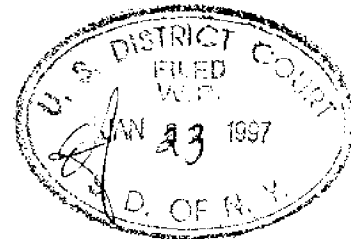


UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



----- X
BARI-ELLEN ROBERTS, SIL CHAMBERS, :
JANET LEIGH WILLIAMS, MARSHA HARRIS, :
BEATRICE HESTER, and VERONICA SHINAULT, :
Individually and as :
Class Representatives, :

94 Civ. 2015 (CLB)

Plaintiffs, :

-against- :

TEXACO INC., :

Defendant. :

----- X

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Settlement Agreement") is entered into this 21st day of January 1997 by and between Plaintiffs in the above-captioned litigation (the "Action"), both individually and on behalf of the stipulated Settlement Class as defined herein, and defendant Texaco Inc., including all its predecessors, successors and subsidiaries ("Texaco"). For purposes of this Settlement Agreement, "subsidiaries" shall mean entities in which Texaco Inc. has, directly or indirectly, more than a 50% ownership interest.

WHEREAS, Plaintiffs are prosecuting the Action on behalf of a purported class of present and former salaried African-American employees of Texaco;

WHEREAS, Plaintiffs, through their counsel, have alleged in the Action that certain Texaco employment policies and practices had a disparate impact on the individual plaintiffs and the class alleged in the complaint in violation of Section 1981 of the Civil Rights Act of 1871, Title VII of the Civil Rights Act of 1964, and Section 296 of the New York Human Rights Law;

WHEREAS, Plaintiffs, through their counsel, have conducted an extensive investigation into the facts of this case and have conducted substantial class action discovery in the Action;

WHEREAS, Plaintiffs, through their counsel, moved for class certification in the Action and the court had scheduled a hearing on that motion for December 6, 1996;

WHEREAS, Texaco has denied Plaintiffs' allegations in the Action, and specifically the claims of discrimination against Plaintiffs and the members of the class they purport to represent;

WHEREAS, Texaco opposed Plaintiffs' motion for class certification contending, among other things, that individual questions raised by the purported class members' claims of discrimination predominate over any common questions among the purported class;

WHEREAS, on November 15, 1996, Texaco and Plaintiffs, through their counsel, entered into an Agreement in Principle to Settle (the "Agreement in Principle") the individual and class claims (hereafter the "claims") asserted in the Action;

WHEREAS, in the Agreement in Principle, the parties, solely for purposes of settlement, agreed to stipulate, subject to Court approval, to certification of a settlement class consisting of all African-Americans employed in a salaried position subject to the Texaco Merit Salary Program in the United States by Texaco or its subsidiaries at any time from March 23, 1991 through and including November 15, 1996;

WHEREAS, on November 22, 1996, pursuant to the Agreement in Principle, Texaco deposited with Citizens Bank of Maryland (the "Escrow Agent") the sum of \$115,000,000 in cash (the "Settlement Fund"), upon which interest is accruing, in partial resolution of this Action, pursuant to the terms of the Escrow Agreement attached hereto as Exhibit A;

WHEREAS, Plaintiffs, through their counsel, have concluded, after carefully considering the facts and applicable law, that it would be in the best interest of the Settlement Class to enter into this Settlement Agreement to avoid the uncertainties of continued litigation and ensure a benefit to Plaintiffs and the members of the Settlement Class;

WHEREAS, this Settlement Agreement is the result of arm's length negotiations between counsel for Plaintiffs and Texaco, and counsel for Plaintiffs have concluded that this Settlement Agreement is fair, reasonable and adequate and in the best interests of Plaintiffs and the Settlement Class they represent;

WHEREAS, Texaco has concluded that it is in its best interests to enter into this Settlement Agreement to eliminate the expense, inconvenience, burden and uncertainties of continued litigation and to avoid any further distractions and controversies related to the Action and the allegations therein; and

WHEREAS, this Settlement Agreement shall not be deemed or construed as an admission or evidence of any violation of law or any liability or wrongdoing by Texaco or the existence of a class satisfying the requirements of Fed. R. Civ. P. 23;

NOW, THEREFORE, IT IS AGREED by and among the undersigned counsel, on behalf of their respective clients, that, subject to Court approval as provided herein, all claims against Texaco in the Action shall be settled, compromised and dismissed on the merits and with prejudice on the following terms and conditions:

1. **Finality of Settlement.** This Settlement Agreement shall become Final on the occurrence of all the following events: (a) entry of an Order by the Court certifying the action as a class action on behalf of the Settlement Class; (b) entry of the Dismissal Order (subject to the Court's ongoing jurisdiction during the Monitoring Period), including dismissal of all claims in the Action against Texaco by members of the Settlement Class who do not opt out, with prejudice, incorporating the Release on behalf of all members of the Settlement Class; and (c) the time for appeal of the Dismissal Order and final judgment has expired or, if an appeal is noticed, it has been dismissed or the final judgment has been affirmed in its entirety and the affirmance has become no longer subject to further appeal or review (the "Finality Date" or "Effective Date").

2. **Settlement Class.** Solely for purposes of this Settlement Agreement and subject to Court approval, Plaintiffs and Texaco agree that this Action may be maintained as a class action on behalf of a settlement class consisting of all African-Americans employed in a salaried position subject to the Texaco Merit Salary Program in the United States by Texaco or its subsidiaries at any time from March 23, 1991 through and including November 15, 1996

(the "Settlement Class"). Employees whose salaried position was not subject to the Texaco Merit Salary Program are not within the Settlement Class. For purposes of this Settlement Agreement, African-Americans shall mean persons who, pursuant to the EEOC's Race/Ethnic Identification form, designated themselves to Texaco as "Black", including those who signed a release of claims in exchange for an enhanced severance package.

3. **Release.** When this Settlement Agreement becomes Final, each member of the Settlement Class who does not opt out will have released Texaco from, and have covenanted not to sue it on, any and all claims under federal or state law that have been, or could have been, asserted against Texaco arising out of or relating to any employment discrimination (including retaliation) or disparate treatment or impact in their employment by Texaco prior to November 16, 1996 (the "Release"), including any claim for discrimination on the basis of age, disability, gender, national origin, race, religion or any other factor or protected classification.

4. Texaco stipulates for purposes of this Settlement Agreement that, pursuant to Rules 23(b)(2) and (b)(3), plaintiffs Sil Chambers, Janet Leigh Williams, Marsha Harris, Beatrice Hester, and Veronica Shinault (the "Class Representatives") are adequate representatives of the Settlement Class and that their claims are typical of the claims of Class members, and that the following counsel adequately represent the Settlement Class: Michael D. Hausfeld and Cyrus Mehri of Cohen, Milstein, Hausfeld & Toll, P.L.L.C.; and Daniel L. Berger and Steven B. Singer of Bernstein Litowitz Berger & Grossmann LLP.

5. With respect to equitable and injunctive relief to be provided to the Settlement Class, including the creation of the Equality and Tolerance Task Force described

herein, Plaintiffs and Texaco agree that the Settlement Class should be certified pursuant to Rule 23(b)(2) of the Federal Rules of Civil Procedure and, upon the Effective Date, all such relief will be binding on all Class members, whether or not they opt-out. With respect to the monetary relief to be provided to the Settlement Class, including both the distribution from the Settlement Fund and the Salary Increase described herein, Plaintiffs and Texaco agree that the Settlement Class should be certified pursuant to Rule 23(b)(3) of the Federal Rules of Civil Procedure, and Class members will have the right to opt-out of such relief and pursue their individual claims.

