FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2001

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-3492

HALLIBURTON COMPANY

(a Delaware Corporation)
75-2677995

3600 Lincoln Plaza
500 N. Akard
Dallas, Texas 75201

Telephone Number - Area Code (214) 978-2600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes __X__ No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, par value $2.50 per share:
Outstanding at October 31, 2001 - 429,361,251

HALLIBURTON COMPANY

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- Performance Unit Program

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HALLIBURTON COMPANY

Condensed Consolidated Statements of Income

(Unaudited)

(Millions of dollars and shares except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Revenues:				
Services	$ 2,840	$ 2,589	$ 8,295	$ 7,526
Sales	525	413	1,506	1,169
Equity in earnings of unconsolidated affiliates	26	22	73	56
Total revenues	$ 3,391	$ 3,024	$ 9,874	$ 8,751
Operating costs and expenses:				
Cost of services	$ 2,506	$ 2,410	$ 7,451	$ 7,094
Cost of sales	449	362	1,325	1,038
General and administrative	94	92	286	252
Gain on sale of marine vessels	-	(88)	-	(88)
Total operating costs and expenses	$ 3,049	$ 2,776	$ 9,062	$ 8,296
Operating income	342	248	812	455
Interest expense	(34)	(38)	(115)	(104)
Interest income	8	6	18	16
Foreign currency gains (losses), net	(2)	4	(6)	(3)
Other, net	-	(1)	-	(1)
Income from continuing operations before taxes, minority interest, and accounting change	314	219	709	363
Provision for income taxes	(126)	(84)	(285)	(140)
Minority interest in net income of subsidiaries	(7)	(5)	(14)	(14)
Income from continuing operations before accounting change	181	130	410	209
Discontinued operations:				
Income (loss) from discontinued operations, net of tax (provision) benefit of $1, ($16), $18, and ($44)	(2)	27	(40)	72
Gain on disposal of discontinued operations, net of tax of $0, $0, $199, and $141	-	-	299	215
Income (loss) from discontinued operations, net	(2)	27	259	287
Cumulative effect of accounting change, net	-	-	1	-
Net income	$ 179	$ 157	$ 670	$ 496
Basic income per share:				
Income from continuing operations before accounting change	$ 0.42	$ 0.29	$ 0.96	$ 0.47
Income (loss) from discontinued operations	-	0.06	(0.09)	0.16
Gain on disposal of discontinued operations	-	-	0.70	0.49
Net income	$ 0.42	$ 0.35	$ 1.57	$ 1.12
Diluted income per share:				
Income from continuing operations before accounting change	$ 0.42	$ 0.29	$ 0.95	$ 0.47
Income (loss) from discontinued operations	-	0.06	(0.09)	0.16
Gain on disposal of discontinued operations	-	-	0.70	0.48
Net income	$ 0.42	$ 0.35	$ 1.56	$ 1.11
Cash dividends per share	$ 0.125	$ 0.125	$ 0.375	$ 0.375
Basic average common shares outstanding	428	445	427	444
Diluted average common shares outstanding	429	451	430	448

See notes to quarterly financial statements.

HALLIBURTON COMPANY
Condensed Consolidated Balance Sheets
(Unaudited)
(Millions of dollars and shares except per share data)

	September 30 2001	December 31 2000
Assets		
Current assets:		
Cash and equivalents	$ 227	$ 231
Receivables:		
Notes and accounts receivable, net	3,244	3,029
Unbilled work on uncompleted contracts	971	816
Total receivables	4,215	3,845
Inventories	831	723
Current deferred income taxes	249	235
Net current assets of discontinued operations	-	298
Other current assets	265	236
Total current assets	5,787	5,568
Property, plant and equipment after accumulated depreciation of $3,276 and $3,150	2,569	2,410
Equity in and advances to related companies	476	400
Goodwill, net	592	597
Noncurrent deferred income taxes	304	340
Net noncurrent assets of discontinued operations	-	391
Insurance for asbestos litigation claims	579	51
Other assets	385	346
Total assets	$ 10,692	$ 10,103
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term notes payable	$ 213	$ 1,570
Current maturities of long-term debt	4	8
Accounts payable	899	782
Accrued employee compensation and benefits	313	267
Advanced billings on uncompleted contracts	448	288
Deferred revenues	64	98
Income taxes payable	223	113
Other current liabilities	613	700
Total current liabilities	2,777	3,826
Long-term debt	1,470	1,049
Employee compensation and benefits	528	662
Asbestos litigation claims	704	80
Other liabilities	565	520
Minority interest in consolidated subsidiaries	51	38
Total liabilities	6,095	6,175
Shareholders' equity:		
Common shares, par value $2.50 per share - authorized 600 shares, issued 455 and 453 shares	1,138	1,132
Paid-in capital in excess of par value	333	259
Deferred compensation	(74)	(63)
Accumulated other comprehensive income	(200)	(288)
Retained earnings	4,242	3,733
	5,439	4,773
Less 26 shares of treasury stock, at cost in both periods	842	845
Total shareholders' equity	4,597	3,928
Total liabilities and shareholders' equity	$ 10,692	$ 10,103

See notes to quarterly financial statements.

HALLIBURTON COMPANY
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Millions of dollars)

	Nine Months Ended September 30	
	2001	2000
Cash flows from operating activities:		
Net income	$ 670	$ 496
Adjustments to reconcile net income to net cash from operations:		
Income from discontinued operations	(259)	(287)
Depreciation, depletion and amortization	390	388
Provision (benefit) for deferred income taxes	23	(35)
Distributions from (advances to) related companies, net of equity in (earnings) losses	39	(28)
Accounting change	(1)	-
Accrued special charges	(6)	(63)
Other non-cash items	18	(66)
Other changes, net of non-cash items:		
Receivables and unbilled work	(354)	(643)
Inventories	(135)	(47)
Accounts payable	116	41
Other working capital, net	(121)	151
Other operating activities	176	(96)
Total cash flows from operating activities	556	(189)
Cash flows from investing activities:		
Capital expenditures	(568)	(367)
Sales of property, plant and equipment	77	181
(Acquisitions) dispositions of businesses, net	(115)	6
Other investing activities	(14)	(27)
Total cash flows from investing activities	(620)	(207)
Cash flows from financing activities:		
Proceeds from long-term borrowings	425	-
Payments on long-term borrowings	(13)	(309)
(Repayments) borrowings of short-term debt, net	(1,359)	(169)
Payments of dividends to shareholders	(161)	(167)
Proceeds from exercises of stock options	25	102
Payments to reacquire common stock	(33)	(24)
Other financing activities	(6)	(5)
Total cash flows from financing activities	(1,122)	(572)
Effect of exchange rate changes on cash	(19)	(14)
Net cash flows from discontinued operations	1,201	826
Decrease in cash and equivalents	(4)	(156)
Cash and cash equivalents at beginning of period	231	466
Cash and equivalents at end of period	$ 227	$ 310
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Interest	$ 118	$ 114
Income taxes	$ 276	$ 185
Non-cash investing and financing activities:		
Liabilities assumed in acquisitions of businesses	$ 40	$ 90
Liabilities disposed of in dispositions of businesses	$ 496	$ 499

See notes to quarterly financial statements.

HALLIBURTON COMPANY
Notes to Quarterly Financial Statements
(Unaudited)

Note 1. Management Representations

We employ accounting policies that are in accordance with generally accepted accounting principles in the United States. Preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and
- the reported amounts of revenues and expenses during the reporting period.

Ultimate results could differ from those estimates.

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information, the instructions to Form 10-Q and applicable rules of Regulation S-X. Accordingly, these financial statements do not include all information or footnotes required by generally accepted accounting principles for complete financial statements and should be read together with our 2000 Annual Report on Form 10-K. Prior period amounts have been reclassified to be consistent with the current presentation.

In our opinion, the condensed consolidated financial statements present fairly our financial position as of September 30, 2001, the results of our operations for the three and nine months ended September 30, 2001 and 2000 and our cash flows for the nine months then ended. The results of operations for the three and nine months ended September 30, 2001 and 2000 may not be indicative of results for the full year.

Note 2. Business Segment Information

We have two business segments - Energy Services Group and Engineering and Construction Group. Our segments are organized around the products and services provided to our customers. During the fourth quarter of 2000, we announced restructuring plans to combine engineering, construction, fabrication and project management operations into one company, Kellogg Brown & Root, reporting as our Engineering and Construction Group. This restructuring resulted in some activities moving from the Energy Services Group to the Engineering and Construction Group, effective January 1, 2001. Prior periods have been restated for this change.

The following table presents revenues and operating income by business segment on a comparable basis:

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of dollars	2001	2000	2001	2000
Revenues:				
Energy Services Group	$ 2,309	$ 1,736	$6,554	$ 4,774
Engineering and Construction Group	1,082	1,288	3,320	3,977
Total	$ 3,391	$ 3,024	$9,874	$ 8,751
Operating income:				
Energy Services Group	$ 321	$ 228	$ 788	$ 390
Engineering and Construction Group	39	46	82	125
General corporate	(18)	(26)	(58)	(60)
Total	$ 342	$ 248	$ 812	$ 455

Energy Services Group. The Energy Services Group provides a wide range of discrete services and products and integrated solutions to customers for the exploration, development, and production of oil and gas. The customers for this segment are major, national and independent oil and gas companies. This segment consists of:

- Halliburton Energy Services provides oilfield services and products including discrete products and services and integrated solutions for oil and gas exploration, development and production throughout the world. Products and services include pressure pumping equipment and services, logging and perforating, drilling systems and services, drilling fluids systems, drill bits, specialized completion and production equipment and services, well control, integrated solutions, and reservoir description,

- o Landmark Graphics provides integrated exploration and production software information systems and professional services to the petroleum industry, and
- o Other product service lines include surface/subsea operations and large integrated engineering, procurement, and construction projects containing both surface and sub-surface components. Surface/subsea operations provide construction, installation and servicing of subsea facilities; flexible pipe for offshore applications; pipeline services for offshore customers; pipecoating services. In addition, these product service lines provide feasibility, conceptual and front-end engineering and design, project management, detailed engineering, maintenance, procurement, construction site management, commissioning, startup and debottlenecking of both onshore and offshore facilities.

Engineering and Construction Group. The Engineering and Construction Group provides engineering, procurement, construction, project management, and facilities operation and maintenance for oil and gas and other industrial and governmental customers. The Engineering and Construction Group, operating as Kellogg Brown & Root, includes the following five product lines:

- o Onshore operations comprises engineering and construction activities, including liquefied natural gas, ammonia, crude oil refineries, petrochemical plants and natural gas plants,
- o Offshore operations includes specialty offshore deepwater engineering and marine technology and worldwide fabrication capabilities,
- o Government operations provides operations, maintenance and logistics activities for government facilities and installations,
- o Operations and maintenance provides services for private sector customers, primarily industrial, hydrocarbon and commercial applications, and
- o Asia Pacific operations, based in Australia, provides civil engineering and consulting services.

Note 3. Acquisitions and Dispositions

Magic Earth acquisition. In April 2001, we signed a definitive agreement to acquire Magic Earth, Inc., a leading 3-D visualization and interpretation technology company with broad applications in the area of data mining. Under the agreement, Halliburton common stock valued at $100 million, subject to final purchase price adjustments, will be exchanged to acquire Magic Earth. The registration statement registering the stock to be issued to acquire Magic Earth became effective in October 2001. We expect the transaction to be completed in the fourth quarter of 2001. Magic Earth will become a wholly owned subsidiary reported within our Energy Services Group.

PGS Data Management acquisition. In March 2001, Landmark Graphics acquired the PGS Data Management division of Petroleum Geo-Services ASA (PGS) for $175 million. Terms of the agreement also include a final working capital adjustment by March 2002. The agreement also calls for Landmark to provide, for a fee, strategic data management and distribution services to PGS for three years. We preliminarily recorded goodwill based on a 15 year life, of $146 million, subject to the final valuation of intangible assets and other costs.

PES acquisition. In February 2000, we acquired the remaining 74% of the shares of PES (International) Limited that we did not already own. PES is based in Aberdeen, Scotland, and has developed technology that complements Halliburton Energy Services' real-time reservoir solutions. To acquire the remaining 74% of PES, we issued 1.2 million shares of Halliburton common stock. We also issued rights that will result in the issuance of up to 2.1 million additional shares of Halliburton common stock between February 2001 and February 2002. We issued 1.0 million shares in February 2001 and 400,000 shares in June 2001 under the rights. We recorded $115 million of goodwill in connection with acquiring the remaining 74%.

During the second quarter of 2001, we contributed the majority of PES' assets and technologies, including $130 million of goodwill associated with the purchase of PES, to a newly formed joint venture, WellDynamics. We received $39 million in cash as an equity equalization adjustment. The remaining assets of PES relating to completions and well intervention products have been combined with our existing completions product service line. We own 50% of WellDynamics and account for this investment using the equity method.

European Marine Contractors Ltd. disposition. In October 2001, we signed an agreement to sell our 50% interest in European Marine Contractors Ltd., an unconsolidated joint venture in the Energy Services Group. The sales price is $115 million in cash plus a contingent payment of up to an additional $28 million based on a formula linked to the Oil Service Index performance. Upon completion of the sale, which is subject to regulatory approvals, we expect to record a pretax gain of $90 million or $0.12 per diluted share after-tax.

Additional gains, if any, relating to the fair value of the contingent payment arrangement will be recognized at the time of the sale and adjusted based upon its fair value in future periods.

Subsea joint venture. In October 2001, we signed a letter of intent to form a new company by combining our Halliburton Subsea business with DSND Subsea ASA, a Norwegian-based company. The new company, which plans to begin operations the first of next year, will be consolidated within the Energy Services Group. The closing of the transaction is subject to the execution of a definitive agreement, regulatory approvals and approvals by the board of directors of each party.

Note 4. Discontinued Operations

In 1999 the Dresser Equipment Group was comprised of six operating divisions and two joint ventures that manufactured and marketed equipment used primarily in the energy, petrochemical, power and transportation industries. In late 1999 and early 2000, we sold our interests in the two joint ventures. These joint ventures represented nearly half of the group's revenues and operating profit in 1999. The sale of our interests in the segment's joint ventures prompted a strategic review of the remaining businesses within the Dresser Equipment Group. As a result of this review, we determined that the remaining businesses did not closely fit with our core businesses, long-term goals and strategic objectives. In April 2000, our Board of Directors approved plans to sell all the remaining businesses within the Dresser Equipment Group.

