

**Exxon Mobil Corporation**

NYSE: XOM

Industry: Oil &amp; Gas - Integrated

Meeting Date: May 27, 2009

Record Date: April 6, 2009

**Lead Analysts**

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**2009 ANNUAL MEETING**

<b>Proposal</b>	<b>Issue</b>	<b>Board</b>	<b>GL&amp;Co.</b>
1.00	Election of Directors	For	For
1.01	Elect Michael Boskin	For	For
1.02	Elect Larry Faulkner	For	For
1.03	Elect Kenneth Frazier	For	For
1.04	Elect William George	For	For
1.05	Elect Reatha King	For	For
1.06	Elect Marilyn Nelson	For	For
1.07	Elect Samuel Palmisano	For	For
1.08	Elect Steven Reinemund	For	For
1.09	Elect Rex Tillerson	For	For
1.10	Elect Edward Whitacre, Jr.	For	For
2.00	Ratification of Auditor	For	For
3.00	Shareholder Proposal Regarding Cumulative Voting	Against	For
4.00	Shareholder Proposal Regarding Right to Call a Special Meeting	Against	For
5.00	Shareholder Proposal Regarding Reincorporation	Against	Against
6.00	Shareholder Proposal Regarding Independent Board Chairman	Against	For
7.00	Shareholder Proposal Regarding Advisory Vote on Executive Compensation (Say on Pay)	Against	For
8.00	Shareholder Proposal Regarding Executive Compensation Report	Against	Against
9.00	Shareholder Proposal Regarding Corporate Sponsorships Report	Against	Against
10.00	Shareholder Proposal Regarding Adopting Sexual Orientation and Gender Identity Expression Anti-Bias Policy	Against	For
11.00	Shareholder Proposal Regarding Greenhouse Gas Emissions Goals	Against	For
12.00	Shareholder Proposal Regarding a Climate Change and Technology Report	Against	Against
13.00	Shareholder Proposal Regarding Renewable Energy Policy	Against	Against

**NOTE**

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The shareholder proponent of Proposal 10, The Office of the Comptroller of New York City, is a client of Glass Lewis.

# Company Profile

## ADDRESS

5959 Las Colinas Boulevard  
 Irving, TX 75039  
 www.exxonmobil.com  
 Phone: +1 (972) 4441000  
 Fax: +1 (972) 4441348  
 Employees: 79,900

## COMPANY DESCRIPTION

Exxon Mobil Corporation (Exxon Mobil), through its divisions and affiliates is engaged in exploration for, and production of, crude oil and natural gas, manufacture of petroleum products and transportation and sale of crude oil, natural gas and petroleum products. Exxon Mobil is a manufacturer and marketer of commodity petrochemicals, including olefins, aromatics, polyethylene and polypropylene plastics and a range of specialty products. Exxon Mobil also has interests in electric power generation facilities. Affiliates of Exxon Mobil conduct research programs in support of these businesses. Exxon Mobil Corporation has several divisions and affiliates, many with names that include Exxon Mobil, Exxon, Esso or Mobil. The Company operates in three segments: Upstream, Downstream and Chemicals.

Source: FactSet

## ENVIRONMENTAL AND SOCIAL RISK PROFILE

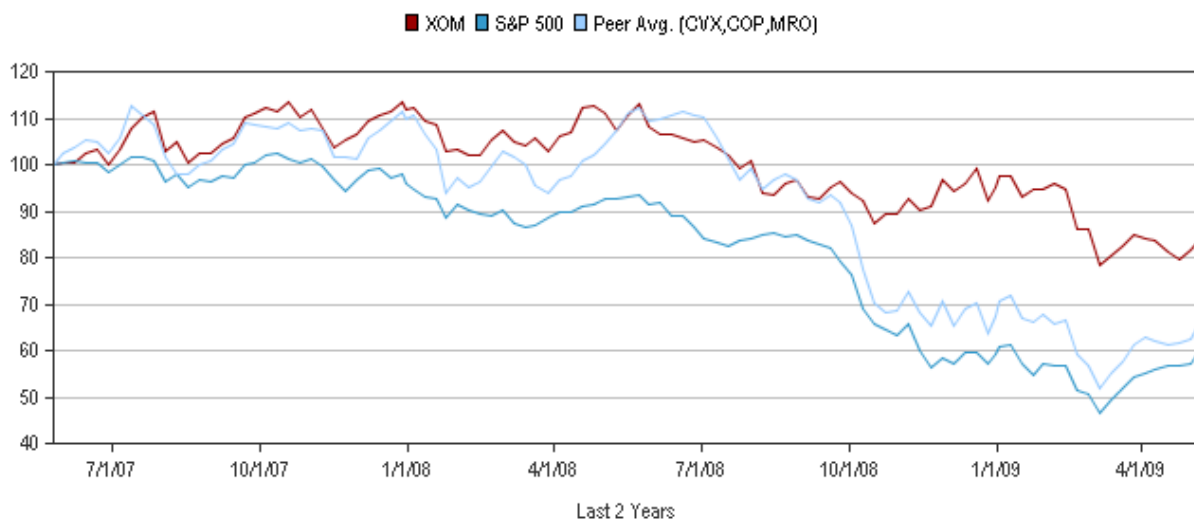
Sustainability Report:	Yes
UN Global Compact:	No
Greenhouse Gas Target:	No
ILO Reference in Human Rights Policy Statement:	Yes
UN PRI Signatory:	No
Sexual Orientation Non-Discrimination Policy:	No
Global Sullivan Principles:	No

Source: IW Financial

## TOP 20 INSTITUTIONAL HOLDERS

Holder	% Owned
1. Barclays Global Investors NA (California)	4.46%
2. State Street Global Advisors	4.10%
3. Vanguard Group, Inc.	3.37%
4. Columbia Management Advisors, Inc.	1.45%
5. Northern Trust Investments	1.31%
6. Fidelity Management & Research	1.31%
7. AllianceBernstein LP	1.13%
8. Bank of New York Mellon Asset Management	1.05%
9. T. Rowe Price Associates, Inc.	0.89%
10. BlackRock Advisors, Inc.	0.89%
11. TIAA-CREF Asset Management LLC	0.77%
12. State Farm Insurance Co. Asset Management	0.75%
13. JPMorgan Chase Bank NA	0.72%
14. Wellington Management Co. LLP	0.68%
15. Geode Capital Management LLC	0.58%
16. INTECH Investment Management LLC	0.57%
17. JPMorgan Asset Management, Inc.	0.51%
18. Capital World Investors	0.47%
19. Mellon Capital Management	0.47%
20. Norges Bank Investment Management	0.44%

## INDEXED STOCK PRICE



# Competitors / Peer Comparison<sup>1</sup>

	Exxon Mobil Corporation	Chevron Corporation	ConocoPhillips	BP plc (ADR)
<b>Ticker</b>	XOM	CVX	COP	BP
Closing Price (05/11/09)	\$ 69.27	\$ 68.00	\$ 45.13	\$ 47.00
Shares Outstanding (mm)	4,880.0	2,004.7	1,522.3	3,120.8
Market Capitalization (mm)	\$ 338,038.0	\$ 136,318.0	\$ 68,702.7	\$ 146,677.0
Enterprise Value (mm)	\$ 326,477.0	\$ 139,711.0	\$ 98,377.7	\$ 180,005.0
Revenue (LTM) (mm)	\$ 408,484.0	\$ 235,286.0	\$ 220,910.0	\$ 322,962.0
<b>Growth Rate</b>				
Revenue Growth Rate (5 Yrs)	12.8%	15.6%	16.4%	16.0%
EPS Growth Rate (5 Yrs)	22.7%	22.9%	0.0%	14.2%
<b>Profitability (LTM)</b>				
Return on Equity (ROE)	33.8%	24.7%	-28.1%	17.6%
Return on Assets (ROA)	16.2%	13.2%	-12.4%	7.0%
Dividend Rate	2.4%	3.8%	4.2%	7.1%
<b>Stock Performance</b>				
1 Year Stock Performance	-22.0%	-30.2%	-49.1%	-34.8%
3 Year Stock Performance	9.2%	8.4%	-32.5%	-37.8%
5 Year Stock Performance	62.6%	49.5%	23.3%	-10.7%
Annualized 1 Year Total Return (past 3 yrs)	5.1%	6.3%	-9.1%	-9.7%
<b>Valuation Multiples (LTM)</b>				
P/E Ratio	9.1x	6.7x	0.0x	8.9x
TEV/Revenue	0.8x	0.6x	0.4x	0.6x
TEV/EBIT	4.7x	3.8x	3.7x	6.2x
<b>Margins Analysis (LTM)</b>				
Gross Profit Margin	27.2%	23.8%	13.9%	13.2%
Operating Income Margin	13.6%	12.2%	12.1%	8.4%
Net Income Margin	9.5%	8.8%	-9.2%	5.1%
<b>Liquidity/Risk</b>				
Current Ratio	1.3x	1.4x	1.0x	1.0x
Debt-Equity Ratio	0.09x	0.14x	0.53x	0.54x
<b>Auditor Data<sup>2</sup></b>				
Year	2008	2008	2008	2006
Auditor	PricewaterhouseCoopers	PricewaterhouseCoopers	Ernst & Young	Ernst & Young
Auditor Fees	\$ 24,800,000	\$ 23,300,000	\$ 16,500,000	\$ 36,000,000
Audit Related Fees	\$ 6,100,000	\$ 2,400,000	\$ 2,900,000	\$ 28,000,000
Tax + All Other Fees	\$ 4,000,000	\$ 900,000	-	\$ 9,000,000
<b>Executive Compensation<sup>3</sup></b>				
Year of Data	2008	2007	2008	-
Chief Executive Officer	\$23,891,576	\$15,553,251	\$14,740,478	-
Other Named Executives	\$36,818,152	\$22,763,458	\$21,317,708	-

Source: FactSet Research Systems, Reuters, Thomson Financial, and Glass, Lewis & Co. LLC

1. Listed competitors are based on GICS® industry classifications and other financial metrics including market capitalization and revenue.

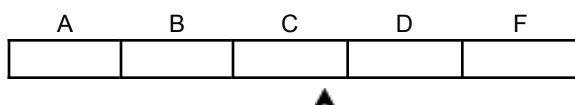
2. As disclosed by the Company and its peers in their most recent proxy filings.

3. As calculated by Glass Lewis based on information disclosed by the Company and its peers in their proxy filings.

# Pay-For-Performance

Exxon Mobil's executive compensation received a **C** grade in our proprietary pay-for-performance model, which uses 36 measurement points. The Company paid: more compensation to its top officers (as disclosed by the Company) than the median compensation for 12 similarly sized companies with an average enterprise value of \$536 billion; more than a sector group of 4 large energy companies with enterprise values ranging from \$50.2 billion to \$397.3 billion; and more than a sub-industry group of 7 integrated oil & gas companies. The CEO was paid above the median CEO in these peer groups. Overall, the Company paid more than its peers and performed better than its peers.