Settlement Consideration

6. In full and complete settlement and satisfaction of all claims asserted against it and any other obligations Texaco has or might have to pay for class notice, the cost of administering the payment of claims, costs of suit, and reasonable attorneys' fees and expenses, under 42 U.S.C. §§ 1981, 1988 and 2000e-(5)(k), and in consideration for the Release and the other benefits of this Settlement Agreement, Texaco agrees to the following:

Monetary Relief

7. On November 22, 1996, Texaco deposited with Citizens Bank of Maryland the sum of \$115,000,000 in cash, upon which interest has been accruing since that date, in partial resolution of this Action. No portion of this Settlement Fund was attributed in negotiations to any back pay claim. The Settlement Fund shall be used to satisfy: (i) monetary claims; (ii) the cost of class notice; (iii) the cost of suit, including reasonable attorneys' fees and expenses, including expert (both consulting and witness) fees and expenses, as approved by the Court under Fed. R. Civ. P. 23; (iv) the cost of administration of the Plan of Allocation

described herein; (v) any obligation Texaco might otherwise have in connection with payments or distributions from the Settlement Fund; and (vi) any other purpose the Court may order. Class Counsel may draw on or seek reimbursement from the Settlement Fund to pay the costs of notice to the Settlement Class, plus taxes, if any, which may be due on interest earned from the Settlement Fund. Class Counsel may obtain the services of an appropriate organization to assist in the administration of the Settlement and the distribution of the Settlement Fund. If this Settlement Agreement is not approved by the Court in whole or part, either preliminarily or finally, or if this Settlement Agreement is terminated under paragraph 37 hereof, the Settlement Fund (including accrued interest), but excluding the cost of administration already expended, shall promptly revert to Texaco.

8. When this Settlement becomes Final, payment of Class members' claims shall be made out of the Settlement Fund in accordance with a Court-approved plan of allocation (the "Plan of Allocation"). The proposed Plan of Allocation is annexed as Exhibit B. Texaco will have no responsibility for, standing, or involvement with the development or administration of the Plan of Allocation. The cost of such administration shall be paid solely from the Settlement Fund. All federal, state and local income taxes will be withheld and paid from the Net Settlement Fund to the appropriate tax authorities, as appropriate. Tax counsel will be retained to seek a private letter ruling from the Internal Revenue Service regarding the amount, if any, of the distribution from the Net Settlement Fund subject to employment (including employer's share) taxes. A portion of the Net Settlement Fund will be retained pending receipt of the private letter ruling. Upon receipt Class Counsel will abide by the IRS

ruling. Any indicated employment taxes will be paid from the Net Settlement Fund. If necessary, a second distribution to class members will be made.

9. When this Settlement becomes Final, each Class member then employed by Texaco who was so employed on November 15, 1996, will receive an 11.34% increase over such employee's November 15, 1996 base annual salary retroactive to January 1, 1997 (such percentage representing, as of November 15, 1996, an aggregate annual salary increase of \$4 million) (the "Salary Increase"). This increase is in addition to and not in lieu or replacement of any other pay increase any member of the Class would receive in 1997 in the ordinary, customary or usual course of employment. Within 30 days after the Settlement becomes Final, the portion of the Salary Increase accrued from January 1, 1997 to the date of payment will be paid to each such employee. Any Class member employed at Texaco on January 1, 1997 who did not voluntarily leave Texaco but whose employment was terminated by Texaco prior to such date of payment, will be paid on such date the portion of the Salary Increase applicable to that employee's actual period of employment after January 1, 1997.

Programmatic Relief

10. Texaco affirms the following "Statement of Equality and Tolerance Objectives":

Texaco Inc. is affirmatively committed to the fullest extent to an environment of inclusion; to eradicate all forms of prejudice within the company; to promote and foster complete equality of job opportunities within the company to all applicants and employees regardless of race, gender, religion, age, national origin and disability; and to ensure tolerance, respect and dignity for all people.

This paragraph does not create any contractual causes of action or other rights of action that would not otherwise exist.

11. Immediately upon the Settlement becoming Final, Texaco and Plaintiffs will activate an independent Equality and Tolerance Task Force ("Task Force") to determine revisions and additions to Texaco's current human resource programs and to oversee, in conjunction with the President of Texaco's Human Resources Division, the implementation by Texaco of the human resource program changes agreed to or resulting from the terms of this Settlement Agreement including, but not limited to, the specific programmatic changes described below.

12. The Task Force will have authority for a period of five years, under Court supervision, to determine the policies and practices that should be developed, restructured or implemented to meet the programmatic relief objectives of this Settlement Agreement. The Task Force will have reasonable access to all relevant books, data,¹ documents and other sources of information, in whatever form they are maintained in the ordinary course of business, necessary or appropriate to the exercise of their authority. Given the need of the Task Force to review confidential business information of Texaco, each Task Force member will sign a Confidentiality Agreement.

13. Texaco will be responsible for implementation of all programmatic relief under the terms of this Settlement Agreement, except as otherwise provided in this Settlement Agreement. Texaco is not precluded from developing and implementing its own inclusion

¹ If there is a disagreement between the Task Force and Texaco as to the accuracy and/or completeness of any Texaco data, an independent accounting firm (selected by the Task Force from among the six nationally recognized accounting firms) will be appointed to certify its accuracy and/or completeness at Texaco's expense.

programs as it may find appropriate. In formulating its determinations, the Task Force will take such programs into account.

14. The Task Force will consist of three Texaco appointees, three Plaintiffs' appointees, and one independent appointee agreed to by the parties who serves as Chairperson. The nominees to the Task Force, including the Chairperson, shall be individuals the Court finds responsible and appropriate. They will come from diverse backgrounds, including racial and gender diversity. They will come from the following fields:

- a. former government officials in the labor/civil rights area;
- b. professors/academics specializing in labor/employment issues;
- c. current or former Texaco executives with experience and knowledge of the Company and its workforce needs for running its operations;
- d. professional employment/diversity consultants;
- e. legal profession, including judiciary, knowledgeable in employment/diversity matters; and/or
- f. business, with practical experience in managing a diverse workforce.

Names and backgrounds of the nominees are to be submitted to the Court. Should the Court disapprove of any nominee, an appropriate replacement is to be submitted. In the event a Task Force member is unable or unwilling to continue to serve as a member of the Task Force, the party who selected the Task Force member shall have the authority to replace that member, subject to the Court approving that nominee. If the Chairperson is unwilling or unable to

continue to serve as Chairperson the parties shall jointly select a new Chairperson, subject to the Court approving the nominee. Texaco shall compensate all Task Force members, including the Chairperson, at customary market rates or other terms acceptable to Texaco and the Task Force members.

15. The Task Force will evaluate all existing employment policies and practices and develop and design, in conjunction with the President of the Human Resources Division, procedures, practices and methodologies to achieve the programmatic relief objectives of this Settlement Agreement as well as to measure and demonstrate program progress and results. The determinations of the Task Force will apply to all salaried non-officer job positions at all grade levels, in all departments, divisions and subsidiaries nationwide. Texaco will provide all funding necessary to fulfill the work of the Task Force, including the reasonable compensation of the Task Force members, and the cost of reasonable staff, consultants, statisticians, and other appropriate experts.

16. Within the first six months after the Finality Date or at such other reasonable time as is agreed upon by the Task Force, Texaco will:

- a. Adopt and implement a company-wide diversity and sensitivity training program.
- b. Adopt and implement a company-wide mentoring program.
- c. Insure that Equal Employment Opportunity ("EEO") and Diversity Performance is included in management objectives and in determining management compensation.
- d. Develop and implement an ombudsperson program.
- e. Implement national job posting through at least pay grade 18, and commence evaluation of posting at higher grade level positions.

- f. Develop recommendations for the creation and implementation of a mechanism to minimize fear of retaliation in connection with complaints of employment discrimination.

The Task Force will review the effectiveness of these programs.

17. During this period, the Task Force will, and the President of Human

Resources Division may also begin to:

- a. Evaluate and revise or replace the Performance Management Program ("PMP"), including the PMP Appeal Process, to ensure that the PMP accurately measures employee performance and, among other things, that the standards for performance objectives are specific, measurable, achievable, relevant, time bound and documented.
- b. Evaluate and revise or replace methods for determining the appropriate competencies needed for a job position or positions. Once accepted, Texaco will begin implementation of the changed methods within sixty days. Such implementation will include, if appropriate, job analyses to identify, but not be necessarily limited to, critical job tasks, knowledge, skills and abilities. The Task Force will monitor implementation.
- c. Review Affirmative Action Plans ("AAPs") developed under Executive Order ("EO") 11246 to ensure they are properly constructed. The Task Force, the Chairman of the Texaco Inc. Board of Directors (the "Chairman") and the Texaco Inc. Board of Directors (the "Board of Directors") shall be informed of the compliance performance of each establishment covered by these plans. The Task Force may recommend appropriate action where deemed necessary.
- d. Evaluate and revise or replace the promotion and employee development process, including High Potential List procedure, and making known to all employees objective Promotability Criteria.
- e. Establish an Employment Selection and Performance Management Oversight/Monitoring System.
- f. Evaluate and revise job posting procedures.

