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 June 30, 2003

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

5 Houston Center
1401 McKinney, Suite 2400
Houston, Texas 77010
(Address of Principal Executive Offices)

Telephone Number - Area Code (713) 759-2600

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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
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 July 24, 2003 - 437,927,577

HALLIBURTON COMPANY

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Revenues:				
Services	$ 3,106	$ 2,750	$ 5,735	$ 5,279
Product sales	476	457	924	917
Equity in earnings of unconsolidated affiliates	17	28	-	46
Total revenues	$ 3,599	$ 3,235	$ 6,659	$ 6,242
Operating costs and expenses:				
Cost of services	$ 3,050	$ 3,075	$ 5,504	$ 5,605
Cost of sales	425	407	829	816
General and administrative	80	97	161	150
(Gain) loss on sale of business assets, net	(27)	61	(48)	(47)
Total operating costs and expenses	$ 3,528	$ 3,640	$ 6,446	$ 6,524
Operating income (loss)	71	(405)	213	(282)
Interest expense	(25)	(30)	(52)	(62)
Interest income	7	12	15	16
Foreign currency gains (losses), net	19	(5)	13	(13)
Other, net	2	(2)	2	2
Income (loss) from continuing operations before income taxes, minority interest, and change in accounting principle, net	74	(430)	191	(339)
(Provision) benefit for income taxes	(29)	77	(79)	41
Minority interest in net income of subsidiaries, net of tax	(3)	(5)	(11)	(10)
Income (loss) from continuing operations before change in accounting principle, net	42	(358)	101	(308)
Loss from discontinued operations, net of tax benefit of $26, $19, $30 and $34	(16)	(140)	(24)	(168)
Cumulative effect of change in accounting principle, net of tax benefit of $5	-	-	(8)	-
Net income (loss)	$ 26	$ (498)	$ 69	$ (476)
Basic income (loss) per share:				
Income (loss) from continuing operations before change in accounting principle, net	$ 0.09	$ (0.83)	$ 0.23	$ (0.71)
Loss from discontinued operations, net	(0.03)	(0.32)	(0.05)	(0.39)
Cumulative effect of change in accounting principle, net	-	-	(0.02)	-
Net income (loss)	$ 0.06	$ (1.15)	$ 0.16	$ (1.10)
Diluted income (loss) per share:				
Income (loss) from continuing operations before change in accounting principle, net	$ 0.09	$ (0.83)	$ 0.23	$ (0.71)
Loss from discontinued operations, net	(0.03)	(0.32)	(0.05)	(0.39)
Cumulative effect of change in accounting principle, net	-	-	(0.02)	-
Net income (loss)	$ 0.06	$ (1.15)	$ 0.16	$ (1.10)
Cash dividends per share	$ 0.125	$ 0.125	$ 0.25	$ 0.25
Basic weighted average common shares outstanding	434	432	434	432
Diluted weighted average common shares outstanding	436	432	436	432

See notes to quarterly condensed consolidated financial statements.

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

	June 30 2003	December 31 2002
Assets		
Current assets:		
Cash and equivalents	$ 1,859	$ 1,107
Receivables:		
Notes and accounts receivable, net	2,656	2,533
Unbilled work on uncompleted contracts	1,010	724
Total receivables	3,666	3,257
Inventories	747	734
Current deferred income taxes	212	200
Other current assets	291	262
Total current assets	6,775	5,560
Property, plant and equipment, net of accumulated depreciation of $3,403 and $3,323	2,498	2,629
Equity in and advances to related companies	412	413
Goodwill, net	669	723
Noncurrent deferred income taxes	670	607
Insurance for asbestos and silica related liabilities	2,059	2,059
Other assets, net	939	853
Total assets	$ 14,022	$ 12,844
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term notes payable	$ 16	$ 49
Current maturities of long-term debt	166	295
Accounts payable	1,056	1,077
Accrued employee compensation and benefits	353	370
Advanced billings on uncompleted contracts	715	641
Deferred revenues	86	100
Income taxes payable	129	148
Estimated loss on uncompleted contracts	276	82
Other current liabilities	520	510
Total current liabilities	3,317	3,272
Long-term debt	2,374	1,181
Employee compensation and benefits	713	756
Asbestos and silica related liabilities	3,396	3,425
Other liabilities	580	581
Minority interest in consolidated subsidiaries	83	71
Total liabilities	10,463	9,286
Shareholders' equity:		
Common shares, par value $2.50 per share - authorized 600 shares, issued 457 and 456 shares	1,142	1,141
Paid-in capital in excess of par value	287	293
Deferred compensation	(67)	(75)
Accumulated other comprehensive income	(260)	(281)
Retained earnings	3,070	3,110
	4,172	4,188
Less 19 and 20 shares of treasury stock, at cost	613	630
Total shareholders' equity	3,559	3,558
Total liabilities and shareholders' equity	$ 14,022	$ 12,844

See notes to quarterly condensed consolidated financial statements.

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

	Six Months Ended June 30	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 69	$ (476)
Adjustments to reconcile net income (loss) to net cash from operations:		
Loss from discontinued operations, net	24	168
Depreciation, depletion and amortization	252	266
Benefit for deferred income taxes	(77)	(73)
Distributions from (advances to) related companies, net of equity in (earnings) losses	47	14
Change in accounting principle, net	8	-
Gain on sale of assets, net	(53)	(50)
Asbestos and silica related liabilities, net	(29)	477
Other non-cash items	(6)	72
Other changes, net of non-cash items:		
Receivables and unbilled work on uncompleted contracts	(417)	227
Sale of receivables	-	200
Inventories	(45)	(24)
Accounts payable	(50)	169
Other working capital, net	139	(239)
Other operating activities	(75)	(111)
Total cash flows from operating activities	(213)	620
Cash flows from investing activities:		
Capital expenditures	(229)	(404)
Sales of property, plant and equipment	49	54
Dispositions (acquisitions) of businesses, net of cash disposed (acquired)	224	134
Proceeds from sale of securities	57	-
Investments - restricted cash	(22)	(188)
Other investing activities	(29)	(10)
Total cash flows from investing activities	50	(414)
Cash flows from financing activities:		
Proceeds from long-term borrowings, net of offering costs	1,178	-
Payments on long-term borrowings	(140)	(4)
Borrowings (repayments) of short-term debt, net	(34)	14
Payments of dividends to shareholders	(109)	(109)
Other financing activities	(2)	(2)
Total cash flows from financing activities	893	(101)
Effect of exchange rate changes on cash	22	(12)
Increase in cash and equivalents	752	93
Cash and equivalents at beginning of period	1,107	290
Cash and equivalents at end of period	$ 1,859	$ 383
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Interest	$ 48	$ 53
Income taxes	$ 100	$ 98

See notes to quarterly condensed consolidated financial statements.

Note 1. Management Representations

Our accounting policies are in accordance with generally accepted accounting principles in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the instructions to Form 10-Q and 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 2002 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to be consistent with the current presentation.

In our opinion, the condensed consolidated financial statements included here contain all adjustments necessary to present fairly our financial position as of June 30, 2003, the results of our operations for the three and six months ended June 30, 2003 and 2002 and our cash flows for the six months ended June 30, 2003 and 2002. Such adjustments are of a normal recurring nature. The results of operations for the six months ended June 30, 2003 and 2002 may not be indicative of results for the full year.

Note 2. Business Segment Information

During the second quarter of 2003, we restructured our Energy Services Group into four divisions, which is the basis for the four segments we now report within the Energy Services Group. We grouped product lines in order to better align ourselves with how our customers procure our services, and to capture new business and achieve better integration, including joint research and development of new products and technologies and other synergies. The new segments mirror the way our chief executive officer (our chief operating decision maker) now regularly reviews the operating results, assesses performance and allocates resources. Our Engineering and Construction Group (known as KBR) segment remains unchanged.

All prior period segment results have been restated to reflect these changes.

Our five business segments are organized around how we manage the business. These segments are:

- Drilling and Formation Evaluation;
- Fluids;
- Production Optimization;
- Landmark and Other Energy Services; and
- Engineering and Construction Group.

Drilling and Formation Evaluation. The Drilling and Formation Evaluation segment is primarily involved in drilling and evaluating the formations related to bore-hole construction and initial oil and gas formation evaluation. The products and services in this segment incorporate integrated technologies, which offer synergies related to drilling activities and data gathering. The segment consists of drilling services, including directional drilling and measurement-while-drilling/logging-while-drilling; logging services; and drill bits. Included in this business segment are our Sperry-Sun, Logging and Perforating and Security DBS product lines. Also included is our Mono Pumps business, which we disposed of in the first quarter of 2003.

Fluids. The Fluids segment focuses on fluid management and technologies to assist in the drilling and construction of oil and gas wells. Drilling fluids are used to provide for well control, drilling efficiency, and as a means of removing wellbore cuttings. Cementing services provide zonal isolation to prevent fluid movement between formations, ensure a bond to provide support for the casing, and provide wellbore reliability. Our Baroid and Cementing product lines, along with our equity method investment in Enventure Global Technology, LLC, an expandable casing joint venture, are included in this business segment.

Production Optimization. The Production Optimization segment primarily tests, measures and provides means to manage and/or improve well production once a well is drilled and, in some cases, after it has been producing. This segment consists of:

- production enhancement services (including fracturing, acidizing, coiled tubing, hydraulic workover, sand control, and pipeline and process services);
- completion products and services (including well completion equipment, slickline and safety systems);
- tools and testing services (including underbalanced applications and tubular conveyed perforating testing services); and
- subsea operations conducted in our 50% owned company, Subsea 7, Inc.

Landmark and Other Energy Services. This segment represents integrated exploration and production software information systems, consulting services, real-time operations, smartwells, subsea operations not contributed to Subsea 7, Inc. and non-core businesses. Included in this business segment are Landmark Graphics, Integrated Solutions, Real Time Operations and our equity method investment in WellDynamics B.V., an intelligent well completions joint venture. Also included are Wellstream, Bredero-Shaw and European Marine Contractors Ltd., all of which have been sold.

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 offers the following types of products and services:

- Onshore operations consist of engineering and construction activities, including engineering and construction of liquefied natural gas, ammonia and natural gas plants, and crude oil refineries;
- Offshore operations include offshore deepwater engineering and marine technology and worldwide construction capabilities;
- Government Services provide engineering, operations, construction, maintenance and logistics activities for government facilities and installations;
- Operations and Maintenance services include plant operations, construction maintenance and start-up services for both upstream and downstream oil, gas and petrochemical facilities as well as engineering, operations, maintenance and logistics services for the power, commercial and industrial markets; and
- Infrastructure provides civil engineering, construction, consulting and project management services.

The tables below present revenues, operating income (loss) and total assets by business segment on a comparable basis.

Millions of dollars	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Revenues:				
Drilling and Formation Evaluation	$ 414	$ 413	$ 793	$ 812
Fluids	518	450	998	903
Production Optimization	693	634	1,322	1,246
Landmark and Other Energy Services	155	259	278	484
Total Energy Services Group	1,780	1,756	3,391	3,445
Engineering and Construction Group	1,819	1,479	3,268	2,797
Total	$ 3,599	$ 3,235	$ 6,659	$ 6,242
Operating income (loss):				
Drilling and Formation Evaluation	$ 49	$ 42	$ 115	$ 80
Fluids	68	49	123	100
Production Optimization	113	106	183	189
Landmark and Other Energy Services	5	(127)	(6)	(130)
Total Energy Services Group	235	70	415	239
Engineering and Construction Group	(148)	(450)	(167)	(508)
General corporate	(16)	(25)	(35)	(13)
Total	$ 71	$ (405)	$ 213	$ (282)

Millions of dollars	June 30, 2003	December 31, 2002
Total Assets:		
Drilling and Formation Evaluation	$ 1,101	$ 1,163
Fluids	855	830
Production Optimization	1,425	1,365
Landmark and Other Energy Services	1,124	1,399
Shared Energy Services Assets	1,180	1,187
Total Energy Services Group	5,685	5,944
Engineering and Construction Group	3,773	3,104
General Corporate	4,564	3,796
Total	$ 14,022	$ 12,844

Within the Energy Services Group, only certain assets are associated with specific segments. Those assets include receivables, inventories, certain identified property, plant and equipment (including field service equipment), equity in and advances to related companies and goodwill. The remaining assets, such as cash and the remaining property, plant and equipment (including shared facilities) are not associated with a segment but are considered to be shared among the segments within the Energy Services Group.

Intersegment revenues are immaterial.

Note 3. Dispositions

Halliburton Measurement Systems. In May 2003, we sold certain assets of Halliburton Measurement Systems, which provides flow measurement and sampling systems, to NuFlo Technologies, Inc. for approximately $33 million in cash, subject to post-closing adjustments. The pretax gain on the sale of Halliburton Measurement Systems assets was $24 million ($14 million after tax, or $0.03 per diluted share) and is included in our Production Optimization segment.

Wellstream. In March 2003, we sold the assets relating to our Wellstream business, a global provider of flexible pipe products, systems and solutions to Candover Partners Ltd. for $136 million in cash. The assets sold included manufacturing plants in Newcastle on the Tyne, United Kingdom, and Panama City, Florida, as well as certain assets and contracts in Brazil. The transaction resulted in a pretax loss of $15 million ($12 million after tax, or

$0.03 per diluted share), which is included in our Landmark and Other Energy Services segment. Included in the pretax loss is the write-off of the cumulative translation adjustment related to Wellstream of approximately $9 million. The cumulative translation adjustment could not be tax benefited and therefore the effective tax benefit for this loss on disposition was only 20%.

Mono Pumps. In January 2003, we sold our Mono Pumps business to National Oilwell, Inc. (NYSE: NOI). The sale price of approximately $88 million was paid with $23 million in cash and 3.2 million shares of National Oilwell common stock, which were valued at $65 million on January 15, 2003. We recorded a pretax gain of $36 million ($21 million after tax, or $0.05 per diluted share) on the sale, which is included in our Drilling and Formation Evaluation segment. Included in the pretax gain is the write-off of the cumulative translation adjustment related to Mono Pumps of approximately $5 million. The cumulative translation adjustment could not be tax benefited and therefore the effective tax rate for this disposition was 42%. In February 2003, we sold 2.5 million of our 3.2 million shares of the National Oilwell common stock for $52 million, which resulted in a gain of $2 million pretax, or $1 million after tax, that was recorded in "Other, net".

Subsea 7 formation. In May 2002, we contributed substantially all of our Halliburton Subsea assets, with a book value of approximately $82 million, to a newly formed company, Subsea 7, Inc. The contributed assets were recorded by the new company at a fair value of approximately $94 million. The $12 million difference is being amortized over ten years representing the average remaining useful life of the assets contributed. We own 50% of Subsea 7, Inc. and account for this investment using the equity method in our Production Optimization segment. The remaining 50% is owned by DSND Subsea ASA.

Bredero-Shaw. In the second quarter of 2002, we incurred an impairment charge of $61 million ($0.14 per diluted share after tax) related to our then pending sale of Bredero-Shaw. On September 30, 2002, we sold our 50% interest in the Bredero-Shaw joint venture to our partner ShawCor Ltd. The sale price of $149 million was comprised of $53 million in cash, a short-term note of $25 million and 7.7 million of ShawCor Class A Subordinate shares. Consequently, we recorded a 2002 third quarter pretax loss on the sale of $18 million, or $0.04 per diluted share after tax, which is reflected in our Landmark and Other Energy Services segment. Included in this loss was $15 million of cumulative translation adjustment loss which was realized upon the disposition of our investment in Bredero-Shaw. During the 2002 fourth quarter, we recorded in "Other, net" a $9 million pretax loss on the sale of ShawCor shares.

European Marine Contractors Ltd. In January 2002, we sold our 50% interest in European Marine Contractors Ltd., an unconsolidated joint venture reported within our Landmark and Other Energy Services, to our joint venture partner, Saipem. At the date of sale, we received $115 million in cash and a contingent payment option valued at $16 million, resulting in a pretax gain of $108 million. The contingent payment option was based on a formula linked to performance of the Oil Service Index. In February 2002, we exercised our option and received an additional $19 million and recorded a pretax gain of $3 million in "Other, net" in the statement of operations as a result of the increase in value of this option.

Note 4. Discontinued Operations

During the second quarter of 2003, we recorded a pretax loss from discontinued operations of $42 million. This loss reflects a $30 million charge for the debtor-in-possession financing provided to Harbison-Walker in connection with their Chapter 11 bankruptcy proceeding which was funded on July 31, 2003 and is expected to be forgiven by us on the earlier of the effective date of a plan of reorganization for DII Industries or the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries. In addition, discontinued operations included professional fees associated with the due diligence and other aspects of the proposed settlement for asbestos liabilities offset by a release of environmental and legal accruals related to indemnities associated with our 2001 disposition of Dresser Equipment Group that are no longer required.

During the first quarter of 2003, we recorded as pretax expense to discontinued operations $12 million for professional fees associated with due diligence and other aspects of the proposed settlement for asbestos and silica liabilities.

During the second quarter of 2002, in connection with our asbestos econometric study, we recorded a pretax expense of $153 million to discontinued operations for existing and future asbestos claims and defense costs related to businesses disposed of, net of anticipated insurance recoveries. See Note 11. We also recorded pretax expense of $6 million associated with the Harbison-Walker bankruptcy filing.

During the first quarter of 2002, we recorded as pretax expense to discontinued operations $3 million for asbestos claims and defense costs related to businesses disposed of, net of anticipated insurance recoveries for asbestos claims. We also recorded pretax expense for a $40 million payment associated with the Harbison-Walker bankruptcy filing.

Note 5. Income (Loss) Per Share

Millions of dollars and shares except per share data	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Income (loss) from continuing operations before change in accounting principle, net	$ 42	$ (358)	$ 101	$ (308)
Basic weighted average common shares outstanding	434	432	434	432
Effect of common stock equivalents	2	-	2	-
Diluted weighted average common shares outstanding	436	432	436	432
Income (loss) per common share from continuing operations before change in accounting principle, net:				
Basic	$ 0.09	$ (0.83)	$ 0.23	$ (0.71)
Diluted	$ 0.09	$ (0.83)	$ 0.23	$ (0.71)

Basic income (loss) per common share is based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per common 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 (loss) per common share are options to purchase 15 million shares of common stock which were outstanding during the three and six months ended June 30, 2003. These options were outstanding during the applicable period, but were excluded because the option exercise price was greater than the average market price of the common shares. The shares issuable upon conversion of the 3.125% convertible senior notes due 2023 (see Note 15) were not included in the computation of diluted income (loss) per common share since the conditions for conversion had not been met as of June 30, 2003.

For the three and the six months ended June 30, 2002, we used the basic weighted average shares in the calculation of diluted loss per common share, as the effect of the common stock equivalents (which totaled two million shares for each period) would be anti-dilutive based upon the net loss from continuing operations.

Note 6. Comprehensive Income (Loss)

The components of other comprehensive income adjustments to net income include the following:

Millions of dollars	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Net income (loss)	$ 26	$ (498)	$ 69	$ (476)
Cumulative translation adjustment	25	32	12	35
Realization of losses included in net income	1	-	15	-
Net cumulative translation adjustment	26	32	27	35
Pension liability adjustments	(7)	-	(7)	-
Unrealized losses on investments and derivatives	2	-	1	-
Total comprehensive income (loss)	$ 47	$ (466)	$ 90	$ (441)

Accumulated other comprehensive income consisted of the following:

Millions of dollars	June 30 2003	December 31 2002
Cumulative translation adjustments	$ (94)	$ (121)
Pension liability adjustments	(164)	(157)
Unrealized losses on investments and derivatives	(2)	(3)
Total accumulated other comprehensive income	$ (260)	$ (281)

Note 7. Restricted Cash

At June 30, 2003 we had restricted cash of $212 million included in "Other assets, net". Restricted cash consists of:

- $108 million deposit that collateralizes a bond for a patent infringement judgment on appeal;
- $78 million as collateral for potential future insurance claim reimbursements; and
- $26 million primarily related to cash collateral agreements for outstanding letters of credit for various projects.

At December 31, 2002 we had restricted cash of $190 million, consisting of similar items.

Note 8. Receivables

Included in notes and accounts receivable are notes with varying interest rates totaling $23 million at June 30, 2003 and $53 million at December 31, 2002.

On April 15, 2002, we entered into an agreement to sell accounts receivable to a bankruptcy-remote limited-purpose funding subsidiary. Under the terms of the agreement, new receivables are added on a continuous basis to the pool of receivables, and collections reduce previously sold accounts receivable. This funding subsidiary sells an undivided ownership interest in this pool of receivables to entities managed by unaffiliated financial institutions under another agreement. Sales to the funding subsidiary have been structured as "true sales" under applicable bankruptcy laws. The assets of the funding subsidiary are not available to pay any creditors of ours or of our subsidiaries or affiliates, until such time as the agreement with the unaffiliated companies is terminated following sufficient collections to liquidate all outstanding undivided ownership interests. The funding subsidiary retains the interest in the pool of receivables that are not sold to the unaffiliated companies and is fully consolidated and reported in our financial statements.

The amount of undivided interests which can be sold under the program varies based on the amount of eligible Energy Services Group receivables in the pool at any given time and other factors. The funding subsidiary initially sold a $200 million undivided ownership interest to the unaffiliated companies, and may from time to time sell additional undivided ownership interests. The total amount outstanding under this facility was $180 million as of June 30, 2003. The undivided ownership interest in the pool of receivables sold to the unaffiliated companies is reflected as a reduction of accounts receivable in our consolidated balance sheets. In July 2003, the balance outstanding under this facility was reduced to zero.

Note 9. Inventories

Inventories are stated at the lower of cost or market. We manufacture in the United States certain finished products and parts inventories for drill bits, completion products and bulk materials that are recorded using the last-in, first-out method and totaled $45 million at June 30, 2003 and $43 million at December 31, 2002. If the average cost method had been used, total inventories would have been $18 million higher than reported at June 30, 2003 and $17 million higher than reported at December 31, 2002.

Over 90% of remaining inventory is recorded on the average cost method, with the remainder on the first-in, first-out method.

Inventories at June 30, 2003 and December 31, 2002 are composed of the following:

Millions of dollars	June 30 2003	December 31 2002
Finished products and parts	$ 505	$ 545
Raw materials and supplies	179	141
Work in process	63	48
Total	$ 747	$ 734

Note 10. Long-Term Construction Contracts and Unapproved Claims

Revenues from engineering and construction contracts are reported on the percentage of completion method of accounting using measurements of progress toward completion appropriate for the work performed. Progress is generally based upon physical progress, man-hours or costs incurred based upon the appropriate method for the type of job.

Billing practices for engineering and construction projects are governed by the contract terms of each project based upon costs incurred, achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenues recognized under the percentage of completion method of accounting. Billings in excess of recognized revenues are recorded in "Advanced billings on uncompleted contracts". When billings are less than recognized revenues, the difference is recorded in "Unbilled work on uncompleted contracts". With the exception of claims and change orders which are in the process of being negotiated with customers, unbilled work is usually billed during normal billing processes following achievement of the contractual requirements.

Recording of profits and losses on long-term contracts requires an estimate of the total profit or loss over the life of each contract. This estimate requires consideration of contract revenue, change orders and claims reduced by costs incurred and estimated costs to complete. Anticipated losses on contracts are recorded in full in the period they become evident. Except where we, because of uncertainties in the estimation of costs on a limited number of projects, deem it prudent to defer income recognition, we do not delay income recognition until projects have reached a specified percentage of completion. We have not done so during the periods presented, although we followed such a practice for some offshore projects prior to the periods presented herein. Otherwise, profits are recorded from the commencement date of the contract based upon the total estimated contract profit multiplied by the current percentage complete for the contract.

When calculating the amount of total profit or loss on a long-term contract, we include unapproved claims as revenue when the collection is deemed probable based upon the four criteria for recognizing unapproved claims under the American Institute of Certified Public Accountants Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts". Including unapproved claims in this calculation increases the operating income (or reduces the operating loss) that would otherwise be recorded without consideration of the probable unapproved claims. Unapproved claims are recorded to the extent of costs incurred and include no profit element. In substantially all cases, the probable unapproved claims included in determining contract profit or loss are less than the actual claim that will be or has been presented to the customer.

When recording the revenue and the associated unbilled receivable for unapproved claims, we only accrue an amount up to the costs incurred related to probable unapproved claims. The difference between the probable unapproved claims included in determining contract profit or loss and the probable unapproved claims recorded in "Unbilled work on uncompleted contracts" relates to forecasted costs which have not yet been incurred. The amounts included in determining the profit or loss on contracts, and the amounts booked to "Unbilled work on uncompleted contracts" for each period are as follows:

Millions of dollars	June 30 2003	December 31 2002
Probable unapproved claims (included in determining contract profit or loss)	$ 335	$ 279
Unapproved claims in unbilled work on uncompleted contracts	$ 285	$ 210

Our claims at June 30, 2003 are listed in the table above. These claims relate to ten contracts, most of which are complete or substantially complete. We are actively engaged in claims negotiation with the customers. The largest claim relates to the Barracuda-Caratinga contract which was approximately 75% complete at June 30, 2003. The probable unapproved claims included in determining this contract's loss were $182 million at June 30, 2003 and at December 31, 2002. As most of the claim elements for this contract will likely not be settled within one year, related amounts in unbilled work on uncompleted contracts of $134 million at June 30, 2003 and $115 million at December 31, 2002 included in the table above have been recorded to long-term unbilled work on uncompleted contracts which is included in "Other assets, net" on the balance sheet. All other claims included in the table above have been recorded to "Unbilled work on uncompleted contracts" included in the "Total receivables" amount on the balance sheet.

A summary of unapproved claims activity for the three and six months ended June 30, 2003 is as follows:

	Total Probable Unapproved Claims		Probable Unapproved Claims Unbilled Work	
Millions of dollars	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Beginning balance	$ 298	$ 279	$ 237	$ 210
Additions	42	62	41	61
Costs incurred during period	-	-	12	20
Other	(5)	(6)	(5)	(6)
Ending balance	$ 335	$ 335	$ 285	$ 285

In addition, our unconsolidated related companies include probable unapproved claims as revenue to determine the amount of profit or loss for their contracts. Our "Equity in earnings of unconsolidated affiliates" includes our equity percentage of unapproved claims related to unconsolidated projects totaling $11 million at June 30, 2003 and $9 million at December 31, 2002.

Note 11. Commitments and Contingencies - Asbestos and Silica

Asbestos litigation. Several of our subsidiaries, particularly DII Industries, LLC (DII Industries) and Kellogg Brown & Root, Inc. (Kellogg Brown & Root), are defendants in a large number of asbestos-related lawsuits. The plaintiffs allege injury as a result of exposure to asbestos in products manufactured or sold by former divisions of DII Industries or in materials used in construction or maintenance projects of Kellogg Brown & Root.

These claims are in three general categories:

- refractory claims;
- other DII Industries claims; and
- construction claims.

Refractory claims. Asbestos was used in a small number of products manufactured or sold by Harbison-Walker Refractories Company, which DII Industries acquired in 1967. The Harbison-Walker operations were conducted as a division of DII Industries (then named Dresser Industries, Inc.) until those operations were transferred to another then-existing subsidiary of DII Industries in preparation for a spin-off. Harbison-Walker was spun-off by DII Industries in July 1992. At that time, Harbison-Walker assumed liability for asbestos claims filed after the spin-off and it agreed to defend and indemnify DII Industries from liability for those claims, although DII Industries continues to have direct liability to tort claimants for all post spin-off refractory asbestos claims. DII Industries retained responsibility for all asbestos claims pending as of the date of the spin-off. The agreement governing the spin-off provided that Harbison-Walker would have the right to access DII Industries historic insurance coverage for the asbestos-related liabilities that Harbison-Walker assumed in the spin-off. After the spin-off, DII Industries and Harbison-Walker jointly negotiated and entered into coverage-in-place agreements with a number of insurance companies that had issued historic general liability insurance policies which both DII Industries and Harbison-Walker had the right to access for, among other things, bodily injury occurring between 1963 and 1985. These coverage-in-place agreements provide for the payment of defense costs, settlements and court judgments paid to resolve refractory asbestos claims.

As Harbison-Walker's financial condition worsened in late 2000 and 2001, Harbison-Walker began agreeing to pay more in settlement of the post spin-off refractory claims than it historically had paid. These increased settlement amounts led to Harbison-Walker making greater demands on the shared insurance asset. By July 2001, DII Industries determined that the demands that Harbison-Walker was making on the shared insurance policies were not acceptable to DII Industries and that Harbison-Walker probably would not be able to fulfill its indemnification obligation to DII Industries. Accordingly, DII Industries took up the defense of unsettled post spin-off refractory claims that name it as a defendant in order to prevent Harbison-Walker from unnecessarily eroding the insurance coverage both companies access for these claims. These claims are now stayed in the Harbison-Walker bankruptcy proceeding.

As of June 30, 2003, there were approximately 6,000 open and unresolved pre-spin-off refractory claims against DII Industries. In addition, there were approximately 153,000 post spin-off claims that name DII Industries as a defendant.

Other DII Industries claims. As of June 30, 2003, there were approximately 185,000 open and unresolved claims alleging injuries from asbestos used in other products formerly manufactured by DII Industries or its predecessors. 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. As of June 30, 2003, there were approximately 81,000 open and unresolved claims alleging injuries from asbestos in materials used in construction and maintenance projects, most of which were conducted by Brown & Root, Inc. Approximately 6,000 of these claims are asserted against The M.W. Kellogg Company. We believe that Kellogg Brown & Root has a good defense to these claims, and a prior owner of The M.W. Kellogg Company provides Kellogg Brown & Root a contractual indemnification for claims against The M.W. Kellogg Company.

Harbison-Walker Chapter 11 bankruptcy. On February 14, 2002, Harbison-Walker filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court in Pittsburgh, Pennsylvania. In its initial bankruptcy-related filings, Harbison-Walker said that it would seek to utilize Sections 524(g) and 105 of the Bankruptcy Code to propose and seek confirmation of a plan of reorganization that would provide for distributions for all legitimate, pending and future asbestos claims asserted directly against Harbison-Walker or asserted against DII Industries for which Harbison-Walker is required to indemnify and defend DII Industries.

Harbison-Walker's failure to fulfill its indemnity obligations, and its erosion of insurance coverage shared with DII Industries, required DII Industries to assist Harbison-Walker in its bankruptcy proceeding in order to protect the shared insurance from dissipation. At the time that Harbison-Walker filed its bankruptcy, DII Industries agreed to provide up to $35 million of debtor-in-possession financing to Harbison-Walker during the pendency of the Chapter 11 proceeding, of which $5 million was advanced during the first quarter of 2002. Halliburton funded the remaining $30 million on July 31, 2003. We recorded a pretax charge of $30 million in "Loss from discontinued operations" in our condensed consolidated statements of operations for the second quarter 2003, as the debtor-in-possession financing is expected to be forgiven on the earlier of the effective date of a plan of reorganization for DII Industries or the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries. On February 14, 2002, in accordance with the terms of a letter agreement, DII Industries paid $40 million to Harbison-Walker's United States parent holding company, RHI Refractories Holding Company. This payment was charged to discontinued operations in our financial statements in the first quarter of 2002.

The terms of the letter agreement also require DII Industries to pay to RHI Refractories an additional $35 million if a plan of reorganization is proposed in the Harbison-Walker bankruptcy proceedings, and an additional $85 million if a plan is confirmed in the Harbison-Walker bankruptcy proceedings, in each case acceptable to DII Industries in its sole discretion. The letter agreement provides that a plan acceptable to DII Industries must include an injunction channeling to a Section 524(g)/105 trust all present and future asbestos claims against DII Industries arising out of the Harbison-Walker business or other DII Industries' businesses that share insurance with Harbison-Walker.

Harbison-Walker filed a proposed plan of reorganization on July 31, 2003. However, the proposed plan does not provide for a Section 524(g)/105 injunction for the benefit of DII Industries and other DII Industries businesses that share insurance with Harbison-Walker, and DII Industries has not consented to the plan. Although possible, at this time we do not believe it likely that Harbison-Walker will propose or will be able to confirm a plan of reorganization in its bankruptcy proceeding that is acceptable to DII Industries within the meaning of the letter agreement with RHI Refractories.

In general, in order for a Harbison-Walker plan of reorganization involving a Section 524(g)/105 trust to be confirmed, the plan would need, among other things, to be structured to provide substantially similar treatment to current and future asbestos claimants and the creation of the trust would require the approval of 75% of those asbestos claimant creditors of Harbison-Walker voting on the plan. A plan also would be subject to completion of negotiations of material terms and definitive plan documentation with the asbestos claimants committee, a futures representative for asbestos claimants in the Harbison-Walker bankruptcy cases and DII Industries. There can be no assurance that any plan proposed by Harbison-Walker would be structured to meet the requirements for obtaining an injunction or that Harbison-Walker could obtain the necessary approval.

As an alternative, DII Industries has entered into a settlement in principle with Harbison-Walker which would resolve substantially all of the issues between them. This agreement is subject to negotiation of definitive documentation and court approval in Harbison-Walker's bankruptcy case. If approved by the court in Harbison-Walker's bankruptcy case, this agreement would provide for:

- channeling of asbestos and silica personal injury claims against Harbison-Walker and certain of its affiliates to the trusts created in the Chapter 11 cases being contemplated for DII Industries and Kellogg Brown & Root;
- release by Harbison-Walker and its affiliates of any rights in insurance shared with DII Industries on occurrence of the effective date of the plan of reorganization for DII Industries;
- release by DII Industries of any right to be indemnified by Harbison-Walker for asbestos or silica personal injury claims;
- forgiveness by DII Industries of all of Harbison-Walker's obligations under the debtor-in-possession financing provided by DII Industries on the earlier of the effective date of a plan of reorganization for DII Industries or the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries;
- purchase by DII Industries of Harbison-Walker's outstanding insurance receivables for an amount of approximately $50 million on the earliest of the effective date of a plan of reorganization for DII Industries, the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries or December 31, 2003. It is expected that a portion of this receivable would require a reserve for uncollectibility due to the insolvency of the insurance carriers. This receivable and related allowance will be recorded in the third quarter 2003;
- guarantee of the insurance receivable purchase price by Halliburton on a subordinated basis; and
- negotiation between the parties on a mutually-agreeable structure for resolving other products or tort claims.

We do not believe it probable that DII Industries will be obligated to make either of the additional $35 million or $85 million payments to RHI Refractories described above because the plan of reorganization filed by Harbison-Walker on July 31, 2003 in its bankruptcy proceeding would not, if confirmed, create a Section 524(g) and/or 105 channeling injunction in favor of DII Industries and because the plan of reorganization filed by Harbison-Walker is not acceptable to DII Industries within the meaning of the February 14, 2002 letter agreement. RHI A.G., the ultimate corporate parent of RHI Refractories, has indicated that it believes otherwise, and has announced an intent to take legal action against us to recover $35 million they believe is presently owing. On August 8, 2003, we filed a declaratory judgment lawsuit against RHI Refractories in the District Court of Harris County, Texas, 80th Judicial District seeking a declaration from the court that we do not owe RHI Refractories any money pursuant to the letter agreement.

