granting of options, rights and awards under the incentive stock plan and 6,004,809, 6,004,809, 6,093,231 and 6,130,438 shares of unissued common stock, respectively, reserved for conversion of preferred stock and the incentive stock plan. During 1988, an amendment to the incentive stock plan was approved which increased the number of shares of common stock which may be granted or transferred from 1,500,000 to 2,000,000. The additional shares have not been registered with the Securities and Exchange Commission. The incentive stock plan expires as to issuance of options, rights and awards on February 24, 1994.

A summary of activity in the incentive stock plans is set forth below:

<TABLE>
<CAPTION>

		STOCK OPTIONS		STOCK APPRECIATION RIGHTS	
	TOTAL RESERVED	OUTSTANDING	EXERCISABLE	OUTSTANDING	EXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>
Balances at September 30, 1989-------------	1,369,488	279,407	100,948	345,212	165,802
Becoming exercisable------------------	--	--	50,985	--	51,398
Exercised-----------------------------	(7,434)	(6,676)	(6,676)	(758)	(758)
Cancelled or expired------------------	(8,011)	(46,435)	(20,827)	(68,591)	(42,993)
Stock awards--------------------------	1,214	--	--	--	--
Balances at September 30, 1990-------------	1,355,257	226,296	124,430	275,863	173,449
Becoming exercisable------------------	--	--	39,684	--	40,230
Cancelled or expired------------------	(25,207)	(4,491)	(4,491)	(31,999)	(31,999)
Stock awards--------------------------	(12,000)	--	--	--	--
Balances at September 30, 1991-------------	1,318,050	221,805	159,623	243,864	181,680
Granted at $4.837 to $4.840-----------	--	600,000	--	--	--
Becoming exercisable------------------	--	--	34,243	--	34,248
Cancelled or expired------------------	--	(109,171)	(90,786)	(119,414)	(101,030)
Stock awards--------------------------	(88,400)	--	--	--	--
Balances at December 31, 1992--------------	1,229,650	712,634	103,080	124,450	114,898
Granted at $2.925---------------------	--	150,000	--	--	--
Becoming exercisable------------------	--	--	125,954	--	5,952
Cancelled or expired------------------	--	(6,007)	(4,841)	(11,492)	(10,326)
Balances at September 30, 1993-------------	1,229,650	856,627	224,193	112,958	110,524
Price per share or right-------------------		$2.925 to $12.625		$8.375 to $18.250	

</TABLE>

NOTE L -- BUSINESS SEGMENT INFORMATION

<TABLE>

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<CAPTION>

	YEARS ENDED SEPTEMBER 30, 1990	YEARS ENDED SEPTEMBER 30, 1991(1)	THREE MONTHS ENDED DECEMBER 31, 1991	YEAR ENDED DECEMBER 31, 1992	NINE MONTHS ENDED SEPTEMBER 30, 1992	NINE MONTHS ENDED SEPTEMBER 30, 1993
	(IN MILLIONS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Gross Operating Revenues:						
Refining and Marketing(2)	$ 860.5	898.6	196.8	810.7	612.5	525.0
Exploration and Production	32.4	59.2	12.5	42.7(3)	29.3	40.1(3)
Oil Field Supply and Distribution	103.7	134.3	36.5	93.5	69.4	59.5
Intersegment Eliminations(4)	--	(7.1)	(5.2)	(.4)	(.3)	--
Total	$ 996.6	1,085.0	240.6	946.5	710.9	624.6
Operating Profit (Loss), Including Gain on Sales of Assets(5):						
Refining and Marketing	$ 48.2	19.3	1.7	(14.9)	(1.4)	5.4
Exploration and Production	16.8	35.6	7.4	29.1(3)	20.1	24.5
Oil Field Supply and Distribution	2.9	(.5)	(1.2)	(4.7)	(2.8)	(1.9)
Total Operating Profit	67.9	54.4	7.9	9.5	15.9	28.0
Corporate and Unallocated Costs	(41.6)	(35.4)	(5.4)	(49.4)	(32.2)	(25.3)
Earnings (Loss) Before Income Taxes and the Cumulative Effect of Accounting Changes	$ 26.3	19.0	2.5	(39.9)	(16.3)	2.7
Total Assets:						
Refining and Marketing(6)	$ 331.5	322.7	328.5	308.0	306.4	258.8
Exploration and Production	37.1	59.7	50.5	37.3	38.5	63.0
Oil Field Supply and Distribution	35.0	32.2	27.6	23.2	27.5	21.1
Corporate	101.3	82.2	88.1	78.2	97.4	71.8
Total Assets	$ 504.9	496.8	494.7	446.7	469.8	414.7
Depreciation, Depletion and Amortization:						
Refining and Marketing	$ 8.4	9.0	2.4	10.2	7.6	7.6
Exploration and Production	1.5	4.6	1.5	5.2	3.9	6.9
Oil Field Supply and Distribution	2.0	.5	.1	.5	.4	.3
Corporate	.9	.9	.2	.7	.5	.5
Total	$ 12.8	15.0	4.2	16.6	12.4	15.3
Capital Expenditures:						
Refining and Marketing	$ 6.9	4.4	.8	3.7	2.9	4.0
Exploration and Production	13.2	19.3	3.0	9.3	6.4	21.4
Oil Field Supply and Distribution	2.5	.4	--	1.1	--	.2
Corporate	.5	.4	.1	1.3	1.0	.7
Total	$ 23.1	24.5	3.9	15.4	10.3	26.3

(Notes on following page)

- ------------

(1) Effective October 1, 1990, the Company acquired an additional 25% interest in one of the Company's Contracts of Operation in Bolivia.

(2) Includes revenues of $165.9 million and $101.0 million for fiscal years 1991 and 1992, respectively, and $72.1 million and $16.6 million for the nine months ended September 30, 1992 and 1993, respectively, derived from export sales to customers in Far Eastern markets.

(3) Includes revenues and operating profit of $5.4 million and $6.8 million for the year ended December 31, 1992 and the nine months ended September 30, 1993, respectively, resulting from a change in estimate of the Company's revenues from natural gas production in South Texas (see Note I).

(4) Represents intersegment eliminations, primarily sales from Refining and Marketing to Oil Field Supply and Distribution, at prices which approximate market.

(5) Operating profit represents pretax earnings (loss) before certain corporate expenses, interest income and interest expense. Total operating profit has been reconciled to earnings (loss) before income taxes and the cumulative effect of accounting changes. As discussed in Note D, operating profit from the Exploration and Production segment in 1992 included a $5.8 million gain

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from the sales of the Company's Indonesian operations.

(6) In May 1991, the Company acquired the remaining interest in a convenience store operation in Alaska. For 1993, 1992 and 1991, the Refining and Marketing segment included total assets of $12.6 million, $14.2 million and $13.9 million, respectively, for these operations.

</TABLE>

NOTE M -- QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents quarterly financial information and per share data for the Company's common stock. Certain information has been restated for the adoption of Statement of Financial Accounting Standards No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions,' and No. 109, 'Accounting for Income Taxes,' both effective January 1, 1992 (see Note A).

<TABLE>
<CAPTION>

	QUARTERS ENDED								
	MARCH 31, 1991	JUNE 30, 1991	SEPTEMBER 30, 1991	DECEMBER 31, 1991	MARCH 31, 1992	JUNE 30, 1992	SEPTEMBER 30, 1992	DECEMBER 31, 1992	MARCH 31, 1993
	(IN MILLIONS EXCEPT PER SHARE DATA)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total Revenues	$ 252.2	248.4	254.2	243.9	223.2	251.2	244.5	235.5	226.5
Operating Profit (Loss):									
As originally reported	$ 19.6	5.4	9.7	7.9	3.1	5.9	7.9	(6.4)	6.0
Accounting changes	--	--	--	--	(.4)	(.3)	(.3)	--	--
As restated	$ 19.6	5.4	9.7	7.9	2.7	5.6	7.6	(6.4)	6.0
Net Earnings (Loss):									
As originally reported	$ 7.0	(4.9)	(3.1)	(.4)	(11.0)	(5.2)	(3.2)	(24.9)	(2.9)
Accounting changes	--	--	--	--	(21.0)	(.3)	(.3)	--	--
As restated	$ 7.0	(4.9)	(3.1)	(.4)	(32.0)	(5.5)	(3.5)	(24.9)	(2.9)
Earnings (Loss) Per Share:									
As originally reported	$ .33	(.51)	(.37)	(.19)	(.95)	(.53)	(.39)	(1.93)	(.37)
Accounting changes	--	--	--	--	(1.49)	(.03)	(.02)	--	--
As restated	.33	(.51)	(.37)	(.19)	(2.44)	(.56)	(.41)	(1.93)	(.37)
Market Price Per Common Share:									
High	$ 8 1/4	9 3/8	7 7/8	6 7/8	6 5/8	5 3/8	5 1/2	3 5/8	5 5/8
Low	5 3/4	7 3/8	6 1/4	4 3/8	4 5/8	4 1/4	3	2 1/2	3

<CAPTION>

	QUARTERS ENDED	
	JUNE 30, 1993	SEPTEMBER 30, 1993
	(IN MILLIONS EXCEPT PER SHARE DATA)	
<S>	<C>	<C>
Total Revenues	186.2	215.2
Operating Profit (Loss):		
As originally reported	8.9	13.1
Accounting changes	--	--
As restated	8.9	13.1
Net Earnings (Loss):		
As originally reported	1.5	1.7
Accounting changes	--	--
As restated	1.5	1.7
Earnings (Loss) Per Share:		

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As originally reported-----	(.06)	(.04)
Accounting changes---------	--	--
As restated----------------	(.06)	(.04)
Market Price Per Common Share:		
High-----------------------	6 5/8	7 3/4
Low------------------------	5	5 1/8

</TABLE>

The quarter ended March 31, 1992 included charges of $20.6 million for the cumulative effect of accounting changes, $2.4 million for a cost reduction program and $1.0 million for asset write-downs. The quarter ended June 30, 1992 included a $5.8 million gain from the sales of the Company's Indonesian operations. The quarter ended December 31, 1992 included revenues and operating profit of $5.4 million ($.38 per share) resulting from a change in estimate of the Company's revenues from natural gas production in the South Texas field (see Note I). The December 1992 quarter also included additional charges of $10.5 million for the settlement with the State of Alaska and $5.6 million for the cost reduction program and other employee terminations. During the quarter ended September 30, 1993, the Company recorded a non-cash charge of $5.0 million for an inventory liquidation (see Note C).

NOTE N -- EXPLORATION AND PRODUCTION ACTIVITIES

The following tables summarize the Company's exploration and production activities. As discussed in Note D, in 1992 the Company sold its Indonesian operations and certain oil and gas properties in South Texas. Effective October 1, 1990, the Company acquired an additional 25% interest in one of the Company's Contracts of Operation in Bolivia (see Note E).

Capitalized Costs and Costs Incurred Relating to Oil and Gas Producing Activities

<TABLE>
<CAPTION>

	DECEMBER 31, 1992	SEPTEMBER 30, 1991	SEPTEMBER 30, 1990
		($000)	
<S>	<C>	<C>	<C>
Capitalized Costs:			
Proved properties	$ 34,050	29,100	13,953
Unproved properties:			
Properties being amortized	11,132	8,511	5,675
Properties not being amortized	1,482	8,242	6,945
	46,664	45,853	26,573
Accumulated depreciation, depletion and amortization	15,006	15,713	11,081
Net Capitalized Costs	$ 31,658	30,140	15,492

</TABLE>

<TABLE>
<CAPTION>

	UNITED STATES	BOLIVIA	INDONESIA	TOTAL
			($000)	
<S>	<C>	<C>	<C>	<C>
Costs Incurred:				
Year Ended December 31, 1992:				
Property acquisition, unproved	$ 9	--	--	9
Exploration	977	6	333	1,316
Development	7,922	--	109	8,031
	$ 8,908	6	442	9,356
Three Months Ended December 31, 1991:				
Property acquisition, unproved	$ (7)	--	--	(7)
Exploration	1,037	15	24	1,076
Development	1,881	--	60	1,941
	$ 2,911	15	84	3,010
Year Ended September 30, 1991:				
Property acquisition, unproved	$ 582	--	3	585
Exploration	9,975	45	9	10,029
Development	7,226	--	1,476	8,702

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	$ 17,783	45	1,488	19,316
Year Ended September 30, 1990:				
Property acquisition, unproved	$ 285	--	--	285
Exploration	7,208	85	16	7,309
Development	2,956	--	2,671	5,627
	$ 10,449	85	2,687	13,221

</TABLE>

The Company's investment in oil and gas properties included $1.5 million in unevaluated properties which have been excluded from the amortization base as of December 31, 1992. The Company anticipates that the majority of these costs will be included in the amortization base during 1993. The following table sets forth the costs excluded from the amortization base as of December 31, 1992, by the period such costs were incurred.

<TABLE>
<CAPTION>

		PERIODS INCURRED				
	TOTAL	YEAR ENDED DECEMBER 31, 1992	THREE MONTHS ENDED DECEMBER 31, 1991	YEARS ENDED SEPTEMBER 30, 1991	1990	PRIOR
			($000)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Costs Excluded from Amortization as of December 31, 1992:						
Property acquisition	$ 306	34	--	17	78	177
Exploration	338	191	15	45	85	2
Development	838	838	--	--	--	--
	$ 1,482	1,063	15	62	163	179

</TABLE>

Results of Operations from Oil and Gas Producing Activities

The following table sets forth the results of operations for oil and gas producing activities, in the aggregate by geographic area, with income tax expense computed using the statutory tax rate for the period adjusted for permanent differences, tax credits and allowances.

<TABLE>
<CAPTION>

	UNITED STATES(1)	BOLIVIA	INDONESIA	TOTAL
		($000)		
<S>	<C>	<C>	<C>	<C>
Results of Operations from Oil and Gas Producing Activities:				
Year Ended December 31, 1992:				
Gross revenues -- sales to unaffiliates	$ 18,850	17,898	5,975	42,723
Production (lifting) costs	3,796	688	3,698	8,182
Administrative support and other	1,216	4,635	107	5,958
Gain (loss) on sales of assets	(3)	--	5,750(3)	5,747
Depreciation, depletion and amortization	4,862	--	336	5,198
Pretax results of operations	8,973	12,575	7,584	29,132
Income tax expense	305	7,108	3,066	10,479
Results of operations from producing activities(2)	$ 8,668	5,467	4,518	18,653
Depletion rates per net equivalent Mcf	$ .95	--	.15	
Three Months Ended December 31, 1991:				
Gross revenues -- sales to unaffiliates	$ 2,426	4,634	5,474	12,534
Production (lifting) costs	1,071	122	2,915	4,108
Administrative support and other	242	(765)(5)	107	(416)
Depreciation, depletion and amortization	848	--	606	1,454
Pretax results of operations	265	5,277	1,846	7,388
Income tax expense	9	2,744	1,413	4,166
Results of operations from producing activities(2)	$ 256	2,533	433	3,222

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	UNITED STATES(1)	BOLIVIA	INDONESIA	TOTAL
Depletion rates per net equivalent Mcf	$ .94	--	.31	

</TABLE>

(Table continued on following page)

<TABLE>
<CAPTION>

	UNITED STATES(1)	BOLIVIA	INDONESIA	TOTAL
		($000)		
Year Ended September 30, 1991:				
Gross revenues -- sales to unaffiliates	$ 5,179	24,557	29,507	59,243
Production (lifting) costs	1,218	650	9,467	11,335
Administrative support and other	424	2,710	4,497(4)	7,631
Depreciation, depletion and amortization	2,920	--	1,712	4,632
Pretax results of operations	617	21,197	13,831	35,645
Income tax expense	12	12,015	8,766	20,793
Results of operations from producing activities(2)	$ 605	9,182	5,065	14,852
Depletion rates per net equivalent Mcf	$ 1.06	--	.22	
Year Ended September 30, 1990:				
Gross revenues -- sales to unaffiliates	$ 387	15,191	16,804	32,382
Production (lifting) costs	111	732	8,986	9,829
Administrative support and other	(527)	2,123	2,709	4,305
Depreciation, depletion and amortization	226	--	1,219	1,445
Pretax results of operations	577	12,336	3,890	16,803
Income tax expense	23	4,210	1,060	5,293
Results of operations from producing activities(2)	$ 554	8,126	2,830	11,510
Depletion rates per net equivalent Mcf	$ .81	--	.19	

- ------------
(1) See Note I regarding a natural gas sales contract dispute.
(2) Excludes corporate general and administrative and financing costs.
(3) Represents gain from the sales of the Company's Indonesian operations effective May 1, 1992.
(4) Includes a $2.0 million charge for an arbitration award involving a royalty dispute on Indonesian crude oil production.
(5) Includes a $1.3 million credit for Bolivian transaction taxes.
</TABLE>

Standard Measure of Discounted Future Net Cash Flows Relating to Proved Reserves (Unaudited)

The following tables sets forth the computation of the standardized measure of discounted future net cash flows relating to proved reserves and the changes in such cash flows in accordance with Statement of Financial Accounting Standards No. 69 ('SFAS No. 69'). The standardized measure is the estimated future cash inflows from proved reserves less estimated future production and development costs, estimated future income taxes and a discount factor. Future cash inflows represent expected revenues from production of year-end quantities of proved reserves based on year-end prices and any fixed and determinable future escalation provided by contractual arrangements in existence at year-end. Escalation based on inflation, federal regulatory changes and supply and demand are not considered. Estimated future production costs related to year-end reserves are based on year-end costs. Such costs include, but are not limited to, production taxes and direct operating costs. Inflation and other anticipatory costs are not considered until the actual cost change takes effect. Estimated future income tax expenses are computed using the appropriate year-end statutory tax rates. Consideration is given for the effects of permanent differences, tax credits and allowances. A discount rate of 10% is applied to the annual future net cash flows after income taxes.

The methodology and assumptions used in calculating the standardized measure are those required by SFAS No. 69. It is not intended to be representative of the fair market value of the Company's proved reserves. The valuations of revenues and costs do not necessarily reflect the amounts to be received or expended by the Company.

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As indicated in Note I, certain of the Company's South Texas production activities are involved in a natural gas sales contract dispute with Tennessee Gas. Although the outcome of any litigation is uncertain, based upon advice from outside legal counsel, management believes that the Company will ultimately prevail in this dispute. Accordingly, the Company has based its calculation of the standardized measure of discounted future net cash flows on the Contract Price which it is currently receiving. However, if Tennessee Gas were to prevail, the impact on the Company's future revenues and cash flows would be significant. Based on the Contract Price, the standardized measure of discounted future net cash flows relating to proved reserves in the United States at December 31, 1992 was $87 million, compared to $65 million at Section 101 prices and $46 million at spot market prices.

<TABLE>
<CAPTION>

<S>	UNITED STATES(1) <C>	BOLIVIA <C>	INDONESIA <C>	TOTAL <C>
		($000)		
Year Ended December 31, 1992:				
Future cash inflows	$ 215,172	146,555	--	361,727
Future production costs	(33,162)	(40,374)	--	(73,536)
Future development costs	(30,294)	(9,248)	--	(39,542)
Future net cash flows before income tax expense	151,716	96,933	--	248,649
Future income tax expense	(42,884)	(56,682)	--	(99,566)
Future net cash flows	108,832	40,251	--	149,083
10% annual discount to reflect timing of net cash flows	(21,744)	(16,628)	--	(38,372)
Standardized measure of discounted future net cash flows relating to proved reserves	$ 87,088	23,623	--	110,711
Three Months Ended December 31, 1991:				
Future cash inflows	$ 69,405	289,143	113,877	472,425
Future production costs	(10,167)	(52,667)	(87,913)	(150,747)
Future development costs	(13,334)	(11,760)	(8,545)	(33,639)
Future net cash flows before income tax expense	45,904	224,716	17,419	288,039
Future income tax expense	(4,179)	(127,824)	(12,178)	(144,181)
Future net cash flows	41,725	96,892	5,241	143,858
10% annual discount to reflect timing of net cash flows	(10,853)	(46,023)	--	(56,876)
Standardized measure of discounted future net cash flows relating to proved reserves	$ 30,872	50,869	5,241	86,982
Year Ended September 30, 1991:				
Future cash inflows	$ 67,514	302,022	88,234	457,770
Future production costs	(11,184)	(53,482)	(68,400)	(133,066)
Future development costs	(13,370)	(11,760)	(8,260)	(33,390)
Future net cash flows before income tax expense	42,960	236,780	11,574	291,314
Future income tax expense	(5,457)	(136,543)	(6,352)	(148,352)
Future net cash flows	37,503	100,237	5,222	142,962
10% annual discount to reflect timing of net cash flows	(7,147)	(45,955)	(814)	(53,916)
Standardized measure of discounted future net cash flows relating to proved reserves	$ 30,356	54,282	4,408	89,046

</TABLE>

(Table continued on following page)

<TABLE>
<CAPTION>

<S>	UNITED STATES <C>	BOLIVIA <C>	INDONESIA <C>	TOTAL <C>
		($000)		
Year Ended September 30, 1990:				
Future cash inflows	$ 16,727	231,167	315,795	563,689
Future production costs	(4,601)	(49,561)	(155,061)	(209,223)
Future development costs	(2,832)	(10,260)	(6,620)	(19,712)

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Future net cash flows before income tax expense	9,294	171,346	154,114	334,754
Future income tax expense	--	(101,066)	(75,203)	(176,269)
Future net cash flows	9,294	70,280	78,911	158,485
10% annual discount to reflect timing of net cash flows	(2,788)	(33,235)	(19,966)	(55,989)
Standardized measure of discounted future net cash flows relating to proved reserves	$ 6,506	37,045	58,945	102,496

- ------------

(1) See Note I regarding a natural gas sales contract dispute.

</TABLE>

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1992	THREE MONTHS ENDED DECEMBER 31, 1991	YEARS ENDED SEPTEMBER 30, 1991	YEARS ENDED SEPTEMBER 30, 1990
		($000)		
<S>	<C>	<C>	<C>	<C>
Sales and transfers of oil and gas produced, net of production costs	$ (31,208)	(8,713)	(45,005)	(19,006)
Net changes in prices and production costs relating to future production	(32,397)	222	(29,828)	26,901
Extensions, discoveries and improved recovery	104,219	1,802	19,998	6,030
Development costs incurred during the period	10,012	2,289	9,544	5,627
Changes in estimated future development costs	(18,666)	(2,316)	(12,633)	(5,688)
Revisions in previous quantity estimates	(15,384)	4,565	(37,392)	130,752
Net changes due to purchases and sales of minerals in-place	(5,884)	--	47,418	--
Accretion of discount	8,174	2,226	10,251	681
Net changes in income taxes	4,863	(2,139)	24,197	(49,613)
Net increase (decrease)	23,729	(2,064)	(13,450)	95,684
Beginning of period	86,982	89,046	102,496	6,812
End of period	$ 110,711	86,982	89,046	102,496

</TABLE>

Reserve Quantities (Unaudited)

<TABLE>
<CAPTION>

	GAS (MILLIONS OF CUBIC FEET)			OIL (THOUSANDS OF BARRELS)			
	UNITED STATES	BOLIVIA	TOTAL	UNITED STATES	BOLIVIA	INDONESIA	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Proved reserves(1):							
At September 30, 1989	568	--	568	--	--	3,815	3,815
Revision of previous estimates	(92)	89,664	89,572	--	2,216	8,347	10,563
Extensions, discoveries and other additions	10,899	--	10,899	5	--	--	5
Production	(257)	(4,624)	(4,881)	(1)	(158)	(936)	(1,095)
At September 30, 1990	11,118	85,040	96,158	4	2,058	11,226	13,288
Revision of previous estimates	(1,217)	696	(521)	2	59	(5,513)	(5,452)
Purchase of minerals in-place	--	36,545	36,545	--	953	--	953
Extensions, discoveries and other additions	25,950	--	25,950	3	--	--	3
Production	(2,710)	(7,052)	(9,762)	(4)	(242)	(1,209)	(1,455)
At September 30, 1991	33,141	115,229	148,370	5	2,828	4,504	7,337
Revision of previous estimates	1,054	(35)	1,019	--	1	1,333	1,334
Extensions, discoveries and other additions	3,585	--	3,585	--	--	--	--
Production	(896)	(1,729)	(2,625)	(1)	(58)	(266)	(325)
At December 31, 1991	36,884	113,465	150,349	4	2,771	5,571	8,346
Revisions of previous estimates	(9,601)	651	(8,950)	1	(266)	--	(265)
Extensions, discoveries and other additions	53,952	--	53,952	--	--	--	--
Production	(5,110)	(7,108)	(12,218)	(1)	(242)	(328)	(571)
Sales of minerals in-place	(2,372)	--	(2,372)	(4)	--	(5,243)	(5,247)

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At December 31, 1992(2)	73,753 (3)	107,008	180,761	--	2,263	--	2,263
Proved developed reserves included above:							
At September 30, 1989	568	--	568	--	--	3,815	3,815
At September 30, 1990	5,046	79,623	84,669	4	1,987	11,226	13,217
At September 30, 1991	18,011	107,765	125,776	5	2,738	4,504	7,247
At December 31, 1991	21,187	106,036	127,223	4	2,680	5,571	8,255
At December 31, 1992(2)	34,160 (3)	91,376	125,536	--	2,098	--	2,098

- ------------
(1) The Company was not required to file reserve estimates with federal authorities or agencies during the periods presented.
(2) No adverse event has occurred since December 31, 1992 that would cause a significant reduction in proved reserves.
(3) See Note I regarding a natural gas sales contract dispute.
</TABLE>

APPENDIX A

GLOSSARY

The following defined terms are used frequently in this Proxy Statement -- Prospectus.

<TABLE>

<S>	<C>
$2.16 Preferred Stock	$2.16 Cumulative Convertible Preferred Stock, no par value, of the Company.
$2.20 Preferred Stock	$2.20 Cumulative Convertible Preferred Stock, no par value, of the Company.
$2.20 Preferred Stock Put Option	MetLife Louisiana's option to require the Company to redeem all of the outstanding $2.20 Preferred Stock at $20 per share (an aggregate of $57.5 million), plus accrued and unpaid dividends, if the Company is in default in the payment of 12 full quarterly dividends.
Act	Securities Act of 1933, as amended.
ADEC	Alaska Department of Environmental Conservation.
Alyeska	Alyeska Pipeline Service Company.
Amended MetLife Memorandum	The Amended Memorandum of Understanding between the Company and MetLife Louisiana pertaining to various aspects of the Recapitalization. See 'The Recapitalization -- Background -- The Recapitalization.'
Annual Meeting	The Annual Meeting of Stockholders of Tesoro Petroleum Corporation to be held on February 9, 1994.
ANS Agreement	Settlement Agreement, dated effective January 19, 1993, with the State of Alaska in connection with the ANS contractual dispute.
ANS Debt	The Company's obligation to make payments pursuant to the ANS Agreement.
APUC	Alaska Public Utilities Commission.
Board of Directors	The Board of Directors of the Company.
Bob West Field	The Company's South Texas natural gas field.
By-Laws	The By-Laws of the Company.
Charter Amendments	The amendments to the Restated Certificate of Incorporation described in the Proxy Statement -- Prospectus. See 'Proposal No. 1' and 'Proposal No. 2.'
Commission	Securities and Exchange Commission.
Common Stock	Common Stock, $.16 2/3 par value, of the Company.