- g. Develop and implement centralized monitoring of employee compensation to ensure no disparate treatment or impact based on race which is not job related and/or consistent with business necessity. Review appropriate data to ensure against unfairness which is not job related and/or consistent with business necessity. Data may be furnished in such a form as to protect the identity of individuals.

18. The Task Force will, and the President of the Human Resources

Division may review and revise, as appropriate, the Company's policies and practices for:

- a. Recruitment;
- b. Hiring;
- c. Training;
- d. Special Opportunities;
- e. Assignments; and
- f. Promotion.

19. The Task Force will, within one year of the Effective Date, complete its own review and evaluation of all current employment policies and practices, through, among other means, the use of surveys and employee interviews conducted through Texaco. Subject to the terms of the Agreement, Texaco will implement such changes or additions as the Task Force deems necessary and appropriate to achieve the Equality and Tolerance Objectives and the terms of this Settlement Agreement.

20. The Task Force will, within one year or less of the Effective Date, complete its initial determinations in all of the areas set forth. Thereafter, for the duration of the Task Force, it will be responsible for continuing the review and evaluation of all ongoing employment policies and practices of the Company, as well as monitoring the impact and

effectiveness of the implementation of its determinations. The Task Force will continue during this time to determine revisions or modifications to ongoing employment policies and practices in order to achieve the Equality and Tolerance Objectives and the terms of this Settlement Agreement.

21. The Task Force will establish the timetable for the implementation and completion of compliance with any of its determinations, subject to the terms of this Settlement Agreement.

22. The President of the Human Resources Division will implement each final determination of the Task Force unless within seven business days after receiving a determination, Texaco files an objection with the Court that the Task Force's determination, in whole or in part, involves the application of unsound business judgment or is technically not feasible.

23. In the event Texaco files an objection with the Court to a determination of the Task Force, Plaintiffs' counsel will participate in the proceedings with the Court in support of the Task Force determination objected to by Texaco. All reasonable fees and expenses of Plaintiffs' counsel, including reasonable expert fees and expenses, in so doing will be paid by Texaco.

Monitoring

24. Every six months, beginning on the Effective Date and continuing through the fifth anniversary ("the Monitoring Period"), the Task Force will provide to the Court, the Chairman, the Board of Directors, and Plaintiffs' counsel, information which reflects the impact of this Settlement Agreement.

Reporting

25. At the end of each year, the Task Force will submit a detailed report to the Court and Plaintiffs' counsel, reviewing and evaluating Texaco's employment policies and practices, the determinations made by the Task Force, and the impact of the actions taken in achieving the Equality and Tolerance Objectives and the terms of this Settlement Agreement. The report will also identify what remains to be done by the Task Force and by the Company, why it needs to be done, and a timetable for accomplishing it.

26. The work of the Task Force and the supervision of the Court will continue for the full Monitoring Period, five years, unless, upon good cause shown by either party, the period is shortened or extended by the Court.

General Provisions

27. This Settlement Agreement and any proceedings taken hereunder shall not in any event be construed nor be deemed to be a concession or admission by or on the part of Texaco of any liability or wrongdoing or evidence of the truth of any allegation made against Texaco in any court or legal proceeding.

28. The parties hereto agree to undertake their best efforts, including all steps contemplated by this Settlement Agreement, to effectuate this Settlement Agreement. In this connection, counsel for the Plaintiffs and Texaco will use their best efforts to effectuate this Settlement Agreement.

29. The parties shall have the authority to enforce any aspect, term or provision of this Settlement Agreement and can take appropriate measures to effectuate enforcement of this Settlement Agreement and any of its terms or provisions.

30. The parties agree that notice of this Settlement Agreement shall be provided to members of the Class in the form agreed upon and annexed hereto as Exhibit C (the "Notice"). Notice shall consist of mailing the Notice to the last known address of the Class members. Plaintiffs' counsel will make reasonable efforts to obtain current addresses for individuals whose Notices are returned undeliverable and to re-send such Notices.

31. The parties will seek entry of an order satisfactory to the parties dismissing all claims in the Action with prejudice and without costs to any party except as expressly provided herein, and incorporating the Release on behalf of all members of the Class and directing the entry of a final judgment (the "Dismissal Order"). Neither Plaintiffs nor their counsel nor any Settlement Class member shall be liable to Texaco for any court costs or attorneys' fees incurred by Texaco in connection with this action.

32. At or following the hearing to approve the Settlement, Class Counsel shall apply to the Court for an award of attorneys' fees and reimbursement of expenses, which award shall be contingent upon approval of the Settlement by the Court. The attorneys' fees and reimbursement of expenses, as awarded by the Court, shall be paid out of the Settlement Fund.

33. Texaco shall have no obligation under this Settlement Agreement to pay any money except only as expressly set forth in this Settlement Agreement. Texaco shall not be liable for any of Plaintiffs' or the Settlement Class' costs or attorneys' fees. In the event this proposed settlement is not approved by the Court, the costs incurred in notifying members of the Settlement Class and any other costs approved by the Court shall be paid from the Settlement Fund. Texaco further shall not be liable for any of the expenses of notice to the

Settlement Class or administration of the Settlement Fund. Such expenses, as approved by the Court, shall be paid out of the Settlement Fund. Since Texaco's creation of the Settlement Fund will fully discharge any obligation it might otherwise have for attorneys' fees, costs, and expenses, the named plaintiffs waive any and all rights to payment of attorneys' fees and costs directly by Texaco. Texaco agrees not to oppose the fee and expense application of Plaintiffs' counsel or incentive awards for the named Plaintiffs.

34. Texaco will not object to or participate in the allocation or distribution of the Settlement Fund. Texaco will not oppose the application of counsel for the Settlement Class to serve as disbursing agent for the Settlement Fund.

35. If requested, Texaco promptly shall provide such consents as may be necessary to release funds from the Settlement Fund to meet administrative expenses, as such releases may be approved by the Court.

36. In the event this Settlement Agreement does not become Final, this entire Settlement Agreement shall become null and void and of no force and effect and all funds in the Settlement Fund shall be returned to Texaco within ten (10) business days after demand upon Class Counsel therefor, less any expenses related to the cost of notice to the Settlement Class or other administrative costs that have been paid out of the Settlement Fund pursuant to this Settlement Agreement and pursuant to procedures which have been approved by the Court.

Texaco's Right To Withdraw

37. Texaco will have a right to withdraw from the Settlement if, in its discretion, it deems the number of class members who opt out of the Settlement to pursue their own claims to be substantial. Such right shall be exercised within seven calendar days following the date established by the Court for final receipt of written opt-out requests from class members.

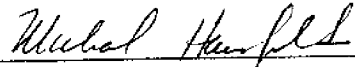
38. The Plaintiffs and their counsel agree that, except as otherwise required by law, within twenty (20) days after this Settlement Agreement becomes Final, or at such other date agreed to by the parties, all materials produced by or discovered of Texaco or any of its present or former directors, officers or employees, including all copies thereof (collectively the "Texaco Materials"), in the possession or control of the Plaintiffs or their counsel, experts, consultants or agents shall be returned to Texaco. However, plaintiffs' counsel may retain one copy of each deposition transcript. Upon Texaco's request, counsel for the Plaintiffs shall provide a written declaration certifying that all Texaco Materials have been returned.

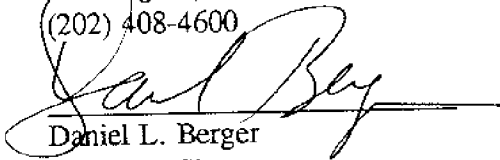
39. Texaco will not defame any Class Representative and no Class Representative will defame Texaco. Nor will any Class Representative disclose confidential information relating to the claims and proceedings in the Action. Each Class Representative agrees to abide by the terms and conditions of the Protective Order entered in this Action and the Mediation Groundrules. Each Class Representative will use her or his best efforts to avoid further controversy concerning the Action.

40. This Settlement Agreement may not be modified or amended except in writing executed by counsel on behalf of Plaintiffs and Texaco and approved by the Court.

41. This Settlement Agreement shall become effective upon its execution by the undersigned counsel and may be signed in counterparts.


Dated this 21st day of January, 1997.


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ATTORNEYS FOR TEXACO INC.