In connection with the Chapter 11 filing by Harbison-Walker, the Bankruptcy Court on February 14, 2002 issued a temporary restraining order staying all further litigation of more than 200,000 asbestos claims currently pending against DII Industries in numerous courts throughout the United States. The period of the stay contained in the temporary restraining order has been extended through September 30, 2003. At present, the stay will terminate at close of business on September 30, 2003, but DII Industries does have the ability, provided the asbestos claimants committee in the Harbison-Walker bankruptcy agrees, to request that the Court extend the stay further. Currently, there is no assurance that a stay will remain in effect beyond September 30, 2003, that a plan of reorganization will be confirmed for Harbison-Walker, or that any plan that is confirmed will provide relief to DII Industries. Should the stay expire on September 30, 2003, the Bankruptcy Court established that discovery on the claims that had been stayed cannot begin until November 1, 2003 and that trials on any of the claims that had been stayed cannot commence before January 1, 2004.

The stayed asbestos claims are those covered by insurance that DII Industries and Harbison-Walker each access to pay defense costs, settlements and judgments attributable to both refractory and non-refractory asbestos claims. The stayed claims include approximately 153,000 post-1992 spin-off refractory claims, 6,000 pre-spin-off refractory claims and approximately 135,000 other types of asbestos claims pending against DII Industries. Approximately 51,000 of the claims in the third category are claims made against DII Industries based on more than one ground for recovery and the stay affects only the portion of the claim covered by the shared insurance. The stay prevents litigation from proceeding while the stay is in effect and also prohibits the filing of new claims. One of the purposes of the stay is to allow Harbison-Walker and DII Industries time to develop and propose a plan of reorganization.

Asbestos insurance coverage. DII Industries has substantial insurance for reimbursement for portions of the costs incurred defending asbestos and silica claims, as well as amounts paid to settle claims and court judgments. This 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 DII Industries, its predecessors or its 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 available to DII Industries and its subsidiaries depends on the nature and time of the alleged exposure to asbestos or silica, the specific subsidiary against which an asbestos or silica claim is asserted and other factors.

Refractory claims insurance. DII Industries has approximately $2.1 billion in aggregate limits of insurance coverage for refractory asbestos and silica claims, of which over one-half is with Equitas or other London-based insurance companies. Most of this insurance is shared with Harbison-Walker. Many of the issues relating to the majority of this coverage have been resolved by coverage-in-place agreements with dozens of companies, including Equitas and other London-based insurance companies. Coverage-in-place agreements are settlement agreements between policyholders and the insurers specifying the terms and conditions under which coverage will be applied as claims are presented for payment. These agreements in an asbestos claims context govern such things as what events will be deemed to trigger coverage, how liability for a claim will be allocated among insurers and what procedures the policyholder must follow in order to obligate the insurer to pay claims. Beginning in 2001 however, Equitas and other London-based companies have attempted to impose new restrictive documentation requirements on DII Industries and other insureds. Equitas and the other London-based companies have stated that the new requirements are part of an effort 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 March 21, 2002, Harbison-Walker filed a lawsuit in the United States Bankruptcy Court for the Western District of Pennsylvania in its Chapter 11 bankruptcy proceeding. This lawsuit is substantially similar to DII Industries lawsuit filed in Texas State Court in 2001 and seeks, among other relief, a determination as to the rights of DII Industries and Harbison-Walker to the shared general liability insurance. The lawsuit also seeks damages against specific insurers for breach of contract and bad faith, and a declaratory judgment concerning the insurers' obligations under the shared insurance. Although DII Industries is also a defendant in this lawsuit, it has asserted its own claim to coverage under the shared insurance and is cooperating with Harbison-Walker to secure both companies' rights to the shared insurance. The Bankruptcy Court has ordered the parties to this lawsuit to engage in non-binding mediation. The first mediation session was held on July 26, 2002 and additional sessions have since taken place and further sessions will be scheduled to take place, provided the Bankruptcy Court's mediation order remains

in effect. Given the early stages of these negotiations, DII Industries cannot predict whether a negotiated resolution of this dispute will occur or, if such a resolution does occur, the precise terms of such a resolution.

Prior to the Harbison-Walker bankruptcy, on August 7, 2001, DII Industries filed a lawsuit in Dallas County, Texas, against a number of these insurance companies asserting DII Industries rights under an existing coverage-in-place agreement and under insurance policies not yet subject to coverage-in-place agreements. The coverage-in-place agreements allow DII Industries to enter into settlements for small amounts without requiring claimants to produce detailed documentation to support their claims, when DII Industries believes the settlements are an effective claims management strategy. DII Industries believes that the new documentation requirements are inconsistent with the current coverage-in-place agreements and are unenforceable. The insurance companies that DII Industries has sued have not refused to pay larger claim settlements where documentation is obtained or where court judgments are entered.

On May 10, 2002, the London-based insuring entities and companies removed DII Industries' Dallas County State Court Action to the United States District Court for the Northern District of Texas alleging that federal court jurisdiction existed over the case because it is related to the Harbison-Walker bankruptcy. DII Industries has filed an opposition to that removal and has asked the federal court to remand the case back to the Dallas County state court. On June 12, 2002, the London-based insuring entities and companies filed a motion to transfer the case to the federal court in Pittsburgh, Pennsylvania. DII Industries has filed an opposition to that motion to transfer. The federal court in Dallas has yet to rule on any of these motions. Regardless of the outcome of these motions, because of the similar insurance coverage lawsuit filed by Harbison-Walker in its bankruptcy proceeding, it is unlikely that DII Industries' case will proceed simultaneously with the insurance coverage case filed by Harbison-Walker in its bankruptcy.

Other DII Industries claims insurance. DII Industries has substantial insurance to cover other non-refractory asbestos claims. Two coverage-in-place agreements cover DII Industries for companies or operations that DII Industries either acquired or operated prior to November 1, 1957. Asbestos claims that are covered by these agreements are currently stayed by the Harbison-Walker bankruptcy because the majority of this coverage also applies to refractory claims and is shared with Harbison-Walker. Other insurance coverage is provided by a number of different policies that DII Industries acquired rights to access when it acquired businesses from other companies. Three coverage-in-place agreements provide reimbursement for asbestos claims made against DII Industries' former Worthington Pump division. There is also other substantial insurance coverage with approximately $2.0 billion in aggregate limits that has not yet been reduced to coverage-in-place agreements.

On August 28, 2001, DII Industries filed a lawsuit in the 192nd Judicial District of the District Court for Dallas County, Texas against specific London-based insuring entities that issued insurance policies that provide coverage to DII Industries for asbestos-related liabilities arising out of the historical operations of Worthington Corporation or its successors. This lawsuit raises essentially the same issue as to the documentation requirements as the August 7, 2001 Harbison-Walker lawsuit filed in the same court. The London-based insuring entities filed a motion in that case seeking to compel the parties to binding arbitration. The trial court denied that motion and the London-based insuring entities appealed that decision to the state appellate court. The state appellate court denied the appeal and, most recently, the London-based insuring entities have removed the case from the state court to the federal court. DII Industries was successful in remanding the case back to the state court.

A significant portion of the insurance coverage applicable to Worthington claims is alleged by Federal-Mogul Products, Inc. to be shared with it. In 2001, Federal-Mogul Products, Inc. and a large number of its affiliated companies filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court in Wilmington, Delaware.

In response to Federal-Mogul's allegations, on December 7, 2001, DII Industries filed a lawsuit in the Delaware Bankruptcy Court asserting its rights to insurance coverage under historic general liability policies issued to Studebaker-Worthington, Inc. and its successor for asbestos-related liabilities arising from, among other operations, Worthington's and its successors' historic operations. This lawsuit also seeks a judicial declaration concerning the competing rights of DII Industries and Federal-Mogul, if any, to this insurance coverage. DII Industries recently filed a third amended complaint in that lawsuit and the parties are engaged in the discovery process and summary judgment briefing. The parties to this litigation, including Federal-Mogul, have

agreed to mediate this dispute. Unlike the Harbison-Walker insurance coverage litigation, in which the litigation is stayed while the mediation proceeds, the insurance coverage litigation concerning the Worthington-related asbestos liabilities has not been stayed and such litigation is proceeding simultaneously with the mediation.

At the same time, DII Industries filed its insurance coverage action in the Federal-Mogul bankruptcy, DII Industries also filed a second lawsuit in which it has filed a motion for preliminary injunction seeking a stay of all Worthington asbestos-related lawsuits against DII Industries that are scheduled for trial within the six months following the filing of the motion. The stay that DII Industries seeks, if granted, would remain in place until the competing rights of DII Industries and Federal-Mogul to the allegedly shared insurance are resolved. The Court has yet to schedule a hearing on DII Industries' motion for preliminary injunction.

A number of insurers who have agreed to coverage-in-place agreements with DII Industries have suspended payment under the shared Worthington policies until the Federal-Mogul Bankruptcy Court resolves the insurance issues. Consequently, the effect of the Federal-Mogul bankruptcy on DII Industries rights to access this shared insurance is uncertain.

Construction claims insurance. Nearly all of our construction asbestos claims relate to Brown & Root, Inc. 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. 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, Inc. that covered construction asbestos claims was terminated by agreements between Halliburton and Highlands at the time of the 1996 spin-off. In March 2001, the Chancery Court ruled that a termination did occur and that Highlands was not obligated to provide coverage for Brown & Root, Inc.'s asbestos claims. This decision was affirmed by the Delaware Supreme Court on March 13, 2002. As a result of this ruling, we wrote-off approximately $35 million in accounts receivable for amounts paid for claims and defense costs and $45 million of accrued receivables in relation to estimated insurance recoveries claims settlements from Highlands in the first quarter 2002. In addition, we dismissed the April 24, 2000 lawsuit we filed against Highlands in Harris County, Texas.

As a consequence of the Delaware Supreme Court's decision, Kellogg Brown & Root no longer has primary insurance coverage from Highlands for asbestos claims. However, Kellogg Brown & Root has significant excess insurance coverage. The amount of this excess coverage that will reimburse us for an asbestos claim depends on a variety of factors. On March 20, 2002, Kellogg Brown & Root filed a lawsuit in the 172nd Judicial District of the District Court of Jefferson County, Texas, against Kellogg Brown & Root's historic insurers that issued these excess insurance policies. In the lawsuit, Kellogg Brown & Root seeks to establish the specific terms under which it can seek reimbursement for costs it incurs in settling and defending asbestos claims from its historic construction operations. On January 6, 2003, this lawsuit was transferred to the 11th Judicial District of the District Court of Harris County, Texas, and the parties are engaged in the discovery process. Until this lawsuit is resolved, the scope of the excess insurance will remain uncertain, and as such we have not assumed any recoveries from excess insurance coverage. We do not expect the excess insurers will reimburse us for asbestos claims until this lawsuit is resolved.

Significant asbestos judgments on appeal. During 2001, there were several adverse judgments in trial court proceedings that are in various stages of the appeal process. All of these judgments concern asbestos claims involving Harbison-Walker refractory products. Each of these appeals, however, has been stayed by the Bankruptcy Court in the Harbison-Walker Chapter 11 bankruptcy.

On November 29, 2001, the Texas District Court in Orange, Texas, entered judgments against Dresser Industries, Inc. (now DII Industries) on a $65 million jury verdict rendered in September 2001 in favor of five plaintiffs. The $65 million amount includes $15 million of a $30 million judgment against DII Industries and another defendant. DII Industries is jointly and severally liable for $15 million in addition to $65 million if the other defendant does not pay its share of this judgment. Based upon what we believe to be controlling precedent, which would hold that the judgment entered is void, we believe that the likelihood of the judgment being affirmed in the face of DII Industries' appeal is remote. As a result, we have not accrued any amounts for this judgment. However, a favorable outcome from the appeal is not assured.

On November 29, 2001, the same District Court in Orange, Texas, entered three additional judgments against Dresser Industries, Inc. (now DII Industries) in the aggregate amount of $35.7 million in favor of 100 other asbestos plaintiffs. These judgments relate to an alleged breach of purported settlement

agreements signed early in 2001 by a New Orleans lawyer hired by Harbison-Walker, which had been defending DII Industries pursuant to the agreement by which Harbison-Walker was spun-off by DII Industries in 1992. These settlement agreements expressly bind Harbison-Walker Refractories Company as the obligated party, not DII Industries, which is not a party to the agreements. For that reason, and based upon what we believe to be controlling precedent, which would hold that the judgment entered is void, we believe that the likelihood of the judgment being affirmed in the face of DII Industries' appeal is remote. As a result, we have not accrued any amounts for this judgment. However, a favorable outcome from the appeal is not assured.

On December 5, 2001, a jury in the Circuit Court for Baltimore County, Maryland, returned verdicts against Dresser Industries, Inc. (now DII Industries) and other defendants following a trial involving refractory asbestos claims. Each of the five plaintiffs alleges exposure to Harbison-Walker products. DII Industries portion of the verdicts was approximately $30 million, which we fully accrued in 2002. DII Industries intends to appeal the judgment to the Maryland Supreme Court. While we believe we have a valid basis for appeal and intend to vigorously pursue our appeal, any favorable outcome from that appeal is not assured.

On October 25, 2001, in the Circuit Court of Holmes County, Mississippi, a jury verdict of $150 million was rendered in favor of six plaintiffs against Dresser Industries, Inc. (now DII Industries) and two other companies. DII Industries share of the verdict was $21.3 million which we fully accrued in 2002. The award was for compensatory damages. The jury did not award any punitive damages. The trial court has entered judgment on the verdict. While we believe we have a valid basis for appeal and intend to vigorously pursue our appeal, any favorable outcome from that appeal is not assured.

Asbestos claims history. Since 1976, approximately 661,000 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 defendant companies in total. The approximate number of open claims pending against us is as follows:

Period Ending	Total Open Claims
June 30, 2003	425,000
March 31, 2003	389,000
December 31, 2002	347,000
September 30, 2002	328,000
June 30, 2002	312,000
March 31, 2002	292,000
December 31, 2001	274,000

During the second quarter of 2003, we received approximately 37,000 new claims and we closed approximately 1,000 claims. We believe that in many cases, single claimants are filing claims against multiple Halliburton entities, and we believe that the actual number of additional claimants is about half of the number of new claims. If and when we confirm duplicate claims, we will adjust our data accordingly. We believe of the 425,000 open claims as of June 30, 2003, these represent claims made by approximately 345,000 separate claimants.

The total open claims include post spin-off Harbison-Walker refractory related claims that name DII Industries as a defendant. All such claims have been factored into the calculation of our asbestos liability. The approximate number of post spin-off Harbison-Walker claims included in total open claims pending against us is as follows:

Period Ending	Post Spin-off Harbison-Walker Claims
June 30, 2003	153,000
March 31, 2003	152,000
December 31, 2002	142,000
September 30, 2002	142,000
June 30, 2002	139,000
March 31, 2002	133,000
December 31, 2001	125,000

We manage asbestos claims to achieve settlements of valid claims for reasonable amounts. When reasonable settlement is not possible, we contest claims in court. Since 1976, we have closed approximately 236,000 claims through settlements and court proceedings at a total cost of approximately $217 million. We have received or expect to receive from our insurers all but approximately $105 million of this cost, resulting in an average net cost per closed claim of about $445.

Asbestos study and the valuation of unresolved current and future asbestos claims.

Asbestos Study. In late 2001, DII Industries retained Dr. Francine F. Rabinovitz of Hamilton, Rabinovitz & Alschuler, Inc. to estimate the probable number and value, including defense costs, of unresolved current and future asbestos and silica-related bodily injury claims asserted against DII Industries and its subsidiaries. Dr. Rabinovitz is a nationally renowned expert in conducting such analyses, has been involved in a number of asbestos-related and other toxic tort-related valuations of current and future liabilities, has served as the expert for three representatives of future claimants in asbestos related bankruptcies and has had her valuation methodologies accepted by numerous courts. Further, the methodology utilized by Dr. Rabinovitz is the same methodology that is utilized by the expert who is routinely retained by the asbestos claimants committee in asbestos-related bankruptcies. Dr. Rabinovitz estimated the probable number and value of unresolved current and future asbestos and silica-related bodily injury claims asserted against DII Industries and its subsidiaries over a 50 year period. The report took approximately seven months to complete.

Methodology. The methodology utilized by Dr. Rabinovitz to project DII Industries and its subsidiaries' asbestos- and silica-related liabilities and defense costs relied upon and included:

- an analysis of DII Industries, Kellogg Brown & Root's and Harbison-Walker Refractories Company's historical asbestos and silica settlements and defense costs to develop average settlement values and average defense costs for specific asbestos- and silica-related diseases and for the specific business operation or entity allegedly responsible for the asbestos- and silica-related diseases;
- an analysis of DII Industries, Kellogg Brown & Root's and Harbison-Walker Refractories Company's pending inventory of asbestos- and silica-related claims by specific diseases and by the specific business operation or entity allegedly responsible for the disease;
- an analysis of the claims filing history for asbestos- and silica-related claims against DII Industries, Kellogg Brown & Root and Harbison-Walker Refractories Company for the approximate two-year period from January 2000 to May 31, 2002, and for the approximate five-year period from January 1997 to May 31, 2002 by specific disease and by business operation or entity allegedly responsible for the disease;
- an analysis of the population likely to have been exposed or claim exposure to products manufactured by DII Industries, its predecessors and Harbison-Walker or to Brown & Root construction and renovation projects; and
- epidemiological studies to estimate the number of people who might allege exposure to products manufactured by DII Industries, its predecessors and Harbison-Walker or to Brown & Root construction and renovation projects that would be likely to develop asbestos-related diseases. Dr. Rabinovitz's estimates are based on historical data supplied by DII Industries, Kellogg Brown & Root and Harbison-Walker and

publicly available studies, including annual surveys by the National Institutes of Health concerning the incidence of mesothelioma deaths.

In her estimates, Dr. Rabinovitz relied on the source data provided by our management; she did not independently verify the accuracy of the source data. The source data provided by us was based on our 24-year history in gathering claimant information and defending and settling asbestos and silica claims.

In her analysis, Dr. Rabinovitz projected that the elevated and historically unprecedented rate of claim filings of the last several years (particularly in 2000 and 2001), especially as expressed by the ratio of nonmalignant claim filings to malignant claim filings, would continue into the future for five more years. After that, Dr. Rabinovitz projected that the ratio of nonmalignant claim filings to malignant claim filings will gradually decrease for a 10 year period ultimately returning to the historical claiming rate and claiming ratio. In making her calculation, Dr. Rabinovitz alternatively assumed a somewhat lower rate of claim filings, based on an average of the last five years of claims experience, would continue into the future for five more years and decrease thereafter.

Other important assumptions utilized in Dr. Rabinovitz's estimates, which we relied upon in making our accrual are:

- there will be no legislative or other systemic changes to the tort system;
- that we will continue to aggressively defend against asbestos and silica claims made against us;
- an inflation rate of 3% annually for settlement payments and an inflation rate of 4% annually for defense costs; and
- we would receive no relief from our asbestos obligation due to actions taken in the Harbison-Walker bankruptcy.

Range of Liabilities. Based upon her analysis, Dr. Rabinovitz estimated total, undiscounted asbestos and silica liabilities, including defense costs, of DII Industries, Kellogg Brown & Root and some of their current and former subsidiaries. Through 2052, Dr. Rabinovitz estimated the current and future total undiscounted liability for personal injury asbestos and silica claims, including defense costs, would be a range between $2.2 billion and $3.5 billion as of June 30, 2002 (which includes payments related to the claims currently pending). The lower end of the range is calculated by using an average of the last five years of asbestos claims experience and the upper end of the range is calculated using the more recent two-year elevated rate of asbestos claim filings in projecting the rate of future claims.

2nd Quarter 2002 Accrual. Based on that estimate, in the second quarter of 2002, we accrued asbestos and silica claims liability and defense costs for both known outstanding and future refractory, other DII Industries, and construction asbestos and silica claims using the low end of the range of Dr. Rabinovitz's study, or approximately $2.2 billion. In establishing our liability for asbestos, we included all post spin-off claims against Harbison-Walker that name DII Industries as a defendant. Our accruals were based on an estimate of personal injury asbestos claims through 2052 based on the average claims experience of the last five years. At the end of the second quarter of 2002, we did not believe that any point in the expert's range was better than any other point, and accordingly, based our accrual on the low end of the range in accordance with FIN 14.

Agreement regarding proposed asbestos and silica settlement. In December 2002, we announced that we had reached an agreement in principle that, if and when consummated, would result in a settlement of asbestos and silica personal injury claims against our subsidiaries DII Industries and Kellogg Brown & Root and their current and former subsidiaries with United States operations. Subsequently, DII Industries and Kellogg Brown & Root entered into definitive written agreements finalizing the terms of the agreements in principle with attorneys representing more than 90% of the current asbestos claimants. We have also reached agreements in principle with 48% of current silica claimants.

The definitive agreements provide that:

- up to $2.775 billion in cash, 59.5 million Halliburton shares (valued at $1.4 billion using the stock price at June 30, 2003 of $23.00) and notes with a net value expected to be less than $100 million will be paid to one or more trusts for the benefit of current and future asbestos and silica personal injury claimants upon receiving final and non-appealable court confirmation of a plan of reorganization;

- DII Industries and Kellogg Brown & Root will retain rights to the first $2.3 billion of any insurance proceeds with any proceeds received between $2.3 billion and $3 billion going to the trust;
- the agreement is to be implemented through a pre-packaged filing under Chapter 11 of the United States Bankruptcy Code for DII Industries, Kellogg Brown & Root and some of the subsidiaries with United States operations; and
- the funding of the settlement amounts would occur upon receiving final and non-appealable court confirmation of a plan of reorganization for DII Industries and Kellogg Brown & Root and some of their subsidiaries with United States operations in the Chapter 11 proceeding.

Among the prerequisites for concluding the proposed settlement are:

- agreement on the amounts to be contributed to the trusts for the benefit of silica claimants;
- completion of our review of the current claims to establish that the claimed injuries resulted from exposure to products of DII Industries, Kellogg Brown & Root or their subsidiaries or former businesses or subsidiaries;
- completion of our medical review of the injuries alleged to have been sustained by plaintiffs to establish a medical basis for payment of settlement amounts;
- finalizing the principal amount and terms of the notes to be contributed to the trusts;
- agreement with a proposed representative of future claimants and attorneys representing current claimants on procedures for the distribution of settlement funds to individuals claiming personal injury;
- definitive agreement with a proposed representative of future claimants and the attorneys representing current asbestos claimants on a plan of reorganization for the Chapter 11 filing of DII Industries, Kellogg Brown & Root and some of their subsidiaries with United States operations; and agreement with the attorneys representing current asbestos and silica claimants with respect to a disclosure statement explaining the pre-packaged plan of reorganization to the current claimants;
- arrangement of financing, in addition to the proceeds of our recent offering of $1.2 billion principal amount of convertible senior notes, for the proposed settlement on terms acceptable to us to fund the cash amounts to be paid in the settlement;
- Halliburton board approval;
- distribution of a disclosure statement and obtaining approval of a plan of reorganization from at least the required 75% of known present asbestos claimants and from a majority of known present silica claimants in order to complete the plan of reorganization; and
- obtaining final and non-appealable bankruptcy court approval and federal district court confirmation of the plan of reorganization.

Many of these prerequisites are subject to matters and uncertainties beyond our control. There can be no assurance that we will be able to satisfy the prerequisities for completion of the settlement.

We are currently continuing our due diligence review of current asbestos claims to be included in the proposed settlement. We have now received in excess of 75% of the necessary files related to medical evidence and we have reviewed substantially all of the information provided. In regards to the product identification due diligence, the process is moving at a steady pace, but not as rapidly as the medical due diligence. In addition, we have not yet commenced any due diligence in regards to silica claims. While no assurance can be given, if we continue to receive documentation that is consistent with the recent quantity and quality of the documentation received to date, we expect that this documentation will provide an acceptable basis on which to proceed with the proposed settlement.

One result of our due diligence review is the preliminary identification of more claims than contemplated by the proposed settlement. However, until the more recently identified claims are subject to a complete due diligence review, we will not be able to determine if these claims would be appropriately included under the proposed settlement. Many of these recently identified claims may be duplicative of previously submitted claims or may otherwise not be appropriately included under the proposed settlement. In the event that more claims are identified and validated than contemplated by the proposed settlement, the cash required to fund the settlement may modestly

exceed $2.775 billion. If it does, we would need to decide whether to propose to adjust the settlement matrices to reduce the overall amounts, or increase the amounts we would be willing to pay to resolve the asbestos and silica liabilities.

If we attempt to adjust the settlement matrices or otherwise attempt to renegotiate the terms of the proposed settlement, the attorneys representing the current asbestos claimants may not proceed with the settlement or may attempt to renegotiate the settlement amount to increase the aggregate amount of the settlement. Conversely, an increase in the amount of cash required may make completing the proposed settlement more difficult.

In the event we elect to adjust the settlement matrices to reduce the average amounts per claim, a supplemental disclosure statement may be required, and if so, the claimants potentially adversely affected by the adjustment may have an opportunity to change their votes. The additional time to make such supplemental disclosure and opportunity to change votes may result in a delay in the Chapter 11 filing.

Included in the next steps to complete the proposed settlement are (1) an agreement on the procedures for the distribution of settlement funds to individuals claiming personal injury and (2) an agreement on a plan of reorganization for Kellogg Brown & Root and DII Industries and some of the subsidiaries with United States operations and the related disclosure statement. We cannot predict the exact timing of the completion of these steps, but we expect that these prerequisites to making the Chapter 11 filing could be completed on a timeline that would allow the Chapter 11 filing to be made late in the third quarter or very early in the fourth quarter of 2003.

The settlement agreements with attorneys representing current asbestos and silica claimants grant the attorneys a right to terminate their definitive agreement on 10 days' notice. While no right to terminate any settlement agreement has been exercised to date, there can be no assurance that claimants' attorneys will not exercise their right to terminate the settlement agreements.

We continue to track legislative proposals for asbestos reform pending in the United States Congress. In determining whether to approve the proposed settlement and proceed with the Chapter 11 filing of DII Industries and Kellogg Brown & Root and some of their subsidiaries with United States operations, the Halliburton Board of Directors will take into account the then-current status of these legislative initiatives.

Review of accruals. As a result of the proposed settlement, in the fourth quarter of 2002, we re-evaluated our accruals for known outstanding and future asbestos claims. Although we have reached an agreement in principle with respect to a proposed settlement, we do not believe the settlement is "probable" under Statement of Financial Standards ("SFAS") No. 5 at the current time.

Because we do not believe the settlement is currently probable as defined by SFAS No. 5, we have continued to establish our accruals in accordance with the analysis performed by Dr. Rabinovitz. However, as a result of the settlement and the payment amounts contemplated thereby, we believed it appropriate to adjust our accrual to use the upper end of the range of probable and reasonably estimable liabilities for current and future asbestos liabilities contained in Dr. Rabinovitz's study, which estimated liabilities through 2052 and assumed the more recent two-year elevated rate of claim filings in projecting the rate of future claims.

As a result, in the fourth quarter of 2002, we determined that the best estimate of the probable loss is the $3.5 billion estimate in Dr. Rabinovitz's study, and accordingly, we increased our accrual for probable and reasonably estimable liabilities for current and future asbestos and silica claims to $3.4 billion.

Insurance. In 2002, we retained Peterson Consulting, a nationally-recognized consultant in asbestos liability and insurance, to work with us to project the amount of insurance recoveries probable in light of the projected current and future liabilities accrued by us. Using Dr. Rabinovitz's projection of liabilities through 2052 using the two-year elevated rate of asbestos claim filings, Peterson Consulting assisted us in conducting an analysis to determine the amount of insurance that we estimate is probable that we will recover in relation to the projected claims and defense costs. In conducting this analysis, Peterson Consulting:

- reviewed DII Industries historical course of dealings with its insurance companies concerning the payment of asbestos-related claims, including DII Industries 15 year litigation and settlement history;
- reviewed our insurance coverage policy database containing information on key policy terms as provided by outside counsel;
- reviewed the terms of DII Industries prior and current coverage-in-place settlement agreements;

- reviewed the status of DII Industries and Kellogg Brown & Root's current insurance-related lawsuits and the various legal positions of the parties in those lawsuits in relation to the developed and developing case law and the historic positions taken by insurers in the earlier filed and settled lawsuits;
- engaged in discussions with our counsel; and
- analyzed publicly-available information concerning the ability of the DII Industries insurers to meet their obligations.

Based on review, analyses and discussions, Peterson Consulting assisted us in making judgments concerning insurance coverage that we believe are reasonable and consistent with our historical course of dealings with our insurers and the relevant case law to determine the probable insurance recoveries for asbestos liabilities. This analysis factored in the probable effects of self-insurance features, such as self-insured retentions, policy exclusions, liability caps and the financial status of applicable insurers, and various judicial determinations relevant to the applicable insurance programs. The analysis of Peterson Consulting is based on its best judgment and information provided by us.

Probable insurance recoveries. Based on our analysis of the probable insurance recoveries, in the second quarter of 2002, we recorded a receivable of $1.6 billion for probable insurance recoveries.

In connection with our adjustment of our accrual for asbestos liability and defense costs in the fourth quarter of 2002, Peterson Consulting assisted us in re-evaluating our receivable for insurance recoveries deemed probable through 2052, assuming $3.5 billion of liabilities for current and future asbestos claims using the same factors cited above through 2052. Based on Peterson Consulting analysis of the probable insurance recoveries, we increased our insurance receivable to $2.1 billion as of the fourth quarter of 2002. The insurance receivable recorded by us does not assume any recovery from insolvent carriers and assumes that those carriers which are currently solvent will continue to be solvent throughout the period of the applicable recoveries in the projections. However, there can be no assurance that these assumptions will be correct. These insurance receivables do not exhaust the applicable insurance coverage for asbestos-related liabilities.

Current accruals. The current accrual of $3.4 billion for probable and reasonably estimable liabilities for current and future asbestos and silica claims and the $2.1 billion in insurance receivables are included in noncurrent assets and liabilities due to the extended time periods involved to settle claims. In the second quarter of 2002, we recorded a pretax charge of $483 million ($391 million after tax), and, in the fourth quarter of 2002, we recorded a pretax charge of $799 million ($675 million after tax).

In the fourth quarter of 2002, we recorded pretax charges of $232 million ($212 million after tax) for claims related to Brown & Root construction and renovation projects under the Engineering and Construction Group segment. The balance of $567 million ($463 million after tax) related to claims associated with businesses no longer owned by us and was recorded as discontinued operations. The low effective tax rate on the asbestos charge is due to the recording of a valuation allowance against the United States Federal deferred tax asset associated with the accrual as the deferred tax asset may not be fully realizable based upon future taxable income projections.

The total estimated claims through 2052, including the 425,000 current open claims, are approximately one million. A summary of our accrual for all claims and corresponding insurance recoveries is as follows:

Millions of dollars	Six Months Ended June 30, 2003	Year Ended December 31, 2002
Gross liability - beginning balance	$ 3,425	$ 737
Accrued liability	-	2,820
Payments on claims	(29)	(132)
Gross liability - ending balance	$ 3,396	$ 3,425
Estimated insurance recoveries:		
Highlands Insurance Company - beginning balance	$ -	$ (45)
Write-off of recoveries	-	45
Highlands Insurance Company - ending balance	$ -	$ -
Other insurance carriers - beginning balance	$(2,059)	$ (567)
Accrued insurance recoveries	-	(1,530)
Insurance billings	-	38
Other insurance carriers - ending balance	$(2,059)	$ (2,059)
Total estimated insurance recoveries	$(2,059)	$ (2,059)
Net liability for asbestos claims	$ 1,337	$ 1,366

Accounts receivable for billings to insurance companies for payments made on asbestos claims were $44 million at June 30, 2003 and December 31, 2002. The $44 million at December 31, 2002 excludes $35 million in accounts receivable written off at the conclusion of the Highlands litigation.

Possible additional accruals. When and if the currently proposed settlement becomes probable under SFAS No. 5, we would increase our accrual for probable and reasonably estimable liabilities for current and future asbestos claims up to $4.3 billion, reflecting the amount in cash and notes we would pay to fund the settlement combined with the value of 59.5 million shares of Halliburton common stock, a value of $1.4 billion, using the stock price at June 30, 2003 of $23.00. In addition, at such time as the settlement becomes probable, we would adjust our accrual for liabilities for current and future asbestos claims and we would expect to increase the amount of our insurance receivables to $2.3 billion. As a result, we would record at such time an additional pretax charge of $606 million ($493 million after tax). Beginning in the first quarter in which the settlement becomes probable, the accrual would then be adjusted from period to period based on positive and negative changes in the market price of our common stock until contribution of the shares into the trust. We may enter into agreements with all or some of our insurance carriers to negotiate an overall accelerated payment of anticipated insurance proceeds. If this were to happen, we would expect to recover less than the $2.3 billion of anticipated insurance receivables which would result in an additional charge to income.

Continuing review. Projecting future events is subject to many uncertainties that could cause the asbestos-related liabilities and insurance recoveries to be higher or lower than those projected and booked such as:

- the number of future asbestos- and silica-related lawsuits to be filed against DII Industries and Kellogg Brown & Root;
- the average cost to resolve such future lawsuits;
- coverage issues among layers of insurers issuing different policies to different policyholders over extended periods of time;
- the impact on the amount of insurance recoverable in light of the Harbison-Walker and Federal-Mogul bankruptcies; and
- the continuing solvency of various insurance companies.

Given the inherent uncertainty in making future projections, we plan to have the projections of current and future asbestos and silica claims periodically reexamined, and we will update them if needed based on our experience and other relevant factors such as changes in the tort system, the resolution of the bankruptcies of various asbestos defendants and the probability of our settlement of all claims becoming effective. Similarly, we will re-evaluate our projections concerning our probable insurance recoveries in light of any updates to Dr. Rabinovitz's projections, developments in DII Industries and Kellogg Brown & Root's various lawsuits against its insurance companies and other developments that may impact the probable insurance.

Note 12. Commitments and Contingencies - Excluding Asbestos and Silica

Barracuda-Caratinga Project. In June 2000, KBR entered into a contract with the project owner, Barracuda & Caratinga Leasing Company B.V., to develop the Barracuda and Caratinga crude oil fields, which are located off the coast of Brazil. The project manager and owner's representative is Petroleo Brasilero SA (Petrobras), the Brazilian national oil company. When completed, the project will consist of two converted supertankers which will be used as floating production, storage and offloading platforms, or FPSOs, 33 hydrocarbon production wells, 18 water injection wells and all sub-sea flow lines and risers necessary to connect the underwater wells to the FPSOs.