</TABLE>

<TABLE>

<S>	<C>
Company	Tesoro Petroleum Corporation, a Delaware corporation (collectively with its consolidated subsidiaries, unless the context otherwise requires).
Company's MetLife Option	A three-year option to be granted by MetLife Louisiana to the Company to acquire all shares of $2.20 Preferred Stock and Common Stock held by MetLife Louisiana at an initial aggregate base option price of $51.5 million, subject to certain conditions. See 'The Recapitalization -- Background.'
Debenture Trustee	NBD Bank, N.A., formerly National Bank of Detroit.
Debentureholders	The holders of record of Subordinated Debentures.
DER	Department of Environmental Resources of Stanislaus County, California.
EBITDA	Earnings before interest, income taxes and depreciation, depletion and amortization.
E&P Facility	The Company's $30 million reducing revolving credit facility as more specifically described in the Proxy Statement -- Prospectus. See 'The Recapitalization -- The Company's Financial Requirements.'
EPA	United States Environmental Protection Agency.
Exchange Act	Securities Exchange Act of 1934, as amended.

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Exchange Notes--	Exchange Notes due December 1, 2000, to be issued by the Company.
Exchange Agent--	Bankers Trust Company
Exchange Offer--	Under the terms and subject to the conditions set forth in the Proxy Statement -- Prospectus and Consent and Letter of Transmittal, the offer by the Company to exchange $1,000 principal amount of Exchange Notes for each $1,000 principal amount of Subordinated Debentures.
Existing Indenture------------------------------------	The Indenture dated as of March 15, 1983 between the Company and the Debenture Trustee, under which the Subordinated Debentures were issued.
Existing Preferred Stock------------------------------	The $2.16 Preferred Stock and $2.20 Preferred Stock issued by the Company.
Expiration Date---------------------------------------	5:00 p.m., New York City time, on February 8, 1994, or latest time and date to which the Exchange Offer is extended by the Company.
Future Preferred Stock--------------------------------	The new series of $2.20 Cumulative Preferred Stock, no par value, to be issued to MetLife Louisiana upon request, if the Company's MetLife Option expires without having been exercised in full.

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Gulf Coast--	Gulf Coast Vacuum Services.
Indenture Amendments----------------------------------	The amendment to the Existing Indenture described in the Proxy Statement -- Prospectus. See 'Proposed Amendments to Existing Indenture.'
Information Agent-------------------------------------	Georgeson & Company Inc.
IRS---	Internal Revenue Service.
Jefferies---	Jefferies & Company, Inc.
Mcf---	One thousand cubic feet of gas, a standard unit of volume measurement for natural gas.
MetLife---	Metropolitan Life Insurance Company, the parent of MetLife Louisiana.
MetLife Louisiana-------------------------------------	MetLife Security Insurance Company of Louisiana, a subsidiary of MetLife (together with its affiliates).
MetLife Forbearance Agreement-------------------------	Agreement between the Company and MetLife Louisiana pursuant to which MetLife Louisiana agreed not to exercise the $2.20 Preferred Stock Put Option and to take no action to enforce the February 1994 mandatory partial redemption of the $2.20 Preferred Stock before May 10, 1994, or earlier under certain circumstances. See 'The Recapitalization -- Background -- The Recapitalization.'
MetLife Memorandum------------------------------------	Memorandum of Understanding between the Company and MetLife Louisiana pertaining to various aspects of the Recapitalization. See 'The Recapitalization -- Background -- The Recapitalization.'
MTBE--	Methyl tertiary butyl ether.
Mud---	D.L. Mud, Inc.
New Indenture---	Indenture among the Obligors and the Note Trustee, under which the Exchange Notes will be issued.
NGPA--	Natural Gas Policy Act of 1978.
Note Trustee--	Bankers Trust Company.
PES---	Petroleum Environmental Services, Inc.
Producers---	Producers of Alaska North Slope crude oil.
Proxy Statement -- Prospectus-------------------------	This Proxy Statement, Prospectus and Consent Solicitation.
PRP---	Potentially Responsible Party.
Purchase Obligation-----------------------------------	The requirement of the Company to offer to purchase Future Preferred Stock on dates and in amounts specified in the Restated Certificate of Incorporation. See 'Description of Future Preferred Stock -- Purchase Obligation.'
RCRA--	Resource Conservation and Recovery Act of 1976.

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Recapitalization--------------------------------------	The Reclassification, the Exchange Offer, the Charter Amendments and the Indenture Amendments, together.
Reclassification--------------------------------------	Under the terms and subject to the conditions set forth in the Proxy Statement -- Prospectus and Consent and Letter of Transmittal, the proposed reclassification of the $2.16 Preferred Stock into Common Stock.
Registration Statement--------------------------------	The Registration Statement on Form S-4 (Registration No. 33-68282) of the Company initially filed with the Commission on September 2, 1993, together with all amendments and exhibits thereto, of which this Proxy Statement -- Prospectus is a part.
Section 101 Price-------------------------------------	The price of gas calculated in accordance with the then effective Section 101 of the Natural Gas Policy Act of

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	1978.
Small Lot Holders	Debentureholders who beneficially own $10,000 or less aggregate principal amount of Subordinated Debentures and satisfy other requirements more particularly described in the Proxy Statement -- Prospectus.
Smith Barney	Smith Barney Shearson Inc.
State	The State of Alaska.
Subordinated Debentures	12 3/4% Subordinated Debentures due March 15, 2001, issued by the Company.
Substitution Agreement	Agreement with the State to secure the Company's purchase from this supplier. See 'The Recapitalization -- The Company's Financial Requirements.'
TAPS	Trans Alaska Pipeline System.
Tennessee Gas	Tennessee Gas Pipeline Company.
Tesoro Alaska	Tesoro Alaska Petroleum Company, a Delaware corporation and a wholly owned subsidiary of the Company.
Tesoro-Leevac	Tesoro-Leevac Petroleum Company, a joint venture formed in 1990.
YPFB	Yacimientos Petroliferos Fiscales Bolivianos, the Bolivian state-owned oil and gas company.

</TABLE>

APPENDIX B

(Jefferies LOGO)

11100 Santa Monica Boulevard, 10th Floor
Los Angeles, California 90025
Telephone (310) 575-5200 (800) 933-6656
Fax (310) 575-5165

December 30, 1993

The Special Committee of
the Board of Directors, and
the Board of Directors of
TESORO PETROLEUM CORPORATION
8700 Tesoro Drive
San Antonio, TX 78217

Gentlemen:

You have asked us to advise you on the fairness to the existing common stockholders and the holders of the $2.16 Convertible Preferred Stock (the '$2.16 Preferred') of Tesoro Petroleum Corporation (the 'Company'), from a financial point of view, on the proposed recapitalization (the 'Recapitalization'). The Recapitalization contemplates the exchange of up to $54.5 million principal amount of the existing $108.8 million principal amount of 12 3/4% Subordinated Debentures due 2001 (the 'Subordinated Debentures') for up to $54.5 million principal amount of new 13% Exchange Notes due 2000 and the exchange of the Company's existing $42.1 million liquidation value of $2.16 Preferred for up to approximately 6,465,859 shares of Common Stock. In connection with the Recapitalization, the holder of the Company's existing $78.1 million liquidation value of $2.20 Redeemable Cumulative Convertible Preferred Stock (the '$2.20 Preferred') will enter into an agreement with the Company pursuant to which, among other things, such holder will waive certain redemption rights, will consider accrued and unpaid dividends to have been paid, will agree to accept future payment of dividends on preferred stock in any combination of cash or, subject to certain conditions, shares of Common Stock and will give the Company an option to acquire the capital stock of the Company held by such holder.

Jefferies & Company, Inc. ('Jefferies'), as part of its investment banking activities, is continually engaged in the valuation of business and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bidding, secondary distributions of listed and unlisted securities, private placements, financial restructurings and other financial services. Jefferies also conducts extensive trading operations in listed and unlisted securities. Accordingly, Jefferies may at any time hold a long or a short position in any of the securities of the Company either for our own account or for the account of our customers. As you are aware, Jefferies is receiving a fee for providing this opinion.

In the course of our review we have:

1. Analyzed certain public and non-public operating data of the Company prepared by the Company, which data has been made available to us in our roles as financial advisor to the Company;

2. Discussed the historical operating results and the future prospects of the business with the management of the Company;

3. Analyzed published information regarding the financial and market performance of a limited group of companies which we

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deemed comparable to the Company;

4. Reviewed the recent performance, liquidity and volatility of the Company's existing equity securities;
5. Considered the value of certain intangible benefits which will accrue to the Company as a result of the Recapitalization;
6. Reviewed the terms of the Recapitalization;
7. Taken into account our general experience in similar transactions; and
8. Undertaken such additional reviews, analysis and inquiries as we deemed relevant under the circumstances including a review of the terms of the agreement with the holder of the $2.20 Preferred.

In rendering our opinions, we have relied without independent verification upon the accuracy, completeness and fair presentation of all financial and other information that was provided to us by the Company or that we otherwise reviewed for the purpose of this opinion, and this opinion is conditioned upon such information being complete and accurate in all material respects. We have not made or obtained any independent appraisals of the assets, including oil and natural gas reserve information, of the Company, nor have we been furnished with any such appraisals. Additionally, we note that we have not been requested to, nor did we, evaluate the fairness of the Recapitalization to the $2.20 Preferred holder or to the holders of the Subordinated Debentures. Our opinion is necessarily based on economic, monetary and market conditions as they exist and can be evaluated as of the date of this opinion.

It is understood that this letter is solely for the information of the Special Committee of the Board of Directors and the Board of Directors of the Company and may not be used for any other purpose, or otherwise referred to or circulated in whole or in part, without our prior written consent.

Based upon and subject to the foregoing and subject to the various assumptions and limitations set forth herein, it is our opinion that, as of the date hereof, the terms of the Recapitalization are fair, from a financial point of view, to the existing common stockholders and the existing $2.16 Preferred stockholders of the Company.

Very truly yours
/s/JOSEPH J. RADECKI, JR.
Joseph J. Radecki, Jr.
Executive Vice President

APPENDIX C

RESTATED CERTIFICATE OF INCORPORATION

OF

TESORO PETROLEUM CORPORATION

The undersigned, having filed its original Certificate of Incorporation under the name of TSO Corp., with the Secretary of State of the State of Delaware on December 26, 1968, thereby forming a corporation under and pursuant to the provisions of the General Corporation Law of the State of Delaware, does hereby certify as follows:

1. The name of the corporation is Tesoro Petroleum Corporation (the "Corporation").

2. This Restated Certificate of Incorporation (this "Restated Certificate"), which was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware, amends and restates the provisions of the present Restated Certificate of Incorporation of the Corporation.

3. Immediately upon filing this Restated Certificate, the text of the present Restated Certificate of Incorporation is hereby amended and restated to read in full as set forth herein:

ARTICLE I

The name of the Corporation is Tesoro Petroleum Corporation (hereinafter called the "Corporation").

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ARTICLE II

The registered office of the Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name and address of the Corporation's registered agent is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

The total number of shares of all classes of stock which the Corporation shall have authority to issue is Fifty-Five Million (55,000,000) shares, consisting of:

Fifty Million (50,000,000) shares of par value $.16-2/3 per share; and

Five Million (5,000,000) shares with no par value.

(A) DESIGNATION OF EACH CLASS OF SHARES.

(1) The Fifty Million (50,000,000) authorized shares of a par value of $.16-2/3 per share and an aggregate par value of $8,333,333.33 shall be designated Common Stock; and

(2) The Five Million (5,000,000) authorized shares with no par value shall be designated Preferred Stock.

(B) STATEMENT OF PREFERENCES, LIMITATIONS AND RELATIVE RIGHTS IN RESPECT OF SHARES OF PREFERRED STOCK AND AUTHORITY OF BOARD OF DIRECTORS TO FIX DESIGNATIONS, POWERS, PREFERENCES, RIGHTS, QUALIFICATIONS, LIMITATIONS AND RESTRICTIONS THEREOF NOT FIXED HEREBY.

Shares of Preferred Stock may be issued from time to time in one or more series, as may be determined from time to time by the Board of Directors, each of said series to be distinctly designated. All shares of any one series of Preferred Stock shall be alike in every particular. The Board of Directors is hereby authorized to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of preferred shares, and the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

SERIES OF PREFERRED STOCK DESIGNATED
"$2.20 CUMULATIVE PREFERRED STOCK"

1. DESIGNATION OF SERIES AND NUMBER OF SHARES.

This series of Preferred Stock is designated "$2.20 Cumulative Convertible Preferred Stock" (hereinafter referred to as $2.20 Preferred Stock"), and the number of shares which shall constitute such series shall be 2,875,000 shares of a stated value of $1.00 per share, which number may not be increased but may be decreased (but not below the number thereof then outstanding) from time to time by the Board of Directors.

2. DIVIDENDS.

The holders of $2.20 Preferred Stock shall be entitled to receive, as and when declared by the Board of Directors and out of assets of the Corporation which are by law available for payment of dividends, cumulative preferential cash dividends, at, but not exceeding, the rate of $2.20 per share per annum, payable quarterly on May 15, August 15, November 15, and February 15, in each year, accruing from the date on which respective shares of $2.20 Preferred Stock shall be issued. So long as any $2.20 Preferred Stock shall remain outstanding, no dividend whatsoever shall be declared or paid upon or set apart for any class of stock or series thereof ranking junior

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to $2.20 Preferred Stock in the payment of dividends nor shall any shares of any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in payment of dividends be redeemed or purchased by the Corporation or any subsidiary thereof nor shall any moneys be paid to or made available for a sinking fund for redemption or purchase of any shares of any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in payment of dividends, unless in each instance full dividends on all outstanding shares of $2.20 Preferred Stock for all past dividend periods shall have been paid at the rate fixed therefor and the dividends on all outstanding shares of $2.20 Preferred Stock for the then current quarterly dividend period shall have been paid or declared and sufficient funds set aside for payment thereof. Accumulations of dividends on any shares of $2.20 Preferred Stock shall not bear interest.

No dividend shall be paid upon or declared or set apart for (a) any share of $2.20 Preferred Stock for any dividend period unless at the same time (i) a like proportionate dividend for the same dividend period shall be paid upon or declared or set apart for all shares of $2.20 Preferred Stock then outstanding and entitled to receive such dividend and (ii) there shall have been paid upon or declared or set aside for all shares of Preferred Stock of all other series or of any other class of stock or series thereof, if any , then outstanding and ranking on a parity with $2.20 Preferred Stock in respect of payment of dividends, for the same dividend period as the dividend period of the $2.20 Preferred Stock, or for the respective dividend periods of said parity stock terminating within the dividend period of the $2.20 Preferred Stock,

dividends in proportion to the respective dividend rates fixed for said parity stock; and (b) any shares of any other series of Preferred Stock or other class of stock or series thereof, if any, ranking on a parity with $2.20 Preferred Stock in respect of payment of dividends for any dividend period unless there shall have been paid upon or declared or set apart for all shares then outstanding of $2.20 Preferred Stock, for the same dividend period, or for the dividend period of the $2.20 Preferred Stock terminating within the dividend period of said parity stock, dividends in proportion to the respective dividend rates fixed for $2.20 Preferred Stock and said parity stock.

3. LIQUIDATION.

In the event of any such liquidation, dissolution or winding up of the affairs of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of $2.20 Preferred Stock shall be entitled to receive, out of the net assets of the Corporation, (i) if such liquidation, dissolution or winding up is voluntary, the applicable redemption price per share determined as provided in paragraph 4 below, or (ii) if such liquidation, dissolution or winding up is involuntary, $20 per share plus, in either case, an amount equal to all dividends accrued and unpaid on each share of $2.20 Preferred Stock to the date fixed for distribution, and no more, before any distribution of assets shall be made to the holders of Common Stock or any other class of stock or series thereof ranking junior to $2.20 Preferred Stock with respect to the distribution of assets; provided, however, that no distribution as aforesaid shall be made to the holders of $2.20 Preferred Stock unless at the same time a like proportionate distribution shall be made, ratably in proportion to the respective amount payable upon liquidation, dissolution or winding up of the affairs of the Corporation, to the holders of all other series or any other class of stock or series thereof, if any, then outstanding and ranking as to distribution of assets on a parity with $2.20 Preferred Stock.

Nothing herein contained shall be deemed to prevent redemption of $2.20 Preferred Stock by the Corporation in the manner provided in paragraph 4 below. Neither the merger or consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other corporation into or with the Corporation, nor a sale, transfer or lease of all or any part of the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of this paragraph 3.

No payment on account of such liquidation, dissolution or winding up of the affairs of the Corporation shall be made to the holders of any other class or series of stock ranking on a parity with $2.20 Preferred Stock with respect to preferential distribution of assets unless a payment on account of such liquidation, dissolution or winding up shall be made at the same time to the holders of $2.20 Preferred Stock in proportion to the full distributive amounts to which they and the holders of such parity stock are respectively entitled.

Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, stating the payment date and the place where the distributable amounts shall be payable and containing a statement of or reference to the conversion right set forth in paragraph 5

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below, shall be given by mail, postage prepaid, not less than 30 days prior to the payment date stated therein, to the holders of record of $2.20 Preferred Stock at their respective addresses as the same shall appear on the books of the Corporation.

4. REDEMPTION.

The Corporation at its option may, at any time or from time to time, on or after February 15, 1988, redeem the whole or any part of this issue of $2.20 Preferred Stock at the applicable redemption price plus in each case accrued and unpaid dividends thereon to the date fixed for redemption.

The applicable redemption prices for the $2.20 Preferred Stock shall be as follows:

IF REDEEMED DURING 12 MONTHS BEGINNING	REDEMPTION PRICE PER SHARE
1988	$21.00
1989	20.80
1990	20.60
1991	20.40
1992	20.20

and thereafter at $20 per share.

The Corporation shall on each February 15, beginning with February 15, 1994, so long as any shares of $2.20 Preferred Stock are outstanding, set aside, out of funds legally available therefor, an amount sufficient to effect the redemption, at the applicable redemption price provided above, plus accrued and unpaid dividends thereon, if any, of the number of shares of $2.20 Preferred Stock equal to 6-2/3% of the total number of shares of $2.20 Preferred Stock outstanding on February 15, 1994, less the number of shares for which the Corporation may receive credit, as hereinafter provided, and the Corporation shall call for redemption such number of shares on such date. The Corporation may credit against any redemption required by this paragraph 4 the number of shares of $2.20 Preferred Stock which have been redeemed by the Corporation after February 15, 1994 (including shares called for redemption if the redemption price thereof has been deposited with a bond or trust company as hereinafter provided in this paragraph 4) or which have been presented for conversion to the Corporation after February 15, 1994, and which have not been theretofore (i) used to satisfy the Corporation's obligation to redeem shares of $2.20 Preferred Stock pursuant to this paragraph 4 or (ii) used as a basis for a reduction in the number of shares of $2.20 Preferred Stock to be redeemed pursuant to this paragraph 4. The redemptions required of the Corporation by this paragraph 4 shall be cumulative, so that if the Corporation shall fail, for any reason whatsoever, to set aside funds and call for redemption shares of $2.20 Preferred Stock on the date set forth above, as required by this paragraph 4, the obligation to redeem such shares shall continue, and shall, until satisfied, increase the obligation of the Corporation to redeem shares in each subsequent year. If, at any time, the Corporation shall have failed to set aside funds and call for redemption shares of $2.20 Preferred Stock on the date set forth above, no dividend whatsoever shall be declared or paid upon or set apart and no asset shall be distributed for any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in the payment of dividends nor shall any shares of any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in payment of dividends be redeemed or purchased by the Corporation or any subsidiary thereof.

If at any time the Corporation shall be in default in the payment of dividends on the $2.20 Preferred Stock of an amount equivalent to or exceeding twelve full quarterly dividends (whether or not consecutive) or shall have failed to make the mandatory redemptions of $2.20 Preferred Stock required by the preceding paragraph of a number of shares equivalent to or exceeding the number of shares to be redeemed pursuant to such paragraph in any three year period, and all of the outstanding shares of $2.20 Preferred Stock are held by the person to which such shares were originally issued or by any affiliate or affiliates of such person, the Corporation shall redeem, at the option of such original holder or any such affiliates, out of funds legally available therefor, within 60 days of the occurrence thereof, each outstanding share of $2.20 Preferred Stock, at the applicable redemption price hereinabove set forth plus accrued and unpaid dividends to the date fixed for redemption.

At or prior to the time of each redemption pursuant to this paragraph 4, the Corporation shall pay or make provision for payment of all accrued and unpaid dividends on all shares of $2.20 Preferred Stock and all shares of Preferred Stock of all other series or of any other class of stock or series thereof, if any, then outstanding and ranking on a parity with or prior to the $2.20 Preferred Stock in respect of payment of dividends.

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In the event the Corporation shall determine or shall be required to redeem less than the entire issue of $2.20 Preferred Stock then outstanding, (i) the shares to be redeemed shall be selected pro rata (as nearly as may be) so that the number of shares redeemed from each holder shall be the same proportion of all the shares to be redeemed that the total number of shares then held by such holder bears to the total number of shares then outstanding or (ii) if the number of holders of $2.20 Preferred Stock exceeds 250, and the Board of Directors so determines, the shares shall be selected by lot.

Notice of every such redemption shall be mailed, first class postage prepaid, not less than 30 nor more than 45 days prior to the date fixed for redemption ("redemption date"), to each holder of record of shares to be redeemed, at his address as it appears on the books of the Corporation. Each such notice shall state the redemption date; the number of shares of $2.20 Preferred Stock to be redeemed, and, if less than all shares of $2.20 Preferred Stock held by such holder are to be redeemed, the number of such shares to be redeemed from him; the redemption price applicable to the shares to be redeemed; the place or places where such shares are to be surrendered; that dividends on shares to be redeemed will cease to accrue on the redemption date; and that shares to be redeemed may be converted at any time prior to the close of business on the business day next preceding the redemption date in accordance with paragraph 5 below.

Notice having been mailed, from and after the redemption date (unless the Corporation defaults in providing money for the payment of the redemption price) the right to receive dividends on shares called for redemption shall cease to accrue, said shares shall no longer be deemed to be outstanding, all rights of holders thereof as shareholders of the Corporation (except the right to receive the redemption price thereof, but without interest) shall terminate, and, upon surrender, in accordance with said notice, of the certificates for any such shares (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require), such shares shall be redeemed by the Corporation at the applicable redemption price; provided, however, that the Corporation may include in such notice a statement that the money required for the payment of the redemption price, plus accrued and unpaid dividends, if any, will be deposited on a specified date, prior to the redemption date, with a specified bank or trust company (which shall have an office in The City of New York and which shall have a combined capital and surplus of not less than $50,000,000) in trust for the benefit of holders of shares called for redemption, and, notice having been given, from and after such deposit shares called for redemption shall no longer be deemed to be outstanding, all rights with respect to shares of $2.20 Preferred Stock shall forthwith upon such deposit cease and terminate, except only the right of the holders thereof to convert such shares in accordance with the provisions of paragraph 5 below at any time prior to the close of business on the business day next preceding the redemption date, and holders of such shares shall look for payment of the redemption price only to funds so deposited and in no event to the Corporation unless said funds shall be repaid to the Corporation as hereinafter provided. Holders of such shares shall not be entitled to any interest allowed by such depositary on money so deposited but any such interest shall be paid to the Corporation. Any moneys deposited as aforesaid for redemption of any shares and remaining unclaimed for four years after the date of such deposit shall then be repaid to the Corporation upon its request, and the holders of such shares shall thereafter look only to the Corporation for payment of the redemption price thereof, but without interest.

Any provision of this paragraph 4 to the contrary notwithstanding, in the event that any quarterly dividend due on $2.20 Preferred Stock shall be in default, and until all such defaults shall have been cured, the Corporation shall not redeem any shares of $2.20 Preferred Stock unless all outstanding shares of $2.20 Preferred Stock are simultaneously redeemed and shall not purchase or otherwise acquire any shares of $2.20 Preferred Stock except in accordance with a purchase offer made by the Corporation on the same terms to all holders of record of $2.20 Preferred Stock.

Any shares of $2.20 Preferred Stock redeemed or otherwise purchased or acquired by the Corporation shall be retired, shall no longer be deemed outstanding, and shall assume the status of

authorized but unissued Preferred Stock, with no par value, undesignated as to series, subject to reissuance of the Corporation as shares of Preferred Stock of any one or more series, as may be determined from time to time by the Board of Directors, except that such shares may not be reissued as additional shares of $2.20 Preferred Stock.

5. CONVERSION.

Shares of $2.20 Preferred Stock may be converted at the option of the holder thereof, at any time prior to the close of business on the business day next preceding the date fixed for redemption of such shares pursuant to paragraph 4 above, into fully paid and non-assessable shares of Common Stock of the Corporation at the rate of 0.8696 shares of Common Stock as now

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constituted for each share of $2.20 Preferred Stock surrendered for conversion (the "conversion rate"), subject to the following provisions:

(A) The conversion rate shall be subject to adjustment from time to time as follows:

(1) In case the Corporation shall (i) pay a dividend, or make a distribution, to all holders of its Common Stock in shares of its capital stock (whether shares of Common Stock or of capital stock of any other class), (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common Stock any shares of capital stock of the Corporation, the conversion rate in effect immediately prior to such action shall be adjusted so that the holder of any share of $2.20 Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of capital stock of the Corporation which he would have owned immediately following such action had such share of $2.20 Preferred Stock been converted immediately prior thereto. An adjustment made pursuant to this subparagraph (1) shall become effective immediately after the record date in the case of a dividend and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of any adjustment made pursuant to this subparagraph (1), the holder of any shares of $2.20 Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock of the Corporation, the Board of Directors (whose determination shall be conclusive) shall determine, in good faith, the allocation of the conversion price of the $2.20 Preferred Stock (determined by dividing the adjusted conversion rate into $20) between or among shares of such classes of capital stock.

(2) In case the Corporation shall hereafter issue rights or warrants to all holders of its Common Stock entitling them (for a period expiring within 45 days after the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share of Common Stock (as determined pursuant to subparagraph (4) below) on the record date mentioned below, the conversion rate shall be adjusted effective immediately after the expiration date of such rights or warrants so that the same shall equal the rate determined by multiplying the conversion rate in effect immediately prior to the date of issuance of such rights or warrants by a fraction of which the numerator shall be the number of shares of Common Stock outstanding (excluding treasury shares) on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock purchased pursuant to such offer for subscription or purchase and of which the denominator shall be the number of shares of Common Stock outstanding (excluding treasury shares) on the date of issuance of such rights or warrants plus the number of shares of Common Stock which the aggregate subscription or purchase price of the total number of shares so purchased would purchase at such current market price (determined as provided in subparagraph (4) below).

(3) In case the Corporation shall distribute to all holders of its Common Stock evidences of its indebtedness or assets (excluding cash distributions made out of current or retained earnings) or rights to subscribe (excluding those referred to in subparagraph (2) above), then in each such case the conversion rate shall be adjusted so that the same shall equal the rate determined by multiplying the conversion rate in effect immediately prior to the date of such distribution by a fraction of which the numerator shall be the current market price per share of Common Stock (determined as provided in subparagraph (4) below) at the record date mentioned

below, and the denominator of which shall be such current market price per share of the Common Stock, less the then fair market value (as determined, in good faith, by the Board of Directors of the Corporation, whose determination shall be conclusive) of the portion of the assets or evidences of indebtedness so distributed or of such subscription rights applicable to one share of Common Stock. Such adjustment shall become effective immediately after the record date for determination of stockholders entitled to receive such distribution.

(4) For the purpose of any computation under subparagraphs (2) and (3) above, the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for 30 consecutive business days commencing 45 business days before the day in question. The closing price for each day shall be the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Common Stock is

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listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for that purpose.

(5) In any case in which this paragraph 5 shall require that an adjustment be made immediately following a record date, the Corporation may elect to defer (but only until five business days following the filing by the Corporation of the statement required by subparagraph (7) below) issuing to the holder of any share of $2.20 Preferred Stock converted after such record date shares of Common Stock and other capital stock of the Corporation issuable upon such conversion over and above the number of shares of Common Stock and other capital stock of the Corporation issuable upon such conversion as computed on the basis of the conversion rate prior to adjustment.