We sold these businesses on April 10, 2001. As part of the terms of the transaction, we retained a 5.1% equity interest in the Dresser Equipment Group, which has been renamed Dresser, Inc. In the second quarter of 2001, we recognized a pretax gain on the sale of discontinued operations of $498 million or $299 million after-tax. Total value under the agreement was $1.55 billion, less assumed liabilities, and resulted in cash proceeds of $1.27 billion from the sale. In connection with the sale, we accrued disposition related costs, realized $68 million of noncurrent deferred income tax assets, and reduced employee compensation and benefit liabilities by $152 million for liabilities assumed by the purchaser. The employee compensation and benefit liabilities were previously included in "Employee compensation and benefits" in the condensed consolidated balance sheets.

Gain on disposal of discontinued operations represents the gain on the sale of the remaining businesses within the Dresser Equipment Group in the second quarter of 2001 and the gain on the sale of Dresser-Rand, which was part of the Dresser Equipment Group, in the first quarter of 2000.

Gain on Disposal of Discontinued Operations Millions of dollars	Nine Months Ended September 30 2001	 2000
Proceeds from sale, less intercompany settlement	$ 1,267	$ 536
Net assets disposed	(769)	(180)
Gain before taxes	498	356
Income taxes	(199)	(141)
Gain on disposal of discontinued operations	$ 299	$ 215

The financial results of the Dresser Equipment Group through March 31, 2001 are presented as discontinued operations in our financial statements. During the second and third quarter of 2001, we recorded as expense to discontinued operations $95 million, primarily $91 million, net of anticipated insurance recoveries, for asbestos claims arising after the 1992 divestiture of INDRESCO. See Note 7.

Income (loss) from Discontinued Operations Millions of dollars	Three Months Ended September 30 2001	 2000	Nine Months Ended September 30 2001	 2000
Revenues	$ -	$ 346	$ 359	$ 1,037
Operating income	$ -	$ 42	$ 37	$ 115
Other income	-	1	-	1
Asbestos litigation claims, net of insurance recoveries	(3)	-	(95)	-
Tax benefit (expense)	1	(16)	18	(44)
Net income (loss)	$ (2)	$ 27	$ (40)	$ 72

Net assets of the Dresser Equipment Group at December 31, 2000 are as follows:

Net Assets of Discontinued Operations Millions of dollars	December 31 2000
Receivables	$ 286
Inventories	255
Other current assets	22
Accounts payable	(104)
Other current liabilities	(161)
Net current assets of discontinued operations	$ 298
Net property, plant and equipment	$ 219
Goodwill, net	257
Other assets	30
Employee compensation and benefits	(113)
Other liabilities	(2)
Net noncurrent assets of discontinued operations	$ 391

Note 5. Receivables

Our receivables are generally not collateralized. With the exception of claims and change orders that are in the process of being negotiated with customers, unbilled work on uncompleted contracts generally represents work currently billable, and this work is usually billed during normal billing processes in the next several months. Claims and change orders included in unbilled receivables amounted to $170 million at September 30, 2001 and $113 million at December 31, 2000.

Note 6. Inventories

Inventories to support continuing operations at September 30, 2001 and December 31, 2000 are composed of the following:

Millions of dollars	September 30 2001	December 31 2000
Finished products and parts	$ 512	$ 486
Raw materials and supplies	215	178
Work in process	104	59
Total	$ 831	$ 723

Inventories on the last-in, first-out method were $56 million at September 30, 2001 and $66 million at December 31, 2000. If the average cost method had been used, total inventories would have been about $30 million higher than reported at September 30, 2001 and $28 million higher than reported at December 31, 2000.

Note 7. Commitments and Contingencies

Asbestos litigation. Several of our subsidiaries, particularly Dresser Industries, Inc. and Kellogg Brown & Root, Inc., are defendants in a large number of asbestos related lawsuits. The plaintiffs allege injury as a result of exposure to asbestos in products manufactured by former divisions of Dresser or in materials used in construction or maintenance projects of Kellogg Brown & Root. These claims are in three general categories:

- Refractory claims,
- Other Dresser claims, and
- Construction claims.

Refractory Claims

Asbestos was used in a small number of products manufactured by the refractories business of Harbison-Walker Refractories Company, which Dresser acquired in 1967. Harbison-Walker was spun-off by Dresser in 1992. At that time Harbison-Walker agreed to assume liability for asbestos claims filed after the spin-off and it agreed to defend and indemnify Dresser from liability for those claims. Dresser retained responsibility for asbestos claims filed before the spin-off. After the spin-off, Dresser and Harbison-Walker entered into coverage-in-place agreements with a number of insurance companies. Those agreements provide both Dresser and Harbison-Walker access to the same insurance coverage to reimburse them for defense costs, settlements and court judgments they pay to resolve refractory claims. Based on our negotiations with Harbison-Walker and our investigations, we believe Harbison-Walker is no longer financially able to perform its obligation to assume liability for post spin-off refractory claims and defend Dresser from those claims. Since the claims expose Dresser to potential liability when Harbison-Walker does not provide adequate defense and indemnification, Dresser is separately asserting its own defense of refractory claims that name it as a defendant.

Dresser and Harbison-Walker are now engaged in litigation resulting from Harbison-Walker's failure to perform its obligations under the agreement entered into at the time of the 1992 spin-off. On August 2, 2001, Harbison-Walker filed a lawsuit in Jefferson County, Texas, alleging that Dresser and Halliburton breached the spin-off agreement and the insurance coverage-in-place agreements. This lawsuit also alleges that Dresser and Halliburton commercially disparaged Harbison-Walker and tortuously interfered with various contractual relationships. We believe that these allegations are without merit and we will vigorously defend against them. On August 7, 2001, Dresser and Halliburton asked the Jefferson County court to dismiss Harbison-Walker's lawsuit and order arbitration of this dispute as required by the spin-off agreement.

On August 7, 2001, Dresser also filed a lawsuit, in the United States District Court for the Northern District of Texas, against Harbison-Walker's parent company, RHI AG, an Austrian corporation, Harbison-Walker's affiliates, and Dresser's insurance companies. In this lawsuit, Dresser alleges that Harbison-Walker fraudulently billed Dresser's general liability insurers for asbestos-related costs that Harbison-Walker had yet to pay. Dresser further alleges Harbison-Walker, violated federal mail fraud and money laundering statutes, and the Racketeer Influenced Corrupt Organizations Act, commonly referred to as RICO. Dresser also claims that the actions of Harbison-Walker constitute common law conversion and conspiracy. Dresser is seeking a declaratory judgment that the amounts the insurance companies improperly paid to Harbison-Walker in response to the fraudulent billings do not reduce the insurance coverage available to Dresser for its asbestos-related liabilities.

In addition, on August 7, 2001, Dresser filed a comprehensive insurance coverage lawsuit, in Dallas County, Texas, against the companies that wrote general liability insurance that covers both refractory and other asbestos claims. Dresser seeks, among other relief, a declaratory judgment that Dresser is entitled to insurance coverage for all of its asbestos-related liabilities arising out of operations before November 1, 1985. Dresser filed this lawsuit to protect its insurance coverage in light of Harbison-Walker's attempt to improperly access this insurance coverage and to challenge the actions of London-based insurers to unilaterally and improperly modify existing coverage-in-place agreements.

As of September 30, 2001 there were approximately 7,000 open and unresolved pre-spin-off refractory claims against Dresser. In addition, we believe that there are approximately 182,000 open and unresolved post spin-off refractory claims. We also believe that approximately 100,000 of these post spin-off claims name Dresser as a defendant, including 17,000 to 25,000 claims in the process of being settled by Harbison-Walker which may become open and unresolved claims if Harbison-Walker is unable to complete the settlements. We are currently in the process of verifying the claims which named Dresser as a defendant. It is likely that Dresser will take up the defense of most of the unsettled post spin-off refractory claims in order to prevent Harbison-Walker from unnecessarily eroding the insurance coverage both companies can access for these claims.

Other Dresser Claims

As of September 30, 2001, there were approximately 109,000 open and unresolved claims alleging injuries from asbestos used in several other types of products formerly manufactured by Dresser. Most of these claims involve gaskets and packing materials used in pumps and other industrial products.

Construction Claims

Our Engineering and Construction Group includes engineering and construction businesses formerly operated by The M.W. Kellogg Company and Brown & Root, Inc., now combined as Kellogg Brown & Root, Inc. As of September 30, 2001, there were approximately 30,000 open and unresolved claims alleging injuries from asbestos in materials used in construction and maintenance projects, most of which were conducted by Brown & Root. A much smaller number of claims are asserted against Kellogg. A prior owner of Kellogg provides us a contractual indemnification for those claims.

Asbestos Insurance coverage. We have insurance coverage that reimburses us for a substantial portion of the costs incurred defending against open asbestos claims. This coverage also reimburses us for a substantial portion of amounts we pay to settle claims and amounts awarded in court judgments. The coverage is provided by a large number of insurance policies written by dozens of insurance companies. The insurance companies wrote the coverage over a period of more than 30 years for our subsidiaries and their predecessors. Large amounts of this coverage are now subject to coverage-in-place agreements that resolve issues concerning amounts and terms of coverage. The amount of insurance coverage available to us depends on the nature of the alleged exposure to asbestos and the specific subsidiary against which an asbestos claim is asserted.

Refractory Claims Insurance

Dresser has a substantial amount of insurance coverage for refractory asbestos claims. Many of the issues relating to this coverage have been resolved by coverage-in-place agreements with dozens of companies, including Equitas and other London-based insurance companies. However, recently Equitas and other London-based companies have imposed new restrictive documentation requirements on Dresser and other insureds. We believe the new requirements are part of an effort by these companies to limit payment of settlements to claimants who are truly impaired by exposure to asbestos and can identify the product or premises that caused their exposure. On August 7, 2001 Dresser filed a lawsuit in Dallas County, Texas against a number of these insurance companies asserting Dresser's rights under existing coverage-in-place agreements. These agreements allow Dresser to enter into settlement of claims for small amounts where we believe settlement is effective claims management without requiring claimants to produce detailed documentation to support their claims. We believe that the new documentation requirements are inconsistent with the current coverage-in-place agreements and are unenforceable. The insurance companies Dresser has sued have not refused to pay larger claim settlements where documentation is obtained or where court judgments are entered. Also, they continue to pay previously agreed to amounts of defense costs Dresser incurs defending refractory asbestos claims.

Other Dresser Claims Insurance

Dresser has insurance that covers other open asbestos claims against it. This coverage is provided by a number of different policies which Dresser acquired rights to access for coverage of asbestos claims when it acquired businesses from other companies. A portion of this insurance coverage is shared with an unaffiliated company that acquired other assets from the same seller. The unaffiliated company is now in Chapter 11 bankruptcy and the effect of the bankruptcy on our ability to continue to access the shared insurance is not resolved. On August 28, 2001, Dresser filed a separate lawsuit against Equitas and other London-based companies that provide some of this insurance. This lawsuit is similar to the lawsuit described under Refractory Claims Insurance above that seeks to prevent insurance companies from unilaterally modifying the terms of existing coverage-in-place agreements.

Construction Claims Insurance

Nearly all construction asbestos claims relate to Brown & Root operations before the 1980s. Our primary insurance coverage for these claims was written by Highlands Insurance Company during the time it was one of our subsidiaries. Highlands was spun-off to our shareholders in 1996. At present Highlands is not paying any portion of the settlement or defense costs we incur for construction asbestos claims. On April 5, 2000 Highlands filed a lawsuit against us in the Delaware Chancery Court. Highlands asserted that the insurance it wrote for Brown & Root that covered construction asbestos claims was terminated by agreements between Halliburton and Highlands at the time of the 1996 spin-off. Although we do not believe that a termination of this insurance occurred, in March 2001 the Chancery Court ruled that a termination did occur and that Highlands is not obligated to provide coverage for Brown & Root's asbestos claims. The Delaware Supreme Court heard oral arguments of our appeal of this decision on September 17, 2001. We believe the Chancery Court's decision is wrong and that the Delaware Supreme Court will reverse and return the case to the Chancery Court for a trial on the merits. We expect, based on an opinion from our outside legal counsel, to ultimately prevail in this litigation. We anticipate the Delaware Supreme Court's decision late this year or early in 2002. In addition, on April 24, 2000, we filed a lawsuit in Harris County, Texas, asserting that Highlands has breached its contractual obligations to provide coverage for asbestos claims under the policies it wrote for Brown & Root. This lawsuit is stayed pending resolution of the Delaware litigation. We are aware that Highland's financial condition has deteriorated since this litigation began. However, we believe that Highlands has the ability to reimburse us for a substantial portion of the defense, settlement and other costs we incur defending Brown & Root open asbestos claims once the Delaware litigation is successfully concluded in our favor as we expect. In the event Highlands becomes unable to pay amounts owed to us for coverage of Brown & Root open asbestos claims, we have the right to seek reimbursement from the Texas Property and Casualty Guaranty Association.

Claims history. Since 1976 approximately 340,000 asbestos claims have been filed against us. Almost all of these claims have been made in separate lawsuits in which we are named as a defendant along with a number of other defendants, often exceeding 100 unaffiliated companies in total. During the third quarter of 2001 we received approximately 13,000 new claims, compared to 27,000 new claims in the second quarter and 18,000 new claims in the first quarter of this year. During the third quarter of 2001 we closed approximately 11,000 claims. The number of open claims pending against us at the end of each quarter this year and at the end of the two preceding years is as follows:

Period Ending	Total Open Claims
September 30, 2001	146,000
June 30, 2001	145,000
March 31, 2001	129,000
December 31, 2000	117,000
December 31, 1999	107,700

In addition to the claims reported in the table above, at September 30, 2001 we estimate there are approximately 100,000 open and unresolved post spin-off refractory claims naming Dresser as a defendant where Harbison-Walker has failed to provide Dresser with adequate defense and indemnification. Once we have verified that Dresser is a named defendant, we plan to treat these claims as open claims.

We manage asbestos claims to achieve settlement of valid claims for reasonable amounts. When that is not possible, we contest claims in court. Since 1976 we have resolved approximately 194,000 claims through settlements and court proceedings at a total cost of approximately $143 million. We have received or expect to receive from our insurance all but approximately $38 million of this cost, resulting in an average net cost per resolved claim of less than $200.