Exhibit A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

_____X
BARI-ELLEN ROBERTS, SIL CHAMBERS,
JANET LEIGH WILLIAMS, MARSHA HARRIS,
BEATRICE HESTER AND VERONICA SHINAULT,
Individually and as
Class Representatives,

94 Civ. 2015 (CLB)

Plaintiffs,

-against-

TEXACO INC.,

Defendant.
_____X

ESCROW AGREEMENT

This Agreement is made and entered into this 21st day of November, 1996, by and between Cohen, Milstein, Hausfeld & Toll, P.L.L.C. (as counsel for plaintiffs and the settlement class), Kaye, Scholer, Fierman, Hays & Handler, LLP (as counsel for defendant Texaco Inc.) and Citizens Bank of Maryland, a corporation organized under the laws of the State of Maryland ("Escrow Agent"). Escrow Agent is a State Chartered Banking Institution.

WITNESSETH

WHEREAS plaintiffs and Texaco Inc. ("Texaco") have entered into an agreement in principle dated November 15, 1996, to settle all claims of plaintiffs and the settlement class against Texaco; and

WHEREAS the agreement in principle provides, among other things, for the deposit in

escrow of \$115,000,000 in cash by November 22, 1996;

WHEREAS plaintiffs and Texaco will seek a Final Order (as hereinafter defined) from the Court approving the settlement of this action;

WHEREAS plaintiffs and Texaco intend for both Cohen, Milstein, Hausfeld & Toll, P.L.L.C. ("CMH&T") and Kaye, Scholer, Fierman, Hays & Handler, LLP ("KSFH&H") to be principals under this Agreement until the entry of a Final Order by the Court, and thereafter, for CMH&T alone to be the principal under this Agreement; and

WHEREAS Counsel (as hereinafter defined) have entered into this Agreement to facilitate the consummation of the settlement of this action;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. As used herein, "Final Order" shall mean the order of the Court giving final approval to the settlement of this action, from which no timely appeals have been taken or as to which all appeals have been exhausted.
2. From the date of this Agreement until the Escrow Agent receives joint written instructions from CMH&T and KSFH&H that the order of the Court giving final approval to the settlement of this action has become a Final Order, "Counsel," as used herein, shall mean both CMH&T and KSFH&H; thereafter, "Counsel" shall mean solely CMH&T. When "Counsel" means both firms, instructions, confirmations and authorizations to or from the Escrow Agent must be received from or by both firms.
3. Counsel do hereby appoint, constitute and designate Citizens Bank of Maryland as their Escrow Agent for the purposes set forth herein, and the Bank accepts the agency created

under this Agreement and agrees to perform the obligations imposed.

4. On or before November 22, 1996, Texaco will deposit with Escrow Agent by wire transfer \$115,000,000 in cash (the "Escrow Fund").

5. Escrow Agent shall invest the Escrow Funds in marketable direct obligations issued by the Federal Government of the United States of America or issued by any agency thereof and backed by the full faith and credit of the United States.

6. All income earned by the Escrow Fund shall be reinvested by Escrow Agent in accordance with the above-referenced written instructions of Counsel and shall become a part of the Escrow Fund.

7. Escrow Agent is hereby authorized to transfer and distribute funds from the Citizens Bank Trust account established for this escrow by check, wire, electronic, or internal process, upon receiving prior written authorization from Counsel. Such authorization may be by facsimile transmission or other written communication. Wire transfers shall be followed by a return call to Counsel for confirmation. Escrow Agent shall disburse no funds from the Escrow Fund without the prior written authorization of Counsel. All transfers and distributions made by this authorization shall be governed by the Maryland Uniform Commercial Code - Funds Transfers (1991, ch. 548).

8. In the event of disagreement between Counsel (before joint instructions that the order of approval has become a Final Order) with respect to the disbursement of funds from the Escrow Fund, Escrow Agent shall hold the disputed funds until the disagreement is resolved.

9. Escrow Agent shall not be concerned with or have any responsibility for collection of the Escrow Fund from Texaco, and Escrow Agent shall have no responsibility concerning

compliance by Counsel (before joint instructions that the order of approval has become a Final Order) with their duties to each other under any agreement.

10. Any Federal, State, Municipal or local taxes due as a result of income earned by, or assets in, the Escrow Fund are to be paid from the Escrow Fund by the Escrow Agent or the settlement claims administrator. The Escrow Agent or the settlement claims administrator shall also make or file any returns or reports relative thereto, upon such confirmations from Counsel as it may request.

11. All signatories to this Agreement warrant that they have full and complete authority to enter into this Agreement and to sign said Agreement on behalf of themselves and/or the entity or persons they represent.

12. The annual fee for Escrow Agent for its services shall be four (4) basis points, with no annual minimum. One quarter of the fee shall be paid at the end of each calendar quarter from the Escrow Fund. The fee shall be determined based upon the market value of the assets in the Escrow Fund at the end of the calendar quarter. Any necessary out-of-pocket expenses of Escrow Agent shall be paid from the Escrow Fund after ten (10) business days notice to Counsel.

13. Pursuant to national banking regulations which establish uniform standards for bank record keeping, trade confirmation, and other procedures with respect to securities transactions made for trust departments, Counsel have the option of receiving a written confirmation each time a trade is executed on the Escrow Fund's behalf within five (5) business days of its execution. In the alternative, Counsel may forego receipt of individual trade confirmations and agree to accept a transaction statement that itemizes each trade as sufficient notice of trades. Escrow Agent meets the alternate confirmation requirement by providing its

clients with case statements, at least monthly, that itemize each trade effected for the client's account, giving all pertinent information relating to the transaction. Time of execution is not furnished, but can be provided within a reasonable time, upon written request. Counsel may waive receipt of individual trade confirmations by so indicating at the end of this Escrow Agreement.

14. Escrow Agent shall be entitled to rely upon the most recent instructions from Counsel as to the names of the persons authorized to instruct Escrow Agent. Counsel shall provide a list of the signatures of such authorized persons to Escrow Agent from time to time.

15. Escrow Agent shall be protected in acting upon written notice, request, waiver, consent, receipt or other paper document furnished to it by Counsel, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth and acceptability of any information contained therein, which it in good faith believes to be genuine and what it purports to be.

16. Escrow Agent shall have no duties except those which are expressly set forth herein and those imposed by law, and it shall not be bound by any notice of claim, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Agreement, unless in writing received by it, and if its duties herein are affected, unless it shall have given prior written consent thereto.

17. Escrow Agent may resign at any time by giving a minimum of 30 business days prior written notice of resignation to the parties hereto, such resignation to be effective on the date specified in such notice. Any assets held by Escrow Agent under the terms of this Agreement as of the effective date of the resignation shall be delivered to a successor escrow

agent designated in writing by Counsel. If no successor escrow agent has been appointed as of the effective date of the resignation, all obligations of Escrow Agent hereunder shall nevertheless cease and terminate, except that Escrow Agent's sole responsibility thereafter shall be to keep safely all Escrow funds held by it and to deliver the same to a person designated by Counsel or in accordance with the direction of a final order or judgment of a court of competent jurisdiction.

18. This Agreement shall be binding upon and inure to the benefit of the respective heirs, legal representatives, successors and assigns of the parties hereto.

19. This Agreement will be governed by and construed in accordance with the laws of State of Maryland.

20. For purposes of notices, correspondence and mailing of checks, or wiring of funds, the parties' addresses shall be:

Cohen, Milstein, Hausfeld & Toll, P.L.L.C.
Attention: Michael D. Hausfeld
1100 New York Avenue, N.W.
West Tower, Suite 500
Washington, D.C. 20005-3964
Telephone: (202) 408-4600
Facsimile: (202) 408-4699

Kaye, Scholer, Fierman, Hays & Handler, LLP
Attention: Milton J. Schubert
425 Park Avenue
New York, New York 10022-3598
Telephone: (212) 836-8000
Facsimile: (212) 836-8689

Citizens Bank of Maryland
Attention: Donald F. Yetter
14401 Sweitzer Lane, MS 728
Laurel, Maryland 20707
Telephone: (301) 206-6243
Facsimile: (301) 206-6374

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

**COHEN, MILSTEIN, HAUSFELD
& TOLL, P.L.L.C.**

By: 

Michael D. Hausfeld, Esq.
Counsel for the Plaintiffs

**KAYE, SCHOLER, FIERMAN, HAYS
& HANDLER, LLP**

By: 

Milton J. Schubin, Esq.
Counsel for Defendant,
Texaco Inc.