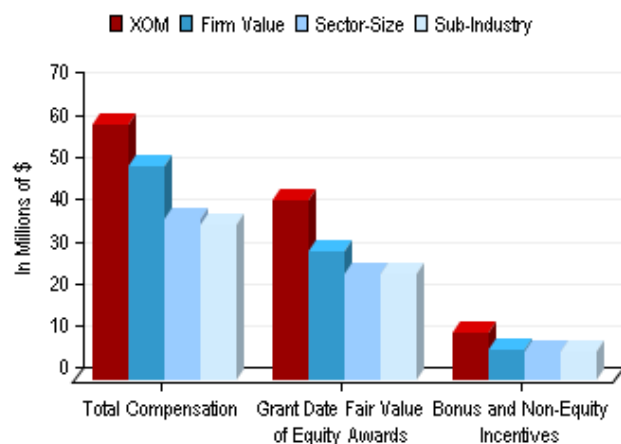
## FY 2008 Compensation Committee Grade



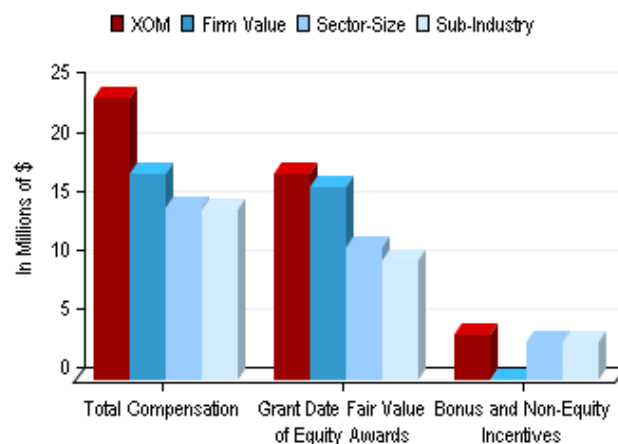
## Historical Compensation Score

Fiscal Year	2006	2007	2008
Grade	C	C	C

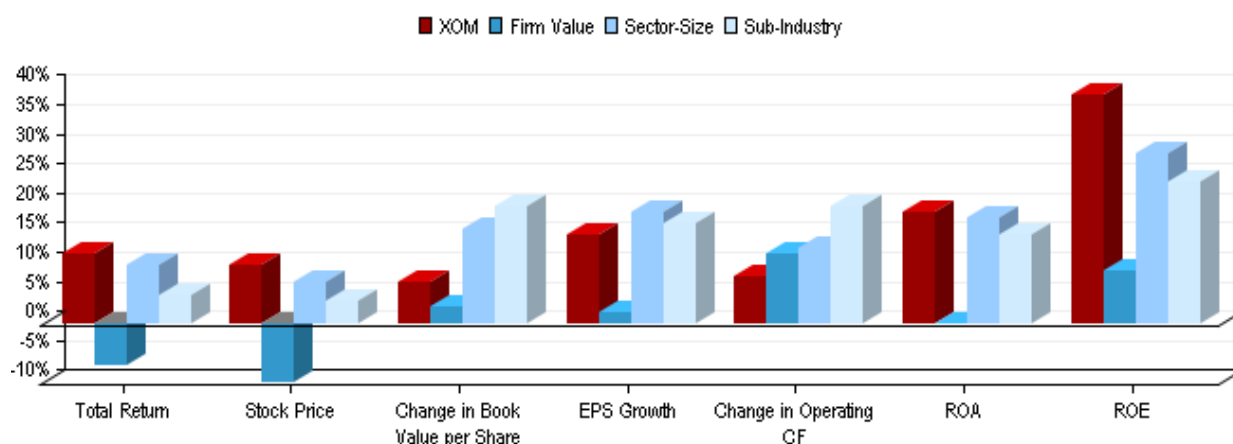
## Company Compared with Median



## CEO Compared with Median



## Shareholder Wealth and Business Performance



Note: Compensation analysis for period ending 12/2008. Performance measures based on weighted average of annualized 1, 2, and 3 year data.

# Voting Results from Last Annual Meeting (May 28,2008)

Source: 10-Q dated June 30, 2008

## ELECTION OF DIRECTORS

No.	Proposal	Votes Withheld
1	Elect Michael Boskin	4.87%
2	Elect Larry Faulkner	3.16%
3	Elect William George	2.73%
4	Elect James Houghton	3.77%
5	Elect Reatha King	3.40%
6	Elect Marilyn Nelson	3.29%
7	Elect Samuel Palmisano	2.70%
8	Elect Steven Reinemund	3.11%
9	Elect Walter Shipley	2.80%
10	Elect Rex Tillerson	3.03%
11	Elect Edward Whitacre, Jr.	2.70%

# Voting Results from Last Annual Meeting (May 28, 2008)

Source: 10-Q dated June 30, 2008 and Form NP-X

## OTHER ITEMS

No.	Proposal	Votes			Broker Non-Votes
		For	Against	Abstain	
2	Ratification of Auditor	4,309,316,861	89,936,431	80,200,173	0
3	Shareholder Proposal Regarding Submission of Non-Binding Shareholder Proposals	94,563,822	3,293,199,805	153,137,758	938,552,080
4	Shareholder Proposal Regarding Director Nominee Qualifications	118,326,019	3,322,211,694	100,363,672	938,552,080
5	Shareholder Proposal Regarding an Independent Board Chairman	1,361,080,211	2,081,307,709	98,513,465	938,552,080
6	Shareholder Proposal Regarding Shareholder Return Policy	162,879,474	3,272,308,929	105,712,982	938,552,080
7	Shareholder Proposal Regarding Advisory Vote on Executive Compensation	1,361,229,410	1,981,102,514	198,569,461	938,552,080
8	Shareholder Proposal Regarding an Executive Compensation Report	368,484,255	3,025,097,742	147,319,388	938,552,080
9	Shareholder Proposal Regarding Incentive Pay Recoupment	428,405,781	3,010,622,412	101,873,192	938,552,080
10	Shareholder Proposal Regarding Corporate Sponsorships Report	287,651,144	2,688,298,219	564,952,022	938,552,080
11	Shareholder Proposal Regarding a Political Contributions Report	843,964,133	2,211,647,378	485,289,874	938,552,080
12	Shareholder Proposal Regarding an Amendment to Equal Employment Opportunity Policy	1,296,428,500	1,975,180,175	269,292,710	938,552,080
13	Shareholder Proposal Regarding Community Environmental Impact	327,559,000	2,700,516,909	512,825,476	938,552,080
14	Shareholder Proposal Regarding a Arctic National Wildlife Refuge Drilling Report	252,395,955	2,737,719,520	550,785,910	938,552,080
15	Shareholder Proposal Regarding Greenhouse Gas Emissions Goals	922,633,711	2,066,475,554	551,792,120	938,552,080
16	Shareholder Proposal Regarding CO2 Information at the Pump	211,432,634	2,819,336,182	510,132,569	938,552,080
17	Shareholder Proposal Regarding a Climate Change and Technology Report	314,453,997	2,709,207,016	517,240,372	938,552,080
18	Shareholder Proposal Regarding an Energy Technology Report	284,241,536	2,739,669,008	516,990,841	938,552,080
19	Shareholder Proposal Regarding Renewable Energy Policy	805,429,204	2,128,479,852	606,992,329	938,552,080

## BOARD OF DIRECTORS

Name	Up	Age	GLC Classification	Committees				Term Start	Term End	Attended at least 75% of Meetings
				Audit	Comp	Gov	Nom			
Michael J. Boskin	✓	63	Independent	✓				1996	2009	Yes
Larry R. Faulkner	✓	64	Independent	✓				2008	2009	Yes
Kenneth C. Frazier	✓	54	Independent					-	-	N/A
William W. George	✓	66	Independent		C	✓	✓	2005	2009	Yes
Reatha Clark King	✓	71	Independent		✓			1997	2009	Yes
Marilyn Carlson Nelson	✓	69	Independent			✓	✓	1991	2009	Yes
Samuel J. Palmisano	✓	57	Independent <sup>1</sup>		✓	✓	✓	2006	2009	Yes
Steven S. Reinemund	✓	61	Independent	✓				2007	2009	Yes
Rex W. Tillerson	✓	57	Insider <sup>2</sup>					2004	2009	Yes
Edward E. Whitacre, Jr.	✓	67	Independent		✓			2008	2009	Yes

C = Chair

1. Presiding director.
2. Chairman and CEO.

The board has nominated ten candidates to serve a one-year term each. If elected, their terms would expire at the Company's 2010 annual meeting of shareholders.

We believe it is important for shareholders to be mindful of the following issues:

While the Company has historically had a poor reputation in the area of climate change, management may finally be starting to take real action to address climate risk and related issues. Director Tillerson, who serves as the Company's chairman and CEO, has recently called on Congress to enact a tax on greenhouse-gas emissions. Specifically, such a tax would be imposed on emissions of carbon dioxide (also known as a carbon tax). This represents a stark contrast to his previous stance; in 2007 Mr. Tillerson stated that he did not support any particular policy for curbing carbon-dioxide emissions. While some are skeptical of his motives, citing the fact that few believe that such a tax is politically feasible, others believe that Mr. Tillerson's endorsement of a carbon tax could have potentially positive, widespread ramifications, by weakening the resistance to carbon policy based on the notion that it is bad for business. ("Exxon CEO Advocates Emissions Tax." *Wall Street Journal*. January 9, 2009).

However, certain shareholders continue to be concerned with the Company's approach to issues such as greenhouse gas emissions, climate change and renewable energy (see Proposals 11, 12 and 13). Thus, while management may finally be starting to address climate risk and related issues, we believe the Company's historical reluctance in setting identifiable goals in climate change initiatives has adversely affected its reputation and, potentially in the longer term, its competitive position, creating a pressing need for action in this area. Thus, as discussed further in our analysis of Proposal 11, we believe the Company would be well served by adopting quantitative goals regarding reductions in

greenhouse gas emissions.

### ***Enhancement of the Role of Presiding Director***

On November 4, 2008, the Company disclosed in a press release that it had made certain changes to its corporate governance guidelines to enhance the role of presiding director. Previously, the chair of the board affairs committee and the chair of the compensation committee presided at the executive sessions of non-employee directors on a rotating basis depending on the subject matter discussed. Under the new guidelines, the presiding director will be selected by the non-employee directors and will generally serve a minimum term of two years in such capacity. The presiding director has the authority to call and chair executive sessions of the non-employee directors, and will chair all board meetings in the absence of the chairman. We note that Samuel Palmisano has been selected by the non-employee directors to serve as presiding director. However, certain shareholders have expressed concerns regarding his selection. Specifically, Ram Trust Services, which submitted a shareholder proposal at this year's annual meeting on behalf of Robert AG Monks to separate the role of chairman and CEO (see Proposal 6), has raised concerns that Mr. Palmisano's job as chairman and CEO of IBM Corporation may preclude him from dedicating the time and attention necessary to lead the Company's board. Further, we note that IBM Corporation has engaged in certain business transactions with the Company that may potentially affect the independence of Mr. Palmisano, as discussed below.

### ***Related Party Transaction Disclosure***

In its most recent proxy filing, the Company discloses that Messrs. Frazier, Nelson and Palmisano are affiliated with entities involved in the following transactions, relationships or arrangements with the Company during fiscal year 2008:

- Mr. Frazier is executive vice president and president of global human health at Merck & Co., which was involved in transactions related to purchases of pharmaceutical products, and sales of chemicals and oils;
- Ms. Nelson is the chairman and former CEO (until 2008) of Carlson Companies, which was involved in transactions related to purchases of travel services and sales of lubricants; and
- Mr. Palmisano is the chairman, president and CEO of IBM Corporation, which was involved in transactions related to purchases of consulting and IT maintenance services.

The Company discloses that the aggregate payments to each of these entities did not exceed the greater of \$1 million or 2% of that entity's consolidated gross revenues for each of the last three years, and that the transactions took place in the ordinary course of business.

We find this style of disclosure to be wholly inadequate. In our view, the Company should fully disclose the amount and nature of transactions that might reasonably impair a director's ability to act in shareholders' best interests. We believe the cost of providing this disclosure is reasonable, particularly in light of the impact it may have on the board's overall independence. Under circumstances of such poor disclosure, we would ordinarily recommend that shareholders withhold votes from those nominees that may have ongoing conflicts of interest. However, we note that these transactions were made in the ordinary course of business. Nevertheless, we believe the board should provide more comprehensive disclosure with regard to transactions between the Company and members of the board.

### ***Legal and Regulatory Risk: Low***

As discussed in our 2008 Proxy Paper, the Company has been involved in legal proceedings relating to the 1989 grounding of the Exxon Valdez, which dumped 11 million gallons of crude oil into Alaska's Prince William Sound. On December 22, 2006, the 9th U.S. Circuit Court of Appeals cut the Valdez punitive damage award from \$4.5 billion to \$2.5 billion. The Company had repeatedly appealed prior judgments, arguing that they were "unconstitutionally excessive" considering U.S. Supreme Court precedent. On January 12, 2007, the Company petitioned the Ninth Circuit Court of Appeals for a rehearing en banc on its appeal of the revised punitive damage award of \$2.5 billion. On May 23, 2007, the appeals court denied the Company's petition. However, the U.S. Supreme Court granted the Company's petition for a writ of certiorari and on June 25, 2008, the U.S. Supreme Court vacated the \$2.5 billion punitive damage award previously entered by the Ninth Circuit Court of Appeals and remanded the case to the Circuit Court with an instruction that punitive damages in the case may not exceed a maximum amount of \$507.5 million. The Company reports in its most recent annual report that it has recorded after-tax charges totaling \$460 million for the second and third quarters of 2008 to reflect its estimate of the resolution of the matters.