Reserves for asbestos claims. We have accrued reserves for our estimate of our liability for known open asbestos claims. We do not accrue reserves for unknown claims that may be filed against us in the future. Our estimate of the cost of resolving open claims is based on our historical litigation experience, completed settlements and our estimate of amounts we will recover from insurance companies. Our estimate of recoveries from insurance companies with which we have coverage-in-place agreements, other than Highlands Insurance Company, is based on those agreements. In those instances in which agreements are still in negotiation or in litigation, our estimate is based on our expectation of our ultimate recovery from insurance companies. We believe that the insurance companies with which we have signed agreements will be able to meet their obligations under these agreements. A summary of our reserves for open claims and corresponding insurance recoveries is as follows:

Millions of dollars	September 30 2001	December 31 2000
Asbestos litigation claims	$ 704	$ 80
Estimated insurance recoveries:		
Highlands Insurance Company	(38)	(39)
Other insurance carriers	(541)	(12)
Insurance for asbestos litigation claims	(579)	(51)
Net liability for known open asbestos claims	$ 125	$ 29

These reserves are included in noncurrent assets and liabilities due to the extended time periods involved to settle claims.

In addition to these asbestos reserves, our accounts receivable include $27 million we expect to collect from Highlands Insurance Company for settlements and defense costs we have already incurred for construction asbestos claims. If we are ultimately unsuccessful in the Highlands litigation, we will be unable to collect this $27 million as well as the $38 million estimated recovery from Highlands included in our asbestos reserves summarized above. If this occurs, it may have a material adverse impact on the results of our operations and our financial position at that time.

Accounts receivable for billings to other insurance companies for payments made on asbestos claims were $13 million at September 30, 2001 and December 31, 2000.

The uncertainties of asbestos claim litigation and resolution of the litigation with insurance companies and Harbison-Walker described above make it difficult to accurately predict the results of the ultimate resolution of asbestos claims. That uncertainty is increased by the possibility of adverse court rulings or new legislation affecting the asbestos claim litigation or the settlement process. Subject to these uncertainties and based on our experience defending asbestos claims and our estimate of amounts we will recover from insurance, we believe that open asbestos claims will be resolved without a material adverse effect on our financial position or the results of operations.

Fort Ord litigation. Brown & Root Services, now operating as Kellogg Brown & Root, is a defendant in civil litigation pending in federal court in Sacramento, California. The lawsuit alleges that Brown & Root Services violated provisions of the False Claims Act while performing work for the United States Army at Fort Ord in California. This lawsuit was filed by a former employee in 1997. Brown & Root Services has denied the allegations and is preparing to defend itself at trial. Further proceedings in this civil lawsuit have been stayed while the investigation referred to in the next paragraph is ongoing. We believe that it is remote that this civil litigation will result in any material amount of damages being assessed against us.

Although in 1998 the United States Department of Justice declined to join this litigation, it has advised us that Brown & Root Services is the target of a federal grand jury investigation regarding the contract administration issues raised in the civil litigation. Brown & Root Services has been served with grand jury subpoenas, which required the production of documents relating to the Fort Ord contract and similar contracts at other locations. We are cooperating in this investigation. The United States Department of Justice has not made any specific allegations against Brown & Root Services.

Environmental. We are subject to numerous environmental legal and regulatory requirements related to our operations worldwide. We take a proactive approach to evaluating and addressing the environmental impact of our operations. Each year we assess and remediate contaminated properties in order to avoid future liabilities and comply with legal and regulatory requirements. On occasion we are involved in specific environmental litigation and claims, including the clean-up of properties we own or have operated as well as efforts to meet or correct compliance-related matters.

Some of our subsidiaries and former operating entities are involved as a potentially responsible party or PRP in remedial activities to clean-up several "Superfund" sites under United States federal law and comparable state laws. Kellogg Brown & Root is one of nine PRPs named at the Tri-State Mining District "Superfund" Site, also known as the Jasper County "Superfund" Site. Based on our negotiations with federal regulatory authorities and our evaluation of our responsibility for remediation at small portions of this site, we do not believe we will be compelled to make expenditures which will have a material adverse effect on our consolidated financial position or results of operations. However, the United States Department of the Interior and the State of Missouri have indicated that they might make a separate claim against Kellogg Brown & Root for natural resource damages. Discussions with them have not been concluded and we are unable to make a judgement about the amount of damages they may seek.

We also incur costs related to compliance with ever-changing environmental, legal and regulatory requirements in the jurisdictions where we operate. It is very difficult to quantify the potential liabilities. We do not expect these expenditures to have a material adverse effect on our consolidated financial position or our results of operations.

During the second quarter of 2001, we accrued $15 million for environmental matters related to liabilities retained on properties included in the sale of Dresser Equipment Group. Our accrued liabilities for environmental matters were $49 million as of September 30, 2001 and $31 million as of December 31, 2000.

Other. We are a party to various other legal proceedings. We expense the cost of legal fees related to these proceedings. We believe any liabilities we may have arising from these proceedings will not be material to our consolidated financial position or our results of operations.

Note 8. Income Per Share

Millions of dollars and shares except per share data	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine Months Ended September 30 2001	Nine Months Ended September 30 2000
Income from continuing operations before accounting change	$ 181	$ 130	$ 410	$ 209
Basic weighted average shares	428	445	427	444
Effect of common stock equivalents	1	6	3	4
Diluted weighted average shares	429	451	430	448
Income per common share from continuing operations before accounting change:				
Basic	$ 0.42	$ 0.29	$ 0.96	$ 0.47
Diluted	$ 0.42	$ 0.29	$ 0.95	$ 0.47

Basic income per share is based on the weighted average number of common shares outstanding during the period. Diluted income per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. Excluded from the computation of diluted income per share are options to purchase 8.1 million shares of common stock which were outstanding during the nine months ended September 30, 2001 and options to purchase 10.6 million shares of common stock which were outstanding during the three months ended September 30, 2001. These options were excluded because the option exercise price was greater than the average market price of the common shares.

Note 9. Comprehensive Income

The components of other comprehensive income adjustments to net income include the cumulative translation adjustment of some of our foreign entities, minimum pension liability adjustments and unrealized gains or (losses) on investments and derivatives.

Millions of dollars	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Nine Months Ended September 30 2001	Nine Months Ended September 30 2000
Net income	$ 179	$ 157	$ 670	$ 496
Cumulative translation adjustment, net of tax	20	(79)	(26)	(140)
Less reclassification adjustment for losses included in net income	-	-	102	11
Net cumulative translation adjustment, net of tax	20	(79)	76	(129)
Adjustment to minimum pension liability	-	-	12	7
Unrealized gains (losses) on investments and derivatives	(2)	2	-	2
Total comprehensive income	$ 197	$ 80	$ 758	$ 376

Accumulated other comprehensive income at September 30, 2001 and December 31, 2000 consisted of the following:

Millions of dollars	September 30 2001	December 31 2000
Cumulative translation adjustment	$ (199)	$ (275)
Minimum pension liability	-	(12)
Unrealized losses on investments and derivatives	(1)	(1)
Total accumulated other comprehensive income	$ (200)	$ (288)

Note 10. Engineering and Construction Reorganization

As a result of the reorganization of our engineering and construction businesses, we took actions in the fourth quarter of 2000 to reduce our cost structure including asset related charges of $20 million and personnel related charges of $16 million. Asset related write-offs of equipment, engineering reference designs and capitalized software were all completed by December 31, 2000. Personnel related payments of $11 million have been made and the elimination of approximately 30 senior management positions is substantially complete.

Note 11. Long-Term Debt and Financial Instruments

In July 2001 we issued $425 million of two and five year medium-term notes under our medium-term program. The notes consist of $275 million of 6% fixed rate notes due August 1, 2006 and $150 million of floating rate notes due July 16, 2003. We may redeem the 6% fixed rate medium-term notes in whole or in part at anytime at our option. The floating rate medium-term notes may not be redeemed prior to maturity. The fixed and floating rate medium-term notes do not have sinking fund requirements.

We seek to minimize our exposure to changes in interest rates by managing our fixed rate debt to variable rate debt ratio. In August 2001 we entered into an interest rate swap on a portion of our newly issued fixed rate medium-term notes. The interest rate swap has been designated as a fair value hedge under SFAS No. 133 and accordingly, has been reflected at its fair value in "Other assets" and the hedged portion of "Long-term debt" has been recorded at fair value in the condensed consolidated balance sheets. We account for this interest rate swap using the short-cut method, as described in SFAS No. 133, and determined there was no ineffectiveness for the period ending September 30, 2001. Amounts to be received or paid as a result of the swap agreement are recognized as adjustments to interest expense. In October 2001 we entered into another interest rate swap agreement on our 8% senior notes.

Note 12. Dresser Financial Information

Since becoming a wholly owned subsidiary, Dresser Industries, Inc. has ceased filing periodic reports with the Securities and Exchange Commission. Dresser's 8% guaranteed senior notes, which were initially issued by Baroid Corporation, remain outstanding and are fully and unconditionally guaranteed by Halliburton. In January 1999, as part of a legal reorganization associated with the merger, Halliburton Delaware, Inc., our first tier holding company subsidiary, was merged into Dresser. The majority of our operating assets and activities are now included in Dresser and its subsidiaries. In August 2000, the Securities and Exchange Commission released revised rules governing the financial statements of guarantors and issuers of guaranteed registered securities. The following condensed consolidating financial information presents Halliburton and our subsidiaries on a stand-alone basis using the equity method of accounting for our interest in our subsidiaries.

Condensed Consolidating Statements of Income
Three Months Ended September 30, 2001

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Total revenues	$ 3,391	$ 209	$ 197	$ (406)	$ 3,391
Cost of revenues	(2,955)	-	-	-	(2,955)
General and administrative	(94)	-	-	-	(94)
Interest expense	(9)	(10)	(15)	-	(34)
Interest income	7	4	14	(17)	8
Other, net	5	(4)	(2)	(1)	(2)
Income from continuing operations before taxes and minority interest	345	199	194	(424)	314
Provision for income taxes	(129)	-	3	-	(126)
Minority interest in net income of subsidiaries	(7)	-	-	-	(7)
Income from continuing operations	209	199	197	(424)	181
Income from discontinued operations	-	(2)	-	-	(2)
Net income	$ 209	$ 197	$ 197	$ (424)	$ 179

Condensed Consolidating Statements of Income
Three Months Ended September 30, 2000

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Total revenues	$ 3,024	$ 78	$ 53	$ (131)	$ 3,024
Cost of revenues	(2,772)	-	-	-	(2,772)
General and administrative	(92)	-	-	-	(92)
Gain on sale of marine vessels	88	-	-	-	88
Interest expense	(110)	(8)	(19)	99	(38)
Interest income	6	(10)	15	(5)	6
Other, net	2	(4)	1	4	3
Income from continuing operations before taxes and minority interest	146	56	50	(33)	219
Provision for income taxes	(90)	(3)	9	-	(84)
Minority interest in net income of subsidiaries	(5)	-	-	-	(5)
Income from continuing operations	51	53	59	(33)	130
Income from discontinued operations	27	-	-	-	27
Net income	$ 78	$ 53	$ 59	$ (33)	$ 157

Condensed Consolidating Statements of Income
Nine Months Ended September 30, 2001

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Total revenues	$ 9,874	$ 515	$ 870	$(1,385)	$ 9,874
Cost of revenues	(8,776)	-	-	-	(8,776)
General and administrative	(286)	-	-	-	(286)
Interest expense	(30)	(27)	(59)	1	(115)
Interest income	16	10	43	(51)	18
Other, net	4	142	(6)	(146)	(6)
Income from continuing operations before taxes, minority interest and accounting change	802	640	848	(1,581)	709
Provision for income taxes	(296)	(7)	18	-	(285)
Minority interest in net income of subsidiaries	(14)	-	-	-	(14)
Income from continuing operations before accounting change	492	633	866	(1,581)	410
Income from discontinued operations	22	237	-	-	259
Cumulative effect of accounting change, net	1	-	-	-	1
Net income	$ 515	$ 870	$ 866	$(1,581)	$ 670

Condensed Consolidating Statements of Income
Nine Months Ended September 30, 2000

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Total revenues	$ 8,751	$ 247	$ 478	$ (725)	$ 8,751
Cost of revenues	(8,132)	-	-	-	(8,132)
General and administrative	(252)	-	-	-	(252)
Gain on sale of marine vessels	88	-	-	-	88
Interest expense	(124)	(35)	(44)	99	(104)
Interest income	16	55	44	(99)	16
Other, net	(4)	(4)	-	4	(4)
Income from continuing operations before taxes and minority interest	343	263	478	(721)	363
Provision for income taxes	(154)	-	14	-	(140)
Minority interest in net income of subsidiaries	(14)	-	-	-	(14)
Income from continuing operations	175	263	492	(721)	209
Income from discontinued operations	72	215	-	-	287
Net income	$ 247	$ 478	$ 492	$ (721)	$ 496

Condensed Consolidating Balance Sheets
September 30, 2001

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Assets					
Current assets:					
Cash and equivalents	$ 172	$ -	$ 55	$ -	$ 227
Receivables:					
Notes and accounts receivable, net	597	2,647	-	-	3,244
Unbilled work on uncompleted contracts	971	-	-	-	971
Total receivables	1,568	2,647	-	-	4,215
Inventories	831	-	-	-	831
Other current assets	507	1	6	-	514
Total current assets	3,078	2,648	61	-	5,787
Property, plant and equipment, net	2,569	-	-	-	2,569
Equity in and advances to unconsolidated affiliates	454	22	-	-	476
Intercompany receivable from consolidated affiliates	1,369	-	2,765	(4,134)	-
Equity in and advances to consolidated affiliates	-	5,292	3,171	(8,463)	-
Goodwill, net	507	85	-	-	592
Insurance for asbestos litigation claims	579	-	-	-	579
Other assets	660	5	24	-	689
Total assets	$ 9,216	$ 8,052	$ 6,021	$(12,597)	$10,692
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts and notes payable	$ 881	$ 56	$ 179	$ -	$ 1,116
Other current liabilities	1,372	235	54	-	1,661
Total current liabilities	2,253	291	233	-	2,777
Long-term debt	200	439	831	-	1,470
Intercompany payable from consolidated affiliates	-	4,134	-	(4,134)	-
Asbestos litigation claims	704	-	-	-	704
Other liabilities	990	17	86	-	1,093
Minority interest in consolidated subsidiaries	51	-	-	-	51
Total liabilities	4,198	4,881	1,150	(4,134)	6,095
Shareholders' equity:					
Common shares	391	-	1,138	(391)	1,138
Other shareholders' equity	4,627	3,171	3,733	(8,072)	3,459
Total shareholders' equity	5,018	3,171	4,871	(8,463)	4,597
Total liabilities and shareholders' equity	$ 9,216	$ 8,052	$ 6,021	$(12,597)	$10,692