KBR's performance under the contract is secured by:

- three performance letters of credit, which together have an available credit of approximately $266 million as of June 30, 2003 and which represent approximately 10% of the contract amount, as amended to date by change orders;
- a retainage letter of credit in an amount equal to $141 million as of June 30, 2003 and which will increase in order to continue to represent 10% of the cumulative cash amounts paid to KBR; and
- a guarantee of KBR's performance of the agreement by Halliburton Company in favor of the project owner.

In the event that KBR is alleged to be in default under the contract, the project owner may assert a right to draw upon the letters of credit. If the letters of credit were to be drawn, KBR would be required to fund the amount of the draw to the issuing banks. To the extent KBR cannot fund the amount of the draw, Halliburton would be required to do so, which could have a material adverse effect on Halliburton's financial condition and results of operations.

In addition, the proposed Chapter 11 pre-packaged bankruptcy filing by KBR in connection with the proposed settlement of its asbestos claims would constitute an event of default under the contract that would allow the owner (with the approval of the lenders financing the project) to assert a right to draw the letters of credit unless waivers are obtained. The proposed Chapter 11 filing would also constitute an event of default under the owner's loan agreements with the lenders that would allow the lenders to cease funding the project. We believe that it is unlikely that the owner will make a draw on the letters of credit as a result of the proposed Chapter 11 filing. We also believe it is unlikely that the lenders will exercise any right to cease funding the project given the current status of the project and the fact that a failure to pay KBR may allow KBR to cease work on the project without Petrobras having a readily available substitute contractor. However, there can be no assurance that the lenders will continue to fund the project or that the owner will not require funding of the letters of credit by KBR.

In the event that KBR was determined after an arbitration proceeding to have been in default under the contract with Petrobras, and if the project was not completed by KBR as a result of such default (i.e., KBR's services are terminated as a result of such default), the project owner may seek direct damages (including completion costs in excess of the contract price and interest on borrowed funds, but excluding consequential damages) against KBR for up to $500 million plus the return of up to $300 million in advance payments previously received by KBR to the extent they have not been repaid.

In addition to the amounts described above, KBR may have to pay liquidated damages if the project is delayed beyond the original contract completion date. KBR expects that the project will likely be completed at least 16 months later than the original contract completion date. Although KBR believes that the project's delay is due primarily to the actions of the project owner, in the event that any portion of the delay is determined to be attributable to KBR and any phase of the project is completed after the milestone dates specified in the contract, KBR could be required to pay liquidated damages. These damages would be calculated on an escalating basis of approximately $1 million per day of delay caused by KBR, subject to a total cap on liquidated damages of 10% of the final contract amount (yielding a cap of approximately $266 million as of June 30, 2003).

As of June 30, 2003, the project was approximately 75% complete and KBR had recorded a pretax loss of $345 million related to the project, of which $173 million was recorded in the second quarter of 2003. The second quarter 2003 charge was due to higher cost estimates, schedule extensions, increased project contingencies and other factors identified during the quarterly review of the project. The probable unapproved claims included in determining the loss on the project were $182 million as of June 30, 2003. The claims for the project most likely will not be settled within one year. Accordingly, based upon the contract being approximately 75% complete, probable unapproved claims of $134 million at

June 30, 2003 have been recorded to long-term unbilled work on uncompleted contracts. Those amounts are included in "Other assets, net" on the balance sheet. KBR has asserted claims for compensation substantially in excess of $182 million. The project owner, through its project manager, Petrobras, has denied responsibility for all such claims. Petrobras has, however, issued formal change orders worth approximately $61 million which are not included in the $182 million in probable unapproved claims.

In June 2003, Halliburton, KBR and Petrobras, on behalf of the project owner, entered into a non-binding heads of agreement that would resolve some of the disputed issues between the parties, subject to final agreement and lender approval. The original completion date for the Barracuda project was December 2003 and the original completion date for the Caratinga project was April 2004. Under the heads of agreement, the project owner would grant an extension of time to the original completion dates and other milestone dates that averages approximately 12 months, delay any attempt to assess the original liquidated damages against KBR for project delays beyond 12 months and up to 18 months, delay any drawing of letters of credit with respect to such liquidated damages and delay the return of any of the $300 million in advance payments until after arbitration. The heads of agreement also provides for a separate liquidated damages calculation of $450,000 per day for each of the Barracuda and the Caratinga vessels for a delay from the original schedule beyond 18 months (subject to the total cap on liquidated damages of 10% of the final contract amount). The heads of agreement does not delay the drawing of letters of credit for these liquidated damages. The extension of the original completion dates and other milestones would significantly reduce the likelihood of KBR incurring liquidated damages on the project. Nevertheless, KBR continues to have exposure for substantial liquidated damages for delays in the completion of the project.

Under the heads of agreement, the project owner has agreed to pay $59 million of KBR's disputed claims (which are included in the $182 million of probable unapproved claims as of June 30, 2003) and to arbitrate additional claims. The maximum recovery from the claims to be arbitrated would be capped at $375 million. The heads of agreement also allows the project owner or Petrobras to arbitrate additional claims against KBR, not including liquidated damages, the maximum recovery from which would be capped at $380 million. KBR believes the claims made to date by the project owner are based on a delay in project completion. KBR's contract with the project owner excludes consequential damages and, as indicated above, provides for liquidated damages in the event of delay in completion of the project. While there can be no assurance that the arbitrator will agree, KBR believes if it is determined that KBR is liable for delays, the project owner would be entitled to liquidated damages in amounts up to those referred to above and not to an additional $380 million.

The finalization of the heads of agreement is subject to project lender approval. The parties have had discussions with the lenders and based on these discussions have agreed to certain modifications to the original terms of the heads of agreement to conform to the lenders' requirements. They have agreed that the $300 million in advance payments would be due on the earliest of December 7, 2004, the completion of any arbitration or the resolution of all claims between the project owner and KBR. Likewise, the project owner's obligation to defer drawing letters of credit with respect to liquidated damages for the delays between 12 and 18 months would extend only until December 7, 2004. The discussions with the lenders are not yet complete, and no agreement for their approval has yet been obtained. While we believe the lenders have an incentive to approve the heads of agreement and complete the financing of the project, and the parties have agreed to the modifications described above to the heads of agreement to secure the lenders' approval, there is no assurance that they will do so. If the lenders do not consent to the heads of agreement, Petrobras may be forced to secure other funding to complete the project. There is no assurance that Petrobras will pursue or will be able to secure such funding.

Absent lender approval of the heads of agreement, KBR could be subject to additional liquidated damages and other claims, be subject to the letters of credit being drawn and be required to return the $300 million in advance payments in accordance with the original contract terms. The original contract terms require repayment through $300 million of credits to the last $350 million of invoices on the contract. No assurance can be given that the heads of agreement will be finalized or that the lenders will approve the heads of agreement or that the lenders will approve the heads of agreement without revisions that could adversely affect KBR.

The project owner has procured project finance funding obligations from various lenders to finance the payments due to KBR under the contract. The project owner currently has no other committed source of funding on which we can necessarily rely other than the project finance funding for the project. If the lenders cease to fund the project, the project owner may not have the ability to continue to pay KBR for its services. The original loan documents provide that

the lenders are not obligated to continue to fund the project if the project has been delayed for more than 6 months. In November 2002, the lenders agreed to extend the 6-month period to 12 months. Other provisions in the loan documents may provide for additional time extensions. However, delays beyond 12 months may require lender consent in order to obtain additional funding. While we believe the lenders have an incentive to complete the financing of the project, there is no assurance that they would do so. If the lenders did not consent to extensions of time or otherwise ceased funding the project, we believe that Petrobras would provide for or secure other funding to complete the project, although there is no assurance that it would do so. To date, the lenders have made funds available, and the project owner has continued to disburse funds to KBR as payment for its work on the project even though the project completion has been delayed.

In addition, although the project financing includes borrowing capacity in excess of the original contract amount, only $250 million of this additional borrowing capacity is reserved for increases in the contract amount payable to KBR and its subcontractors. Under the loan documents, the availability date for loan draws expires December 1, 2003. As a condition to approving the heads of agreement, the lenders will require the project owner to draw all remaining available funds prior to December 1, 2003, and to escrow the funds for the exclusive use of paying project costs. No funds may be paid to Petrobras or its subsidiary (which is funding the drilling costs of the project) until all amounts due to KBR, including amounts due for the claims, are liquidated and paid. While this potentially increases the funds available for payment to KBR, KBR is not party to the arrangement between the lenders and the project owner and can give no assurance that there will be adequate funding to cover current or future KBR claims and change orders.

Securities and Exchange Commission ("SEC") Investigation and Fortune 500 Review. In late May 2002, we received a letter from the Fort Worth District Office of the Securities and Exchange Commission stating that it was initiating a preliminary inquiry into some of our accounting practices. In mid-December 2002, we were notified by the SEC that a formal order of investigation had been issued. Since that time, the SEC has issued subpoenas calling for the production of documents and requiring the appearance of a number of witnesses to testify regarding those accounting practices, which relate to the recording of revenues associated with cost overruns and unapproved claims on long-term engineering and construction projects. Throughout the informal inquiry and during the pendency of the formal investigation, we have provided approximately 300,000 documents to the SEC. The production of documents is essentially complete and the process of providing witnesses to testify is ongoing. To our knowledge, the SEC's investigation has focused on the compliance with generally accepted accounting principles of our recording of revenues associated with cost overruns and unapproved claims for long-term engineering and construction projects, and the disclosure of our accrual practices. Accrual of revenue from unapproved claims is an accepted and widely followed accounting practice for companies in the engineering and construction business. Although we accrued revenue related to unapproved claims in 1998, we first made disclosures regarding the accruals in our 1999 Annual Report on Form 10-K. We believe we properly applied the required methodology of the American Institute of Certified Public Accountants' Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts", and satisfied the relevant criteria for accruing this revenue, although the SEC may conclude otherwise.

On December 21, 2001, the SEC's Division of Corporation Finance announced that it would review the annual reports of all Fortune 500 companies that file periodic reports with the SEC. We received the SEC's initial comments in letter form dated September 20, 2002 and responded on October 31, 2002. Since then, we have received and responded to several follow-up sets of comments.

Securities and related litigation. On June 3, 2002, a class action lawsuit was filed against us in the United States District Court for the Northern District of Texas on behalf of purchasers of our common stock alleging violations of the federal securities laws. After that date, approximately twenty similar class actions were filed against us in that or other federal district courts. Several of those lawsuits also named as defendants Arthur Andersen, LLP ("Arthur Andersen"), our independent accountants for the period covered by the lawsuits, and several of our present or former officers and directors. Those lawsuits allege that we violated federal securities laws in failing to disclose a change in the manner in which we accounted for revenues associated with unapproved claims on long-term engineering and construction contracts, and that we overstated revenue by accruing the unapproved claims. One such action was subsequently dismissed voluntarily, without prejudice, upon motion by the filing plaintiff. The federal securities fraud class actions have all been transferred to the United States District Court for the Northern District of Texas and

consolidated before the Honorable Judge David Godbey. The amended consolidated class action complaint in that case, styled Richard Moore v. Halliburton, was filed and served upon us on or about April 11, 2003. In early May 2003, we announced that we had entered into a written memorandum of understanding setting forth the terms upon which the consolidated cases would be settled. The memorandum of understanding calls for Halliburton to pay $6 million, which is to be funded by insurance proceeds. After that announcement, one of the lead plaintiffs announced that it was dissatisfied with the lead plaintiffs' counsel's handling of settlement negotiations and what the dissident plaintiff regarded as inadequate communications by the lead plaintiffs' counsel. The dissident plaintiff has since filed a motion for an order to show cause why the lead plaintiffs' counsel should not be held to have breached his fiduciary duties to the class and be replaced as lead plaintiffs' counsel. It is unclear whether this dispute within the ranks of the lead plaintiffs will have any impact upon the process of approval of the settlement and whether the dissident plaintiff will object to the settlement at the time of the fairness hearing or opt out of the class action for settlement purposes. The process by which the parties will seek approval of the settlement is ongoing.

Another case, also filed in the United States District Court for the Northern District of Texas on behalf of three individuals, and based upon the same revenue recognition practices and accounting treatment that is the subject of the securities class actions, alleges only common law and statutory fraud in violation of Texas state law. We moved to dismiss that action on October 24, 2002, as required by the court's scheduling order, on the bases of lack of federal subject matter jurisdiction and failure to plead with the degree of particularity required by the rules of procedure. That motion has now been fully briefed and oral argument on it was held on July 29, 2003. No ruling has yet been announced.

In addition to the securities class actions, one additional class action, alleging violations of the Employee Retirement Income Security Act of 1974 ("ERISA") in connection with the Company's Benefits Committee's purchase of our stock for the accounts of participants in our 401(k) retirement plan during the period we allegedly knew or should have known that our revenue was overstated as a result of the accrual of revenue in connection with unapproved claims, was filed and subsequently voluntarily dismissed.

On October 11, 2002, a shareholder derivative action against present and former directors and our former CFO was filed in the District Court of Harris County, Texas alleging breach of fiduciary duty and corporate waste arising out of the same events and circumstances upon which the securities class actions are based. We moved to dismiss that action and, after hearings on that motion, the court dismissed the action.

On March 12, 2003, another shareholder derivative action arising out of the same events and circumstances was filed in the United States District Court for the Northern District of Texas against certain of our present and former officers and directors. Like the case filed in the state court in Harris County, we believe that this action is without merit and we intend to vigorously defend it. Settlement of this action is included in the memorandum of understanding in the consolidated actions discussed above.

As of the date of this filing, the $6 million settlement amount for the consolidated actions and the federal court derivative action was fully covered by the Company's directors' and officers' insurance carrier. As such, we have accrued a contingent liability for the $6 million settlement and a $6 million insurance receivable from the insurance carrier. We have not accrued a contingent liability as of June 30, 2003 for any other shareholder derivative action or class action lawsuit discussed above.

BJ Services Company patent litigation. On April 12, 2002, a federal court jury in Houston, Texas, returned a verdict against Halliburton Energy Services, Inc. in a patent infringement lawsuit brought by BJ Services Company, or BJ. The lawsuit alleged that our Phoenix fracturing fluid infringed a patent issued to BJ in January 2000 for a method of well fracturing using a specific fracturing fluid. The jury awarded BJ approximately $98 million in damages, plus pre-judgment interest, and the court enjoined us from further use of our Phoenix fracturing fluid. The United States Court of Appeals for the Federal Circuit in Washington D.C. affirmed BJ Services' judgment against us in August 2003. We currently anticipate filing a petition for rehearing before the full federal circuit court on August 20, 2003. In light of the trial court's decision in April 2002, a total of $102 million was accrued in the first quarter of 2002, which was comprised of the $98 million judgment and $4 million in pre-judgment interest costs. We do not expect the loss of the use of the Phoenix fracturing fluid to have a material adverse impact on our overall energy services business. We have alternative products to use in our fracturing operations and have not been using the Phoenix fracturing fluid since April 2002.

Anglo-Dutch (Tenge). We have been sued in the District Court of Harris County, Texas by Anglo-Dutch (Tenge) L.L.C. and Anglo-Dutch Petroleum International, Inc. for allegedly breaching a confidentiality agreement related to an investment opportunity we considered in the late 1990s in an oil field in the former Soviet Republic of Kazakhstan. While we believe the claims raised in that lawsuit are without merit and are vigorously defending against them, the plaintiffs have announced their intention to seek approximately $680 million in damages. Since we believe the probability of loss is remote, we have not accrued a contingent liability for this matter as of June 30, 2003. In mid-July, the court granted portions of our motions for summary judgment and on July 24, 2003 granted another portion as well and invited the parties to request reconsideration of any other portions of the motions that have thus far been denied. As of this date, it appears likely that the case will proceed to trial as scheduled on August 18, 2003 on plaintiffs' claims of breach of contract, misappropriation and misappropriation of trade secrets. In the event of an adverse judgment, we could be called upon to post security not to exceed $25 million in the form of cash or a bond in order to postpone execution on the judgment until after all appeals have been exhausted.

Improper payments reported to the Securities and Exchange Commission. During the second quarter 2002, we reported to the SEC and disclosed in our first quarter 2002 Form 10-Q that one of our foreign subsidiaries operating in Nigeria made improper payments of approximately $2.4 million to entities owned by a Nigerian national who held himself out as a tax consultant when in fact he was an employee of a local tax authority. The payments were made to obtain favorable tax treatment and clearly violated our Code of Business Conduct and our internal control procedures. The payments were discovered during an audit of the foreign subsidiary. We have conducted an investigation assisted by outside legal counsel. Based on the findings of the investigation we have terminated several employees. None of our senior officers were involved. We are cooperating with the SEC in its review of the matter. We plan to take further action to ensure that our foreign subsidiary pays all taxes owed in Nigeria, which may be as much as $5 million, which has been fully accrued. A preliminary assessment was issued by the Nigerian Tax Authorities in June of 2003 for approximately $3 million. Payment of that assessment has been made, and we are cooperating with the Nigerian Tax Authorities to determine the total amount due as quickly as possible.

Environmental. We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act, the Resources Conservation and Recovery Act, the Clean Air Act, the Federal Water Pollution Control Act and the Toxic Substances Control Act, among others. In addition to the federal laws and regulations, states where we do business may have equivalent laws and regulations by which we must also abide. We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal and regulatory requirements. On occasion, we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated as well as efforts to meet or correct compliance-related matters.

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. Our accrued liabilities for environmental matters were $36 million as of June 30, 2003 and $48 million as of December 31, 2002. The liability covers numerous properties, and no individual property accounts for more than $5 million of the liability balance. In some instances, we have been named a potentially responsible party by a regulatory agency, but in each of those cases, we do not believe we have any material liability. We have subsidiaries that have been named as potentially responsible parties along with other third parties for nine federal and state superfund sites for which we have established liabilities. As of June 30, 2003, those nine sites accounted for approximately $7 million of our total $36 million liability.

Letters of credit. In the normal course of business, we have agreements with banks under which approximately $1.3 billion of letters of credit or bank guarantees were issued as of June 30, 2003, including $195 million which relate to our joint ventures' operations. Effective October 9, 2002, we amended an agreement with banks under which $261 million of letters of credit had been issued. The amended agreement removed the provision that previously allowed the banks to require collateralization if ratings of Halliburton debt fell below investment grade ratings. The revised agreements include provisions that require us to maintain ratios of debt to total capital and of total earnings before interest, taxes, depreciation and amortization to interest expense. The definition of debt includes our asbestos liability. The definition of total earnings before interest, taxes, depreciation and amortization excludes any non-cash charges related to the proposed asbestos settlement through December 31, 2003.

If our debt ratings fall below investment grade, we would be in technical breach of a bank agreement covering another $52 million of letters of credit at June 30, 2003, which might entitle the bank to set-off rights. In addition, a $151 million letter of credit line, of which $141 million has been issued, includes provisions that allow the bank to require cash collateralization for the full line if debt ratings fall below either the rating of BBB by Standard & Poor's or Baa2 by Moody's Investors' Services. These letters of credit and bank guarantees generally relate to our guaranteed performance or retention payments under our long-term contracts and self-insurance.

In the past, no significant claims have been made against letters of credit we have issued. We do not anticipate material losses to occur as a result of these financial instruments.

Liquidated damages. Many of our engineering and construction contracts have milestone due dates that must be met or we may be subject to penalties for liquidated damages if claims are asserted and we were responsible for the delays. These generally relate to specified activities within a project by a set contractual date or achievement of a specified level of output or throughput of a plant we construct. Each contract defines the conditions under which a customer may make a claim for liquidated damages. In most instances, liquidated damages are not asserted by the customer but the potential to do so is used in negotiating claims and closing out the contract. We had not accrued a liability for $431 million at June 30, 2003 and $364 million at December 31, 2002 of possible liquidated damages as we consider the imposition of liquidated damages to be unlikely. We believe we have valid claims for schedule extensions against the customers which would eliminate our liability for liquidated damages. Of the total liquidated damages, $266 million at June 30, 2003 and $263 million at December 31, 2002 relate to unasserted liquidated damages for the Barracuda-Caratinga project.

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

Note 13. Accounting for Stock-Based Compensation

We have six stock-based employee compensation plans. We account for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. No cost for stock options granted is reflected in net income, as all options granted under our plans have an exercise price equal to the market value of the underlying common stock on the date of grant. In addition, no cost for the Employee Stock Purchase Plan is reflected in net income because it is not considered a compensatory plan.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. For the three and six months ended June 30, 2003 and June 30, 2002, the weighted average assumptions and resulting fair values of options granted are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Assumptions:				
Risk-free interest rate	2.4%	4.1%	2.4%	4.1%
Expected dividend yield	2.2%	3.1%	2.2%	3.1%
Expected life (in years)	5	5	5	5
Expected volatility	62.0%	60.0%	62.0%	60.0%
Weighted average fair value of options granted	$ 12.68	$ 9.15	$ 12.55	$ 6.92

The following table illustrates the effect on net income and income per share if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

Millions of dollars except per share data	Three Months Ended June 30 2003	2002	Six Months Ended June 30 2003	2002
Net income (loss), as reported	$ 26	$ (498)	$ 69	$ (476)
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(7)	(6)	(13)	(12)
Net income (loss), pro forma	$ 19	$ (504)	$ 56	$ (488)
Basic income (loss) per share:				
As reported	$ 0.06	$ (1.15)	$ 0.16	$ (1.10)
Pro forma	$ 0.04	$ (1.16)	$ 0.13	$ (1.12)
Diluted income (loss) per share:				
As reported	$ 0.06	$ (1.15)	$ 0.16	$ (1.10)
Pro forma	$ 0.04	$ (1.16)	$ 0.12	$ (1.12)

Note 14. Change in Accounting Principle

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets' retirement costs. SFAS No. 143 requires that the fair value of a liability associated with an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the life of the asset. The new standard was effective for us beginning January 1, 2003, and the adoption of this standard resulted in a charge of $8 million after tax as a cumulative effect of a change in accounting principle. The asset retirement obligations primarily relate to the removal of leasehold improvements upon exiting certain lease arrangements and restoration of land associated with the mining of bentonite. The total liability recorded at adoption and at June 30, 2003 for asset retirement obligations and the related accretion and depreciation expense for all periods presented is immaterial to our consolidated financial position and results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). This statement requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The disclosure provisions of FIN 45 were effective for financial statements of interim and annual periods ended after December 15, 2002. We adopted the recognition provisions of FIN 45 as of January 1, 2003. The adoption of FIN 45 did not have a material effect on our consolidated financial position or results of operations.

The FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"), in January 2003. FIN 46, which we adopted effective July 1, 2003, requires the consolidation of entities in which a company absorbs a majority of another entity's expected losses, receives a majority of the other entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the other entity. Currently, entities are generally consolidated based upon a controlling financial interest through ownership of a majority voting interest in the entity. At this time, we have identified the following variable interest entities:

- during 2001, we formed a joint venture under which we own a 50% equity interest with two other unrelated partners, each owning a 25% equity interest. We have determined that the joint venture is a variable interest entity and that we are the primary beneficiary. We will consolidate the entity in our Engineering and Construction Group business segment effective July 1, 2003. The joint venture was formed to construct, operate and service certain assets for a third party and was

funded with third party debt. The construction of the assets is expected to be completed in 2004, and the operating and service contract related to the assets will extend for 20 years beginning in 2003. The proceeds from the debt financing are being used to construct the assets and will be paid down with cash flows generated during the operation and service phase of the contract with the third party. Our aggregate exposure to loss is immaterial. The consolidation of this joint venture will increase total assets by approximately $139 million and long-term debt by approximately $143 million, with corresponding decreases in equity of $2 million and minority interest of $2 million as of July 1, 2003. The joint venture is currently accounted for under the equity method of accounting and the future consolidation will have no impact on net income;

- during the second quarter of 2001, we formed a joint venture with an unrelated party in which we have a 50% equity interest and account for this investment using the equity method in our Landmark and Other Energy Services business segment. The joint venture was established for the further development and deployment of new technologies related to completions and well intervention products and services. The joint venture is considered a variable interest entity under FIN 46. However, we are not the primary beneficiary of the entity and will continue to apply the equity method of accounting. Our maximum exposure to loss as a result of our involvement in the joint venture is $100 million as of June 30, 2003, which is the sum of our current investment and our share of the balance outstanding under the joint venture's revolving loan agreement with the equity partners. We are also at risk for our share of any future losses the joint venture may incur; and
- our Engineering and Construction Group is involved in three joint ventures formed to design, build, operate and maintain roadways for certain government agencies. We have a 25% ownership interest in these joint ventures and account for them under the equity method. These joint ventures are considered variable interest entities as they were initially formed with little equity contributed by the partners. The joint ventures have obtained financing through third parties which is not guaranteed by us. We are not the primary beneficiary of these joint ventures and will, therefore, continue to account for them using the equity method. As of June 30, 2003, these joint ventures had total assets of $911 million and total liabilities of $906 million. Our maximum exposure to loss is limited to our equity investments in and loans to the joint ventures (totaling $38 million at June 30, 2003) and our share of any future losses related to the construction, operation and maintenance of these roadways.

Note 15. Convertible Senior Notes

In June 2003, we issued $1.2 billion of 3.125% convertible senior notes due July 15, 2023. The notes were offered and sold in accordance with Rule 144A under the Securities Act of 1933. The notes are our senior unsecured obligations ranking equally with all of our existing and future senior unsecured indebtedness. We will pay interest on the notes on January 15 and July 15 of each year.

The notes are convertible into our common stock under any of the following circumstances:

- during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous quarter is greater than or equal to 120% of the conversion price per share of our common stock on such last trading day;
- if the notes have been called for redemption;
- upon the occurrence of specified corporate transactions that are described in the indenture relating to the offering; or
- during any period in which the credit ratings assigned to the notes by both Moody's and Standard & Poor's are lower than Ba1 and BB+, respectively, or the notes are no longer rated by at least one of these rating services or their successors.

The initial conversion price is $37.65 per share and is subject to adjustment. Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and common stock.

The notes are redeemable for cash at our option on or after July 15, 2008. Holders may require us to repurchase the notes for cash on July 15 of 2008, 2013 or 2018 or, prior to July 15, 2008, in the event of a fundamental change as defined in the indenture. In each case, we will pay a purchase price equal to 100% of the principal amount plus accrued and unpaid interest and additional amounts owed, if any.

We have agreed to file a shelf registration statement with the SEC with respect to the notes and the common stock issuable upon conversion of the notes. If we fail to fulfill this obligation within the specified time period, we will pay additional amounts on the notes and the common stock issuable upon conversion of the notes.

Note 16. Income Taxes

Our effective tax rate for the second quarter 2003 was 39% as compared to 18% for the second quarter 2002. The effective tax rate was lower in 2002 due to the impact of the impairment loss on Bredero-Shaw and charges associated with our asbestos exposure. The Bredero-Shaw loss created a capital loss for which we have no capital gains to offset and therefore no tax benefit was recorded for the loss as future realization of the benefit was questionable. The asbestos accrual generates a United States Federal deferred tax asset which may not be fully realizable based upon future taxable income projections and thus we have recorded a partial valuation allowance.

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

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

- factors and risks that impact our business;
- why our revenues and operating income for the second quarter 2003 and six months ended June 30, 2003 vary from the second quarter 2002 and six months ended June 30, 2002;
- capital expenditures;
- factors that impacted our cash flows; and
- other items that materially affect our financial condition or earnings.

BUSINESS ENVIRONMENT

During the second quarter of 2003, we restructured our Energy Services Group into four divisions, which is the basis for the four segments we now report within the Energy Services Group. We grouped product lines in order to better align ourselves with how our customers procure our services, and to capture new business and achieve better integration, including joint research and development of new products and technologies and other synergies. The new segments mirror the way our chief executive officer (our chief operating decision maker) now regularly reviews the operating results, assesses performance and allocates resources. Our Engineering and Construction Group (known as KBR) segment remains unchanged.

All prior period segment results have been restated to reflect these changes.

Our five business segments are organized around how we manage the business. These segments are:

- Drilling and Formation Evaluation;
- Fluids;
- Production Optimization;
- Landmark and Other Energy Services; and
- Engineering and Construction Group.

We currently operate in over 100 countries throughout the world, providing a comprehensive range of discrete and integrated products and services to the energy industry and to other industrial and governmental customers. The majority of our consolidated revenues are derived from the sale of services and products, including engineering and construction activities, to major, national and independent oil and gas companies. These services and products are used throughout the energy industry from the earliest phases of exploration, development and production of oil and gas resources through refining, processing and marketing.

The industries we serve are highly competitive with many substantial competitors for each segment. In the first half of 2003, the United States represented 33% of our total revenue and the United Kingdom represented 11%. No other country accounted for more than 10% of our operations. Unsettled political conditions, social unrest, acts of terrorism, force majeure, war or other armed conflict, expropriation or other governmental actions, inflation, exchange controls or currency devaluation may result in 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.

Activity levels within our five business segments are significantly impacted by the following:

- spending on upstream exploration, development and production programs by major, national and independent oil and gas companies;
- capital expenditures for downstream refining, processing, petrochemical and marketing facilities by major, national and independent oil and gas companies; and
- government outsourcing and spending levels.

The state of the global economy also impacts our activity, which indirectly impacts oil and gas consumption, demand for petrochemical products and investment in infrastructure projects.

Energy Services Group

Some of the more significant measures of current and future spending levels of oil and gas companies which drive worldwide exploration and production activity and investment are the following:

- oil and gas prices;
- the quality of exploration and production drilling prospects; and
- world economic conditions and the degree of global political stability.

In early 2002, a surplus in working gas in storage contributed to low prices and reduced drilling activities. Working gas in storage is the volume of gas in underground reservoirs above the level of base gas (cushion gas) intended as permanent inventory in a storage reservoir to maintain adequate pressure and deliverability rates throughout the winter withdrawal season. The reduced drilling, combined with an abnormally cold 2002/2003 winter season, drove the working gas in storage at January 31, 2003 to 1,521 billion cubic feet, commonly referred to as bcf, which was 287 bcf below the five year average.

This low level of working natural gas in storage in the United States has increased the demand for natural gas resulting in Henry Hub prices averaging above $5.00 per million cubic feet, commonly referred to as mcf, throughout the second quarter 2003. For the second quarter 2003, natural gas prices at Henry Hub averaged $5.63 per mcf compared to $3.40 per mcf in the second quarter 2002. The level of natural gas storage continues to be a key driver of North American activity. As of July 4, 2003 there was 1,773 bcf in working gas in storage in the United States according to an Energy Information Administration (EIA) estimate which was 580 bcf lower than a year ago and 317 bcf lower than the five year average.

High natural gas prices tend to depress industrial demand for the gas, which occurred during the second quarter 2003. As a result, a definite improvement in the supply situation has occurred and the probability of reaching adequate storage levels by November has risen.

Crude oil prices for West Texas Intermediate averaged $29.16 per barrel for the second quarter of 2003 compared to $25.75 per barrel for the second quarter 2002. Crude oil inventories in the United States have consistently remained below the lower end of the normal range, which in turn has supported crude oil prices in the United States. The situation worsened in December 2002 when oil imports from Venezuela were reduced due to strikes in that country which created supply disruptions during most of the first quarter 2003. Despite imports from Venezuela returning close to normal levels, United States commercial crude oil inventories (excluding crude oil stored in the Strategic Petroleum Reserve) have remained more than 15 million barrels below the lower end of the normal range since the end of January, 2003. Until commercial crude oil inventory deficits are eliminated, United States oil markets are expected to remain tight, which should help support prices at or near current levels.

The yearly average and quarterly average rig counts based on the Baker Hughes Incorporated rig count information are as follows:

Average Rig Counts	2002	2001
United States	831	1,155
Canada	266	342
International (excluding Canada)	732	745
Worldwide Total	1,829	2,242

Average Rig Counts	Second Quarter 2003	First Quarter 2003	Fourth Quarter 2002	Third Quarter 2002	Second Quarter 2002	First Quarter 2002
United States	1,028	901	847	853	806	818
Canada	203	493	283	250	147	383
International (excluding Canada)	765	744	753	718	725	731
Worldwide Total	1,996	2,138	1,883	1,821	1,678	1,932

Worldwide rig activity has increased since the second quarter of 2002 from an average of 1,678 rigs at the end of the second quarter 2002 to 1,996 rigs at the end of the second quarter 2003. The increase in rig activity has been most pronounced in the United States with a 28% increase in rig counts from 806 in the second quarter 2002 to 1,028 rigs in the second quarter 2003. The majority of this increase is related to rigs drilling for natural gas to replenish working gas in storage for the upcoming 2003/2004 heating season. The Canadian rig count decreased from 493 rigs in the first quarter 2003 to 203 rigs in the second quarter 2003. Canadian rig counts decreased as a result of the normal spring break up and thaw season, but increased 38% from 147 rigs in the second quarter 2002 to 203 rigs in the second quarter 2003 on a comparative basis. The international rig count increased six percent from 725 rigs in the second quarter 2002 to 765 rigs in the second quarter 2003. The majority of this increase was in Mexico and Argentina which was offset slightly by lower rig counts in Venezuela and in the United Kingdom sector of the North Sea. We believe the increased drilling activity and rig counts since the second quarter of 2002 are due to the following factors:

- higher oil and gas prices;
- low oil inventories in the Organization for Economic Co-operation and Development consuming countries;
- low natural gas inventories in the United States for the upcoming winter season;
- cessation of armed conflict in Iraq;
- perception that the global economy is improving; and
- increased spending by our customers.

It is common practice in the United States oilfield services industry to sell services and products based on a price book and then apply discounts to the price book based upon a variety of factors. Discounts are typically applied to partially or substantially offset price book increases immediately following a price increase. Discounts normally decrease over time if the activity levels remain strong. During periods of reduced activity, discounts normally increase, reducing the net revenue for our products and services. Conversely, during periods of higher activity, discounts normally decline resulting in net revenue increasing for our products and services.

During 2000 and 2001, we implemented several price book increases. In July 2000, as a result of increased consumable materials costs and a tight labor market causing higher labor costs, we increased prices in the United States for most product lines on average between 2% and 12%. In January 2001, as a result of continued labor shortages and increased labor and materials costs, we increased prices in the United States on average between 5% and 12%. In July 2001, as a result of continuing personnel and consumable material cost increases, we increased prices on average between 6% and 15%.

Decreased rig activity in the United States in 2002 from 2001 caused the Energy Services Group's product lines to discount prices. Although rig activity in the United States has increased over the last twelve months, discounts have still not decreased, particularly in some of the Western states. Price increases that we implemented in 2000 and 2001 have mostly been eroded by additional discounts.

Engineering and Construction Group

Our engineering and construction projects are longer term in nature than our energy services projects and are not as significantly impacted by short-term fluctuations in oil and gas prices. We believe that the global economic recovery is continuing, but its strength and sustainability are not assured. Based on the uncertain economic recovery, continuing excess capacity in petrochemical supplies and rising unemployment, customers have continued to delay project awards or reduce the scope of projects involving hydrocarbons and manufacturing until growth in consumer spending is evident. A number of large-scale gas and liquefied natural gas (LNG) development, offshore deepwater, government and infrastructure projects are being awarded or actively considered. However, due to the inconsistent economic growth in certain areas of the world and the overall limited growth of the global economy, many customers continue to delay some of their capital commitments and international investments.