As discussed in our previous Proxy Papers, a lawsuit was filed in 2001 by Washington D.C.-based advocacy group International Labor Rights Fund on behalf of 11 unnamed Acehnese villagers accusing the Company's Indonesian subsidiary of allowing its facilities to be used by soldiers to perform abuses, including "murder, torture, sexual violence and kidnapping." At least 3,000 Indonesian soldiers were deployed to guard a natural gas field and pipeline operated by the Company on behalf of the country's state-run Pertamina energy conglomerate. The Company has vigorously denied the claims, stating through spokeswoman Susan Reeves that, "Exxon Mobil condemns human rights violations in any form." Additionally, the Company expressed concerns that the case could set a precedent of companies abroad being held "vicariously liable" for actions of the government in their host country (Slobodan Lekic. "Exxon to Appeal Aceh Torture Case Ruling." *Associated Press*. March 9, 2006). Following the Company's request to throw out the case, on January 17, 2007, the U.S. Court of Appeals ruled that the Company must face the lawsuit, despite the Company's assertion that the case raises political questions outside the jurisdiction of U.S. courts ("Exxon Faces Lawsuit on Killings in Indonesia." *Bloomberg News*. January 17, 2007). On August 27, 2008, the U.S. district court for the District of Columbia denied summary judgment to the Company and its Indonesian subsidiary, concluding that the plaintiffs had "provided sufficient evidence, at this stage, for their allegations of serious abuse" (John Doe I, et. al. v. Exxon Mobil Corporation, et. al., 2008 U.S. Dist. Lexis 65857; 537 F. Supp. 2d 16).

In our view, although legal disputes are common to many companies, shareholders should be concerned with any type of lawsuit or regulatory investigation involving the Company, as such matters could potentially expand in scope and prove to dampen shareholder value. We will continue to monitor these proceedings going forward for any material developments.

### ***Compensation Discussion & Analysis Disclosure***

In light of additional scrutiny regarding executive compensation disclosures, including the Compensation Discussion & Analysis ("CD&A"), we believe that shareholders would benefit from a pointed assessment of the Company's CD&A disclosure. In completing our assessment, we consider, among other factors, how performance goals and metrics are set, how such goals and metrics are used to improve Company performance, the peer group against which the Company believes it is competing and the discretion afforded management or the compensation committee to deviate from any of the foregoing standards.

Upon our review of its most recent proxy statement, we note the following concerns with the Company's CD&A disclosure:

- With respect to the earnings bonus units, the Company does not discuss the degree of difficulty associated with the achievement of the cumulative earnings per share threshold goal;
- The Company does not disclose in its proxy statement how it performed in relation to such cumulative earnings per share goal;
- The Company does not clearly describe how the 2008 annual bonus pool of \$232 million was determined and set by the compensation committee, merely noting that the size of the pool was based on the Company's annual net income and other business performance factors;
- The Company could provide greater information, and be more specific, regarding how the compensation committee actually determines whether an executive's total compensation is near, substantially below, or substantially above the comparator group median;
- With respect to the performance measures used to determine 2008 incentive payouts, the Company does not disclose the specific factors that led the Company to conclude that it had "strong results in the areas of safety, health, and environment" in fiscal year 2008; and
- The Company does not specifically explain how business results were ultimately translated by the compensation committee into objective pay determinations for each named executive officer ("NEO").

While we recognize the Company's desire to limit certain disclosures that it feels may harm its competitive position, we believe that the compensation committee can reasonably afford to provide additional disclosure to shareholders in the areas noted above.

Nonetheless, we believe the Company provided particularly clear and concise disclosure of its executive compensation processes and procedures in the following areas:

- Discussion regarding the Company's emphasis on long-term career orientation as it relates to its compensation practices;
- The vesting, terms, and other key provisions and policies associated with restricted stock awards intended to serve as long-term incentive compensation;
- Tabular disclosure of the value of equity held by the NEOs and other executives as a percentage of their base salary, as well as the percentage of shares that are still subject to restrictions;
- General description regarding the basis by which the compensation committee made compensation decisions in 2008, including the use of, among other things, tally sheets, benchmarking and performance assessments;
- The specific business results that formed the basis for base salary and incentive awards granted in 2008; and
- Description of the key elements of the compensation program, and the allocation of compensation to the CEO and other NEOs for 2008.

We do not believe there are substantial issues for shareholder concern as to any of the nominees.

Accordingly, we recommend that shareholders vote **FOR** all nominees.

## Exxon Mobil Corporation Auditor Fees

■ Audit/Audit Related ■ Tax  
■ All Other



The Company proposes that PricewaterhouseCoopers serve as the Company's independent auditor for 2009. PricewaterhouseCoopers has served as the Company's auditor for at least the last 12 years.

During the last fiscal year, the Company paid PricewaterhouseCoopers audit fees of \$24,800,000, audit-related fees of \$6,100,000 and tax fees of \$4,000,000.

We believe the fees paid for non-audit related services are reasonable as a percentage of all fees paid to the auditor. The Company appears to disclose appropriate information about these services in its filings.

Accordingly, we recommend that shareholders vote **FOR** ratification of the appointment of PricewaterhouseCoopers as the Company's auditor for fiscal year 2009.

## Proposal 3.00: Shareholder Proposal Regarding Cumulative Voting

FOR

This shareholder proposal requests that the board take the necessary steps to provide for cumulative voting in the election of directors. This would provide that each stockholder shall be entitled to as many votes as shall equal the number of shares owned multiplied by the number of directors to be elected, and the shareholder may cast all of the votes for a single candidate, or any two or more of them as the shareholder sees fit.

### **Proponent's Perspective**

The proponent, Emil Rossi, offers the following four main reasons why shareholders should vote for this proposal:

- Cumulative voting has gained majority shareholder support at major companies, and is recommended by the Council of Institutional Investors and large pension funds, such as CalPERS;
- Cumulative voting protects the interests of minority shareholders and provides an independent perspective to the board;
- This proposal would make it easier for a potential acquirer to gain board representation, and therefore provide incentive for improved management in the Company; and
- Cumulative voting should be considered in the context of overall weaknesses within the Company's governance structure and poor individual director performance.

### **Board's Perspective**

The board offers the following three main reasons why shareholders should vote against this proposal:

- The Company's current and long-standing method of electing directors has resulted in a balanced and highly-effective board of directors who have represented the best interests of all shareholders;
- The Corporate Governance Guidelines require a director to tender his/her resignation if the director does not receive a majority of votes cast in favor of election, which will very likely be accepted; and
- Cumulative voting provides the opportunity for special interest groups to gain a disproportionate voice in shareholder voting, including in the election of directors.

### **Glass Lewis' Analysis**

Glass Lewis believes that cumulative voting generally operates as a safeguard for shareholders by ensuring that those who hold a significant minority of shares are able to elect a candidate of their choosing to the board. This procedure allows the creation of boards that are more responsive to all shareholders rather than simply to majority shareholders.

We recognize that in some cases cumulative voting may not be compatible with majority voting. In an extreme case this could lead to one or more directors not being elected due to insufficient support.

However, in this case, the Company has only adopted a director resignation policy, not true majority voting. Specifically, the Company's bylaws provide that in any non-contested election, any incumbent nominee who receives a greater number of votes cast against his/her election than in favor of such election must tender his/her resignation, and the board will determine whether to accept the resignation. Therefore, the board could still seat directors who did not receive a majority vote due to shareholders cumulating their votes for other nominees. As a result, we do not believe that the interaction between cumulative voting and the majority voting policy will create problems in this instance.

Further, we believe the Company could address any difficult legal and technical issues in its certificate of incorporation and bylaws. We believe that in the absence of true majority voting where the expressed will of shareholders cannot be ignored, cumulative voting could lead to more attentive directors.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 4.00: Shareholder Proposal Regarding Right to Call a Special Meeting

FOR

This shareholder proposal requests that the board of directors take the steps necessary to amend the bylaws and each appropriate governing document to give holders of 10% of the Company's outstanding common stock (or the lowest percentage allowed by law above 10%) the power to call special shareholder meetings. This includes that such bylaw and/or charter text will not have any exception or exclusion conditions (to the fullest extent permitted by state law) that apply only to shareholders but not to management and/or the board.

### **Proponent's Perspective**

The proponent, Kenneth Steiner, offers the following five main reasons why shareholders should vote for this proposal:

- Special meetings allow shareholders to vote on important matters that may come up in between annual meetings;
- If shareholders cannot call special meetings, shareholder value may suffer;
- It is important for shareholders to be involved in time-sensitive matters, which should be addressed promptly through special meetings;
- In 2008 similar proposals won two-thirds majority shareholder support at many high profile companies, based on for and against votes; and
- Governance ratings experts, such as The Corporate Library and Governance Metrics International, take special meeting rights into consideration when assigning company ratings.

### **Board's Perspective**

The board offers the following three main reasons why shareholders should vote against this proposal:

- A special meeting of shareholders may be called by a holder of not less than 10% of outstanding shares in accordance with New Jersey law, upon a showing of good cause;
- This proposal is unnecessary and redundant; and
- By requiring a showing of good cause, the existing New Jersey statute better balances the interests of all shareholders and protects against the potential for a minority shareholder to abuse this right.

### **Glass Lewis' Analysis**

Glass Lewis strongly supports the right of shareholders to call special meetings. However, in order to prevent abuse and waste of corporate resources by a very small minority of shareholders, we believe that shareholders representing at least a sizable minority of shares must support such a meeting prior to its calling. When reviewing proposals seeking to grant shareholders this right we typically consider:

- Company size;

- Shareholder base in both percentage of ownership and type of shareholder (eg, hedge fund, activist investor, mutual fund, pension fund etc);
- Responsiveness of board and management to shareholders evidenced by adopting progressive shareholder rights policies (eg majority voting, declassifying boards etc.) and reaction to shareholder proposals;
- Company performance and steps taken to improve bad performance (new executives/directors, spin offs etc);
- Existence of anti-takeover protections or other entrenchment devices;
- Opportunities for shareholder action (eg ability to act by written consent) and:
- Existing ability for shareholders to call a special meeting

Given the Company's size and shareholding distribution, we do not believe that this passage of this proposal would render the Company unduly vulnerable to the calling of unwarranted and costly special meetings. Further, as is consistent with New Jersey law, currently holders of 10% of the Company's outstanding share capital may call a special meeting, but must demonstrate a showing of good cause in state Superior Court, which we believe is a significant extra burden not required under this proposal. Moreover, we believe that the Company can reasonably interpret and implement this proposal within the boundaries of applicable securities laws.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

# Proposal 5.00: Shareholder Proposal Regarding Reincorporation

**AGAINST**

This shareholder proposal requests the board of directors to take the appropriate steps to reincorporate in North Dakota with articles of incorporation that provide that the Company is subject to the North Dakota Publicly Traded Corporations Act ("the Act").

## **Proponent's Perspective**

The proponent, Chris Rossi, offers the following five main reasons why shareholders should support this proposal:

- The Act would effect the following changes: (i) the ability of the board to adopt a poison pill would be limited; (ii) proxy access for shareholders who have owned 5% or more of the Company's shares for at least two years; (iii) the board must be comprised of a single class of directors; (iv) shareholders would be reimbursed for expenses in proxy contests to the extent they are successful; (v) and shareholders may vote each year on executive compensation policy; and
- By incorporating in North Dakota, the Company would instantly have the best governance system available;
- The SEC recently refused to change its rules to give shareowners a right of access to management's proxy statement, and the Delaware courts recently invalidated a bylaw requiring reimbursement of proxy expenses;
- The Company needs to improve its corporate governance, as evidenced by poor governance ratings and poor individual director performance; and
- Shareholder rights would be increased through reincorporation and provide necessary improvements to the corporate governance of the Company.