Condensed Consolidating Balance Sheets
December 31, 2000

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Assets					
Current assets:					
Cash and equivalents	$ 216	$ 11	$ 4	$ -	$ 231
Receivables:					
Notes and accounts receivable, net	2,966	63	-	-	3,029
Unbilled work on uncompleted contracts	816	-	-	-	816
Total receivables	3,782	63	-	-	3,845
Inventories	723	-	-	-	723
Other current assets	753	1	15	-	769
Total current assets	5,474	75	19	-	5,568
Property, plant and equipment, net	2,410	-	-	-	2,410
Equity in and advances to unconsolidated affiliates	258	142	-	-	400
Intercompany receivable from consolidated affiliates	68	-	2,138	(2,206)	-
Equity in and advances to consolidated affiliates	-	6,558	4,220	(10,778)	-
Goodwill, net	510	87	-	-	597
Other assets	1,109	5	14	-	1,128
Total assets	$ 9,829	$ 6,867	$ 6,391	$(12,984)	$10,103
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts and notes payable	$ 756	$ 64	$ 1,540	$ -	$ 2,360
Other current liabilities	1,374	36	56	-	1,466
Total current liabilities	2,130	100	1,596	-	3,826
Long-term debt	205	444	400	-	1,049
Intercompany payable from consolidated affiliates	-	2,206	-	(2,206)	-
Other liabilities	1,118	26	118	-	1,262
Minority interest in consolidated subsidiaries	38	-	-	-	38
Total liabilities	3,491	2,776	2,114	(2,206)	6,175
Shareholders' equity:					
Common shares	391	-	1,132	(391)	1,132
Other shareholders' equity	5,947	4,091	3,145	(10,387)	2,796
Total shareholders' equity	6,338	4,091	4,277	(10,778)	3,928
Total liabilities and shareholders' equity	$ 9,829	$ 6,867	$ 6,391	$(12,984)	$10,103

Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2001

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Net cash flows from operating activities	$ 561	$ (25)	$ 20	$ -	$ 556
Capital expenditures	(568)	-	-	-	(568)
Sales of property, plant and equipment	77	-	-	-	77
Other investing activities	(129)	-	1,096	(1,096)	(129)
Proceeds from long-term borrowings	-	-	425	-	425
Payments on long-term borrowings	(8)	(5)	-	-	(13)
Borrowings (repayments) of short-term debt, net	-	-	(1,359)	-	(1,359)
Payments of dividends to shareholders	-	-	(161)	-	(161)
Proceeds from exercises of stock options	-	-	25	-	25
Payments to reacquire common stock	-	-	(33)	-	(33)
Other financing activities	42	(1,182)	38	1,096	(6)
Effect of exchange rate on cash	(19)	-	-	-	(19)
Net cash flows from discontinued operations	-	1,201	-	-	1,201
Increase (decrease) in cash and equivalents	$ (44)	$ (11)	$ 51	$ -	$ (4)

Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2000

Millions of dollars	Non-issuer/ Non-guarantor Subsidiaries	Dresser Industries, Inc. (Issuer)	Halliburton Company (Guarantor)	Consolidating Adjustments	Consolidated Halliburton Company
Net cash flows from operating activities	$ (220)	$ 19	$ 12	$ -	$ (189)
Capital expenditures	(367)	-	-	-	(367)
Sales of property, plant and equipment	181	-	-	-	181
Other investing activities	(21)	-	89	(89)	(21)
Payments on long-term borrowings	(9)	(300)	-	-	(309)
Borrowings (repayments) of short-term debt, net	14	-	(183)	-	(169)
Payments of dividends to shareholders	-	-	(167)	-	(167)
Proceeds from exercises of stock optio ns	-	-	102	-	102
Payments to reacquire common stock	-	-	(24)	-	(24)
Other financing activities	(395)	237	64	89	(5)
Effect of exchange rate on cash	(14)	-	-	-	(14)
Net cash flows from discontinued operations	826	-	-	-	826
Increase (decrease) in cash and equivalents	$ (5)	$ (44)	$ (107)	$ -	$ (156)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this section, we discuss the operating results and general financial condition of Halliburton Company and its subsidiaries. We explain:

- factors and risks that impact our business;
- why our earnings and expenses for the third quarter of 2001 differ from the third quarter of 2000;
- why our earnings and expenses for the first nine months of 2001 differ from the first nine months of 2000;
- factors that impacted our cash flows; and
- other items that materially affect our financial condition or earnings.

BUSINESS ENVIRONMENT

Our business is organized around two business segments:

- Energy Services Group; and
- Engineering and Construction Group.

The results of Dresser Equipment Group are reported as discontinued operations through March 31, 2001.

We currently operate in over 100 countries throughout the world, providing a comprehensive range of discreet and integrated products and services to the petroleum industry, and to other industrial and governmental customers. The majority of our consolidated revenues is derived from the sale of services and products, including engineering and construction activities, to large oil and gas companies. These services and products are used throughout the energy industry, from the earliest phases of exploration and development of oil and gas reserves through the refining and distribution process.

The industries we serve are highly competitive with many substantial competitors for each segment. No country other than the United States or the United Kingdom accounts for more than 10% of our operations. Unsettled political conditions, expropriation or other governmental actions, exchange controls or currency devaluation may result in the increased business risk in any one country. We believe the geographic diversification of our business activities reduces the risk that loss of business in any one country would be material to our consolidated results of operations.

Halliburton Company

Spending on exploration and production activities and investments in capital expenditures for refining and distribution facilities by large oil and gas companies have a significant impact on the activity levels within our two business segments. Through the first nine months of 2001, increased customer spending contributed to higher levels of worldwide drilling activity, especially gas drilling in the United States. In the latter part of the third quarter of 2001, drilling activity levels in the United States began to decline as prices for oil and natural gas decreased due to increased economic uncertainty and high gas storage levels in the United States.

Drilling activity increases in the earlier part of the year in North America generated much of the growth in demand for our products and services through the first nine months of 2001. Softening industrial use and reduced power generation over the summer months resulted in higher gas storage levels which placed downward pressure on natural gas prices. Gas drilling activity declines followed, primarily late in the third quarter. Internationally, crude oil prices have remained at levels satisfactory to provide increasing levels of capital spending and drilling, primarily by major oil and gas companies, including national oil companies. Generally, international oil and gas field development projects, particularly deepwater projects in West Africa and Brazil, have longer lead times, economics based on longer-term commodity prices, and are less likely to be delayed due to fluctuating short-term prices.

In the short-term, we expect gas-drilling activity in the United States to continue to decline into early 2002. The severity of the winter months in North America will be a key factor in the degree of the activity decline and timing of the eventual recovery. If prices for oil remain stable as compared to third quarter prices, we expect large deepwater projects to continue to provide opportunities. Over the longer-term, we expect increased global demand for oil and natural gas, additional spending to replace depleting reserves, and continued technological advances in our products and services to provide growth opportunities for our products and services.

Energy Services Group

Strong natural gas and crude oil prices during the first nine months of 2001 have contributed to increased demand for the products and services provided by the Energy Services Group. Activity has been highest in the United States, reflecting primarily the increased levels of drilling for natural gas. The rotary rig count in the United States continued to increase and averaged 1,206 rigs in the first nine months of 2001, an increase of 40% over the average for the first nine months of 2000. In the United States drilling activity for gas remained strong, posting a 44% increase over the average for the first nine months of 2000. Henry Hub gas prices for the first nine months of 2001 averaged $4.62/MCF as compared to $3.54/MCF average for the first nine months of 2000. Increases in international rig activity also continued through the first nine months of 2001, up 19% compared to the first nine-months of 2000. All geographic regions experienced higher activity levels, which increased our equipment and personnel utilization. This higher utilization resulted in better profitability and pricing strength, especially within the United States. Compared to the first nine months and third quarter of 2000, revenues for the Energy Services Group were higher across all geographic regions.

During the latter part of the third quarter, drilling levels within the United States, primarily land-based gas rigs, began to decline. Henry Hub gas prices for the third quarter of 2001 averaged $2.84/MCF, down from $4.46/MCF in the third quarter of 2000 and $4.48/MCF in the second quarter of 2001. Crude oil prices, while down from levels earlier in the year, remained at levels contributing to continued increases in exploration and production spending internationally by our customers. Recent declines in United States rig counts and economic uncertainty within the United States will result in short-term declines in revenues and operating income within the segment. The price increases we implemented in late 2000 and throughout 2001 combined with efforts to manage costs should partially offset the efforts of lower activity levels and pressure to increase discounts. Our drilling systems and completion products have a large percentage of their business outside the United States and are also heavily involved in deepwater oil and gas developments. These product service lines are expected to remain relatively strong. The production enhancement product service line, due to its dependence on United States gas drilling, will be the most impacted by the current slow down.

Engineering and Construction Group

Due to the long-term nature of most major engineering and construction projects, our Engineering and Construction Group did not benefit from the positive factors which provided opportunities for growth in the Energy Services Group in the first part of 2001. While both segments provide products and services to many of the same customers, oilfield service activities, especially land-based gas drilling activity in the United States which is more short-term focused, benefited more from increased activity levels. The downturn in the energy industry that began in 1998 led our customers to severely curtail many large engineering and construction projects during 2000 and into 2001. During this time, a series of mergers and consolidations among our major customers also reduced our customers' levels of investment in refining and distribution facilities as they evaluated existing capacities. Due to the lack of opportunities existing throughout 2000, combined with an extremely competitive global engineering and construction environment, we restructured our Engineering and Construction Group in late 2000 and the first quarter of 2001. Engineering, construction, fabrication and project management capabilities are now part of one operating segment - Kellogg Brown & Root. Based upon our technologies and proven capabilities on complex projects, combined with recent and pending project awards and current levels of bid activity in both the government and non-government product service lines of the business, we are optimistic about sustaining our financial performance in the Engineering and Construction Group for the remainder of this year. In the latter part of this quarter we began to see a slowdown of the economy. We also see the potential for some projects to be cancelled or delayed by our customers which may impact activity levels next year. We see some of the best engineering and construction project opportunities in liquefied natural gas, gas-to-liquids, and deepwater production. Growth opportunities also exist to provide additional support and security services to governmental agencies in the United States and other countries, including the United Kingdom. The demand for these services is expected to grow as governments at all levels seek to control costs and improve services by outsourcing various functions.

RESULTS OF OPERATIONS IN 2001 COMPARED TO 2000

Third Quarter of 2001 Compared with the Third Quarter of 2000

REVENUES Millions of dollars	Third Quarter 2001	Third Quarter 2000	Increase (decrease)
Energy Services Group	$ 2,309	$ 1,736	$ 573
Engineering and Construction Group	1,082	1,288	(206)
Total revenues	$ 3,391	$ 3,024	$ 367

Consolidated revenues in the third quarter of 2001 of $3.4 billion increased $367 million, or 12%, compared to the third quarter of 2000. International revenues were 61% of total revenues for the third quarter of 2001 and 64% in the third quarter of 2000.

Energy Services Group revenues were $2.3 billion for the third quarter of 2001, an increase of 33% over the third quarter of 2000. International revenues were 56% of total revenues in the third quarter of 2001 compared to 58% in the third quarter of 2000. Revenues increased across all product service lines compared to the third quarter of 2000 due to higher rig activity and pricing improvements despite the recent decline in oil and natural gas prices. Our oilfield services product service line revenue of $1.8 billion in the third quarter of 2001 increased 32% over the third quarter of 2000. The pressure pumping product service line achieved revenue growth of 38% while drilling fluids and drilling services experienced revenue growth of 34% and 25%, respectively. Geographically, North America oilfield services revenue increased by almost 40% while Latin America, Middle East and Asia Pacific all increased by approximately 30%. Revenues have been slower to pick up in Europe/Africa, which increased 16%. Revenues for the balance of the segment increased $129 million over the third quarter of 2000 with the largest increase attributable to a major project in Brazil that was in start-up phase in the third quarter of last year. Integrated exploration and production information systems revenues experienced revenue growth of 26% partially due to the acquisition of PGS Data Management as well as increased software sales and professional services.

Engineering and Construction Group revenues were $1.1 billion for the third quarter of 2001, a decrease of 16% from the third quarter of 2000. The decrease was primarily due to the completion of several large international onshore projects in the latter part of 2000 that have not yet been fully replaced with new project awards. Approximately 72% of the segment's revenue were from international activities in the third quarter of 2001 and 2000. Revenues from the government operations product service line were 8% higher with increases in activities at our shipyard in the United Kingdom, partially offset by a decrease in a logistical support contract in the Balkans, which remains in a sustainment phase.

OPERATING INCOME Millions of dollars	Third Quarter 2001	Third Quarter 2000	Increase (decrease)
Energy Services Group	$ 321	$ 228	$ 93
Engineering and Construction Group	39	46	(7)
General corporate	(18)	(26)	8
Total operating income	$ 342	$ 248	$ 94

Consolidated operating income of $342 million was 38% higher in the third quarter of 2001 compared to the third quarter of 2000. In the third quarter of 2000, we incurred some nonrecurring items, which included the $88 million pretax gain on the sale of marine vessels, and $9 million of expense related to the previous chairman's early retirement. Excluding these items, operating income more than doubled.

Energy Services Group operating income for the third quarter of 2001 increased 41% over the third quarter of 2000. Excluding the gain on the sale of marine vessels of $88 million in the third quarter of 2000, operating income increased 129% over the third quarter of 2000. Operating income from our oilfield services product service line increased by 135% due to higher activity levels during the quarter resulting in greater utilization of equipment and personnel and improved pricing in the United States. Operating income increased across all product service lines with pressure pumping increasing almost 140% along with substantial increases in logging and drilling services. Geographically, North America experienced profitability growth of over 75% benefiting from pricing increases implemented in late 2000 and 2001. All other international geographic regions showed significant improvements compared to the third quarter of 2000. Operating income for the remainder of the segment increased by $5 million excluding the gain on the sale of marine vessels in the third quarter of 2000. About half of this increase in operating income was in integrated exploration and production information systems which increased 40% on higher revenues and improved margins.