CITIZENS BANK OF MARYLAND
Escrow Agent

By: 

Donald F. Yetter
Assistant Vice President

Exhibit B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

- - - - - X

BARI-ELLEN ROBERTS, SIL CHAMBERS, :
JANET LEIGH WILLIAMS, MARSHA HARRIS, :
BEATRICE HESTER and VERONICA SHINAULT, :
Individually and as :
Class Representatives, : 94 Civ. 2015 (CLB)

Plaintiffs, :

- against - :

TEXACO INC., :

Defendant. :

- - - - - X

PLAN OF ALLOCATION

1. After deduction of attorneys' fees, costs and reimbursement of expenses, including expert fees and expenses, awards to the Class representatives and other administrative expenses, as approved by the Court, the balance of the Settlement Fund (the "Net Settlement Fund") shall be distributed to Class members in the manner and subject to the conditions set forth below.

2. After consultation with various experts who advised Class Counsel as to a fair, equitable, uniform and efficient plan of allocation, Class Counsel has determined that the distribution of the Net Settlement Fund will be based on the following four factors: (1) **Existence** -- employment by Texaco at any time during the Class Period¹ (which assures that every Class member will receive compensation from the Net Settlement Fund); (2) **Earnings**

¹ The Class Period is defined as the period from March 23, 1991 through November 15, 1996, inclusive.

-- the total earnings of the Class member from Texaco during the Class Period; (3) **Disparity** -- the difference between the actual earnings from Texaco and estimated expected earnings of the Class member had race not been a factor during the Class Period, as calculated by plaintiffs' expert; and (4) **Time** -- the length of salaried employment by Texaco of the Class member during the Class Period. For purposes of the Plan of Allocation, only salaried employment at Texaco will be considered in calculating each of the above factors.

3. Each of Time, Earnings and Disparity will be implemented in a proportionate manner. Earnings and Disparity will be obtained for each Class member for each year and summed over years to obtain a total disparity² and total earnings for each Class member.

4. **Existence:** Each Class member will receive \$2,000 from the Net Settlement Fund for the Existence factor. This will account for approximately \$2,700,000 of the Net Settlement Fund.

5. **Earnings and Disparity:** Approximately \$23,000,000 of the Net Settlement Fund will be distributed on the basis of Earnings and Disparity. In order to accomplish this, a Disparity Proportion will be computed for each Class member³ as the ratio

² Negative disparities will be treated as such except that negative total disparities will be treated as zero (over the entire Class Period).

³ If information appropriate to ascertain a disparity for a Class member for a particular year is not available, then that individual will be considered to have a disparity for that year equal to the mean of the negative disparities, and zero disparities for those with positive disparities.

of the Class member's total Disparity during the Class Period to the sum of the total Disparities of all Class members during the Class Period. Similarly, an Earnings Proportion will be computed for each Class member as the ratio of the Class member's total Earnings during the Class Period to the sum of the total Earnings of all Class members during the Class Period. A Weighted Average of the Disparity Proportion and the Earnings Proportion will be computed for each Class member as $\frac{3}{4}$ ths of the Disparity Proportion added to $\frac{1}{4}$ th of the Earnings Proportion. Each Class member will receive a payment from the \$23,000,000 portion of the Net Settlement Fund equal to his or her Weighted Average multiplied by \$23,000,000.

6. **Time:** The remainder of the Net Settlement Fund will be distributed in a proportionate manner according to the Time factor. To accomplish this, each Class member will be considered as starting employment at Texaco either on the date of their hire or on March 23, 1991 (the first day of the Class Period), whichever is later. Each Class member will be considered to have ended employment at Texaco either on their last day of employment or November 15, 1996 (the last day of the Class Period), whichever is earlier. This amount of time (in total days) will be divided by the corresponding total time employed, in days, for all Class members to arrive at a Time Proportion for each individual. Each Class member will receive a payment equal to his or her Time Proportion multiplied by the remainder of the Net Settlement Fund.

claims in exchange for receiving an enhanced severance package from Texaco, you are still entitled to participate in this Settlement.

7. For purposes of this Settlement, the Court has certified plaintiffs Chambers, Williams, Harris, Hester and Shinault as Class representatives and has appointed Michael D. Hausfeld and Cyrus Mehri of Cohen, Milstein, Hausfeld & Toll, P.L.L.C. and Daniel L. Berger and Steven B. Singer of Bernstein Litowitz Berger & Grossmann LLP as Class Counsel.

8. The Court has certified the Settlement Class under both Fed. R. Civ. P. 23 (b)(2) and 23 (b)(3). With respect to equitable and injunctive relief to be provided by this Settlement to the Settlement Class, including the creation of the Equality and Tolerance Task Force described below, the Court certified the Settlement Class under Fed. R. Civ. P. 23(b)(2) and, if the Settlement is approved by the Court, all such relief will be binding on all Class members, whether or not they opt-out. With respect to the monetary consideration to be provided the Settlement Class, including both the distribution from the Net Settlement Fund and the Salary Increase described below, the Court certified the Settlement Class under Fed. R. Civ. P. 23(b)(3), and Class members have the right to opt-out of the monetary aspects of the Settlement and pursue their individual claims.

NO page 14"

III.

FACTORS LEADING TO THE PROPOSED SETTLEMENT

9. Plaintiffs, through their counsel, have made a thorough investigation into the facts and circumstances relevant to the claims alleged in the First Amended Complaint (the "Class Claims"). In connection with that investigation, they have conducted substantial discovery, including inspecting thousands of pages of documents produced by Texaco, interviewing dozens of witnesses, and taking numerous depositions. Plaintiffs retained and consulted with various experts, including an expert in the statistical analysis of the impact of employment practices; an industrial psychologist; and a former director of the Office Of Federal Contract Compliance Programs, an expert in employment practices. Each expert prepared a report in support of plaintiffs' motion for class certification and was deposed by Texaco's counsel. Class Counsel also deposed Texaco's experts. Class Counsel have considered the expense and length of time necessary to complete an extensive, multi-track deposition and expert discovery program and to prosecute this action through trial; the uncertainties of the outcome of this complex litigation; the likely appeal after trial of any judgment, resulting in many years of additional litigation; and the substantial benefit provided by the proposed Settlement to the Settlement Class. Plaintiffs have also considered that the Settlement was arrived at only after extensive negotiations, in which plaintiffs Roberts and Chambers directly participated.

Based upon these considerations, Class Counsel have concluded that it is in the best interests of the Settlement Class to settle this Action on the terms set forth herein.

10. Texaco, while denying all wrongdoing of any kind whatsoever and denying any liability to plaintiffs or the Settlement Class, and relying on the provisions of the Settlement Agreement that the Settlement shall in no event be construed or deemed to be evidence, or an admission, or a concession on the part of Texaco, of any fault or liability whatsoever, and without conceding any infirmity in the defenses it has asserted or intended to assert against the Class Claims, considers it desirable that this Action be dismissed on the terms set forth herein in order to avoid further expense, to dispose of burdensome and protracted litigation and undue distractions and to terminate all controversy concerning the Action.

IV.

SUMMARY OF THE TERMS OF THE PROPOSED SETTLEMENT

11. The Settlement provides for monetary and programmatic relief which Class Counsel estimate is worth approximately \$176 million. Class Counsel believe the Settlement is the largest in the history of employment race discrimination litigation.

12. The Settlement comprises the following monetary relief under Fed. R. Civ. P. 23(b)(3):

A. A payment by Texaco of \$115,000,000 in cash, which was deposited on November 22, 1996 with a Settlement Escrow

agent, plus the interest on that sum which has been accruing since November 22, 1996 (collectively, the "Settlement Fund"). Class Counsel may draw on or seek reimbursement from the Settlement Fund to pay the costs of notice to the Settlement Class, plus income taxes, if any, which may be due on income earned or other applicable taxes. The Settlement Fund will be used to pay (1) all Class members' claims for compensation and damages; (2) all costs of Notice of the Settlement; (3) all administrative costs of the Settlement; (4) all amounts awarded by the Court for attorneys' fees, costs and expenses of the litigation; and (5) any Incentive Awards to the named plaintiffs.