## **Board's Perspective**

The board offers the following four main reasons why shareholders should vote against this proposal:

- The Company has been incorporated in New Jersey for over 125 years;
- New Jersey corporate law is well-developed, contrary to the new North Dakota statute, which is untested and could subject the Company to legal uncertainty;
- Reincorporation would require a costly and time consuming proxy solicitation for shareholders to approve a merger of the Company into a North Dakota corporation; and
- Each of the items mentioned by the proponent as a reason to reincorporate can already be effected under New Jersey law, should the board so determine.

## **Glass Lewis' Analysis**

Glass Lewis believes that the board is in the best position to evaluate and determine the appropriate state of incorporation for the Company. While North Dakota may be favorable to shareholders in

certain aspects, it is uncertain whether reincorporation there would result in an enhancement of shareholder value.

In April 2007, the North Dakota legislature passed the aforementioned North Dakota Publicly Traded Corporations Act (the "Act"). Pursuant to the Act, companies may elect to be subject to a set of provisions that espouse corporate governance best practice, such as limitations on the adoption of poison pills, majority voting for directors, an advisory vote on executive compensation, and reimbursement to shareholders for expenses associated with successful proxy contests. In addition, companies subject to the statute must have a non-executive chairman. Furthermore, the Act permits shareholders who own more than 5% of outstanding shares for over two years to nominate directors via the Company's proxy statement. Glass Lewis supports the above shareholder rights provisions and believes that the state of North Dakota should be commended for promoting corporate governance best practice and furthering shareholder rights.

While the Company would certainly benefit from the adoption of certain of the provisions included in the Act, a costly and board-opposed reincorporation may not be the best route to accomplish these goals. Shareholders may be better served by proposing specific shareholder proposals addressing relevant issues which could be implemented at a lower cost, and perhaps even with board approval. Glass Lewis has examined the Company's record of corporate governance and has found a mixed record with respect to the Company's conforming to best practice. Below is a brief discussion of the Company's corporate governance practices:

1) Is the board at least two-thirds independent?

- Yes, the board is 90% independent. Chairman and CEO Rex Tillerson is the only director not classified as independent.

2) Does the Company have a poison pill in place?

- No, the Company does not currently have a poison pill in place.

3) Has the board been previously unresponsive to shareholders (such as failing to implement a shareholder proposal that received majority shareholder support)?

- The Company does not have a recent record of unresponsive behavior regarding shareholder proposals that have received majority support. However, we note that the Company has been historically reluctant to set quantifiable goals regarding climate change initiatives, which has adversely affected its reputation and, potentially in the longer term, its competitive position.

4) Do shareholders have the right to call special meetings of shareholders?

- As is consistent with New Jersey law, holders of 10% of the Company's outstanding share capital may call a special meeting, but must demonstrate a showing of good cause in state Superior Court. Granting holders of 10% of the Company's outstanding share capital, without the restriction of demonstration of "good cause" is the subject of Proposal 4.

5) Are there other material governance issues at the Company?

- There were no major material governance issues identified at the Company during fiscal year 2008.

6) Has the Company's stock price performance matched or exceeded its peers in the past year? In the

past three years?

- The Company's one year stock performance was -24.2% over the last year, and +7.2% over the last three years. Chevron Corporation (NYSE: CVX) experienced a one-year decline of 29.6% and a three year rise of 9.3%. Conoco Phillips (NYSE: COP) experienced declines of 50.9% and 37.3% over one and three years, respectively.

7) How has the Company ranked in Glass Lewis' pay-for-performance analysis during the last three years?

- The Company received a "C" for fiscal year 2008, a "C" for fiscal year 2007 and an "C" for 2006.

8) Does the company have an independent chairman?

- No, CEO Rex Tillerson also serves as chairman. The separation of these roles is the subject of Proposal 6.

Upon review, we believe that the costs and inconveniences associated with reincorporating in North Dakota outweigh the potential benefits, particularly as the above governance reforms are permitted in New Jersey, the Company's current state of incorporation. Further, according to the Wall Street Journal, as of December 8, 2008, only two public companies were incorporated in North Dakota, indicating the nascency of the Company's case law with respect to corporate law (Cari Tuna. "Shareholders Ponder North Dakota Law." *The Wall Street Journal*. December 8, 2008). While we have no reason to suspect that North Dakota corporate precedents will be anything other than satisfactory, we do believe the Company's history and identification with New Jersey lends increased stability to the Company's future. We do however believe that board support for this proposal could have provided the stability required for a smooth transition to the new jurisdiction.

At this time, we do not believe that reincorporation to North Dakota is the appropriate remedy for the Company's corporate governance shortcomings as discussed above. To sum, we believe that reincorporating in the state of North Dakota for the specific purpose of providing improved corporate governance is not a guarantee that there would be enhancement of shareholder value, particularly in the absence of board support. We do, however, urge the board to consider the adoption of the best practice provisions included in The Act regardless of its state of incorporation.

Accordingly, we recommend that shareholders vote **AGAINST** this proposal.

## Proposal 6.00: Shareholder Proposal Regarding Independent Board Chairman

FOR

This shareholder proposal seeks to amend the Sections 4, 5 and 6 of Article IV of the by-laws to read as follows:

4. The chairman of the board shall preside at all meetings of shareholders and directors. The chairman of the board shall not otherwise be an officer or employee of the corporation and, subject to the board of directors, shall speak for, and direct the administration of the activities of the board directors.
5. The president shall be the chief executive officer of the corporation, and, subject to the board of directors, shall have general care and supervision of the business and affairs of the corporation;
6. In the event of death, absence or disability of the president, an executive or senior vice president may be designated by the board to exercise the powers and perform the duties of the president.

### **Proponent's Perspective**

The proponent, Ram Trust Services, offers the following five main reasons why shareholders should vote for this proposal:

- Much power at the Company is delegated to the CEO, but it is the board that must take the initiative and function independently, which is difficult for a board of eleven directors to do without some one individual charged with the responsibility of making it all work;
- The Company's well-regarded lead director, Samuel Palmisano, is the chairman and CEO of IBM, and, as such, likely does not have enough time to effectively lead or prioritize the Company;
- British Petroleum, Royal Dutch Shell and Petrobras all have independent non-executive chairmen;
- The non-executive chairman directs the administration of all the board's activities and is in a position to inform himself as to what is going on and bring to the board's attention matters on which it should focus; and
- This proposal is not intended as an implied criticism, but is intended to provide a framework that will enable the board to be more effective and proactive.

The proponent offers more information regarding their position at [www.exxonaction.com](http://www.exxonaction.com).

### **Board's Perspective**

The board offers the following six main reasons why shareholders should vote against this proposal:

- The decision as to who should serve as chairman and CEO is properly the responsibility of the board as they are in the best position to evaluate the needs of the Company and how to best organize the capabilities of the directors and senior managers to meet those needs;
- At this time the most effective leadership structure is for Rex Tillerson to serve as both chairman and CEO;
- This proposal is structured as a binding, prescriptive by-law amendment which would cause the

board to lose its flexibility to change the board's leadership structure to serve the best interest of shareholders;

- This proposal would create practical difficulties;
- In 2008 the board took steps to enhance the role of the presiding director; and
- Executive sessions of the non-employee directors are scheduled to follow each meeting of the full board.

### **Glass Lewis' Analysis**

Glass Lewis believes that separating the roles of corporate officers and the chairman of the board is almost always a positive change. We view an independent chairman as better able to oversee the executives of the Company and set a pro-shareholder agenda without the management conflicts that a CEO or other executive insiders often face. This, in turn, leads to a more proactive and effective board of directors.

Research suggests that combining the positions of chairman and CEO may influence a board's decision to dismiss an ineffective CEO. A study conducted by Vidhan K. Goyal and Chul W. Park, entitled "Board Leadership Structure and CEO Turnover" (July, 2001) (*Journal of Corporate Finance* 8 (2002): 49-66), found that "the sensitivity of CEO turnover to firm performance is significantly lower when the CEO and chairman responsibilities are vested in the same individual." It is the board's responsibility to select a chief executive who can best serve the Company and its shareholders and to replace this person when his or her duties have not been appropriately fulfilled. Such a replacement becomes more difficult and happens less frequently than we believe it should when the chief executive is also in the position of overseeing the board. Further, a 2009 Corporate Library study regarding corporate governance practices at US corporations found that boards that retained a dual chairman-CEO structure out of a reluctance "to challenge a powerful chief executive may not be a strong protector of shareholder interests in other respects" (Joann S. Lublin. "Chairman-CEO Split Gains Allies." *Wall Street Journal*. March 30, 2009). Opponents of separation, however, claim that separating the two roles can lead to confusion and power struggles between management and the board.

Empirical evidence regarding this issue suggests that the firms with separate CEO and chairman roles consistently outperform companies in which a single individual serves in both capacities. (Paula Rechner and Dan Dalton. "CEO Duality and Organizational Performance: A Longitudinal Analysis." *12 Strategic Management. J.* 155. 1991). Further, recent observations suggest that the separation not only improves performance in terms of shareholder return, but allows the board to more effectively fulfill its duties by "allowing the CEO run the business while the chairman leads the board, recruits new members, and manages CEO succession" (Joann S. Lublin. "Chairman-CEO Split Gains Allies." *Wall Street Journal*. March 30, 2009).

Further empirical research, however, suggests that the separation of these two roles may have little effect on shareholder value. A recent study of 152 Swiss companies found no evidence of a "systematic and significant difference in valuation between firms with combined and firms with separated" CEO and chairman functions ("Should Chairman and CEO be Separated? Leadership Structure and Firm Performance in Switzerland". *Schmalenbach Business Review: ZFBF*. April 2008). Ultimately, the empirical evidence regarding the separation of these two roles remains contradictory and inconclusive.

However, upon a full review of the relevant literature, Glass Lewis believes that the installation of an

independent chairman is almost always a positive step from a corporate governance perspective and serves best interest of the Company and its shareholders. Further, the presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. We believe that the separation of these two key roles eliminates the conflict of interest that inevitably occurs when a CEO is responsible for self-oversight. While we recognize that this proposal is not precatory and would result in the amendment of by-laws in the absence of board support, we believe that the benefits afforded from the installation of an independent chairman would outweigh any potential drawbacks associated with amending the bylaws in the proposed manner. We also agree with the contention of the proponent's representative, Robert AG Monks, who commented in a Glass Lewis Proxy Talk on May 11, 2009 that while Mr. Palmisano is a well-respected presiding director, given his duties as chairman and CEO of IBM, he may not be able to fully provide oversight of a company as large and complex as Exxon Mobil.

In light of the above, we believe that shareholders should support this proposal. We urge the Company to reconsider its position on this issue in the coming year.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 7.00: Shareholder Proposal Regarding Advisory Vote on Executive Compensation (Say on Pay)

FOR

This shareholder proposal requests that the board adopt a policy that provides the Company's shareholders the opportunity at each annual meeting to vote on an advisory resolution, proposed by the Company's management, to ratify the compensation of the named executive officers ("NEOs") set forth in the proxy statement's summary compensation table ("SCT") and the accompanying narrative disclosure of material factors provided to understand the SCT (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any NEO.

### **Proponent's Perspective**

The proponent, the Needmor Fund, offers the following six main reasons why shareholders should vote for this proposal:

- Shareholders are increasingly concerned with high executive compensation and its often tenuous link to company performance, which is reflected in an increased number of say on pay proposals and increasing shareholder support for them;
- The Council of Institutional Investors favors advisory votes on compensation, and a bill providing such a vote passed in the House of Representatives by a 2-to-1 margin;
- Many high profile companies, such as Verizon, H&R Block, Blockbuster, and Tech Data, have agreed to advisory votes;
- Current SEC standards do not provide an appropriate mechanism for shareholders to give continued or meaningful feedback regarding general compensation practice;
- In the UK, public companies allow shareholders to cast a vote on the "directors' remuneration report"; and
- This proposal would establish an annual referendum for shareholders to provide useful information to the board regarding views on executive compensation each year.