(6) All calculations under this paragraph 5 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(7) Whenever the conversion rate is adjusted as herein provided, the Corporation shall (i) file at the office or agency in the Borough of Manhattan in the City of New York maintained by the Corporation pursuant to subparagraph (D) of this paragraph 5 and with each transfer agent for its Common Stock a statement, signed by the Chairman of the Board of Directors, the President or one of the Vice Presidents of the Corporation and by its Treasurer or one of its Assistant Treasurers, stating the adjusted conversion rate determined as provided herein and setting forth the method of calculation and the facts requiring such adjustment and upon which such calculation is based, and (ii) mail or cause to be mailed a copy of such statement setting forth the adjusted conversion rate to each person who is a registered holder of $2.20 Preferred Stock at such person's last address as the same appears on the books of the Corporation. Each adjustment shall remain in effect until a subsequent adjustment is required hereunder.

(B) In case of a merger or consolidation of the Corporation with or into another corporation, or the sale of the Corporation's property or assets as, or substantially as, an entirety, to another corporation, or the reclassification of the Corporation's Common Stock (other than through a subdivision or combination thereof, or change in par value), holders of shares of $2.20 Preferred Stock shall thereafter have the right to convert each of such shares into the kind and amount of shares of stock and other securities and property receivable upon such merger, consolidation, sale or reclassification by a holder of the number of shares of Common Stock (whether whole or fractional) of the Corporation into which shares of $2.20 Preferred Stock might have been converted immediately prior to such a merger, consolidation, sale or reclassification, and shall have no other conversion rights under these provisions; and effective provision shall be made in the charter of the resulting or surviving Corporation or otherwise, so that the provisions set forth herein for the protection of conversion rights of $2.20 Preferred Stock shall thereafter be applicable, as nearly as reasonably may be, to any such other shares of stock and other securities and property deliverable upon conversion of $2.20 Preferred Stock remaining outstanding or other convertible preferred stock received by the holders in place thereof. Any such resulting or surviving

corporation shall expressly assume the obligation to deliver, upon the exercise of the conversion right, such shares, securities or property as holders of $2.20 Preferred Stock remaining outstanding, or other convertible preferred stock received by such holders in place thereof, shall be entitled to receive pursuant to the provisions hereof, and to make provision for protection of conversion rights as above provided.

(C) If, at any time while shares of $2.20 Preferred Stock are outstanding, the Corporation shall (i) declare a dividend (or any other distribution) on its Common Stock, other than in cash out of current or retained earnings; or (ii) authorize the issuance to all holders of its Common Stock of rights or warrants to subscribe for or purchase shares of its Common Stock or of any other subscription rights or warrants; or (iii) reclassify its Common Stock (other than through a subdivision or combination thereof) or become a party to any consolidation or merger for which approval of the holders of its Common Stock is required, or sell or transfer all or substantially all of the assets of the Corporation; then the Corporation shall cause to be mailed to registered holders of $2.20 Preferred Stock, at their last addresses as they shall appear upon the Corporation's stock transfer record, at least ten days prior to the applicable record date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such dividend, distribution, rights or warrants, or, if a record is not to be taken, the date as of which holders of Common Stock of record to be entitled to such dividend, distribution, rights or warrants are

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to be determined, or (ii) the date on which any such reclassification, consolidation, merger, sale or transfer is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, sale or transfer. Failure to give or receive the notice required by this subparagraph (C) or any defect therein shall not affect the legality or validity of any such dividend, distribution, right or warrant or other action.

(D) The holder of any shares of $2.20 Preferred Stock may exercise his option to convert such shares into shares of Common Stock only by surrendering for such purpose to the Corporation at the office or agency in the Borough of Manhattan in The City of New York maintained by the Corporation for that purpose certificates representing the shares to be converted, accompanied by written notice that such holder elects to convert such shares in accordance with the provisions of this paragraph 5. Said notice shall also state the name or names (with addresses) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued. Each certificate or certificates surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as that in which such certificate or certificates are registered, be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or by his duly authorized attorney. Each conversion shall be deemed to have been effected on the date on which such certificate or certificates shall have been surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become on said date the holder or holders of record of the shares represented thereby notwithstanding that the transfer books of the Corporation may then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to such person.

(E) Upon any such conversion of shares of $2.20 Preferred Stock, no allowance, adjustment or payment shall be made with respect to dividends upon either the shares of $2.20 Preferred Stock surrendered for conversion or the shares of Common Stock issuable upon conversion.

(F) In connection with the conversion of shares of $2.20 Preferred Stock into Common Stock, no fractions of shares of $2.20 Preferred Stock or of Common Stock shall be issued, but the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to the market value of such fractional interest. In such event, the market value of a share of Common Stock shall be the last recorded sale price of such a share on the New York Stock Exchange on the business day immediately preceding the date upon which such shares of $2.20 Preferred Stock are deemed to have been converted, or, if there be no such recorded sale price on such day, the last quoted bid price per share of Common Stock on such exchange at the close of trading on such business day. If the Common Stock shall not at the time be listed or admitted to trading on the New York Stock Exchange, such market value shall be the average of the reported closing bid and asked prices regular way on such day on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices

on such day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for that purpose. The issue of stock certificates on conversions of shares of $2.20 Preferred Stock shall be made without charge to converting holders of shares of $2.20 Preferred Stock for any tax in respect of the issue thereof. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any registration of transfer involved in the issue and delivery of stock in any name other than that of the holder of any shares of $2.20 Preferred Stock converted, and the Corporation shall not be required to so issue or deliver any stock certificate unless and until the person or persons requesting the registration of transfer shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(G) The Corporation shall at all times reserve and keep available out of its authorized Common Stock the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of $2.20 Preferred Stock.

(H) Any shares of $2.20 Preferred Stock converted shall no longer be deemed outstanding and shall assume the status of authorized but unissued shares of Preferred Stock, with no par value, undesignated as to series, subject to reissuance by the Corporation as shares of Preferred Stock of any one or more series, as may be determined from time to time by the Board of Directors, except that such shares may not be reissued as additional shares of $2.20 Preferred Stock.

(I) For purposes of this paragraph (5):

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(1) "business day" shall mean a day on which the New York Stock Exchange (or a successor or an equivalent or substitute organization or facility) is open for the trading of securities in the Borough of Manhattan in The City of New York; and

(2) "Common Stock" shall mean (a) the Corporation's Common Stock, $.16-2/3 par value per share, or (b) 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; provided, however, that in the event that at any time as a result of an adjustment made pursuant to subparagraph (A)(1) above, the holder of any share of $2.20 Preferred Stock thereafter surrendered for conversion would become entitled to receive any stock of the Corporation other than shares of its Common Stock, thereafter the conversion rate with respect to such other shares so receivable upon conversion of any share of $2.20 Preferred Stock shall be subject to 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 this paragraph 5.

6. VOTING RIGHTS.

(A) The holders of $2.20 Preferred Stock shall be entitled to one vote per share, voting together as one class with the holders of Common Stock and any other series of Preferred Stock entitled to vote, on all matters to be voted by stockholders of the Corporation, in addition to their rights set forth in subparagraphs (B), (C) and (D) below and otherwise provided by law.

(B) If at any time the Corporation shall have failed to make the mandatory redemptions of $2.20 Preferred Stock required by the third subparagraph of paragraph 4 of a number of shares equivalent to or exceeding the number of shares to be redeemed pursuant to such paragraph on any two redemption dates as specified in such paragraph, and if the default in dividends specified in subparagraph (C) of this paragraph 6 (the "Dividend Default") is not then in effect, the number of directors constituting the Board of Directors of the Corporation shall be increased by two, and the holders of $2.20 Preferred Stock, voting as a separate series shall be entitled at the next annual meeting of stockholders or the next special meeting of stockholders, or at a special meeting of holders of $2.20 Preferred Stock called as hereinafter provided, to elect two directors to fill such newly created directorships, and in addition thereto, such holders shall be entitled to participate with holders of Common Stock and holders, if any, of any other capital stock of the Corporation entitled to vote for the election of directors in the election of any other directors; provided, however, that when all arrears in such redemptions of the $2.20

Preferred Stock shall have been made or if a Dividend Default shall occur, then (i) the right of holders of $2.20 Preferred Stock to participate in the election of two directors shall cease but subject always to the same provisions for vesting of such voting rights in the case of any similar future arrearages in redemptions at a time when a Dividend Default is not in effect; (ii) the term of the directors then in office elected by holders of $2.20 Preferred Stock as a class shall terminate; and (iii) the number of directors constituting the Board of Directors shall be reduced by two (except that upon a Default in Dividends the number of directors shall then be increased in accordance with subparagraph (C) of this paragraph 6).

Whenever such voting right shall vest, it may be exercised initially either at a special meeting of holders of $2.20 Preferred Stock or at any annual or special stockholders' meeting, but thereafter it shall be exercised only at annual stockholders' meetings. A special meeting for the exercise of such right shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of $2.20 Preferred Stock; however, no such special meeting shall be held during the 90-day period preceding the date fixed for the annual meeting of stockholders.

Any director who shall have been elected by holders of $2.20 Preferred Stock as a series pursuant to this subparagraph (B) shall hold office for a term expiring (subject to the earlier termination of the default in redemptions or the occurrence of a Dividend Default) at the next annual meeting of stockholders, and during such term may be removed at any time, either for or without cause, only by the affirmative votes of holders of record of a majority of the votes of the then outstanding shares of $2.20 Preferred Stock given at a special meeting of such stockholders called for the purpose. Any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by holders of $2.20 Preferred Stock as a series and the filling of the vacancy created thereby shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of not less than 25% of the votes of

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the then outstanding shares of $2.20 Preferred Stock. Such meeting shall be held at the earliest practicable date thereafter.

Any vacancy caused by the death, resignation, or expiration of term (except upon a termination of the default in redemptions or the occurrence of a Dividend Default) of a director who shall have been elected by the holders of $2.20 Preferred Stock as a series pursuant to this subparagraph (B) may be filled only by the holders of $2.20 Preferred Stock at a meeting called for such purpose. Such meeting of the holders of $2.20 Preferred Stock shall be called by the Secretary of the Corporation at the earliest practicable date after any such death or resignation and in any event within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of $2.20 Preferred Stock.

If any meeting of the holders of $2.20 Preferred Stock required by this subparagraph (B) to be called shall not have been called within ten days after personal service of a written request therefor upon the Secretary of the Corporation or within 15 days after mailing the same within the United States of America by registered mail addressed to the Secretary of the Corporation at its principal office, then holders of record of at least 10% of the votes of the then outstanding shares of $2.20 Preferred Stock may designate in writing one of their number to call such a 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. Any holder of $2.20 Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing meetings of stockholders to be called pursuant to these provisions.

Any meeting of holders of $2.20 Preferred Stock to vote as a series for the election or removal of directors shall be held at the place for the holding of the annual meeting of stockholders of the Corporation. At such meeting, the presence in person or by proxy of holders of a majority of the votes of the then outstanding shares of $2.20 Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders 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.

(C) If at any time the Corporation shall be in default in the payment of dividends on the $2.20 Preferred Stock of an amount equivalent to or exceeding six full quarterly dividends (whether or

not consecutive), the number of directors constituting the Board of Directors of the Corporation shall be increased by two, and the holders of $2.20 Preferred Stock, voting as a separate class together with the holders of all other series of Preferred Stock outstanding having similar voting rights (such other series of Preferred Stock and the $2.20 Preferred Stock being hereinafter collectively referred to as "Special Preferred Stock"), whether or not the payment of quarterly dividends shall be in default on all Special Preferred Stock outstanding shall be entitled at the next annual meeting of stockholders, or at a special meeting of holders of Special Preferred Stock called as hereinafter provided, to elect two directors to fill such newly created directorships, and in addition thereto, such holders shall be entitled to participate with holders of Common Stock and holders, if any, of any other capital stock of the Corporation entitled to vote for the election of directors in the election of any other directors; provided, however, that when all arrears in dividends on Special Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarterly period shall have been paid or declared and a sum sufficient for the payment thereof set aside, then (i) the right of holders of Special Preferred Stock to participate in the election of two directors shall cease but subject always to the same provisions for vesting of such voting rights in the case of any similar future arrearages in dividends; (ii) the term of the directors then in office elected by holders of Special Preferred Stock as a class shall terminate; and (iii) the number of directors constituting the Board of Directors shall be reduced by two.

Whenever such voting right shall vest, it may be exercised initially either at a special meeting of holders of Special Preferred Stock or at any annual or special stockholders' meeting, but thereafter it shall be exercised only at annual stockholders' meetings. A special meeting for the exercise of such right shall be called by the secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock; however, no such special meeting shall be held during the 90-day period preceding the date fixed for the annual meeting of stockholders.

Any director who shall have been elected by holders of Special Preferred Stock as a class pursuant to this subparagraph (C) shall hold office for a term expiring (subject to the earlier termination of the default in dividends) at the next annual meeting of stockholders, and during such term may be

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removed at any time, either for or without cause, only by the affirmative votes of holders of record of a majority of the votes of the then outstanding shares of Special Preferred Stock given at a special meeting of such stockholders called for the purpose. Any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by holders of Special Preferred Stock as a class and the filling of the vacancy created thereby shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of not less than 25% of the votes of the then outstanding shares of Special Preferred Stock. Such meeting shall be held at the earliest practicable date thereafter.

Any vacancy caused by the death, resignation, or expiration of term (except upon a termination of the default in dividends) of a director who shall have been elected by the holders of Special Preferred Stock as a class pursuant to this subparagraph (C) may be filled only by the holders of Special Preferred Stock at a meeting called for such purpose. Such meeting of the holders of Special Preferred Stock shall be called by the Secretary of the Corporation at the earliest practicable date after any such death or resignation and in any event within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock.

If any meeting of the holders of Special Preferred Stock required by this subparagraph (C) to be called shall not have been called within ten days after personal service of a written request therefor upon the Secretary of the Corporation or within 15 days after mailing the same within the United States of America by registered mail addressed to the Secretary of the Corporation at its principal office, then holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock may designate in writing one of their number to call such a 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. Any holder of Special Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing meetings of stockholders to be called pursuant to these provisions.

Any meeting of holders of Special Preferred Stock to vote as a class for the election or removal of directors shall be held at the place for the holding of the annual meeting of stockholders of the Corporation. At such meeting, the presence in person or by proxy of holders of a majority of the votes of the then outstanding shares of Special Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders 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.

(D) So long as any shares of $2.20 Preferred Stock are outstanding, the Corporation shall not, in any manner, whether by amendment to the Certificate of InCorporation or By-Laws of the Corporation, by merger (whether or not the Corporation is a surviving Corporation in such merger), by consolidation, or otherwise:

(1) without the written consent or the affirmative vote at a meeting called for that purpose of the holders of at least two-thirds of the votes of the shares of $2.20 Preferred Stock then outstanding, voting separately as a class, (a) amend, alter or repeal any of the provisions of Article IV of the Certificate of Incorporation of the Corporation, or of any resolution or resolutions establishing the $2.20 Preferred Stock, so as to affect adversely the powers, preferences or special rights of the $2.20 Preferred Stock; or (b) authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking prior to the $2.20 Preferred Stock in the payment of dividends or the preferential distribution of assets; or (c) authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any shares of Preferred Stock of any series having more than one vote per share of such Preferred Stock or amend, alter or repeal any of the provisions of Article IV of the Certificate of InCorporation of the Corporation, or of any resolution or resolutions establishing any series of the Preferred Stock, so as to provide any share of Preferred Stock with more than one vote per share of Preferred Stock; or

(2) without the written consent or the affirmative vote at a meeting called for that purpose of the holders of at least a majority of the aggregate number of the votes of the shares of Preferred Stock of all series (including $2.20 Preferred Stock) then outstanding, voting separately as a class, (a) increase the

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number of shares of Preferred Stock authorized by the provisions of Article IV of the Certificate of Incorporation; or (b) authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class of stock ranking on a parity with the $2.20 Preferred Stock in the payment of dividends or the preferential distribution of assets;

PROVIDED, HOWEVER, that the foregoing provisions of this subparagraph (D) shall not require the consent or vote of the holders of $2.20 Preferred Stock or any Preferred Stock for the authorization or an increase in the authorized amount of any class or series of stock, or for the authorization of any obligation or security convertible into or evidencing the right to purchase shares of any class or series of stock, except to the extent specifically provided in sections (1)(b), (2)(a) and (2)(b) of this subparagraph (D); and PROVIDED further, that, except as otherwise required by law, no such consent or vote shall be required for any merger or consolidation:

(i) in which (x) the Corporation is the surviving corporation; (y) no adverse change is made in the powers, preferences or special rights of the $2.20 Preferred Stock; and (z) no additional class or series of stock is authorized or the authorized amount thereof increased, and no obligation or security convertible into or evidencing the right to purchase shares of any additional class or series of stock is authorized, if no such consent or vote would have been required for any such authorization, or increase in authorized amount, immediately prior to such merger or consolidation; or

(ii) in which (x) the Corporation is a party but is not the surviving corporation; (y) the surviving corporation shall, in connection with and at the same time as such merger or

consolidation, issue in exchange for each share of $2.20 Preferred Stock then outstanding a share of preferred stock of the surviving corporation with the same powers, preferences and special rights as the $2.20 Preferred Stock; and (z) immediately after such merger or consolidation only classes or series of stock of the surviving corporation and obligations or securities convertible into or evidencing the right to purchase shares of a class or series of stock of the surviving corporation shall be authorized or outstanding, for which no such consent or vote would have been required if such classes or series of stock and obligations or securities had been authorized by the Corporation immediately prior to such merger or consolidation, or which have, or are convertible into or evidence the right to purchase shares of a class or series of stock of the surviving corporation which have, the same powers, preferences and special rights and authorized amount as a class or series of stock of the Corporation which was authorized (with such consent or vote) prior to such merger or consolidation and is continuing as an authorized class or series of stock at the time thereof.

(C) PROVISIONS NECESSARY TO EFFECT THE RECLASSIFICATION OF $2.16 CUMULATIVE CONVERTIBLE PREFERRED STOCK.

(1) On the Effective Date, each share of $2.16 Cumulative Convertible Preferred Stock, no par value ("$2.16 Preferred Stock"), issued and outstanding immediately prior to the Effective Date shall automatically and without any action on the part of the holder thereof be reclassified and changed into 4.9 shares of Common Stock of the Corporation, and all powers, preferences, privileges, voting and other special or relative rights and qualifications of $2.16 Preferred Stock, including priorities with respect to dividends and liquidation and rights in respect of accumulated dividends existing on the Effective Date, shall terminate and be of no further force and effect.

(2) Each holder of a certificate or certificates which immediately prior to the Effective Date represented outstanding shares of $2.16 Preferred Stock (the "Old Certificates", whether one or more) shall be entitled to receive upon surrender of the Old Certificates to the Corporation's transfer agent for cancellation, a certificate or certificates (the "New Certificates", whether one or more) representing the number of shares of Common Stock into which the shares of $2.16 Preferred Stock, formerly represented by the Old Certificates so surrendered, are reclassified and converted under the terms hereof.

(3) No certificates or scrip representing fractional share interests in Common Stock will be issued, and no such fractional share interest will entitle the holder thereof to vote or to any rights of a stockholder of the Corporation. A holder of Old Certificates shall receive, in lieu of any fractions of a share of Common Stock to which the holder would otherwise be entitled, such number of shares rounded to the next higher whole number.

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(4) From and after the Effective Date, certificates representing shares of $2.16 Preferred Stock shall be deemed to represent only the right to receive shares of Common Stock.

ARTICLE V

Election of directors need not be by ballot unless the By-Laws of the Corporation shall so provide.

ARTICLE VI

In furtherance and not in limitation of the power conferred upon the Board of Directors by law, the Board of Directors shall have the power to make, adopt, alter, amend and repeal from time to time the By-Laws of the Corporation, subject and the right of stockholders entitled to vote with respect thereto to alter and repeal By-Laws made by the Board of Directors.

ARTICLE VII

(A) Except as set forth in paragraph (B) of this Article, the affirmative vote or consent of the holders of not less than four-fifths of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, voting for purposes of this Article as one class, shall be required:

(1) to adopt any agreement for the merger or consolidation of the Corporation or any subsidiary (as hereinafter defined) with or into any other person (as hereinafter defined),

(2) to authorize any sale, lease, transfer, exchange, mortgage, pledge or other disposition to any other person of all or substantially all of the assets of the Corporation or any subsidiary, or any part of such assets having a then fair market value equal to or greater than 50% of the then fair market value of the total assets of the Corporation or such subsidiary, or

(3) to authorize the issuance or transfer by the Corporation or any subsidiary of any voting securities of the Corporation or any subsidiary in exchange or payment for the securities or assets of any other person,

if, in any such case, as of the record date for the determination of stockholders entitled to notice thereof and to vote thereon or consent thereto, such other person is, or at any time within the preceding twelve months has been, the beneficial owner (as hereinafter defined) of 10% or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors.

(B) The provisions of paragraph (A) of this Article shall not apply to any transaction described therein if the Board of Directors by resolution shall have approved a memorandum of understanding with such other person setting forth the principal terms of such transaction and such transaction is substantially consistent therewith, provided that a majority of those members of the Board of Directors voting in favor of such resolution were duly elected and acting members of the Board of Directors prior to the time such other person became the beneficial owner of 10% or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors.

(C) The affirmative vote or consent of the holders of not less than 80% of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, voting for purposes of this Article as one class, shall be required for the adoption of any plan for the dissolution of the Corporation if the Board of Directors shall not have, by resolution, recommended to the stockholders the adoption of such plan for dissolution of the Corporation.

(D) For purposes of this Article,

(1) any specified person shall be deemed to be the "beneficial owner" of shares of stock of the Corporation (a) which such specified person or any of its affiliates or associates (as such terms are hereinafter defined) owns, directly or indirectly, whether of record or not, (b) which such specified person or any of its affiliates or associates has the right to acquire pursuant to any agreement, upon exercise of conversion rights, warrants or options, or otherwise, or (c) which are beneficially owned, directly or indirectly (including shares deemed owned through application of clauses (a) and (b) above), by any other person with which such specified person or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of stock of

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the Corporation;

(2) a "subsidiary" is any corporation more than 49% of the voting securities of which are owned, directly or indirectly, by the Corporation;

(3) a "person" is any individual, corporation or other entity;

(4) an "affiliate" of a specified person is any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the specified person; and

(5) an "associate" of a specified person is (a) any person of which such specified person is an officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities, (b) any trust or other estate in which such specified person has a substantial beneficial interest or as to which such specified person serves as trustee or in a similar fiduciary capacity, or (c) any relative or spouse of such specified person, or any relative of such spouse, who has the same home as such specified person or who is a director or officer of such specified person or any corporation which controls or is controlled by such specified person.

(E) For purposes of determining whether a person owns beneficially 10% or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, the outstanding shares of stock of the Corporation shall include shares deemed owned through application of clause (a), (b) or (c) of paragraph (D)(1) above but shall not include any other shares which may be issuable pursuant to any agreement or upon exercise of conversion rights, warrants or options, or otherwise.

(F) The Board of Directors shall have the power and duty to determine, for purposes of this Article, on the basis of information known to such Board,

(1) the fair market value of any assets of the Corporation or any subsidiary proposed to be disposed of in a transaction of the character referred to in paragraph (A)(2) of this Article, and the fair market value of the total assets of the Corporation or such subsidiary;

(2) whether any person referred to in paragraph (A) of this Article owns beneficially 10% or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors; and

(3) whether a proposed transaction is substantially consistent with any memorandum of understanding of the character referred to in paragraph (B) of this Article.

Any such determination shall be conclusive and binding for all purposes of this Article.

(G) No amendment to this Restated Certificate or to the By-Laws shall amend, modify or repeal any or all of the provisions of this Article VII unless adopted by the affirmative vote or consent of the holders of not less than 80% of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, voting for the purposes of this Article as a single class; provided, however, that in the event the Board of Directors of the Corporation shall by resolution unanimously recommend to the stockholders the adoption of any such amendment, the stockholders of record holding a majority of the outstanding shares of stock of the Corporation entitled to vote in elections of directors may amend, modify or repeal any or all of such provisions.

(H) Notwithstanding the foregoing provisions of this Article, this Article shall become null, void and of no further force or effect upon the expiration of the option granted by MetLife Security Insurance Company of Louisiana ("MetLife Louisiana") to the Corporation to acquire shares of capital stock of the Corporation held by MetLife Louisiana as set forth in the Option Agreement dated February __, 1994, between MetLife Louisiana and the Corporation, other than upon the expiration thereof on account of such option having been exercised in full.

ARTICLE VIII

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware or (iv) for any transaction from which the director derived an improper personal benefit.

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If the General Corporation Law of the State of Delaware is amended hereafter to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the

Corporation shall be eliminated or limited to the fullest extent authorized by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to or at the time of such repeal or modification.

ARTICLE IX

Notwithstanding the provisions of this Restated Certificate and any provision of the By-Laws of the Corporation, in the absence of approval by 66 2/3% of the independent directors of the Corporation, voting at a meeting duly called for such purpose, of an amendment to the Amended and Restated Memorandum of Understanding dated December 14, 1993 or the Option Agreement dated February __, 1994, each between MetLife Louisiana and the Corporation, which would be adverse to the Corporation, no such amendment shall be approved, agreed to or executed by the Corporation unless approved by the affirmative vote or consent of the holders of not less than 80% of the outstanding shares of capital stock of the Corporation entitled to vote in elections of directors, voting for the purposes of this Article as a single class. For purposes hereof, an independent director shall be any director other than Ray C. Adams, Charles F. Luce, Stewart G. Nagler, James Q. Riordan, William S. Sneath or any person who is an affiliate (within the meaning set forth in Article VII hereof) of MetLife Louisiana.

IN WITNESS WHEREOF, Tesoro Petroleum Corporation has caused this Restated Certificate of Incorporation to be signed in its corporate name by its President and Chief Executive Officer and its corporate seal to be affixed hereto and attested by its Secretary this ___ day of ________________, 1994.

TESORO PETROLEUM CORPORATION

By: /s/ MICHAEL D. BURKE
Michael D. Burke, President and
Chief Executive Officer

ATTEST:

By:/s/ JAMES C. REED, JR.
James C. Reed, Jr., Secretary

APPENDIX D

RESTATED CERTIFICATE OF INCORPORATION
OF
TESORO PETROLEUM CORPORATION

The undersigned, having filed its original Certificate of Incorporation, under the name of TSO Corp., with the Secretary of State of the State of Delaware on December 26, 1968, thereby forming a corporation under and pursuant to the provisions of the General Corporation Law of the State of Delaware, does hereby restate its Certificate of Incorporation and certify as follows:

ARTICLE I

The name of the Corporation is Tesoro Petroleum Corporation (hereinafter called the 'Corporation').

ARTICLE II

The registered office of the Corporation in the State of Delaware is located at No. 100 West 10th Street, in the City of Wilmington, County of New Castle. The name and address of the Corporation's registered agent is The Corporation Trust Company, No. 100 West 10th Street, Wilmington, Delaware.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

The total number of shares of all classes of stock which the Corporation shall have authority to issue is Fifty-Five Million (55,000,000) shares, consisting of

Fifty Million (50,000,000) shares of the par value of $.16 2/3 per share; and

Five Million (5,000,000) shares with no par value.

(A) DESIGNATION OF EACH CLASS OF SHARES.

(1) The Fifty Million (50,000,000) authorized shares of a par value

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of $.16 2/3 per share and an aggregate par value of $8,333,333.33 shall be designated Common Stock; and

(2) The Five Million (5,000,000) authorized shares with no par value shall be designated Preferred Stock.

(B) STATEMENT OF PREFERENCES, LIMITATIONS AND RELATIVE RIGHTS IN RESPECT OF SHARES OF PREFERRED STOCK AND AUTHORITY OF BOARD OF DIRECTORS TO FIX DESIGNATIONS, POWERS, PREFERENCES, RIGHTS, QUALIFICATIONS, LIMITATIONS AND RESTRICTIONS THEREOF NOT FIXED HEREBY.