Engineering and Construction Group operating income for the third quarter of 2001 declined by $7 million compared to the third quarter of 2000 on lower revenues reflecting activity levels. Operating margins in the third quarter of 2001 remained equal to the margins in the same period in the prior year despite lower revenues.

General corporate expense decreased $8 million as the third quarter of 2000 included $9 million of expenses recorded for the early retirement of the previous chairman.

NONOPERATING ITEMS

Interest expense of $34 million for the third quarter of 2001 decreased $4 million compared to the third quarter of 2000 due to lower average borrowings.

Interest income was $8 million in the third quarter of 2001, an increase from the third quarter of 2000 interest income of $6 million.

Foreign exchange gains (losses), net was a $2 million loss in the third quarter of 2001 compared to $4 million gain in the third quarter of 2000.

Provision for income taxes of $126 million resulted in an effective tax rate of 40.1%, up from the third quarter of 2000 rate of 38.4%.

Income from continuing operations was $181 million in the third quarter of 2001 compared to $130 million in the third quarter of 2000.

Income (loss) from discontinued operations was a $2 million loss for the third quarter of 2001 as compared to a $27 million gain for the third quarter of 2000. The loss in the third quarter of 2001 reflects asbestos related expenses associated with previously disposed businesses. The third quarter of 2000 consists of Dresser Equipment Group's net income.

Net income for the third quarter of 2001 was $179 million, or $0.42 per diluted share. The third quarter 2000 net income was $157 million, or $0.35 per diluted share.

First Nine Months of 2001 Compared with the First Nine Months of 2000

REVENUES Millions of dollars	First Nine Months 2001	 2000	Increase (decrease)
Energy Services Group	$ 6,554	$ 4,774	$ 1,780
Engineering and Construction Group	3,320	3,977	(657)
Total revenues	$ 9,874	$ 8,751	$ 1,123

Consolidated revenues in the first nine months of 2001 of $9.9 billion increased 13% compared to the first nine months of 2000. International revenues were 61% of total revenues for the first nine months of 2001 and 66% in the first nine months of 2000 as activity and pricing in the United States increased more rapidly than internationally.

Energy Services Group revenues increased by $1.8 billion, or 37%, for the first nine months of 2001 from the first nine months of 2000. International revenues were 56% of total revenues for the first nine months of 2001 as compared to 61% for the first nine months of 2000. Revenues increased across all product service lines due to higher worldwide rig counts and strong gas prices combined with pricing improvements in the United States. Oilfield service product service lines were higher by $1.4 billion for the first nine months of 2001 compared to the first nine months of 2000. Our pressure pumping business, which represents almost 50% of total oilfield service revenue, experienced revenue growth of 43% while logging and drilling fluids both increased by similar percentages. Drilling services increased over 30%. Geographically, North America revenues achieved growth of 51% and all other regions experienced revenue growth ranging from 14% to 33%. Revenues for the remainder of the segment increased by $400 million primarily due to a large multi-year project in Brazil that was in the start-up phase in the third quarter of 2000.

Engineering and Construction Group revenues for the first nine months of 2001 decreased $657 million, or 17%, compared to the first nine months of 2000. The percentage revenue decline was about the same for North America and outside of North America. The decrease in revenues is primarily due to the completion of several large onshore and offshore projects in 2000 which have not been replaced with new awards. In addition, government operations product service line revenues from a logistical support contract in the Balkans region decreased by $113 million as the project moved from construction phase to sustainment phase in the first part of 2001. Asia/Pacific product service line revenues increased 21% for the first nine months of 2001 compared to the first nine months of 2000 due to a contract awarded in mid-2001 for the construction of a railway in Australia.

OPERATING INCOME Millions of dollars	First Nine Months 2001	 2000	Increase (decrease)
Energy Services Group	$ 788	$ 390	$ 398
Engineering and Construction Group	82	125	(43)
General corporate	(58)	(60)	2
Total operating income	$ 812	$ 455	$ 357

Consolidated operating income of $812 million was 79% higher in the first nine months of 2001 compared to the first nine months of 2000.

Energy Services Group operating income for the first nine months of 2001 more than doubled compared to the first nine months of 2000 which included a pretax gain on the sale of marine vessels of $88 million. Our oilfield services product service line operating income increased over $480 million, compared to the first nine months of 2000 reflecting increased activity levels and improved pricing particularly in the United States. Operating income increased over 150% in pressure pumping, logging, drill bits, and drilling services product service lines. Operating income from North America was higher by 112%, which is attributable to higher equipment utilization and improved pricing. International regions, particularly Latin America and the Middle East, made substantial improvements in operating income growth for the first nine months of 2001 compared to the first nine months of 2000. Excluding the $88 million gain on the sale of marine vessels in 2000, operating income for the remainder of the segment was about flat for the first nine months of 2001 compared to the first nine months of 2000.

Engineering and Construction Group operating income decreased $43 million for the first nine months of 2001 compared to the first nine months of 2000. The decline reflects lower revenues and the completion of large projects in 2000 that have not been replaced with new awards.

General corporate expenses for the first nine months of 2001 were $58 million compared to $60 million for the first nine months of 2000.

NONOPERATING ITEMS

Interest expense of $115 million for the first nine months of 2001 increased $11 million compared to the first nine months of 2000. The increase is due to higher levels of short-term debt outstanding through April 2001. This increase in short-term debt was primarily due to repurchases of our common stock under our repurchase program and borrowings associated with the PGS Data Management acquisition. Cash proceeds of $1.27 billion in April 2001 from the sale of our remaining businesses within the Dresser Equipment Group was used to repay our short-term borrowings.

Interest income was $18 million in the first nine months of 2001 and increased $2 million compared to the first nine months in 2000.

Foreign exchange gains (losses), net was a $6 million loss in the first nine months of 2001 compared to a $3 million loss in the first nine months of 2000.

Provision for income taxes of $285 million resulted in an effective tax rate of 40.2% for the first nine months of 2001, up from the rate of 38.6% for the first nine months of 2000.

Income from continuing operations was $410 million in the first nine months of 2001 compared to $209 million in the first nine months of 2000.

Income (loss) from discontinued operations was a $40 million net loss, or $0.09 per diluted share, in 2001, principally due to accrued expenses related to asbestos claims of disposed businesses (see Note 7). This loss was partially offset by net income from the Dresser Equipment Group of $0.05 per diluted share for the first quarter of 2001. Income from discontinued operations of $72 million, or $0.16 per diluted share, for the first nine months of 2000 is the net income from the Dresser Equipment Group.

Gain on disposal of discontinued operations of $299 million after-tax, or $0.70 per diluted share, in 2001 resulted from the sale of our remaining businesses in the Dresser Equipment Group in April 2001. For the first nine months of 2000, the gain on disposal of discontinued operations of $215 million after-tax, or $0.48 per diluted share, resulted from the sale of our 51% interest in Dresser-Rand, formerly part of the Dresser Equipment Group, in January 2000.

Cumulative effect of accounting change, net of $1 million reflects the impact of adoption of Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities." After recording the cumulative effect of the change our estimated annual expense under SFAS No. 133 is not expected to be materially different from amounts expensed under the prior accounting treatment.

Net income for the first nine months of 2001 was $670 million, or $1.56 per diluted share. Net income for the first nine months of 2000 was $496 million, or $1.11 per diluted share.

LIQUIDITY AND CAPITAL RESOURCES

We ended the third quarter of 2001 with cash and equivalents of $227 million, a decrease of $4 million from the end of 2000.

Cash flows from operating activities provided $556 million in the first nine months of 2001 compared to using $189 million in the first nine months of 2000. Working capital items, which include receivables, inventories, accounts payable and other working capital, net, used $494 million of cash in the first nine months of 2001 compared to $498 million in the first nine months of 2000.

Cash flows used in investing activities were $620 million in the first nine months of 2001 and $207 million in the first nine months of 2000. Capital expenditures in the first nine months of 2001 were $568 million as compared to $367 million for the first nine months of 2000. In March 2001 we acquired the PGS Data Management division of Petroleum Geo-Services ASA for approximately $175 million cash.

Cash flows from financing activities used $1.1 billion in the first nine months of 2001 as compared to $572 million for the first nine months of 2000. We used the proceeds from the sale of the remaining businesses in Dresser Equipment Group in April 2001, the sale of Dresser-Rand and the collection of a note from the fourth quarter of 1999 sale of Ingersoll-Dresser Pump received in early 2000 to reduce short-term debt. We paid dividends of $161 million to our shareholders in the first nine months of 2001 as compared to $167 million in the first nine months of 2000. On July 12, 2001 we issued $425 million of two and five year medium-term notes under our medium-term note program. The notes consist of $275 million of 6% fixed rate notes due August 1, 2006 and $150 million of floating rate notes due July 16, 2003. Net proceeds from the two medium-term note offerings were used to reduce short-term debt. In addition, during 2001 we repurchased $25 million of common stock under our share repurchase program and $8 million from employees to settle their income tax liabilities primarily for restricted stock lapses.

Cash flows from discontinued operations provided $1.2 billion in the first nine months of 2001 as compared to $826 million for the first nine months of 2000. Cash flows for 2001 include the proceeds from the sale of the remainder of Dresser Equipment Group of $1.3 billion. Cash flows for 2000 include $913 million of proceeds from the sales of our joint venture interests in Dresser-Rand and Ingersoll-Dresser Pump.

Capital resources from internally generated funds and access to capital markets are sufficient to fund our working capital requirements and investing activities. Our combined short-term notes payable and long-term debt was 27% of total capitalization at September 30, 2001 compared to 40% at December 31, 2000.

ASBESTOS LITIGATION

New asbestos claims filed against us during the third quarter of 2001 were lower than the previous two quarters. In addition, we settled about 11,000 claims during the third quarter. During the second quarter we became aware that a former subsidiary of Dresser, Harbison-Walker Refractories Company, is failing to provide us with an adequate indemnity and defense from asbestos claims it assumed when it was spun-off by Dresser in 1992. A more complete discussion of these matters is contained in Note 7 to our Quarterly Financial Statements.

ENVIRONMENTAL MATTERS

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. As a result of those obligations, we are involved in environmental litigation and claims, the clean-up of properties we own or have operated, and efforts to meet or correct compliance-related matters.

SHARE REPURCHASE PROGRAM

On April 25, 2000 our Board of Directors approved a plan to implement a share repurchase program for up to 44 million shares, or about 10% of our outstanding common stock. In the third quarter of 2001, we repurchased 1.2 million shares of common stock at a cost of $25 million. As of September 30, 2001 we had repurchased over 21 million shares at a cost of about $783 million under this plan.

ACCOUNTING CHANGES

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 "Business Combinations" which requires the purchase method of accounting for business combination transactions initiated after June 30, 2001.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142 "Goodwill and Other Intangible Assets". The statement requires that goodwill recorded on acquisitions completed prior to July 1, 2001 be amortized through December 31, 2001. Goodwill amortization is precluded on acquisitions completed after June 30, 2001. Effective January 1, 2002, goodwill will no longer be amortized but will be tested for impairment as set forth in the statement. We are currently reviewing the new standard and evaluating the effects of this standard on our future financial condition, results of operations, and accounting policies and practices. Pretax amortization of goodwill for the first nine months of 2001 totaled $32 million.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 "Accounting for Asset Retirements Obligations" which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets retirement cost. The new standard will be effective for us beginning January 1, 2003, and we are currently reviewing and evaluating the effects this standard will have on our future financial condition, results of operations, and accounting policies and practices.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and the accounting and reporting provisions of APB 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The new standard will be effective for us beginning January 1, 2002, and we are currently reviewing and evaluating the effects this standard will have on our future financial condition, results of operations, and accounting policies and practices.

CONVERSION TO THE EURO CURRENCY

In 1999 some member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (euro). This action was the first step towards transition from existing national currencies to the use of the euro as a common currency. The transition period for the introduction of the euro ends June 30, 2002. Issues resulting from the introduction of the euro include converting information technology systems, reassessing currency risk, negotiating and amending existing contracts and processing tax and accounting records. We have been and continue to address these issues and do not expect the transition to the euro to have a material effect on our financial condition or results of operations. A majority of our operations in the Euro zone are now transacting most of their business in the euro.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Forward-looking information is based on projections and estimates, not historical information. Some statements in this Form 10-Q are forward-looking and use words like "may," "may not," "believes," "do not believe," "expects," "do not expect," "do not anticipate," and similar expressions. We may also provide oral or written forward-looking information in other materials we release to the public. Forward-looking information involves risks and uncertainties and reflects our best judgement based on current information. Our results of operations can be affected by inaccurate assumptions we make or by known or unknown risks and uncertainties. In addition, other factors may affect the accuracy of our forward-looking information. As a result, no forward-looking information can be guaranteed. Actual events and the results of operations may vary materially.