### **Board's Perspective**

The board offers the following six main reasons why shareholders should vote against this proposal:

- The board already has in place a thorough, thoughtful and transparent approach to executive compensation and a number of effective ways for shareholders to express their views on these matters;
- A simple up/down vote on the Company's executive compensation program would not convey useful information to the board;
- Widespread adoption of the advisory vote on compensation would encourage companies to take a "one size fits all" approach to remuneration, rather than uniquely tailoring programs to specific facts and circumstances of the relevant business;
- Substituting the judgment of shareholders for the judgment of the board would result in a

less-informed decision-making process and would circumvent the role of the board in representing shareholders;

- Changes continue to be made to the CD&A to improve knowledge of how executive compensation links and supports the business strategies and long-term success of the Company; and
- Shareholders who wish to express their views to the board have several effective ways to do so, including directly writing to any board member or group of board members, writing or emailing Company management representatives, and attending the annual meeting of shareholders.

### **Glass Lewis' Analysis**

Glass Lewis carefully reviews compensation awarded to senior executives. We believe this is an important area in which the board's priorities are revealed. However, as a general rule, Glass Lewis does not believe shareholders should be involved in the approval and negotiation of compensation packages. Such matters should be left to the board's compensation committee, which can be held accountable for its decisions through the election of directors. In this case, however, we note that the proponent merely seeks to grant shareholders an *advisory* vote on the Company's compensation strategy, rather than imposing a binding mandate.

We note that the proposal has been crafted only to allow shareholder advisory approval of the compensation of the Company's named executive officers and the accompanying narrative disclosures in its proxy statement (the "executive compensation disclosures"). Though, unlike some other proposals of this type, the proponent has specifically (and in our view inexplicably) requested that the vote consideration not include an analysis of the information included in the Company's compensation discussion & analysis. We view the Company's compensation discussion & analysis as the primary means of providing explanation and support for the Company's compensation policies and practices, and the review of the section is integral to complete shareholder understanding of the Company's executive compensation methodology and philosophy. Despite our concerns with this part of the proposal, we still believe shareholders would benefit from the opportunity for a non-binding vote on the Company's compensation, as discussed further below.

The number of shareholder proposals seeking advisory compensation votes, know colloquially as "say on pay," has increased dramatically in the last three years. While just seven shareholder proposals regarding this issue were filed at US companies in 2006, in 2008, over 80 shareholder proposals were brought to a vote regarding this matter. (Laraine S. Rothenberg and Todd S. McCafferty. "Say on Pay: Linking Executive Pay to Performance". *New York Law Journal*. September 24, 2008). Further, over the course of the last several years, political support for a mandatory advisory compensation vote at US companies gained significant momentum. On April 20, 2007, the House of Representatives passed the Shareholder Vote on Executive Compensation Act which called for a mandatory, non-binding vote to be effective from January 1, 2009. On the same day then-Senator Barack Obama introduced a companion bill in the US Senate; however, the full Senate did not vote in favor of the Bill. Given Mr. Obama's election as President of the United States and increased Democratic control of both houses of Congress, the adoption of a mandatory say on pay vote for US companies is increasingly likely. Moreover, given recent taxpayer, shareholder and citizen ire regarding executive compensation, a mandatory advisory vote, such as the one proposed, is likely to receive an increased amount of popular support.

Further, while still somewhat nascent, empirical research regarding the effects of advisory votes in

certain non-US markets paints a broadly positive picture of the impact of such votes. In particular, some studies cite the increase in shareholder/company engagement ("Report on the Impact of the Directors' Remuneration Report Regulations". *Deloitte & Touche*. 2004). Further empirical evidence suggests that CEO compensation in the UK has been more sensitive to negative operating metrics following the introduction of the say on pay vote than in prior periods, indicating a decrease in "rewards for failure". (Fabrizio Ferri and David Maber. "Say on Pay Vote and CEO Compensation: Evidence from the UK". SSRN: <http://ssrn.com/abstract=1169446>. June 30, 2008.)

We recognize that criticism has been raised with respect to shareholder advisory votes, such as injecting shareholders too far into compensation decisions and limiting the flexibility of companies to uniquely tailor their compensation policies as they strive to conform to external guidelines. (Laraine S. Rothenberg and Todd S. McCafferty. "'Say on Pay': Linking Executive Pay to Performance". *New York Law Journal*. September 24, 2008). However, we do not believe these arguments are persuasive since shareholders are already, and increasingly, reviewing all aspects of compensation irrespective of an opportunity to cast an advisory vote on compensation. Indeed, a growing number of institutional investors vote against compensation committee members as a means to express concern or dissatisfaction with companies' compensation practices. Interestingly, some of these institutions do not feel the adoption of advisory votes are necessary since they will vote against compensation committee members directly.

Glass Lewis does, however, recognize that the use of advisory compensation votes does not necessarily reduce executive compensation. One recent study that found that executive remuneration in the UK has continued to rise at the same rate as prior to the adoption of say on pay, indicating a general failure to curb executive compensation. (Jeffrey Gordon. "'Say on Pay': Cautionary Notes on the UK Experience and the Case for Muddling Through." *Columbia Law and Economics Working Paper No. 336*. SSRN: <http://ssrn.com/abstract=1262867>. September 3, 2008). We, however, do not believe that the purpose of an advisory vote on compensation is to "reign in" executive pay. Rather it is to ensure that the remuneration paid to executives is firmly tied to the creation and advancement of long-term shareholder value.

Given that this proposal clearly seeks only an advisory vote, the board's ability to determine compensation policy will not be directly affected. It will, however, allow shareholders to register their opinions regarding the Company's compensation practices on their proxy ballots. Where shareholders believe the Company's compensation packages are inappropriately structured, a high negative vote could compel the board to reexamine its compensation practices and act accordingly. Furthermore, presenting such a report should not unduly increase the burden on the board, given that the Company is already required by the SEC to disclose information to shareholders regarding compensation to its top executives in its regulatory filings including the CD&A.

To sum, we believe the adoption of this proposal would best serve the long-term interests of shareholders by providing shareholders with direct means whereby they may hold the board accountable for its compensation practices.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 8.00: Shareholder Proposal Regarding Executive Compensation Report

**AGAINST**

This shareholder proposal requests that the board initiate a review of the Company's executive compensation policies and make available, upon request, a report of that review by December 1, 2009 (omitting confidential information and prepared at a reasonable cost) which includes the following:

- A comparison of the total compensation package of the Company's CEO between 1998 and 2008 with the increase in the average US per capita income during that same period;
- An analysis of changes in the relative size of the gap between the two groups and the rationale justifying this trend.

### **Proponent's Perspective**

The proponent, NorthStar Asset Management, offers the following five main reasons why shareholders should vote in favor of this proposal:

- The Company's CEO received over \$16 million in total compensation in 2006, and over \$40 million in stock options and pension benefits;
- Last year, CEOs in the US were paid 541 times the average worker, which erodes consumer trust, loyalty, and potentially negative effects shareholder value;
- In 2007 the Company's share price increased by 24%, however in 2008 the Company's share price had declined 19%, and yet, in spite of this, CEO Rex Tillerson received a \$4 million bonus and 225,000 shares of restricted stock and will receive a 10% raise for 2009;
- Legislation passed by the House of Representatives in April 2007, and currently being considered in the Senate, requires shareholders' approval of executive compensation packages; and
- The Company has the ability to increase shareholder value by investing in the entire company, not just one individual.

### **Board's Perspective**

The board offers the following three main reasons why shareholders should vote against this proposal:

- The compensation information disclosed in the proxy statement includes a detailed discussion of the Company's compensation goals and methods, which is more meaningful than the analysis requested in this proposal;
- The Company's remuneration practices are designed to recognize an individual's experience, performance and level of responsibility, which must remain competitive with that of persons performing similar jobs at other companies with whom the Company competes for talent; and
- The compensation committee does not believe a specific numeric ratio between the increase in the compensation of the CEO and the increase in the average US per capita income is

meaningful or appropriate to consider in the setting of compensation.

### **Glass Lewis' Analysis**

Glass Lewis believes that disclosure of information regarding compensation is critical to allowing shareholders to evaluate the extent to which a company's pay is keeping pace with its performance. Moreover, we carefully review the compensation awarded to senior executives in our Pay-For-Performance analysis displayed on page 4 of the proxy paper, and also in our analysis of the Company's Compensation Discussion & Analysis Disclosure shown in Proposal 1. We believe that this is an important area in which the board's priorities are revealed. However, as a general rule, Glass Lewis believes that executive compensation policies should be left to the board's compensation committee. We view the election of directors, specifically those who sit on the compensation committee, as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue. However, we are often inclined to support proposals requiring the Company to better align executive pay with their performance and that of the business.

In this instance, we are not convinced that this proposal offers an appropriate mechanism for ensuring that shareholders' best interests are protected. Specifically, we are not persuaded that reporting on the difference between the compensation packages provided to senior executives and the average per capita income earned by workers in the United States as a whole would effectively address the shareholder concerns surrounding that issue. Furthermore, the Company is already required by the SEC to disclose information to shareholders in its regulatory filings regarding compensation to its top executives, a requirement that has been expanded on in recent years. While we believe that the Company could improve its compensation practices, we do not believe the proponent has sufficiently shown that approving this proposal will enhance shareholder value.

Accordingly, we recommend that shareholders vote **AGAINST** this proposal.

## Proposal 9.00: Shareholder Proposal Regarding Corporate Sponsorships Report

AGAINST

This shareholder proposal requests that the board conduct a special review of the Company's antidiscrimination statement as it pertains to corporate sponsorships and executive perks, and publish a summary report addressing the following:

- What Company funds are presently expended on corporate sponsorships and executive perks, like country club memberships and entertainment at or in conjunction with institutions that discriminate against groups protected by the Company's antidiscrimination statement?
- Would the Company sponsor an event held at a venue barring African Americans, Jews or homosexuals from membership?
- How is the Company's antidiscrimination statement applied to decisions concerning sponsorships and executive perks?

The report should be prepared at reasonable cost, omitting proprietary information, and should be available to shareholders upon request no later than December 1, 2009.

We note that a similar proposal received 9.7% shareholder support, excluding abstentions and broker non-votes, at the 2008 annual meeting.

### **Proponent's Perspective**

The proponent, Martha Burk, offers the following five main reasons why shareholders should vote in favor of this proposal:

- The Company has a strong antidiscrimination statement, but it fails to extend the reach of this statement to corporate sponsorships and executive perks;
- Club memberships are about more than recreation, they are a place where important business is conducted, and, as such, excluding people from these opportunities on the basis of gender, race, religion or sexual orientation is a discriminatory practice denying equal opportunity;
- The Company has made public statements that it draws a distinction between race and gender, which is a harmful message for the Company's stakeholders that the Company does not value all employees equally;
- Event sponsorships at venues that discriminate against women sends a message that gender discrimination is not taken seriously by the Company; and
- Talented female employees at the Company should, in their own right, be able to avail themselves of the networking opportunities that come with club membership, rather than having to be invited by a male colleague.

### **Board's Perspective**

The board offers the following six main reasons why shareholders should vote against this proposal:

- The Company's non-discrimination policy is very clear and comprehensive;
- The Company determines which organizations or events to support based on an assessment of business needs, corporate social objectives and overall effectiveness;
- The Company launched its Educating Women and Girls Initiative in 2005, which provides funding to help women and girls realize their full potential;
- In 2008 the Company continued to support the Centre for Development and Population Activities' Global Women in Management Program;
- The Company supports networks for female, African American, Hispanic and Asian employees that provide mentoring, coaching, and strategies to enhance personal and professional development;
- The Company supports minority engineering outreach organizations and is the lead supporter of the National Action Council for Minorities in Engineering; and
- The Company continues to communicate its diversity efforts through its *Corporate Citizenship Report* and on the Company's website.