Shares of Preferred Stock may be issued from time to time in one or more series, as may be determined from time to time by the Board of Directors, each of said series to be distinctly designated. All shares of any one series of Preferred Stock shall be alike in every particular. The Board of Directors is hereby authorized to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of preferred shares, and the number of shares constituting any such series and the designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outsanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

INITIAL SERIES OF PREFERRED STOCK DESIGNATED
'8% CONVERTIBLE PREFERRED STOCK'

1. Designation of Series and Number of Shares.

The initial series of preferred stock is designated '8% Convertible Preferred Stock' (hereinafter referred to as '8% Preferred Stock'), and the number of shares which shall constitute such series shall be 40,000 shares of a stated value of $100 per share, which number may be increased or decreased (but not below the number thereof then outstanding) from time to time by the Board of Directors.

2. Dividends.

Holders of 8% Preferred Stock shall be entitled to receive, as and when declared by the Board of Directors and out of assets of the Corporation which are by law available for payment of dividends, cash dividends at, but not exceeding, the rate of $8.00 per share per annum, payable quarterly on April 1, July 1, October 1 and January 1 in each year, accruing from the date on which respective shares of 8% Preferred Stock shall be issued. Dividends upon 8% Preferred Stock shall be cumulative quarterly, so that no dividend whatsoever shall be declared or paid upon or set apart for any class of stock or series thereof ranking junior to 8% Preferred Stock in the payment of dividends nor shall any shares of any class of stock or series thereof ranking junior to 8% Preferred Stock in payment of dividends be redeemed or purchased by the Corporation or any subsidiary thereof nor shall any moneys be paid to or made available for a sinking fund for redemption or purchase of any shares of any class of stock or series thereof ranking junior to 8% Preferred Stock in payment of dividends, unless in each instance dividends on all outstanding shares of 8% Preferred Stock for all past dividend periods shall have been paid and the dividend on all outstanding shares of 8% Preferred Stock for the then current quarterly dividend period shall have been paid or declared and sufficient funds set aside for payment thereof. Accumulations of dividends on any shares of 8% Preferred Stock shall not bear interest.

No dividend shall be declared on any shares of any other class of stock or series thereof ranking on a parity with 8% Preferred Stock in respect of payment of dividends for any dividend period unless there shall have been declared on all shares then outstanding of 8% Preferred Stock, for the same dividend period, or for the dividend period of 8% Preferred Stock terminating within the dividend period of said parity stock, dividends in proportion to the respective dividend rates fixed for 8% Preferred Stock and said parity stock.

3. Liquidation.

In the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, holders of 8% Preferred Stock shall be entitled to receive $100 per share, together with accrued and unpaid dividends thereon, before any distribution of assets shall be made to holders of common stock or any other class of stock or series thereof ranking junior to 8% Preferred Stock with respect to distribution of assets. Holders of 8% Preferred Stock shall be entitled to no further participation in any such distribution. If, upon any such liquidation, dissolution or winding up of the Corporation, assets of the Corporation available for distribution to holders of 8% Preferred Stock shall be insufficient to permit payment in full to such holders of the preferential amounts aforesaid, then all such assets of the Corporation shall be distributed ratably among holders of 8% Preferred Stock and any other ranking on a parity therewith then outstanding, in proportion to the full preferential amounts to which they shall be entitled respectively. Neither merger nor consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other corporation into or with the Corporation, nor a sale, transfer or lease of all or any part 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 paragraph 3.

No payment on account of such dissolution, liquidation or winding up of the

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Corporation shall be made to holders of any other class or series of stock ranking on a parity with 8% Preferred Stock with respect to preferential distribution of assets unless a payment on account of such dissolution, liquidation or winding up shall be made at the same time to holders of 8% Preferred Stock in proportion to the full distributive amounts to which they and holders of such parity stock are respectively entitled.

Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, stating the payment date and the place where the distributable amounts shall be payable and containing a reference to the conversion right set forth in paragraph 5 below, shall be given by mail, postage prepaid, not less than 30 days prior to the payment date stated therein, to the holders of record of 8% Preferred Stock at their respective addresses as the same shall appear on the books of the Corporation.

4. Redemption.

The Corporation at its option may, at any time or from time to time, after February 1, 1978, redeem the whole or any part of this issue of 8% Preferred Stock at the applicable redemption price plus in each case accrued and unpaid dividends thereon to the date fixed for redemption.

The applicable redemption prices for the 8% Preferred Stock shall be as follows:

IF REDEEMED DURING 12 MONTHS BEGINNING FEBRUARY 1	REDEMPTION PRICE PER SHARE
1978	$ 108.00
1979	106.40
1980	104.80
1981	103.20
1982	101.60

and thereafter at $100 per share.

In the event the Corporation shall determine to redeem less than the entire issue of 8% Preferred Stock then outstanding, (i) the shares to be redeemed shall be selected pro rata (as nearly as may be) so that the number of shares redeemed from each holder shall be the same proportion of all the shares to be redeemed that the total number of shares then held by such holder bears to the total number of shares then outstanding or (ii) the shares shall be selected by lot, as the Board of Directors of the Corporation may determine.

Notice of every such redemption shall be mailed, first class postage prepaid, not less than 30 nor more than 50 days prior to the date fixed for redemption ('redemption date'), to each holder of record of shares to be redeemed, at his address as it appears on the books of the Corporation. Each such notice shall state the redemption date; the number of shares of 8% Preferred Stock to be redeemed, and, if less than all shares of 8% Preferred Stock held by such holder are to be redeemed, the number of such shares to be redeemed from him; the redemption price applicable to the shares to be redeemed; the place or places where such shares are to be surrendered; that dividends on shares to be redeemed will cease to accrue on the redemption date; and that shares to be redeemed may be converted on or before the redemption date in accordance with paragraph 5 below.

Notice having been mailed, from and after the redemption date (unless the Corporation defaults in providing money for the payment of the redemption price) the right to receive dividends on shares called for redemption shall cease to accrue, said shares shall no longer be deemed to be outstanding, all rights of holders thereof as shareholders of the Corporation (except the right to receive the redemption price) shall terminate, and, upon surrender in accordance with said notice of the certificates for any such shares (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require) such shares shall be redeemed by the Corporation at the applicable redemption price; provided, however, that the Corporation may include in such notice a statement that the money required for the payment of the redemption price will be deposited on a specified date, prior to the redemption date, with a specified bank or trust company (which shall have an office in the City of New York) in trust for the benefit of holders of shares called for redemption, and, notice having been given, from and after such deposit shares called for redemption shall no longer be deemed to be outstanding, all rights with respect to shares of 8% Preferred Stock shall forthwith upon such deposit cease and terminate, except only the right of the holders thereof to convert such shares in accordance with the provisions of paragraph 5 below at any time prior to the close of business on the redemption date, and holders of such shares shall look for payment of the redemption price only to funds so deposited and in no event to the Corporation unless said funds shall be repaid to the Corporation as hereinafter provided. Holders of such shares shall not be entitled to any interest

allowed by such depositary on money so deposited, but any such interest shall be paid to the Corporation. Any moneys deposited as aforesaid for redemption of any shares and remaining unclaimed for four years after the date of such deposit shall then be repaid to the Corporation upon its request, and holders of such shares shall thereafter look only to the Corporation for payment.

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Any shares of 8% Preferred Stock so redeemed or purchased shall be permanently retired, shall no longer be deemed outstanding, and shall not under any circumstances be reissued and the Corporation may from time to time take such appropriate corporate action as may be necessary to reduce the number of authorized 8% Preferred Stock accordingly.

5. Conversion.

Shares of 8% Preferred Stock shall be deemed to have a conversion value of $100 per share and may be converted at the option of the holder thereof at any time prior to the close of business on the date fixed for redemption of such shares pursuant to paragraph 4 above into shares of fully paid and non-assessable common stock of the Corporation at a price equivalent to $25.00* (the 'conversion price') for one whole share of common stock as now constituted, subject to the following provisions:

(A) The conversion price shall be subject to adjustment from time to time as follows:

(1) In case the Corporation shall (i) pay a dividend or make a distribution in shares of its capital stock (whether shares of common stock or of capital stock of any other class), (ii) subdivide its outstanding shares of common stock, (iii) combine its outstanding shares of common stock into a smaller number of shares, or (iv) issue by reclassification of its shares of common stock any shares of capital stock of the Corporation, the conversion privilege and the conversion price in effect immediately prior to such action shall be adjusted so that the holder of any share of 8% Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of capital stock of the Corporation which he would have owned immediately following such action had such share of 8% Preferred Stock been converted immediately prior thereto. An adjustment made pursuant to this subparagraph (1) shall become effective immediately after the record date in the case of a dividend and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of an adjustment made pursuant to this subparagraph (1), the holder of any shares of 8% Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock of the Corporation, the Board of Directors (whose determination shall be conclusive) shall determine the allocation of the adjusted conversion price between or among shares of such classes of capital stock.

(2) In case the Corporation shall hereafter issue rights or warrants to all holders of its common stock entitling them (for a period expiring within forty-five days after the record date mentioned below) to subscribe for or purchase shares of common stock at a price per share less than the current market price per share (as determined pursuant to subparagraph (4) below) on the record date mentioned below, the conversion price of the common stock shall be adjusted so that the same shall equal the price determined by multiplying the conversion price in effect immediately prior to the date of issuance of such rights or warrants by a fraction of which the numerator shall be the number of shares of common stock outstanding (excluding treasury shares) on the date of issuance of such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares purchased pursuant to such offer would purchase at such current market price, and of which the denominator shall be the number of shares of common stock outstanding on the date of issuance of such rights or warrants plus the number of additional shares of common stock so purchased pursuant to such offer for subscription or purchase.

(3) In case the Corporation shall distribute to all holders of its common stock evidences of its indebtedness or assets (excluding any cash dividend) or rights to subscribe (excluding those referred to in subparagraph (2) above), then in each such case the conversion price

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* Effective immediately after the Corporation's two-for-one common stock split on February 22, 1974, the conversion price of the 8% Preferred Stock was adjusted from $25.00 to $12.50.

shall be adjusted so that the same shall equal the price determined by multiplying the conversion price in effect immediately prior to the date of such distribution by a fraction of which the numerator shall be the current market price per share (determined as provided in subparagraph (4) below) of the common stock on the record date mentioned below less the then fair market value (as determined by the Board of Directors, whose determination shall be conclusive) of the portion of the assets or evidences of indebtedness so distributed or of such subscription rights applicable to one share of common stock, and the denominator shall be such current market price per share of common stock. Such adjustment shall become effective immediately after the record date for determination of stockholders entitled to receive such distribution.

(4) For the purpose of any computation under subparagraphs (2) and (3) above, the current market price per share of common stock on any date shall be deemed to be the average of daily closing prices for thirty consecutive business days commencing forty-five business days before the day in question. The closing price for each day shall be the last reported sale price regular way or, in case no such reported sale

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takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the American Stock Exchange or, if the common stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the common stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices as furnished by any New York Stock Exchange firm selected from time to time by the Corporation for that purpose.

(5) In any case in which this paragraph 5 shall require that an adjustment be made immediately following a record date, the Corporation may elect to defer (but only until five business days following the filing by the Corporation of the statement required by subparagraph (7) below) issuing to the holder of any share of 8% Preferred Stock converted after such record date shares of common stock and other capital stock of the Corporation issuable upon such conversion over and above the number of shares of common stock and other capital stock of the Corporation issuable upon such conversion as computed on the basis of the conversion price prior to adjustment.

(6) No adjustment in the conversion price shall be required unless such adjustment would require an increase or decrease of at least one percent in such price; provided, however, that any adjustments which by reason of this subparagraph are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this paragraph 5 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(7) Whenever the conversion price is adjusted as herein provided, the Corporation shall (i) file at its principal office and with each conversion agent for 8% Preferred Stock and each transfer agent for such common stock a statement, signed by the President or one of the Vice-Presidents of the Corporation and by its Treasurer or one of its Assistant Treasurers, stating the adjusted conversion price and the resulting number of shares of common stock purchasable on conversion of one share of 8% Preferred Stock and setting forth the method of calculation and the facts requiring such adjustment and upon which such calculation is based, and (ii) mail or cause to be mailed a copy of such statement setting forth the adjusted conversion price to each person who is a registered holder of 8% Preferred Stock at such person's last address as the same appears on the books of the Corporation. Each adjustment shall remain in effect until a subsequent adjustment is required hereunder.

(8) For the purposes of this paragraph 5, the term 'common stock' shall mean (i) the Corporation's common stock, $.16 2/3 par value per share, or (ii) 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 subparagraph (1) above, the holder of any share of 8% Preferred Stock thereafter surrendered for conversion shall become entitled to receive any stock of the Corporation other than shares of its

common stock, thereafter the conversion price of such other shares so receivable upon conversion of any share of 8% Preferred Stock shall be subject to 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 this paragraph 5.

(B) In case of a merger or consolidation of the Corporation with or into another corporation, or the sale of the Corporation's property or assets as, or substantially as, an entirety, to another corporation, or the reclassification of the Corporation's common stock (other than through a subdivision or combination thereof, or change in par value), holders of shares of 8% Preferred Stock shall thereafter have the right to convert each of such shares into the kind and amount of shares of stock and other securities and property receivable upon such merger, consolidation, sale or reclassification by a holder of the number of shares of common stock (whether whole or fractional) of the Corporation into which such shares of 8% Preferred Stock might have been converted immediately prior to such a merger, consolidation, sale or reclassification, and shall have no other conversion rights under these provisions; and effective provision shall be made in the charter of the resulting or surviving corporation or otherwise, so that the provisions set forth herein for the protection of conversion rights of 8% Preferred Stock shall thereafter be applicable, as nearly as reasonably may be, to any such other shares of stock and other securities and property deliverable upon conversion of 8% Preferred Stock remaining outstanding or other convertible preferred stock received by the holders in place thereof. Any such resulting or surviving corporation shall expressly assume the obligation to deliver, upon the exercise of the conversion privilege, such shares, securities or property as holders of 8% Preferred Stock remaining outstanding, or other convertible preferred stock received by such holders in place thereof, shall be entitled to receive pursuant to the provisions hereof, and to make provision for protection of conversion rights as above provided.

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(C) If, at any time while shares of 8% Preferred Stock are outstanding, the Corporation shall (i) declare a dividend (or any other distribution) on its common stock, other than in cash out of earned surplus; or (ii) authorize the issuance to all holders of its common stock of rights or warrants to subscribe for or purchase shares of its common stock or of any other subscription rights or warrants; or (iii) reclassify its common stock (other than through a subdivision or combination thereof) or become a party to any consolidation or merger for which approval of any stockholders of the Corporation is required, or sell or transfer all or substantially all of the assets of the Corporation; then the Corporation shall cause to be mailed to registered holders of 8% Preferred Stock, at their last addresses as they shall appear upon the Corporation's stock transfer record, at least ten days prior to the applicable record date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such dividend, distribution, rights or warrants, or, if a record is not to be taken, the date as of which holders of common stock of record to be entitled to such dividend, distribution, rights or warrants are to be determined, or (ii) the date on which any such reclassification, consolidation, merger, sale or transfer is expected to become effective, and the date as of which it is expected that holders of common stock of record shall be entitled to exchange their common stock for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, sale or transfer. Failure to give or receive the notice required by this subparagraph (C) or any defect therein shall not affect the legality or validity of any such dividend, distribution, right or warrant or other action.

(D) The holder of any shares of 8% Preferred Stock may exercise his option to convert such shares into shares of common stock only by surrendering for such purpose to the Corporation at the principal office of the Corporation certificates representing the shares to be converted, accompanied by written notice that such holder elects to convert such shares in accordance with this paragraph 5. Said notice shall also state the name or names (with addresses) in which the certificate or certificates for shares of common stock which shall be issuable on such conversion shall be issued. Each certificate or certificates surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as that in which such certificate or certificates are registered, be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or his duly authorized attorney. Each conversion shall

be deemed to have been effected on the date on which such certificate or certificates shall have been surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of common stock shall be issuable upon such conversion shall be deemed to have become on said date the holder or holders of record of the shares represented thereby notwithstanding that the transfer books of the Corporation may then be closed or that certificates representing such shares of common stock shall not then be actually delivered to such person.

(E) Upon any such conversion of shares of 8% Preferred Stock, no allowance, adjustment or payment shall be made with respect to dividends upon either class of stock.

(F) In connection with the conversion of shares of 8% Preferred Stock into common stock, no fractions of shares of 8% Preferred Stock or of common stock shall be issued, but the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to the market value of such fractional interest. In such event, the market value of a share of common stock shall be the last recorded sale price of such a share on the American Stock Exchange on the business day immediately preceding the date upon which such shares of 8% Preferred Stock are deemed to have been converted, or, if there be no such recorded sale price on such day, the last quoted bid price per share of common stock on such exchange at the close of trading on such business day. If the common stock shall not at the time be listed or admitted to trading on the American Stock Exchange, such market value shall be the average of the reported closing bid-and-asked prices regular way on such day on the principal national securities exchange on which the common stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid-and-asked prices on such day as furnished by any New York Stock Exchange firm selected from time to time by the Corporation for that purpose. The issue of stock certificates on conversions of shares of 8% Preferred Stock shall be made without charge to converting holders of shares of 8% Preferred Stock for any tax in respect of the issue thereof. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any registration of transfer involved in the issue and delivery of stock in any name other than that of the holder of any shares of 8% Preferred Stock converted, and the Corporation shall not be required to so issue or deliver any stock certificate unless and until the person or persons requesting the registration of transfer shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

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(G) The Corporation shall at all times reserve and keep available out of its authorized common stock the full number of shares of common stock deliverable upon the conversion of all outstanding shares of 8% Preferred Stock.

(H) Shares of 8% Preferred Stock converted shall be cancelled and shall not be reissued.

6. Voting Rights.

(A) Holders of 8% Preferred Stock shall be entitled to two votes per share, voting with the holders of any other class of stock entitled to vote, without regard to class, on all matters to be voted on by stockholders of the Corporation, in addition to their rights set forth in subparagraphs (B) and (C) below and otherwise provided by law. Every provision in the Certificate of Incorporation and By-Laws of the Corporation which requires the affirmative vote, consent, presence, request or other action of a majority or other proportion of the stock of the Corporation, or any class of such stock or series thereof, or which refers to a majority or other proportion of such stock, class or series, shall be deemed to require or refer to such majority or other proportion of the votes of such stock, class or series.

(B) If the Corporation shall be in default in the payment of dividends on 8% Preferred Stock of an amount equivalent to or exceeding eight full quarterly dividends (whether or not consecutive), the number of directors constituting the Board of Directors shall be increased by one and holders of 8% Preferred Stock, voting separately as one class, shall be entitled at the next annual meeting of stockholders or the next special meeting of stockholders, or at a special meeting of holders of 8% Preferred Stock called as hereinafter provided, to fill such newly created directorship, and in addition

thereto, such holders shall be entitled to participate with holders of common stock and holders, if any, of any other capital stock of the Corporation entitled to vote for the election of directors in the election of any other directors; provided, however, that when all arrears in dividends on 8% Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarterly period shall have been paid or declared and a sum sufficient for the payment thereof set aside, then (i) the right of holders of 8% Preferred Stock to participate in the election of one director shall cease but subject always to the same provisions for vesting of such voting rights in the case of any similar future arrearages in dividends; (ii) the term of the director then in office elected by holders of 8% Preferred Stock as a class shall terminate; and (iii) the number of directors constituting the Board of Directors shall be reduced by one.

Whenever such voting right shall vest, it may be exercised initially either at a special meeting of holders of 8% Preferred Stock or at any annual or special stockholders' meeting, but thereafter it shall be exercised only at annual stockholders' meetings. A special meeting for the exercise of such right shall be called by the Secretary of the Corporation within ten days after receipt of a written request signed by the holders of record of at least 10% of the outstanding shares of 8% Preferred Stock; however, no such special meeting shall be held during the 90-day period preceding the date fixed for the annual meeting of stockholders.

Any director who shall have been elected by holders of 8% Preferred Stock as a class shall hold office for a term expiring (subject to the earlier payment of arrears in dividends) at the next annual meeting of stockholders, and during such term may be removed at any time, either for or without cause only by the affirmative votes of holders of record of a majority of the outstanding shares of 8% Preferred Stock given at a special meeting of such stockholders called for the purpose. Any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by holders of 8% Preferred Stock as a class and the filling of the vacancy created thereby shall be called by the Secretary of the Corporation within ten days after receipt of a request therefor, signed by holders of not less than 25% of the then outstanding shares of 8% Preferred Stock. Such meeting shall be held at the earliest practicable date thereafter.

Any vacancy caused by the death or resignation of a director who shall have been elected by holders of 8% Preferred Stock as a class may be filled only by holders of 8% Preferred Stock at a meeting called for such purpose. Such meeting of holders of 8% Preferred Stock shall be called by the Secretary of the Corporation at the earliest practicable date after any such death or resignation and in any event within ten days after receipt of a written request signed by the holders of record of at least 10% of the outstanding shares of 8% Preferred Stock.

If any meeting of holders of 8% Preferred Stock required by this subparagraph (B) to be called shall not have been called within ten days after personal service of a written request therefor upon the Secretary of the Corporation or within 15 days after mailing the same within the United States of America by registered mail addressed to the Secretary of the Corporation at its principal office, then holders of record of at least 10% of the outstanding shares of 8% Preferred Stock may designate in writing one of their number to call such a 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. Any holder of 8% Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing meetings of stockholders to be called pursuant to these provisions.

Any meeting of holders of 8% Preferred Stock to vote as a class for the

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election or removal of directors shall be held at the place for the holding of the annual meeting of stockholders of the Corporation. At such meeting, the presence in person or by proxy of holders of a majority of the outstanding shares of 8% Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders 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.

(C) So long as any shares of 8% Preferred Stock are outstanding, the Corporation shall not, without the written consent or the affirmative vote at a meeting called for that purpose of holders of at least two-thirds of the total number of shares of 8% Preferred Stock then outstanding, in any manner,

whether by amendment to the Certificate of Incorporation or By-Laws of the Corporation, by merger (whether or not the Corporation is a surviving corporation in such merger), by consolidation, or otherwise:

(1) change or abolish the relative rights, preferences or limitations of the 8% Preferred Stock; or

(2) authorize, or increase the authorized amount of, any class or series of stock ranking prior to the 8% Preferred Stock in the payment of dividends or the preferential distribution of assets;

and so long as any shares of 8% Preferred Stock are outstanding, the Corporation shall not, without the written consent or the affirmative vote at a meeting called for that purpose of holders of at least a majority of the total number of shares of 8% Preferred Stock then outstanding in any such manner as aforesaid:

(3) increase the amount of the Preferred Stock authorized by the provisions of Article IV of the Certificate of Incorporation of the Corporation; or

(4) authorize, or increase the authorized amount of, any class or series of stock ranking on a parity with 8% Preferred Stock in the payment of dividends or the preferential distribution of assets other than any series of Preferred Stock which may be issued from time to time pursuant to the authorization contained in Article IV of the Certificate of Incorporation of the Corporation;

provided, however, that the foregoing shall not require the consent or vote of holders of 8% Preferred Stock for the authorization, or an increase in the authorized amount of, any class or series of stock except to the extent specifically provided in sections (2), (3) and (4) of this subparagraph (C); and provided further, that, except as otherwise required by law, no such consent or vote shall be required for any merger or consolidation:

(5) in which (i) the Corporation is the surviving corporation; (ii) no change is made in the rights, preferences or limitations of 8% Preferred Stock; and (iii) no authorization is granted for any class or series of stock, or any increase in the authorized amount of any class or series of stock, if such consent or vote would have been required for such authorization, or increase in authorized amount, immediately prior to such merger or consolidation; or

(6) in which (i) the Corporation is a party but is not the surviving corporation; (ii) the surviving corporation shall, in connection with and at the same time as such merger or consolidation, issue in exchange for each share of 8% Preferred Stock then outstanding a share of preferred stock of the surviving corporation with the same rights, preferences and limitations as the 8% Preferred Stock; and (iii) the authorized capital stock of the surviving corporation immediately after such merger or consolidation shall include only classes or series of stock for which no such consent or vote would have been required if such class or series had been authorized by the Corporation immediately prior to such merger or consolidation or which have the same rights, preferences and limitations and authorized amount as a class or series of stock of the Corporation authorized (with such consent or vote) prior to such merger or consolidation and continuing as an authorized class or series at the time thereof.

SECOND SERIES OF PREFERRED STOCK DESIGNATED
'$2.16 CUMULATIVE CONVERTIBLE PREFERRED STOCK'

1. Designation of Series and Number of Shares.

The series of Preferred Stock is designated '$2.16 Cumulative Convertible Preferred Stock' (hereinafter referred to as '$2.16 Preferred Stock'), and the number of shares which shall constitute such series shall be 4,600,000 shares of a stated value of $1.00 per share, which number may be increased or decreased (but not below the number thereof then outstanding) from time to time by the Board of Directors.

2. Dividends.

Shares of $2.16 Preferred Stock shall rank on a parity as to dividends with shares of 8% Convertible Preferred Stock of the Corporation (hereinafter referred to as '8% Preferred Stock'). The holders of $2.16 Preferred Stock shall be entitled to receive, as and when declared by the Board of Directors and out of assets of the Corporation which are by law available for payment of dividends,

cumulative preferential cash dividends, at, but not exceeding, the rate of $2.16 per share per annum, payable quarterly on March 15, June 15, September 15 and December 15 in each year, accruing from the date on which respective shares of

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$2.16 Preferred Stock shall be issued. So long as any $2.16 Preferred Stock shall remain outstanding, no dividend whatsoever shall be declared or paid upon or set apart for any class of stock or series thereof ranking junior to $2.16 Preferred Stock in the payment of dividends nor shall any shares of any class of stock or series thereof ranking junior to or on a parity with $2.16 Preferred Stock in payment of dividends be redeemed or purchased by the Corporation or any subsidiary thereof nor shall any moneys be paid to or made available for a sinking fund for redemption or purchase of any shares of any class of stock or series thereof ranking junior to or on a parity with $2.16 Preferred Stock in payment of dividends, unless in each instance full dividends on all outstanding shares of $2.16 Preferred Stock for all past dividend periods shall have been paid at the rate fixed therefor and the dividends on all outstanding shares of $2.16 Preferred Stock for the then current quarterly dividend period shall have been paid or declared and sufficient funds set aside for payment thereof. Accumulations of dividends on any shares of $2.16 Preferred Stock shall not bear interest.

No dividend shall be paid upon or declared or set apart for (a) any share of $2.16 Preferred Stock for any dividend period unless at the same time (i) a like proportionate dividend for the same dividend period shall be paid upon or declared or set apart for all shares of $2.16 Preferred Stock then outstanding and entitled to receive such dividend and (ii) there shall have been paid upon or declared or set aside for all shares of 8% Preferred Stock and for all shares of Preferred Stock of all other series or of any other class of stock or series thereof, if any, then outstanding and ranking on a parity with $2.16 Preferred Stock in respect of payment of dividends, for the same dividend period as the dividend period of the $2.16 Preferred Stock, or for the respective dividend periods of the 8% Preferred Stock and said parity stock terminating within the dividend period of the $2.16 Preferred Stock, dividends in proportion to the respective dividend rates fixed for the 8% Preferred Stock and said parity stock; and (b) any shares of 8% Preferred Stock or other series of Preferred Stock or other class of stock or series thereof, if any, ranking on a parity with $2.16 Preferred Stock in respect of payment of dividends for any dividend period unless there shall have been paid upon or declared or set apart for all shares then outstanding of $2.16 Preferred Stock, for the same dividend period, or for the dividend period of the $2.16 Preferred Stock terminating within the dividend period of said parity stock, dividends in proportion to the respective dividend rates fixed for $2.16 Preferred Stock and said parity stock.