We see an emerging drive to monetize gas reserves in the Middle East, West Africa and parts of the Pacific Basin, combined with strong demand for gas and LNG in the United States, Japan, Korea, Taiwan, China and India. The developments have led to numerous gas-to-liquids (GTL), LNG liquefaction and gas development projects in the three exporting regions as well as onshore or floating regasification terminals and gas processing plants in the importing countries. With LNG set to play a larger role as a new supply source, the shift

from fuel served by exclusively domestic resources to a market increasingly served with international resources heralds a change in the United States gas business. This will lead to an increasing internationalization of the natural gas industry, bringing with it the integration of North America into a growing world market.

We expect growth opportunities to exist for additional security and defense support to government agencies in the United States and other countries. Demand for these services is expected to grow as a result of the reconstruction efforts in Iraq and as governmental agencies seek to control costs and promote efficiencies by outsourcing these functions. We also expect growth due to new demands created by increased efforts to combat terrorism and enhance homeland security.

Engineering and construction contracts can be broadly categorized as fixed-price, sometimes referred to as lump sum, or cost reimbursable contracts. Some contracts can involve both fixed-price and cost reimbursable elements.

Fixed-price contracts are for a fixed sum to cover all costs and any profit element for a defined scope of work. Fixed-price contracts entail more risk to us as we must pre-determine both the quantities of work to be performed and the costs associated with executing the work. The risks to us arise, among other things, from:

- uncertainties in estimating the technical aspects and effort involved to accomplish the work within the contract schedule;
- labor availability and productivity; and
- supplier and subcontractor pricing and performance.

Fixed-price engineering, procurement and construction and fixed-price engineering, procurement, installation and commissioning contracts involve even greater risks including:

- bidding a fixed-price and completion date before detailed engineering work has been performed;
- bidding a fixed-price and completion date before locking in price and delivery of significant procurement components (often items which are specifically designed and fabricated for the project);
- bidding a fixed-price and completion date before finalizing subcontractors' terms and conditions;
- subcontractors' individual performance and combined interdependencies of multiple subcontractors (the majority of all construction and installation work is performed by subcontractors);
- contracts covering long periods of time;
- contract values generally for large amounts; and
- contracts containing significant liquidated damages provisions.

Cost reimbursable contracts include contracts where the price is variable based upon actual costs incurred for time and materials, or for variable quantities of work priced at defined unit rates. Profit elements on cost reimbursable contracts may be based upon a percentage of costs incurred and/or a fixed amount. Cost reimbursable contracts are generally less risky, since the owner retains many of the risks. While fixed-price contracts involve greater risk, they also are potentially more profitable for the contractor, since the owners pay a premium to transfer many risks to the contractor.

After careful consideration, we have decided to no longer pursue fixed-price engineering, procurement, installation and commissioning contracts for the offshore oil and gas industry. An important aspect of our 2002 reorganization was to look closely at each of our businesses to ensure that they are self-sufficient, including their use of capital and liquidity. In that process, we found that the engineering, procurement, installation and commissioning offshore business was using a disproportionate share of our bonding and letter of credit capacity relative to its profit contribution. The risk/reward relationship in that business is no longer attractive to us. We provide a range of engineering, fabrication and project management services to the offshore industry, which we will continue to service through a variety of other contracting forms. We have seven fixed-price engineering, procurement, installation and commissioning offshore projects underway and we are fully committed to successful completion of these projects, all but two of which are substantially complete. The two projects are approximately 75% complete. We plan to retain our offshore engineering and services capabilities.

The approximate percentages of revenues attributable to fixed-price and cost reimbursable engineering and construction segment contracts are as follows:

	Fixed-Price	Cost Reimbursable
Second Quarter ended June 30, 2003	40%	60%
Year ended December 31, 2002	47%	53%

Backlog

Our backlog at June 30, 2003, was $10.2 billion, comprised of $9.9 billion for the Engineering and Construction Group and $299 million for the Energy Services Group. Our total backlog at December 31, 2002, was $10 billion.

Reorganization of Business Operations

As a part of the 2002 reorganization, we decided that the operations of major projects, Granherne and Production Services were better aligned with KBR, and these businesses were moved from the Energy Services Group to the Engineering and Construction Group during the second quarter of 2002. All prior period segment results have been restated to reflect this change. Major projects, which currently consists of the Barracuda-Caratinga project in Brazil, is now reported through the offshore product line, Granherne is now reported in the onshore product line and production services is now reported under the operations and maintenance product line.

Asbestos and Silica

In December 2002, we announced that we had reached an agreement in principle that, if and when consummated, would result in a settlement of asbestos and silica personal injury claims against our subsidiaries DII Industries and Kellogg Brown & Root and their current and former subsidiaries with United States operations. Subsequently, in 2003, DII Industries and Kellogg Brown & Root entered into definitive written agreements finalizing the terms of the agreements in principle with attorneys representing more than 90% of the current asbestos claimants. We revised our best estimate of our asbestos and silica liability based on information obtained while negotiating the agreement in principle, and adjusted our asbestos and silica liability to $3.4 billion, recorded additional probable insurance recoveries resulting in a total of $2.1 billion as of December 31, 2002 and recorded a net pretax charge of $799 million ($675 million after tax) in the fourth quarter of 2002.

Should the proposed settlement become probable under Statement of Financial Accounting Standards No. 5, we would adjust our accrual for probable and reasonably estimable liabilities for current and future asbestos and silica claims. The settlement amount initially would be up to $4.3 billion, consisting of up to $2.775 billion in cash, the value of 59.5 million Halliburton shares of common stock and notes with a net present value expected to be less than $100 million. Assuming the adjusted liability would be $4.3 billion, we would also increase our probable insurance recoveries to $2.3 billion. The impact on our statement of operations would be an additional pretax charge of $606 million ($493 million after tax). This accrual (which values our stock to be contributed at $1.4 billion using our stock price at June 30, 2003 of $23.00) would then be adjusted periodically based on changes in the market price of our common stock until the common stock is contributed to a trust for the benefit of the claimants. We may enter into agreements with all or some of our insurance carriers to negotiate an overall accelerated payment of anticipated insurance proceeds. If this were to happen, we would expect to recover less than the $2.3 billion of anticipated insurance receivables which would result in an additional charge to income.

RESULTS OF OPERATIONS IN 2003 COMPARED TO 2002

Second Quarter of 2003 Compared with the Second Quarter of 2002

REVENUES

Millions of dollars	Second Quarter 2003	Second Quarter 2002	Increase (decrease)
Drilling and Formation Evaluation	$ 414	$ 413	$ 1
Fluids	518	450	68
Production Optimization	693	634	59
Landmark and Other Energy Services	155	259	(104)
Total Energy Services Group	1,780	1,756	24
Engineering and Construction Group	1,819	1,479	340
Total revenues	$ 3,599	$ 3,235	$ 364

Consolidated revenues in the 2003 second quarter of $3.6 billion increased $364 million compared to the 2002 second quarter. International revenues were 67% of total revenues for the second quarters of both 2003 and 2002.

Drilling and Formation Evaluation segment revenues were $414 million for the 2003 second quarter, up slightly from the 2002 second quarter. International revenues were 72% of total revenues in both the second quarter 2003 and the second quarter 2002. Mono Pumps, which was sold in January 2003, contributed approximately $20 million in revenues in the second quarter of 2002 to our drilling services product line. The loss of Mono Pumps revenues was partially offset by revenues in the remainder of our drilling services product line as contracts that were expiring in the United Kingdom were more than offset by new contracts, primarily in West Africa and Ecuador. Drill bits revenue increased by 6% due mainly to sales in Continental Europe.

On a geographic basis, the Middle East/Asia region's revenue for the segment increased $3 million in all product lines, while revenues for the segment in Latin America declined $3 million due to decreased activity in Venezuela as activity was slow to pick up after the recent civil unrest, partially offset by an increase in Mexico.

Fluids segment revenues were $518 million for the second quarter 2003, an increase of 15% from the second quarter 2002. International revenues were 55% of total revenues in the 2003 second quarter compared to 52% in the 2002 second quarter. The increase in Fluids segment revenue was spread almost equally between cementing and drilling fluids reflecting higher rig counts in the United States and increased activity with PEMEX in Mexico. In addition, drilling fluids benefited from higher activity in Angola, Canada and Algeria.

On a geographic basis, Europe/Africa revenues for the segment increased $21 million primarily due to increased activity in Norway and Angola. North America revenues for the segment increased $24 million primarily due to the higher land rig count in the United States. Similar to the Drilling and Formation Evaluation and Production Optimization segments, Latin America revenues for the segment were impacted by decreased activity in Venezuela, but this was more than offset by the increases in Mexico. This resulted in an overall increase in Latin America revenue of $3 million.

Production Optimization segment revenues were $693 million for the 2003 second quarter, an increase of 9% from the 2002 second quarter. International revenues were 55% of total revenues in the second quarter 2003 compared to 51% in the second quarter 2002 as activity picked up in the Middle East following the end of the war in Iraq. Our production enhancement product line was up 11%, due to an increase in activity in the United States as a result of higher land rig counts. In addition, Subsea 7, Inc. accounted for $11 million of the increase due to higher activity in the North Sea. Further, the 2002 second quarter did not include all three months of activity for Subsea 7, Inc., as it was not formed until May 23, 2002. The sale of Halliburton Measurement Systems during the second quarter of 2003 had a $3 million negative impact on segment revenue.

On a geographic basis, Middle East/Asia revenues for the segment were up $25 million due to higher sales to Kazakhstan, and higher activity in the former Soviet Union , Australia, Brunei and Iraq. Revenues for the segment were $10 million higher in Latin America due to increased work with PEMEX in Mexico partially offset by lower activity in Venezuela and Brazil.

Landmark and Other Energy Services segment revenues were $155 million for the second quarter 2003, a decrease of 40% from the second quarter 2002. The decrease is due to most of our subsea activities being moved into Subsea 7, Inc. in May 2002 plus the impact of the sale of Wellstream during the first quarter of 2003. Revenues for Landmark Graphics were flat with the prior year quarter. International revenues for the segment were 72% of total revenues in the second quarter 2003 compared to 75% in the second quarter 2002.

Engineering and Construction Group revenues of $1.8 billion in the 2003 second quarter were 23% higher than in the 2002 second quarter. The improvement was due to revenue increases in government services and onshore projects, partially offset by declines in offshore projects. Revenues from government related activities more than doubled on increased work in the Middle East for the United States and the United Kingdom governments, offset slightly by lower activity levels on the Balkans project. Onshore revenues were up by 21%, primarily due to several new projects in Algeria, Egypt, Chad and Cameroon that began during 2002. Offshore revenues decreased 23% reflecting reduced activity on the Barracuda-Caratinga project in Brazil and projects in the Philippines and Nigeria that are nearing the completion phase. Operations and maintenance revenues were down 12% compared to the second quarter of 2002 due to the loss of several contracts that have not been replaced.

OPERATING INCOME

	Second Quarter		Increase
Millions of dollars	2003	2002	(decrease)
Drilling and Formation Evaluation	$ 49	$ 42	$ 7
Fluids	68	49	19
Production Optimization	113	106	7
Landmark and Other Energy Services	5	(127)	132
Total Energy Services Group	235	70	165
Engineering and Construction Group	(148)	(450)	302
General corporate	(16)	(25)	9
Total operating income	$ 71	$ (405)	$ 476

Consolidated operating income of $71 million was $476 million higher in the second quarter 2003 compared to the second quarter 2002. This change is attributable to several significant items which occurred during the second quarter of 2003 and 2002.

The significant items for the 2003 second quarter included:

- $173 million loss in the Engineering and Construction Group related to the Barracuda-Caratinga project due to recently identified higher cost trends and some actual and committed costs exceeding estimated costs. In addition, schedule delays have added to the costs of the project during the quarter; and
- $24 million gain in the Production Optimization segment related to the sale of Halliburton Measurement Systems.

The net effect of these second quarter 2003 items was a loss of $149 million.

The significant items for the 2002 second quarter included:

- $56 million in expense related to restructuring charges;
- $119 million loss in the Engineering and Construction Group related to the Barracuda-Caratinga project in Brazil;
- $330 million loss in the Engineering and Construction Group related to asbestos exposures; and
- $61 million loss in the Landmark and Other Energy Services segment for the impairment of our 50% equity investment in the Bredero-Shaw joint venture.

The net effect of these second quarter 2002 items was a loss of $566 million.

Drilling and Formation Evaluation segment operating income for the 2003 second quarter increased $7 million, or 17%, from the second quarter 2002, primarily due to improved logging results, where margins increased from 7% in 2002 to 13% in 2003. The improved logging results were primarily in Nigeria, Indonesia, India and Mexico. Drilling services decreased by $2 million primarily due to higher equipment maintenance costs and the impact from the sale of Mono Pumps in the first quarter 2003.

Fluids segment operating income for the second quarter 2003 increased $19 million, or 39%, from the second quarter 2002. Both drilling fluids and cementing had incremental margins of about 30%.

Operating income was up in all geographic regions, as a result of increased revenues. Drilling fluids results in the United States improved due to a change in product mix and shift to newer environmental-friendly products.

Production Optimization segment operating income for the second quarter 2003 of $113 million increased $7 million from the second quarter 2002, including the gain on the sale of Halliburton Measurement Systems of $24 million. Subsea 7, Inc. operating income increased $12 million from increased activities in Norway and the United Kingdom. Also the 2002 second quarter did not include all three months of activity for Subsea 7, Inc., as it was not formed until May 23, 2002. Completion products and services operating income decreased $13 million as margins were primarily affected by contract delays in Indonesia and inventory obsolescence accruals. The production enhancement product line decreased by $8 million as a result of increased discounts in the United States, partially offset by increased activity in Mexico and Iraq. The increased inventory obsolescence accruals in all product service lines decreased segment operating income by $7 million.

Geographically, operating income in North America decreased $24 million in the second quarter 2003 compared to the second quarter 2002 due to lower pricing in spite of increased rig count and higher activity, which was offset by the $24 million gain on the sale of Halliburton Measurement Systems.

Landmark and Other Energy Services segment operating income for the second quarter 2003 was $5 million, a $132 million increase from the second quarter 2002 reflecting the $61 million impairment of our equity investment in Bredero-Shaw, the $37 million in restructuring charges and the $32 million of impairment charges in integrated solutions projects in the second quarter of 2002.

Engineering and Construction Group operating loss of $148 million in the second quarter 2003 decreased $302 million compared to the second quarter 2002. The second quarter of 2002 included a $330 million asbestos charge and a $10 million restructuring charge. Income from government-related activities improved by $18 million from the second quarter 2002, mainly related to operations in the Middle East and at our shipyard in the United Kingdom. The Barracuda-Caratinga project recognized $173 million of additional losses in the second quarter 2003 compared to a $119 million loss in the 2002 second quarter. The $173 million charge resulted from higher cost estimates, schedule extensions, increased project contingencies as well as other factors. Onshore results declined $11 million due mainly to a $29 million charge for schedule delays on a project in Europe, which was partly offset by higher profits on LNG projects.

General corporate expenses for the second quarter 2003 were $16 million compared to $25 million for the 2002 second quarter, or a decrease in costs of $9 million. The improved second quarter 2003 results reflect the $9 million of restructuring charges incurred in the second quarter 2002.

NONOPERATING ITEMS

Interest expense of $25 million for the second quarter 2003 decreased $5 million compared to the second quarter 2002. The decrease is due to lower average borrowings in 2003 primarily from the reduction in debt prior to the issuance of $1.2 billion in convertible notes at the end of the second quarter 2003.

Foreign exchange gains, net were $19 million in the current year quarter compared to a $5 million loss in the second quarter of last year. The increase was due to foreign exchange gains in the United Kingdom and Canada in the second quarter 2003 and lower foreign exchange losses primarily in Argentina as compared to the second quarter 2002.

Provision for income taxes of $29 million resulted in an effective tax rate of 39% in the second quarter 2003, compared to a benefit for income taxes in the second quarter 2002 of $77 million, resulting in an effective tax rate of 18%. The second quarter 2002 effective rate was low due to the tax impact of the impairment loss on Bredero-Shaw and charges associated with our asbestos exposure. The asbestos accrual generated a United States Federal deferred tax asset in 2002 which may not be fully realizable based upon future taxable income projections and thus we recorded a partial valuation allowance. The Bredero-Shaw loss created a capital loss for which we have no capital gains to offset and therefore no tax benefit was booked for the loss as future realization of the benefit was questionable.

Loss from discontinued operations, net of tax was $16 million, or $0.03 per diluted share, for the second quarter 2003 compared to $140 million, or $0.32 per diluted share, for the second quarter 2002. The loss in the second quarter of 2003 reflects a $30 million pretax charge related to our July 2003 funding of the debtor-in-possession financing to Harbison-Walker in connection with their Chapter 11 bankruptcy proceeding that is expected to be forgiven by Halliburton on the earlier of the effective date of a plan of reorganization for DII Industries or the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries. In addition, discontinued operations included professional fees associated with the due diligence and other aspects of the proposed settlement for asbestos and silica liabilities offset by a release of environmental and legal reserves related to indemnities that were part of our disposition of Dresser Equipment Group and are no longer needed. The loss in the second quarter 2002 was due primarily to charges of $153 million pretax, $123 million after tax, booked on asbestos exposures. We also recorded pretax expense of $6 million associated with the Harbison-Walker bankruptcy filing.

RESULTS OF OPERATIONS IN 2003 COMPARED TO 2002

First Six Months of 2003 Compared with the First Six Months of 2002

REVENUES

	First Six Months		Increase
Millions of dollars	2003	2002	(decrease)
Drilling and Formation Evaluation	$ 793	$ 812	$ (19)
Fluids	998	903	95
Production Optimization	1,322	1,246	76
Landmark and Other Energy Services	278	484	(206)
Total Energy Services Group	3,391	3,445	(54)
Engineering and Construction Group	3,268	2,797	471
Total revenues	$ 6,659	$ 6,242	$ 417

Consolidated revenues in the first six months of 2003 of $6.7 billion increased 7% compared to the first six months of 2002 primarily due to increased revenues in the Engineering and Construction Group. International revenues were 67% of total revenues for the first six months of both 2003 and 2002.

Drilling and Formation Evaluation segment revenues for the first half of 2003 declined $19 million compared to the first half of 2002. International revenues were 72% of total revenues in the first six months of 2003 and 2002. Mono Pumps, which was sold in January 2003, contributed approximately $40 million in revenues in the first six months of 2002 to our drilling services product line. The loss of Mono Pumps revenue was partially offset by revenues in the remainder of our drilling services product line as contracts that were expiring in the United Kingdom were more than offset by new contracts, primarily in West Africa and Ecuador. Logging services revenues decreased by $9 million due to lower sales in China and reduced activity in Venezuela.

On a geographic basis, the sale of Mono Pumps negatively impacted segment revenues in North America by $17 million, in Europe/Africa by $11 million, and in Middle East/Asia by $12 million for the first six months of 2003 compared to the first six months of 2002. Increased logging services activity in the United States and higher drill bit sales in the United States and Canada accounted for a $10 million increase in revenues. Middle East/Asia revenues for the segment were positively impacted by increased drilling services activity. Revenues were $6 million lower in Latin America where an increase in activity in Mexico was more than offset by reductions in Venezuela, as activity was slow to pick up after the recent civil unrest, and Brazil.

Fluids segment revenues were higher by $95 million in the first half of 2003, an increase of 11% from the first six months of 2002. International revenues were 55% of total revenues in the first six months of 2003 compared to 52% in the first six months of 2002. Drilling fluids, which was up 12%, contributed to the majority of the increase due to higher land rig counts in the United States.

On a geographic basis, all regions had increases in segment revenue due to increased activity in both drilling fluids and cementing. On a percentage basis the largest increase in revenues was in Middle East/Asia due to increased activity in the former Soviet Union, Caspian and Indonesia. In addition, Latin America revenues were slightly higher due to increased work in Mexico which was offset by lower activity in Venezuela.

Production Optimization segment revenues were $1.3 billion for the first six months of 2003, an increase of $76 million, or 6% from the first six months of 2002. International revenues were 54% of total revenues in the first half of 2003 compared to 51% in the first half of 2002 as activity picked up in the Middle East following the end of the war in Iraq. The sale of Halliburton Measurement Systems had a $3 million negative impact on segment revenues during the first half of 2003. Our production enhancement product line was up 9%, where United States revenue was up as a result of higher land rig counts.

On a geographic basis, Middle East/Asia revenues for the segment were up $50 million due to higher sales to Kazakhstan, and higher activity in Australia, Brunei and Iraq offset by lower activity in Indonesia. Revenues were $12 million higher in Latin America where an increase in Mexico was partially offset by reductions in activity in Brazil and Venezuela.

Landmark and Other Energy Services segment revenues were $278 million for the first six months of 2003, a decrease of $206 million, or 43%, from the first half of 2002. International revenues were 70% of total revenues in the 2003 first half compared to 77% in the first half of 2002. Lower segment revenues were primarily due to the contribution of most of the assets of Halliburton Subsea to Subsea 7, Inc. which, beginning in May 2002, was reported on an equity basis in the Production Optimization segment. The sale of Wellstream in March 2003 and the sale of integrated solutions projects in August 2002 also contributed to the decrease.

Engineering and Construction Group revenues for the six months ended June 30, 2003 of $3.3 billion were 17% higher than in the six months ended June 30, 2002. The improvement was due to revenue increases in government related activities and onshore projects, partially offset by declines in offshore projects. Revenues from government services were up 78% on increased work in the Middle East for the United States and the United Kingdom governments, offset slightly by lower revenues on the Balkans project, which is in its final stages. Onshore revenues were up 17%, primarily due to increases on a project in Nigeria and progress on several new projects. The 16% decrease in offshore project revenue reflects reduced activity on the Barracuda-Caratinga project in Brazil and projects in the Philippines and Nigeria that are nearing the completion phase. Operations and maintenance revenues were down 9% compared to the first six months of 2002 due to the loss of several contracts that have not been replaced.

OPERATING INCOME

	First Six Months		Increase
Millions of dollars	2003	2002	(decrease)
Drilling and Formation Evaluation	$ 115	$ 80	$ 35
Fluids	123	100	23
Production Optimization	183	189	(6)
Landmark and Other Energy Services	(6)	(130)	124
Total Energy Services Group	415	239	176
Engineering and Construction Group	(167)	(508)	341
General corporate	(35)	(13)	(22)
Total operating income	$ 213	$ (282)	$ 495

Consolidated operating income of $213 million was $495 million higher in the first six months of 2003 compared to the first half of 2002. This change is attributable to several significant items incurred during the first half of 2003 and 2002.

The significant items for the first six months of 2003 included:

- $228 million loss in the Engineering and Construction Group related to the Barracuda-Caratinga project in Brazil;
- $15 million loss in the Landmark and Other Energy Services segment on the sale of Wellstream;

- $24 million gain in the Production Optimization segment on the sale of Halliburton Measurement Systems; and
- $36 million gain in the Drilling and Formation Evaluation segment on the sale of Mono Pumps.

The net effect of these second quarter 2003 items was a loss of $183 million.

The significant items for the first six months of 2002 included:

- $67 million in expense related to restructuring charges, of which $42 million related to Landmark and Other Energy Services, $14 million related to the Engineering and Construction Group, and $11 million related to General corporate;
- $119 million loss in the Engineering and Construction Group related to the Barracuda-Caratinga project in Brazil;
- $410 million loss in the Engineering and Construction Group related to asbestos exposures;
- $61 million loss in the Landmark and Other Energy Services segment on the impairment of our 50% equity investment in the Bredero-Shaw joint venture; and
- $108 million gain in the Landmark and Other Energy Services segment on the sale of European Marine Contractors Ltd.

The net effect of these second quarter 2002 items was a loss of $549 million.

Drilling and Formation Evaluation segment operating income totaled $115 million for the first six months of 2003 compared to $80 million in the first six months of 2002. Operating income decreased $10 million in drilling services partly due to the $5 million impact of having less than a month of Mono Pumps' operations in 2003 due to the sale of Mono Pumps in January 2003. Drill bits operating income was down $3 million primarily due to lower activity in the Middle East and pricing pressures in the United States while logging benefited from lower discounts in the United States. Operating income also included a $36 million gain on the sale of Mono Pumps in January of 2003.

Geographically, segment operating income decreased $4 million in Latin America due to lower activity across the segment in Venezuela and Brazil offset by increased activity for logging services and drill bits in Mexico and due to a new drilling systems contract in Ecuador. A $12 million gain on the United Kingdom portion of the sale of Mono Pumps positively impacted segment operating income in Europe/Africa, along with higher activity in the North Sea and West Africa.

Fluids segment operating income for the first six months of 2003 was up $23 million, or 23%, from the first six months of 2002. The increase was mostly in drilling fluids.

Geographically, all regions showed improved segment operating income in the first six months of 2003 compared to the first six months of 2002 except North America, which was flat with increased operating income for drilling fluids offset by lower operating income in cementing. Pricing pressures contributed to lower operating income in cementing in North America. Drilling fluids benefited from higher sales of environmentally friendly fluids and improved contract terms.

Production Optimization segment operating income for the first half of 2003 decreased $6 million from the first half of 2002 with decreases across all product lines. Operating income included a $24 million gain on the sale of Halliburton Measurement Systems in the second quarter 2003. Operating income and margins decreased in all product lines due to continued pricing pressures throughout the six months combined with higher inventory adjustments and higher operating costs in the North American region. The largest decreases came in completion products and services which declined $14 million and tools and testing which declined $9 million. Subsea 7, Inc. declined $2 million for the period due to operating losses in the first quarter of 2003.

Segment operating income was down in the first half of 2003 compared to the first half of 2002 in all geographic regions except Latin America, which showed a $13 million increase reflecting increased activity in Mexico offset by lower results in Brazil. Europe/Africa had a $6 million decrease compared to the first six months of 2002 due to higher inventory obsolescence and equipment mobilization costs as well as costs associated with early termination of a contract in Norway.

Landmark and Other Energy Services segment operating income for the first half of 2003 increased $124 million from the first six months of 2002 due to the following:

- improved 2003 results in integrated solutions projects in the United States, Indonesia and Iraq;
- a $61 million impairment in our 50% equity investment in Bredero-Shaw in the second quarter 2002;
- $42 million of restructuring charges incurred in 2002;
- BJ Services litigation damage award of $98 million accrued in 2002;
- impairment charges in the second quarter of 2002 for integrated solutions projects of $32 million, which were partially offset by:
- $108 million gain on the sale of European Marine Contractors Ltd. in the first quarter of 2002; and
- loss of $15 million on the sale of our Wellstream business in March 2003.

Engineering and Construction Group operating loss of $167 million in the first six months of 2003 decreased $341 million compared to the first half of 2002. The improvement in operating results was due to $410 million in asbestos charges and a $14 million restructuring charge that impacted the first six months of 2002 compared to a $2 million asbestos charge and no restructuring charges in the first six months of 2003. Income from government related activities improved by $29 million from the first half of 2002, mainly related to operations in the Middle East and our shipyard in the United Kingdom. The Barracuda-Caratinga project recognized a $228 million loss in the first half of 2003 compared to a $119 million loss in the first six months of 2002. The losses on the Barracuda-Caratinga project in 2003 are due to identified higher cost trends and some actual and committed costs exceeding estimated costs. In addition, schedule delays have added to the costs of the project during the first half of the year. Onshore results declined $29 million due mainly to schedule delays on a project in Europe and a project in Malaysia nearing completion.

General corporate expenses for the first six months of 2003 were $35 million compared to $13 million for the first six months of 2002. General corporate expenses were higher in 2003 as the first six months of 2002 included a $28 million pretax gain for the value of stock received from the demutualization of an insurance provider offset by 2002 restructuring charges of $11 million. The higher 2003 expenses also relate to preparations for the certifications required under Section 404 of the Sarbanes-Oxley Act.

NONOPERATING ITEMS

Interest expense of $52 million for the first six months of 2003 decreased $10 million compared to the first six months of 2002. The decrease is due to $4 million in pre-judgment interest recorded in the 2002 second quarter related to the BJ Services patent infringement judgment and lower average borrowings in the first six months of 2003.

Foreign exchange gains, net were $13 million in the current year compared to a $13 million loss in the first half of last year. The increase was due to a $15 million gain in the United Kingdom and an $8 million gain in Canada in 2003 combined with the absence of foreign exchange losses in 2002 stemming from the economic crisis in Argentina.

Provision for income taxes of $79 million resulted in an effective tax rate of 41% in the first half of 2003, versus a benefit for income taxes in the first half of 2002 of $41 million and an effective tax rate of 12%. The first half of 2002 effective rate was low due to the tax impact of the impairment loss on Bredero-Shaw and charges associated with our asbestos exposure. The asbestos accrual generated a United States Federal deferred tax asset which may not be fully realizable based upon future taxable income projections. As a result we recorded a partial valuation allowance. The Bredero-Shaw loss created a capital loss for which we had no capital gains to offset and therefore no tax benefit was booked for the loss.

Loss from discontinued operations, net of tax was a $24 million loss, or $0.05 per diluted share, for the first half of 2003 compared to $168 million, or $0.39 per diluted share, for 2002. The loss in the first half of 2003 was due to charges related to our July 2003 funding of the debtor-in-possession financing to Harbison-Walker in connection with their Chapter 11 bankruptcy proceeding that is expected to be forgiven by Halliburton on the earlier of the effective date of a plan of reorganization for DII Industries or the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries. In addition, discontinued operations included professional fees associated with the due diligence and other aspects of the proposed settlement for asbestos liabilities offset by a release of environmental and legal reserves

related to indemnities that were part of our disposition of the Dresser Equipment Group that are no longer needed. The loss in the first half of 2002 was due primarily to charges recorded for asbestos exposures. We also recorded pretax expense of $6 million associated with the Harbison-Walker bankruptcy filing.

Cumulative effect of change in accounting principle, net was an $8 million after-tax charge, or $0.02 per diluted share, related to our January 1, 2003 adoption of Financial Accounting Standards Board Statement No. 143, "Accounting for Asset Retirement Obligations".

LIQUIDITY AND CAPITAL RESOURCES

We ended the second quarter of 2003 with cash and equivalents of $1.9 billion, an increase of $752 million from the end of 2002.

Cash flows from operating activities used $213 million in the first six months of 2003 compared to providing $620 million in the first half of 2002. Working capital items, which include receivables, sale of receivables, inventories, accounts payable and other working capital, net, used $373 million of cash in the first six months of 2003 compared to providing $333 million in the same period of 2002. The major uses of working capital during the first half of 2003 included the commencement of the Los Alamos contract by KBR and increased activity in the Middle East due to new work related to Iraq. Our government services activities could continue to use significant amounts of working capital in the short term. Included in changes to other operating activities for the first six months of 2002 is a $40 million payment related to the Harbison-Walker bankruptcy filing.

Cash flows from investing activities provided $50 million in the first six months of 2003 and used $414 million in the same period of 2002. Capital expenditures of $229 million in the first half of 2003 were about 43% lower than in the first six months of 2002. We have emphasized increased capital discipline in 2003 and expect our full year capital spending to be approximately $600 million, down compared to 2002. Capital spending in the first half of 2003 continued to be mainly attributable to the Energy Services Group primarily for directional and logging-while-drilling tools used in the Drilling and Formation Evaluation segment. In addition, in the first quarter of 2002, we invested $60 million in integrated solutions projects. Cash from dispositions of businesses in the first half of 2003 includes $136 million collected from the sale of Wellstream, $33 million collected from the sale of Halliburton Measurement Systems, and $23 million collected from the sale of Mono Pumps. Also included in cash from dispositions is $25 million collected on a note receivable that was received as a portion of the payment for Bredero-Shaw. Dispositions of businesses in the first half of 2002 included $134 million collected from the sale of our European Marine Contractors, Ltd. joint venture. The change in restricted cash for the first half of 2003 is primarily collateral for potential future insurance claim reimbursements. Included in the change in restricted cash for the first half of 2002 is a $106 million deposit that collateralized an appeal bond for a patent infringement judgment on appeal and $56 million as collateral for potential future insurance claim reimbursements. Also included in changes in restricted cash is $26 million primarily related to cash collateral agreements for letters of credit outstanding on several construction projects. Proceeds from the sale of securities in the first six months of 2003 of $57 million primarily relate to the sale of 2.5 million of National Oilwell common shares that were received in the disposition of Mono Pumps.

Cash flows from financing activities provided $893 million in the first six months of 2003. In the first six months of 2002, financing activities used $101 million. Proceeds from long-term borrowings include $1.2 billion in proceeds from the issuance of convertible senior notes, net of $24 million of debt issuance costs. We also repaid our $139 million senior unsecured notes in the first six months of 2003. Dividends to shareholders used $109 million of cash in the first half of 2003 and 2002.

Capital resources from internally generated funds and access to capital markets are sufficient to fund our working capital requirements and investing activities. We will have to raise additional funding for the proposed asbestos and silica settlement described below. Our combined short-term notes payable and long-term debt was 42% of total capitalization at June 30, 2003 and 30% at December 31, 2002. At June 30, 2003, we had $212 million in restricted cash included in "Other assets, net". See Note 7 to the financial statements. In addition, on April 15, 2002, we entered into an agreement to sell accounts receivable to provide additional liquidity. Subsequent to the end of the second

quarter 2003, we reduced the balance on our accounts receivable securitization facility to zero. This facility remains available to us for future use. See Note 8 to the financial statements. Currently, we expect capital expenditures in 2003 to be about $600 million. We have not finalized our capital expenditures budget for 2004 or later periods.

Proposed asbestos and silica settlement. In December 2002, we reached an agreement in principle that, if and when consummated, would result in a settlement of asbestos and silica personal injury claims against our subsidiaries DII Industries, Kellogg Brown & Root and their current and former subsidiaries with United States operations. Subsequently, in 2003, DII Industries and Kellogg Brown & Root entered into definitive written agreements finalizing the terms of the agreements in principle with attorneys representing more than 90% of the current asbestos claimants. We have also reached agreements in principle with 48% of current silica claimants.

The definitive agreements provide that:

- up to $2.775 billion in cash, 59.5 million Halliburton shares (valued at $1.4 billion using the stock price at June 30, 2003 of $23.00) and notes with a net present value expected to be less than $100 million will be paid to one or more trusts for the benefit of current and future asbestos and silica personal injury claimants upon receiving final and non-appealable court confirmation of a plan of reorganization;
- DII Industries and Kellogg Brown & Root will retain rights to the first $2.3 billion of any insurance proceeds with any proceeds received between $2.3 billion and $3.0 billion going to the trust;
- the agreement is to be implemented through a pre-packaged filing under Chapter 11 of the United States Bankruptcy Code for DII Industries and Kellogg Brown & Root, and some of their subsidiaries with United States operations; and
- the funding of the settlement amounts would occur upon receiving final and non-appealable court confirmation of a plan of reorganization for DII Industries and Kellogg Brown & Root and some of their subsidiaries with United States operations in the Chapter 11 proceeding.