B. When this Settlement becomes Final, each Class member then employed by Texaco who was so employed on November 15, 1996, will receive an 11.34% increase over such employee's November 15, 1996 base annual salary retroactive to January 1, 1997 (the "Salary Increase"). This percentage represents, as of November 15, 1996, an aggregate annual salary increase of \$4,000,000. Class Counsel expect the Salary Increase to approximate \$26 million over 5 years. The Salary Increase shall be in addition to, and not in lieu or replacement of, any other pay increase any member of the Settlement Class would receive in 1997 in the ordinary, customary or usual course of employment. Within 30 days after the Settlement becomes Final, the portion of the Salary Increase accrued from January 1, 1997 to the date of payment will be paid to each such employee. Any Class member employed at Texaco on January 1, 1997, who did not voluntarily

leave Texaco but whose employment was terminated by Texaco prior to such date of payment, will be paid on such date the portion of the Salary Increase applicable to that employee's actual period of employment after January 1, 1997.

13. The Settlement is comprised of the following equitable and injunctive relief under Fed. R. Civ. P. 23(b)(2):

A. Texaco affirms the following "Statement of Equality and Tolerance Objectives":

Texaco Inc. is affirmatively committed to the fullest extent to an environment of inclusion: to eradicate all forms of prejudice within the company; to promote and foster complete equality of job opportunities within the company to all applicants and employees regardless of race, gender, religion, age, national origin and disability, and to ensure tolerance, respect and dignity for all people.

B. Plaintiffs and Texaco will create an independent Equality and Tolerance Task Force (the "Task Force") to determine revisions and additions to Texaco's current human resources programs and to oversee, in conjunction with Texaco's President of the Human Resources Division, the implementation by Texaco of the human resources program changes agreed to or resulting from the terms of the Settlement. Class Counsel estimate that the Task Force and the changes it will implement will cost approximately \$35 million over 5 years. The Task Force will consist of three Texaco appointees, three plaintiffs' appointees, and one independent appointee agreed to by the parties who serves as Chairperson. The Court will approve the nominees to the Task Force. When vacancies occur, the parties shall have the

authority to replace the Task Force members they selected and to jointly select a new Chairperson, subject to Court approval. Texaco will provide all funding necessary to fulfill the work of the Task Force, including the reasonable compensation of the Task Force members, and the cost of reasonable staff, consultants, statisticians, and other appropriate experts.

C. Within the first six months after final approval of the Settlement, Texaco will:

- o Adopt and implement a company-wide diversity and sensitivity training program;
- o Adopt and implement a company-wide mentoring program;
- o Insure that Equal Employment Opportunity ("EEO") and Diversity Performance is included in management objectives and in determining management compensation;
- o Develop and implement an ombudsperson program;
- o Implement national job posting through at least pay grade 18, and commence evaluation of posting at higher grade level positions; and
- o Develop recommendations for the creation and implementation of a mechanism to minimize the fear of retaliation in connection with complaints of employment discrimination.

The Task Force will review all of these initiatives.

D. During this first six month period, the Task Force will, among other things:

- o Evaluate and revise or replace the Performance Management Program ("PMP") including the PMP Appeal Process to ensure that the Program accurately measures employee performance and, among other things, that the standards for performance objectives are specific, measurable, achievable, relevant, time-bound and documented.

- o Evaluate and revise or replace the promotion and employee development process, including High Potential List procedures, including making known to all employees objective Promotability Criteria;
- o Develop and implement centralized monitoring of employee compensation to ensure no disparate treatment or impact based on race which is not job-related and/or consistent with business necessity. Review appropriate data to ensure against unfairness which is not job-related and/or consistent with business necessity. Data may be furnished in such a form as to protect the identity of individuals.

E. The Task Force will review and revise, as appropriate, Texaco's policies and practices for recruitment, hiring, training, opportunities, assignments, and promotion.

F. The Task Force will establish the timetable for the implementation and completion of compliance with any of its determinations, subject to the terms of the Settlement Agreement. The President of Texaco's Human Resources Division will implement each final determination of the Task Force, unless Texaco files an objection to the Court and the Court determines that such final determination constitutes in whole or in part unsound business judgment or is technically not feasible. In the event Texaco files an objection with the Court to a determination of the Task Force, Class Counsel will participate in the proceedings. All reasonable fees and expenses in so doing, including reasonable expert fees and expenses, will be paid by Texaco.

G. Every six months for five years ("the Monitoring Period"), the Task Force will provide to the Court, the Texaco Chairman and Board of Directors, and Class Counsel, information

which it considers to reflect the impact of the Settlement. In addition, the Task Force will submit a detailed annual report ("Annual Report") during the Monitoring Period to the Court, the Texaco Chairman and Board of Directors, and Class Counsel, on the impact of its actions in achieving the Equality and Tolerance Objectives and the terms of the Settlement.

14. All proceedings with respect to the Settlement described by this Notice and the determination of all controversies relating thereto, including disputed questions of law and fact with respect to the validity of claims, will be subject to the jurisdiction of the Court.

V.

THE PLAN OF ALLOCATION

15. After deduction of attorneys' fees, costs and disbursements including expert fees and expenses, awards to the Class representatives and other administrative expenses, as approved by the Court, the balance of the Settlement Fund (the "Net Settlement Fund") shall be paid to Class members in the manner and subject to the conditions set forth below.

16. After consultation with various experts who advised Class Counsel as to a fair, equitable, uniform and efficient plan of allocation (the "Allocation Plan" or "Plan of Allocation"), Class Counsel have determined that the distribution of the Net Settlement Fund will be based on the following four factors: (1) **Existence** -- employment by Texaco at any time during the period

from March 23, 1991 through November 15, 1996, inclusive (the "Class Period"); (2) **Earnings** -- the total earnings of the Class member from Texaco during the Class Period; 3) **Disparity** -- the difference between the actual earnings from Texaco and the estimated expected earnings of the Class member had race not been a factor during the Class Period, as calculated by plaintiffs' expert; and (4) **Time** -- the length of service of the Class member during the Class Period.

17. **Existence:** This factor ensures that every Class member will receive compensation from the Net Settlement Fund. Each Class member will receive \$2,000 from the Net Settlement Fund for the Existence factor. This will account for approximately \$2,700,000 of the Net Settlement Fund.

18. **Earnings and Disparity:** Approximately \$23,000,000 of the Net Settlement Fund will be distributed on the basis of Disparity and Earnings. In order to accomplish this, a Disparity Proportion will be computed for each Class member as the ratio of the Class member's total Disparity during the Class Period to the sum of the total Disparities of all Class members during the Class Period. Similarly, an Earnings Proportion will be computed for each Class member as the ratio of the Class member's total Earnings during the Class Period to the sum of the total Earnings of all Class members during the Class Period. A Weighted Average of the Disparity Proportion and the Earnings Proportion will be computed for each Class member as $\frac{3}{4}$ ths of the Disparity Proportion added to $\frac{1}{4}$ th of the Earnings Proportion. Each Class

member will receive a payment from the \$23,000,000 portion of the Net Settlement Fund equal to the Class member's Weighted Average multiplied by \$23,000,000.

19. **Time:** The remainder of the Net Settlement Fund will be distributed in a proportionate manner according to the Time factor. To accomplish this, each Class member will be considered as starting employment at Texaco either on the date of his or her hire or on March 23, 1991 (the first day of the Class Period), whichever is later. Each Class member will be considered to have ended employment at Texaco either on his or her last day of employment or November 15, 1996 (the last day of the Class Period), whichever is earlier. This amount of time (in total days) will be divided by the corresponding total time employed (in days) for all Class members to arrive at a Time Proportion for each individual. Each Class member will receive a payment equal to the Class member's Time Proportion multiplied by the remainder of the Net Settlement Fund.

20. Within two weeks after the Court enters an order approving the Settlement, Class Counsel will send each Class member by first-class mail, postage prepaid, written notification of his or her individual factors that will be used to determine the distribution that he or she will receive from the Settlement Fund, including his or her (1) length of service at Texaco during the Class Period according to records provided to Class Counsel by Texaco and (2) total earnings at Texaco during the Class Period according to records provided to Class Counsel by Texaco

(the "Individual Factors"). Each member of the Settlement Class will then have two weeks from the date of mailing to notify Class Counsel in writing (the "Notification Date") about any disagreement with Texaco's records of his or her Individual Factors and to provide supporting documentation. Class Counsel will attempt to resolve any such disputes through consultation with Texaco's Human Resources Department. However, to the extent that any disputes cannot be resolved through such consultation, all outstanding disputes will be collectively submitted to the United States Magistrate Judge within ten days of the Notification Date. The Magistrate Judge's determination as to the Individual Factors will be final and binding on all parties.