3. Liquidation.

Shares of $2.16 Preferred Stock shall rank on a parity with shares of 8% Preferred Stock as to distribution of assets in the event of any liquidation, dissolution or winding up of the affairs of the Corporation. In the event of any such liquidation, dissolution or winding up, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of $2.16 Preferred Stock shall be entitled to receive, out of the net assets of the Corporation, (i) if such liquidation, dissolution or winding up is voluntary, the applicable redemption price per share determined as provided in paragraph 4 below, or (ii) if such liquidation, dissolution or winding up is involuntary, $25 per share plus, in either case, an amount equal to all dividends accrued and unpaid on each share of $2.16 Preferred Stock to the date fixed for distribution, and no more, before any distribution of assets shall be made to the holders of Common Stock or any other class of stock or series thereof ranking junior to $2.16 Preferred Stock with respect to the distribution of assets; provided, however, that no distribution as aforesaid shall be made to the holders of $2.16 Preferred Stock unless at the same time a like proportionate distribution shall be made, ratably in proportion to the respective amounts payable upon liquidation, dissolution or winding up of the affairs of the Corporation, to the holders of all shares of 8% Preferred Stock and Preferred Stock of all other series or of any other class of stock or series thereof, if any, then outstanding and ranking as to distribution of assets on a parity with $2.16 Preferred Stock.

Nothing herein contained shall be deemed to prevent redemption of $2.16 Preferred Stock by the Corporation in the manner provided in paragraph 4 below. Neither the merger or consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other

corporation into or with the Corporation, nor a sale, transfer or lease of all or any part of the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of this paragraph 3.

No payment on account of such liquidation, dissolution or winding up of the affairs of the Corporation shall be made to the holders of any other class or series of stock ranking on a parity with $2.16 Preferred Stock with respect to preferential distribution of assets unless a payment on account of such liquidation, dissolution or winding up shall be made at the same time to the holders of $2.16 Preferred Stock in proportion to the full distributive amounts to which they and the holders of such parity stock are respectively entitled.

Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, stating the payment date and the place where the distributable amounts shall be payable and containing a statement of or reference to the conversion right set forth in paragraph 5 below, shall be given by mail, postage prepaid, not less than 30 days prior to the payment date stated therein, to the holders of record of $2.16 Preferred Stock at their respective addresses as the same shall appear on the books of the

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Corporation.

4. Redemption.

The Corporation at its option may, at any time or from time to time, on or after January 1, 1980, redeem the whole or any part of this issue of $2.16 Preferred Stock at the applicable redemption price plus in each case accrued and unpaid dividends thereon to the date fixed for redemption.

The applicable redemption prices for the $2.16 Preferred Stock shall be as follows:

IF REDEEMED DURING 12 MONTHS BEGINNING JANUARY 1	REDEMPTION PRICE PER SHARE
1980	$ 27.50
1981	27.00
1982	26.50
1983	26.00
1984	25.50

and thereafter at $25 per share.

In the event the Corporation shall determine to redeem less than the entire issue of $2.16 Preferred Stock then outstanding, (i) the shares to be redeemed shall be selected pro rata (as nearly as may be) so that the number of shares redeemed from each holder shall be the same proportion of all the shares to be redeemed that the total number of shares then held by such holder bears to the total number of shares then outstanding or (ii) the shares shall be selected by lot, as the Board of Directors of the Corporation may determine.

Notice of every such redemption shall be mailed, first class postage prepaid, not less than 45 nor more than 60 days prior to the date fixed for redemption ('redemption date'), to each holder of record of shares to be redeemed, at his address as it appears on the books of the Corporation. Each such notice shall state the redemption date; the number of shares of $2.16 Preferred Stock to be redeemed, and, if less than all shares of $2.16 Preferred Stock held by such holder are to be redeemed, the number of such shares to be redeemed from him; the redemption price applicable to the shares to be redeemed; the place or places where such shares are to be surrendered; that dividends on shares to be redeemed will cease to accrue on the redemption date; and that shares to be redeemed may be converted at any time prior to the close of business on the business day next preceding the redemption date in accordance with paragraph 5 below.

Notice having been mailed, from and after the redemption date (unless the Corporation defaults in providing money for the payment of the redemption price) the right to receive dividends on shares called for redemption shall cease to accrue, said shares shall no longer be deemed to be outstanding, all rights of holders thereof as shareholders of the Corporation (except the right to receive the redemption price thereof, but without interest) shall terminate, and, upon surrender, in accordance with said notice, of the certificates for any such shares (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require), such shares shall be redeemed by the Corporation at the applicable redemption price; provided, however, that the Corporation may

include in such notice a statement that the money required for the payment of the redemption price will be deposited on a specified date, prior to the redemption date, with a specified bank or trust company (which shall have an office in The City of New York) in trust for the benefit of holders of shares called for redemption, and, notice having been given, from and after such deposit shares called for redemption shall no longer be deemed to be outstanding, all rights with respect to shares of $2.16 Preferred Stock shall forthwith upon such deposit cease and terminate, except only the right of the holders thereof to convert such shares in accordance with the provisions of paragraph 5 below at any time prior to the close of business on the business day next preceding the redemption date, and holders of such shares shall look for payment of the redemption price only to funds so deposited and in no event to the Corporation unless said funds shall be repaid to the Corporation as hereinafter provided. Holders of such shares shall not be entitled to any interest allowed by such depositary on money so deposited but any such interest shall be paid to the Corporation. Any moneys deposited as aforesaid for redemption of any shares and remaining unclaimed for four years after the date of such deposit shall then be repaid to the Corporation upon its request, and the holders of such shares shall thereafter look only to the Corporation for payment of the redemption price thereof, but without interest.

Any provision of this paragraph 4 to the contrary notwithstanding, in the event that any quarterly dividend due on $2.16 Preferred Stock shall be in default, and until all such defaults shall have been cured, the Corporation shall not redeem any shares of $2.16 Preferred Stock unless all outstanding shares of $2.16 Preferred Stock are simultaneously redeemed and shall not purchase or otherwise acquire any shares of $2.16 Preferred Stock except in accordance with a purchase offer made by the Corporation on the same terms to all holders of record of $2.16 Preferred Stock.

Any shares of $2.16 Preferred Stock redeemed or otherwise purchased or acquired by the Corporation shall be retired, shall no longer be deemed outstanding, and shall assume the status of authorized but unissued Preferred Stock, with no par value, undesignated as to series, subject to reissuance by the Corporation as shares of Preferred Stock of any one or more series, as may

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be determined from time to time by the Board of Directors.

5. Conversion.

Shares of $2.16 Preferred Stock may be converted at the option of the holder thereof, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to paragraph 4 above, into shares of fully paid and non-assessable shares of Common Stock of the Corporation at the rate of 1.7241 shares of Common Stock as now constituted for each share of $2.16 Preferred Stock surrendered for conversion (the 'conversion rate'), subject to the following provisions.

(A) The conversion rate shall be subject to adjustment from time to time as follows:

(1) In case the Corporation shall (i) pay a dividend, or make a distribution, to all holders of its Common Stock in shares of its capital stock (whether shares of Common Stock or of capital stock of any other class), (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common Stock any shares of capital stock of the Corporation, the conversion rate in effect immediately prior to such action shall be adjusted so that the holder of any share of $2.16 Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of capital stock of the Corporation which he would have owned immediately following such action had such share of $2.16 Preferred Stock been converted immediately prior thereto. An adjustement made pursuant to this subparagraph (1) shall become effective immediately after the record date in the case of a dividend and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of an adjustment made pursuant to this subparagraph (1), the holder of any shares of $2.16 Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock of the Corporation, the Board of Directors (whose determination shall be conclusive) shall determine the allocation of the conversion price of the $2.16 Preferred Stock (determined by dividing the adjustment conversion rate into $25) between or among shares of such classes of capital stock.

(2) In case the Corporation shall hereafter issue rights or warrants to all holders of its Common Stock entitling them (for a period expiring within 45 days after the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share of Common Stock (as determined pursuant to subparagraph (4) below) on the record date mentioned below, the conversion rate shall be adjusted effective immediately after the expiration date of such rights or warrants so that the same shall equal the rate determined by multiplying the conversion rate in effect immediately prior to the date of issuance of such rights or warrants by a fraction of which the numerator shall be the number of shares of Common Stock outstanding (excluding treasury shares) on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock purchased pursuant to such offer for subscription or purchase and of which the denominator shall be the number of shares of Common Stock outstanding (excluding treasury shares) on the date of issuance of such rights or warrants plus the number of shares of Common Stock which the aggregate subscription or purchase price of the total number of shares so purchased would purchase at such current market price (determined as provided in subparagraph (4) below).

(3) In case the Corporation shall distribute to all holders of its Common Stock evidences of its indebtedness or assets (excluding cash distributions made out of current or retained earnings) or rights to subscribe (excluding those referred to in subparagraph (2) above), then in each such case the conversion rate shall be adjusted so that the same shall equal the rate determined by multiplying the conversion rate in effect immediately prior to the date of such distribution by a fraction of which the numerator shall be the current market price per share of Common Stock (determined as provided in subparagraph (4) below) at the record date mentioned below, and the denominator of which shall be such current market price per share of the Common Stock, less the then fair market value (as determined by the Board of Directors of the Corporation, whose determination shall be conclusive) of the portion of the assets or evidences of indebtedness so distributed or of such subscription rights applicable to one share of Common Stock. Such adjustment shall become effective immediately after the record date for determination of stockholders entitled to receive such distribution.

(4) For the purpose of any computation under subparagraphs (2) and (3) above, the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for 30 consecutive business days commencing 45 business days before the day in question. The closing price for each day shall be the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such Exchange, on

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the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for that purpose.

(5) In any case in which this paragraph 5 shall require that an adjustment be made immediately following a record date, the Corporation may elect to defer (but only until five business days following the filing by the Corporation of the statement required by subparagraph (7) below) issuing to the holder of any share of $2.16 Preferred Stock converted after such record date shares of Common Stock and other capital stock of the Corporation issuable upon such conversion over and above the number of shares of Common Stock and other capital stock of the Corporation issuable upon such conversion as computed on the basis of the conversion rate prior to adjustment.

(6) All calculations under this paragraph 5 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(7) Whenever the conversion rate is adjusted as herein provided, the Corporation shall (i) file at the office or agency in the Borough of Manhattan in The City of New York

maintained by the Corporation pursuant to subparagraph (D) of this paragraph 5 and with each transfer agent for its Common Stock a statement, signed by the Chairman of the Board of Directors, the President or one of the Vice Presidents of the Corporation and by its Treasurer or one of its Assistant Treasurers, stating the adjusted conversion rate determined as provided herein and setting forth the method of calculation and the facts requiring such adjustment and upon which such calculation is based, and (ii) mail or cause to be mailed a copy of such statement setting forth the adjusted conversion rate to each person who is a registered holder of $2.16 Preferred Stock at such person's last address as the same appears on the books of the Corporation. Each adjustment shall remain in effect until a subsequent adjustment is required hereunder.

(B) In case of a merger or consolidation of the Corporation with or into another corporation, or the sale of the Corporation's property or assets as, or substantially as, an entirety, to another corporation, or the reclassification of the Corporation's Common Stock (other than through a subdivision or combination thereof, or change in par value), holders of shares of $2.16 Preferred Stock shall thereafter have the right to convert each of such shares into the kind and amount of shares of stock and other securities and property receivable upon such merger, consolidation, sale or reclassification by a holder of the number of shares of Common Stock (whether whole or fractional) of the Corporation into which such shares of $2.16 Preferred Stock might have been converted immediately prior to such a merger, consolidation, sale or reclassification, and shall have no other conversion rights under these provisions; and effective provision shall be made in the charter of the resulting or surviving corporation or otherwise, so that the provisions set forth herein for the protection of conversion rights of $2.16 Preferred Stock shall thereafter be applicable, as nearly as reasonably may be, to any such other shares of stock and other securities and property deliverable upon conversion of $2.16 Preferred Stock remaining outstanding or other convertible preferred stock received by the holders in place thereof. Any such resulting or surviving corporation shall expressly assume the obligation to deliver, upon the exercise of the conversion right, such shares, securities or property as holders of $2.16 Preferred Stock remaining outstanding, or other convertible preferred stock received by such holders in place thereof, shall be entitled to receive pursuant to the provisions hereof, and to make provision for protection of conversion rights as above provided.

(C) If, at any time while shares of $2.16 Preferred Stock are outstanding, the Corporation shall (i) declare a dividend (or any other distribution) on its Common Stock, other than in cash out of current or retained earnings; or (ii) authorize the issuance to all holders of its Common Stock of rights or warrants to subscribe for or purchase shares of its Common Stock or of any other subscription rights or warrants; or (iii) reclassify its Common Stock (other than through a subdivision or combination thereof) or become a party to any consolidation or merger for which approval of the holders of its Common Stock is required, or sell or transfer all or substantially all of the assets of the Corporation; then the Corporation shall cause to be mailed to registered holders of $2.16 Preferred Stock, at their last addresses as they shall appear upon the Corporation's stock transfer record, at least ten days prior to the applicable record date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such dividend, distribution, rights or warrants, or, if a record is not to be taken, the date as of which holders of Common Stock of record to be entitled to such dividend, distribution, rights or warrants are to be determined, or (ii) the date on which any such reclassification, consolidation, merger, sale or transfer is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property, if any,

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deliverable upon such reclassification, consolidation, merger, sale or transfer. Failure to give or receive the notice required by this subparagraph (C) or any defect therein shall not affect the legality or validity of any such dividend, distribution, right or warrant or other action.

(D) The holder of any shares of $2.16 Preferred Stock may exercise his option to convert such shares into shares of Common Stock only by surrendering for such purpose to the Corporation at the office or agency in the Borough of Manhattan in The City of New York maintained by

the Corporation for that purpose certificates representing the shares to be converted, accompanied by written notice that such holder elects to convert such shares in accordance with the provisions of this paragraph 5. Said notice shall also state the name or names (with addresses) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued. Each certificate or certificates surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as that in which such certificate or certificates are registered, be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or his duly authorized attorney. Each conversion shall be deemed to have been effected on the date on which such certificate or certificates shall have been surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become on said date the holder or holders of record of the shares represented thereby notwithstanding that the transfer books of the Corporation may then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to such person.

(E) Upon any such conversion of shares of $2.16 Preferred Stock, no allowance, adjustment or payment shall be made with respect to dividends upon either class of stock.

(F) In connection with the conversion of shares of $2.16 Preferred Stock into Common Stock, no fractions of shares of $2.16 Preferred Stock or of Common Stock shall be issued, but the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to the market value of such fractional interest. In such event, the market value of a share of Common Stock shall be the last recorded sale price of such a share on the New York Stock Exchange on the business day immediately preceding the date upon which such shares of $2.16 Preferred Stock are deemed to have been converted, or, if there be no such recorded sale price on such day, the last quoted bid price per share of Common Stock on such exchange at the close of trading on such business day. If the Common Stock shall not at the time be listed or admitted to trading on the New York Stock Exchange, such market value shall be the average of the reported closing bid and asked prices regular way on such day on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices on such day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for that purpose. The issue of stock certificates on conversions of shares of $2.16 Preferred Stock shall be made without charge to converting holders of shares of $2.16 Preferred Stock for any tax in respect of the issue thereof. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any registration of transfer involved in the issue and delivery of stock in any name other than that of the holder of any shares of $2.16 Preferred Stock converted, and the Corporation shall not be required to so issue or deliver any stock certificate unless and until the person or persons requesting the registration of transfer shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(G) The Corporation shall at all times reserve and keep available out of its authorized Common Stock the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of $2.16 Preferred Stock.

(H) Any shares of $2.16 Preferred Stock converted shall no longer be deemed outstanding and shall assume the status of authorized but unissued shares of Preferred Stock, with no par value, undesignated as to series, subject to reissuance by the Corporation as shares of Preferred Stock of any one or more series, as may be determined from time to time by the Board of Directors.

(I) For purposes of this paragraph (5):

(1) 'business day' shall mean a day on which the New York Stock Exchange (or a successor or an equivalent or substitute organization or facility) is open for the trading of securities in the Borough of Manhattan in The City of New York; and

(2) 'Common Stock' shall mean (a) the Corporation's Common Stock, $.16 2/3 par value per share, or (b) any other class of stock resulting

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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; provided, however, that in the event that at any time as a result of an adjustment made pursuant to subparagraph (A)(1) above, the holder of any share of $2.16 Preferred Stock thereafter surrendered for conversion would become entitled to receive any stock of the Corporation other than shares of its Common Stock, thereafter the conversion rate with respect to such other shares so receivable upon conversion of any share of $2.16 Preferred Stock shall be subject to 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 this paragraph 5.

6. Voting Rights.

(A) The holders of $2.16 Preferred Stock shall be entitled to one vote per share, voting together as one class with the holders of Common Stock and 8% Preferred Stock and any other series of Preferred Stock entitled to vote, on all matters to be voted by stockholders of the Corporation, in addition to their rights set forth in subparagraphs (B) and (C) below and otherwise provided by law.

(B) If at any time the Corporation shall be in default in the payment of dividends on the $2.16 Preferred Stock of an amount equivalent to or exceeding six full quarterly dividends (whether or not consecutive), the number of directors constituting the Board of Directors of the Corporation shall be increased by two, and the holders of $2.16 Preferred Stock, voting as a separate class together with the holders of all other series of Preferred Stock outstanding (other than 8% Preferred Stock) having similar voting rights (such other series of Preferred Stock and the $2.16 Preferred Stock being hereinafter collectively referred to as 'Special Preferred Stock'), whether or not the payment of quarterly dividends shall be in default on all Special Preferred Stock outstanding, shall be entitled at the next annual meeting of stockholders or the next special meeting of stockholders, or at a special meeting of holders of Special Preferred Stock called as hereinafter provided, to elect two directors to fill such newly created directorships, and in addition thereto, such holders shall be entitled to participate with holders of Common Stock and holders, if any, of any other capital stock of the Corporation entitled to vote for the election of directors in the election of any other directors; provided, however, that when all arrears in dividends on Special Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarterly period shall have been paid or declared and a sum sufficient for the payment thereof set aside, then (i) the right of holders of Special Preferred Stock to participate in the election of two directors shall cease but subject always to the same provisions for vesting of such voting rights in the case of any similar future arrearages in dividends; (ii) the term of the directors then in office elected by holders of Special Preferred Stock as a class shall terminate; and (iii) the number of directors constituting the Board of Directors shall be reduced by two.

Whenever such voting right shall vest, it may be exercised initially either at a special meeting of holders of Special Preferred Stock or at any annual or special stockholders' meeting, but thereafter it shall be exercised only at annual stockholders' meetings. A special meeting for the exercise of such right shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock; however, no such special meeting shall be held during the 90-day period preceding the date fixed for the annual meeting of stockholders.

Any director who shall have been elected by holders of Special Preferred Stock as a class pursuant to this subparagraph (B) shall hold office for a term expiring (subject to the earlier termination of the default in dividends) at the next annual meeting of stokholders, and during such term may be removed at any time, either for or without cause, only by the affirmative votes of holders of record of a majority of the votes of the then outstanding shares of Special Preferred Stock given at a special meeting of such stockholders called for the purpose. Any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by holders of Special Preferred Stock as a class and the filling of the vacancy created

thereby shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of not less than 25% of the votes of the then outstanding shares of Special Preferred Stock. Such meeting shall be held at the earliest practicable date thereafter.

Any vacancy caused by the death or resignation of a director who shall have been elected by the holders of Special Preferred Stock as a class pursuant to this subparagraph (B) may be filled only by the holders of Special Preferred Stock at a meeting called for such purpose. Such meeting of the holders of Special Preferred Stock shall be called by the Secretary of the Corporation at the earliest practiable date after any such death or resignation and in any event within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock.

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If any meeting of the holders of Special Preferred Stock required by this subparagraph (B) to be called shall not have been called within ten days after personal service of a written request therefor upon the Secretary of the Corporation or within 15 days after mailing the same within the United States of America by registered mail addressed to the Secretary of the Corporation at its prinicpal office, then holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock may designate in writing one of their number to call such a 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. Any holder of Special Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing meetings of stockholders to be called pursuant to these provisions.

Any meeting of holders of Special Preferred Stock to vote as a class for the election or removal of directors shall be held at the place for the holding of the annual meeting of stockholders of the Corporation. At such meeting, the presence in person or by proxy of holders of a majority of the votes of the then outstanding shares of Special Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders 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.

(c) So long as any shares of $2.16 Preferred Stock are outstanding, the Corporation shall not, in any manner, whether by amendment to the Certificate of Incorporation or By-Laws of the Corporation, by merger (whether or not the Corporation is a surviving corporation in such merger), by consolidation, or otherwise:

(1) without the written consent or the affirmative vote at a meeting called for that purpose of the holders of at least two-thirds of the votes of the shares of $2.16 Preferred Stock then outstanding, voting separately as a class, (a) amend, alter or repeal any of the provisions of Article IV of the Certificate of Incorporation of the Corporation, or of any resolution or resolutions establishing the $2.16 Preferred Stock, so as to affect adversely the powers, preferences or special rights of the $2.16 Preferred Stock; or (b) authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking prior to the $2.16 Preferred Stock in the payment of dividends or the preferential distribution of assets; or

(2) without the written consent or the affirmative vote at a meeting called for that purpose of the holders of at least a majority of the aggregate number of the votes of the shares of Preferred Stock of all series (including $2.16 Preferred Stock) then outstanding, voting separately as a class, (a) increase the number of shares of Preferred Stock authorized by the provisions of Article IV of the Certificate of Incorporation; or (b) authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class of stock ranking on a parity with the $2.16 Preferred Stock in the payment of dividends or the preferential distribution of assets:

provided, however, that the foregoing provisions of this subparagraph (C) shall not require the consent or vote of the holders of $2.16 Preferred Stock or Preferred Stock for the authorization or an increase in the authorized amount of any class or series of stock, or for the authorization of any obligation or

security convertible into or evidencing the right to purchase shares of any class or series of stock, except to the extent specifically provided in sections (1)(b), (2)(a) and (2)(b) or this subparagraph (C); and provided further, that, except as otherwise required by law, no such consent or vote shall be required for any merger or consolidation:

(i) in which (x) the Corporation is the surviving corporation; (y) no adverse change is made in the powers, preferences or special rights of the $2.16 Preferred Stock; and (z) no additional class or series of stock is authorized or the authorized amount thereof increased, and no obligation or security convertible into or evidencing the right to purchase shares of any additional class or series of stock is authorized, if such consent or vote would have been required for any such authorization, or increase in authorized amount, immediately prior to such merger or consolidation; or

(ii) in which (x) the Corporation is a party but is not the surviving corporation; (y) the surviving corporation shall, in connection with and at the same time as such merger or consolidation, issue in exchange for each share of $2.16 Preferred Stock then outstanding a share of preferred stock of the surviving corporation with the same powers, preferences and special rights as the $2.16 Preferred Stock; and (z) immediately after such merger or consolidation only classes or series of stock of the surviving corporation and obligations or securities convertible into or evidencing the right to purchase shares of a class or series of stock of the surviving corporation shall be authorized or outstanding, for which no such consent or vote would have been required if such classes or series of stock and obligations or securities had been authorized by the Corporation immediately prior to such merger or consolidation, or which have, or are convertible into or evidence the right to purchase shares of a class or

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series of stock of the surviving corporation which have, the same powers, preferences and special rights and authorized amount as a class or series of stock of the Corporation which was authorized (with such consent or vote) prior to such merger or consolidation and is continuing as an authorized class or series of stock at the time thereof.

(C) STATEMENT OF LIMITATIONS, RELATIVE RIGHTS AND POWERS IN RESPECT TO COMMON STOCK.

Subject to any rights and privileges granted to the holders of Preferred Stock by resolution of the Board of Directors pursuant to the provisions of Section (B) of this Article IV, the holders of Common Stock shall exercise one vote in respect of each share of stock held by them on all matters voted upon by the stockholders; shall be entitled to receive such dividends as may be declared from time to time by the Board of Directors; shall be entitled, upon liquidation or dissolution, to receive all the remaining assets of the Corporation, tangible and intangible, of whatever kind available for distribution ratably in proportion to the number of shares of Common Stock held by them; and shall have such other rights and privileges as may be allowed to them by the laws of the state of Delaware.

(D) INCREASE OR DECREASE OF AUTHORIZED STOCK.

The amount of the authorized stock of the Corporation of any class or classes may be increased or decreased by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote.

ARTICLE V

The Board of Directors shall be divided into three classes as nearly equal in number as possible, with the term of office of one class expiring each year. At the annual meeting of stockholders in 1970, directors of the first class shall be elected to hold office for a term expiring at the next succeeding annual meeting, directors of the second class shall be elected to hold office for a term expiring at the second succeeding annual meeting and directors of the third class shall be elected to hold office for a term expiring at the third succeeding annual meeting. During the intervals between annual meetings of stockholders, any vacancy occurring in the Board of Directors caused by resignations, removal, death or other incapacity and any newly created directorships resulting from an increase in the number of directors shall be filled by a majority vote of the directors then in office, whether or not a quorum. Each director chosen to fill a vacancy shall hold office for the unexpired term in respect of which such vacancy occurred. Each director chosen to fill a newly created directorship shall hold office until the next election of the class for which such director shall have been chosen. When the

number of directors is changed, any newly created directorships or any decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as possible.

Any director may be removed from office at any time, for cause, by the affirmative vote of stockholders of record holding a majority of the outstanding shares of stock of the Corporation entitled to vote in elections of directors given at a meeting of the stockholders called for that purpose.

Election of directors need not be by ballot unless by the By-Laws of the Corporation shall so provide.

ARTICLE VI

In furtherance and not in limitation of the power conferred upon the Board of Directors by law, the Board of Directors shall have power to make, adopt, alter, amend and repeal from time to time By-Laws of the Corporation, subject to the right of the stockholders entitled to vote with respect thereto to alter and repeal By-Laws made by the Board of Directors.

ARTICLE VII

(A) Except as set forth in paragraph (B) of this Article, the affirmative vote or consent of the holders of not less than four-fifths of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, voting for purposes of this Article as one class, shall be required:

(1) to adopt any agreement for the merger or consolidation of the Corporation or any subsidiary (as hereinafter defined) with or into any other person (as hereinafter defined),

(2) to authorize any sale, lease, transfer, exchange, mortgage, pledge or other disposition to any other person of all or substantially all of the assets of the Corporation or any subsidiary, or any part of such assets having a then fair market value equal to or greater than 50 per cent of the then fair market value of the total assets of the Corporation or such subsidiary, or

(3) to authorize the issuance or transfer by the Corporation or any subsidiary of any voting securities of the Corporation or any subsidiary in exchange or payment for the securities or assets of any other person.

if, in any such case, as of the record date for the determination of stockholders entitled to notice thereof and to vote thereon or consent thereto, such other person is, or at any time within the preceding twelve months has been, the beneficial owner (as hereinafter defined) of 10 per cent or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors.

(B) The provisions of paragraph (A) of this Article shall not apply to any transaction described therein if the Board of Directors by resolution shall have approved a memorandum of understanding with such other person <setting forth the principal terms of such transaction> and such transaction is substantially consistent therewith, provided that a majority of those members of the Board of

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Directors voting in favor of such resolution were duly elected and acting members of the Board of Directors prior to the time such other person became the beneficial owner of 10 per cent or more of the outstanding shares of stock of the Corporation entitled to vote in election of directors.

(C) The affirmative vote or consent of the holders of not less than four-fifths of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, voting for purposes of this Article as one class, shall be required for the adoption of any plan for the dissolution of the Corporation if the Board of Directors shall not have, by resolution, recommended to the stockholders the adoption of such plan for dissolution of the Company.