### **Glass Lewis Analysis**

While overt gender discrimination in the workplace in the United States has diminished over the past quarter-century, subtle workforce discrimination, both intentional and unintentional, remains problematic. Exclusion from formal and informal networks and relationships can have a detrimental impact on advancement opportunities, productivity and morale. While the proportion certainly varies by company, a portion of business decisions and relationships are typically made and fostered outside of the office, e.g. at lunches, parties, social gatherings, and in private establishments such as country clubs. Distinctly private social organizations, such as some country clubs, are not required to comply with certain US discrimination laws, and, as such, many such institutions operate with gender-separated social areas or exclude women from membership (and even entrance) entirely. Institutions such as these have served as a gathering place for cultural, political and professional leaders for centuries and remain an important setting for business decisions and networking. As such, we believe that the hosting of business events or meetings in institutions where women are expressly prohibited can be problematic from a gender equity perspective.

The Company is a yearly sponsor of the Masters Golf Tournament, which is hosted at the Augusta National Golf Club in Augusta, Georgia. Augusta National does not permit women to be members and, in fact, did not permit its first African-American member until 1990, giving the club a reputation for exclusion and discrimination. Some notable members of the Augusta National Golf Club include(d) Bill Gates, Warren Buffet, Roger Penske, Peter Coors and hundreds of other business and political leaders. In 2006 Billy Payne, chairman of the Club, stated that August National "had no specific timetable" to address the club's absence of female members.

In 2003 and 2004, the proponent of this resolution led a somewhat successful campaign against the tournament on the basis of the Club's discriminatory practices. The showdown between Dr. Burk and then Chairman of the Club, Hootie Johnson, culminated in Mr. Johnson's decision to eliminate corporate sponsorship from the event and removing commercials from CBS's coverage of the sporting event. (Richard Sandomir. "TV Sports; Palmer Eclipses Burk, to Masters' Delight". *New York Times*. April 6, 2004). Commercials returned to the Masters event in 2005. According to Company spokesperson, Dave Gardner, ExxonMobil "supports the Masters Tournament because it is viewed by a very wide international audience and provides a unique opportunity to promote our company messages, including significant support for education" ("Exxon Draws Heat for Sponsoring

Masters". *CNN Money*. April 5, 2006).

While we concur with the proponent that the exclusivity of Augusta National Golf Club may preclude women from participating in occasionally important business dealings or social networking that take place in that facility, we note that the Club is operating fully within the scope of United States Law. Further we recognize that the Masters Golf Tournament is a gender inclusive public event and the Augusta National Golf Club operates in compliance with all applicable law.

The Company's non-discrimination policy reads as follows: "Any form of discrimination by or toward employees, contractors, suppliers, and customers in any ExxonMobil workplace is strictly prohibited. Our global zero-tolerance policy applies to all forms of discrimination, including discrimination based on sexual orientation" ( *2007 Corporate Citizenship Report*, p. 30). We do not believe that the Company's sponsorship of a gender-inclusive event, albeit one being held at a gender exclusive institution, constitutes an overt violation of this policy.

As such at this time, we do not find a clear showing by the proponent that shareholders should, in this instance, supplant the judgment of the board and management team. We believe that shareholders should remain vigilant on this topic and carefully monitor the actions of the board and management team going forward. We believe that board members can be held accountable for decisions on these issues through the election of directors.

Accordingly, we recommend that shareholders vote **AGAINST** this proposal.

## Proposal 10.00: Shareholder Proposal Regarding Adopting Sexual Orientation and Gender Identity Expression Anti-Bias Policy

FOR

This proposal seeks shareholder approval of a request that the Company amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity, and to substantially implement the policy.

The Human Rights Campaign defines sexual orientation as an individual's physical and/or emotional attraction to the same and/or opposite gender. Gender identity refers to a person's innate deeply felt psychological identification as male or female, which may or may not correspond to the person's body or designated sex at birth.

[http://www.hrc.org/issues/workplace/equal\\_opportunity/gender\\_identity\\_terms\\_definitions.asp](http://www.hrc.org/issues/workplace/equal_opportunity/gender_identity_terms_definitions.asp)

We note that a similar proposal received 39.6% shareholder support at the Company's 2008 annual meeting, excluding abstentions and broker non-votes.

### **Proponent's Perspective**

The proponent, the Office of the Comptroller of New York City, offers the following seven main reasons why shareholders should vote in favor of this proposal:

- Over 88% of Fortune 500 companies have adopted written equal employment opportunity policies that include sexual orientation while 30% include gender identity;
- Corporations that prohibit discrimination based on sexual orientation and gender identity have a competitive advantage in recruiting and retaining employees from the widest talent pool;
- A June 2008 survey by Harris Interactive and Witech-Combs reported that 65% of gay and lesbian employees have reported some form of job discrimination related to their sexual orientation;
- Twenty states, the District of Columbia and more than 160 cities and counties have laws prohibiting harassment and discrimination on the basis of sexual orientation, and Minneapolis, San Francisco, Seattle and Los Angeles have adopted legislation restricting business with companies that do not guarantee equal treatment for gay and lesbian employees;
- National public opinion polls consistently find more than three quarters of the American people support equal rights in the workplace for gay men, lesbians and bi-sexuals;
- Employment discrimination on the basis of sexual orientation and gender identity diminishes employee morale and productivity; and
- In light of the different state and local laws regarding employment discrimination, the Company would benefit from a consistent, corporate-wide policy to enhance efforts to prevent discrimination, resolve complaints internally, ensure a respectful and supportive atmosphere for all employees.

### **Board's Perspective**

The board offers the following six main reasons why shareholders should vote against this proposal:

- The Company is committed to having a workplace that facilitates the maximum contribution from all employees, which includes having a workplace that is free from harassment and discrimination;
- Given the Company's existing all-inclusive, zero-tolerance policies, the board believes this proposal is unnecessary;
- The Company's EEO Communication initiatives, training programs, and investigating and stewardship processes explicitly state that any form of discrimination or harassment in the workplace based on sexual orientation will not be tolerated;
- As stated in the EEO portion of its Standards of Business Conduct, the Company administers its personnel policies, programs and practices in a nondiscriminatory manner in all aspects of employment relationships;
- Where the Company operates in countries in which national laws require specific language regarding nondiscrimination based on sexual orientation or gender identity, the Company's policies have been amended as appropriate; and
- The Company's harassment training material includes an example specifically based on sexual orientation.

### **Glass Lewis' Analysis**

Glass Lewis recommends that shareholders take a close look at proposals such as this one to determine whether the actions requested of the Company will clearly lead to increased shareholder value. Glass Lewis believes that directors who are conscientiously exercising their fiduciary duties will typically have more and better information about the Company and its situation than shareholders.

For proposals such as the present one, which ask shareholders to assert their judgment in place of the judgment of the board and management, we believe the burden is on the shareholder proponents to clearly demonstrate that the directors' judgment is error and that the proposal, despite management opposition, would likely yield an increase in shareholder value. This showing is easier in an instance where the board has a pattern of bad decision making on the topic in question, is under suspicion of illegal or unethical conduct or otherwise has provided a precedent for shareholders to have concerns.

There is currently no United States federal law specifically outlawing this type of discrimination in private employment. However, Executive Order 13087, signed by President Bill Clinton in May 1998, specifically prohibits discrimination based on sexual orientation in the federal civilian workforce. Further, as discussed by the proponent, 19 states and the District of Columbia have enacted laws that prohibit sexual orientation discrimination in private employment. In addition, President-elect Barack Obama has publicly stated his support for the Employment Non-Discrimination Act, a proposed US federal law prohibiting discrimination based on sexual orientation or gender identity or expression ( [http://origin.barackobama.com/issues/civil\\_rights/](http://origin.barackobama.com/issues/civil_rights/)). We note that in its 2007 corporate citizenship report the Company states that any form of discrimination in any Company workplace is strictly prohibited, "including discrimination based on sexual orientation". The Company states that it provides benefit coverage to spouses of legally recognized spousal relationships, regardless of whether the legally recognized spousal unions are of the same or opposite sex. (p. 30). The Company does not, however, address equal opportunity employment in its Code of Ethics & Business Conduct.

According to the Human Rights Campaign the Company is the only U.S. employer that has ever

rescinded a non-discrimination policy covering sexual orientation, and is the only Fortune 10 company that does not have a non-discrimination policy covering sexual orientation. Further, the Company's peers BP, Chevron, ConocoPhillips and Shell prohibit discrimination based on sexual orientation in their nondiscrimination policies and provide domestic partner benefits. BP, Chevron and Shell also prohibit discrimination on the basis of gender identity.

( <http://www.hrc.org/issues/workplace/8837.htm>)

As risk associated with sensitive issues such as EEO policies and allegations of discrimination have the potential to directly affect shareholder value, we believe shareholders should carefully monitor the board's policies regarding these issues. With respect to inclusive equal opportunity policies, companies may face regulatory and legal risk in the United States or litigation in other jurisdictions. In addition, as an increasing number of peer companies adopt inclusive policies, late-adopters may face damaging reputational risk. According to Equality Forum, a national and international GLBT (Gay, Lesbian, Bi-Sexual, Transgendered) civil rights organization, "471 (94.2%) of the 2008 Fortune 500 companies voluntarily include sexual orientation in their employment nondiscrimination policies" ("94.2% of the 2008 Fortune 500 Provide Sexual Orientation Nondiscrimination". *Equality Forum Press Release*. <http://www.equalityforum.com/press-20080904.cfm>. August 27, 2008). Moreover, according to a December 2008 Harris Interactive poll on US Perspectives on Gay and Transgender People, public opinion is increasingly moving towards support of GLBT rights with 51% of respondents favoring employment, housing and public accommodations non-discrimination laws for gay and transgendered people.

( <http://www.glaad.org/2008/DOCUMENTS/HarrisPoll120308.pdf>). As public opinion shifts toward increasing acceptance of GLBT inclusion in EEO policies at United States companies, the Company's risk of reputational damage for failing to include such policies increases. We note, however, that the theoretical increase in shareholder value resulting from inclusive employment policies may be difficult, if not impossible to measure or identify.

In light of the Company's status as a clear outlier in this regard, we believe shareholders would benefit from the Company's codifying its nondiscriminatory treatment of employees based on sexual orientation and gender identity to prevent facing costly and distracting lawsuits or reputational damage in this regard. Further, we believe the Company could benefit from access to widest available candidate pool in the attraction and retention of talented employees. In addition, since the Company already includes non-discrimination for sexual orientation in its corporate citizen report, we believe the additional burden on the Company will be very minimal. Lastly, we note that at the 2008 annual meeting this proposal received a significant favorable vote from shareholders (39.6%), indicating strong support for a policy change in this regard.

Accordingly, we recommend that shareholders vote this proposal.

# Proposal 11.00: Shareholder Proposal Regarding Greenhouse Gas Emissions Goals

FOR

This shareholder proposal requests that the board adopt quantitative goals, based on current technologies, for reducing greenhouse gas ("GHG") emissions from the Company's products and operations, and that the Company report to shareholders by September 30, 2009, on its plan to achieve these goals. The report should omit proprietary information and be prepared at a reasonable cost.

Glass Lewis notes that a similar proposal received 30.9% shareholder support, excluding abstentions and broker non-votes, at the 2008 annual meeting.

## **Proponent's Perspective**

The proponent, the Sisters of St. Dominic of Caldwell New Jersey, offers the following eight main reasons why shareholders should vote in favor of this proposal:

- The International Energy Agency warned in its *2008 World Energy Outlook* that it was "certain that the energy world will look a lot different in 2030 than it does today;"
- Cambridge Energy Research Associates Chairman Daniel Yergin stated that climate change and a cost on carbon will change the dynamics of the energy marketplace and that clean energy is poised to move from the fringes of the energy sector to the mainstream;
- Shareholders' request for emission reduction goals reiterates the Company's Environmental Business Planning process, which is used "to identify key environmental drivers..., set targets in key focus areas and identify projects and actions to achieve those targets;"
- The Company has set a number of commendable environmental goals and the Company finally reduced direct GHG emissions in 2007, but, while commendable, these efforts are inadequate;
- The Company has done a poor job articulating a business plan for dealing with climate risk and opportunity or offered robust responses to the financial, regulatory and technology impacts of the climate crisis;
- BP, Royal Dutch Shell, Conoco Phillips and Chevron have all made newsworthy investments in renewables and low-carbon technologies to reduce emissions and/or have begun integrating the cost of carbon into planning and investments;
- BP America, Conoco Phillips and Shell have endorsed calls for the US to reduce carbon emissions by 60%-80% by 2050; and
- The Company's view is that it is currently impossible to assess potential implications for shareholder value stemming from regulatory approaches to address rising greenhouse gas concentrations.