Among the prerequisites for concluding the proposed settlement are:

- agreement on the amounts to be contributed to the trust for the benefit of silica claimants;
- completion of our review of the current claims to establish that the claimed injuries are based on exposure to products of DII Industries, Kellogg Brown & Root, their subsidiaries or former businesses or subsidiaries;
- completion of our medical review of the injuries alleged to have been sustained by plaintiffs to establish a medical basis for payment of settlement amounts;
- finalizing the principal amount and terms of the notes to be contributed to the trust;
- agreement with a proposed representative of future claimants and attorneys representing current claimants on procedures for distribution of settlement funds to individuals claiming personal injury;
- definitive agreement with the attorneys representing current asbestos claimants and a proposed representative of future claimants on a plan of reorganization for the Chapter 11 filings of DII Industries, Kellogg Brown & Root and some of their subsidiaries with United States operations; and agreement with the attorneys representing current asbestos and silica claimants with respect to a disclosure statement explaining the pre-packaged plan of reorganization to the current claimants;
- arrangement of financing, in addition to the proceeds of our recent offering of $1.2 billion principal amount of convertible senior notes, for the proposed settlement on terms acceptable to us to fund the cash amounts to be paid in the settlement;
- Halliburton board approval;
- distribution of a disclosure statement and obtaining approval of a plan of reorganization from at least the required 75% of known present asbestos claimants and from a majority of known present silica claimants in order to complete the plan of reorganization; and
- obtaining final and non-appealable bankruptcy court approval and federal district court confirmation of the plan of reorganization.

Many of these prerequisites are subject to matters and uncertainties beyond our control. There can be no assurance that we will be able to satisfy the prerequisites for completion of the settlement. If we were unable to complete the proposed settlement, we would be required to resolve current and future asbestos claims in the tort system or, in the case of Harbison-Walker claims (see Note 11 to the financial statements), possibly through the Harbison-Walker bankruptcy proceedings.

We are currently continuing our due diligence review of current asbestos claims to be included in the proposed settlement. We have now received in excess of 75% of the necessary files related to medical evidence and we have reviewed substantially all of the information provided. In regards to the product identification due diligence, the process is moving at a steady pace, but not as rapidly as the medical due diligence. In addition, we have not yet commenced any due diligence in regards to silica claims. While no assurance can be given, if we continue to receive documentation that is consistent with the recent quantity and quality of the documentation received to date, we expect that this documentation will provide an acceptable basis on which to proceed with the proposed settlement. One result of our due diligence review is the preliminary identification of more claims than contemplated by the proposed settlement. However, until the more recently identified claims are subject to a complete due diligence review, we will not be able to determine if these claims would be appropriately included under the proposed settlement. Many of these recently identified claims may be duplicative of previously submitted claims or may otherwise not be appropriately included under the proposed settlement. In the event that more claims are identified and validated than contemplated by the proposed settlement, the cash required to fund the settlement may modestly exceed $2.775 billion. If it does, we would need to decide whether to propose to adjust the settlement matrices to reduce the overall amounts, or increase the amounts we would be willing to pay to resolve the asbestos and silica liabilities.

If we attempt to adjust the settlement matrices or otherwise attempt to renegotiate the terms of the proposed settlement, the attorneys representing the current asbestos claimants may not proceed with the settlement or may attempt to renegotiate the settlement amount to increase the aggregate amount of the settlement. Conversely, an increase in the amount of cash required may make completing the proposed settlement more difficult.

In the event we elect to adjust the settlement matrices to reduce the average amounts per claim, a supplemental disclosure statement may be required, and if so, the claimants potentially adversely affected by the adjustment may have an opportunity to change their votes. The additional time to make such supplemental disclosure and opportunity to change votes may result in a delay in the Chapter 11 filing.

Included in the next steps to complete the proposed settlement are (1) an agreement on the procedures for the distribution of settlement funds to individuals claiming personal injury and (2) an agreement on a plan of reorganization for Kellogg Brown & Root and DII Industries and some of their subsidiaries with United States operations and the related disclosure statement. We cannot predict the exact timing of the completion of these steps, but we expect that these prerequisites to making the Chapter 11 filing could be completed on a timeline that would allow the Chapter 11 filing to be made late in the third quarter or very early in the fourth quarter of 2003.

The settlement agreements with attorneys representing current asbestos and silica claimants grant the attorneys a right to terminate their definitive agreement on 10 days' notice. While no right to terminate any settlement agreement has been exercised to date, there can be no assurance that claimants' attorneys will not exercise their right to terminate the settlement agreements.

In connection with the Chapter 11 filing by Harbison-Walker, the Bankruptcy Court on February 14, 2002 issued a temporary restraining order staying all further litigation of more than 200,000 asbestos claims currently pending against DII Industries in numerous courts throughout the United States. The period of the stay contained in the temporary restraining order has been extended through September 30, 2003. Currently, there is no assurance that a stay will remain in effect beyond September 30, 2003, that a plan of reorganization will be proposed or confirmed for Harbison-Walker, or that any plan that is confirmed will provide relief to DII Industries. Should the stay expire on September 30, 2003, the Bankruptcy Court established that discovery on the stayed claims cannot begin until November 1, 2003 and trial dates cannot be set before January 1, 2004.

Harbison-Walker filed a proposed plan of reorganization on July 31, 2003. However, the proposed plan does not provide for a Section 524(g)/105 injunction for the benefit of DII Industries and other DII Industries businesses that share insurance with Harbison-Walker, and DII Industries has not consented to the plan. Although possible, at this time we do not believe it likely that

Harbison-Walker will propose or will be able to confirm a plan of reorganization in its bankruptcy proceeding that is acceptable to DII Industries within the meaning of the letter agreements with RHI Refractories.

As an alternative, DII Industries has entered into a settlement in principle with Harbison-Walker which would resolve substantially all of the issues between them. This agreement is subject to negotiation of definitive documentation and court approval in Harbison-Walker's bankruptcy case. If approved by the court in Harbison-Walker's bankruptcy case, this agreement would provide for:

- channeling of asbestos and silica personal injury claims against Harbison-Walker and certain of its affiliates to the trusts created in the Chapter 11 cases being contemplated for DII Industries and Kellogg Brown & Root;
- release by Harbison-Walker and its affiliates of any rights in insurance shared with DII Industries on occurrence of the effective date of plan of reorganization for DII Industries;
- release by DII Industries of any right to be indemnified by Harbison-Walker for asbestos or silica personal injury claims;
- forgiveness by DII Industries of all of Harbison-Walker's obligations under the debtor-in-possession financing provided by DII Industries on the earlier of the effective date of a plan of reorganization for DII Industries or the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries;
- purchase by DII Industries of Harbison-Walker's outstanding insurance receivables for an amount of approximately $50 million on the earliest of the effective date of a plan of reorganization for DII Industries, the effective date of a plan of reorganization for Harbison-Walker acceptable to DII Industries or December 31, 2003. It is expected that a portion of this receivable could require a reserve for uncollectibility due to the insolvency of insurance carriers. This receivable and related allowance will be recorded in the third quarter 2003;
- guarantee of the insurance receivable purchase price by Halliburton on a subordinated basis; and
- negotiation between the parties on a mutually-agreeable structure for resolving other products or mass tort claims.

Of the up to $2.775 billion cash amount included as part of the proposed settlement, approximately $450 million primarily relates to claims previously settled but unpaid by Harbison-Walker (see Note 11 to the financial statements), but not previously agreed to by us. As part of the proposed settlement, we have agreed that, if a Chapter 11 filing by DII Industries, Kellogg Brown & Root and their subsidiaries were to occur, we would pay this amount within four years if not paid sooner pursuant to a final bankruptcy court approved plan of reorganization for DII Industries, Kellogg Brown & Root and their subsidiaries with United States operations. Effective November 30, 2002, we are making cash payments in lieu of interest at a rate of 5% per annum to the holders of these claims. These cash payments in lieu of interest will be made in arrears at the end of February, May, August and November, beginning after certain conditions are met, until the earlier of the date that the $450 million is paid or the date the proposed settlement is abandoned.

We continue to track legislative proposals for asbestos reform pending in the United States Congress. We understand that the United States Senate is currently working on draft legislation that would set up a national trust fund as the exclusive means for recovery for asbestos-related disease. We are not certain as to what contributions we would be required to make to such a trust, although we anticipate that they would be substantial and that they would continue for a significant number of years. In determining whether to approve the proposed settlement and proceed with the Chapter 11 filing of DII Industries and Kellogg Brown & Root and some of their subsidiaries with United States operations, the Halliburton Board of Directors will take into account the then-current status of these legislative initiatives.

Proposed bankruptcy of DII Industries, Kellogg Brown & Root and subsidiaries. Under the terms of the proposed settlement, the settlement would be implemented through a pre-packaged Chapter 11 filing for DII Industries, Kellogg Brown & Root and some of their subsidiaries with United States operations. Other than those debtors, none of the subsidiaries of Halliburton (including Halliburton Energy Services) or Halliburton itself will be a debtor

in the Chapter 11 proceedings. We anticipate that Halliburton, Halliburton Energy Services and each of the debtors' non-debtor affiliates will continue normal operations and continue to fulfill all of their respective obligations in the ordinary course as they become due.

As part of any proposed plan of reorganization, the debtors intend to seek approval of the bankruptcy court for debtor-in-possession financing to provide for operating needs and to provide additional liquidity during the pendency of the Chapter 11 proceeding. Halliburton intends, with the understanding of its lenders, to provide the debtor-in-possession financing to DII Industries and Kellogg Brown & Root. Arranging for debtor-in-possession financing is a condition precedent to the filing of any Chapter 11 proceeding.

Any plan of reorganization will provide that all of the debtors' obligations under letters of credit, surety bonds, corporate guaranties and indemnity agreements (except for agreements relating to asbestos claims or silica claims) will be unimpaired. In addition, the Bankruptcy Code allows a debtor to assume most executory contracts without regard to bankruptcy default provisions, and it is the intention of DII Industries, Kellogg Brown & Root and the other filing entities to assume and continue to perform all such executory contracts. Representatives of DII Industries, Kellogg Brown & Root and their subsidiaries have advised their customers of this intention.

After filing any Chapter 11 proceeding, the debtors would seek an order of the bankruptcy court scheduling a hearing to consider confirmation of the plan of reorganization. In order to be confirmed, the Bankruptcy Code requires that impaired classes of creditors vote to accept the plan of reorganization submitted by the debtors. In order to carry a class, approval of over one-half in number and at least two-thirds in amount are required. In addition, to obtain an injunction under Section 524(g) of the Bankruptcy Code, at least 75% of voting current asbestos claimants must vote to accept the plan of reorganization. In addition to obtaining the required votes, the requirements for a bankruptcy court to approve a plan of reorganization include, among other judicial findings, that:

- the plan of reorganization complies with applicable provisions of the Bankruptcy Code;
- the debtors have complied with the applicable provisions of the Bankruptcy Code;
- the trust will value and pay similar present and future claims in substantially the same manner;
- the plan of reorganization has been proposed in good faith and not by any means forbidden by law; and
- any payment made or promised by the debtors to any person for services, costs or expenses in or in connection with the Chapter 11 proceeding or the plan of reorganization has been or is reasonable.

Section 524(g) of the Bankruptcy Code authorizes the bankruptcy court to enjoin entities from taking action to collect, recover or receive payment or recovery with respect to any asbestos claim or demand that is to be paid in whole or in part by a trust created by a plan of reorganization that satisfies the requirements of the Bankruptcy Code. Section 105 of the Bankruptcy Code authorizes a similar injunction for silica claims. The injunction also may bar any action based on such claims or demands against the debtors that are directed at third parties. The order confirming the plan must be issued or affirmed by the federal district court that has jurisdiction over the case. After the expiration of the time for appeal of the order, the injunction becomes valid and enforceable.

The debtors believe that, if they proceed with a Chapter 11 filing, they will be able to satisfy all the requirements of Section 524(g), so long as the requisite number of holders of asbestos claims vote in favor of the plan of reorganization. If the 524(g) and 105 injunctions are issued, all unsettled current asbestos claims, all future asbestos claims and all silica claims based on exposure that has already occurred will be channeled to a trust for payment, and the debtors and related parties (including Halliburton, Halliburton Energy Services and other subsidiaries and affiliates of Halliburton and the debtors) will be released from any further liability under the plan of reorganization.

A prolonged Chapter 11 proceeding could adversely affect the debtors' relationships with customers, suppliers and employees, which in turn could adversely affect the debtors' competitive position, financial condition and results of operations. A weakening of the debtors' financial condition and results of operations could adversely affect the debtors' ability to implement the plan of reorganization.

Financing the proposed asbestos and silica settlement. The plan of reorganization through which the proposed settlement will be implemented will require us to contribute approximately $2.775 billion in cash to the Section 524(g)/105 trust established for the benefit of claimants, which we will need to finance on terms acceptable to us. On June 30, 2003, we issued $1.2 billion of

3.125% convertible senior notes due July 15, 2023. We intend to use a portion of the net proceeds from the offering to fund a portion of the cash contribution required by the proposed settlement. In addition, we are pursuing a number of additional financing alternatives for the cash amount to be contributed to the trust. The availability of these alternatives depends in large part on market conditions. We are currently negotiating with several banks and non-bank lenders over the terms of multiple credit facilities. A proposed banking syndicate is currently performing due diligence in an effort to make a funding commitment before the bankruptcy filing. We will not proceed with the Chapter 11 filing for DII Industries, Kellogg Brown & Root and some of their subsidiaries until financing commitments are in place.

The anticipated credit facilities include:

- a revolving line of credit for general working capital purposes;
- a master letter of credit facility intended to ensure that existing letters of credit supporting our contracts remain in place during the filing; and
- a delayed-draw term facility to be available for cash funding of the trust for the benefit of claimants.

The delayed-draw term facility is intended to eliminate uncertainty the capital markets might have concerning our ability to meet our funding requirement once final and non-appealable court confirmation of a plan of reorganization has been obtained.

None of these credit facilities are currently in place, and there can be no assurances that we will complete these facilities. We are not obligated to enter into these facilities if the terms are not acceptable to us. Moreover, these facilities would only be available for limited periods of time. As a result, if the debtors were delayed in filing the Chapter 11 proceeding or delayed in completing the plan of reorganization after a Chapter 11 filing, the credit facilities may expire and no longer be available. In such circumstances, we would have to terminate the proposed settlement if replacement financing were not available on acceptable terms.

We have sufficient authorized and unrestricted shares to issue 59.5 million shares to the trust. No shareholder approval is required for issuance of the shares.

Credit ratings. Late in 2001 and early in 2002, Moody's Investors' Services lowered its ratings of our long-term senior unsecured debt to Baa2 and our short-term credit and commercial paper ratings to P-2. In addition, Standard & Poor's lowered its ratings of our long-term senior unsecured debt to A- and our short-term credit and commercial paper ratings to A-2 in late 2001. In December 2002, Standard & Poor's lowered these ratings to BBB and A-3. These ratings were lowered primarily due to our asbestos exposure, and both agencies have indicated that the ratings continue under consideration for possible downgrade pending the results of the proposed settlement. Although our long-term ratings continue at investment grade levels, the cost of new borrowing is higher and our access to the debt markets is more volatile at the current rating levels. Investment grade ratings are BBB- or higher for Standard & Poor's and Baa3 or higher for Moody's Investors' Services. Our current ratings are one level above BBB- on Standard & Poor's and one level above Baa3 on Moody's Investors' Services.

We have $350 million of committed lines of credit from banks that are available if we maintain an investment grade rating. This facility expires on August 16, 2006. As of June 30, 2003, no amounts have been borrowed under these lines. If our credit ratings were to fall below investment grade, our credit line would be unavailable absent a successful renegotiation with our banks. In such event, we must also enter into good faith negotiations to amend our accounts receivable facility. Absent an agreed amendment within 60 days, amounts outstanding would be declared due and payable. As of June 30, 2003, the outstanding balance of our accounts receivable facility was $180 million, which was subsequently reduced to zero in July 2003.

If our debt ratings fall below investment grade, we would also be in technical breach of a bank agreement covering $52 million of letters of credit at June 30, 2003, which might entitle the bank to set-off rights. In addition, a $151 million letter of credit line, of which $141 million has been issued, includes provisions that allow the banks to require cash collateralization for the full line if debt ratings of either rating agency fall below the rating of BBB by Standard & Poor's or Baa2 by Moody's Investors' Services. These letters of credit and bank guarantees generally relate to our guaranteed performance or retention payments under our long-term contracts and self-insurance.

Our Halliburton Elective Deferral Plan has a provision which states that if the Standard & Poor's rating falls below BBB the amounts credited to the participants' accounts will be paid to the participants in a lump-sum within 45 days. At June 30, 2003 this was approximately $48 million.

In the event the ratings of our debt by either agency fall, we may have to issue additional debt or equity securities or obtain additional credit facilities in order to satisfy the cash collateralization requirements under the instruments referred to above and meet our other liquidity needs. We anticipate that any such new financing would not be on terms as attractive as those we have currently and that we would also be subject to increased borrowing costs and interest rates.

Letters of credit. In the normal course of business, we have agreements with banks under which approximately $1.3 billion of letters of credit or bank guarantees were issued, including at least $195 million which relate to our joint ventures' operations. The agreements with these banks contain terms and conditions that define when the banks can require cash collateralization of the entire line. Agreements with banks covering at least $150 million of letters of credit allow the bank to require cash collateralization for any reason, and agreements covering another at least $890 million of letters of credit allow the bank to require cash collateralization for the entire line in the event of a bankruptcy or insolvency event involving one of our subsidiaries that will be a party to the proposed Chapter 11.

Our letters of credit also contain terms and conditions that define when they may be drawn. At least $230 million of letters of credit permit the beneficiary of such letters of credit to draw against the line for any reason and another at least $560 million of letters of credit permit the beneficiary of such letters of credit to draw against the line in the event of a bankruptcy or insolvency event involving one of our subsidiaries who will be party to the proposed reorganization proceedings.

Effective October 9, 2002, we amended an agreement with banks under which $261 million of letters of credit had been issued on the Barracuda-Caratinga project. The amended agreement removes the provision that previously allowed the banks to require collateralization if ratings of Halliburton debt fell below investment grade ratings. The revised agreement includes provisions that require us to maintain ratios of debt to total capital and of total earnings before interest, taxes, depreciation and amortization to interest expense. The definition of debt includes our asbestos liability. The definition of total earnings before interest, taxes, depreciation and amortization excludes any non-cash charges related to the proposed settlement through December 31, 2003.

As such, requirements for us to cash collateralize letters of credit and surety bonds by issuers and beneficiaries of these instruments could be caused by:

- our plans to place DII Industries, Kellogg Brown & Root and some of their subsidiaries with United States operations into a pre-packaged Chapter 11 proceeding as part of the proposed settlement;
- in the absence of the proposed settlement, one or more substantial adverse judgments;
- not being able to recover on a timely basis insurance reimbursement; or
- a reduction in credit ratings.

Uncertainty may also hinder our ability to access new letters of credit in the future. This could impede our liquidity and/or our ability to conduct normal operations.

Our anticipated credit facilities related to the proposed asbestos and silica settlement would include a master letter of credit facility intended to replace any cash collateralization rights of issuers of substantially all our existing letters of credit during the pendency of the anticipated Chapter 11 proceedings by DII Industries and Kellogg Brown & Root and some of their subsidiaries with United States operations. The master letter of credit facility would also provide collateral for issuers of our existing letters of credit if such letters of credit are drawn and the issuing bank provides cash for collateral or reimbursement. If any of such existing letters of credit are drawn during the bankruptcy and the bank issuing the letter of credit provides cash to collateralize or reimburse for such draws, it is anticipated that the letter of credit facility would provide the cash needed for such draws, with any borrowings being converted into term loans. However, this master letter of credit facility is not currently in place, and, if we were required to cash collateralize letters of credit prior to obtaining the facility, we would be required to use cash on hand or existing credit facilities. Substantial cash collateralization requirements prior to our being able to enter into a new master letter of credit facility may have a material adverse effect on our financial condition. We will not enter into the pre-packaged Chapter 11 filing without having this credit facility in place. There can be no assurance that we

will be able to enter into such a facility on reasonable terms or on terms acceptable to us or at all. In addition, representatives of DII Industries, Kellogg Brown & Root and their subsidiaries are having continuing discussions with their customers in order to reduce the possibility that any material draw on the existing letters of credit will occur due to the anticipated Chapter 11 proceedings.

In the past, no significant claims have been made against letters of credit issued on our behalf.

Barracuda-Caratinga Project. In June 2000, KBR entered into a contract with the project owner, Barracuda & Caratinga Leasing Company B.V., to develop the Barracuda and Caratinga crude oil fields, which are located off the coast of Brazil. The project manager and owner's representative is Petroleo Brasilero SA (Petrobras), the Brazilian national oil company. When completed, the project will consist of two converted supertankers which will be used as floating production, storage and offloading platforms, or FPSOs, 33 hydrocarbon production wells, 18 water injection wells and all sub-sea flow lines and risers necessary to connect the underwater wells to the FPSOs.

KBR's performance under the contract is secured by:

- three performance letters of credit, which together have an available credit of approximately $266 million as of June 30, 2003 and which represent approximately 10% of the contract amount, as amended to date by change orders;
- a retainage letter of credit in an amount equal to $141 million as of June 30, 2003 and which will increase in order to continue to represent 10% of the cumulative cash amounts paid to KBR; and
- a guarantee of KBR's performance of the agreement by Halliburton Company in favor of the project owner.

In the event that KBR is alleged to be in default under the contract, the project owner may assert a right to draw upon the letters of credit. If the letters of credit were to be drawn, KBR would be required to fund the amount of the draw to the issuing banks. To the extent KBR cannot fund the amount of the draw, Halliburton would be required to do so, which could have a material adverse effect on Halliburton's financial condition and results of operations.

In addition, the proposed Chapter 11 pre-packaged bankruptcy filing by KBR in connection with the proposed settlement of its asbestos claims would constitute an event of default under the contract that would allow the owner (with the approval of the lenders financing the project) to assert a right to draw the letters of credit unless waivers are obtained. The proposed Chapter 11 filing would also constitute an event of default under the owner's loan agreements with the lenders that would allow the lenders to cease funding the project. We believe that it is unlikely that the owner will make a draw on the letters of credit as a result of the proposed Chapter 11 filing. We also believe it is unlikely that the lenders will exercise any right to cease funding the project given the current status of the project and the fact that a failure to pay KBR may allow KBR to cease work on the project without Petrobras having a readily available substitute contractor. However, there can be no assurance that the lenders will continue to fund the project or that the owner will not require funding of the letters of credit by KBR.

In the event that KBR was determined after an arbitration proceeding to have been in default under the contract with Petrobras, and if the project was not completed by KBR as a result of such default (i.e., KBR's services are terminated as a result of such default), the project owner may seek direct damages (including completion costs in excess of the contract price and interest on borrowed funds, but excluding consequential damages) against KBR for up to $500 million plus the return of up to $300 million in advance payments previously received by KBR to the extent they have not been repaid.

In addition to the amounts described above, KBR may have to pay liquidated damages if the project is delayed beyond the original contract completion date. KBR expects that the project will likely be completed at least 16 months later than the original contract completion date. Although KBR believes that the project's delay is due primarily to the actions of the project owner, in the event that any portion of the delay is determined to be attributable to KBR and any phase of the project is completed after the milestone dates specified in the contract, KBR could be required to pay liquidated damages. These damages would be calculated on an escalating basis of approximately $1 million per day of delay caused by KBR, subject to a total cap on liquidated damages of 10% of the final contract amount (yielding a cap of approximately $266 million as of June 30, 2003).

As of June 30, 2003, the project was approximately 75% complete and KBR had recorded a pretax loss of $345 million related to the project, of which $173 million was recorded in the second quarter of 2003. The second quarter 2003 charge was due to higher cost estimates, schedule extensions, increased project contingencies and other factors identified during the quarterly review of the project. The probable unapproved claims included in determining the loss on the project were $182 million as of June 30, 2003. The claims for the project most likely will not be settled within one year. Accordingly, based upon the contract being approximately 75% complete, probable unapproved claims of $134 million at June 30, 2003 have been recorded to long-term unbilled work on uncompleted contracts. Those amounts are included in "Other assets, net" on the balance sheet. KBR has asserted claims for compensation substantially in excess of $182 million. The project owner, through its project manager, Petrobras, has denied responsibility for all such claims. Petrobras has, however, issued formal change orders worth approximately $61 million which are not included in the $182 million in probable unapproved claims.

In June 2003, Halliburton, KBR and Petrobras, on behalf of the project owner, entered into a non-binding heads of agreement that would resolve some of the disputed issues between the parties, subject to final agreement and lender approval. The original completion date for the Barracuda project was December 2003 and the original completion date for the Caratinga project was April 2004. Under the heads of agreement, the project owner would grant an extension of time to the original completion dates and other milestone dates that averages approximately 12 months, delay any attempt to assess the original liquidated damages against KBR for project delays beyond 12 months and up to 18 months, delay any drawing of letters of credit with respect to such liquidated damages and delay the return of any of the $300 million in advance payments until after arbitration. The heads of agreement also provides for a separate liquidated damages calculation of $450,000 per day for each of the Barracuda and the Caratinga vessels for a delay from the original schedule beyond 18 months (subject to the total cap on liquidated damages of 10% of the final contract amount). The heads of agreement does not delay the drawing of letters of credit for these liquidated damages. The extension of the original completion dates and other milestones would significantly reduce the likelihood of KBR incurring liquidated damages on the project. Nevertheless, KBR continues to have exposure for substantial liquidated damages for delays in the completion of the project.

Under the heads of agreement, the project owner has agreed to pay $59 million of KBR's disputed claims (which are included in the $182 million of probable unapproved claims as of June 30, 2003) and to arbitrate additional claims. The maximum recovery from the claims to be arbitrated would be capped at $375 million. The heads of agreement also allows the project owner or Petrobras to arbitrate additional claims against KBR, not including liquidated damages, the maximum recovery from which would be capped at $380 million. KBR believes the claims made to date by the project owner are based on a delay in project completion. KBR's contract with the project owner excludes consequential damages and, as indicated above, provides for liquidated damages in the event of delay in completion of the project. While there can be no assurance that the arbitrator will agree, KBR believes if it is determined that KBR is liable for delays, the project owner would be entitled to liquidated damages in amounts up to those referred to above, and not to an additional $380 million.

The finalization of the heads of agreement is subject to project lender approval. The parties have had discussions with the lenders and based on these discussions have agreed to certain modifications to the original terms of the heads of agreement to conform to the lenders' requirements. They have agreed that the $300 million in advance payments would be due on the earliest of December 7, 2004, the completion of any arbitration or the resolution of all claims between the project owner and KBR. Likewise, the project owner's obligation to defer drawing letters of credit with respect to liquidated damages for delays between 12 and 18 months would extend only until December 7, 2004. The discussions with the lenders are not yet complete, and no agreement for their approval has yet been obtained. While we believe the lenders have an incentive to approve the heads of agreement and complete the financing of the project, and the parties have agreed to the modifications described above to the heads of agreement to secure the lenders' approval, there is no assurance that they will do so. If the lenders do not consent to the heads of agreement, Petrobras may be forced to secure other funding to complete the project. There is no assurance that Petrobras will pursue or will be able to secure such funding.

Absent lender approval of the heads of agreement, KBR could be subject to additional liquidated damages and other claims, be subject to the letters of credit being drawn and be required to return the $300 million in advance payments in accordance with the original contract terms. The original contract terms require repayment through $300 million of credits to the last $350 million

of invoices on the contract. No assurance can be given that the heads of agreement will be finalized or that the lenders will approve the heads of agreement or that the lenders will approve the heads of agreement without revisions that could adversely affect KBR.

The project owner has procured project finance funding obligations from various lenders to finance the payments due to KBR under the contract. The project owner currently has no other committed source of funding on which we can necessarily rely other than the project finance funding for the project. If the lenders cease to fund the project, the project owner may not have the ability to continue to pay KBR for its services. The original loan documents provide that the lenders are not obligated to continue to fund the project if the project has been delayed for more than 6 months. In November 2002, the lenders agreed to extend the 6-month period to 12 months. Other provisions in the loan documents may provide for additional time extensions. However, delays beyond 12 months may require lender consent in order to obtain additional funding. While we believe the lenders have an incentive to complete the financing of the project, there is no assurance that they would do so. If the lenders did not consent to extensions of time or otherwise ceased funding the project, we believe that Petrobras would provide for or secure other funding to complete the project, although there is no assurance that it would do so. To date, the lenders have made funds available, and the project owner has continued to disburse funds to KBR as payment for its work on the project even though the project completion has been delayed.

In addition, although the project financing includes borrowing capacity in excess of the original contract amount, only $250 million of this additional borrowing capacity is reserved for increases in the contract amount payable to KBR and its subcontractors. Under the loan documents, the availability date for loan draws expires December 1, 2003. As a condition to approving the heads of agreement, the lenders will require the project owner to draw all remaining available funds prior to December 1, 2003, and to escrow the funds for the exclusive use of paying project costs. No funds may be paid to Petrobras or its subsidiary (which is funding the drilling costs of the project) until all amounts due to KBR, including amounts due for the claims, are liquidated and paid. While this potentially increases the funds available for payment to KBR, KBR is not party to the arrangement between the lenders and the project owner and can give no assurance that there will be adequate funding to cover current or future KBR claims and change orders.

KBR has now begun to fund operating cash shortfalls on the project and would be obligated to fund such shortages over the remaining project life in an amount we currently estimate to be approximately $500 million (assuming generally that neither we nor the project owner are successful in recovering claims against the other and that no liquidated damages are imposed). Under the same assumptions, except assuming that KBR recovers unapproved claims in the amounts currently recorded on our books, the cash shortfall would be approximately $320 million. While KBR believes it will recover amounts in excess of the amount of unapproved claims on its books, there can be no assurance that it will do so.

Current maturities. We had $166 million of current maturities of long-term debt as of June 30, 2003. Subsequent to second quarter 2003, we repaid a $150 million medium-term note due July 2003.

Cash and cash equivalents. We ended June 30, 2003 with cash and equivalents of $1.9 billion.

OFF BALANCE SHEET RISK

On April 15, 2002, we entered into an agreement to sell accounts receivable to a bankruptcy-remote limited-purpose funding subsidiary. Under the terms of the agreement, new receivables are added on a continuous basis to the pool of receivables, and collections reduce previously sold accounts receivable. This funding subsidiary sells an undivided ownership interest in this pool of receivables to entities managed by unaffiliated financial institutions under another agreement. Sales to the funding subsidiary have been structured as "true sales" under applicable bankruptcy laws. The assets of the funding subsidiary are not available to pay any creditors of ours or of our subsidiaries or affiliates, until such time as the agreement with the unaffiliated companies is terminated following sufficient collections to liquidate all outstanding undivided ownership interests. The funding subsidiary retains the interest in the pool of receivables that are not sold to the unaffiliated companies and is fully consolidated and reported in our financial statements.

The amount of undivided interests, which can be sold under the program, varies based on the amount of eligible Energy Services Group receivables in the pool at any given time and other factors. The funding subsidiary initially sold a $200 million undivided ownership interest to the unaffiliated companies, and may from time to time sell additional undivided ownership interests. The total amount outstanding under this facility was $180 million as of June 30, 2003. The amount of undivided ownership interest in the pool of receivables sold to the unaffiliated companies is reflected as a reduction of accounts receivable in our consolidated balance sheet. In July 2003, the balance outstanding under this facility was reduced to zero.

ENVIRONMENTAL MATTERS

We are subject to numerous environmental, legal and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act, the Resources Conservation and Recovery Act, the Clean Air Act, the Federal Water Pollution Control Act and the Toxic Substances Control Act, among others. In addition to the federal laws and regulations, states where we do business may have equivalent laws and regulations by which we must also abide.

We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal and regulatory requirements. On occasion we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated as well as efforts to meet or correct compliance-related matters.

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. We have subsidiaries that have been named as potentially responsible parties along with other third parties for nine federal and state superfund sites for which we have established a liability. As of June 30, 2003, those nine sites accounted for approximately $7 million of our total $36 million liability. See Note 12 to the financial statements.

FORWARD-LOOKING INFORMATION

Looking ahead, we believe United States activity levels will increase modestly in the second half of this year. In particular, we expect continued strong drilling activity onshore in North America provided natural gas or oil prices do not decline significantly from current levels. Activity in the United States Gulf of Mexico has been disappointing in the first half of this year and we expect only a modest improvement through year end. Outside of North America, we expect rig counts will be flat to up slightly for the balance of the year. Mexico has also shown a significant increase in drilling activity, and we expect this high level of activity to continue in the near term. Pricing on new contracts for certain of our products and services began to improve in the second quarter. We expect that the pricing environment will gradually improve for the balance of the year. We are currently implementing price increases and discount reductions in selected product lines and geographies.

In the longer-term, we expect increased global demand for oil and natural gas, additional customer spending to replace depleting reserves and our continued technological advances to provide growth opportunities.