(D) For purposes of this Article,

(1) any specified person shall be deemed to be the 'beneficial owner' of shares of stock of the Corporation (a) which such specified person or any of its affiliates or associates (as such terms are hereinafter defined) owns, directly or indirectly, whether of record or not, (b) which such specified person or any of its affiliates or associates has the right to acquire pursuant to any agreement, upon exercise of conversion rights, warrants or options, or otherwise, or (c) which are beneficially owned, directly or indirectly (including shares deemed owned through application of clauses (a) and (b) above), by any other person with which such specified person or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of stock of the Corporation;

(2) a 'subsidiary' is any corporation more than 49 per cent of the voting securities of which are owned, directly or indirectly, by the Corporation;

(3) a 'person' is any individual, corporation or other entity;

(4) an 'affiliate' of a specified person is any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the specified person; and

(5) an 'associate' of a specified person is (a) any person of which such specified person is an officer or partner or is, directly or indirectly, the beneficial owner of 10 per cent or more of any class of equity securities, (b) any trust or other estate in which such specified person has a substantial beneficial interest or as to which such specified person serves as trustee or in a similar fiduciary capacity, or (c) any relative or spouse of such specified person, or any relative of such spouse, who has the same home as such specified person or is a director or officer of such specified person or any corporation which controls or is controlled by such specified person.

(E) For purposes of determining whether a person owns beneficially 10 per cent or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, the outstanding shares of stock of the Corporation shall include shares deemed owned through application of clause (a), (b) or (c) of paragraph (D)(1) above but shall not include any other shares which may be issuable pursuant to any agreement or upon exercise of conversion rights, warrants or options, or otherwise.

(F) The Board of Directors shall have the power and duty to determine, for purposes of this Article, on the basis of information known to such Board,

(1) the fair market value of any assets of the Corporation or any subsidiary proposed to be disposed of in a transaction of the character referred to in paragraph (A)(2) of this Article, and the fair market value of the total assets of the Corporation or such subsidiary;

(2) whether any person referred to in paragraph (A) of this Article owns beneficially 10 per cent or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors; and

(3) whether a proposed transaction is substantially consistent with any memorandum of understanding of the character referred to in paragraph (B) of this Article.

Any such determination shall be conclusive and binding for all purposes of this Article.

ARTICLE VIII

Notwithstanding the provisions of Article VI of this Certificate of Incorporation and any provisions of the By-Laws of the Corporation, no amendment of this Certificate of Incorporation or to the By-Laws shall amend, modify or repeal any or all of the provisions of Article V, Article VII or this Article VIII of this Certificate of Incorporation or Section 2.1 of the By-Laws of the Corporation unless adopted by the affirmative vote or consent of the holders of not less than four-fifths of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, considered for purposes of this Article as a class; provided, however, that in the event the Board of Directors of the Corporation shall by resolution unanimously recommend to the stockholders the adoption of any such amendment, the stockholders of record holding a majority of the outstanding shares of stock of the Corporation entitled to vote in elections of directors may amend, modify or repeal any or all of such provisions.

The restated Certificate of Incorporation was duly adopted by the directors of the Corporation in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware. It only restates and integrates and does not further amend the provisions of the Corporation's Certificate of Incorporation as heretofore amended or supplemented. There is no discrepancy between those provisions and the provisions of this restated

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Certificate of Incorporation.

IN WITNESS WHEREOF, Tesoro Petroleum Corporation has caused this restated Certificate of Incorporation to be signed in its corporate name by its Chairman of the Board of Directors and its corporate seal to be affixed hereto and attested by its Secretary this 23rd day of June, 1978.

TESORO PETROLEUM CORPORATION

By /s/ ROBERT V. WEST, Jr.
Robert V. West, Jr.
CHAIRMAN OF THE
BOARD OF DIRECTORS

- ---
TESORO PETROLEUM CORPORATION
Incorporated Dec. 26, 1968
Delaware
- ---

ATTEST:

By: /s/ CHARLES R. ROBERTS
Charles R. Roberts
SECRETARY

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION
OF
TESORO PETROLEUM CORPORATION

TESORO PETROLEUM CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (hereinafter called the 'Corporation') DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of the Corporation, a resolution was duly adopted declaring it advisable that the Corporation's Restated Certificate of Incorporation be amended by adding a new Article IX thereto and directing that the proposed amendment be considered at the next annual meeting of stockholders of the Corporation. The resolution set forth the proposed amendment as follows:

'ARTICLE IX

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware or (iv) for any transaction from which the director derived an improper personal benefit.

If the General Corporation Law of the State of Delaware is amended hereafter to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent authorized by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to or at the time of such repeal or modification.'

SECOND: That pursuant to the resolutions of its Board of Directors, an annual meeting of the stockholders of the Corporation was duly called and held, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of said amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, TESORO PETROLEUM CORPORATION has caused its corporate seal to be hereunto affixed and this certificate to be signed by Dennis F. Juren, its President, and attested by James C. Reed, Jr., its Assistant Secretary, this 31st day of March, 1987.

TESORO PETROLEUM CORPORATION
By: __________________________________
PRESIDENT

TESORO PETROLEUM CORPORATION
INCORPORATED DEC. 26, 1968
DELAWARE
ATTEST:
By: ________________________________
ASSISTANT SECRETARY

TESORO PETROLEUM CORPORATION
CERTIFICATE OF DESIGNATION
ESTABLISHING A SERIES OF
$2.20 CUMULATIVE CONVERTIBLE PREFERRED STOCK

Tesoro Petroleum Corporation, a corporation organized and existing under

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the General Corporation Law of the State of Delaware, pursuant to the requirements of Section 151(g) of said General Corporation Law, DOES HEREBY CERTIFY:

FIRST: That, pursuant to authority conferred upon the Board of Directors by the Certificate of Incorporation (as amended) of said corporation, and pursuant to the provisions of Section 151(g) of the General Corporation Law, said Board of Directors, at a meeting duly held on January 26, 1983, adopted a resolution providing for the voting powers, designations, preferences and relative, participating, optional or other special rights of the $2.20 Cumulative Convertible Preferred Stock, which resolution is as follows:

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Corporation is hereby created, such series of Preferred Stock to be designated the $2.20 Convertible Preferred Stock, to consist of 2,875,000 shares of the stated value of one dollar ($1.00) each, of which the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, shall be as follows:

1. Designation of Series and Number of Shares.

This series of Preferred Stock is designated '$2.20 Cumulative Convertible Preferred Stock' (hereinafter referred to as '$2.20 Preferred Stock'), and the number of shares which shall constitute such series shall be 2,875,000 shares of a stated value of $1.00 per share, which number may not be increased but may be decreased (but not below the number thereof then outstanding) from time to time by the Board of Directors.

2. Dividends.

Shares of $2.20 Preferred Stock shall rank on a parity as to dividends with shares of 8% Convertible Preferred Stock of the Corporation (hereinafter referred to as '8% Preferred Stock') and shares of $2.16 Cumulative Convertible Preferred Stock (hereinafter referred to as '$2.16 Preferred Stock'). The holders of $2.20 Preferred Stock shall be entitled to receive, as and when declared by the Board of Directors and out of assets of the Corporation which are by law available for payment of dividends, cumulative preferential cash dividends, at, but not exceeding, the rate of $2.20 per share per annum, payable quarterly on May 15, August 15, November 15, and February 15, in each year, accruing from the date on which respective shares of $2.20 Preferred Stock shall be issued. So long as any $2.20 Preferred Stock shall remain outstanding, no dividend whatsoever shall be declared or paid upon or set apart for any class of stock or series thereof ranking junior to $2.20 Preferred Stock in the payment of dividends nor shall any shares of any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in payment of dividends be redeemed or purchased by the Corporation or any subsidiary thereof nor shall any moneys be paid to or made available for a sinking fund for redemption or purchase of any shares of any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in payment of dividends, unless in each instance full dividends on all outstanding shares of $2.20 Preferred Stock for all past dividend periods shall have been paid at the rate fixed therefor and the dividends on all outstanding shares of $2.20 Preferred Stock for the then current quarterly dividend period shall have been paid or declared and sufficient funds set aside for payment thereof. Accumulations of dividends on any shares of $2.20 Preferred Stock shall not bear interest.

No dividend shall be paid upon or declared or set apart for (a) any share of $2.20 Preferred Stock for any dividend period unless at the same time (i) a like proportionate dividend for the same dividend period shall be paid upon or declared or set apart for all shares of $2.20 Preferred Stock then outstanding and entitled to receive such dividend and (ii) there shall have been paid upon or declared or set aside for all shares of 8% Preferred Stock, $2.16 Preferred Stock and for all shares of Preferred Stock of all other series or of any other class of stock or series thereof, if any, then outstanding and ranking on a parity with $2.20 Preferred Stock in respect of payment of dividends, for the same dividend period as the dividend period of the $2.20 Preferred Stock, or for the respective dividend periods of 8% Preferred Stock, $2.16 Preferred Stock and said parity stock terminating within the dividend period of the $2.20 Preferred Stock, dividends in proportion to the respective dividend rates fixed for the 8% Preferred Stock, $2.16 Preferred Stock and said parity stock; and (b) any shares of 8% Preferred Stock, $2.16 Preferred Stock or other series of Preferred Stock or other class of stock or series thereof, if any, ranking on a parity with $2.20 Preferred Stock in respect of payment of dividends for any dividend period unless there shall have been paid upon or declared or set apart for all shares then outstanding of $2.20 Preferred Stock, for the same dividend period, or for the dividend period of the $2.20 Preferred Stock terminating within the dividend period of said parity stock, dividends in proportion to the respective dividend rates fixed for $2.20 Preferred Stock and said parity stock.

3. Liquidation.

Shares of $2.20 Preferred Stock shall rank on a parity with shares of 8% Preferred Stock and $2.16 Preferred Stock as to distribution of assets in the event of any liquidation, dissolution or winding up of the affairs

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of the Corporation. In the event of any such liquidation, dissolution or winding up, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of $2.20 Preferred Stock shall be entitled to receive, out of the net assets of the Corporation, (i) if such liquidation, dissolution of winding up is voluntary, the applicable redemption price per share determined as provided in paragraph 4 below, or (ii) if such liquidation, dissolution or winding up is involuntary, $20 per share plus, in either case, an amount equal to all dividends accrued and unpaid on each share of $2.20 Preferred Stock to the date fixed for distribution, and no more, before any distribution of assets shall be made to the holders of Common Stock or any other other class of stock or series thereof ranking junior to $2.20 Preferred Stock with respect to the distribution of assets; provided, however, that no distribution as aforesaid shall be made to the holders of $2.20 Preferred Stock unless at the same time a like proportionate distribution shall be made, ratably in proportion to the respective amounts payable upon liquidation, dissolution or winding up of the affairs of the Corporation, to the holders of all shares of 8% Preferred Stock, $2.16 Preferred Stock and Preferred Stock of all other series or any other class of stock or series thereof, if any, then outstanding and ranking as to distribution of assets on a parity with $2.20 Preferred Stock.

Nothing herein contained shall be deemed to prevent redemption of $2.20 Preferred Stock by the Corporation in the manner provided in paragraph 4 below. Neither the merger or consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other corporation, nor the merger or consolidation of any other corporation into or with the Corporation, nor a sale, transfer or lease of all or any part of the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of this paragraph 3.

No payment on account of such liquidation, dissolution or winding up of the affairs of the Corporation shall be made to the holders of any other class or series of stock ranking on a parity with $2.20 Preferred Stock with respect to preferential distribution of assets unless a payment on account of such liquidation, dissolution or winding up shall be made at the same time to the holders of $2.20 Preferred Stock in proportion to the full distributive amounts to which they and the holders of such parity stock are respectively entitled.

Written notice of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, stating the payment date and the place where the distributable amounts shall be payable and containing a statement of or reference to the conversion right set forth in paragraph 5 below, shall be given by mail, postage prepaid, not less than 30 days prior to the payment date stated therein, to the holders of record of $2.20 Preferred Stock at their respective addresses as the same shall appear on the books of the Corporation.

4. Redemption.

The Corporation at its option may, at any time or from time to time, on or after February 15, 1988, redeem the whole or any part of this issue of $2.20 Preferred Stock at the applicable redemption price plus in each case accrued and unpaid dividends thereon to the date fixed for redemption.

The applicable redemption prices for the $2.20 Preferred Stock shall be as follows:

IF REDEEMED DURING 12 MONTHS BEGINNING	REDEMPTION PRICE PER SHARE
1988	$ 21.00
1989	20.80
1990	20.60
1991	20.40
1992	20.20

and thereafter at $20 per share.

The Corporation shall on each February 15, beginning with February 15, 1994, so long as any shares of $2.20 Preferred Stock are outstanding, set aside, out of funds legally available therefor, an amount sufficient to effect the redemption, at the applicable redemption price provided above, plus accrued and unpaid dividends thereon, if any, of the number of shares of $2.20 Preferred Stock equal to 6 2/3% of the total number of shares of $2.20 Preferred Stock outstanding on February 15, 1994, less the number of shares for which the Corporation may receive credit, as hereinafter provided, and the Corporation shall call for redemption such number of shares on such date. The Corporation may credit against any redemption required by this paragraph 4 the number of shares of $2.20 Preferred Stock which have been redeemed by the Corporation after February 15, 1994 (including shares called for redemption if the redemption price thereof has been deposited with a bond or trust company as hereinafter provided in this paragraph 4) or which have been presented for conversion to the Corporation after February 15, 1994, and which have not been theretofor (i) used to satisfy the Corporation's obligation to redeem shares of $2.20 Preferred Stock pursuant to this paragraph 4 or (ii) used as a basis for a reduction in the number of shares of $2.20 Preferred Stock to be redeemed pursuant to

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this paragraph 4. The redemptions required of the Corporation by this paragraph 4 shall be cumulative, so that if the Corporation shall fail, for any reason whatsoever, to set aside funds and call for redemption shares of $2.20 Preferred Stock on the date set forth above, as required by this paragraph 4, the obligation to redeem such shares shall continue, and shall, until satisfied, increase the obligation of the Corporation to redeem shares in each subsequent year. If, at any time, the Corporation shall have failed to set aside funds and call for redemption shares of $2.20 Preferred Stock on the date set forth above, no dividend whatsoever shall be declared or paid upon or set apart and no asset shall be distributed for any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in the payment of dividends (except the $2.16 Preferred) nor shall any shares of any class of stock or series thereof ranking junior to or on a parity with $2.20 Preferred Stock in payment of dividends be redeemed or purchased by the Corportion or any subsidiary thereof.

If at any time the Corporation shall be in default in the payment of dividends on the $2.20 Preferred Stock of an amount equivalent to or exceeding twelve full quarterly dividends (whether

or not consecutive) or shall have failed to make the mandatory redemptions of $2.20 Preferred Stock required by the preceding paragraph of a number of shares equivalent to or exceeding the number of shares to be redeemed pursuant to such paragraph in any three year period, and all of the outstanding shares of $2.20 Preferred Stock are held by the person to which such shares were originally issued or by any affiliate or affiliates of such person, the Corporation shall redeem, at the option of such original holder or any such affiliates, out of funds legally available therefor, within 60 days of the occurrence thereof, each outstanding share of $2.20 Preferred Stock, at the applicable redemption price hereinabove set forth plus accrued and unpaid dividends to the date fixed for redemption.

At or prior to the time of each redemption pursuant to this paragraph 4, the Corporation shall pay or make provision for payment of all accrued and unpaid dividends on all shares of $2.20 Preferred Stock, 8% Preferred Stock, $2.16 Preferred Stock and all shares of Preferred Stock of all other series or of any other class of stock or series thereof, if any, then outstanding and ranking on a parity with or prior to the $2.20 Preferred Stock in respect of payment of dividends.

In the event the Corporation shall determine or shall be required to redeem less than the entire issue of $2.20 Preferred Stock then outstanding, (i) the shares to be redeemed shall be selected pro rata (as nearly as may be) so that the number of shares redeemed from each holder shall be the same proportion of all the shares to be redeemed that the total number of shares then held by such holder bears to the total number of shares then outstanding or (ii) if the number of holders of $2.20 Preferred Stock exceeds 250, and the Board of Directors so determines, the shares shall be selected by lot.

Notice of every such redemption shall be mailed, first class postage prepaid, not less than 30 nor more than 45 days prior to the date fixed for redemption ('redemption date'), to each holder of record of shares to be redeemed, at his address as it appears on the books of the Corporation. Each such notice shall state the redemption date; the number of shares of $2.20 Preferred Stock to be redeemed, and, if less than all shares of $2.20 Preferred Stock held by such holder are to be redeemed, the number of such shares to be redeemed from him; the redemption price applicable to the shares to be redeemed; the place or places where such shares are to be surrendered; that dividends on shares to be redeemed will cease to accrue on the redemption date; and that shares to be redeemed may be converted at any time prior to the close of business on the business day next preceding the redemption date in accordance with paragraph 5 below.

Notice having been mailed, from and after the redemption date (unless the Corporation defaults in providing money for the payment of the redemption price) the right to receive dividends on shares called for redemption shall cease to accrue, said shares shall no longer be deemed to be outstanding, all rights of holders thereof as shareholders of the Corporation (except the right to receive the redemption price thereof, but without interest) shall terminate, and, upon surrender, in accordance with said notice, of the certificates for any such shares (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require), such shares shall be redeemed by the Corporation at the applicable redemption price; provided, however, that the Corporation may include in such notice a statement that the money required for the payment of the redemption price, plus accrued and unpaid dividends, if any, will be deposited on a specified date, prior to the redemption date, with a specified bank or trust company (which shall have an office in The City of New York and which shall have a combined capital and surplus of not less than $50,000,000) in trust for the benefit of holders of shares called for redemption, and, notice having been given, from and after such deposit shares called for redemption shall no longer be deemed to be outstanding, all rights with respect to shares of $2.20 Preferred Stock shall forthwith upon such deposit cease and terminate, except only the right of the holders thereof to convert such shares in accordance with the provisions of paragraph 5 below at any time prior to the close of business on the

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business day next preceding the redemption date,

and holders of such shares shall look for payment of the redemption price only to funds so deposited and in no event to the Corporation unless said funds shall be repaid to the Corporation as hereinafter provided. Holders of such shares shall not be entitled to any interest allowed by such depositary on money so deposited but any such interest shall be paid to the Corporation. Any moneys deposited as aforesaid for redemption of any shares and remaining unclaimed for four years after the date of such deposit shall then be repaid to the Corporation upon its request, and the holders of such shares shall thereafter look only to the Corporation for payment of the redemption price thereof, but without interest.

Any provision of this paragraph 4 to the contrary notwithstanding, in the event that any quarterly dividend due on $2.20 Preferred Stock shall be in default, and until all such defaults shall have been cured, the Corporation shall not redeem any shares of $2.20 Preferred Stock unless all outstanding shares of $2.20 Preferred Stock are simultaneously redeemed and shall not purchase or otherwise acquire any shares of $2.20 Preferred Stock except in accordance with a purchase offer made by the Corporation on the same terms to all holders of record of $2.20 Preferred Stock.

Any shares of $2.20 Preferred Stock redeemed or otherwise purchased or acquired by the Corporation shall be retired, shall no longer be deemed outstanding, and shall assume the status of authorized but unissued Preferred Stock, with no par value, undesignated as to series, subject to reissuance by the Corporation as shares of Preferred Stock of any one or more series, as may be determined from time to time by the Board of Directors, except that such shares may not be reissued as additional shares of $2.20 Preferred Stock.

5. Conversion.

Shares of $2.20 Preferred Stock may be converted at the option of the holder thereof, at any time prior to the close of business on the business day next preceding the date fixed for redemption of such shares pursuant to paragraph 4 above, into fully paid and non-assessable shares of Common Stock of the Corporation at the rate of 0.8696 shares of Common Stock as now constituted for each share of $2.20 Preferred Stock surrendered for conversion (the 'conversion rate'), subject to the following provisions:

(A) The conversion rate shall be subject to adjustment from time to time as follows:

(1) In case the Corporation shall (i) pay a dividend, or make a distribution, to all holders of its Common Stock, in shares of its capital stock (whether shares of Common Stock or of capital stock of any other class), (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common Stock any shares of capital stock of the Corporation, the conversion rate in effect immediately prior to such action shall be adjusted so that the holder of any share of $2.20 Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of capital stock of the Corporation which he would have owned immediately following such action had such share of $2.20 Preferred Stock been converted immediately prior thereto. An adjustment made pursuant to this subparagraph (1) shall become effective immediately after the record date in the case of a dividend and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of any adjustment made pursuant to this subparagraph (1), the holder of any shares of $2.20 Preferred Stock thereafter surrendered for conversion shall become entitled to receive shares of two or more classes of capital stock of the Corporation, the Board of Directors (whose determination shall be conclusive) shall determine, in good faith, the allocation of the conversion price of the $2.20 Preferred Stock (determined by dividing the adjusted conversion rate into $20) between or among shares of such classes of capital stock.

(2) In case the Corporation shall hereafter issue rights or warrants to all holders of its Common Stock entitling them (for a period expiring within 45 days after the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share of Common Stock (as determined pursuant to subparagraph (4) below) on the record date mentioned below, the conversion rate shall be adjusted effective immediately after the expiration date of such rights or warrants so that the same shall equal the rate determined by multiplying the conversion rate in effect immediately prior to the date of issuance of such rights or warrants by a fraction of which the numerator shall be the number of shares of Common Stock outstanding (excluding treasury shares) on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock purchased pursuant to such offer for subscription or purchase and of which the denominator shall be the number of shares of Common Stock outstanding

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(excluding treasury shares) on the date of issuance of such rights or warrants plus the number of shares of Common Stock which the aggregate subscription or purchase price of the total number of shares so purchased would purchase at such current market price (determined as provided in subparagraph (4) below).

(3) In case the Corporation shall distribute to all holders of its Common Stock evidences of its indebtedness or assets (excluding cash distributions made out of current or retained earnings) or rights to subscribe (excluding those referred to in subparagraph (2) above), then in each such case the conversion rate shall be adjusted so that the same shall equal the rate determined by multiplying the conversion rate in effect immediately prior to the date of such distribution by a fraction of which the numerator shall be the current market price per share of Common Stock (determined as provided in subparagraph (4) below) at the record date mentioned below, and the denominator of which shall be such current market price per share of the Common Stock, less the then fair market value (as determined, in good faith, by the Board of Directors of the Corporation, whose determination shall be conclusive) of the portion of the assets or evidences of indebtedness so distributed or of such subscription rights applicable to one share of Common Stock. Such adjustment shall become effective immediately after the record date for determination of stockholders entitled to receive such distribution.

(4) For the purpose of any computation under subparagraphs (2) and (3) above, the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for 30 consecutive business days commencing 45 business days before the day in question. The closing price for each day shall be the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for that purpose.

(5) In any case in which this paragraph 5 shall require that an adjustment be made immediately following a record date, the Corporation may elect to defer (but only until five business days following the filing by the Corporation of the statement required by subparagraph (7) below) issuing to the holder of any share of $2.20 Preferred Stock converted after such record date shares of Common Stock and other capital stock of the Corporation issuable upon such conversion over and above the number of shares of Common Stock and other capital stock of the Corporation issuable upon such conversion as computed on the basis of the conversion rate prior to adjustment.

(6) All calculations under this paragraph 5 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(7) Whenever the conversion rate is adjusted as herein provided, the Corporation shall (i) file at the office or agency in the Borough of Manhattan in the City of New York maintained by the Corporation pursuant to subparagraph (D) of this paragraph 5 and with each transfer agent for its Common Stock a statement, signed by the Chairman of the Board of Directors, the President or one of the Vice Presidents of the Corporation and by its Treasurer or one of its Assistant Treasurers, stating the adjusted conversion rate determined as provided herein and setting forth the method of calculation and the facts requiring such adjustment and upon which such calculation is based, and (ii) mail or cause to be mailed a copy of such statement setting forth the adjusted conversion rate to each person who is a registered holder of $2.20 Preferred Stock at such person's last address as the same appears on the books of the Corporation. Each adjustment shall remain in effect until a subsequent adjustment is required hereunder.

(B) In case of a merger or consolidation of the Corporation with or into another corporation, or the sale of the Corporation's property or assets as, or substantially as, an entirety, to another corporation, or the reclassification of the Corporation's Common Stock (other than through a subdivision or combination thereof, or change in par value), holders of shares of $2.20 Preferred Stock shall thereafter have the right to convert each of such shares into the kind and amount of shares of stock and other securities and property receivable upon such merger, consolidation, sale or reclassification by a holder of the number of shares of Common Stock (whether whole or fractional) of the Corporation into which shares of $2.20 Preferred Stock might have been converted immediately prior to such a merger, consolidation, sale or reclassification, and shall have no other conversion rights under these provisions; and effective provision shall be made in the charter of the

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resulting or surviving corporation or otherwise, so that the provisions set forth herein for the protection of conversion rights of $2.20 Preferred Stock shall thereafter be applicable, as nearly as reasonably may be, to any such other shares of stock and other securities and property deliverable upon conversion of $2.20 Preferred Stock remaining outstanding or other convertible preferred stock received by the holders in place thereof. Any such resulting or surviving corporation shall expressly assume the obligation to deliver, upon the exercise of the conversion right, such shares, securities or property as holders of $2.20 Preferred Stock remaining outstanding, or other convertible preferred stock received by such holders in place thereof, shall be entitled to receive pursuant to the provisions hereof, and to make provision for protection of conversion rights as above provided.

(C) If, at any time while shares of $2.20 Preferred Stock are outstanding, the Corporation shall (i) declare a dividend (or any other distribution) on its Common Stock, other than in cash out of current or retained earnings; or (ii) authorize the issuance to all holders of its Common Stock of rights or warrants to subscribe for or purchase shares of its Common Stock or of any other subscription rights or warrants; or (iii) reclassify its Common Stock (other than through a subdivision or combination thereof) or become a party to any consolidation or merger for which approval of the holders of its Common Stock is required, or sell or transfer all or substantially all of the assets of the Corporation; then the Corporation shall cause to be mailed to registered holders of $2.20 Preferred Stock, at their last addresses as they shall appear upon the Corporation's stock transfer record, at least ten days prior to the applicable record date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such dividend, distribution, rights or warrants, or, if a record is not to be taken, the date as of which holders of Common Stock of record to be entitled to such dividend, distribution, rights or warrants are to be determined, or (ii) the date on which any such reclassification, consolidation, merger, sale or transfer is expected to become effective, and the date as of which it is expected that holders of Common Stock of

record shall be entitled to exchange their Common Stock for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, sale or transfer. Failure to give or receive the notice required by this subparagraph (C) or any defect therein shall not affect the legality or validity of any such dividend, distribution, right or warrant or other action.

(D) The holder of any shares of $2.20 Preferred Stock may exercise his option to convert such shares into shares of Common Stock only by surrendering for such purpose to the Corporation at the office or agency in the Borough of Manhattan in The City of New York maintained by the Corporation for that purpose certificates representing the shares to be converted, accompanied by written notice that such holder elects to convert such shares in accordance with the provisions of this paragraph 5. Said notice shall also state the name or names (with addresses) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued. Each certificate or certificates surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as that in which such certificate or certificates are registered, be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or by his duly authorized attorney. Each conversion shall be deemed to have been effected on the date on which such certificate or certificates shall have been surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become on said date the holder or holders of record of the shares represented thereby notwithstanding that the transfer books of the Corporation may then be closed or that certificates representing such shares of Common Stock shall not then be actually delivered to such person.

(E) Upon any such conversion of shares of $2.20 Preferred Stock, no allowance, adjustment or payment shall be made with respect to dividends upon either the shares of $2.20 Preferred Stock surrendered for conversion or the shares of Common Stock issuable upon conversion.

