

# CHEVRON CORP

## FORM 10-K (Annual Report)

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CIK	0000093410
Symbol	CVX
SIC Code	2911 - Petroleum Refining
Industry	Oil & Gas - Integrated
Sector	Energy
Fiscal Year	12/31

## Note 20

### Stock Options and Other Share-Based Compensation

Compensation expense for stock options for 2009, 2008 and 2007 was \$182 (\$119 after tax), \$168 (\$109 after tax) and \$146 (\$95 after tax), respectively. In addition, compensation expense for stock appreciation rights, restricted stock, performance units and restricted stock units was \$170 (\$110

after tax), \$132 (\$86 after tax) and \$205 (\$133 after tax) for 2009, 2008 and 2007, respectively. No significant stock-based compensation cost was capitalized at December 31, 2009 and 2008.

Cash received in payment for option exercises under all share-based payment arrangements for 2009, 2008 and 2007 was \$147, \$404 and \$445, respectively. Actual tax benefits realized for the tax deductions from option exercises were \$25, \$103 and \$94 for 2009, 2008 and 2007, respectively.

Cash paid to settle performance units and stock appreciation rights was \$89, \$136 and \$88 for 2009, 2008 and 2007, respectively.

*Chevron Long-Term Incentive Plan (LTIP)* Awards under the LTIP may take the form of, but are not limited to, stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and nonstock grants. From April 2004 through January 2014, no more than 160 million shares may be issued under the LTIP, and no more than 64 million of those shares may be in a form other than a stock option, stock appreciation right or award requiring full payment for shares by the award recipient.

*Texaco Stock Incentive Plan (Texaco SIP)* On the closing of the acquisition of Texaco in October 2001, outstanding options granted under the Texaco SIP were converted to Chevron options. These options, which have 10-year contractual lives extending into 2011, retained a provision for being restored. This provision enables a participant who exercises a stock option to receive new options equal to the number of shares exchanged or who has shares withheld to satisfy tax withholding obligations to receive new options equal to the number of shares exchanged or withheld. The restored options are fully exercisable six months after the date of grant, and the exercise price is the market value of the common stock on the day the restored option is granted. Beginning in 2007, restored options were issued under the LTIP. No further awards may be granted under the former Texaco plans.

*Unocal Share-Based Plans (Unocal Plans)* When Chevron acquired Unocal in August 2005, outstanding stock options and stock appreciation rights granted under various Unocal Plans were exchanged for fully vested Chevron options and appreciation rights. These awards retained the same provisions as the original Unocal Plans. If not exercised, these awards will expire between early 2010 and early 2015.

The fair market values of stock options and stock appreciation rights granted in 2009, 2008 and 2007 were measured on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions:

	Year ended December 31		
	2009	2008	2007
<b>Stock Options</b>			
Expected term in years <sup>1</sup>	6.0	6.1	6.3
Volatility <sup>2</sup>	30.2%	22.0%	22.0%
Risk-free interest rate based on zero coupon U.S. treasury note	2.1%	3.0%	4.5%
Dividend yield	3.2%	2.7%	3.2%
Weighted-average fair value per option granted	\$15.36	\$15.97	\$15.27
<b>Restored Options</b>			
Expected term in years <sup>1</sup>	1.2	1.2	1.6
Volatility <sup>2</sup>	45.0%	23.1%	21.2%
Risk-free interest rate based on zero coupon U.S. treasury note	1.1%	1.9%	4.5%
Dividend yield	3.5%	2.7%	3.2%
Weighted-average fair value per option granted	\$12.38	\$10.01	\$ 8.61

<sup>1</sup> Expected term is based on historical exercise and postvesting cancellation data.

<sup>2</sup> Volatility rate is based on historical stock prices over an appropriate period, generally equal to the expected term.

A summary of option activity during 2009 is presented below:

	Shares (Thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
<b>Outstanding at</b>				
January 1, 2009	59,013	\$ 61.36		
Granted	14,709	\$ 69.69		
Exercised	(3,418)	\$ 45.75		
Restored	1	\$ 70.40		
Forfeited	(842)	\$ 76.02		
<b>Outstanding at December 31, 2009</b>	<b>69,463</b>	<b>\$ 63.70</b>	<b>6.4 yrs</b>	<b>\$ 1,019</b>
<b>Exercisable at</b>				
<b>December 31, 2009</b>	<b>44,120</b>	<b>\$ 57.34</b>	<b>5.1 yrs</b>	<b>\$ 904</b>

The total intrinsic value (i.e., the difference between the exercise price and the market price) of options exercised during 2009, 2008 and 2007 was \$91, \$433 and \$423, respectively. During this period, the company continued its practice of issuing treasury shares upon exercise of these awards.

As of December 31, 2009, there was \$233 of total unrecognized

At January 1, 2009, the number of LTIP performance units outstanding was equivalent to 2,400,555 shares. During 2009, 992,800 units were granted, 668,953 units vested with cash proceeds distributed to recipients and 45,294 units were forfeited. At December 31, 2009, units outstanding were 2,679,108, and the fair value of the liability recorded for these instruments was \$233. In addition, outstanding stock appreciation rights and other awards that were granted under various LTIP and former Texaco and Unocal programs totaled approximately 1.5 million equivalent shares as of December 31, 2009. A liability of \$45 was recorded for these awards.

In March 2009, Chevron granted all eligible LTIP employees restricted stock units in lieu of annual cash bonus. The expense associated with these special restricted stock units was recognized at the time of the grants. A total of 453,965 units were granted at \$69.70 per unit at the time of the grant. Total fair value of the special restricted stock units was \$32 as of December 31, 2009. All of the special restricted stock units will be payable in November 2010.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 of Chevron Corporation and its subsidiaries (Nos. 333-141138, 333-141138-01, 333-141138-02), and to the incorporation by reference in the Registration Statements on Form S-8 of Chevron Corporation and its subsidiaries (Nos. 333-26731, 333-162660, 333-152846, 333-102269, 333-72672, 333-21805, 333-21807, 333-21809, 333-46261, 333-105136, 333-122121, 333-02011, 333-127558, 333-127559, 333-127560, 333-127561, 333-127563, 333-127564, 333-127565, 333-127566, 333-127568, 333-128733, 333-128734, 333-127567, 333-127569, 333-127570), of our report dated February 25, 2010, relating to consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

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**PRICEWATERHOUSECOOPERS LLP**

San Francisco, California  
February 25, 2010