While it is not possible to identify all factors, we continue to face many risks and uncertainties that could cause actual results to differ from our forward-looking statements including:

Geopolitical and legal

- trade restrictions and economic embargoes imposed by the United States and other countries;
- unsettled political conditions, war, the effects of terrorism, civil unrest, currency controls and governmental actions in the numerous countries in which we operate;
- operations in countries with significant amounts of political risk, including, for example, Algeria, Angola, Libya, Nigeria, and Russia;
- changes in foreign exchange rates;
- changes in governmental regulations in the numerous countries in which we operate including, for example, regulations that:
  - encourage or mandate the hiring of local contractors; and
  - require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction;
- litigation, including, for example, contract disputes, asbestos litigation, insurance litigation, and environmental litigation; and
- environmental laws, including, for example, those that require emission performance standards for facilities;

Weather related

- the effects of severe weather conditions, including, for example, hurricanes and tornadoes, on operations and facilities; and
- the impact of prolonged severe or mild weather conditions on the demand for and price of oil and natural gas;

Customers

- the magnitude of governmental spending and outsourcing for military and logistical support of the type that we provide;
- changes in capital spending by customers in the oil and gas industry for exploration, development, production, processing, refining, and pipeline delivery networks;
- changes in capital spending by governments for infrastructure projects of the sort that we perform;
- consolidation of customers in the oil and gas industry; and
- claim negotiations with engineering and construction customers on cost variances and change orders on major projects;

Industry

- technological and structural changes in the industries that we serve;
- sudden changes in energy prices that could undermine the fundamental strength of the world economy or our customers;
- changes in the price of oil and natural gas, resulting from:
  - OPEC's ability to set and maintain production levels and prices for oil;
  - the level of oil production by non-OPEC countries;
  - the policies of governments regarding exploration for and production and development of their oil and natural gas reserves; and
  - the level of demand for oil and natural gas;
- changes in the price or the availability of commodities that we use;
- risks that result from entering into fixed fee engineering, procurement and construction projects of the types that we provide where failure to meet schedules, cost estimates or performance targets could result in nonreimbursable costs which cause the project not to meet our expected profit margins;
- risks that result from entering into complex business arrangements for technically demanding projects where failure by one or more parties could result in monetary penalties; and
- the risk inherent in the use of derivative instruments of the sort that we use which could cause a change in value of the derivative instruments as a result of:
  - adverse movements in foreign exchange rates, interest rates, or commodity prices, or
  - the value and time period of the derivative being different than the exposures or cash flows being hedged;

Personnel and mergers/reorganizations/dispositions

- o increased competition in the hiring and retention of employees in specific areas, including, for example, energy services operations, accounting and finance;
- o integration of acquired businesses into Halliburton, including:
  - standardizing information systems or integrating data from multiple systems;
  - maintaining uniform standards, controls, procedures and policies; and
  - combining operations and personnel of acquired businesses with ours;
- o effectively reorganizing operations and personnel within Halliburton;
- o replacing discontinued lines of businesses with acquisitions that add value and complement our core businesses; and
- o successful completion of planned dispositions.

In addition, future trends for pricing, margins, revenues and profitability remain difficult to predict in the industries we serve. We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events or for any other reason. You should review any additional disclosures we make in our 10-Q, 8-K and 10-K reports to the United States Securities and Exchange Commission. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial instrument market risk from changes in foreign currency exchange rates, interest rates and to a limited extent, commodity prices. We selectively manage these exposures through the use of derivative instruments to mitigate our market risk from these exposures. The objective of our risk management program is to protect our cash flows related to interest rates and sales or purchases of goods or services from market fluctuations. Our use of derivative instruments includes the following types of market risk:

- o volatility of the currency and interest rates;
- o time horizon of the derivative instruments;
- o market cycles; and
- o the type of derivative instruments used.

We do not use derivative instruments for trading purposes. We do not consider any of these risk management activities to be material.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

* 10.1 Annual Performance Pay Plan as amended and restated effective January 1, 2001.

* 10.2 Performance Unit Program.

* Filed with this Form 10-Q.

(b) Reports on Form 8-K

Date Filed	Date of Earliest Event	Description of Event
During the third quarter of 2001:		
July 12, 2001	July 12, 2001	Item 5. Other Events for a press release announcing the issuance of $275 million of fixed-rate notes due August 1, 2006 and $150 million of floating notes due July 16, 2003 for a total of $425 million in medium-term notes.
July 20, 2001	July 19, 2001	Item 5. Other Events for a press release announcing the board of directors declared a 2001 third quarter dividend of 12.5 cents a share payable September 27, 2001 to shareholders of record at the close of business on September 6, 2001.
July 27, 2001	July 25, 2001	Item 5. Other Events for a press release announcing 2001 second quarter earnings.
July 27, 2001	July 25, 2001	Item 5. Other Events for a press release announcing Douglas L. Foshee as executive vice president and chief financial officer effective August 6, 2001.
During the fourth quarter of 2001:		
October 19, 2001	October 18, 2001	Item 5. Other Events for a press release announcing the signing of a letter of intent to combine Halliburton Subsea and DSND Subsea ASA.
October 26, 2001	October 23, 2001	Item 5. Other Events for a press release announcing 2001 third quarter earnings.
October 30, 2001	October 26, 2001	Item 5. Other Events for a press release announcing the board of directors declared a 2001 fourth quarter dividend of 12.5 cents a share payable December 20, 2001 to shareholders of record at the close of business on November 29, 2001.
November 6, 2001	November 1, 2001	Item 5. Other Events for a press release announcing that Halliburton KBR, formerly Kellogg Brown & Root, has acquired GVA Consultants AB from British Maritime Technology Limited for an undisclosed amount.
November 7, 2001	October 30, 2001	Item 5. Other Events for a press release announcing Halliburton's dispute of asbestos claims relating to a verdict in a Mississippi trial.

SIGNATURES

As required by the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on behalf of the registrant by the undersigned authorized individuals.

HALLIBURTON COMPANY

Date: November 8, 2001

By: /s/ Douglas L. Foshee

Douglas L. Foshee
Executive Vice President and
Chief Financial Officer

/s/ R. Charles Muchmore, Jr.

R. Charles Muchmore, Jr.
Vice President and Controller and
Principal Accounting Officer

HALLIBURTON ANNUAL PERFORMANCE PAY PLAN
AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2001

INDEX

HALLIBURTON
ANNUAL PERFORMANCE PAY PLAN

The Compensation Committee of Directors of Halliburton Company, having heretofore established the Halliburton Annual Performance Pay Plan (formerly known as the Annual Reward Plan), pursuant to the provisions of Article X of said Plan, hereby amends and restates said Plan to be effective in accordance with the provisions of Section 11.4 hereof.

ARTICLE I

PURPOSE

The purpose of the Halliburton Annual Performance Pay Plan (the "Plan") is to reward management and other key employees of the Company and its Affiliates for improving financial results which drive the creation of value for shareholders of the Company and thereby, serve to attract, motivate, reward and retain high caliber employees required for the success of the Company. The Plan provides a means to link total and individual cash compensation to Company performance, as measured by Cash Value Added ("CVA"), a demonstrated driver of shareholder value, and, where appropriate, additional performance measures which drive CVA.

ARTICLE II

DEFINITIONS

2.1 Definitions. Where the following words and phrases appear in the Plan, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary.

"Affiliate" shall mean a Subsidiary of the Company or a division or designated group of the Company or a Subsidiary.

"Base Salary" shall mean the regular cash compensation actually paid during a Plan Year to a Participant for services rendered or labor performed while participating in the Plan, including base pay a Participant could have received in cash in lieu of (i) contributions made on such Participant's behalf to a qualified Plan maintained by the Company or to any cafeteria plan under Section 125 of the Code maintained by the Company and (ii) deferrals of compensation made at the

Participant's election pursuant to a plan or arrangement of the Company or an Affiliate, but excluding any Rewards under this Plan and any other bonuses, incentive pay or special awards.

"Beneficiary" shall mean the person, persons, trust or trusts entitled by Will or the laws of descent and distribution to receive the benefits specified under the Plan in the event of the Participant's death prior to full payment of a Reward.

"Board of Directors" shall mean the Board of Directors of the Company.

"Business Unit CVA" shall mean the respective CVA of designated business units, each calculated on an aggregate basis for their respective operations.

"Cause" shall mean (i) the conviction of the Participant of a felony under Federal law or the law of the state in which such action occurred, (ii) dishonesty in course of fulfilling the Participant's employment duties or (iii) the disclosure by the Participant to any unauthorized person or competitor of any confidential information or confidential knowledge as to the business or affairs of the Company and its Affiliates.

"CEO" shall mean the Chief Executive Officer of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee of Directors of the Company, appointed by the Board of Directors from among its members, no member of which shall be an employee of the Company or a Subsidiary.

"Common Stock" shall mean the common stock, par value $2.50 per share of Halliburton Company.

"Company" shall mean Halliburton Company and its successors.

"Company CVA" shall mean CVA calculated on a consolidated basis.

"Corporate Change" shall mean one of the following events: (i) the merger, consolidation or other reorganization of the Company in which the outstanding Common Stock is converted into or exchanged for a different class of securities of the Company, a class of securities of any other issuer (except a direct or indirect wholly owned Subsidiary), cash or property; (ii) the sale, lease or exchange of all or substantially all of the assets of the Company to another corporation or entity (except a direct or indirect wholly owned Subsidiary); (iii) the adoption by the stockholders of the Company of a plan of liquidation and dissolution; (iv) the acquisition (other than any acquisition pursuant to any other clause of this definition) by any person or entity, including, without limitation, a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, of beneficial ownership, as contemplated by such Section, of more than twenty percent (based on voting power) of the Company's outstanding capital stock; or (v) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board.

"CVA" shall mean the difference between operating cash flow and a capital charge, calculated in accordance with the criteria and guidelines set forth in the Corporate Policy entitled "Cash Value Added (CVA)," as in effect at the time any such calculation is made.

"CVA Drivers" shall mean such additional performance measures (either objective or subjective) as may be approved by the CEO from time to time to reinforce key operating and strategic goals important to the Company and its business units. Particular CVA Drivers may vary from business unit to business unit and from Participant to Participant within a particular business unit as deemed appropriate according to the needs of the applicable business unit.

"Dispute Resolution Program" shall mean the Halliburton Dispute Resolution Plan.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Group CVA" shall mean the respective CVA of the Halliburton Energy Services Group and the Engineering and Construction Group, each calculated on an aggregate basis for their respective operations.

"Key Employees" shall mean regular, full-time employees of the Company or an Affiliate below the Officer level.

"Officer" shall mean a full officer of the Company or an Affiliate.

"Participant" shall mean any active employee of the Company or an Affiliate who participates in the Plan pursuant to the provisions of Article III hereof. An employee shall not be eligible to participate in the Plan while on a leave of absence.

"Participant Category" shall mean a grouping of Participants determined in accordance with the applicable provisions of Article III.

"Payment Date" shall mean, with respect to a particular Plan Year, the last business day of February of the year next following the end of such Plan Year.

"Performance Goals" shall mean, for a particular Plan Year, established levels of applicable Performance Measures.

"Performance Measures" shall mean the criteria used in determining Performance Goals for particular Participant Categories, which may include one or more of the following: Company CVA, Group CVA, Business Unit CVA and CVA Drivers.

"Plan" shall mean the Halliburton Annual Performance Pay Plan as amended and restated effective January 1, 2001, and as the same may thereafter be amended from time to time.

"Plan Year" shall mean the calendar year ending December 31, 1995 and each subsequent calendar year thereafter.

"Reward" shall mean the dollar amount of incentive compensation payable to a Participant under the Plan for a Plan Year determined in accordance with Section 5.3.

"Reward Opportunity" shall mean, with respect to each Participant Category, incentive reward payment amounts, expressed as a percentage of Base Salary, which corresponds to various levels of pre-established Performance Goals, determined pursuant to the Reward Schedule.

"Reward Schedule" shall mean the schedule which aligns the level of achievement of applicable Performance Goals with Reward Opportunities for a particular Plan Year, such that the level of achievement of the pre-established Performance Goals at the end of such Plan Year will determine the actual Reward.

"Senior Executive" shall have the meaning set forth in Corporate Policy 3-9002, Executive Compensation Administration, as such Policy may from time to time be amended.

"Subsidiary" shall mean any corporation 50 percent or more of whose voting power is owned, directly or indirectly, by the Company.

2.2 Number. Wherever appropriate herein, words used in the singular shall be considered to include the plural and words used in the plural shall be considered to include the singular.

2.3 Headings. The headings of Articles and Sections herein are included solely for convenience, and if there is any conflict between headings and the text of the Plan, the text shall control.

ARTICLE III

PARTICIPATION

3.1 Participants. Active employees who are Senior Executives as of the beginning of each Plan Year shall be Participants for such Plan Year. In addition, such other Officers and Key Employees as may be designated annually as Participants by the CEO prior to the last day of March each Plan Year shall be Participants for such Plan Year.

3.2 Partial Plan Year Participation. If, after the beginning of a Plan Year, an employee who was not previously a Participant for such Plan Year (i) is newly appointed or elected as a Senior Executive or (ii) returns to active employment as a Senior Executive following a leave of absence, such employee shall become a Participant effective with such appointment or election or return to active service, as the case may be, for the balance of the Plan Year, on a prorated basis, unless the Committee shall determine, in its sole discretion, that the participation shall be delayed until the beginning of the next Plan Year. If, after the beginning of the Plan Year, (i) a person is newly elected or appointed as an Officer (other than a Senior Executive) or is newly hired, promoted or transferred into a position in which he or she is a Key Employee, or (ii) an employee who was not previously a Participant for such Plan Year returns to active employment as an Officer (other than a Senior Executive) or a Key Employee following a leave of absence, the CEO, or his delegate, may designate such person as a Participant for the pro rata portion of such Plan Year beginning on the first day of the month following such designation.

If an employee who has previously been designated as a Participant for a particular Plan Year takes a leave of absence during such Plan Year, all of such Participant's rights to a Reward for such Plan Year shall be forfeited, unless the Committee (with respect to a Participant who is a Senior Executive) or the CEO (with respect to any other Participant) shall determine that such Participant's Reward for such Plan Year shall be prorated based upon that portion of the Plan Year during which he or she was an active Participant, in which case the prorated portion of the Reward shall be paid in accordance with the provisions of Section 6.1.

Each Participant shall be assigned to a Participant Category at the time he or she becomes a Participant for a particular Plan Year. If a Participant thereafter incurs a change in status due to promotion, demotion, reassignment or transfer, (i) the Committee, in the case of the CEO or other Senior Executive, or (ii) the CEO, or his delegate, in the case of any other Participant, may approve such adjustment in such Participant's Reward Opportunity as deemed appropriate under the circumstances (including termination of participation in the Plan for the remainder of the Plan Year), such adjustment to be made on a pro rata basis for the balance of the Plan Year effective with the first day of the month following such approval, unless some other effective date is specified. All such approvals shall be documented in writing and filed with the Plan records for the applicable Plan Year.

3.3 No Right to Participate. Except as provided in Sections 3.1 and 3.2, no Participant or other employee of the Company or an Affiliate shall, at any time, have a right to participate in the Plan for any Plan Year, notwithstanding having previously participated in the Plan.

3.4 Plan Exclusive. No employee shall simultaneously participate in this Plan and in any other short-term incentive plan of the Company or an Affiliate unless such employee's participation in such other plan is approved by the CEO, or his delegate.