(F) In connection with the conversion of shares of $2.20 Preferred Stock into Common Stock, no fractions of shares of $2.20 Preferred Stock or of Common Stock shall be issued, but the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to the market value of such fractional interest. In such event, the market value of a share of Common Stock shall be the last recorded sale price of such a share on the New York Stock Exchange on the business day immediately preceding the date upon which such shares of $2.20 Preferred Stock are deemed to have been converted, or, if there be no such recorded sale price on such day, the last quoted bid price per share of Common Stock on such exchange at the close of trading on such business day. If the Common Stock shall not at the time be listed or admitted to trading on the New York Stock Exchange, such market value shall be the

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average of the reported closing bid and asked prices regular way on such day on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices on such day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for that purpose. The issue of stock certificates on conversions of shares of $2.20 Preferred Stock shall be made without charge to converting holders of shares of $2.20 Preferred Stock for any tax in respect of the issue thereof. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any registration of transfer involved in the issue and delivery of stock in any name other than that of the holder of any shares of $2.20 Preferred Stock converted, and the Corporation shall not be required to so issue or deliver any stock certificate unless and until the person or persons requesting the registration of

transfer shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(G) The Corporation shall at all times reserve and keep available out of its authorized Common Stock the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of $2.20 Preferred Stock.

(H) Any shares of $2.20 Preferred Stock converted shall no longer be deemed outstanding and shall assume the status of authorized but unissued shares of Preferred Stock, with no par value, undesignated as to series, subject to reissuance by the Corporation as shares of Preferred Stock of any one or more series, as may be determined from time to time by the Board of Directors, except that such shares may not be reissued as additional shares of $2.20 Preferred Stock.

(I) For purposes of this paragraph (5):

(1) 'business day' shall mean a day on which the New York Stock Exchange (or a successor or an equivalent or substitute organization or facility) is open for the trading of securities in the Borough of Manhattan in The City of New York; and

(2) 'Common Stock' shall mean (a) the Corporation's Common Stock, $.16 2/3 par value per share, or (b) 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; provided, however, that in the event that at any time as a result of an adjustment made pursuant to subparagraph (A) (1) above, the holder of any share of $2.20 Preferred Stock thereafter surrendered for conversion would become entitled to receive any stock of the Corporation other than shares of its Common Stock, thereafter the conversion rate with respect to such other shares so receivable upon conversion of any share of $2.20 Preferred Stock shall be subject to 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 this paragraph 5.

6. Voting Rights.

(A) The holders of $2.20 Preferred Stock shall be entitled to one vote per share, voting together as one class with the holders of Common Stock, 8% Preferred Stock, and $2.16 Preferred Stock and any other series of Preferred Stock entitled to vote, on all matters to be voted by stockholders of the Corporation, in addition to their rights set forth in subparagraph (B), (C) and (D) below and otherwise provided by law.

(B) If at any time the Corporation shall have failed to make the mandatory redemptions of $2.20 Preferred Stock required by the third subparagraph of paragraph 4 of a number of shares equivalent to or exceeding the number of shares to be redeemed pursuant to such paragraph on any two redemption dates as specified in such paragraph, and if the default in dividends specified in subparagraph (C) of this paragraph 6 (the 'Dividend Default') is not then in effect, the number of directors constituting the Board of Directors of the Corporation shall be increased by two, and the holders of $2.20 Preferred Stock, voting as a separate series shall be entitled at the next annual meeting of stockholders or the next special meeting of stockholders, or at a special meeting of holders of $2.20 Preferred Stock called as hereinafter provided, to elect two directors to fill such newly created directorships, and in addition thereto, such holders shall be entitled to participate with holders of Common Stock and holders, if any, of any other capital stock of the Corporation entitled to vote for the election of directors in the election of any other directors; provided, however, that when all arrears in such redemptions of the $2.20 Preferred Stock shall have been made or if a Dividend Default shall occur, then (i) the right of holders of $2.20 Preferred Stock to participate in the election of two directors shall cease but subject always to the same provisions for vesting of such voting rights in the case of any similar future arrearages in

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redemptions at a time when a Dividend Default is not in effect; (ii) the terms of the directors then in office elected by holders of $2.20 Preferred Stock as a class shall terminate; and (iii) the number of directors constituting the Board of Directors shall be reduced by two (except that upon a Default in Dividends the number of directors shall then be increased in accordance with subparagraph (C) of this paragraph 6).

Whenever such voting right shall vest, it may be exercised initially either at a special meeting of holders of $2.20 Preferred Stock or at any annual or special stockholders' meeting, but thereafter it shall be exercised only at annual stockholders' meetings. A special meeting for the exercise of such right shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of $2.20 Preferred Stock; however, no such special meeting shall be held during the 90-day period preceding the date fixed for the annual meeting of stockholders.

Any director who shall have been elected by holders of $2.20 Preferred Stock as a series pursuant to this subparagraph (B) shall hold office for a term expiring (subject to the earlier termination of the default in redemptions or the occurrence of a Dividend Default) at the next annual meeting of stockholders, and during such term may be removed at any time, either for or without cause, only by the affirmative votes of holders of record of a majority of the votes of the then outstanding shares of $2.20 Preferred Stock given at a special meeting of such stockholders called for the purpose. Any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by holders of $2.20 Preferred Stock as a series and the filling of the vacancy created thereby shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of not less than 25% of the votes of the then outstanding shares of $2.20 Preferred Stock. Such meeting shall be held at the earliest practicable date thereafter.

Any vacancy caused by the death, resignation, or expiration of term (except upon a termination of the default in redemptions or the occurrence of a Dividend Default) of a director who shall have been elected by the holders of $2.20 Preferred Stock as a series pursuant to this subparagraph (B) may be filled only by the holders of $2.20 Preferred Stock at a meeting called for such purpose. Such meeting of the holders of $2.20 Preferred Stock shall be called by the Secretary of the Corporation at the earliest practicable date after any such death or resignation and in any event within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of $2.20 Preferred Stock.

If any meeting of the holders of $2.20 Preferred Stock required by this subparagraph (B) to be called shall not have been called within ten days after personal service of a written request therefor upon the Secretary of the Corporation or within 15 days after mailing the same within the United States of America by registered mail addressed to the Secretary of the Corporation at its principal office, then holders of record of at least 10% of the votes of the then outstanding shares of $2.20 Preferred Stock may designate in writing one of their number to call such a 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. Any holder of the $2.20 Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing meetings of stockholders to be called pursuant to these provisions.

Any meeting of holders of $2.20 Preferred Stock to vote as a series for the election or removal of directors shall be held at the place for the holding of the annual meeting of stockholders of the Corporation. At such meeting, the presence in person or by proxy of holders of a majority of the votes of the then outstanding shares of $2.20 Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders 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.

(C) If at any time the Corporation shall be in default in the payment of dividends on the $2.20 Preferred Stock of an amount equivalent to or exceeding six full quarterly dividends (whether or not consecutive), the number of directors constituting the Board of Directors of the Corporation shall be increased by two, and the holders of $2.20 Preferred Stock, voting as a separate class together with the holders of all other series of Preferred Stock outstanding (other than 8% Preferred Stock) having similar voting rights (such other series of Preferred Stock and the $2.20 Preferred Stock being hereinafter collectively referred to as 'Special Preferred Stock'), whether or not the payment of quarterly dividends shall be in default on all Special Preferred Stock outstanding shall be entitled at the next annual meeting of stockholders, or at a special meeting of holders of Special Preferred Stock called as hereinafter provided, to elect two directors to fill such newly created directorships, and in addition thereto, such holders shall be entitled to participate with holders of Common Stock and holders, if any, of any other capital stock of the Corporation entitled to vote for the election of directors in the election

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of any other directors; provided, however, that when all arrears in dividends on Special Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarterly period shall have been paid or declared and a sum sufficient for the payment thereof set aside, then (i) the right of holders of Special Preferred Stock to participate in the election of two directors shall cease but subject always to the same provisions for vesting of such voting rights in the case of any similar future arrearages in dividends; (ii) the term of the directors then in office elected by holders of Special Preferred Stock as a class shall terminate; and (iii) the number of directors constituting the Board of Directors shall be reduced by two.

Whenever such voting right shall vest, it may be exercised initially either at a special meeting of holders of Special Preferred Stock or at any annual or special stockholders' meeting, but thereafter it shall be exercised only at annual stockholders' meetings. A special meeting for the exercise of such right shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock; however, no such special meeting shall be held during the 90-day period preceding the date fixed for the annual meeting of stockholders.

Any director who shall have been elected by holders of Special Preferred Stock as a class pursuant to this subparagraph (C) shall hold office for a term expiring (subject to the earlier termination of the default in dividends) at the next annual meeting of stockholders, and during such term may be removed at any time, either for or without cause, only by the affirmative votes of holders of record of a majority of the votes of the then outstanding shares of Special Preferred Stock given at a special meeting of such stockholders called for the purpose. Any vacancy created by such removal may also be filled at such meeting. A meeting for the removal of a director elected by holders of Special Preferred Stock as a class and the filling of the vacancy created thereby shall be called by the Secretary of the Corporation within ten days after receipt of a written request therefor, signed by the holders of not less than 25% of the votes of the then outstanding shares of Special Preferred Stock. Such meeting shall be held at the earliest practicable date thereafter.

Any vacancy caused by the death, resignation, or expiration of term (except upon a termination of the default in dividends) of a director who shall have been elected by the holders of Special Preferred Stock as a class pursuant to this subparagraph (C) may be filled only by the holders of Special Preferred Stock at a meeting called for such purpose. Such meeting of the holders of Special Preferred Stock shall be called by the Secretary of the Corporation at the earliest practicable date after any such death or resignation and in any event within ten days after receipt of a written request therefor, signed by the holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock.

If any meeting of the holders of Special Preferred Stock required by this subparagraph (C) to be called shall not have been called within ten days after personal service of a written request

therefor upon the Secretary of the Corporation or within 15 days after mailing the same within the United States of America by registered mail addressed to the Secretary of the Corporation at its principal office, then holders of record of at least 10% of the votes of the then outstanding shares of Special Preferred Stock may designate in writing one of their number to call such a 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. Any holder of Special Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing meetings of stockholders to be called pursuant to these provisions.

Any meeting of holders of Special Preferred Stock to vote as a class for the election or removal of directors shall be held at the place for the holding of the annual meeting of stockholders of the Corporation. At such meeting, the presence in person or by proxy of holders of a majority of the votes of the then outstanding shares of Special Preferred Stock shall be required to constitute a quorum; in the absence of a quorum, a majority of the holders 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.

(D) So long as any shares of $2.20 Preferred Stock are outstanding, the Corporation shall not, in any manner, whether by amendment to the Certificate of Incorporation or By-Laws of the Corporation, by merger (whether or not the Corporation is a surviving corporation in such merger), by consolidation, or otherwise:

(1) without the written consent or the affirmative vote at a meeting called for that purpose of the holders of at least two-thirds of the votes of the shares of $2.20 Preferred Stock then outstanding, voting separately as a class, (a) amend, alter or repeal any of the provisions of Article IV of the Certificate of Incorporation of the Corporation, or of any resolution or resolutions establishing the $2.20 Preferred Stock, so as to affect adversely the powers, preferences or special rights of the $2.20 Preferred Stock; or (b)

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authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class or series of stock ranking prior to the $2.20 Preferred Stock in the payment of dividends or the preferential distribution of assets; or (c) authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares or, any shares of Preferred Stock of any series having more than one vote per share of such Preferred Stock or amend, alter or repeal any of the provisions of Article IV of the Certificate of Incorporation of the Corporation, or of any resolution or resolutions establishing any series of the Preferred Stock, so as to provide any share of Preferred Stock with more than one vote per share of Preferred Stock; or

(2) without the written consent or the affirmative vote at a meeting called for that purpose of the holders of at least a majority of the aggregate number of the votes of the shares of Preferred Stock of all series (including $2.20 Preferred Stock) then outstanding, voting separately as a class, (a) increase the number of shares of Preferred Stock authorized by the provisions of Article IV of the Certificate of Incorporation; or (b) authorize or increase the authorized amount of, or authorize any obligation or security convertible into or evidencing the right to purchase shares of, any additional class of stock ranking on a parity with the $2.20 Preferred Stock in the payment of dividends or the preferential distribution of assets;

provided, however, that the foregoing provisions of this subparagraph (D) shall not require the consent or vote of the holders of $2.20 Preferred Stock or any Preferred Stock for the authorization or an increase in the authorized amount of any class or series of stock, or for the authorization of any obligation or security convertible into or evidencing the right to purchase shares of any class or series of stock, except to the extent specifically provided in sections (1)(b), (2)(a) and (2)(b) of this subparagraph (D); and provided further, that, except

as otherwise required by law, no such consent or vote shall be required for any merger or consolidation:

(i) in which (x) the Corporation is the surviving corporation; (y) no adverse change is made in the powers, preferences or special rights of the $2.20 Preferred Stock; and (z) no additional class or series of stock is authorized or the authorized amount thereof increased, and no obligation or security convertible into or evidencing the right to purchase shares of any additional class or series of stock is authorized, if no such consent or vote would have been required for any such authorization, or increase in authorized amount, immediately prior to such merger or consolidation; or

(ii) in which (x) the Corporation is a party but is not the surviving corporation; (y) the surviving corporation shall, in connection with and at the same time as such merger or consolidation, issue in exchange for each share of $2.20 Preferred Stock then outstanding a share of preferred stock of the surviving corporation with the same powers, preferences and special rights as the $2.20 Preferred Stock; and (z) immediately after such merger or consolidation only classes or series of stock of the surviving corporation and obligations or securities convertible into or evidencing the right to purchase shares of a class or series of stock of the surviving corporation shall be authorized or outstanding, for which no consent or vote would have been required if such classes or series of stock and obligations or securities had been authorized by the Corporation immediately prior to such merger or consolidation, or which have, or are convertible into or evidence the right to purchase shares of a class or series of stock of the surviving corporation which have, the same powers, preferences and special rights and authorized amount as a class or series of stock of the Corporation which was authorized (with such consent or vote) prior to such merger or consolidation and is continuing as an authorized class or series of stock at the time thereof.

SECOND: That the number of shares of $2.20 Cumulative Convertible Preferred Stock is 2,875,000.

IN WITNESS WHEREOF, said Tesoro Petroleum Corporation has caused this certificate to be signed by Robert V. West, Jr., its Chairman of the Board of Directors, and attested by M. Richard Stewart, its Secretary, this 26th day of January, 1983.

By /s/ ROBERT V. WEST, JR.
Robert V. West, Jr.
CHAIRMAN OF THE
BOARD OF DIRECTORS

ATTEST:
By /s/ RICHARD STEWART
Richard Stewart
SECRETARY

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DESCRIPTION OF SUBORDINATED DEBENTURES

GENERAL

The Subordinated Debentures are issued under an Indenture (the 'Existing Indenture') dated as of March 15, 1983, between the Company and NBD Bank, N.A., formerly National Bank of Detroit, as Trustee. The Subordinated Debentures bear interest from March 15, 1983, at 12 3/4% per annum, payable on March 15 and September 15 in each year to holders of record at the close of business on the first day of the month of such interest payment date. (Section 2.02) The Subordinated Debentures will be due on March 15, 2001, are issued only in denominations of $1,000 and integral multiples of $1,000 and are unsecured obligations of the Company. The Indenture authorizes an aggregate principal amount of $120,000,000 of the Subordinated Debentures.

The statements under this caption relating to the Subordinated Debentures and the Existing Indenture summarize the material provisions of the Subordinated Debentures but do not purport to be complete. Such summaries make use of terms defined in the Old Indenture and are qualified in their entirety by express reference to the Old Indenture and the cited provisions thereof, a copy of which is filed as an exhibit to the Registration Statement.

REDEMPTION PROVISIONS

The Subordinated Debentures are redeemable, at the option of the Company, in whole or in part at any time, on not less than 30 days' or more than 60 days' prior notice, mailed by first-class mail to the holders' last addresses as they shall appear in the register, at the principal amount thereof together with interest accrued to the redemption date.

Selection of Subordinated Debentures for redemption will be made by the Trustee in such manner as it shall deem appropriate and fair in its discretion. The Old Indenture provides that if any Old Debenture is to be redeemed in part only, the notice which relates to such Old Debenture shall state the portion of the principal amount to be redeemed, and shall state that on and after the redemption date, upon surrender of such Old Debenture, a new Old Debenture or Subordinated Debentures in principal amount equal to the unredeemed portion thereof will be issued. If the redemption is for the sinking fund provided for in Section 5.04 of the Old Indenture, the notice of redemption shall so state. (Article 5)

The Debentures are redeemable on similar notice through the operation of the sinking fund described below at the principal amount thereof together with interest accrued to the redemption date.

SINKING FUND

The Indenture requires the Company to provide for the retirement, by redemption, of Debentures in the aggregate principal amount of $11,250,000 on March 15, 1993 and on March 15 of each of the years thereafter up to and including year 2000, through the operation of the sinking fund. The Company may, at its option, receive credit against sinking fund payments for the principal amount of (a) Debentures acquired by the Company and surrendered for cancellation, and (b) Debentures redeemed or called for redemption, if the redemption price has been deposited with the Trustee in trust for such purposes, otherwise than through the operation of the sinking fund. (Section 5.04)

SUBORDINATION OF DEBENTURES

The payment of the principal of and interest on the Debentures is subordinated, to the extent set forth in the Indenture, in right of payment to the prior payment in full of all Senior Indebtedness of the Company, as defined in the Indenture, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed. Upon (i) the maturity of Senior Indebtedness by

lapse of time, acceleration or otherwise or (ii) any distribution of the assets of the Company upon any dissolution, winding up, liquidation or reorganization of the Company, the holders of Senior Indebtedness will be entitled to receive payment in full before the holders of the Debentures are entitled to receive any payment, provided that the restriction contained in (i) above shall not prevent the Company from satisfying a sinking fund payment in respect of Debentures made in Debentures acquired by the Company prior to the occurrence of any such maturity. If in any of the situations referred to in clause (ii) above a payment is made to the Trustee or to holders of Debentures before all Senior Indebtedness has been paid in full or provision has been made for such payment, the payment to the Trustee or holders of Debentures must be paid over to the holders of the Senior Indebtedness.

Senior Indebtedness is defined as the principal of, premium, if any, and interest on indebtedness of the Company (other than the Debentures), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed (a) for money borrowed from or guaranteed to others (including, for this purpose, all obligations of the Company incurred under capitalized leases or purchase money mortgages) or (b) in connection with the acquisition by the Company or a subsidiary of the Company of any business or entity or the assets thereof, and, in each case, all renewals, extensions and refundings thereof, unless in each case the terms of the instrument creating or evidencing the indebtedness provide that such indebtedness is not superior in right of payment to the Debentures. There are no restrictions in the Indenture

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upon the creation of Senior Indebtedness.

Upon adoption of the Indenture Amendments, the Exchange Notes will be Senior Indebtedness. See 'Proposed Amendments to Existing Indenture.'

DIVIDEND RESTRICTION

The Indenture provides that the Company will not (i) declare or pay any dividend or make any distribution on its capital stock (other than dividends or distributions of its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to September 30, 1982 plus the aggregate amount of any investment in the capital stock and contribution to the capital of Trinidad-Tesoro Petroleum Company Limited ('Trinidad-Tesoro') by the Company and its subsidiaries subsequent to such date shall exceed the sum of (a) the aggregate consolidated net income of the Company accrued subsequent to September 30, 1982 (excluding any income or loss attributable to or derived from the Company's interest in Trinidad-Tesoro or any sale or disposition of such interest), (b) the aggregate net proceeds received by the Company from the issue or sale after September 30, 1982 of capital stock of the Company (excluding the $2.20 Preferred), (c) the aggregate net proceeds received by the Company from the issue or sale after September 30, 1982 of any indebtedness of the Company which is subsequently converted into capital stock of the Company, (d) the aggregate amount of dividends or distributions received by the Company, net of taxes, subsequent to September 30, 1982 in respect of its interest in Trinidad-Tesoro and the net aftertax proceeds to the Company from any sale or disposition of such interest, and (e) $30,000,000; provided, however, that such provisions will not prevent (x) the payment of any dividend within 60 days after the date of declaration if the payment complied with the foregoing provisions on the date of declarations or (y) the retirement of any shares of the Company's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock, or (z) the payment of regular dividends on preferred stock of the Company outstanding on the date of the Indenture. (Section 6.06)

This restriction is proposed to be amended. See 'Proposed Amendments to Existing Indenture.'

THE TRUSTEE

NBD Bank, N.A., formerly National Bank of Detroit is the Trustee under the Indenture. The Indenture contains limitations on the right of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or

otherwise. (Section 10.08) If the Trustee acquires any conflicting interest (as defined), it must eliminate such conflict or resign within 90 days after ascertaining that it has a conflict of interest. (Section 10.05)

The holders of a majority in principal amount of all outstanding Debentures have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee under the Indenture. (Section 7.06) The Indenture provides that in case an Event of Default shall occur (which shall not be cured), the Trustee will be required to use the same degree of care and skill in the exercise of its power as a person would exercise or use under the circumstances in the conduct of his own affairs. (Section 10.02) Subject to such provisions, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request of any of the Debentureholders, unless certain conditions have been met, including that the Debentureholders shall have offered to the Trustee security and indemnity satisfactory to it. (Section 7.07)

EVENTS OF DEFAULT AND NOTICE THEREOF

The term 'Event of Default' when used in the Indenture means any one of the following: (a) failure to pay (whether or not prohibited by the subordination provisions) interest for 30 days or principal or any sinking fund installment, when due; (b) failure to perform any other covenants for 60 days after notice; (c) the occurrence of any event of default under an instrument evidencing or securing Senior Indebtedness or any other indebtedness of the Company or any subsidiary for borrowed money, in either case in excess of $1,000,000, resulting in the acceleration of such Senior Indebtedness or other indebtedness, which acceleration is not rescinded or annulled pursuant to the terms of such instrument; and (d) certain events of bankruptcy, insolvency or reorganization. (Section 7.01)

The Indenture provides that the Trustee shall, within 90 days after the occurrence of a default, give to the Debentureholders notice of all uncured defaults known to it (the term default to include the events specified above without grace or notice), provided that, except in the case of default in the payment of principal of or interest on any of the Debentures or in making any sinking fund payment, the Trustee is protected in withholding such notice if its Board of Directors (or similar body) in good faith determines that the withholding of such notice is in the interest of the Debentureholders. (Section 10.03)

In case an Event of Default shall have occurred and be continuing, the

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Trustee or the holders of at least 25% in aggregate principal amount of the Debentures then outstanding, by notice in writing to the Company (and to the Trustee, if given by Debentureholders), may declare to be due and payable immediately (i) that portion of the principal amount of the Debentures equal to the 'issue price' of the Debentures plus accrued amortization of the original issue discount on the Debentures calculated using the 'interest' method (computed in accordance with generally accepted accounting principles in effect on the date of the Indenture) from March 15, 1983 to the date of acceleration and (ii) interest to the date of acceleration. Such declaration may be annulled and past defaults (except, unless theretofore cured, a default in payment of principal of or interest on the Debentures or failure to make any sinking fund payment) may be waived by the holders of a majority in principal amount of outstanding Debentures, upon the conditions provided in the Indenture. (Section 7.02)

The Indenture includes a covenant that the Company will file annually with the Trustee a statement regarding compliance by the Company with the terms thereof and specifying the occurrence of any defaults of which the signers may have knowledge. (Sections 6.05 and 15.04)

MODIFICATION OF THE INDENTURE

Under the Indenture, the rights and obligations of the Company and the rights of Debentureholders may be modified by the Company and the Trustee only with the consent of the holders of a majority in principal amount of the Debentures then outstanding; but no extension of the maturity of any Debentures, or reduction in the interest rate or extension of the time of payment of interest, or

any change in the sinking fund requirements, or any other modification in the terms of payment of the principal of or interest on the Debentures or reducing the percentage required for modification of the Indenture will be effective against any Debentureholder without his or her consent. (Section 14.02)

SUCCESSOR CORPORATION

The Company may not consolidate with, merge into or transfer all or substantially all of its assets to, another corporation unless such corporation expressly assumes all of the obligations of the Company under the Debentures and the Indenture. (Article 13)

SATISFACTION AND DISCHARGE OF INDENTURE

The Indenture will be discharged and cancelled upon payment or redemption of all the Debentures or may be discharged and cancelled upon the written request of the Company upon deposit with the Trustee, within not more than six months prior to the maturity of the Debentures, of funds sufficient for such payment or redemption. (Sections 11.01 and 11.02)

APPENDIX F

TESORO PETROLEUM CORPORATION EXECUTIVE LONG-TERM INCENTIVE PLAN

ARTICLE 1. ESTABLISHMENT, PURPOSE, AND DURATION

1.1 ESTABLISHMENT OF THE PLAN. Tesoro Petroleum Corporation, a Delaware corporation (hereinafter referred to as the 'Company'), hereby establishes an incentive compensation plan to be known as the 'Tesoro Petroleum Corporation Executive Long-Term Incentive Plan' (hereinafter referred to as the 'Plan'), as set forth in this document. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, and Performance Shares.

Subject to ratification by an affirmative vote of a majority of Shares, the Plan shall become effective as of September 15, 1993 (the 'Effective Date'), and shall remain in effect as provided in Section 1.3 herein.

1.2 PURPOSE OF THE PLAN. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of Company shareholders, and by providing Participants with an incentive for outstanding performance.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Participants upon whose judgment, interest, and special effort the successful conduct of its operation largely is dependent.

1.3 DURATION OF THE PLAN. The Plan shall commence on the Effective Date, as described in Section 1.1 herein, and shall remain in effect, subject to the right of the Board of Directors to terminate the Plan at any time pursuant to Article 14 herein, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions. However, in no event may an Award be granted under the Plan on or after September 15, 2003.

ARTICLE 2. DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

(a) 'Affiliated SAR' means a SAR that is granted in connection with a related Option, and which will be deemed to automatically be exercised simultaneous with the exercise of the related Option.

(b) 'Award' means, individually or collectively, a grant under this Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, or Performance Shares.

(c) 'Award Agreement' means an agreement entered into by each Participant and the Company, setting forth the terms and provisions applicable to

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Awards granted to Participants under this Plan.

(d) 'Beneficial Owner' shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

(e) 'Board' or 'Board of Directors' means the Board of Directors of the Company.

(f) 'Cause' means: (i) willful misconduct on the part of a Participant that is materially detrimental to the Company; or (ii) the commission by a Participant of one or more acts which constitute an indictable crime under United States Federal, state, or local law. 'Cause' under either (i) or (ii) shall be determined in good faith by the Committee.

(g) 'Change in Control' of the Company shall be deemed to have occured if:

(i) Any Person other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the

stockholders of the Company in substantially the same proportions as their ownership of stock of the Company is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities;

(ii) A majority of the Board at any time shall cease to be made up of Qualified Directors. For purposes hereof a Qualified Director is a director who meets any of the following criteria: (1) Was a director immediately after the effective date of the Reclassification (as defined in the Company's Registration Statement on S-4, relating to the 1993 Annual Meeting of Stockholders), including the three new directors elected in connection therewith; (2) Was a director immediately after the Company's 1994 Annual Meeting of Stockholders; (3) Any director nominated for election as a director or elected to the Board by the directors to fill a vacancy by a vote of directors, and at the time of such nomination or election at least a majority of the directors were qualified directors.

(iii) The shareholders of the Company approve a merger or consolidation of the Company, with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Company approve a plan of complete liquidation of the Company, or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

However, in no event shall a 'Change in Control' be deemed to have occurred with respect to a Participant, if the Participant is part of a purchasing group which consummates the Change-in-Control transaction. A Participant shall be deemed 'part of a purchasing group' for purposes of the preceding sentence if the Participant is an equity participant in the purchasing company or group (except for: (i) passive ownership of less than three percent (3%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change in Control by a majority of the nonemployee continuing Directors).

(h) 'Code' means the Internal Revenue Code of 1986, as amended from time to time.