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", "plans", "does not plan", "anticipate", "do not anticipate", and other 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 judgment 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 and potentially adversely affect our financial condition and results of operations, including risks relating to:

Asbestos

- completion of the proposed settlement, prerequisites which include:
  - agreement on the total number of current asbestos and silica personal injury claims and the aggregate compensation for such claims within the parameters of the proposed settlement;
  - agreement on the amounts to be contributed to the trust for the benefit of current silica claimants;
  - our due diligence review for product exposure and medical basis for claims;
  - agreement on procedures for distribution of settlement funds to individuals claiming personal injury;
  - determining whether, after diligence and the identification of duplicate claims, payment of the claims submitted would exceed the $2.775 billion cash portion of the asbestos settlement, and the manner in which we and the claimants respond to these matters;
  - definitive agreement on a plan of reorganization and disclosure statement relating to the proposed settlement;
  - arrangement of acceptable financing to fund the proposed settlement;
  - Board of Directors approval;
  - obtaining approval from 75% of current asbestos claimants and the requisite silica claimants to the plan of reorganization implementing the proposed settlement;
  - obtaining final and non-appealable bankruptcy court approval and federal district court confirmation of the plan of reorganization;
  - finalizing the settlement agreement with Harbison-Walker and obtaining bankruptcy court approval thereof; and
  - Harbison-Walker obtaining approval of its proposed plan of reorganization in a form satisfactory to us;
- the results of being unable to complete the proposed settlement, including:
  - continuing asbestos and silica litigation against us, which would include the possibility of substantial adverse judgments, the timing of which could not be controlled or predicted, and the obligation to provide appeals bonds pending any appeal of any such judgment, some or all of which may require us to post cash collateral;
  - current and future asbestos claims settlement and defense costs, including the inability to completely control the timing of such costs and the possibility of increased costs to resolve personal injury claims;
  - the possibility of an increase in the number and type of asbestos and silica claims against us in the future;
  - future events in the Harbison-Walker bankruptcy proceeding, including the possibility of discontinuation of the temporary restraining order entered by the Harbison-Walker bankruptcy court that applies to over 200,000 pending claims against DII Industries; and
  - any adverse changes to the tort system allowing additional claims or judgments against us;
- the results of being unable to recover, or being delayed in recovering, insurance reimbursement in the amounts anticipated to cover a part of the costs incurred defending asbestos and silica claims, and amounts paid to settle claims or as a result of court judgments, due to:
  - the inability or unwillingness of insurers to timely reimburse for claims in the future;
  - disputes as to documentation requirements for DII Industries in order to recover claims paid;

        - the inability to access insurance policies shared with, or the dissipation of shared insurance assets by, Harbison-Walker Refractories Company or Federal-Mogul Products, Inc.;
        - the insolvency or reduced financial viability of insurers;
        - the cost of litigation to obtain insurance reimbursement; and
        - adverse court decisions as to our rights to obtain insurance reimbursement;
    - the results of recovering, or agreeing in settlement of litigation to recover, less insurance reimbursement than the insurance receivable recorded in our financial statements;
    - continuing exposure to liability even after the proposed settlement is completed, including exposure to:
        - any claims by claimants exposed outside of the United States;
        - possibly any claims based on future exposure to silica;
        - property damage claims as a result of asbestos and silica use; or
        - any claims against any other subsidiaries or business units of Halliburton that would not be released in the Chapter 11 proceeding through the 524(g) injunction;
    - liquidity risks resulting from being unable to complete a settlement or timely recovery of insurance reimbursement for amounts paid, each as discussed further below; and
    - an adverse effect on our financial condition or results of operations as a result of any of the foregoing;

Liquidity

    - adverse financial developments that could affect our available cash or lines of credit, including:
        - the effects described above of not completing the proposed settlement or not being able to timely recover insurance reimbursement relating to amounts paid as part of a settlement or as a result of judgments against us or settlements paid in the absence of a settlement;
        - our inability to provide cash collateral for letters of credit or any bonding requirements from customers or as a result of adverse judgments that we are appealing; and
        - a reduction in our credit ratings as a result of the above or due to other adverse developments;
    - requirements to cash collateralize letters of credit and surety bonds by issuers and beneficiaries of these instruments in reaction to:
        - our plans to place DII Industries, Kellogg Brown & Root and some of their subsidiaries into a pre-packaged Chapter 11 bankruptcy as part of the proposed settlement;
        - in the absence of a settlement, one or more substantial adverse judgments;
        - not being able to timely recover insurance reimbursement; or
        - a reduction in credit ratings;
    - our ability to secure financing on acceptable terms to fund our proposed settlement;
    - defaults that could occur under our and our subsidiaries' debt documents as a result of a Chapter 11 filing unless we are able to obtain consents or waivers to those events of default, which events of default could cause defaults under other of our credit facilities and possibly result in an obligation to immediately pay amounts due;
    - actions by issuers and beneficiaries of current letters of credit to draw under such letters of credit prior to our completion of a new letter of credit facility that is intended to provide reasonably sufficient credit lines for us to be able to fund any such cash requirements;
    - reductions in our credit ratings by rating agencies, which could result in:
        - the unavailability of borrowing capacity under our existing $350 million line of credit facility, which is only available to us if we maintain an investment grade credit rating;
        - reduced access to lines of credit, credit markets and credit from suppliers under acceptable terms;
        - borrowing costs in the future; and
        - inability to issue letters of credit and surety bonds with or without cash collateral;
    - working capital requirements from time to time;

- debt and letter of credit covenants;
- volatility in the surety bond market;
- availability of financing from the United States Export/Import Bank;
- ability to raise capital via the sale of stock; and
- an adverse effect on our financial condition or results of operations as a result of any of the foregoing;

Legal

- litigation, including, for example, class action shareholder and derivative lawsuits, contract disputes, patent infringements, and environmental matters;
- any adverse outcome of the SEC's current investigation into Halliburton's accounting policies, practices and procedures that could result in sanctions and the payment of fines or penalties, restatement of financials for years under review or additional shareholder lawsuits;
- trade restrictions and economic embargoes imposed by the United States and other countries;
- restrictions on our ability to provide products and services to Iran, Iraq and Libya, all of which are significant producers of oil and gas;
- protective government regulation in many of the countries where 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;
- potentially adverse reaction, and time and expense responding to, the increased scrutiny of Halliburton by regulatory authorities, the media and others;
- potential liability and adverse regulatory reaction in Nigeria to the theft from us of radioactive material used in wireline logging operations;
- environmental laws and regulations, including, for example, those that:
    - require emission performance standards for facilities; and
    - the potential regulation in the United States of our Energy Services Group's hydraulic fracturing services and products as underground injection; and
- the proposed excise tax in the United States targeted at heavy equipment of the type we own and use in our operations would negatively impact our Energy Services Group operating income;

Effect of Chapter 11 Proceedings

- the adverse effect on the ability of the subsidiaries that are proposed to file a Chapter 11 proceeding to obtain new orders from current or prospective customers;
- the potential reluctance of current and prospective customers and suppliers to honor obligations or continue to transact business with the Chapter 11 filing entities;
- the potential adverse effect of the Chapter 11 filing of negotiating favorable terms with customers, suppliers and other vendors;
- a prolonged Chapter 11 proceeding that could adversely affect relationships with customers, suppliers and employees, which in turn could adversely affect our competitive position, financial condition and results of operations and our ability to implement the proposed plan of reorganization; and
- the adverse affect on our financial condition or results of operations as a result of the foregoing;

Geopolitical

- unrest in the Middle East that could:
    - impact the demand and pricing for oil and gas;
    - disrupt our operations in the region and elsewhere; and
    - increase our costs for security worldwide;
- unsettled political conditions, consequences of war or other armed conflict, the effects of terrorism, civil unrest, strikes, currency controls and governmental actions in many oil producing countries and countries in which we provide governmental logistical support that could adversely affect our revenues and profit. Countries where we operate which have significant amounts of political risk include Afghanistan,

Algeria, Angola, Colombia, Indonesia, Iraq, Libya, Nigeria, Russia, and Venezuela. For example, the national strike in Venezuela as well as seizures of offshore oil rigs by protestors and cessation of operations by some of our customers in Nigeria disrupted our Energy Services Group's ability to provide services and products to our customers in these countries during first quarter 2003 and likely will continue to do so throughout the remainder of 2003; and

- changes in foreign exchange rates and exchange controls as were experienced in Argentina in late 2001 and early 2002 and in Venezuela in fourth quarter 2002;

Weather related

- severe weather that impacts our business, particularly in the Gulf of Mexico where we have significant operations. Impacts may include:
    - evacuation of personnel and curtailment of services;
    - weather related damage to offshore drilling rigs resulting in suspension of operations;
    - weather related damage to our facilities;
    - inability to deliver materials to jobsites in accordance with contract schedules; and
    - loss of productivity; and
- demand for natural gas in the United States drives a disproportionate amount of our Energy Services Group's United States business. As a result, warmer than normal winters in the United States are detrimental to the demand for our services to gas producers. Conversely, colder than normal winters in the United States result in increased demand for our services to gas producers;

Customers

- the magnitude of governmental spending and outsourcing for military and logistical support of the type that we provide, including, for example, support services in the Balkans and Iraq;
- 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 including, for example, the merger of Conoco and Phillips Petroleum, has caused customers to reduce their capital spending which has negatively impacted the demand for our services and products;
- potential adverse customer reaction, including potential draws upon letters of credit, due to their concerns about our plans to place DII Industries, Kellogg Brown & Root and some of their subsidiaries into a pre-packaged bankruptcy as part of the proposed settlement;
- customer personnel changes due to mergers and consolidation which impacts the timing of contract negotiations and settlements of claims;
- claim negotiations with engineering and construction customers on cost and schedule variances and change orders on major projects, including, for example, the Barracuda-Caratinga project in Brazil;
- delay in customer spending due to consolidation and strategic changes such as sales of the shallow water properties in the Gulf of Mexico and recent sale of properties in the North Sea. Spending is typically delayed when new operators take over; and
- ability of our customers to timely pay the amounts due us;

Industry

- changes in oil and gas prices, among other things, result from:
    - the uncertainty as to the timing of return of Iraqi oil production;
    - 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;
    - the level of demand for oil and natural gas, especially natural gas in the United States; and
    - the level of gas storage in the northeast United States;

- obsolescence of our proprietary technologies, equipment and facilities, or work processes;
- changes in the price or the availability of commodities that we use;
- our ability to obtain key insurance coverage on acceptable terms;
- non-performance, default or bankruptcy of joint venture partners, key suppliers or subcontractors;
- performing fixed-price projects, where failure to meet schedules, cost estimates or performance targets could result in reduced profit margins or losses;
- entering into complex business arrangements for technically demanding projects where failure by one or more parties could result in monetary penalties; and
- 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;

Systems

- the successful identification, procurement and installation of a new financial system to replace the current system for the Engineering and Construction Group;

Personnel and mergers/reorganizations/dispositions

- ensuring acquisitions and new products and services add value and complement our core businesses; and
- successful completion of 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 press releases and Forms 10-K, 10-Q and 8-K filed with the United States Securities and Exchange Commission. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.

No assurance can be given that our financial condition or results of operations would not be materially and adversely affected by some of the events described above, including:

- the inability to complete a settlement;
- in the absence of a settlement, adverse developments in the tort system, including adverse judgments and increased defense and settlement costs relating to claims against us;
- liquidity issues resulting from failure to complete a settlement, adverse developments in the tort system, including adverse judgments and increased defense and settlement costs, and resulting or concurrent credit ratings downgrades and/or demand for cash collateralization of letters of credit or surety bonds;
- the filing of Chapter 11 proceedings by some of our subsidiaries or a prolonged Chapter 11 proceeding; and
- adverse geopolitical developments, including armed conflict, civil disturbance and unsettled political conditions in foreign countries in which we operate.

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 is to protect our cash flows related to sales or purchases of goods or services from market fluctuations in currency rates. Our use of derivative instruments includes the following types of market risk:

- volatility of the currency rates;
- time horizon of the derivative instruments;
- market cycles; and
- 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.

Item 4. Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2003 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On June 30, 2003, we issued $1.2 billion of 3.125% convertible senior notes due July 15, 2023. Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc., ABN AMRO Incorporated, HSBC and The Royal Bank of Scotland plc, the initial purchasers of the notes, agreed to sell the notes only to persons whom they reasonably believe are "qualified institutional buyers" in reliance on Rule 144A under the Securities Act of 1933. The initial purchasers offered the notes at 100% of the principal amount thereof. The initial purchasers purchased the notes from us at 98% of the principal amount thereof.

The notes are convertible into our common stock under any of the following circumstances:

- during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous quarter is greater than or equal to 120% of the conversion price per share of our common stock on such last trading day;
- if the notes have been called for redemption;
- upon the occurrence of certain corporate transactions; or
- during any period in which the credit ratings assigned to the notes by both Moody's and Standard & Poor's are lower than Ba1 and BB+, respectively, or the notes are no longer rated by at least one of these rating services or their successors.

The initial conversion price is $37.65 per share and is subject to adjustment. Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and common stock.

Item 4. Submission of Matters to a Vote of Security Holders

At our Annual Meeting of Stockholders held on May 21, 2003, stockholders were asked to consider and act upon:

(1) the election of Directors for the ensuing year;
(2) ratification of the selection of KPMG LLP as independent accountants to examine the financial statements and books and records of Halliburton for the year 2003;
(3) a proposal to amend and restate the Halliburton Company 1993 Stock and Incentive Plan; and
(4) a stockholder proposal on executive severance agreements.

The following table sets out, for each matter where applicable, the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes.

(1) Election of Directors:

Name of Nominee	Votes For	Votes Withheld
Robert L. Crandall	357,966,842	10,979,634
Kenneth T. Derr	358,416,648	10,529,828
Charles J. DiBona	359,872,432	9,074,044
W. R. Howell	358,195,287	10,751,189
Ray L. Hunt	358,394,321	10,552,155
David J. Lesar	357,989,553	10,956,923
Aylwin B. Lewis	359,982,433	8,964,043
J. Landis Martin	359,981,448	8,965,028
Jay A. Precourt	360,122,772	8,823,704
Debra L. Reed	360,079,926	8,866,550
C. J. Silas	358,308,083	10,638,393

(2) Ratification of KPMG LLP as independent accountants:

Number of Votes For	356,903,869
Number of Votes Against	9,486,518
Number of Votes Abstain	2,556,089
Number of Broker Non-Votes	0

(3) Proposal to amend and restate the Halliburton Company 1993 Stock and Incentive Plan:

Number of Votes For	268,381,549
Number of Votes Against	27,714,726
Number of Votes Abstain	3,472,864
Number of Broker Non-Votes	69,377,337

(4) Stockholder proposal on executive severance agreements:

Number of Votes For	109,768,116
Number of Votes Against	181,647,039
Number of Votes Abstain	7,000,984
Number of Broker Non-Votes	70,530,337

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

*	4.1	Senior Indenture dated as of June 30, 2003 between Halliburton and JPMorgan Chase Bank, as Trustee.
*	4.2	Form of note of 3.125% Convertible Senior Notes due July 15, 2023 (included as Exhibit A to Exhibit 4.1 above).
*	10.1	Halliburton Company 1993 Stock and Incentive Plan, as amended and restated effective February 12, 2003.
*	31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed with this Form 10-Q

(b) Reports on Form 8-K

Date Filed	Date of Earliest Event	Description of Event
During the second quarter of 2003:		
April 29, 2003	April 28, 2003	Items 9 and 12. Regulation FD Disclosure and Disclosure of Results of Operations and Financial Condition for a press release announcing 2003 first quarter results.
May 9, 2003	May 8, 2003	Item 9. Regulation FD furnishing Certifications to the SEC pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002, signed by David J. Lesar and C. Christopher Gaut.
May 23, 2003	May 21, 2003	Item 9. Regulation FD Disclosure for a press release announcing a 2003 second quarter dividend.
May 23, 2003	May 21, 2003	Item 9. Regulation FD Disclosure for a press release announcing a correction of the 2003 second quarter dividend announcement.
May 30, 2003	May 30, 2003	Item 9. Regulation FD Disclosure for a press release announcing an agreement reached to settle class action lawsuits.
June 10, 2003	June 6, 2003	Item 9. Regulation FD Disclosure for a press release updating the status of the proposed global settlement.
June 11, 2003	June 9, 2003	Item 9. Regulation FD Disclosure for a press release announcing a conference call on July 31, 2003 to discuss 2003 second quarter financial results.
June 20, 2003	June 20, 2003	Item 9. Regulation FD Disclosure for a press release announcing updates on the Barracuda-Caratinga project, second quarter earnings guidance, and findings of due diligence on the proposed asbestos settlement.
June 25, 2003	June 23, 2003	Item 9. Regulation FD Disclosure for a press release announcing the offering of convertible senior notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.
June 25, 2003	June 24, 2003	Item 9. Regulation FD Disclosure for a press release announcing the pricing of convertible senior notes which were offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933.

Date Filed	Date of Earliest Event	Description of Event
During the third quarter of 2003:		
July 18, 2003	July 17, 2003	Item 9. Regulation FD Disclosure for a press release announcing a 2003 third quarter dividend.
July 21, 2003	July 21, 2003	Item 9. Regulation FD Disclosure for a press release announcing asbestos plaintiffs agree to extend the current stay on asbestos claims until September 30, 2003.
July 23, 2003	July 22, 2003	Item 9. Regulation FD Disclosure for a press release announcing the Harbison-Walker bankruptcy court approved an agreement to extend the current stay on asbestos claims through September 30, 2003.
August 4, 2003	July 31, 2003	Item 12.Disclosure of Results of Operations and Financial Condition for a press release announcing 2003 second quarter results.

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: August 11, 2003

By: /s/ C. Christopher Gaut

C. Christopher Gaut
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 Company

AND

JPMORGAN CHASE BANK,

as Trustee

3?% Convertible Senior Notes due July 15, 2023

INDENTURE
Dated as of June 30, 2003

RECONCILIATION AND TIE BETWEEN THE TRUST INDENTURE ACT OF 1939 AND THE INDENTURE
DATED AS OF JUNE 30, 2003

TRUST INDENTURE ACT SECTION		INDENTURE SECTION(S)
Section	310(a)(1)	11.10
	(a)(2)	11.10
	(a)(3)	Not Applicable
	(a)(4)	Not Applicable
	(a)(5)	11.10
	(b)	11.10
	(c)	Not Applicable
Section	311(a)	11.11
	(b)	11.11
	(c)	Not Applicable
Section	312(a)	2.5
	(b)	14.3
	(c)	14.3
Section	313(a)	11.6
	(b)	11.6
	(c)	11.6
	(d)	11.6
Section	314(b)	Not Applicable
	(c)(1)	14.4
	(c)(2)	14.4
	(c)(3)	Not Applicable
	(d)	Not Applicable
	(e)	14.5
Section	315(a)	11.1(b)
	(b)	11.5
	(c)	11.1(a)
	(d)	11.1(c)
	(e)	10.9
Section	316(a)(1)	10.7
	(a)(2)	Not Applicable
	(a)(last sentence)	14.6
	(b)	10.4
Section	317(a)(1)	10.2
	(a)(2)	10.2
	(b)	2.4
Section	318(a)	14.1

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NOTE: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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EXHIBITS

INDENTURE, dated as of June 30, 2003, among Halliburton Company, a Delaware corporation (the "Company"), and JPMorgan Chase Bank, as trustee (the "Trustee").

Recitals of the Company

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance of $1,200,000,000 principal amount of the Company's 3?% Convertible Senior Notes due July 15, 2023, convertible into common stock, par value $2.50 per share (the "Common Stock"), of the Company, issued on the Issue Date (the "Notes").

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Notes:

ARTICLE I

Definitions and Incorporation by Reference

SECTION 1.1. Definitions.

"Actual Knowledge" has the meaning set forth in Section 11.2(g).

"Additional Amounts" has the meaning set forth in Section 3.10.

"Additional Amounts Notice" shall have the meaning set forth in Section 3.10.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing; provided that beneficial ownership of 10% or more of the Common Equity of a Person shall be deemed to be control.

"Agent Members" has the meaning set forth in Section 2.1(h).

"Authenticating Agent" has the meaning set forth in Section 2.2.

"Bankruptcy Code" means the United States Bankruptcy Code, 11 United States Code ss. 101 et seq., or any successor statute thereto.

"Beneficial Owner" has the meaning set forth in Rule 13d-3 of the Exchange Act.

"Board of Directors" means either the Board of Directors of the Company or other body fulfilling the function of a board of directors of a corporation or any committee of such Board or other body duly authorized to act on its behalf.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of a company to have been duly adopted by the Board of Directors of such company and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means each day that is not a Saturday, Sunday or other day on which banking institutions in New York, New York are authorized or required by law to close.

"Capital Stock" of any Person means any and all shares (including ordinary shares or American Depositary Shares), interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) of capital stock or other equity participations, including partnership interests, whether general or limited, of such Person and any rights (other than debt securities convertible or exchangeable into an equity interest), warrants or options to acquire an equity interest in such Person.

"Cash Amount" has the meaning set forth in Section 9.17(c).

"Cash Settlement Averaging Period" has the meaning set forth in Section 9.17.

"Cash Settlement Notice Period" has the meaning set forth in Section 9.17.

"Clearstream" has the meaning set forth in Section 2.1(b).

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" means the Securities and Exchange Commission.

"Common Equity" of any Person means Capital Stock of such Person that is generally entitled to (1) vote in the election of directors of such Person or (2) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

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

"Company" means Halliburton Company, until a successor replaces it and, thereafter, means such successor.

"Company Notice" has the meaning set forth in Section 8.1.

"Company Notice Date" has the meaning set forth in Section 8.1.

"Company Order" has the meaning set forth in Section 2.2.

"Consolidated Net Tangible Assets" means the aggregate amount of assets included on a consolidated balance sheet of the Company and its Restricted Subsidiaries, less applicable reserves and other properly deductible items and after deducting therefrom (a) all current liabilities, and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and

other like intangibles, all in accordance with generally accepted accounting principles consistently applied (except that the accounts of any Restricted Subsidiary engaged in the insurance business shall be included using the equity method of accounting).

"Continuing Directors" means, as of any date of determination, any member of the Board of Directors of the Company who: (1) was a member of such Board of Directors on June 24, 2003; or (2) was appointed, elected or nominated for election to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of the relevant nomination or election, either by specific vote or by approval of the proxy statement issued by the Company on behalf of the Board of Directors in which such individual is named as a nominee for director.

"Conversion Agent" means the office or agency designated by the Company where Notes may be presented for conversion.

"Conversion Date" has the meaning set forth in Section 9.2.

"Conversion Obligation" has the meaning set forth in Section 9.17.

"Conversion Price" means $1,000 divided by the Conversion Rate.

"Conversion Rate" has the meaning set forth in Section 9.1(f).

"Conversion Retraction Period" has the meaning set forth in Section 9.17.

"Corporate Trust Office" means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 600 Travis, Suite 1150, Houston, Texas 77002, Attention: Institutional Trust Services, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as such successor Trustee may designate from time to time by notice to the Holders and the Company).

"CUSIP Numbers" has the meaning set forth in Section 2.14.

"Default" means any event or condition that is, or after notice or passage of time or both would be, an Event of Default.

"Defaulted Interest" has the meaning set forth in Section 2.12.

"Definitive Notes" means certificated securities.

"DTC" means The Depository Trust Company, its nominees and their respective successors and assigns, or such other depository institution hereinafter appointed by the Company.

"Distributed Assets or Securities" has the meaning provided in Section 9.6(c).

"Distribution Adjustment Market Price" per share of Common Stock of the Company or the Equity Interests in a subsidiary or other business unit of the Company on any day means the average of the daily Last Reported Sale Price for the first 10 consecutive Trading Days commencing on and including the first Trading Day that the Common Stock trades ex distribution.

"Distribution Compliance Period" means the period which expires immediately after one year following the later of: (a) the commencement of the offering of the Notes to Persons other than "distributors" (as defined in Regulation S) in reliance upon Regulation S; and (b) the last date of closing of the offering of the Notes.

"Equity Interests" means any capital stock, partnership, joint venture, member or limited liability or unlimited liability company interest, beneficial interest in a trust or similar entity or other equity interest or investment of whatever nature.

"Euroclear" has the meaning set forth in Section 2.1(b).

"ex distribution" or "ex distribution date" means the first date on which the security trades regular way on the New York Stock Exchange or such other national regional exchange or market in which the security trades without the right to receive such issuance or distribution.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Event of Default" means any event or condition specified as such in Section 10.1.

"Fair Market Value" means (i) in the case of a distribution referred to in Section 9.6(c)(i), the value determined by the Board of Directors, whose determination in good faith shall be conclusive and described in a certificate filed with the Trustee and the Paying Agent, (ii) in the case of securities to be distributed to the holders of the Common Stock in connection with a Spin-off that is not effected simultaneously with an Initial Public Offering of the securities being distributed in the Spin-off, the average of the Last Reported Sale Prices of those securities over the first 10 Trading Days after the effective date of the Spin-off, (iii) in the case of securities being distributed in any Spin-off that is effected simultaneously with an Initial Public Offering, the Initial Public Offering price and (iv) in all other cases, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

A "Fundamental Change" shall be deemed to have occurred at such time after the original issuance of the Notes as any of the following occurs: (a) the Common Stock or other common stock into which the Notes are convertible is neither listed for trading on a United States national securities exchange nor approved for trading on the Nasdaq National Market or another established automated over-the-counter trading market in the United States; (b) a "person" or "group" within the meaning of Section 13(d) of the Exchange Act, other than the Company, any Subsidiary of the Company or any employee benefit plan of the Company or any such Subsidiary, files a Schedule TO (or any other schedule, form or report under the Exchange Act) disclosing that such Person or group has

become the direct or indirect ultimate Beneficial Owner of Common Equity of the Company representing more than 50% of the voting power of the Company's Common Equity; (c) consummation of any share exchange, consolidation or merger of the Company pursuant to which the Common Stock will be converted into cash, securities or other property or any sale, lease or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, to any Person (other than the Company or one or more of the Company's Subsidiaries); provided, however, that a transaction where the holders of the Company's Common Equity immediately prior to such transaction own, directly or indirectly, more than 50% of the aggregate voting power of all classes of Common Equity of the continuing or surviving corporation or transferee immediately after such event shall not be a Fundamental Change; (d) Continuing Directors cease to constitute at least a majority of the Board of Directors; provided, however, that a Fundamental Change shall not be deemed to have occurred in respect of any of the foregoing if either (i) the Last Reported Sale Price per share of Common Stock for any five Trading Days within the period of 10 consecutive Trading Days ending immediately before the later of the Fundamental Change or the public announcement thereof shall equal or exceed 105% of the Conversion Price of the Notes in effect immediately before the Fundamental Change or the public announcement thereof; or (ii) at least 90% of the consideration (excluding cash payments for fractional shares) in the transaction or transactions constituting the Fundamental Change consists of shares of capital stock traded on a national securities exchange or quoted on the NASDAQ National Market (or which shall be so traded or quoted when issued or exchanged in connection with such Fundamental Change) (such securities being referred to as ("Publicly Traded Securities")) and as a result of such transaction or transactions the Notes become convertible into such Publicly Traded Securities (excluding cash payments for fractional shares).

"Fundamental Change Purchase Date" has the meaning set forth in Section 6.1.

"Fundamental Change Purchase Notice" has the meaning set forth in Section 6.3.

"Fundamental Change Purchase Price" has the meaning set forth in Section 6.1.

"GAAP" means generally accepted accounting principles in the United States of America as in effect as of the Issue Date, including those set forth in: (i) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants; (ii) and statements and pronouncements of the Financial Accounting Standards Board; (iii) or in such other statements by such other entity as approved by a significant segment of the accounting profession; and (iv) the rules and regulations of the SEC governing the inclusion of financial statements (including pro forma financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC. All ratios and computations based on GAAP contained in this Indenture will be computed in conformity with GAAP.

"Global Notes" means Notes that are in the form of the Note attached hereto as Exhibit A and that are issued to a depositary.

"Holder" means, in the case of any Note, the person in whose name such Note is registered in the security register kept by the Company for that purpose in accordance with the terms.

"Holder" means the Person in whose name a Note is registered on the Registrar's books.

"IAI" means institutional accredited investors (as defined in Rules 501(a)(1), (2), (3) and (7) under the Securities Act) who are not QIBs.

"Indebtedness" as applied to any Person, means bonds, debentures, notes and other instruments or arrangements representing obligations created or assumed by any such Person, in respect of: (i) obligations for money borrowed (other than unamortized debt discount or premium); (ii) obligations evidenced by a note or similar instrument given in connection with the acquisition of any business, properties or assets of any kind; (iii) any amendments, renewals, extensions, modifications and refundings of any such indebtedness or obligations listed in clause (i), (ii) or (iii) above. All indebtedness secured by a lien upon property owned by such Person of such type, although such Person has not assumed or become liable for the payment of such indebtedness, shall for all purposes hereof be deemed to be indebtedness of such Person. All indebtedness for borrowed money incurred by any other Persons which is directly guaranteed as to payment of principal by such Person shall for all purposes hereof be deemed to be indebtedness of any such Person, but no other contingent obligation of such Person in respect of indebtedness incurred by any other Persons shall for any purpose be deemed to be indebtedness of such Person.

"Indenture" means this Indenture as amended or supplemented from time to time.

"Initial Public Offering" means, in the event of a Spin-off, the first time securities of the same class or type as the securities being distributed in the Spin-off are bona fide offered to the public for cash.

"Interest Payment Date" has the meaning set forth in the forms of Note attached hereto as Exhibit A and Exhibit B.

"Issue Date" means June 30, 2003.

"Last Reported Sale Price" of any security on any date means the closing sale price for such security per share (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported in composite transactions for the principal U.S. securities exchange on which such security is traded or, if such security is not listed on a U.S. national or regional securities exchange, as reported by the Nasdaq National Market. If such security is not listed for trading on a U.S. national or regional securities exchange and not reported by the Nasdaq National Market on the relevant date, the "last reported sale price" shall be the last quoted bid price for such security in the over-the-counter market on the relevant date as reported by the National Quotation Bureau or similar organization. If such security is not so quoted, the "last reported sale price" will be the average of

the mid-point of the last bid and ask prices for such security on the relevant date from each of at least three nationally recognized independent investment banking firms selected by the Company for this purpose.

"Market Price" means the average of the Last Reported Sale Prices of Common Stock for the 20 Trading Day period ending on the applicable date of determination (if the applicable date of determination is a Trading Day or, if not, then on the last Trading Day prior to such applicable date of determination), appropriately adjusted to take into account the occurrence, during the period commencing on the first of the Trading Days during such 20 Trading Day period and ending on the applicable date of determination, of any event that would result in an adjustment of the Conversion Rate under this Indenture.

"Maximum Conversion Rate" has the meaning set forth in Section 9.6(g).

"Note" or "Notes" has the meaning stated in the first recital of this Indenture.

"Note Register" means the register of Notes, maintained by the Trustee, pursuant to Section 2.3.

"Note Registrar" means the registrar for the Notes, initially, the Trustee.

"Notes Custodian" means the custodian with respect to the Global Note (as appointed by the DTC), or any successor Person thereto and shall initially be the Trustee.

"Officer" means the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, the Secretary or an Assistant Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company. Each such certificate shall include the statements provided for in Section 14.5, if and to the extent required by the provisions of Section 14.4.

"Opinion of Counsel" means a written opinion from legal counsel who is satisfactory to the Trustee. The counsel may be an employee of or counsel to the Company. Each such opinion shall include the statements provided for in Section 14.5, if and to the extent required by the provisions of Section 14.4.

"Paying Agent" means the office or agency designated by the Company where Notes may be presented for payment.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Principal Property" means any real property, any manufacturing plant, warehouse, office building or other physical facility, or any item of marine, transportation or construction equipment or other like depreciable asset of the Company or of any Restricted Subsidiary whether owned as of the date of this Indenture or hereafter acquired (other than any facility thereafter acquired for

the control or abatement of atmospheric pollutants or contaminants or water, noise, odor or other pollution), which in the opinion of the Board of Directors is of material importance to the total business conducted by the Company and its Restricted Subsidiaries, as a whole.

"protected purchaser" has the meaning set forth in Section 2.8.

"Publicly Traded Securities" shall have the meaning set forth in the definition of "Fundamental Change".

"Purchase Date" has the meaning set forth in Section 7.1(a).

"Purchase Notice" has the meaning set forth in Section 7.1(a).

"Purchase Price" has the meaning provided in paragraph 7 of the Notes.

"QIB" means any "qualified institutional buyer" (as defined in Rule 144A under the Securities Act).

"Redemption Date" means the date fixed for redemption of the Notes.

"Redemption Price" has the meaning set forth in paragraph 5 of the Note.

"Registrar" means the office or agency maintained by the Company where Notes may be presented for registration of transfer or exchange.

"Registration Rights Agreement" means that certain registration rights agreement dated as of the date of the Indenture by and among the Company and the initial purchasers set forth therein.

"Regulation S" means Regulation S under the Securities Act.

"Responsible Officer" when used with respect to the Trustee, means any officer assigned by the Trustee to administer its corporate trust matters.

"Restricted Note" means a Note that constitutes a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act; provided, however, that the Trustee shall be entitled to request and conclusively rely on an opinion of counsel with respect to whether any Note constitutes a Restricted Note.

"Restricted Note Legend" means the legend set forth in clause (A) or (B) of Section 2.1(d), as applicable.

"Restricted Period" means the 40 consecutive days beginning on and including the later of (A) the day on which the Initial Notes are offered to persons other than distributors (as defined in Regulation S under the Securities Act) and (B) the Issue Date.

"Restricted Stock Legend" means the legend required by Section 2.1(e).

"Restricted Subsidiary" means (a) any Subsidiary other than an Unrestricted Subsidiary, and (b) any Subsidiary which was an Unrestricted Subsidiary but which, subsequent to the date hereof, is designated by the Company (by certified resolution of the Board of Directors delivered to the Trustee) to be a Restricted Subsidiary; provided, however, that the Company may not designate any such Subsidiary to be a Restricted Subsidiary if the Company would thereby breach any covenant or agreement herein contained (on the assumptions that any outstanding Secured Debt of such Subsidiary was incurred at the time of such designation and that any Sale and Leaseback Transaction (as defined in Section 3.3) to which such Subsidiary is then a party was entered into at the time of such designation).

"Rule 144A" means Rule 144A under the Securities Act.

"Sale and Leaseback Transaction" has the meaning set forth in Section 3.3.

"Secured Debt" means indebtedness for money borrowed by the Company or a Restricted Subsidiary, and any other indebtedness of the Company or a Restricted Subsidiary on which interest is paid or payable (other than indebtedness owed by a Restricted Subsidiary to the Company, by a Restricted Subsidiary to another Restricted Subsidiary or by the Company to a Restricted Subsidiary), which in any such case is secured by (a) a mortgage or other lien on any Principal Property of the Company or a Restricted Subsidiary, or (b) a pledge, lien or other security interest on any shares of stock or indebtedness of a Restricted Subsidiary, or (c) in the case of any such indebtedness of the Company, a guaranty by any Restricted Subsidiary.

"Securities Act" means the Securities Act of 1933, as amended.

"Shelf Registration Statement" shall have the meaning set forth in the Registration Rights Agreement.

"Significant Subsidiary" means any Restricted Subsidiary that is a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"Special Record Date" has the meaning set forth in Section 2.12(a).

"Spin-off" means a dividend or other distribution of shares of Capital Stock of any class or series, or similar Equity Interests, of or relating to a Subsidiary or other business unit of the Company.

"Spin-off Market Price" per share of Common Stock on any day means the average of the daily Last Reported Sale Price for the first 10 consecutive Trading Days after the effective date of the Spin-off; provided, however, that if an Initial Public Offering of the Equity Interests being distributed in the Spin-off is to be effected simultaneously with the Spin-off, the Spin-off Market Price of the Common Stock means the Last Reported Sale Price of the Common Stock on the Trading Day on which the Initial Public Offering price of the Equity Interests being distributed in the Spin-off is determined.

"Subsidiary" of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability

company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or persons performing similar functions) or (b) any partnership, joint venture, limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Company.

"Successor Company" shall have the meaning assigned thereto in clause (i) of Section 4.1.

"TIA" or "Trust Indenture Act" means the Trust Indenture Act of 1939 (15 U.S.C.ss.ss. 77aaa-77bbbb), as in effect from time to time.

"Trading Day" means (a) if the applicable security is listed, admitted for trading or quoted on the New York Stock Exchange, the NASDAQ National Market or another national security exchange, a day on which the New York Stock Exchange, the NASDAQ National Market or another national security exchange is open for business or (b) if the applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law, regulation or executive order to close.

