In addition to the above, there are two other Funds that comprise the trust funds. They are Fund C and Fund D. Fund C is composed primarily of Phillips common stock. Fund D, which is closed to new deposits, holds guaranteed investment contracts.

^o Phillips contributes 25 percent of an employee's regular deposits to Fund B and 15 percent of regular deposits to any of the other investment Funds. The interest of a participant in each Fund is represented by units allocated to such participant.

5. The Plan allows a participant to elect a direct rollover of most distributions to an individual retirement account (the IRA) or to another tax qualified plans. The Plan also provides for participant loans as well as for transfers among certain of the Funds. In this regard, the Plan does not permit transfers to Fund C, Fund D or the Temporary Investment Fund.² However, it does allow transfers from these Funds with limited exceptions.³

6. Phillips represents that the right to transfer monthly from Fund to Fund and to borrow from the Plan has given participants greater control of their plan investments. Thus, for any valuation date (the Valuation Date) (i.e., the first working day for the Trustee and The New York Stock Exchange following the 14th of each month), participants may elect (to the extent permitted by the Plan) to transfer their account balances from one investment alternative to another, to withdraw funds or to borrow a portion of their account. As of the Valuation Date, Phillips common stock will be valued based on the closing sales prices for such stock. The steps that a participant may undertake in effecting transfers, withdrawals or participant loans are described as follows:

a. Inter-Fund Transfers. In order to transfer assets from one Fund to another, a participant must complete a standard transfer form applicable to all transfers or withdrawals. The transfer form must be delivered to the Plan Administrator by the last business day before the monthly Valuation Date. The transfer will be effective on the next Valuation Date.

b. Withdrawals from Funds. If the participant wishes to withdraw assets from a Fund, the procedure for withdrawal is essentially the same as that to transfer Funds. The participant must complete a withdrawal form and deliver it to the Plan Administrator by the last business day before the monthly Valuation Date. The withdrawal is effective as of the Valuation Date and it is usually paid within two weeks. If the participant intends to have the assets paid to an IRA or a qualified plan, the participant must provide the Plan Administrator with descriptive information concerning such plan or IRA, including the name and address. The participant must also verify that the recipient plan or IRA will accept the direct payment from the Plan.

c. Participant Loans. Assuming the participant requests a participant loan, such participant must be an active employee of Phillips with a vested account in the Plan of \$2,000 or more. A participant may have up to two regular loans (any loan except a home loan) and one home loan outstanding at any one time. The maximum amount of any loan is limited to the lesser of: \$50,000 less the highest loan balance in the last 12 months (determined as of the previous month's Valuation Date) or 50 percent of the vested account balance less the current outstanding loan balance for all loans, with values determined as of the previous month's Valuation Date. A participant may not apply for a loan if he or she has the maximum number of loans outstanding. has borrowed the maximum amount in the last 12 months or has an outstanding loan that is delinquent. The minimum amount of any single loan is \$1,000.4

A participant may apply for a participant loan by telephone, then sign a transaction authorization form approved by the Plan Administrator and consent to irrevocable payroll deductions that will provide the amount necessary to repay the loan. Loan applications can be made only by telephone during the first 10 calendar days of each month. Loans will be processed once a month on the applicable Valuation Date. Proceeds will be paid within two to three weeks after the date the loan is processed. Participants may not make a withdrawal on the same Valuation Date that the loan is processed, even if the withdrawal form is submitted first.

To effect the aforementioned transfers, withdrawals or participant loans, the Trustee is required to liquidate assets held in the Fund or Funds from which the proceeds are needed. In this regard, the Plan document provides that the Trustee must take reasonable steps to invest deposits received for Funds B and C in Phillips common stock as soon as reasonably possible provided, however, that up to \$10 million of cash equivalent investments may be maintained in the Funds to effect transfers, withdrawals and loans on the next regular Valuation Date. The Trustee must take reasonable steps to effect transfers, withdrawals or participant loans from Funds B and C⁵ within 5 business days (on which both the Trustee and The New York Stock Exchange are in business) following the appropriate Valuation Date. The Trustee is also required to spread the sales of Phillips common stock that will be used to effect the transfers. withdrawals or participant loans ratably over the remaining trading days before the next regular Valuation Date.⁶ However, if the number of shares which are to be sold would result in ratable sales of less than 10,000 shares a day, the Trustee is not required to sell less than 10,000 shares per day.

To the extent that the cash necessary to effect the transfers, withdrawals and participant loans within the 5 day trading period exceeds \$10 million, the Trustee is permitted to borrow funds to provide sufficient liquidity to Funds B and C. Expenses and other costs attributable to such borrowings will be allocated to Funds B and C.

8. To bridge the gap between the immediate need for assets to fund transfers, withdrawals or participant loans and the disposal of Phillips common stock, the Trustee entered into a one-year, renewable revolving credit facility arrangement with NationsBank of Dallas, Texas on July 14, 1993. By its terms, the credit facility arrangement initially permitted the Trustee, on behalf of the Plan, to borrow up to \$50

the Department expresses no opinion herein on whether such investments satisfy the terms and conditions of section 408(b)(8) of the Act.

²For example, with respect to the Temporary Investment Fund, the applicant represents that its purpose is to hold participant contributions until they are transferred to the elected investment Fund. Due to the short-term nature of this Fund, the applicant explains that participants are not entitled to transfer deposits to the Temporary Investment Fund from any other Fund.

³ In the case of Fund C, the applicant explains that participants may make a one-time transfer from Fund C after retirement. In the case of Fund D, the applicant represents that a participant may not transfer from Fund D except to transfer upon the expiration of such participant's Class Year (guaranteed investment contract) Account.

⁴The applicant represents that the Plan's participant loan provisions are designed and administered to comply with section 408(b)(1) of the Act and applicable regulations. However, the Department expresses no opinion herein on whether such loans satisfy the terms and conditions of section 408(b)(1) of the Act and the regulations promulgated thereunder.

⁵ Although transfers are restricted from Fund C, withdrawals are permitted of vested company contributions. Loans can be taken from Fund C after all of the other Funds have been depleted subject to the loan limitation rules in the Plan.

⁶ Although the Department expresses no opinion herein on the requirement that the Trustee spread the sales of Phillips common stock over the remaining trading days before the next regular Valuation Date, it notes that Trustee's decision to spread stock sales should be in the interests of the Plan and consistent with the provisions of section 404 of the Act.