(i) 'Committee' means the committee, as specified in Article 3, appointed by the Board to administer the Plan with respect to grants of Awards.

(j) 'Company' means Tesoro Petroleum Corporation, a Delaware corporation, or any successor thereto as provided in Article 17 herein.

(k) 'Director' means any individual who is a member of the Board of Directors of the Company.

(l) 'Disability' means a permanent and total disability, within the meaning of Code Section 22(e)(3), as determined by the Committee in good faith, upon receipt of sufficient competent medical advice from one or more individuals, selected by the Committee, who are qualified to give professional medical advice.

(m) 'Employee' means any full-time, nonunion employee of the Company or of the Company's Subsidiaries. Directors who are not otherwise employed by the Company shall not be considered Employees under this Plan.

(n) 'Exchange Act' means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

(o) 'Fair Market Value' shall mean the average of the highest and lowest quoted selling prices for Shares on the relevant date, or (if there were no sales on such date) the weighted average

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of the means between the highest and lowest quoted selling prices on the nearest day before and the nearest day after the relevant date, as determined by the Committee.

(p) 'Freestanding SAR' means a SAR that is granted independently of any Options.

(q) 'Incentive Stock Option' or 'ISO' means an option to purchase Shares, granted under Article 6 herein, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

(r) 'Insider' shall mean an Employee who is, on the relevant date, an officer, director, or ten percent (10%) beneficial owner of the Company, as defined under Section 16 of the Exchange Act.

(s) 'Nonqualified Stock Option' or 'NQSO' means an option to purchase Shares, granted under Article 6 herein, which is not intended to be an Incentive Stock Option.

(t) 'Option' means an Incentive Stock Option or a Nonqualified Stock Option.

(u) 'Option Price' means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(v) 'Participant' means an Employee of the Company who has outstanding an Award granted under the Plan.

(w) 'Performance Unit' means an Award granted to an Employee, as described in Article 9 herein.

(x) 'Performance Share' means an Award granted to an Employee, as described in Article 9 herein.

(y) 'Period of Restriction' means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Committee, at its discretion), and the Shares are subject to a substantial risk of forfeiture, as provided in Article 8 herein.

(z) 'Person' shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a 'group' as defined in Section 13(d).

(aa) 'Restricted Stock' means an Award granted to a Participant pursuant to Article 8 herein.

(ab) 'Retirement' shall have the meaning ascribed to it in the tax-qualified pension plan of the Company.

(ac) 'Shares' means the shares of common stock of the Company.

(ad) 'Subsidiary' means any corporation in which the Company owns directly, or indirectly through subsidiaries, at least fifty percent (50%) of the total combined voting power of all classes of stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns at least fifty percent (50%) of the combined equity thereof.

(ae) 'Stock Appreciation Right' or 'SAR' means an Award, granted alone or in connection with a related Option, designated as a SAR, pursuant to the terms of Article 7 herein.

(af) 'Tandem SAR' means a SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be cancelled).

(ag) 'Window Period' means the period beginning on the third business day following the date of public release of the Company's quarterly sales and earnings information, and ending on the twelfth business day following such date.

ARTICLE 3. ADMINISTRATION

3.1 THE COMMITTEE. The Plan shall be administered by the Executive Long-Term Compensation Committee of the Board, or by any other Committee appointed by the Board consisting of all Directors who are not Employees (the 'Committee'). The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

The Committee shall be comprised solely of Directors who are eligible to administer the Plan pursuant to Rule 16b-3(c)(2) under the Exchange Act. However, if for any reason the Committee does not qualify to administer the Plan, as contemplated by Rule 16b-3(c)(2) of the Exchange Act, the Board of Directors may appoint a new Committee so as to comply with Rule 16b-3(c)(2).

3.2 AUTHORITY OF THE COMMITTEE. The Committee shall have full power except as limited by law or by the Articles of Incorporation or Bylaws of the Company, and subject to the provisions herein, to determine the size and types of Awards; to determine the terms and conditions of such Awards in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend, or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 14 herein) to amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authorities as identified hereunder.

3.3 DECISIONS BINDING. All determinations and decisions made by the

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Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board of Directors shall be final, conclusive, and binding on all persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

ARTICLE 4. SHARES SUBJECT TO THE PLAN

4.1 NUMBER OF SHARES. Subject to adjustment as provided in Section 4.3 herein, the total number of Shares available for grant under the Plan may not exceed 1,250,000. These Shares may be either authorized but unissued or reacquired Shares.

The following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan:

(a) While an Award is outstanding, it shall be counted against the authorized pool of Shares, regardless of its vested status.

(b) The grant of an Option or Restricted Stock shall reduce the Shares available for grant under the Plan by the number of Shares subject to such Award.

(c) The grant of a Tandem SAR shall reduce the number of Shares available for grant by the number of Shares subject to the related Option (i.e., there is no double counting of Options and their related Tandem SARs).

(d) The grant of an Affiliated SAR shall reduce the number of Shares available for grant by the number of Shares subject to the SAR, in addition to the number of Shares subject to the related Option.

(e) The grant of a Freestanding SAR shall reduce the number of Shares available for grant by the number of Freestanding SARs granted.

(f) The Committee shall in each case determine the appropriate number of Shares to deduct from the authorized pool in connection with the grant of Performance Units and/or Performance Shares.

4.2 LAPSED AWARDS. If any Award granted under this Plan is cancelled, terminates, expires, or lapses for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Option or the termination of a related Option upon exercise of the corresponding Tandem

SAR), any Shares subject to such Award again shall be available for the grant of an Award under the Plan. However, in the event that prior to the Award's cancellation, termination, expiration, or lapse, the holder of the Award at any time received one or more 'benefits of ownership' pursuant to such Award (as defined by the Securities and Exchange Commission, pursuant to any rule or interpretation promulgated under Section 16 of the Exchange Act), the Shares subject to such Award shall not be made available for regrant under the Plan.

4.3 ADJUSTMENTS IN AUTHORIZED SHARES. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, Share combination, or other change in the corporate structure of the Company affecting the Shares, such adjustment shall be made in the number and class of Shares which may be delivered under the Plan, and in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; and provided that the number of Shares subject to any Award shall always be a whole number.

ARTICLE 5. ELIGIBILITY AND PARTICIPATION

5.1 ELIGIBILITY. Persons eligible to participate in this Plan include all full-time, active Employees of the Company and its Subsidiaries, as determined by the Committee, including Employees who are members of the Board, but excluding Directors who are not Employees.

5.2 ACTUAL PARTICIPATION. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award.

ARTICLE 6. STOCK OPTIONS

6.1 GRANT OF OPTIONS. Subject to the terms and provisions of the Plan, Options may be granted to Employees at any time and from time to time as shall be determined by the Committee. The Committee shall have discretion in determining the number of Shares subject to Options granted to each Participant. The Committee may grant ISOs, NQSOs, or a combination thereof.

6.2 AWARD AGREEMENT. Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine. The Option Agreement also shall specify whether the Option is intended to be an ISO within the meaning of Section 422 of the Code, or a NQSO whose grant is intended not to fall under the Code provisions of Section 422.

6.3 OPTION PRICE. The Option Price for each grant of an Option shall be determined by the Committee; provided that the Option Price shall not be less than the Fair Market Value of a Share on the date the Option is granted unless such Option is granted in connection with a deferral election pursuant to Article XI herein.

6.4 DURATION OF OPTIONS. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary date of its grant.

6.5 EXERCISE OF OPTIONS. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for

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each grant or for each Participant. However, in no event may any Option granted under this Plan become exercisable prior to six (6) months following the date of its grant.

6.6 PAYMENT. Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash or its equivalent, or (b) by tendering previously acquired Shares having an aggregate Fair

Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), or (c) by a combination of (a) and (b).

The Committee also may allow cashless exercise as permitted under Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

As soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

6.7 RESTRICTIONS ON SHARE TRANSFERABILITY. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

6.8 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT.

(a) TERMINATION BY DEATH. In the event the employment of a Participant is terminated by reason of death, all outstanding Options which are exercisable as of the date of death shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date of death, whichever period is shorter, by such person or persons as shall have been named as the Participant's beneficiary, or by such persons that have acquired the Participant's rights under the Option by will or by the laws of descent and distribution.
Options which are not exercisable as of the date of death shall be forfeited and returned to the Company; provided, however, that the Committee may, at its sole discretion, provide for accelerated vesting of unvested Options upon such terms as the Committee deems advisable.

(b) TERMINATION BY DISABILITY. In the event the employment of a Participant is terminated by reason of Disability, all outstanding Options which are exercisable as of the date the Committee determines the definition of Disability to have been satisfied shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date that the Committee determines the definition of Disability to have been satisfied, whichever period is shorter.
Options which are not exercisable as of the date the Committee determines the definition of Disability to have been satisified shall be forfeited and returned to the Company; provided, however, that the Committee may, at its sole discretion, provide for accelerated vesting of unvested Options upon such terms as the Committee deems advisable.

(c) TERMINATION BY RETIREMENT. In the event the employment of a Participant is terminated by reason of Retirement, all outstanding Options which are exercisable as of the date of Retirement shall remain exercisable at any time prior to their expiration date, or for three (3) years after the effective date of Retirement, whichever period is shorter. Options which are not exercisable as of the date of Retirement shall be forfeited and return to the Company; provided, however, that the Committee may, at its sole discretion, provide for accelerated vesting of unvested Options upon such terms as the Committee deems advisable.

(d) EMPLOYMENT TERMINATION FOLLOWED BY DEATH. In the event that a Participant's employment terminates by reason of Disability or Retirement, and within the exercise period following such termination the Participant dies, then the remaining exercise period under outstanding vested Options shall equal the longer of (i) one (1) year following death; or (ii) the remaining portion of the exercise period which was triggered by the employment termination. Such Options shall be exercisable by such person or persons who shall have been named as the

Participant's beneficiary, or by such persons who have acquired the Participant's rights under the Option by will or by the laws of descent and distribution.

(e) EXERCISE LIMITATIONS ON ISOS. In the case of ISOs, the tax treatment prescribed under Section 422 of the Internal Revenue Code of 1986, as amended, may not be available if the Options are not exercised within

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the Section 422 prescribed time periods after each of the various types of employment termination.

6.9 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of a Participant shall terminate for any reason other than the reasons set forth in Section 6.8 (and other than for Cause), all Options held by the Participant which are not vested as of the effective date of employment termination immediately shall be forfeited to the Company (and shall once again become available for grant under the Plan). However, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such Options, subject to such terms as the Committee, in its sole discretion, deems appropriate.

Options which are vested as of the effective date of employment termination may be exercised by the Participant within the period beginning on the effective date of employment termination, and ending three (3) months after such date.

If the employment of a Participant shall be terminated by the Company for Cause, all outstanding Options held by the Participant immediately shall be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options.

6.10 NONTRANSFERABILITY OF OPTIONS. No Option granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all Options granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1 GRANT OF SARS. Subject to the terms and conditions of the Plan, a SAR may be granted to an Employee at any time and from time to time as shall be determined by the Committee. The Committee may grant Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination of these forms of SARs.

The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs. However, the grant price of a Freestanding SAR shall be at least equal to the Fair Market Value of a Share on the date of grant of the SAR. The grant price of Tandem SARs and Affiliated SARs shall equal the Option Price of the related Option. In no event shall any SAR granted hereunder become exercisable within the first six (6) months of its grant.

7.2 EXERCISE OF TANDEM SARS. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

7.3 EXERCISE OF AFFILIATED SARS. Affiliated SARs shall be deemed to be exercised upon the exercise of the related Options. The deemed exercise of Affiliated SARs shall not necessitate a reduction in the number of related options.

7.4 EXERCISE OF FREESTANDING SARS. Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

7.5 SAR AGREEMENT. Each SAR grant shall be evidenced by an Award Agreement that shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine.

7.6 TERM OF SARS. The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that such term shall not exceed ten (10) years.

7.7 PAYMENT OF SAR AMOUNT. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(a) The difference between the Fair Market Value of a Share on the date of exercise over the grant price; by

(b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

7.8 RULE 16B-3 REQUIREMENTS. Notwithstanding any other provision of the Plan, the Committee may impose such conditions on exercise of a SAR (including, without limitation, the right of the Committee to limit the time of exercise to specified periods) as may be required to satisfy the requirements of Section 16 (or any successor rule) of the Exchange Act.

For example, if the Participant is an Insider, the ability of the Participant to exercise SARs for cash will be limited to Window Periods. However, if the Committee determines that the Participant is not an Insider, or if the securities laws change to permit greater freedom of exercise of SARs, then the Committee may permit exercise at any point in time, to the extent the SARs are otherwise exercisable under the Plan.

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7.9 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT.

(a) TERMINATION BY DEATH. In the event the employment of a Participant is terminated by reason of death, all outstanding SARs which are exercisable as of the date of death shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date of death, whichever period is shorter, by such person or persons as shall have been named as the Participant's beneficiary, or by such persons that have acquired the Participant's rights under the SAR by will or by the laws of descent and distribution.
SARs which are not exercisable as of the date of death shall be forfeited and returned to the Company; provided, however, that the Committee may, at its sole discretion, provide for accelerated vesting of unvested SARs upon such terms as the Committee deems advisable.

(b) TERMINATION BY DISABILITY. In the event the employment of a Participant is terminated by reason of Disability, all outstanding SARs which are exercisable as of the date the Committee determines the definition of Disability to have been satisfied shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date that the Committee determines the definition of Disability to have been satisfied, whichever period is shorter.
SARs which are not exercisable as of the date the Committee determines the definition of Disability to have been satisfied shall be forfeited and returned to the Company; provided, however, that the Committee may, at its sole discretion, provide for accelerated vesting of unvested SARs upon such terms as the Committee deems advisable.

(c) TERMINATION BY RETIREMENT. In the event the employment of a Participant is terminated by reason of Retirement, all outstanding SARs which are exercisable as of the date of Retirement

shall remain exercisable at any time prior to their expiration date, or for three (3) years after the effective date of Retirement, whichever period is shorter.
SARs which are not exercisable as of the date of Retirement shall be forfeited and returned to the Company; provided, however, that the Committee may, at its sole discretion, provide for accelerated vesting of unvested SARs upon such terms as the Committee deems advisable.

(d) EMPLOYMENT TERMINATION FOLLOWED BY DEATH. In the event that a Participant's employment terminates by reason of Disability or Retirement, and within the exercise period following such termination the Participant dies, then the remaining exercise period under outstanding vested SARs shall equal the longer of: (i) one (1) year following death; or (ii) the remaining portion of the exercise period which was triggered by the employment termination. Such SARs shall be exercisable by such person or persons who shall have been named as the Participant's beneficiary, or by such persons who have acquired the Participant's rights under the SAR by will or by the laws of descent and distribution.

7.10 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of a Participant shall terminate for any reason other than the reasons set forth in Section 7.9 (and other than for Cause), all SARs held by the Participant which are not vested as of the effective date of employment termination immediately shall be forfeited to the Company (and shall once again become available for grant under the Plan). However, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such SARs, subject to such terms as the Committee, in its sole discretion, deems appropriate.

SARs which are vested as of the effective date of employment termination may be exercised by the Participant within the period beginning on the effective date of employment termination, and ending three (3) months after such date.

If the employment of a Participant shall be terminated by the Company for Cause, all outstanding SARs held by the Participant immediately shall be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the SARs.

7.11 NONTRANSFERABILITY OF SARS. No SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

ARTICLE 8. RESTRICTED STOCK

8.1 GRANT OF RESTRICTED STOCK. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to eligible Employees in such amounts as the Committee shall determine.

8.2 RESTRICTED STOCK AGREEMENT. Each Restricted Stock grant shall be evidenced by a Restricted Stock Agreement that shall specify the Period of Restriction, or Periods, the number of Restricted Stock Shares granted, and such other provisions as the Committee shall determine.

8.3 TRANSFERABILITY. Except as provided in this Article 8, the Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Restricted Stock Agreement. However, in no event may any Restricted Stock granted under the Plan

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become vested in a Participant prior to six (6) months following the date of its grant. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

8.4 OTHER RESTRICTIONS. The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of

Restricted Stock, restrictions based upon the achievement of specific performance goals (Company-wide, divisional, and/or individual), and/or restrictions under applicable Federal or state securities laws; and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions.

8.5 CERTIFICATE LEGEND. In addition to any legends placed on certificates pursuant to Section 8.4 herein, each certificate representing Shares of Restricted Stock granted pursuant to the Plan may bear the following legend:

> 'The sale or other transfer of the Shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Tesoro Petroleum Corporation Executive Long-Term Incentive Plan, and in a Restricted Stock Agreement. A copy of the Plan and such Restricted Stock Agreement may be obtained from Tesoro Petroleum Corporation.'

The Company shall have the right to retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied.

8.6 REMOVAL OF RESTRICTIONS. Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the Period of Restriction. Once the Shares are released from the restrictions, the Participant shall be entitled to have the legend required by Section 8.5 removed from his or her share certificate.

8.7 VOTING RIGHTS. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

8.8 DIVIDENDS AND OTHER DISTRIBUTIONS. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder shall be entitled to receive all dividends and other distributions paid with respect to those Shares while they are so held. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

In the event that any dividend constitutes a 'derivative security' or an 'equity security' pursuant to Rule 16(a) under the Exchange Act, such dividend shall be subject to a vesting period equal to the longer of: (i) the remaining vesting period of the Shares of Restricted Stock with respect to which the dividend is paid; or (ii) six months. The Committee shall establish procedures for the application of this provision.

8.9 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT. In the event the employment of a Participant is terminated by reason of death, Disability, or Retirement, all unvested Shares of Restricted Stock shall immediately be forfeited by the Participant; provided, however, that the Committee, in its sole discretion, shall have the right to provide for accelerated vesting of some or all unvested Shares of Restricted Stock, upon such terms as the Committee deems advisable. The holder of the certificates of Restricted Stock shall be entitled to have any nontransferability legends required under Sections 8.4 and 8.5 of this Plan removed from the Share certificates.

8.10 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of a Participant shall terminate for any reason other than those specifically set forth in Section 8.9 herein, all Shares of Restricted Stock held by the Participant which are not vested as of the effective date of employment termination immediately shall be forfeited (and, subject to Section 4.2 herein, shall once again become available for grant under the Plan.)

With the exception of a termination of employment for Cause, the Committee, in its sole discretion, shall have the right to provide for lapsing of the restrictions on Restricted Stock following employment termination, upon such terms and provisions as it deems appropriate.

ARTICLE 9. PERFORMANCE UNITS AND PERFORMANCE SHARES

9.1 GRANT OF PERFORMANCE UNITS/SHARES. Subject to the terms of the Plan, Performance Units and Performance Shares may be granted to eligible Employees at any time and from time to time, as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

9.2 VALUE OF PERFORMANCE UNITS/SHARES. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine

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the number and/or value of Performance Units/Shares that will be paid out to the Participants. The time period during which the performance goals must be met shall be called a 'Performance Period.' Performance Periods shall, in all cases, exceed six (6) months in length.

9.3 EARNING OF PERFORMANCE UNITS/SHARES. After the applicable Performance Period has ended, the holder of Performance Units/Shares shall be entitled to receive payout on the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

9.4 FORM AND TIMING OF PAYMENT OF PERFORMANCE UNITS/SHARES. Payment of each Performance Units/Shares shall be made in a single lump sum, within forty-five (45) calendar days following the close of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units/Shares in the form of cash or in Shares (or in a combination thereof), which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period.

Prior to the beginning of each Performance Period, Participants may elect to defer the receipt of Performance Unit/Share payout upon such terms as the Committee deems appropriate.

9.5 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, RETIREMENT, OR INVOLUNTARY TERMINATION (WITHOUT CAUSE). In the event the employment of a Participant is terminated by reason of death, Disability, Retirement, or involuntary termination without Cause during a Performance Period, the Participant shall receive a prorated payout of the Performance Units/Shares. The prorated payout shall be determined by the Committee, in its sole discretion, and shall be based upon the length of time that the Participant held the Performance Units/Shares during the Performance Period, and shall further be adjusted based on the achievement of the preestablished performance goals.

Payment of earned Performance Units/Shares shall be made at the same time payments are made to Participants who did not terminate employment during the applicable Performance Period. However, the Committee, in its sole discretion, shall have the right to accelerate the timing of this payout, upon such terms and provisions as it deems appropriate.

9.6 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. In the event that a Participant's employment terminates for any reason other than those reasons set forth in Section 9.5 herein, all Performance Units/Shares shall be forfeited by the Participant to the Company, and shall once again be available for grant under the Plan. However, the Committee, in its sole discretion, may provide a payout on any or all Performance Units/Shares, upon such times and provisions as it deems appropriate.

9.7 NONTRANSFERABILITY. Performance Units/Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

ARTICLE 10. BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in

case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 11. DEFERRALS

The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the exercise of an Option or SAR, the lapse or waiver of restrictions with respect to Restricted Stock, or the satisfaction of any requirements or goals with respect to Performance Units/Shares. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

ARTICLE 12. RIGHTS OF EMPLOYEES

12.1 EMPLOYMENT. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company.

For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) shall not be deemed a termination of employment.

12.2 PARTICIPATION. No Employee shall have the right to be selected to receive an Award under this Plan, or having been so selected, to be selected to receive a future Award.

ARTICLE 13. CHANGE IN CONTROL

Upon the occurrence of a Change in Control, unless otherwise specifically prohibited by the terms of Section 18 herein:

(a) Any and all Options and SARs granted hereunder shall become immediately exercisable;

(b) Any restriction periods and restrictions imposed on Restricted Shares shall lapse, and within ten (10) business days after the occurrence of

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a Change in Control, the stock certificates representing Shares of Restricted Stock, without any restrictions or legend thereon, shall be delivered to the applicable Participants;

(c) The target payout opportunity attainable under all outstanding Performance Units and Performance Shares shall be deemed to have been earned for the portion of the Performance Period(s) that passed as of the effective date of the Change in Control. This pro rata value shall be paid out in cash to Participants within thirty (30) days following the effective date of the Change in Control. However, regardless of the above, Performance Units or Performance Shares that were granted less than six (6) months prior to the effective date of the Change in Control shall be forfeited in their entirety, and receive no accelerated payout.

(d) Subject to Article 14 herein, the Committee shall have the authority to make any modifications to the Awards as determined by the Committee to be appropriate before the effective date of the Change in Control.

(e) In the event that following the Change in Control the Shares are no longer traded over a national public securities exchange, Participants holding Options shall have the right to require the Company to make a cash payment to them in exchange for their Options. Such cash payment shall be contingent upon the Option holder surrendering his or her Option. The amount of the cash payment shall be determined by adding the total 'spread' on all outstanding Options. For this purpose, the total 'spread' shall equal the sum of the differences between: (i) the Fair Market Value of a Share on the date the Option is surrendered by the Participant; and (ii) the Option Price applicable to each Share held under Option.

ARTICLE 14. AMENDMENT, MODIFICATION, AND TERMINATION

14.1 AMENDMENT, MODIFICATION, AND TERMINATION. At any time and from time to time, the Board may terminate, amend, or modify the Plan. However, without the approval of the stockholders of the Company (as may be required by the Code, by the insider trading rules of Section 16 of the Exchange Act, by any national securities exchange or system on which the Shares are then listed or reported, or by a regulatory body having jurisdiction with respect hereto), no such termination, amendment, or modification may:

(a) Materially increase the total number of Shares which may be issued under this Plan, except as provided in Section 4.3 herein; or

(b) Materially modify the eligibility requirements; or

(c) Materially increase the benefits accruing under the Plan.

14.2 AWARDS PREVIOUSLY GRANTED. No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

ARTICLE 15. WITHHOLDING

15.1 TAX WITHHOLDING. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising or as a result of this Plan.

15.2 SHARE WITHHOLDING. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing, signed by the Participant, and elections by Insiders shall additionally comply with the applicable requirement set forth in (a) or (b) of this Section 15.2.

(a) AWARDS HAVING EXERCISE TIMING WITHIN PARTICIPANTS' DISCRETION. The Insider must either:

(i) Deliver written notice of the stock withholding election to the Committee at least six (6) months prior to the date specified by the Insider on which the exercise of the Award is to occur; or

(ii) Make the stock withholding election in connection with an exercise of an Award which occurs during a Window Period.

(b) AWARDS HAVING A FIXED EXERCISE/PAYOUT SCHEDULE WHICH IS OUTSIDE INSIDER'S CONTROL. The Insider must either:

(i) Deliver written notice of the stock withholding election to the Committee at least six (6) months prior to the date on which the taxable event (e.g., exercise or payout) relating to the Award is scheduled to occur; or

(ii) Make the stock withholding election during a Window Period which occurs prior to the scheduled taxable event relating to the Award (for this purpose, an election may be made prior to such a Window Period, provided that it becomes effective during a Window Period occurring prior to the applicable taxable event).

ARTICLE 16. INDEMNIFICATION

Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably

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incurred by him or her in connection with or resulting from

any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

ARTICLE 17. SUCCESSORS

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 18. LEGAL CONSTRUCTION

18.1 GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

18.2 SEVERABILITY. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

18.3 REQUIREMENTS OF LAW. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

Notwithstanding any other provision set forth in the Plan, if required by the then-current Section 16 of the Exchange Act, any 'derivative security' or 'equity security' offered pursuant to the Plan to any Insider may not be sold or transferred for at least six (6) months after the date of grant of such Award. The terms 'equity security' and 'derivative security' shall have the meanings ascribed to them in the then-current Rule 16(a) under the Exchange Act.

18.4 SECURITIES LAW COMPLIANCE. With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of the plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

18.5 GOVERNING LAW. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Texas.

TESORO PETROLEUM CORPORATION

IMPORTANT: TENDERING PROCEDURES

Holders of Subordinated Debentures who wish to accept the Exchange Offer and Consent to the Indenture Amendments should (i) request their broker, dealer, commercial bank, trust company or nominee to effect the transaction for them, (ii) complete and sign the applicable Consent and Letter of Transmittal or a facsimile thereof, having their applicable signatures thereon guaranteed if required by the applicable instruction in the applicable Consent and Letter of Transmittal, and forward the applicable Consent and Letter of Transmittal, together with the Subordinated Debentures (if not tendered by book-entry transfer) and all other required documents, to the Exchange Agent or (iii) comply with the guaranteed delivery procedures.

A holder who purchases $2.16 Preferred Stock, or whose purchase of $2.16 Preferred Stock is recorded on the books of the Company, after the Record Date, and who wishes to vote on the Reclassification, the Charter Amendments and the other proposals at the Annual Meeting, must arrange with its seller to receive a proxy from the holder of record on the Record Date of such $2.16 Preferred Stock.

THE EXCHANGE AGENT IS:
Bankers Trust Company

By Mail:
Banker's Trust Company
Corporate Trust & Agency Group
Reorganization Department
P.O. Box 1458
Church Street Station
New York, NY 10008-1458

By Hand/Overnight Courier:
Banker's Trust Company
Corporate Trust & Agency Group
Receipt & Delivery Window
123 Washington St., 1st Floor
New York, NY 1006

By Facsimile Transmission:
(212) 250-6275
(For Eligible Institutions Only)

Confirm by telephone:

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(212) 250-6270

Stockholder Inquiries:
1-800-829-5628

ADDITIONAL COPIES AND INFORMATION

Requests for additional copies of this Proxy Statement -- Prospectus or Consent and Letters of Transmittal should be directed to the Information Agent at its address and telephone numbers listed below. Requests for information relating to the Recapitalization should be directed to the Information Agent. You may also contact your broker, dealer, commercial bank or trust company for assistance concerning the Recapitalization described herein.

THE INFORMATION AGENT FOR THE RECAPITALIZATION IS:

GEORGESON & COMPANY INC.
WALL STREET PLAZA
NEW YORK, NEW YORK 10005

TOLL FREE (800) 223-2064

BANKS AND BROKERS CALL
(212) 509-6240

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