3.5 Consent to Dispute Resolution. Participation in the Plan constitutes consent by the Participant to be bound by the terms and conditions of the Dispute Resolution Program which in substance requires that all disputes arising out of or in any way related to employment with the Company or its Affiliates, including any disputes concerning the Plan, be resolved exclusively through such program, which includes binding arbitration as the last step.

ARTICLE IV
ADMINISTRATION

Each Plan Year, the Committee shall establish the basis for payments under the Plan in relation to given Performance Goals, as more fully described in Article V hereof, and, following the end of each Plan Year, determine the actual Reward payable for each Participant Category. The Committee is authorized to construe and interpret the Plan, to prescribe, amend and rescind rules, regulations and procedures relating to its administration and to make all other determinations necessary or advisable for administration of the Plan. The CEO shall have such authority as is expressly provided in the Plan. In addition, as permitted by law, the Committee and the CEO may delegate such of their respective authority granted under the Plan as deemed appropriate; provided, however, that (i) the Committee may not delegate its authority with respect to matters relating to the CEO and other Senior Executives and (ii) the Committee and the CEO may not delegate their respective authority under Article V hereof. Decisions of the Committee and the CEO, or their respective delegates, in accordance with the authority granted hereby or delegated pursuant hereto shall be conclusive and binding. Subject only to compliance with the express provisions hereof, the Committee, the CEO and their respective delegates may act in their sole and absolute discretion with respect to matters within their authority under the Plan.

ARTICLE V

REWARD DETERMINATIONS

5.1 Performance Measures. CVA shall be the primary Performance Measure in determining Performance Goals for any Plan Year. In addition, appropriate CVA Drivers applicable to particular Participants may also be used as Performance Measures.

5.2 Performance Requirements. Prior to the last day of February of each Plan Year, (i) the Committee shall approve the Company CVA, applicable Group CVA and applicable Business Unit CVA Performance Goals and the CEO shall approve appropriate CVA Drivers applicable to certain Participants and (ii) the Committee shall establish a Reward Schedule which aligns the level of achievement of applicable Performance Goals with Reward Opportunities, such that the level of achievement of the pre-established Performance Goals at the end of the Plan Year will determine the actual Reward.

5.3 Reward Determinations. After the end of each Plan Year, (i) the Committee shall determine the extent to which the Performance Goals (other than CVA Drivers) have been achieved and (ii) the CEO shall determine the extent to which the applicable CVA Drivers have been achieved, and the amount of the Reward shall be computed for each Participant in accordance with the Reward Schedule.

5.4 Reward Opportunities. The established Reward Opportunities may vary in relation to the Participant Categories and within the Participant Categories. In the event a Participant changes Participant Categories during a Plan Year, the Participant's Reward Opportunities shall be adjusted in accordance with the applicable provisions of Section 3.2.

5.5 Discretionary Adjustments. Once established, Performance Goals will not be changed during the Plan Year. However, if the Committee, in its sole and absolute discretion, determines that there has been (i) a change in the business, operations, corporate or capital structure, (ii) a change in the manner in which business is conducted or (iii) any other material change or event which will impact one or more Performance Goals in a manner the Committee did not intend, then the Committee may, reasonably contemporaneously with such change or event, make such adjustments as it shall deem appropriate and equitable in the manner of computing the relevant Performance Measures applicable to such Performance Goal or Goals for the Plan Year; provided, however, that the CEO shall be authorized, subject to the review and oversight of the Committee, to make adjustments in the manner of computing one or more CVA Drivers if, when evaluated in accordance with the standards set forth in the preceding sentence, he shall deem such adjustments to be appropriate and equitable.

5.6 Discretionary Bonuses. Notwithstanding any other provision contained herein to the contrary, the Committee may, in its sole discretion, make such other or additional bonus payments to a Participant as it shall deem appropriate.

ARTICLE VI

DISTRIBUTION OF REWARDS

6.1 Form and Timing of Payment. Except as otherwise provided below, the amount of each Reward shall be paid in cash on the Payment Date, or as soon thereafter as practicable. In the event of termination of a Participant's employment prior to the Payment Date for any reason other than death (in which case payment shall be made in accordance with the applicable provisions of Article VII), the amount of any Reward (or prorated portion thereof) payable pursuant to the provisions of Sections 7.1 or 7.2 shall be paid in cash on the Payment Date, or as soon thereafter as practicable.

6.2 Excess Remuneration. Notwithstanding the provisions of Section 6.1, to the extent that incentive compensation hereunder does not qualify as performance-based compensation pursuant to Section 162(m) of the Code, the Committee may, in its discretion, with respect to a Participant who is a "covered employee" for purposes of Section 162(m), determine that payment of that portion of a Reward which would otherwise cause such Participant's compensation to exceed the limitation on the amount of compensation deductible by the Company in any taxable year pursuant to such Section 162(m), be deferred until such Participant is no longer a "covered employee." In such case, interest shall be credited on the portion of the Reward deferred for the period of the deferral as provided pursuant to Article IV of the Halliburton Company Benefit Restoration Plan, as amended, or other applicable plan.

6.3 Elective Deferral. Nothing herein shall be deemed to preclude a Participant's election to defer receipt of a percentage of his or her Reward beyond the time such amount would have been payable hereunder pursuant to the Halliburton Elective Deferral Plan or other similar plan.

6.4 Tax Withholding. The Company or employing entity through which payment of a Reward is to be made shall have the right to deduct from any payment hereunder any amounts that Federal, state, local or foreign tax laws require with respect to such payments.

ARTICLE VII

TERMINATION OF EMPLOYMENT

7.1 Termination of Service During Plan Year. In the event a Participant's employment is terminated prior to the last business day of a Plan Year for any reason other than death, normal retirement at or after age 65 or disability (as determined by the CEO or his delegate), all of such Participant's rights to a Reward for such Plan Year shall be forfeited, unless the Committee (with respect to a Participant who was the CEO or other Senior Executive) or the CEO (with respect to any other Participant) shall determine that such Participant's Reward for such Plan Year shall be prorated based upon that portion of the Plan Year during which he or she was a Participant, in which case the prorated portion of the Reward shall be paid in accordance with the provisions of Section 6.1. In the case of death during the Plan Year, the prorated amount of such Participant's Reward shall be paid to the Participant's estate, or if there is no administration of the estate, to the heirs at law, on the Payment Date, or as soon thereafter as practicable. In the case of disability or normal retirement at or after age 65, the prorated amount of a Participant's Reward shall be paid in accordance with the provisions of Section 6.1.

7.2 Termination of Service After End of Plan Year But Prior to the Payment Date. If a Participant's employment is terminated after the end of the applicable Plan Year, but prior to the Payment Date, for any reason other than termination for Cause, the amount of any Reward applicable to such Plan Year shall be paid to the Participant in accordance with the provisions of Section 6.1, except in the case of death, in which case the amount of the Reward then unpaid shall be paid to such Participant's estate, or if there is no administration of the estate, to the heirs at law, as soon as practicable.

If a Participant's employment is terminated for Cause, all of such Participant's rights to a Reward applicable to such Plan Year shall be forfeited.

ARTICLE VIII

RIGHTS OF PARTICIPANTS AND BENEFICIARIES

8.1 Status as a Participant or Beneficiary. Neither status as a Participant or Beneficiary shall be construed as a commitment that any Reward will be paid or payable under the Plan.

8.2 Employment. Nothing contained in the Plan or in any document related to the Plan or to any Reward shall confer upon any Participant any right to continue as an employee or in the employ of the Company or an Affiliate or constitute any contract or agreement of employment for a specific term or interfere in any way with the right of the Company or an Affiliate to reduce such person's compensation, to change the position held by such person or to terminate the employment of such person, with or without cause.

8.3 Nontransferability. No benefit payable under, or interest in, this Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit or interest shall be, in any manner, liable for, or subject to, debts, contracts, liabilities or torts of any Participant or Beneficiary; provided, however, that, nothing in this Section 8.3 shall prevent transfer (i) by Will, (ii) by applicable laws of descent and distribution or (iii) pursuant to an order that satisfies the requirements for a "qualified domestic relations order" as such term is defined in section 206(d)(3)(B) of ERISA and section 414(p)(1)(A) of the Code, including an order that requires distributions to an alternate payee prior to a Participant's "earliest retirement age" as such term is defined in section 206(d)(3)(E)(ii) of ERISA and section 414(p)(4)(B) of the Code. Any attempt at transfer, assignment or other alienation prohibited by the preceding sentence shall be disregarded and all amounts payable hereunder shall be paid only in accordance with the provisions of the Plan.

8.4 Nature of Plan. No Participant, Beneficiary or other person shall have any right, title or interest in any fund or in any specific asset of the Company or any Affiliate by reason of any Reward hereunder. There shall be no funding of any benefits which may become payable hereunder. Nothing contained in the Plan (or in any document related thereto), nor the creation or adoption of the Plan, nor any action taken pursuant to the provisions of the Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or an Affiliate and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment with respect to a Reward hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company or other employing entity, as applicable. All amounts payable under the Plan shall be paid from the general assets of the Company or employing entity, as applicable, and no special or separate fund or deposit shall be established and no segregation of assets shall be made to assure payment of such amounts. Nothing in the Plan shall be deemed to give any employee any right to participate in the Plan except in accordance herewith.

ARTICLE IX

CORPORATE CHANGE

In the event of a Corporate Change, (i) with respect to a Participant's Reward Opportunity for the Plan Year in which the Corporate Change occurred, such Participant shall be entitled to an immediate cash payment equal to the maximum amount of Reward he or she would have been entitled to receive for the Plan Year, prorated to the date of the Corporate Change; and (ii) with respect to a Corporate Change that occurs after the end of the Plan Year but prior to the Payment Date, a Participant shall be entitled to an immediate cash payment equal to the Reward earned for such Plan Year.

ARTICLE X

AMENDMENT AND TERMINATION

Notwithstanding anything herein to the contrary, the Committee may, at any time, terminate or, from time to time amend, modify or suspend the Plan; provided, however, that, without the prior consent of the Participants affected, no such action may adversely affect any rights or obligations with respect to any Rewards theretofore earned for a particular Plan Year, whether or not the amounts of such Rewards have been computed and whether or not such Rewards are then payable.

ARTICLE XI

MISCELLANEOUS

11.1 Governing Law. The Plan and all related documents shall be governed by, and construed in accordance with, the laws of the State of Texas, without giving effect to the principles of conflicts of law thereof, except to the extent preempted by federal law. The Federal Arbitration Act shall govern all matters with regard to arbitrability.

11.2 Severability. If any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

11.3 Successor. All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

11.4 Effective Date. This amendment and restatement of the Plan shall be effective from and after January 1, 2001, and shall remain in effect until such time as it may be terminated or amended pursuant to Article X.

HALLIBURTON COMPANY
PERFORMANCE UNIT PROGRAM
TERMS AND CONDITIONS

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ARTICLE I

PURPOSE

The purpose of this document is to set forth the general terms and conditions applicable to the Performance Unit Program (the "Program") established by the Halliburton Company (the "Company") Compensation Committee of Directors pursuant to, and in implementation of, Article X of the Company's 1993 Stock and Long-Term Incentive Plan, as amended (the "1993 Plan"). The Program is intended to carry out the purposes of the 1993 Plan and provide a means to reinforce objectives for sustained long-term performance and value creation by awarding selected key executives of the Company with payments in cash and/or Company stock based on the level of achievement of pre-established performance goals during individual performance cycles. The Program is also intended to support strategic planning processes, balance short and long-term decision making and help provide competitive total compensation opportunities.

ARTICLE II

DEFINITIONS

2.1 Definitions. Where the following words and phrases appear in the Program, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary. Other initially capitalized terms used herein but not defined shall have the meanings ascribed to them in the 1993 Plan.

"Affiliate" shall mean a Subsidiary of the Company or a division or designated group of the Company or a Subsidiary.

"Average Salary " shall mean the average base pay rate of all Participants in a particular Participant Category as of January 1 of the first year of any Performance Cycle, including base pay a Participant could have received in cash in lieu of (i) contributions made on such Participant's behalf to a qualified plan maintained by the Company, to any cafeteria plan under Section 125 of the Code maintained by the Company or to a qualified transportation fringe benefit program under Section 132 of the Code and (ii) deferrals of compensation made at the Participant's election pursuant to a plan or arrangement of the Company or an Affiliate, but excluding any Awards under this Program and any other bonuses, incentive pay or special awards.

"Award" shall mean the incentive compensation amount payable either in cash, Common Stock or a combination thereof to a Participant under the Program for the Performance Cycle determined in accordance with Article V.

"Award Schedule" shall mean the schedule that aligns the level of achievement of applicable Performance Goals with Incentive Opportunities for a particular Performance Cycle, such that the level of achievement of the pre-established Performance Goals at the end of such Performance Cycle will determine the actual Award.

"Beneficiary" shall mean the person, persons, trust or trusts entitled by Will or the laws of descent and distribution to receive the benefits specified under the Program in the event of the Participant's death prior to full payment of a Award.

"Board of Directors" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) the conviction of the Participant of a felony under Federal law or the law of the state in which such action occurred, (ii) dishonesty in course of fulfilling the Participant's employment duties or (iii) the disclosure by the Participant to any unauthorized person or competitor of any confidential information or confidential knowledge as to the business or affairs of the Company and its Affiliates.

"CEO" shall mean the Chief Executive Officer of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee of Directors, appointed by the Board of Directors from among its members to administer the 1993 Plan in accordance with Article IV thereof.

"Common Stock" shall mean the common stock, par value $2.50 per share, of the Company.

"Company" shall mean Halliburton Company and its successors.

"Corporate Change" shall have the meaning set forth in Article II, Section (h) of the 1993 Plan.

"Dispute Resolution Program" shall mean the Halliburton Dispute Resolution Plan.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Fair Market Value" shall have the meaning set forth in Article II, Section (j) of the 1993 Plan.

"Incentive Opportunity" shall mean, with respect to a particular Participant Category, incentive award payment amounts, expressed as a percentage of Average Salary, which corresponds to various levels of pre-established Performance Goals, determined pursuant to the Award Schedule.

"Key Executive" shall mean a full-time, active employee who is an executive, including an officer, of the Company or an Affiliate (whether or not he or she is also a director thereof), who is compensated for such employment by a regular salary and who, in the opinion of the Committee, is a key member of management of the Company and its Affiliates in a position to contribute materially to the Company's continued growth and development and to its future financial success.