## **Board's Perspective**

The board offers the following six main reasons why shareholders should vote against this proposal:

- The board does not believe that setting absolute goals to reduce emissions from operations and product use is the most effective way to manage climate risk;
- In the recent report *The Outlook for Energy: A View to 2030*, the Company provides an

extensive discussion regarding the Company's views and actions to manage its business, including steps to reduce emissions and improve product use;

- The primary opportunities for reducing GHG emissions from the Company's operations are in improving energy efficiency and in reducing flaring, both areas in which the Company's operations have improvement objectives and planned improvement steps;
- The Company is committed to improving energy efficiency by 10% in U.S refining operations between 2002 and 2012;
- The Company maintains research to identify and develop technologies that improve the efficient use of its products, such as new technology for on-board hydrogen reforming to power fuel cell vehicles, deployment of new battery separator films for use in lithium-ion batteries in hybrid and electric vehicles; and
- Even with significant improvements in energy efficiency, absolute greenhouse gas emissions will continue to increase in the coming years to meet growing global energy demand.

### **Glass Lewis' Analysis**

Glass Lewis recommends that shareholders take a close look at proposals such as this one to determine whether the actions requested of the Company will clearly lead to an increase in long-term shareholder value. Regarding climate change and sustainability, however, Glass Lewis recognizes the numerous challenges of defining and planning for the "long-term." In addition we recognize the complexity of accurately gauging the potential risks to shareholder value if a company opts to take a "business as usual" approach.

Despite these difficulties and challenges, however, we believe it is prudent for management to assess its potential exposure to environmental and social sustainability risk and incorporate this information into its overall business risk profile. As a recent McKinsey report cited in an investment analysis suggests, "in the next five to fifteen years, how a company manages its carbon exposure could create or destroy shareholder value" (Bill Page. "Climate Change Poses Risks and Opportunities for Fiduciaries". *SSgA Investment Quarterly*. January 7, 2008). Further, in 2005 the United Nations Environment Program Finance initiative determined that "fiduciary duty not only allows environmental, social and governance considerations, it sometimes requires [them]" (*Ibid.*) We believe that companies should actively evaluate risks to shareholder value stemming from global activities along entire supply chains. We find this to be particularly true in the case of ExxonMobil as the Company's historically evasive stance on climate change has resulted in significant media attention and rising shareholder concerns over whether the Company is adequately equipped to handle changing circumstances stemming from climate change. In general, with respect to sustainability risk we believe companies should consider their exposure to:

*Direct environmental risk:* Companies should evaluate their financial exposure to a potential rise in sea levels, increased wildfires and extreme weather, reduced air quality, water availability and public health problems brought on by higher temperatures. In 2005, the United States' oil refining capacity was diminished by almost 25% in the wake of Gulf coast hurricanes Katrina and Rita.

([http://www.nytimes.com/2005/09/22/business/RITA-FACTBOX.html?\\_r=1&scp=1&sq=katrina%20and%20conoco&st=cse](http://www.nytimes.com/2005/09/22/business/RITA-FACTBOX.html?_r=1&scp=1&sq=katrina%20and%20conoco&st=cse)). The Company should evaluate its exposure to risk should climate change spur an increase in the quantity and intensity of extreme weather incidents. We note that several of the Company's facilities were shutdown due to the impact of Katrina and Rita. The Company was also forced to close wells and oil rigs in the days leading up to Hurricane Gustav in 2006.

*Risk due to legislation/regulation:* We believe companies operating in carbon-intensive industries should evaluate their exposure to a potential increase in environmental regulation with respect to their operations. There have been a number of regional efforts to curb greenhouse gas emissions in the US, such as Assembly Bill 32 adopted in California and the founding of the Regional Greenhouse Gas initiative, a mandatory market-based effort to reduce GHGs in 10 Northeastern and Mid-Atlantic States. In addition, on the federal level, the Lieberman-Warner Climate Security Act was passed out of a Senate subcommittee in December 2007. The Act would have established an economy-wide “cap and trade” system for greenhouse gas emissions as well as officially declare the U.S.’s commitment to reduce GHG emissions. Further it would affirm that the U.S. considers GHG emissions to be a material effect and global warming a known trend. President Obama intends to pursue and implement an economy-wide cap and trade program to reduce greenhouse gas emissions 80% by 2050. Further, on April 17, 2009 the United States' Environmental Protection Agency ("EPA") formally declared that heat trapping gases, such as carbon-dioxide, endanger "public health and welfare, setting in motion a process that for the first time will regulate the gases" most strongly associated with climate change and global warming (John Broder. "E.P.A. to Clear the Way for Regulation of Warming Gases". *New York Times*. April 17, 2009).

*Legal and reputational risk:* As has been seen relating to other environmental, social and governance issues, failure to take action on certain issues may carry the risk of damaging negative publicity and potentially costly litigation. However, in general, we believe it is prudent for firms to evaluate social and environmental risk as one part in assessing overall portfolio risk. We find this to be particularly relevant at the Company as it has long been considered not only resistant, but actively hostile to efforts aimed at reducing carbon emissions at the Company. Indeed, environmental action group Greenpeace referred to the Company's former chairman Lee Raymond as the "Darth Vader of Climate Change" and Rex Tillerson's views on climate change led the current chairman and CEO to refer to himself as potentially "Public Enemy Number One" (Stephen Foley. "Oil Giant Comes in From the Cold". *The Independent (UK)*. January 10, 2009; and Steve Hargreaves. "Target: Exxon". *CNN Money*. May 30, 2007). Moreover, the Company's record of environmental stewardship was significantly marred by the 1989 Exxon Valdez oil spill, the worst in American history, that resulted in approximately 11 million gallons of crude oil being released into Alaska's Prince William Sound. While the Company has spent over \$3.8 billion in fines, compensatory payments, and costs to clean up the shoreline and has settled significant litigation regarding the Valdez spill, the incident has enduringly tarnished the Company's reputation. (John Platt. "Exxon Valdez Spill: 20 Years Later". *CBS Evening News*. February 2, 2009).

Specifically regarding climate change, we note that relevant disclosure is nearly as contentious as the issue itself as there is no current concrete framework as to what, specifically, companies need to disclose. Existing SEC disclosure rules require companies to provide information on “material” risks and liabilities, including those risks associated with “known trends.” The lack of specific disclosure guidelines has sparked some investors to request that the SEC adopt rules to provide for a more clear framework for climate change disclosure. In September 2007, a coalition of state pension plans and institutional investors filed a petition with the SEC requesting the SEC to clarify that current disclosure requirements must include material climate change information. To date, the SEC has not formally responded to the petition.

In contrast to the SEC’s inaction, in September 2007 New York Attorney General Andrew Cuomo prompted investigations into the adequacy of the public disclosures of five energy companies. In August 2008, Mr. Cuomo announced a settlement with one company, Xcel Energy, Inc. pursuant to

which Xcel must disclose material financial risks specifically related to climate change in its SEC filings. This precedent-setting case could have wide-ranging effects for all publicly traded companies, as the settlement implies that the rules currently in place require disclosures related to climate change risks.

Under the settlement, Xcel must disclose the material financial risks that it faces as a result of both present and probable future climate change regulation as well as physical impacts associated with climate change. Additionally, Xcel is further required to:

- State its position on climate change;
- Estimate its GHG emissions and anticipated emission increases;
- Describe emission reduction targets;
- Outline the past and anticipated future impact of those strategies; and
- Disclose the role of its board with respect to climate change and indicate whether officer compensation is in any way tied to environmental performance, including climate change related objectives.

In October 2008, Mr. Cuomo also announced a settlement with another of the energy companies it was investigating, Dynegy Inc. Like the Xcel agreement, the second settlement requires Dynegy to detail in its SEC filings financial liabilities related to climate change.

Given the murky atmosphere regarding climate change disclosure rules, companies are facing pressure to voluntarily enhance such disclosures. The most ambitious of these efforts is the Carbon Disclosure Project ("CDP"). The CDP, sponsored by a partnership of 385 institutional investors with \$57 trillion in assets under management, advocates improved disclosure of climate change data through responses to comprehensive annual questionnaires. In 2008, 77% of Global 500 companies responded to CDP questionnaires, including the Company, as it has each year since 2004.

( <http://www.cdproject.net/company-homepage.asp?id=1037>)

In light of the above settlements, the increasing political and media attention paid to the issue of climate change, and the EPA's April 2009 ruling that greenhouse gases threaten public welfare, Glass Lewis believes that some companies may face substantial risks from rules and regulations relating to climate change and from insufficient disclosure related thereto. We believe the trend in climate change disclosure will likely continue to move toward stricter regulations, thus necessitating assessments of liabilities associated with the implementation of such rules.

Regarding environmental issues and action, the Company has recognized that "the risks to society and ecosystems from increases in CO<sub>2</sub> emissions could prove to be significant" and has undertaken various efforts to address risks related to climate change, including the following:

- Invested over \$1.5 billion in activities to improve energy efficiency and reduce greenhouse gases since 2004;
- Responded to the Carbon Disclosure Project each year since 2004 and has reported its GHG emissions based on the guidance of the American Petroleum Institute and the International Petroleum Industry Environmental Conservation Association since 1998;
- Reduced its own GHG emissions by approximately 5 million metric tons in 2007;
- The Company is a member of the World Bank's Global Gas Flaring Reduction Partnership and succeeded at reducing flaring at its refineries by 15% in 2007;
- Identified steps to improve energy efficiency at its refineries and chemical plants by 15%-20% and has implemented more than half of these improvements;

- Participates in the US Environmental Protection Agency's Natural Gas STAR Program;
- Invested and collaborated with others to develop gasification technology and invested more than \$100 million in a test facility to develop carbon capture and storage
- Helped to launch the ongoing Global Climate and Energy Project at Stanford University, which seeks to accelerate development of commercially viable energy technologies to lower GHG emissions.

In December 2008, the Company released its yearly report looking at the future of the energy industry through the year 2030. In this report is a section entitled "The Energy Imperative," which provides a discussion of the Company's view on current and upcoming environmental challenges, including the balancing of the growth of GHG emissions with the fostering of world economic development. The Company appears to favor technology-based solutions (known colloquially as "techno-optimistic solutions") to the problem of climate change. However, in stark contrast to previous Company positions, Rex Tillerson recently publicly announced support for the implementation of a carbon tax as a means for addressing global greenhouse gas emissions (*Company Press Release*, "Strengthening Global Energy Security". January 8, 2009). Mr. Tillerson's favorable opinion of a carbon tax comes as a stark about-face from the Company's prior reticence to take action or even to acknowledge the risk posed by global warming. Some members of Greenpeace, however, remain underimpressed with Exxon's attempt to "greenwash" its image, arguing that the carbon tax rhetoric was merely a public relations maneuver designed to contribute to the climate change debate without having to take proactive steps to reduce its emissions. Further, as noted in a May 2009 Glass Lewis Proxy Talk with sponsors of this proposal, the Company has no disclosed legislative plan of action to pursue the realization of a carbon tax, lending credibility to certain of the criticisms claiming that the Company's dialogue shift may largely be aesthetic.