21. If you have any questions concerning the Plan of Allocation, you may call toll-free at 1-800-914-4722.

VI.

TAX CONSEQUENCES

EACH CLASS MEMBER IS ADVISED TO CONSULT HIS OR HER OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF RECEIVING A CASH BENEFIT FROM THIS SETTLEMENT.

22. Class Counsel have retained experienced tax counsel who have advised that, as a result of a recent amendment to the Internal Revenue Code, all distributions from the Net Settlement Fund to the Class members may be subject to federal income taxation and may also be subject to applicable state and/or local taxation.

23. It is presently contemplated that tax counsel retained by Class Counsel on behalf of the Settlement Class will seek a private letter ruling from the Internal Revenue Service on behalf of Class members regarding the issue of whether distributions from the Net Settlement Fund or a portion thereof constitutes "wages" for purposes of the Federal Insurance Contributions Act ("FICA"), the Federal Unemployment Tax Act ("FUTA") and federal income tax rules regarding the withholding of tax at the source of payment. To the extent a portion of the distributions from the Net Settlement Fund is deemed by the IRS to constitute "wages," some portion of the Net Settlement Fund will be used to pay the applicable FICA tax and FUTA tax. Consequently, it is contemplated that a portion of the Net Settlement Fund will be withheld pending receipt from the Internal Revenue Service of this letter ruling to pay the applicable FICA taxes and FUTA taxes. In such event, a second distribution may be made of any previously withheld funds that, consistent with the Internal Revenue Service's ruling, is not needed to pay the applicable FICA tax and FUTA tax.

VII.

EEOC

24. Texaco reached a settlement agreement with the Equal Employment Opportunity Commission ("EEOC") on January 3, 1997, which is contingent upon final approval of this Settlement. The settlement agreement between Texaco and the EEOC provides, among other things, that the EEOC will have certain rights to receive

information, to monitor this Settlement, and to participate in court proceedings related to this Settlement after the Settlement becomes effective. The settlement agreement between Texaco and the EEOC has been filed with the other papers in the Action and may be inspected at the Office of the Clerk of the United States District Court, United States Courthouse, 300 Quarropas Street, White Plains, New York, during business hours of each business day.

VIII.

CLASS MEMBER RIGHTS AND OBLIGATIONS

25. TO RECEIVE ANY PAYMENTS FROM THE NET SETTLEMENT FUND OR TO BENEFIT FROM THE SALARY INCREASE, YOU DO NOT NEED TO TAKE ANY ACTION.

26. YOU MAY, IF YOU CHOOSE, EXCLUDE YOURSELF ("OPT-OUT") FROM THE MONETARY RELIEF PORTION OF THE SETTLEMENT, WHICH INCLUDES YOUR SHARE OF THE NET SETTLEMENT FUND AND SALARY INCREASE. THIS WILL LEAVE YOU FREE TO PURSUE ANY CLAIM(S) YOU MAY HAVE UNDER APPLICABLE LAW FOR INDIVIDUAL MONETARY RELIEF OR DAMAGES RESULTING FROM YOUR EMPLOYMENT AT TEXACO. IF YOU WISH TO OPT-OUT, YOUR REQUEST, MADE IN WRITING, MUST BE SENT OR DELIVERED SO THAT IT IS RECEIVED AT THE FOLLOWING ADDRESS BY NO LATER THAN MARCH 4, 1997:

TEXACO CLASS ACTION DISCRIMINATION LITIGATION
c/o Bernstein Litowitz Berger & Grossmann LLP
P.O. Box 5141
New York, NY 10185-5141

Any Class member who opts-out shall not be bound by the monetary portion of this settlement, and will not receive any distribution from the Net Settlement Fund and will not receive any Salary Increase, but may still pursue any individual claims for monetary relief. Class members who do not opt-out will release their claims as defined below in exchange for both their share of the Net Settlement Fund and their Salary Increase, if applicable.

27. TEXACO BELIEVES ALL CLASS MEMBERS SHOULD FEEL ABSOLUTELY FREE TO BENEFIT FROM THE SETTLEMENT AND SHOULD NOT MISTAKENLY BELIEVE THAT TEXACO PREFERS THAT CLASS MEMBERS OPT-OUT. Unless a Class member intends to pursue a separate employment discrimination claim against Texaco arising prior to November 16, 1996, Texaco knows of no reason for a Class member to opt-out.

28. Any member of the Settlement Class who has not requested exclusion may, but need not, enter an appearance in this action at his own cost through counsel of his own choice. If the Class member does not enter an appearance, he or she will be represented by Class Counsel in the Action as set forth in the Settlement Agreement.

29. Any member of the Settlement Class may, but need not, appear at the Fairness Hearing in person or through counsel and be heard as to why the proposed settlement of the Action and the Plan of Allocation should or should not be approved as fair, reasonable and adequate, why a judgment should or should not be entered thereon, why Class Counsel should or should not be

awarded attorneys' fees, costs, and disbursements, as requested, and why the named plaintiffs should or should not be awarded Incentive Awards; provided, however, that no member of the Settlement Class shall be heard or entitled to contest the approval of the terms and conditions of the proposed Settlement, the judgment to be entered thereon approving the same, or the fees, costs and disbursements requested, unless that person has sent or delivered written objections and copies of any supporting papers and briefs (which must contain proof of membership in the Settlement Class) to Counsel described below, and such objections and supporting papers have been received by no later than March 4, 1997:

Michael D. Hausfeld, Esq.
Cyrus Mehri, Esq.
COHEN, MILSTEIN, HAUSFELD & TOLL, P.L.L.C.
1100 New York Avenue, N.W.
Washington, D.C. 20005

Daniel L. Berger, Esq.
Steven B. Singer, Esq.
BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP
1285 Avenue of the Americas
New York, New York 10019

Plaintiffs' Class Counsel

-and-

Milton J. Schublin, Esq.
KAYE, SCHOLER, FIERMAN, HAYS & HANDLER, LLP
425 Park Avenue
New York, New York 10022

Attorneys for Defendant Texaco Inc.

and has filed said objections, papers, and briefs (showing due proof of service upon said Counsel) with the Clerk of the United

States District Court for the Southern District of New York, 300 Quarropas Street, White Plains, New York.

30. Any member of the Settlement Class who does not make his or her objection in the manner provided shall have waived such objection and shall forever be foreclosed from making any objection to the fairness, adequacy or reasonableness of the proposed Settlement and Allocation Plan, to the award of attorneys' fees, or to the award of Incentive Awards to the named plaintiffs.

IX.

RELEASE OF CLAIMS & COVENANT NOT TO SUE

31. The Settlement Agreement contains the following release: when this Settlement Agreement becomes Final, each member of the Settlement Class who does not opt-out will have released Texaco from, and have covenanted not to sue it on, any and all claims under federal or state law that have been, or could have been, asserted against Texaco arising out of or relating to claims of employment discrimination (including retaliation) or disparate treatment or impact in his or her employment by Texaco prior to November 16, 1996, including any claim for discrimination on the basis of age, disability, gender, national origin, race, religion or any other factor or protected classification (the "Settled Claims").

32. If this Settlement is approved by the Court, any and all Settled Claims shall be dismissed with prejudice.

33. Texaco will have a right to withdraw from the Settlement if a substantial number of Class members opt-out of the Settlement to pursue their own claims. Such right shall be exercised, solely within the discretion of Texaco, within seven calendar days following the end of the opt-out period.

X.

INDIVIDUAL BENEFITS

34. Texaco has agreed, in its discretion and without regard to whether the Settlement is approved, to accommodate certain requests from two of the Class representatives. Plaintiff Harris has transferred from Texaco's office in California to one in Texas; plaintiff Chambers is availing himself of Texaco's Executive on Loan program with a mutually agreed upon not-for-profit organization. Separately, plaintiff Roberts, who is not a Class representative, is voluntarily leaving employment at Texaco and will receive a severance package in connection therewith.

XI.