"1993 Plan" shall mean the Halliburton Company 1993 Stock and Long-Term Incentive Plan, as amended.

"Participant" shall mean a Key Executive who participates in the Program pursuant to the provisions of Article III hereof. A Key Executive shall not be eligible to participate in the Program while on a leave of absence.

"Participant Category" shall mean a grouping of Participants determined in accordance with the applicable provisions of Article III hereof.

"Payment Date" shall mean, with respect to a particular Performance Cycle, the last business day of February of the year next following the end of such Performance Cycle.

"Performance Cycle" shall mean each period of three consecutive calendar years. Performance Cycles shall begin on January 1 of each of 2001, 2002 and 2003, unless the Program is earlier terminated or suspended. Performance Cycles shall overlap.

"Performance Goals" shall mean, for a particular Performance Cycle, levels of achievement of applicable Performance Measures, as established by the Committee at the start of each Performance Cycle, used to gauge Company performance. Performance Goals may be based on Company, Subsidiary, business unit or business group performance, on comparative performance with other companies or on a combination thereof.

"Performance Measures" shall mean the objective criteria selected by the Committee which are used in determining Performance Goals. Performance Measures may include financial measures such as average return on capital employed, average annual return on investment, earnings per share, cash value added or such other performance criteria as may by permitted under the 1993 Plan. The Committee may select one Performance Measure or multiple Performance Measures for a particular Performance Cycle.

"Program" shall mean the Performance Unit Program under the 1993 Plan. The duration of the Program shall be coterminous with the 1993 Plan in accordance with the provisions of Article III of the 1993 Plan.

"Subsidiary" shall have the meaning set forth in Article II, Section (aa) of the 1993 Plan.

2.2 Number. Wherever appropriate herein, words used in the singular shall be considered to include the plural and words used in the plural shall be considered to include the singular.

2.3 Headings. The headings of Articles and Sections herein are included solely for convenience, and if there is any conflict between headings and the text of the Program, the text shall control.

ARTICLE III

PARTICIPATION

3.1 Participants. Participants for any Performance Cycle shall be those active Key Executives who are nominated by the CEO and approved by the Committee within the first ninety (90) days of such Performance Cycle.

3.2 Partial Performance Cycle Participation. If, after the beginning of a Performance Cycle, (i) a person is newly hired, promoted or transferred into a position in which he or she is a Key Executive, or (ii) an employee who was not previously a Participant for such Performance Cycle returns to active employment as a Key Executive following a leave of absence, the Committee, or its delegate, may designate in writing such person as a Participant for the pro rata portion of such Performance Cycle beginning on the first day of the month following such designation.

If a Key Executive who has previously been designated as a Participant for a particular Performance Cycle takes a leave of absence during such Performance Cycle, all of such Participant's rights to an Award for such Performance Cycle shall be prorated based upon that portion of the Performance Cycle during which he or she was an active Participant, in which case the prorated portion of the Award shall be paid in accordance with the provisions of Section 6.1, unless the Committee shall determine that such Participant's Award for such Performance Cycle shall be forfeited.

Each Participant shall be assigned to a Participant Category at the time he or she becomes a Participant for a particular Performance Cycle. If a Participant thereafter incurs an adverse change in status during such Performance Cycle due to demotion, reassignment or transfer, the Committee may approve such adjustment in the Participant's Incentive Opportunity as it deems appropriate under the circumstances (including, without limitation, reassigning such Participant to another Participant Category or terminating his or her participation in the Program for the remainder of the Performance Cycle), any such adjustment to be made on a pro rata basis for the balance of the Performance Cycle.

3.3 No Right to Participate. No Participant or other employee of the Company or an Affiliate shall, at any time, have a right to participate in the Program for any Performance Cycle, notwithstanding having previously participated in the Program.

3.4 Consent to Dispute Resolution. Participation in the Program constitutes consent by the Participant to be bound by the terms and conditions of the Dispute Resolution Program which in substance requires that all disputes arising out of or in any way related to employment with the Company or its Affiliates, including any disputes concerning the Program, be resolved exclusively through such program, which includes binding arbitration as the last step.

ARTICLE IV

ADMINISTRATION

Within the first ninety (90) days of each Performance Cycle, the Committee shall establish the basis for payments under the Program in relation to given Performance Goals, as more fully described in Article V hereof, and, following the end of each Performance Cycle, determine the actual Award payable to each Participant. The Committee shall have the power and authority granted it under Article IV of the 1993 Plan, including, without limitation, the authority to construe and interpret the Program, to prescribe, amend and rescind rules, regulations and procedures relating to its administration and to make all other determinations necessary or advisable for administration of the Program. To the extent permitted by Section (d) of Article IV of the 1993 Plan, the Committee may delegate some of its authority to the CEO. Decisions of the Committee, or its delegates, in accordance with the authority granted hereby or delegated pursuant hereto shall be conclusive and binding. Subject only to compliance with the express provisions hereof, the Committee or its delegates may act in their sole and absolute discretion with respect to matters within their authority under the Program.

ARTICLE V

AWARD DETERMINATIONS

5.1 Performance Measures. Within the first ninety (90) days of each Performance Cycle, the Committee shall select the Performance Measure or Measures to be used in determining the Performance Goals for such Performance Cycle. Different Performance Measures may be selected for particular Participant Categories or for particular Participants within the Participant Categories. The Performance Measures may, but need not, differ from one Performance Cycle to another.

5.2 Performance Requirements. Within the first ninety (90) days of each Performance Cycle, the Committee shall approve the Performance Goal respecting each selected Performance Measure, and shall establish an Award Schedule which aligns the level of achievement of applicable Performance Goals with Incentive

Opportunities, such that the level of achievement of the pre-established Performance Goals at the end of the Performance Cycle will determine the actual Award. Performance Goals may be measured in absolute and/or relative terms and may be weighted differently.

5.3 Award Determinations. After the end of each Performance Cycle, the Committee shall determine the extent to which the Performance Goals have been achieved and the amount of the Award shall be computed for each Participant in accordance with the Award Schedule.

5.4 Incentive Opportunities. The established Incentive Opportunities will vary in relation to the Participant Categories. A Participant's assigned Participant Category for a particular Performance Cycle will not be changed during such Performance Cycle except as set forth in the last paragraph of Section 3.2.

5.5 Discretionary Adjustments. Except as provided below, established Performance Goals will not be changed during the Performance Cycle. However, if the Committee, in its sole and absolute discretion, determines that there has been (i) a material change in the Company's business, operations, corporate or capital structure, (ii) a material change in the manner in which business is conducted or (iii) any other material change or event (including merger, consolidation or other reorganization of any of the comparator companies used to determine achievement of relative Performance Goals) which will impact one or more Performance Goals in a manner the Committee did not intend, then the Committee may, reasonably contemporaneously with such change or event, make such adjustments to the relevant Performance Goal or Goals as it shall deem appropriate and equitable.

ARTICLE VI

DISTRIBUTION OF AWARDS

6.1 Form and Timing of Payment. Except as otherwise provided below, the amount of each Award shall be paid in cash, Common Stock (based upon Fair Market Value), or a combination thereof, on the Payment Date, or as soon thereafter as practicable. In the event of termination of a Participant's employment prior to the Payment Date for any reason other than death (in which case payment shall be made in accordance with the applicable provisions of Article VII), the amount of any Award (or prorated portion thereof) payable pursuant to the provisions of Sections 7.1 or 7.2 shall be paid in cash on the Payment Date, or as soon thereafter as practicable.

6.2 Excess Remuneration. Notwithstanding the provisions of Section 6.1, to the extent that incentive compensation hereunder does not qualify as performance-based compensation pursuant to Section 162(m) of the Code, the Committee may, in its discretion, with respect to a Participant who is a "covered employee" for purposes of such Section 162(m), determine that payment of that portion of an Award which would otherwise cause such Participant's compensation to exceed the limitation on the amount of compensation deductible by the Company in any taxable year pursuant to such Section 162(m), be deferred until such Participant is no longer a "covered employee." In such case, interest shall be credited on the portion of the Award deferred for the period of the deferral as provided pursuant to Article IV of the Halliburton Company Benefit Restoration Plan, as amended, or other applicable plan.

6.3 Elective Deferral. Nothing herein shall be deemed to preclude a Participant's election to defer receipt of a percentage of his or her Award beyond the time such amount would have been payable hereunder pursuant to the Halliburton Elective Deferral Plan or other similar plan.

6.4 Tax Withholding. The Company or employing entity through which payment of an Award is to be made shall have the right to withhold from any cash or Common Stock remuneration hereunder payable to any Participant any tax required to be withheld by reason of such resulting compensation income.

ARTICLE VII

TERMINATION OF EMPLOYMENT

7.1 Termination of Service During Performance Cycle. In the event a Participant's employment is terminated prior to the last business day of a Performance Cycle for any reason other than death, normal retirement at or after age 65, approved early retirement or disability (as determined by the CEO or his delegate), all of such Participant's rights to an Award for such Performance Cycle shall be forfeited. In the case of a Participant's death during a Performance Cycle, the prorated amount of such Participant's Award, if any, applicable to such Performance Cycle shall be paid in cash to the Participant's estate, or if there is no administration of the estate, to the heirs at law, on the Payment Date, or as soon thereafter as practicable. In the case of a Participant's disability, normal retirement at or after age 65 or approved early retirement, the prorated amount of such Participant's Award, if any, applicable to such Performance Cycle shall be paid in accordance with the provisions of Section 6.1.

7.2 Termination of Service after End of Performance Cycle But Prior to the Payment Date. If a Participant's employment is terminated after the end of the applicable Performance Cycle, but prior to the Payment Date, for any reason other than termination for Cause, the amount of any Award applicable to such Performance Cycle shall be paid to the Participant in accordance with the provisions of Section 6.1, except in the case of death, in which case the amount of the Award shall be paid in cash to such Participant's estate, or if there is no administration of the estate, to the heirs at law, as soon as practicable.

If a Participant's employment is terminated for Cause, all of such Participant's rights to an Award applicable to such Performance Cycle shall be forfeited.

ARTICLE VIII

RIGHTS OF PARTICIPANTS AND BENEFICIARIES

8.1 Status as a Participant or Beneficiary. Neither status as a Participant or Beneficiary shall be construed as a commitment that any Award will be paid or payable under the Program.

8.2 Employment. Nothing contained in the Program or in any document related to the Program or to any Award shall confer upon any Participant any right to continue as an employee or in the employ of the Company or an Affiliate or constitute any contract or agreement of employment for a specific term or interfere in any way with the right of the Company or an Affiliate to reduce such person's compensation, to change the position held by such person or to terminate the employment of such person, with or without cause.

8.3 Nontransferability. No benefit payable under, or interest in, this Program shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit or interest shall be, in any manner, liable for, or subject to, debts, contracts, liabilities or torts of any Participant or Beneficiary; provided, however, that, nothing in this Section 8.3 shall prevent transfer (i) by Will, (ii) by applicable laws of descent and distribution or (iii) pursuant to an order that satisfies the requirements for a "qualified domestic relations order" as such term is defined in section 206(d)(3)(B) of ERISA and section 414(p)(1)(A) of the Code. Any attempt at transfer, assignment or other alienation prohibited by the preceding sentence shall be disregarded and all amounts payable hereunder shall be paid only in accordance with the provisions of the Program.

8.4 Nature of Program. No Participant, Beneficiary or other person shall have any right, title or interest in any fund or in any specific asset of the Company or any Affiliate by reason of any Award hereunder. There shall be no funding of any benefits which may become payable hereunder. Nothing contained in the Program (or in any document related thereto), nor the creation or adoption of the Program, nor any action taken pursuant to the provisions of the Program shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or an Affiliate and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment with respect to an Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company or other employing entity, as applicable. All amounts payable under the Program shall be paid from the general assets of the Company or employing entity, as applicable, and no special or separate fund or deposit shall be established and no segregation of assets shall be made to assure payment of such amounts. Nothing in the Program shall be deemed to give any employee any right to participate in the Program except in accordance herewith.

ARTICLE IX

CORPORATE CHANGE

In the event of a Corporate Change, (i) with respect to a Participant's Award for the Performance Cycle in which the Corporate Change occurred, such Participant shall be entitled to an immediate cash payment equal to the maximum amount of Award he or she would have been entitled to receive for the Performance Cycle, prorated to the date of the Corporate Change (provided, that any such immediate cash payment applied to a Participant who is a "covered employee" for purposes of Section 162(m) of the Code shall be discounted to reflect the time value of money); and (ii) with respect to a Corporate Change that occurs after the end of the Performance Cycle but prior to the Payment Date, a Participant shall be entitled to an immediate cash payment equal to the Award earned for such Performance Cycle.

ARTICLE X

AMENDMENT AND TERMINATION

Notwithstanding anything herein to the contrary, the Committee may, at any time, terminate, modify or suspend the Program; provided, however, that, without the prior consent of the Participants affected, no such action may adversely affect any rights or obligations with respect to any Awards theretofore earned but unpaid for a completed Performance Cycle, whether or not the amounts of such Awards have been computed and whether or not such Awards are then payable.

ARTICLE XI

MISCELLANEOUS

11.1 Governing Law. The Program shall be construed in accordance with the laws of the State of Texas, without giving effect to the principles of conflicts of law thereof, except to the extent that it implicates matters which are the subject of the General Corporation Law of the State of Delaware, which matters shall be governed by the latter law.

11.2 Successor. All obligations and rights of the Company under the Program shall be binding upon and inure to the benefit of any successor to the Company.

11.3 Status of Stock. The Company shall not be obligated to issue any Common Stock pursuant to any Award hereunder at any time when the offering of the shares covered by such Award has not been registered under the Securities Act of 1933, as amended, and such other state and federal laws, rules or regulations as the Company or the Committee deems applicable and, in the opinion of legal counsel to the Company, there is no exemption from the registration requirements of such laws, rules or regulations available for issuance and sale of such shares.

11.4 Stockholder Approval. The "material terms" of the Program (within the meaning of Section 162(m) of the Code) shall be submitted for approval by the holders of a majority of the shares of Common Stock present, or represented, and entitled to vote at the first meeting of the Company's stockholders that occurs every fifth year following the year in which stockholders previously approved such "material terms" (inclusive of approval of the 1993 Plan).