In light of the Company's checkered past in addressing the area of climate change and its questionable history of environmental stewardship, we believe Exxon Mobil is a prime example of a company where taking a strong and proactive stance on climate change could have a positive impact on long-term shareholder value. In our view, the adoption of the proposed quantitative goals may boost shareholder confidence by demonstrating that the Company is responding seriously to climate risk concerns. Further, given the political trends towards instituting restrictions on GHG emissions and increased attention to climate risk, we believe it is in the best interests of the Company and its shareholders to seriously consider a scenario in which restrictions on GHG emissions are imposed. We recognize that the Company has made some effort in recent years with respect to climate change and further recognize that a sudden shift to renewable energy sources may not be beneficial for the Company or its shareholders. However, we do not believe that a sudden, complete shift to renewable energy in the United States is desirable, practical or even possible. Nor do we believe that supporting a quantitative GHG emission goal will harm the Company's competitive position relative to its peers. To the contrary, actively addressing climate change issues could reinforce the Company's position as a global leader in the energy industry as worldwide energy demands escalate. Lastly, we note that the proposal does not specify the quantitative goals, but would allow the Company to determine its own goals, leaving considerable discretion to the board to set appropriate targets. While we recognize the short-time frame requested by the proponents presents a challenge for the Company, we also recognize that the Company has wide discretion, as well as considerable expertise and resources, in responding to request.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 12.00: Shareholder Proposal Regarding a Climate Change and Technology Report

AGAINST

This shareholder proposal requests that the board establish a task force, which should include two or more independent directors and relevant Company employees, to investigate and report to shareholders the likely consequences of global climate change between now and 2030, for emerging countries, and poor communities in these countries and developed countries, and to compare these outcomes with scenarios in which the Company takes leadership in developing sustainable energy technologies that can be used by as well as for the benefit of those most threatened by climate change. The report should be prepared at a reasonable cost and omit proprietary information and should be made available by March 31, 2010.

Glass Lewis notes that a similar proposal received 10.4% shareholder support, excluding abstentions and broker non-votes, at the 2008 annual meeting.

### **Proponent's Perspective**

The proponent, Neva Rockefeller Goodwin, offers the following four main reasons why shareholders should vote in favor of this proposal:

- The April 2007 Fourth Assessment from the United Nation's Intergovernmental Panel on Climate Change details the potential climate-change-related devastation that regions like Africa and Asia will suffer;
- The economic and geopolitical costs of climate change could be very severe and disruptive and the poorest countries will suffer the earliest and the most;
- While the Company often argues that cheap and abundant energy is crucial for the economic advancement of poor economies, it continues to rely on hydrocarbons as an energy source, which increases CO<sub>2</sub> emissions, with devastating consequences for those countries that are poor in resources and influence; and
- In a Glass Lewis Proxy Talk on May 11, 2009, Ms. Goodwin reiterated that the Company is lagging in creating solutions for the future climate and energy crisis, which could ultimately exacerbate the situation rather than make the Company part of the solution.

### **Board's Perspective**

The board offers the following four main reasons why shareholders should vote against this proposal:

- The Company's views and actions on global climate change are widely available, and, as such an additional report is not warranted;
- A report published in 2007 titled *Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, an effort in which the Company's scientists directly participated, the Company discusses the impacts and vulnerability of society and ecosystems to future climate change;
- Several of the Company's publications discuss anticipated future trends and the potential for various policies and technologies to limit future emissions; and

- The Company offers a discussion of its actions to reduce greenhouse gas emissions in its own operations and the steps it is taking to promote efficiency in the use of its products by customers.

### **Glass Lewis' Analysis**

Increased risk of water scarcity, food insecurity, extreme weather patterns, public health risks, poor air quality, changes in ocean currents, rising water levels, and an overall increase in global temperature are just a few of the potential impacts of global climate change. It is anticipated that these impacts, if realized, will not affect the world uniformly, but will likely have a disproportionately negative effect on developing and poor countries. Though each country will experience the effects of climate change uniquely, in general poor adaptive capabilities, a dependence on agriculture for livelihoods and subsistence and a vulnerability to natural disasters render developing countries, and particularly those in tropical and subtropical regions, more susceptible to the negative impacts of climate change.

While Glass Lewis firmly believes that the Company should proactively address risks associated with climate change, as discussed more thoroughly in Proposal 11, we do not believe that there is clear evidence that the production of the proposed report would address either the environmental or social concerns of the proponent. Further, we believe that the costs associated with the production of an in-depth multi-scenario analysis of the worldwide effects of climate change would outweigh the benefits for shareholders. Currently, government institutions, including the EPA, the United Nations, the World Health Organization and dozens of other funded and respected institutions are involved in the analysis and reporting of the effects of global climate change. As such, we believe additional reporting by the Company on this vast and important matter is not desirable at this time. We will, however, monitor this issue going forward and update our recommendations if such a revision becomes necessary.

Accordingly, we recommend that shareholders vote **AGAINST** this proposal.

## Proposal 13.00: Shareholder Proposal Regarding Renewable Energy Policy

AGAINST

This shareholder proposal requests that the board adopt a policy for renewable energy research, development and sourcing, reporting on its progress to investors in 2010.

Glass Lewis notes that a similar proposal received 27.5% shareholder support, excluding abstentions and broker non-votes at the 2008 annual meeting.

### Proponent's Perspective

The proponent, Stephen Viederman, offers the following ten main reasons why shareholders should vote in favor of this proposal:

- In May 2008 the board recommended voting against this resolution stating that "The Corporation is investing at record levels in its traditional oil and gas development projects and is actively involved in research on alternative energy technologies";
- Chairman/CEO Rex Tillerson acknowledges that climate change poses serious risks to society and ecosystems, but found the 2008 proposal to be unwarranted;
- The activities noted in *Tomorrow's Energy* are individual research projects on alternative energy, rather than renewable energy technologies;
- There is no policy statement on renewable energy research, renewable energy development, or renewable energy sourcing available on the Company's website;
- The International Energy Agency states that the energy world will look a lot different in 2030 than it does today and that the time to act is now;
- The Company is spending \$100 million on advertising to soften its image on these issues, which far outpaces then \$10 million per year that the Company grants to Stanford for long-term research;
- The Company has the capacity to create "game-changing renewable energy technologies," but lacks the will;
- The World Energy Council makes it clear it is a myth that the task of meeting the world's energy needs while addressing climate change is simply too expensive and too daunting;
- BP, Shell, Chevron and others have decided that clean, renewable energy has a role to play in a different energy future; and
- This proposal received a 27.5% vote in favor at the Company's 2008 AGM.

### Board's Perspective

The board offers the following seven main reasons why shareholders should vote against this proposal:

- The Company prepared a report on the long-term outlook for energy, available at [exxonmobil.com/energyoutlook](http://exxonmobil.com/energyoutlook), which finds that global energy needs are expected to increase by 35% between 2005 and 2030;
- The Company's primary business areas, oil and gas, will remain indispensable to meeting global energy demand for decades;

- Wind, solar and biofuel energies will grow rapidly, but will likely reach just 2% of global energy supplies by 2030 and remain highly dependent on subsidies and mandates;
- To meet the growing demand for oil and gas, the International Energy Agency estimates the need to invest, on average, over \$500 billion a year through 2030, which represents a tremendous opportunity for the Company and signals a growing call on the Company's scale and capabilities;
- Meeting growing energy demand and managing greenhouse gas emissions require an integrated set of solutions, and the Company is committed to providing practical, broad-based solutions to help meet these challenges consistent with long-term fundamentals;
- The Company's active involvement in research on alternative energy technologies enables it to readily assess new developments for possible commercialization and investment to improve shareholder value; and
- A policy focus directed specifically at renewable energy forms would be too narrow and would not necessarily optimize the Company's strategic strengths.

### **Glass Lewis' Analysis**

Glass Lewis recommends that shareholders take a close look at proposals such as this one to determine whether the actions requested of the Company will clearly lead to increased shareholder value. Glass Lewis believes that management of the environmental issues associated with business operations are best left to management and the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. We believe that board members can be held accountable on these issues when they face re-election. It is our opinion that management is in the best position to determine what policies are best in the context of its business.

That being said, we recognize that the Company has come under intense media scrutiny and public pressure due to its lagging approach to environmental issues. The Company has consistently dismissed climate change and investments in renewable energy in favor of a "business as usual" approach. We believe that there is much room for improvement for the Company to bolster its approach to effective environmental risk management, as evidenced by our support of Proposal 11.

When discussing renewable energy in the context of President Obama's election, the Company's chairman/CEO commented "In my view, nothing has really changed" (Mouawad, Jad. "Oil Giants Loathe to Follow Obama's Green Lead." *New York Times*. April 8, 2009). This view is not unique to the Company, but is rather indicative of a relatively shared stance among major oil and gas producers. While many companies have touted investments in renewable energy, these investments often represent a minor portion of their business. However, we do recognize the difficulties involved in shifting from a historically oil-intensive business model to one that incorporates new technologies and renewable energy sources. Moreover, oil and gas production is a necessary component of not only the world's current energy needs, but it will also play a role in future energy programs. Oil and gas is the Company's primary line of business, and while investments in renewable energy are an important component of energy production, we do not believe the proponent has demonstrated that adoption of this policy would necessarily result in increased shareholder value.

It is important to capture the issue of renewable energy in the context of current worldwide need and demand for energy. The world consumes approximately 245 million barrels of oil per day according to the Company's Energy Outlook report. Entirely replacing this with renewable energy would require significant investments across all sectors. However, incorporating renewable energy as part

of a diversified platform of energy products begins the process of replacing demand for oil with sustainable development. Companies can embrace this through investments in alternative energy supplies, such as wind and solar energy. In 2007, energy from petroleum accounted for 39.8% of the United States' energy consumption, while renewable energy accounted for 6.8%

([http://www.eia.doe.gov/emeu/aer/pecss\\_diagram.html](http://www.eia.doe.gov/emeu/aer/pecss_diagram.html)). A survey conducted by KPMG found that approximately 52% of 382 petroleum industry executives believe that mass production of alternative energy is not currently a viable solution, at least not by 2015; only 16% believe that by 2030 the U.S. will be energy independent (Klump, Edward. "U.S. Energy Independence? Get Real, Oil Execs Say in Survey." *Bloomberg*. May 4, 2009).

We note that the Company's report "The Outlook for Energy" briefly mentions the role that renewable energy will play in the coming years. The Company does not provide a strategy for investing in alternative energy, however, notes that it anticipates that renewable energy will account for approximately 2% of total energy consumption in the United States by 2030. The Company, as in the past, continues to believe that petroleum-based energy will constitute the bulk of all energy consumption in the future, and does not see the need to invest in energy sources other than the ones that have historically generated its profits. However, the Company does actively pursue technologies to improve the environmental impact of its current operations, such as cogeneration and carbon capture ([http://www.exxonmobil.com/corporate/files/news\\_pub\\_2008\\_energyoutlook.pdf](http://www.exxonmobil.com/corporate/files/news_pub_2008_energyoutlook.pdf)). The Company also briefly discusses alternative and renewable forms of energy on its website at [http://www.exxonmobil.com/Corporate/energy\\_e\\_supply\\_sources.aspx](http://www.exxonmobil.com/Corporate/energy_e_supply_sources.aspx). Regarding the Company's peers, Chevron has carved out sections of its website dedicated to geothermal power, solar energy and biofuel productions (<http://www.chevron.com/deliveringenergy/>). Similarly, BP offers disclosure regarding its investments in alternative energies such as wind and solar power (<http://www.bp.com/subsection.do?categoryId=6935&contentId=7050726>).

In a Glass Lewis Proxy Talk on May 11, 2009, Mr. Viederman reiterated his belief that the Company's failure to match its peers in exploring more renewable energy opportunities creates a long-term risk for shareholders. However, despite a concern with the Company's overall approach to climate change issues, we believe that management and the board are in the best position to direct specific business strategies at the Company. In instances such as these, we believe the onus is on the proponent to demonstrate that the specific request will enhance long-term shareholder value, even in the absence of board support. Furthermore, the Company's profits are currently driven by production of oil and gas. Should renewable energy investments prove profitable for the Company, we have no reason to believe that the board and management will not actively include this in their overall business strategy. We are also encouraged by the Company's relatively recent acknowledgment of the issue of climate change, and believe that this will allow them to more readily consider renewable energy as a candidate for future investment. We will continue to monitor any potential regulatory developments in this regard, and will revise our recommendation if necessary.

Accordingly, we recommend that shareholders vote **AGAINST** proposal.

## Disclosure

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