**APPLICATIONS FOR ATTORNEYS' FEES,
COSTS AND DISBURSEMENTS AND INCENTIVE AWARDS**

35. If the Settlement is approved by the District Court, Class Counsel intend to apply to the District Court for an award of attorneys' fees in an amount not to exceed 25% of the \$115 million Settlement Fund, plus interest accrued thereon, and for an award of reimbursement for out of pocket costs and disbursements, including expert fees, tax counsel fees, and other

expenses. Class Counsel will not seek an award of attorneys' fees for any other portion of the Settlement, including the Salary Increase that Class Counsel estimates to be worth \$26 million, and the creation of the Task Force that Class Counsel estimates to be worth \$36 million. Accordingly, Class Counsel's application for an award of attorneys' fees will be for approximately 16.3% of the \$176.1 million total value of the Settlement. Any amounts awarded by the Court for fees and costs will be paid out of the Settlement Fund. As part of the Settlement, the Class representatives and the Settlement Class expressly waive any claim or right to any statutory award of attorneys' fees. The Settlement Fund may be further reduced by the cost of notice and other administrative expenses as approved by the Court. Further, the named plaintiffs in the Action will seek a court award of incentive payments for undertaking representation of the Settlement Class, and assistance provided to Class Counsel in the course of the litigation, in an amount not to exceed \$200,000 each for plaintiffs Sil Chambers and Bari- Ellen Roberts and not to exceed \$100,000 each for plaintiffs Marsha Harris, Veronica Shinault, Janet Williams and Beatrice Hester.

XII.

EXAMINATION OF PAPERS AND INQUIRIES

36. The foregoing is only a summary of the litigation and the proposed Settlement and does not purport to be all-

encompassing. For a more detailed statement of the matters involved in the Action and the proposed Settlement, you may refer to the pleadings, the Settlement Agreement and the other papers filed in the above Action, which may be inspected at the Office of the Clerk of the United States District Court, United States Courthouse, 300 Quarropas Street, White Plains, New York, during business hours of each business day.

37. All inquiries by members of the Settlement Class may be directed in writing to:

TEXACO CLASS ACTION DISCRIMINATION LITIGATION
Bernstein Litowitz Berger & Grossmann LLP
1285 Avenue of the Americas
New York, NY 10019

Or, if you wish, you may call toll-free at 1-800-914-4722.

Inquiries should not be directed to the Clerk of the Court or to the Judge.

Dated: January __, 1997

By Order of the Court

Honorable Charles L. Brieant
United States District Court
Southern District of New York

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Exhibit C

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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BARI-ELLEN ROBERTS, SIL CHAMBERS, :
JANET LEIGH WILLIAMS, MARSHA HARRIS, :
BEATRICE HESTER and VERONICA SHINAULT, :
Individually and as :
Class Representatives, : 94 Civ. 2015 (CLB)

Plaintiffs, :

- against - :

TEXACO INC., :

Defendant. :

- - - - - X

**NOTICE OF PENDENCY OF CLASS ACTION,
PROPOSED SETTLEMENT AND FAIRNESS HEARING**

TO: ALL AFRICAN-AMERICANS EMPLOYED IN A SALARIED POSITION
SUBJECT TO THE TEXACO MERIT SALARY PROGRAM IN THE UNITED
STATES BY TEXACO INC. ("TEXACO") OR ITS SUBSIDIARIES AT ANY
TIME FROM MARCH 23, 1991 THROUGH NOVEMBER 15, 1996,
INCLUSIVE (THE "SETTLEMENT CLASS").

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR
RIGHTS WILL BE AFFECTED BY PROCEEDINGS IN THIS LITIGATION.

1. NOTICE IS HEREBY GIVEN, pursuant to Rule 23 of the
Federal Rules of Civil Procedure and an Order of the United
States District Court for the Southern District of New York,
dated January 22, 1997, that a hearing will be held before the
Honorable Charles L. Brieant in a Courtroom of the United States
District Court for the Southern District of New York, 300
Quarropas Street, White Plains, New York, at 9:00 a.m. on
Tuesday, March 18, 1997 (the "Fairness Hearing") to determine
(1) whether a proposed settlement (the "Settlement") of the
above-entitled litigation, (the "Action") as set forth in the

Stipulation and Settlement Agreement dated January __, 1997 (the "Settlement Agreement"), is fair, reasonable, adequate, and should be approved; (2) whether a final judgment should be entered dismissing the Action on the merits, with prejudice and without costs; (3) whether the plan proposed for allocating and distributing the Net Settlement Fund is fair and reasonable and should be approved; (4) whether an award of attorneys' fees, costs and reimbursement of disbursements should be made to Class Counsel; and (5) whether Incentive Awards should be made to the named plaintiffs. You may but are not required to attend the Fairness Hearing in order to receive your share of the Settlement.

I.

BACKGROUND OF THE ACTION

2. On March 23, 1994, a class action complaint was filed in the United States District Court for the Southern District of New York (the "Court") by plaintiffs Bari-Ellen Roberts and Sil Chambers against defendant Texaco, which alleged that certain Texaco employment policies and practices had a disparate impact on the individual plaintiffs and the Class alleged in the Complaint in violation of Section 1981 of the Civil Rights Act of 1971, as amended in 1991, 42 U.S.C. § 1981 ("Section 1981"), and Section 296 of the New York Human Rights Law, N.Y. Exec. Law. § 296 ("Section 296"). On June 30, 1994, plaintiffs filed a First Amended Complaint (the "Amended Complaint"), which, among other

things, added claims on behalf of individual plaintiffs Janet Williams, Marsha Harris, Beatrice Hester and Veronica Shinault and the Class alleged in the Complaint and asserted claims arising under Title VII of the Civil Rights Act of 1964, as amended in 1991, 42 U.S.C. §§ 2000e, et seq ("Title VII").

3. The Amended Complaint alleges that, beginning no later than March 23, 1991, certain Texaco employment policies and practices had a disparate impact on salaried African-American employees in promotions, compensation and the terms and conditions of their employment, including training and job assignments. On July 15, 1994, Texaco answered the Amended Complaint, denying any and all alleged wrongdoing or liability.

4. On May 15, 1995, plaintiffs moved for class certification under Section 1981 and Section 296. In connection with discovery related to class certification issues, plaintiffs reviewed thousands of documents, including Texaco's Affirmative Action Plans, performed detailed statistical analyses of the promotion and compensation rates of Texaco's African-American and Caucasian employees, and obtained, in addition to the testimony of the six named plaintiffs, declarations from thirty individuals regarding alleged racial discrimination at Texaco. During class discovery more than forty fact and expert witnesses were deposed. Further, plaintiffs obtained expert reports from three independent experts in support of class certification. In August 1996, plaintiffs moved to add Title VII claims to the class

motion. The Court granted this motion and set the entire class motion to be heard on December 6, 1996.

5. Texaco denies any and all fault, wrongdoing or liability whatsoever, and maintains that there is no substance to any of the allegations made against it in the Action, and desires, by settlement of all controversies between it and plaintiffs and the Settlement Class, to avoid the expense, inconvenience, distraction and delay of further litigation.

II. SETTLEMENT CLASS

6. For purposes of the proposed Settlement, the parties have stipulated to and the Court has, by Order dated January 22, 1997, certified the following Settlement Class:

All African-Americans employed in a salaried position subject to the Texaco Merit Salary Program in the United States by Texaco or its subsidiaries at any time from March 23, 1991 through and including November 15, 1996.

For purposes of this Settlement, African-Americans means persons who, pursuant to the EEOC's Race/Ethnic Identification form, designated themselves to Texaco as "Black". Also for purposes of this Settlement, "subsidiaries" shall mean entities in which Texaco Inc. has, directly or indirectly, more than a 50% ownership interest. Employees whose salaried position was not subject to the Texaco Merit Salary Program are not within the Settlement Class. Please note: even if you signed a release of

7. Within two weeks after the Court enters an order approving the Settlement, Class Counsel will send each Class member by first-class mail, postage prepaid, written notification of the Class member's individual factors (the "Individual Factors") that will be used to determine the distribution that the Class member will receive from the Settlement Fund, including the Class member's (1) length of service at Texaco during the Class Period according to records provided to Class Counsel by Texaco and (2) total earnings at Texaco during the Class Period according to Texaco records provided to Class Counsel by Texaco. Each member of the Settlement Class will then have two weeks from the date of mailing to notify Class Counsel in writing about any disagreement with Texaco's records and to provide any available supporting documentation (the "Notification Date"). Class Counsel will attempt to resolve any such disputes through consultation with Texaco's Human Resources Department. However, to the extent that any disputes cannot be resolved through such consultation, all outstanding disputes will be collectively submitted to the United States Magistrate Judge within ten days of the Notification Date. The Magistrate Judge's determination as to the Individual Factors will be final and binding on all parties.