"Transfer Restricted Notes" has the meaning set forth in Section 2.1(d).

"Trustee" means the Person identified as "Trustee" in the first paragraph hereof and, subject to the provisions of Article XI, shall also include any successor trustee.

"Uniform Commercial Code" means the New York Uniform Commercial Code as in effect from time to time.

"Unrestricted Subsidiary" means (a) any subsidiary acquired or organized after the date hereof, provided, however, that such Subsidiary shall not be a successor, directly or indirectly, to any Restricted Subsidiary, and (b) any Subsidiary whose principal business and assets are located outside the United States of America, its territories and possessions and Canada or are located in Puerto Rico, and (c) any Subsidiary the principal business of which consists of financing or assisting in financing the acquisition or disposition of products of the Company or a Subsidiary by dealers, distributors or other customers, and (d) any subsidiary the principal business of which is owning, leasing, dealing in or developing real property, and (e) any Subsidiary substantially all the assets of which consist of stock or other securities of a Subsidiary or subsidiaries of the character described in clauses (a) through (d) of this paragraph, unless and until such Subsidiary shall have been designated to be a Restricted Subsidiary pursuant to clause (b) of the definition of "Restricted Subsidiary".

"U.S. Government Obligations" means securities that are (a) direct obligations of the United States of America for the timely payment of which its full faith and credit is pledged or (b) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of

America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act), as custodian with respect to any such U.S. Government Obligations or a specific payment of principal of or interest on any such U.S. Government Obligations held by such custodian for the account of the holder of such depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligations or the specific payment of principal of or interest on the U.S. Government Obligations evidenced by such depositary receipt.

"value" has the meaning set forth in Section 3.3.

"Wholly Owned Subsidiary" means a Restricted Subsidiary of the Company, all of the Capital Stock of which (other than directors' qualifying shares) is owned by the Company or another Wholly Owned Subsidiary.

SECTION 1.2. Incorporation by Reference of Trust Indenture Act. This Indenture is subject to the mandatory provisions of the TIA which are incorporated by reference in and made a part of this Indenture. The following TIA terms have the following meanings:

"indenture securities" means the Notes.

"indenture security holder" means a "Holder".

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company and any other obligor on the indenture securities.

All other TIA terms used in this Indenture that are defined by the TIA, defined by the TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.3. Rules of Construction. Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive;

(4) each Exhibit attached to this Indenture shall be deemed incorporated herein as if set forth in full herein;

(5) words in the singular include the plural and words in the plural include the singular;

(6) unsecured "Indebtedness" shall not be deemed to be subordinate or junior to Secured Indebtedness merely by virtue of its nature as unsecured Indebtedness;

(7) the principal amount of any noninterest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with GAAP; and

(8) the principal amount of any "Preferred Stock" shall be (i) the maximum liquidation value of such Preferred Stock or (ii) the maximum mandatory redemption or mandatory repurchase price with respect to such Preferred Stock, whichever is greater.

(9) the table of contents and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof;

(10) the words "herein," "hereof' and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(11) all references to "$" or "dollars" shall refer to the lawful currency of the United States of America;

(12) the words "include," "included" and "including" as used herein shall be deemed in each case to be followed by the phrase "without limitation," if not expressly followed by such phrase or the phrase "but not limited to";

(13) any reference to a Section or Article refers to such Section or Article of this Indenture unless otherwise indicated.

ARTICLE II

The Notes

SECTION 2.1. Form, Dating and Terms.

(a) The aggregate principal amount of Notes that may be authenticated and delivered under this Indenture is $1,200,000,000. Furthermore, Notes may be authenticated and delivered upon registration or transfer, or in lieu of, other Notes pursuant to Section 2.6, 2.8 or 13.5.

The Notes shall be known and designated as 3?% Convertible Senior Notes due July 15, 2023. Pursuant to the provisions of Article IX, the Notes shall be convertible into Common Stock, par value $2.50 per share (the "Common Stock"), of the Company.

(b) The Notes are being offered and sold by the Company pursuant to a Purchase Agreement, dated June 24, 2003, among the Company, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities Inc. and the other initial purchasers named therein. The Notes will be resold initially only to QIBs. Such Notes may thereafter be transferred to, among others, QIBs and IAIs in accordance with Rule 501 of the Securities Act in accordance with the procedure described herein.

Notes (i) offered and sold to QIBs in reliance on Rule 144A and resold to IAIs in the United States of America and (ii) resold outside the United States of America in reliance on Regulation S shall be issued in the form of one or more permanent Global Notes, without interest coupons, substantially in the form of Exhibit A. Such Global Notes shall be deposited on behalf of the purchasers of the Notes represented thereby with the Trustee, as custodian for the DTC for the accounts of participants in the DTC (and, in the case of Notes held in accordance with Regulation S, registered with the DTC for the accounts of designated agents holding on behalf of the Euroclear S.A. N.V., as operator of the Euroclear System ("Euroclear") or Clearstream Banking societe anonyme ("Clearstream") before the expiration of the Restricted Period and through organizations other than Euroclear or Clearstream that are participants in the DTC's system after the expiration of the Restricted Period), duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of a Global Note may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the DTC or its nominee, as hereinafter provided.

Each Note shall bear the applicable legends set forth in Section 2.1(d) and transfers of the Notes shall be made only in accordance with the restrictions described in the applicable legend. The Notes may have notations, legends or endorsements required by law, stock exchange rule or usage, in addition to those set forth on Exhibit A and in Section 2.1(d). The Company and the Trustee shall approve the forms of the Notes and any notation, endorsement or legend on them. Each Note shall be dated the date of its authentication. The terms of the Note set forth in Exhibit A are part of the terms of this Indenture and, to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to be bound by such terms.

The principal of and interest on the Notes shall be payable at the office or agency of the Company maintained for such purpose in the City of New York, or at such other office or agency of the Company as may be maintained for such purpose pursuant to Section 2.3. Payments (including principal and interest and Additional Amounts, if any) in respect of the Notes represented by the Global Notes, will be made by the transfer of immediately available funds to the accounts specified by the DTC. Payments in respect of a Definitive Note (including principal and interest) shall be payable at the office or agency maintained by the Company for such purposes in the City of New York or, at the Company's option, by mailing a check to the registered address of each Holder thereof as such address shall appear on the Note Register; provided, however, that payments on the Notes may also be made, at the Company's option, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the

United States if such Holder requests payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 15 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion). If a payment date is a date other than a Business Day, payment may be made at that place on the next succeeding day that is a Business Day and no interest shall accrue for the intervening period.

(c) The Notes shall be issuable only in fully registered form, without coupons, and only in denominations of $1,000 and any integral multiple thereof.

(d) Every Note that bears or is required under this Section 2.1(d) to bear the legend set forth in this Section 2.1(d) (the "Transfer Restricted Notes") shall be subject to the restrictions on transfer set forth in this Section 2.1(d) (including those set forth in the legend set forth below), and the Holder of each such Transfer Restricted Note, by such Holder's acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in Sections 2.1(d) and 2.1(e), the term "transfer" encompasses any sale, pledge, transfer or other disposition whatsoever of any Transfer Restricted Note. The Company shall not register any transfer of a Transfer Restricted Note not made in accordance with the restrictions on transfer set forth in this Section 2.1.

(A) Until the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), any certificate evidencing such Note (and all securities issued in exchange therefor or substitution thereof, other than Common Stock, if any, issued upon conversion thereof, which shall bear the legend set forth in Section 2.1(e), if applicable), other than certificates evidencing Notes resold in reliance on Regulation S, shall bear a legend in substantially the following form, unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act (and which continues to be effective at the time of such transfer):

"THIS NOTE AND ANY COMMON STOCK ISSUABLE UPON THE CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ""SECURITIES ACT"), AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THIS NOTE AND ANY COMMON STOCK ISSUABLE UPON THE CONVERSION OF THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) (1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS

OF RULE 144A, (2) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (3) TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.

THIS NOTE, ANY SHARES OF COMMON STOCK ISSUABLE UPON ITS CONVERSION AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS NOTE AND ANY SUCH SHARES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE AND SUCH SHARES SHALL BE DEEMED BY THE ACCEPTANCE OF THIS NOTE AND ANY SUCH SHARES TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

(B) Until the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), any certificate evidencing such Note (and all securities issued in exchange therefor or substitution thereof, other than Common Stock, if any, issued upon conversion thereof, which shall bear the legend set forth in Section 2.1(e), if applicable) resold in reliance on Regulation S shall bear a legend in substantially the following form, unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act (and which continues to be effective at the time of such transfer):

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS, EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), (2) BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) (THE "RESALE RESTRICTION TERMINATION DATE"), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT,

(C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A TRANSACTION INVOLVING A MINIMUM PRINCIPAL AMOUNT OF THE SECURITIES OF $250,000, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO OR FOR OFFER OR SALE IN CONNECTION WITH ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (i) PURSUANT TO CLAUSE (D), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (ii) IN THE CASE OF THE FOREGOING CLAUSE (E), A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE COMPANY AND THE TRUSTEE. THIS LEGEND WILL BE REMOVED AFTER 40 CONSECUTIVE DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DAY ON WHICH THE SECURITIES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S) AND (B) THE DATE OF THE CLOSING OF THE ORIGINAL OFFERING. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

BY ITS ACQUISITION OF THIS SECURITY THE HOLDER THEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (I) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE AND HOLD THIS SECURITY CONSTITUTES THE ASSETS OF AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OF PLANS, INDIVIDUAL RETIREMENT ACCOUNTS OR OTHER ARRANGEMENTS THAT ARE SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") OR PROVISIONS UNDER ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE ("SIMILAR LAWS"), OR OF AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE "PLAN

ASSETS" OF SUCH PLANS, ACCOUNTS OR ARRANGEMENTS, OR (II) THE PURCHASE AND HOLDING OF THIS SECURITY WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS."

Any Note (or security issued in exchange or substitution therefor) as to which such restrictions on transfer shall have expired in accordance with their terms or that has been transferred pursuant to a registration statement that has been declared effective under the Securities Act may, upon surrender of such Note for exchange to the Registrar in accordance with the provisions of this Section 2.1, be exchanged for a new Note or Notes, of like tenor and aggregate principal amount, which shall not bear the Restrictive Notes Legend required by this Section 2.1(d).

(e) Every stock certificate representing Common Stock issued upon conversion of a Transfer Restricted Note that bears or is required under this Section 2.1(e) to bear the legend set forth in this Section 2.1(e) shall be subject to the restrictions on transfer set forth in this Section 2.1(e) (including those set forth in the legend set forth below), and the Holder of such Common Stock issued upon conversion of a Transfer Restricted Note, by such Holder's acceptance thereof, agrees to be bound by all such restrictions on transfer. The Company shall not register any transfer of Common Stock issued upon conversion of such a Transfer Restricted Note not made in accordance with the restrictions on transfer set forth in this Section 2.1.

Until the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), any stock certificate representing Common Stock issued upon conversion of a Transfer Restricted Note shall bear a legend in substantially the following form, unless such Common Stock has been sold pursuant to a registration statement that has been declared effective under the Securities Act (and which continues to be effective at the time of such transfer) or such Common Stock has been issued upon conversion of Notes that have been transferred pursuant to a registration statement that has been declared effective under the Securities Act:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER

REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

Any stock certificate (or security issued in exchange or substitution therefor) as to which such restrictions on transfer shall have expired in accordance with their terms or that has been transferred pursuant to a registration statement that has been declared effective under the Securities Act may, upon surrender of such stock certificate for exchange to the Registrar in accordance with the provisions of this Section 2.1, be exchanged for a new stock certificate, of like tenor and aggregate principal amount, which shall not bear the Restrictive Stock Legend required by this Section 2.1(e).

(f) Each share of Common Stock issued upon conversion of a Note, whether or not a Transfer Restricted Security, shall bear the following legend:

THE HOLDER OF THIS SECURITY AGREES THAT SUCH HOLDER WILL NOT ENGAGE IN HEDGING TRANSACTIONS INVOLVING THIS SECURITY UNLESS IN COMPLIANCE WITH THE SECURITIES ACT.

THIS SECURITY AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED BY THE ACCEPTANCE OF THIS SECURITY TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

THE HOLDER OF THIS SECURITY IS SUBJECT TO, AND ENTITLED TO THE BENEFITS OF, A REGISTRATION RIGHTS AGREEMENT, DATED AS OF JUNE 30, 2003 ENTERED

INTO BY THE COMPANY FOR THE BENEFIT OF CERTAIN HOLDERS OF SECURITIES FROM TIME TO TIME.

THE HOLDER OF THIS SECURITY IS SUBJECT TO, AND ENTITLED TO THE BENEFITS OF, A RIGHTS AGREEMENT, DATED AS OF DECEMBER 1, 1996, BETWEEN THE COMPANY AND CHASEMELLON SHAREHOLDER SERVICES, L.L.C., AS RIGHTS AGENT.

(g) Each Global Note, whether or not a Transfer Restricted Note, shall bear the following legend:

"UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO DTC, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF."

(h) The following book-entry provisions shall apply only to Global Notes deposited with the Trustee, as custodian for the DTC:

(i) Each Global Note initially shall (x) be registered in the name of the DTC for such Global Note or the nominee of such DTC, (y) be delivered to the Trustee as custodian for such DTC and (z) bear legends as set forth in Section 2.1(d).

(ii) Members of, or participants in, the DTC ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the DTC or by the Trustee as the custodian of the DTC or under such Global Note, and the DTC may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization

furnished by the DTC or impair, as between the DTC and its Agent Members, the operation of customary practices of the DTC governing the exercise of the rights of a Holder of a beneficial interest in any Global Note.

(iii) The registered Holder of a Global Note may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Notes.

(iv) In connection with any transfer of a portion of the beneficial interest in a Global Note pursuant to Section 2.1(i) to beneficial owners who are required to hold Definitive Notes, the Trustee shall reflect on its books and records the date and a decrease in the principal amount of such Global Note in an amount equal to the principal amount of the beneficial interest in the Global Note to be transferred, and the Company shall execute, and the Trustee shall authenticate and deliver, one or more Definitive Notes of like tenor and amount.

(v) In connection with the transfer of an entire Global Note to beneficial owners pursuant to Section 2.1(h), such Global Note shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall authenticate and deliver, to each beneficial owner identified by the DTC in exchange for its beneficial interest in such Global Note, an equal aggregate principal amount of Definitive Notes of authorized denominations.

(vi) Any Holder of a Global Note shall, by acceptance of such Global Note, agree that transfers of beneficial interests in such Global Note may be effected only through a book-entry system maintained by (a) the Holder of such Global Note (or its agent) or (b) any Holder of a beneficial interest in such Global Note, and that ownership of a beneficial interest in such Global Note shall be required to be reflected in a book entry.

(i) Except as provided below, owners of beneficial interests in Global Notes will not be entitled to receive Definitive Notes. If required to do so pursuant to any applicable law or regulation, beneficial owners may obtain Definitive Notes in exchange for their beneficial interests in a Global Note upon written request in accordance with the DTC's and the Registrar's procedures. In addition, Definitive Notes shall be transferred to all beneficial owners in exchange for their beneficial interests in a Global Note if (i) the DTC notifies the Company that it is unwilling or unable to continue as depositary for such Global Note or the DTC ceases to be a clearing agency registered under the Exchange Act, at a time when the DTC is required to be so registered in order to act as DTC, and in each case a successor depositary is not appointed by the Company within 90 days of such notice or, (ii) the Company executes and delivers to the Trustee and Registrar an Officers' Certificate stating that such Global Note shall be so exchangeable or (iii) an Event of Default has occurred and is continuing and the Registrar has received a request from the DTC.

(j) Any Definitive Note delivered in exchange for an interest in a Global Note pursuant to Section 2.1(h)(iii) or (iv) shall, except as otherwise provided

by Section 2.6(b), bear the applicable legend regarding transfer restrictions applicable to the Definitive Note set forth in Section 2.1(d).

(k) In connection with the exchange of a portion of a Definitive Note for a beneficial interest in a Global Note, the Trustee shall cancel such Definitive Note, and the Company shall execute, and the Trustee shall authenticate and deliver, to the transferring Holder a new Definitive Note representing the principal amount not so transferred.

SECTION 2.2. Execution and Authentication. Two Officers shall sign the Notes for the Company by manual or facsimile signature. If an Officer whose signature is on a Note no longer holds that office at the time the Trustee authenticates the Note, the Note shall be valid nevertheless.

A Note shall not be valid until an authorized signatory of the Trustee manually authenticates the Note. The signature of the Trustee on a Note shall be conclusive evidence that such Note has been duly and validly authenticated and issued under this Indenture. A Note shall be dated the date of its authentication.

At any time and from time to time after the execution and delivery of this Indenture, the Trustee shall authenticate and make available for delivery Notes for original issue on the Issue Date in an aggregate principal amount of $1,200,000,000 upon a written order of the Company signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company (the "Company Order"). Such Company Order shall specify the amount of the Notes to be authenticated and the date on which the original issue of Notes is to be authenticated.

The Trustee may appoint an agent (the "Authenticating Agent") reasonably acceptable to the Company to authenticate the Notes. Unless limited by the terms of such appointment, any such Authenticating Agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent.

In case the Company pursuant to Article IV shall be consolidated or merged with or into any other Person or shall convey, transfer, lease or otherwise dispose of its properties and assets substantially as an entirety to any Person, and the successor Person resulting from such consolidation, or surviving such merger, or into which the Company shall have been merged, or the Person which shall have received a conveyance, transfer, lease or other disposition as aforesaid, shall have executed an indenture supplemental hereto with the Trustee pursuant to Article IV, any of the Notes authenticated or delivered prior to such consolidation, merger, conveyance, transfer, lease or other disposition may, from time to time, at the request of the successor Person, be exchanged for other Notes executed in the name of the successor Person with such changes in phraseology and form as may be appropriate, but otherwise in substance of like tenor as the Notes surrendered for such exchange and of like principal amount; and the Trustee, upon Company Order of the successor Person, shall authenticate and deliver Notes as specified in such order for the purpose of such exchange. If Notes shall at any time be authenticated and delivered in any new name of a successor Person pursuant to this Section 2.2 in exchange or substitution for or

upon registration of transfer of any Notes, such successor Person, at the option of the Holders but without expense to them, shall provide for the exchange of all Notes at the time outstanding for Notes authenticated and delivered in such new name.

SECTION 2.3. Registrar, Conversion Agent and Paying Agent. The Trustee shall initially serve as the Registrar, Conversion Agent and Paying Agent for the Notes. The Company shall cause each of the Registrar, Conversion Agent and the Paying Agent to maintain an office or agency in the Borough of Manhattan, the City of New York. The Registrar shall keep a register of the Notes and of their transfer and exchange (the "Note Register"). The Company may have one or more co-registrars and one or more additional conversion agents and paying agents. The term Paying Agent includes any additional paying agent, the term Conversion Agent includes any additional conversion agent, and the term Registrar includes any co-registrar.

The Company shall enter into an appropriate agency agreement with any Registrar, Conversion Agent or Paying Agent not a party to this Indenture, which shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee in writing of the name and address of each such agent. If the Company fails to maintain a Registrar, Conversion Agent or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 11.7. The Company or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Conversion Agent, Registrar or transfer agent.

The Company may remove any Registrar, Conversion Agent or Paying Agent upon written notice to such Registrar, Conversion Agent or Paying Agent and to the Trustee; provided, however, that no such removal shall become effective until (i) acceptance of any appointment by a successor as evidenced by an appropriate agreement entered into by the Company and such successor Registrar, Conversion Agent or Paying Agent, as the case may be, and delivered to the Trustee or (ii) notification to the Trustee that the Trustee shall serve as Registrar, Conversion Agent or Paying Agent until the appointment of a successor in accordance with clause (i) above. The Registrar, Conversion Agent or Paying Agent may resign at any time upon written notice to the Company and the Trustee.

SECTION 2.4. Paying Agent To Hold Money in Trust. On or before the date on which any principal of or interest on any Note is due and payable, the Company shall deposit with the Paying Agent a sum sufficient in immediately available funds to pay such principal or interest when due. The Company shall require each Paying Agent (other than the Trustee) to agree in writing that such Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by such Paying Agent for the payment of principal of or interest on the Notes and shall notify the Trustee in writing of any default by the Company in making any such payment. If the Company or a Subsidiary acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent (other than the Trustee) to pay all money held by it to the Trustee and to account for any funds disbursed by such Paying Agent. Upon complying with this Section 2.4, the Paying Agent (if other than the Company or a Subsidiary) shall have no further liability for the money delivered to the Trustee. Upon any bankruptcy, reorganization or similar proceeding with respect to the Company, the Trustee shall serve as Paying Agent for the Notes.

SECTION 2.5. Holder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders and shall otherwise comply with TIA ss. 312(a). If the Trustee is not the Registrar or to the extent otherwise required under the TIA, the Company, on its own behalf, shall furnish to the Trustee, in writing at least seven Business Days before each interest payment date and at such other times as the Trustee may request in writing within 15 days, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders and the Company shall otherwise comply with TIA ss. 312(a).

SECTION 2.6. Transfer and Exchange of Notes.

(a) The following provisions shall apply with respect to any proposed transfer of a Note prior to the date which is two years after the later of the date of its original issue and the last date on which the Company or any Affiliate of the Company was the owner of such Notes (or any predecessor thereto) (the "Resale Restriction Termination Date"):

(i) a transfer of a Note or a beneficial interest therein to a QIB shall be made upon receipt by the Trustee or its agent of a certificate substantially in the form of the Form of Certificate to be Delivered Upon Exchange or Registration of Transfer of Securities set forth on the reverse of the Note from the proposed transferee that it is purchasing the Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon its foregoing representations in order to claim the exemption from registration provided by Rule 144A;

(ii) a transfer of a Note or a beneficial interest therein to an IAI shall be made upon receipt by the Trustee or its agent of a certificate substantially in the form set forth in Section 2.7 from the proposed transferee and, if requested by the Company or the Trustee, the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them; and

(iii) a transfer of a Note or a beneficial interest therein to a Non-U.S. Person shall be made upon receipt by the Trustee or its agent of a certificate substantially in the form of the Form of Certificate to be Delivered in Connection with Transfers Pursuant to Regulation S set forth on the reverse of the Note from the proposed transferee and, if requested by the Company or the Trustee, the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them.

(b) Upon the transfer, exchange or replacement of Notes not bearing a Restricted Notes Legend, the Registrar shall deliver Notes that do not bear a Restricted Notes Legend. Upon the transfer, exchange or replacement of Notes bearing a Restricted Notes Legend, the Registrar shall deliver only Notes that bear such Restricted Notes Legend unless (i) an Initial Note is being transferred pursuant to an effective registration statement or (ii) there is delivered to the Registrar an Opinion of Counsel to the effect that neither such

legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act.

(c) The Registrar shall retain copies of all letters, notices and other written communications received pursuant to Section 2.1 or this Section 2.6. The Company shall have the right to inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Registrar.

(d) The following obligations with respect to transfers and exchanges of Notes shall apply:

(i) To permit registrations of transfers and exchanges, the Company shall, subject to the other terms and conditions of this Article II, execute and the Trustee shall authenticate Definitive Notes and Global Notes at the Registrar's request.

(ii) No service charge shall be made to a Holder for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax, assessments, or similar governmental charge payable in connection therewith (other than any such transfer taxes, assessments or similar governmental charges payable upon exchange or transfer pursuant to Section 13.5).

(iii) The Registrar shall not be required to register the transfer of or exchange of any Note for a period beginning (1) 15 Business Days before the mailing of a notice of an offer to repurchase Notes and ending at the close of business on the day of such mailing or (2) 15 Business Days before an interest payment date and ending on such interest payment date.

(iv) Prior to the due presentation for registration of transfer of any Note, the Company, the Trustee, Paying Agent, the Conversion Agent or the Registrar may deem and treat the person in whose name a Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Note and for all other purposes whatsoever, whether or not such Note is overdue, and none of the Company, the Trustee, the Paying Agent, the Conversion Agent or the Registrar shall be affected by notice to the contrary.

(v) All Notes issued upon any transfer or exchange pursuant to the terms of this Indenture shall evidence the same debt and shall be entitled to the same benefits under this Indenture as the Notes surrendered upon such transfer or exchange.

(e) The following provisions shall apply with respect to Trustee obligations:

(i) The Trustee shall have no responsibility or obligation to any beneficial owner of a Global Note, a member of, or a participant in, the DTC or other Person with respect to the accuracy of the records of the DTC or its nominee or of any participant or member thereof, with respect to any ownership interest in the Notes or with respect to the delivery to any participant, member, beneficial owner or other Person (other than the DTC) of any notice or the payment of any amount or delivery of any Notes (or other security or property) under or with respect to such Notes. All notices and communications to

be given to the Holders and all payments to be made to Holders in respect of the Notes shall be given or made only to or upon the order of the registered Holders (which shall be the DTC or its nominee in the case of a Global Note). The rights of beneficial owners in any Global Note shall be exercised only through the DTC subject to the applicable rules and procedures of the DTC. The Trustee may rely and shall be fully protected in relying upon information furnished by the DTC with respect to its members, participants and any beneficial owners.

(ii) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note (including any transfers between or among DTC participants, members or beneficial owners in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 2.7. Form of Certificate to be Delivered in Connection with Transfers to Institutional Accredited Investors.

[Date]

Halliburton Company
c/o JPMorgan Chase Bank
600 Travis, Suite 1150
Houston, Texas 77002
Attention: Institutional Trust Services

Ladies and Gentlemen:

This certificate is delivered to request a transfer of $_____ principal amount of the 3?% Convertible Senior Notes due July 15, 2023 (the "Notes") of Halliburton Company (the "Company").

Upon transfer, the Notes would be registered in the name of the new beneficial owner as follows:

Name:

Address:

Taxpayer ID Number:

The undersigned represents and warrants to you that:

1. We are an institutional accredited investor (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act of 1933, as amended (the "Securities Act")) purchasing for our own account or for the account of such an institutional accredited investor at least $250,000 principal amount of the

Notes, and we are acquiring the Notes not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act. We have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risk of our investment in the Notes and we invest in or purchase securities similar to the Notes in the normal course of our business. We and any accounts for which we are acting are each able to bear the economic risk of our or its investment.

2. We understand that the Notes have not been registered under the Securities Act and, unless so registered, may not be sold except as permitted in the following sentence. We agree on our own behalf and on behalf of any investor account for which we are purchasing Notes to offer, sell or otherwise transfer such Notes prior to the date that is two years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Notes (or any predecessor thereto) (the "Resale Restriction Termination Date") only (a) to the Company, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) in a transaction complying with the requirements of Rule 144A under the Securities Act ("Rule 144A"), to a person we reasonably believe is a qualified institutional buyer under Rule 144A (a "QIB") that purchases for its own account or for the account of a QIB and to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act, (e) to an institutional accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act that is purchasing for its own account or for the account of such an institutional accredited investor, in each case in a minimum principal amount of Notes of $250,000 or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of our property or the property of such investor account or accounts be at all times within our or their control and in compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. If any resale or other transfer of the Notes is proposed to be made pursuant to clause (e) above prior to the Resale Restriction Termination Date, the transferor shall deliver a letter from the transferee substantially in the form of this letter to the Company and the Trustee, which shall provide, among other things, that the transferee is an institutional accredited investor (within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act) and that it is acquiring such Notes for investment purposes and not for distribution in violation of the Securities Act. Each purchaser acknowledges that the Company and the Trustee reserve the right prior to any offer, sale or other transfer prior to the Resale Termination Date of the Notes pursuant to clause (d), (e) or (f) above to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Company and the Trustee.

TRANSFEREE:

BY

SECTION 2.8. Mutilated, Destroyed, Lost or Stolen Notes. If a mutilated Note is surrendered to the Registrar or if the Holder of a Note claims that the Note has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee, upon Company Order, shall authenticate a replacement Note if the

requirements of Section 8-405 of the Uniform Commercial Code are met such that the Holder (a) notifies the Company and the Trustee within a reasonable time after such Holder has notice of such loss, destruction or wrongful taking and the Registrar has not registered a transfer prior to receiving such notification, (b) makes such request to the Company prior to the Company having notice that the Note has been acquired by a protected purchaser as defined in Section 8-303 of the Uniform Commercial Code (a "protected purchaser") and (c) satisfies any other reasonable requirements of the Company and the Trustee. Such Holder shall furnish an indemnity bond sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee, the Paying Agent, the Conversion Agent and the Registrar from any loss which any of them may suffer if a Note is replaced, then, in the absence of notice to the Company, or the Trustee that such Note has been acquired by a protected purchaser, the Company shall execute and upon Company Order the Trustee shall authenticate and deliver, in exchange for any such mutilated Note or in lieu of any such destroyed, lost or stolen Note, a new Note of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Note, pay such Note.

Upon the issuance of any new Note under this Section 2.8, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) in connection therewith.

Every new Note issued pursuant to this Section 2.8 in lieu of any mutilated, destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company and any other obligor upon the Notes, whether or not the mutilated, destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section 2.8 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

SECTION 2.9. Outstanding Notes. Notes outstanding at any time are all Notes authenticated by the Trustee except for those canceled by it, those paid pursuant to Section 2.8, those delivered to it for cancellation and those described in this Section 2.9 as not outstanding. A Note does not cease to be outstanding in the event the Company or an Affiliate of the Company holds the Note except that the Company or an Affiliate of the Company shall not obtain voting rights with respect to such Note.

If a Note is replaced pursuant to Section 2.8, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Note is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a maturity date money sufficient to pay all principal and interest payable on that date with respect to the Notes maturing and the Paying Agent is not prohibited from paying such money to the Holders on that date pursuant to the terms of this Indenture, then on and after that date such Notes cease to be outstanding and interest on them ceases to accrue.

SECTION 2.10. Temporary Notes. In the event that Definitive Notes are to be issued under the terms of this Indenture, until such Definitive Notes are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of Definitive Notes but may have variations that the Company considers appropriate for temporary Notes. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate Definitive Notes. After the preparation of Definitive Notes, the temporary Notes shall be exchangeable for Definitive Notes upon surrender of the temporary Notes at any office or agency maintained by the Company for that purpose and such exchange shall be without charge to the Holder. Upon surrender for cancellation of any one or more temporary Notes, the Company shall execute, and the Trustee shall authenticate and make available for delivery in exchange therefore, one or more Definitive Notes representing an equal principal amount of Notes. Until so exchanged, the Holder of temporary Notes shall in all respects be entitled to the same benefits under this Indenture as a Holder of Definitive Notes.

SECTION 2.11. Cancellation. The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and return to the Company all Notes surrendered for registration of transfer, exchange, payment or cancellation. The Company may not issue new Notes to replace Notes it has paid or delivered to the Trustee for cancellation.

At such time as all beneficial interests in a Global Note have either been exchanged for Definitive Notes, transferred, redeemed, repurchased or canceled, such Global Note shall be returned by the DTC to the Trustee for cancellation or retained and canceled by the Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for Definitive Notes, transferred in exchange for an interest in another Global Note, redeemed, repurchased or canceled, the principal amount of Notes represented by such Global Note shall be reduced and an adjustment shall be made on the Global Note and on the books and records of the Trustee (if it is then the "Notes Custodian" for such Global Note) with respect to such Global Note, by the Trustee or the Notes Custodian, to reflect such reduction.

SECTION 2.12. Payment of Interest; Defaulted Interest. Interest on any Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name such Note (or one or more predecessor Notes) is registered at the close of business on the regular record date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 2.3.

Any interest on any Note which is payable, but is not paid when the same becomes due and payable and such nonpayment continues for a period of 30 days shall forthwith cease to be payable to the Holder on the regular record date by virtue of having been such Holder, and such defaulted interest and (to the

extent lawful) interest on such defaulted interest at the rate borne by the Notes (such defaulted interest and interest thereon herein collectively called "Defaulted Interest") shall be paid by the Company, at its election in each case, as provided in clause (a) or (b) below:

(a) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Notes (or their respective predecessor Notes) are registered at the close of business on a Special Record Date (as defined below) for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date (not less than 30 days after such notice) of the proposed payment (the "Special Interest Payment Date"), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a record date (the "Special Record Date") for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the Special Interest Payment Date and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date, and in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date and Special Interest Payment Date therefor to be given in the manner provided for in Section 14.2, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date and Special Interest Payment Date therefor having been so given, such Defaulted Interest shall be paid on the Special Interest Payment Date to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (b).

(b) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section 2.12, each Note delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

SECTION 2.13. Computation of Interest. Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 2.14. CUSIP Numbers. The Company in issuing the Notes and Common Stock upon conversion of the Notes may use CUSIP numbers (if then generally in

use). The Trustee shall not be responsible for the use of CUSIP numbers, and the Trustee makes no representation as to their correctness as printed on any Note, certificate of Common Stock or notice to Holders and that reliance may be placed only on the other identification numbers printed on the Notes, and any redemption shall not be affected by any defect in or omission of such CUSIP numbers. The Company shall promptly notify the Trustee in writing of any change in the CUSIP numbers.

SECTION 2.15. Issuance, Transfer and Exchange of Common Stock Issuable Upon Conversion of the Notes.

(a) Shares of Common Stock to be issued upon conversion of Notes prior to the effectiveness of a Shelf Registration Statement shall be physically delivered in certificated form to the Holders converting such Notes and the certificate representing such shares of Common Stock shall bear the Restricted Stock Legend unless removed in accordance with Section 2.1(e).

(b) If (i) shares of Common Stock to be issued upon conversion of Notes prior to the effectiveness of a Shelf Registration Statement are to be registered in a name other than that of the Holder of such Notes or (ii) shares of Common Stock represented by a certificate bearing the Restricted Stock Legend are transferred subsequently by such Holder, then, unless the Shelf Registration Statement has become effective and such shares are being transferred pursuant to the Shelf Registration Statement, the Holder must deliver to the transfer agent for the Common Stock and to the Company a certificate in substantially the form of Exhibit B as to compliance with the restrictions on transfer applicable to such shares of Common Stock and neither the transfer agent nor the registrar for the Common Stock shall be required to register any transfer of such Common Stock not so accompanied by a properly completed certificate.

(c) Except in connection with a Shelf Registration Statement, if certificates representing shares of Common Stock are issued upon the registration of transfer, exchange or replacement of any other certificate representing shares of Common Stock bearing the Restricted Stock Legend, or if a request is made to remove such Restricted Stock Legend from certificates representing shares of Common Stock, the certificates so issued shall bear the Restricted Stock Legend, or the Restricted Stock Legend shall not be removed, as the case may be, unless there is delivered to the Company such reasonably satisfactory evidence, which, in the case of a transfer made pursuant to Rule 144 under the Securities Act, may include an opinion of counsel, as may be reasonably required by the Company, that neither the legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A, Rule 144 under the Securities Act or Regulation S and that such shares of Common Stock are securities that are not "restricted" within the meaning of Rule 144 under the Securities Act. Upon provision to the Company of such reasonably satisfactory evidence, the Company shall cause the transfer agent for the Common Stock to countersign and deliver certificates representing shares of Common Stock that do not bear the legend.

SECTION 2.16. Bid Solicitation Agent. The Trustee shall initially serve as the bid solicitation agent (the "Bid Solicitation Agent") for purposes of obtaining secondary market bid quotations for determining the trading prices of the Notes. The Company may change the Bid Solicitation Agent at any time; provided, however, the Bid Solicitation Agent shall not be an Affiliate of the

Company. The Bid Solicitation Agent shall solicit bids from nationally recognized securities dealers that are believed by the Company to be willing to bid for the Notes.

ARTICLE III

Covenants

SECTION 3.1. Payment of Notes. The Company shall promptly pay the principal of and interest on the Notes on the dates and in the manner provided in the Notes and in this Indenture. Principal and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest then due and the Trustee or the Paying Agent, as the case may be, is not prohibited from paying such money to the Holders on that date pursuant to the terms of this Indenture.

The Company shall pay interest on overdue principal at the rate specified therefor in the Notes, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

Notwithstanding anything to the contrary contained in this Indenture, the Company may, to the extent it is required to do so by law, deduct or withhold income or other similar taxes imposed by the United States of America from principal or interest payments hereunder.

SECTION 3.2. Restriction on Creation of Secured Debt. So long as any of the Notes are outstanding, the Company shall not at any time create, incur, assume or guarantee, and shall not cause, suffer or permit a Restricted Subsidiary to create, incur, assume or guarantee, any Secured Debt without making effective provision (and the Company covenants that in such case it will make or cause to be made such effective provision) whereby the Notes then outstanding and any other indebtedness of or guaranteed by the Company or such Restricted Subsidiary then entitled thereto, subject to applicable priorities of payment, shall be secured by such mortgage, security interest, pledge, lien or encumbrance equally and ratably with any and all other obligations and indebtedness thereby secured, so long as any such other obligations and indebtedness shall be so secured; provided, however, that the foregoing covenants shall not be applicable to the following:

(a) Any mortgage, security interest, pledge, lien or encumbrance on any property hereafter acquired (including acquisition through merger or consolidation) or constructed by the Company or a Restricted Subsidiary and created contemporaneously with, or within twelve months after, such acquisition or the completion of construction to secure or provide for the payment of all or any part of the purchase price of such property or the cost of construction thereof, as the case may be; or (ii) any mortgage on property (including any unimproved portion of partially improved property) of the Company or a Restricted Subsidiary created within twelve months of completion of construction of a new plant or plants on such property to secure all or part of the cost of such construction if, in the opinion of the Board of Directors, such property or

such portion thereof was prior to such construction substantially unimproved for the use intended by the Company; or (iii) the acquisition of property subject to any mortgage, security interest, pledge, lien or encumbrance upon such property existing at the time of acquisition thereof, whether or not assumed by the Company or such Restricted Subsidiary; or (iv) any mortgage, security interest, pledge, lien or encumbrance existing on the property or on the outstanding shares or indebtedness of a corporation at the time such corporation shall become a Restricted Subsidiary; or (v) any mortgage, security interest, pledge, lien or encumbrance on property of a corporation existing at the time such corporation is merged into or consolidated with the Company or a Restricted Subsidiary or at the time of a sale, lease or other disposition of the properties of a corporation or firm as an entirety or substantially as an entirety to the Company or a Restricted Subsidiary; or

(b) Mortgages on property of the Company or a Restricted Subsidiary in favor of the United States of America or any State thereof or any foreign government, or any department, agency or instrumentality or political subdivision of any thereof, to secure partial progress, advance or other payments pursuant to any contract or statute or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of construction of the property subject to such mortgages; or

(c) Any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any mortgage, security interest pledge, lien or encumbrance referred to in the foregoing subparagraphs (a) and (b); provided, however, that the principal amount of Secured Debt secured thereby shall not exceed the principal amount outstanding at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to the property which secured the mortgage, security interest, pledge, lien or encumbrance so extended, renewed or replaced and additions to such property.

Notwithstanding the foregoing provisions of this Section 3.2 the Company and any one or more Restricted Subsidiaries may create, incur, assume or guarantee Secured Debt which would otherwise be subject to the foregoing restrictions in an aggregate amount which, together with all other Secured Debt of the Company and its Restricted Subsidiaries which would otherwise be subject to the foregoing restrictions (not including Secured Debt permitted to be secured under subparagraphs (a) through (c) above) and the aggregate value of the Sale and Leaseback Transactions in existence at such time (not including Sale and Leaseback Transactions the proceeds of which have been or will be applied in accordance with clause (b) of Section 3.3), does not at the time exceed 5% of Consolidated Net Tangible Assets.

SECTION 3.3. Restriction on Sale and Leaseback Transactions. The Company will not, and will not permit any Restricted Subsidiary to, sell or transfer (except to the Company or to one or more Restricted Subsidiaries, or both) any Principal Property owned by it and which has been in full operation for more than 120 days prior to such sale or transfer with the intention (i) of taking back a lease on such property, except a lease for a temporary period (not exceeding 36 months), and (ii) that the use by the Company or such Restricted Subsidiary of such property will be discontinued on or before the expiration of the term of such lease (any such transaction being herein referred to as a "Sale and Leaseback Transaction"), unless (a) the Company or such Restricted Subsidiary would be entitled, pursuant to the provisions of Section 3.2, to

incur Secured Debt equal in amount to the amount realized or to be realized upon such sale or transfer secured by a mortgage on the property to be leased without equally and ratably securing the Notes, or (b) the Company or a Restricted Subsidiary shall apply an amount equal to the value of the property so leased to the retirement (other than any mandatory retirement), within 120 days of the effective date of any such arrangement, of indebtedness for money borrowed by the Company or any Restricted Subsidiary (other than such indebtedness owned by the Company or any Restricted Subsidiary) which was recorded as funded debt as of the date of its creation and which, in the case of such indebtedness of the Company, is not subordinate and junior in right of payment to the prior payment of the Notes; provided, however, that the amount to be so applied to the retirement of such indebtedness shall be reduced by (i) the aggregate principal amount of any Notes delivered within 120 days of the effective date of any such arrangement to the Trustee for retirement and cancellation, and (ii) the aggregate principal amount of such indebtedness (other than the Notes) retired by the Company or a Restricted Subsidiary within 120 days of the effective date of any such arrangement.

The term "value" shall mean, with respect to a Sale and Leaseback Transaction, as of any particular time, the amount equal to the greater of (i) the net proceeds of the sale of the property leased pursuant to such Sale and Leaseback Transaction, or (ii) the fair value of such property at the time of entering into such Sale and Leaseback Transaction, as determined by the Board of Directors, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in the lease.

SECTION 3.4. Restriction on Transfer of Principal Property to Unrestricted Subsidiary. The Company will not itself, and will not permit any Restricted Subsidiary to transfer (whether by merger, consolidation or otherwise) any Principal Property to any Unrestricted Subsidiary, except for fair value as determined by the Board of Directors, unless it shall apply an amount equal to the fair value of such property at the time of such transfer, as so determined, to the retirement (other than any mandatory retirement), within 120 days of the effective date of such transfer, of indebtedness for money borrowed by the Company or any Restricted Subsidiary (other than such indebtedness owned by the Company or any Restricted Subsidiary) which was recorded as funded debt as of the date of its creation and which, in case of such indebtedness of the Company, is not subordinate and junior in right of payment to the prior payment of the Notes; provided, however, that the amount to be so applied to the retirement of such indebtedness shall be reduced by (i) the aggregate principal amount of any Notes delivered within 120 days of the effective date of any such arrangement to the Trustee for retirement and cancellation, and (ii) the aggregate principal amount of such indebtedness (other than Notes) retired by the Company or a Restricted Subsidiary within 120 days of the effective date of any such arrangement.

SECTION 3.5. Maintenance of Office or Agency. The Company will maintain in the City of New York, an office or agency where the Notes may be presented or surrendered for payment, where, if applicable, the Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The office of the Trustee, at 4 New York Plaza, 15th Floor, New York, New York 10004, Attention: Institutional Trust Services, shall be such office or agency of the Company for payment, unless the Company shall designate and maintain some other

office or agency for one or more of such purposes. The Company will give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies (in or outside of the City of New York) where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the City of New York for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency.

SECTION 3.6. Money for Note Payments to Be Held in Trust. If the Company shall at any time act as its own Paying Agent, it will, on or before each due date of the principal of (or Additional Amounts, if any) or interest on any of the Notes, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal of (or Additional Amounts, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee in writing of its action or failure to so act.

Whenever the Company shall have one or more Paying Agents for the Notes, it will, on or before each due date of the principal of (or Additional Amounts, if any) or interest on any Notes, deposit with any Paying Agent a sum in same day funds (or New York Clearing House funds if such deposit is made prior to the date on which such deposit is required to be made) that shall be available to the Trustee by 10:00 a.m. New York City time on such due date sufficient to pay the principal (or Additional Amounts, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, Additional Amounts or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee in writing of such action or any failure to so act.

The Company will cause each Paying Agent (other than the Trustee) to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section 3.6, that such Paying Agent will:

(a) hold all sums held by it for the payment of the principal of (and Additional Amounts, if any) or interest on Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(b) give the Trustee prompt written notice of any default by the Company (or any other obligor upon the Notes) in the making of any payment of principal (and Additional Amounts, if any) or interest; and

(c) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such sums.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (or Additional Amounts, if any) or interest on any Note and remaining unclaimed for two years after such principal, Additional Amounts or interest has become due and payable shall be paid to the Company on Company Order, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment to the Company, shall at the expense of the Company cause to be published once, in a leading daily newspaper (if practicable, The Wall Street Journal (Eastern Edition)) printed in the English language and of general circulation in New York City, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication nor shall it be later than two years after such principal (or Additional Amounts, if any) or interest shall have become due and payable, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 3.7. Corporate Existence. Subject to Article IV, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the corporate rights (charter and statutory) licenses and franchises of the Company; provided, however, that the Company shall not be required to preserve any such existence, right, license or franchise if the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and each of its Subsidiaries, taken as a whole, and that the loss thereof is not, and will not be, disadvantageous in any material respect to the Holders.

SECTION 3.8. Payment of Taxes and Other Claims. The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary and (ii) all lawful claims for labor, materials and supplies, which, if unpaid, might by law become a material liability or lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate

proceedings and for which appropriate reserves, if necessary (in the good faith judgment of management of the Company) are being maintained in accordance with GAAP.

SECTION 3.9. Further Instruments and Acts. Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

SECTION 3.10. Additional Amounts Notices. In the event that the Company is required to pay penalty interest to Holders of Notes pursuant to the Registration Rights Agreement ("Additional Amounts"), the Company will provide written notice ("Additional Amounts Notice") to the Trustee of its obligation to pay Additional Amounts no later than five Business Days prior to the proposed payment date set for the amount of Additional Amounts, and the Additional Amounts Notice shall set forth the amount of Additional Amounts to be paid by the Company on such Payment Date. The Trustee shall not at any time be under any duty or responsibility to any holder of Notes to determine the Additional Amounts, or with respect to the nature, extent, or calculation of the amount of Additional Amounts when made, or with respect to the method employed in such calculation of the Additional Amounts.

ARTICLE IV

Successor Company

SECTION 4.1. Merger and Consolidation. The Company will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any Person, unless:

(i) the resulting, surviving or transferee Person (the "Successor Company") will be a corporation, partnership, trust or limited liability company organized and existing under the laws of the United States of America, any State of the United States or the District of Columbia and the Successor Company (if not the Company) will expressly assume, by supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Notes and the Indenture; provided that if the Successor Company is not a corporation, then a co-issuer of the Notes shall be created that is a corporation and organized and existing under the laws of the United States of America, any State of the United States or the District of Columbia;

(ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Restricted Subsidiary of the Successor Company as a result of such transaction as having been incurred by the Successor Company or such Restricted Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing; and

(iii) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this Indenture.

For purposes of this Article IV, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture, but, in the case of a lease of all or substantially all its assets, the predecessor Company will not be released from the obligation to pay the principal of and interest on the Notes.

Notwithstanding the preceding clause (ii), (1) any Restricted Subsidiary of the Company may consolidate with, merge into or transfer all or part of its properties and assets to the Company and (2) the Company may merge with an Affiliate incorporated solely for the purpose of reincorporating the Company in another jurisdiction so long as the amount of Indebtedness of the Company and its Restricted Subsidiaries is not increased thereby.

ARTICLE V

Redemption of Notes

SECTION 5.1. Optional Redemption. On or after July 15, 2008, the Notes may be redeemed for cash, as a whole or from time to time in part, subject to the conditions specified in the form of Note set forth in Exhibit A for the Redemption Price.

SECTION 5.2. Applicability of Article. Redemption of Notes at the election of the Company or otherwise, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article.

SECTION 5.3. Election to Redeem; Notice to Trustee. The election of the Company to redeem any Notes pursuant to Section 5.1 shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company, the Company shall, upon not later than the earlier of the date that is 45 days prior to the Redemption Date fixed by the Company or the date on which notice is given to the Holders (except as provided in Section 5.5 or unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Notes to be redeemed and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Notes to be redeemed pursuant to Section 5.4. Any such notice may be canceled at any time prior to notice of such redemption being mailed to any Holder and shall thereby be void and of no effect.

SECTION 5.4. Selection by Trustee of Notes to Be Redeemed. If less than all the Notes are to be redeemed at any time pursuant to an optional redemption, the particular Notes to be redeemed shall be selected not more than 45 days prior to the Redemption Date by the Trustee, from the outstanding Notes not previously called for redemption, in compliance with the requirements of the principal securities exchange, if any, on which such Notes are listed, or, if such Notes

are not so listed, on a pro rata basis among the classes of Notes, by lot or by such other method as the Trustee shall deem fair and appropriate (and in such manner as complies with applicable legal requirements) and which may provide for the selection for redemption of portions of the principal of the Notes; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than $1,000.

The Trustee shall promptly notify the Company in writing of the Notes selected for redemption and, in the case of any Notes selected for partial redemption, the method it has chosen for the selection of Notes and the principal amount thereof to be redeemed, and upon the Company's written approval of such selection, the Trustee shall redeem the selected Notes.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of such Note which has been or is to be redeemed.

SECTION 5.5. Notice of Redemption. Notice of redemption shall be given in the manner provided for in Section 14.2 not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Notes to be redeemed. At the Company's request, the Trustee shall give notice of redemption in the Company's name and at the Company's expense; provided, however, that the Company shall deliver to the Trustee, at least 45 days prior to the Redemption Date, an Officers' Certificate requesting that the Trustee give such notice at the Company's expense and setting forth the information to be stated in such notice as provided in the following items:

(i) the Redemption Date,

(ii) the Redemption Price and the amount of accrued interest to the Redemption Date payable as provided in Section 5.7, if any,

(iii) if less than all outstanding Notes are to be redeemed, the aggregate principal amount of Notes to be redeemed and the aggregate principal amount of Notes to be outstanding after such partial redemption,

(iv) in case any Note is to be redeemed in part only, the notice that relates to such Note shall state that on and after the Redemption Date, upon surrender of such Note, the Holder will receive, without charge, a new Note or Notes of authorized denominations for the principal amount thereof remaining unredeemed,

(v) that on the Redemption Date, 100% of the principal amount of the Notes to be redeemed (and accrued interest, if any, to the Redemption Date payable as provided in Section 5.7) will become due and payable upon each such Note, or the portion thereof, to be redeemed, and, unless the Company defaults in making the redemption payment, that interest on Notes called for redemption (or the portion thereof) will cease to accrue on and after said date,

(vi) the place or places where such Notes are to be surrendered for payment of the redemption price and accrued interest, if any,

(vii) the name and address of the Paying Agent,

(viii) that Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price,

(ix) the CUSIP number, that no representation is made as to the accuracy or correctness of the CUSIP number, if any, listed in such notice or printed on the Notes, and any redemption shall not be affected by any defect in such CUSIP numbers,

(x) the paragraph of the Notes pursuant to which the Notes are to be redeemed,

(xi) the then current Conversion Rate,

(xii) that the Notes called for redemption may be converted at any time before the close of business on the Business Day immediately preceding the Redemption Date, and

(xiii) the Holders who wish to convert Notes must comply with the procedures in paragraph 9 of the Notes.

SECTION 5.6. Deposit of Redemption Price. On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 2.4) an amount of money sufficient to pay the redemption price of, and accrued interest on, all the Notes which are to be redeemed on that date, other than Notes or portions of Notes called for redemption that are beneficially owned by the Company and have been delivered by the Company to the Trustee for cancellation.

SECTION 5.7. Notes Payable on Redemption Date. Notice of redemption having been given as aforesaid, the Notes or portions of Notes so to be redeemed shall, on the Redemption Date, become due and payable at a price equal to the Redemption Price, and from and after such date (unless the Company shall default in the payment of the Redemption Price) such Notes shall cease to bear interest. Upon surrender of any such Note for redemption in accordance with said notice, such Note shall be paid by the Company at the Redemption Price on the Redemption Date (subject to the rights of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the Redemption Date at the rate borne by the Notes.

SECTION 5.8. Notes Redeemed in Part. Any Note which is to be redeemed only in part (pursuant to the provisions of this Article) shall be surrendered at the office or agency of the Company maintained for such purpose pursuant to Section 2.3 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the Trustee shall

authenticate and make available for delivery to the Holder of such Note at the expense of the Company, a new Note or Notes, of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered, provided, that each such new Note will be in a principal amount of $1,000 or integral multiple thereof.

If a Holder converts a portion of its Note prior to receipt of the Redemption Notice for a Note to be redeemed only in part, the converted portion will be deemed to be from the portion selected for redemption. In the event of any redemption in part, the Company will not be required to (i) issue, register the transfer of or exchange any Note during a period of 15 days before the mailing of the redemption notice; or (ii) register the transfer of or exchange any Note so selected for redemption, in whole or in part, except the unredeemed portion of any Note being redeemed in part.

ARTICLE VI

Purchase Upon a Fundamental Change

SECTION 6.1. Purchase at the Option of the Holder Upon a Fundamental Change. If a Fundamental Change shall occur at any time prior to July 15, 2008, each Holder shall have the right, at such Holder's option, to require the Company to purchase any or all of such Holder's Notes for cash on the date that is no later than 35 days after the date of the Company Notice of the occurrence of such Fundamental Change (subject to extension to comply with applicable law, as provided in Section 8.4) (the "Fundamental Change Purchase Date"). The Notes shall be repurchased in integral multiples of $1,000 of the principal amount. The Company shall purchase such Notes at a price (the "Fundamental Change Purchase Price") equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, if any, and Additional Amounts, if any, to the Fundamental Change Purchase Date. No Notes may be purchased at the option of the Holders upon a Fundamental Change if there has occurred and is continuing an Event of Default (other than an Event of Default that is cured by the payment of the Fundamental Change Purchase Price of the Notes).

SECTION 6.2. Notice of Fundamental Change. The Company, or at its request (which must be received by the Paying Agent at least three Business Days (or such lesser period as agreed to by the Paying Agent) prior to the date the Paying Agent is requested to give such notice as described below), the Paying Agent in the name of and at the expense of the Company, shall mail to all Holders and the Trustee and the Paying Agent a Company Notice of the occurrence of a Fundamental Change and of the purchase right arising as a result thereof, including the information required by Section 8.1, on or before the 30th day after the occurrence of such Fundamental Change.

SECTION 6.3. Exercise of Option. For a Note to be so purchased at the option of the Holder, the Paying Agent must receive such Note duly endorsed for transfer, together with a written notice of purchase (a "Fundamental Change Purchase Notice") and the form entitled "Form of Fundamental Change Purchase

Notice" on the reverse thereof duly completed, on or before the 35th day after the date of the Company Notice of the occurrence of such Fundamental Change, subject to extension to comply with applicable law, as provided in Section 8.4. The Fundamental Change Purchase Notice shall state:

(i) if certificated, the certificate numbers of the Notes which the Holder shall deliver to be purchased, or, if not certificated, the Fundamental Change Purchase Notice must comply with appropriate DTC procedures;

(ii) the portion of the principal amount of the Notes which the Holder shall deliver to be purchased, which portion must be $1,000 in principal amount or an integral multiple thereof; and

(iii) that such Notes shall be purchased as of the Fundamental Change Purchase Date pursuant to the terms and conditions specified in paragraph 7 of the Notes and in this Indenture.

SECTION 6.4. Procedures. The Company shall purchase from a Holder, pursuant to this Article VI, Notes if the principal amount of such Notes is $1,000 or a multiple of $1,000 if so requested by such Holder.

Any purchase by the Company contemplated pursuant to the provisions of this Article VI shall be consummated by the delivery of the Fundamental Change Purchase Price to be received by the Holder promptly following the later of the Fundamental Change Purchase Date or the time of book-entry transfer or delivery of the Notes.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Fundamental Change Purchase Notice contemplated by this Section 6.4 shall have the right at any time prior to the close of business on the Business Day prior to the Fundamental Change Purchase Date to withdraw such Fundamental Change Purchase Notice (in whole or in part) by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 8.2.

The Paying Agent shall promptly notify the Company of the receipt by it of any Fundamental Change Purchase Notice or written notice of withdrawal thereof.

On or before the Fundamental Change Purchase Date, the Company shall deposit with the Paying Agent (or if the Company or an Affiliate of the Company is acting as the Paying Agent, shall segregate and hold in trust) money sufficient to pay the aggregate Fundamental Change Purchase Price of the Notes to be purchased pursuant to this Article VI. Payment by the Paying Agent of the Fundamental Change Purchase Price for such Notes shall be made promptly following the later of the Fundamental Change Purchase Date or the time of book-entry transfer or delivery of such Notes. If the Paying Agent holds, in accordance with the terms of this Indenture, money sufficient to pay the Fundamental Change Purchase Price of such Notes on the Business Day following the Fundamental Change Purchase Date, then, on and after such date, such Notes shall cease to be outstanding and interest (including Additional Amounts, if any) on such Notes shall cease to accrue, whether or not book-entry transfer of such Notes is made or such Notes are delivered to the Paying Agent, and all

other rights of the Holder shall terminate (other than the right to receive the Fundamental Change Purchase Price upon delivery or transfer of the Notes). Nothing herein shall preclude any withholding tax required by law.

The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the payment of the Fundamental Change Purchase Price and shall notify the Trustee of any default by the Company in making any such payment. If the Company or an Affiliate of the Company acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to deliver all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon doing so, the Paying Agent shall have no further liability for the cash delivered to the Trustee.

All questions as to the validity, eligibility (including time of receipt) and acceptance of any Notes for redemption shall be determined by the Company, whose determination shall be final and binding.

ARTICLE VII

Optional Purchase

SECTION 7.1. Purchase of Notes by the Company at the Option of the Holder.

(a) On each of July 15, 2008, July 15, 2013 and July 15, 2018 (each, a "Purchase Date"), Holders shall have the option to require the Company to purchase any Notes at 100% of the amount of the Notes to be purchased plus any accrued and unpaid interest to such Purchase Date, upon:

(1) delivery to the Paying Agent by the Holder of a written notice of purchase (a "Purchase Notice") at any time from the opening of business on the date that is 20 Business Days prior to a Purchase Date until the close of business on the fifth Business Day prior to such Purchase Date, stating:

(i) if certificated, the certificate numbers of the Notes which the Holder will deliver to be purchased, or, if not certificated, the Purchase Notice must comply with appropriate DTC procedures;

(ii) the portion of the principal amount of the Notes which the Holder will deliver to be purchased, which portion must be $1,000 in principal amount or an integral multiple thereof; and

(iii) that such Notes shall be purchased as of the Purchase Date pursuant to the terms and conditions specified in paragraph 7 of the Notes and in this Indenture; and

(2) delivery or book-entry transfer of such Notes to the Paying Agent prior to, on or after the Purchase Date (together with all necessary endorsements) at the offices of the Paying Agent, such delivery or transfer being a condition to receipt by the Holder of the Purchase Price therefor; provided, however, that such Purchase Price shall be so paid pursuant to this Section 7.1 only if the Notes so delivered or transferred to the Paying Agent shall conform in all respects to the description thereof in the related Purchase Notice.

(b) The Company shall purchase from a Holder, pursuant to the terms of this Section 7.1, Notes if the principal amount of such Notes is $1,000 or a multiple of $1,000 if so requested by such Holder.

(c) Any purchase by the Company contemplated pursuant to the provisions of this Section 7.1 shall be consummated by the delivery of the Purchase Price to be received by the Holder promptly following the later of the Purchase Date or the time of book-entry transfer or delivery of the Notes.

(d) Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Purchase Notice contemplated by this Section 7.1 shall have the right at any time prior to the close of business on the Business Day prior to the Purchase Date to withdraw such Purchase Notice (in whole or in part) by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 8.2.

(e) The Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

(f) On or before the Purchase Date, the Company shall deposit with the Paying Agent (or if the Company or an Affiliate of the Company is acting as the Paying Agent, shall segregate and hold in trust) cash sufficient to pay the aggregate Purchase Price of the Notes to be purchased pursuant to this Section 7.1. Payment by the Paying Agent of the Purchase Price for such Notes shall be made promptly following the later of the Purchase Date or the time of book-entry transfer or delivery of such Notes. If the Paying Agent holds, in accordance with the terms of the Indenture, cash sufficient to pay the Purchase Price of such Notes on the Business Day following the Purchase Date, then, on and after such date, such Notes shall cease to be outstanding and interest and Additional Amounts, if any, on such Notes shall cease to accrue, whether or not book-entry transfer of such Notes is made or such Notes are delivered to the Paying Agent, and all other rights of the Holder shall terminate (other than the right to receive the Purchase Price upon delivery or transfer of the Notes).

(g) The Company shall require each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Holders or the Trustee all cash held by the Paying Agent for the payment of the Purchase Price and shall notify the Trustee of any default by the Company in making any such payment. If the Company or an Affiliate of the Company acts as Paying Agent, it shall segregate the cash held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent to deliver all cash held by it to the Trustee and to account for any funds

disbursed by the Paying Agent. Upon doing so, the Paying Agent shall have no further liability for the cash delivered to the Trustee.

ARTICLE VIII

Conditions and Procedures for Purchases at Option of Holders

SECTION 8.1. Notice of Purchase Date or Fundamental Change. The Company shall send notices (each, a "Company Notice") to the Holders (and to beneficial owners as required by applicable law) at their addresses shown in the Note Register maintained by the Note Registrar, and delivered to the Trustee and Paying Agent, not less than 20 Business Days prior to each Purchase Date, or on or before the 30th day after the occurrence of the Fundamental Change, as the case may be (each such date of delivery, a "Company Notice Date"). Each Company Notice shall include a form of Purchase Notice or Fundamental Change Purchase Notice to be completed by a Holder and shall state:

(i) the applicable Purchase Price or Fundamental Change Purchase Price, excluding accrued and unpaid interest, Conversion Rate at the time of such notice (and any adjustments to the Conversion Rate) and, to the extent known at the time of such notice, the amount of interest and Additional Amounts, if any, that will be payable with respect to the Notes on the applicable Purchase Date or Fundamental Change Purchase Date;

(ii) if the notice relates to a Fundamental Change, the events causing the Fundamental Change and the date of the Fundamental Change;

(iii) the Purchase Date or Fundamental Change Purchase Date;

(iv) the last date on which a Holder may exercise its purchase right;

(v) the name and address of the Paying Agent and the Conversion Agent;

(vi) that Notes must be surrendered to the Paying Agent to collect payment of the Purchase Price or Fundamental Change Purchase Price;

(vii) that Notes as to which a Purchase Notice or Fundamental Change Purchase Notice has been given may be converted only if the applicable Purchase Notice or Fundamental Change Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(viii) that the Purchase Price or Fundamental Change Purchase Price for any Notes as to which a Purchase Notice or a Fundamental Change Purchase Notice, as applicable, has been given and not withdrawn shall be paid by the Paying Agent promptly following the later of the Purchase Date or Fundamental Change Purchase Date, as applicable, or the time of book-entry transfer or delivery of such Notes;

(ix) the procedures the Holder must follow under Article VI or VII, as applicable, and Article VIII;

(x) briefly, the conversion rights of the Notes;

(xi) that, unless the Company defaults in making payment of such Purchase Price or Fundamental Change Purchase Price on Notes covered by any Purchase Notice or Fundamental Change Purchase Notice, as applicable, interest and Additional Amounts, if any, will cease to accrue on and after the Purchase Date or Fundamental Change Purchase Date, as applicable;

(xii) the CUSIP or ISIN number of the Notes; and

(xiii) the procedures for withdrawing a Purchase Notice or Fundamental Change Purchase Notice.

In connection with providing such Company Notice, the Company will issue a press release and publish a notice containing the information in such Company Notice in a newspaper of general circulation in the City of New York or publish such information on the Company's then existing website or through such other public medium as the Company may use at the time.

At the Company's request, made at least five Business Days prior to the date upon which such notice is to be mailed, and at the Company's expense, the Paying Agent shall give the Company Notice in the Company's name to the Holders; provided, however, that, in all cases, the text of the Company Notice shall be prepared by the Company.

SECTION 8.2. Effect of Purchase Notice or Fundamental Change Purchase Notice; Effect of Event of Default. Upon receipt by the Company of the Purchase Notice or Fundamental Change Purchase Notice specified in Section 7.1 or Section 6.2, as applicable, the Holder of the Notes in respect of which such Purchase Notice or Fundamental Change Purchase Notice, as the case may be, was given shall (unless such Purchase Notice or Fundamental Change Purchase Notice is withdrawn as specified in the following two paragraphs) thereafter be entitled to receive solely the Purchase Price or Fundamental Change Purchase Price with respect to such Notes. Such Purchase Price or Fundamental Change Purchase Price shall be paid by the Paying Agent to such Holder promptly following the later of (i) the Purchase Date or the Fundamental Change Purchase Date, as the case may be, with respect to such Notes (provided the conditions in Section 7.1 or Section 6.2, as applicable, have been satisfied) and (ii) the time of delivery or book-entry transfer of such Notes to the Paying Agent by the Holder thereof in the manner required by Section 7.1 or Section 6.4, as applicable. Notes in respect of which a Purchase Notice or Fundamental Change Purchase Notice, as the case may be, has been given by the Holder thereof may not be converted for shares of Common Stock on or after the date of the delivery of such Purchase Notice or Fundamental Change Purchase Notice, as the case may be, unless such Purchase Notice or Fundamental Change Purchase Notice, as the case may be, has first been validly withdrawn as specified in the following two paragraphs.

A Purchase Notice or Fundamental Change Purchase Notice, as the case may be, may be withdrawn by means of a written notice of withdrawal delivered to the

office of the Paying Agent at any time prior to 5:00 p.m. New York City time on the Business Day prior to the Purchase Date or the Fundamental Change Purchase Date, as the case may be, to which it relates specifying:

(i) if certificated, the certificate number of the Notes in respect of which such notice of withdrawal is being submitted, or, if not certificated, the written notice of withdrawal must comply with appropriate DTC procedures;

(ii) the principal amount of the Notes with respect to which such notice of withdrawal is being submitted; and

(iii) the principal amount, if any, of such Notes which remains subject to the original Purchase Notice or Fundamental Change Purchase Notice, as the case may be, and which has been or shall be delivered for purchase by the Company.

There shall be no purchase of any Notes pursuant to Article VI or Article VII if an Event of Default has occurred and is continuing (other than a default that is cured by the payment of the Purchase Price or Fundamental Change Purchase Price, as the case may be). The Paying Agent shall promptly return to the respective Holders thereof any Notes (i) with respect to which a Purchase Notice or Fundamental Change Purchase Notice, as the case may be, has been withdrawn in compliance with this Indenture, or (ii) held by it during the continuance of an Event of Default (other than a default that is cured by the payment of the Purchase Price or Fundamental Change Purchase Price, as the case may be) in which case, upon such return, the Purchase Notice or Fundamental Change Purchase Notice with respect thereto shall be deemed to have been withdrawn.

SECTION 8.3. Notes Purchased in Part. Any Notes that are to be purchased only in part shall be surrendered at the office of the Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing) and the Company shall execute and the Trustee or the Authenticating Agent shall authenticate and deliver to the Holder of such Notes, without service charge, a new Note or Notes, of any authorized denomination as requested by such Holder in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Notes so surrendered which is not purchased or redeemed.

SECTION 8.4. Covenant to Comply with Securities Laws Upon Purchase of Notes. In connection with any offer to purchase Notes under Article VI or Article VII, the Company shall, to the extent applicable, (a) comply with Rules 13e-4 and 14e-1 (and any successor provisions thereto) under the Exchange Act, if applicable; (b) file the related Schedule TO (or any successor schedule, form or report) under the Exchange Act, if applicable; and (c) otherwise comply with all applicable federal and state securities laws so as to permit the rights and obligations under Article VI or Article VII to be exercised in the time and in the manner specified in Article VI or Article VII.

SECTION 8.5. Repayment to the Company. The Trustee and the Paying Agent shall return to the Company any cash or property that remains unclaimed as

provided in paragraph 12 of the Notes, together with interest that the Trustee or Paying Agent, as the case may be, has agreed to pay, if any, held by them for the payment of a Purchase Price or Fundamental Change Purchase Price, as the case may be; provided, however, that to the extent that the aggregate amount of cash or property deposited by the Company pursuant to Section 7.1(f) or 6.4, as applicable, exceeds the aggregate Purchase Price or Fundamental Change Purchase Price, as the case may be, of the Notes or portions thereof which the Company is obligated to purchase as of the Purchase Date or Fundamental Change Purchase Date, as the case may be, then promptly on and after the Business Day following the Purchase Date or Fundamental Change Purchase Date, as the case may be, the Trustee and the Paying Agent shall return any such excess to the Company together with interest that the Trustee or Paying Agent, as the case may be, has agreed to pay, if any.

SECTION 8.6. Officers' Certificate. At least five Business Days before the Company Notice Date, the Company shall deliver an Officers' Certificate to the Trustee (provided, that at the Company's option, the matters to be addressed in such Officers' Certificate may be divided among two such certificates) specifying:

(i) the manner of payment selected by the Company; and

(ii) whether the Company desires the Trustee to give the Company Notice to the Holders required by Section 8.1.

ARTICLE IX

Conversion of Notes

SECTION 9.1. Right to Convert. A Holder may convert its Notes for Common Stock at any time during which the following conditions are met:

(a) in any calendar quarter (and only during such calendar quarter) if the Last Reported Sale Price for Common Stock for at least 20 Trading Days during the period of 30 consecutive Trading Days ending on the last Trading Day of the previous calendar quarter is greater than or equal to 120% of the Conversion Price per share of Common Stock on such last Trading Day;

(b) during any period in which both (A) the credit rating assigned to the Notes by Moody's Investors Service, Inc. is lower than Ba1 and (B) the credit rating assigned to the Notes by Standard & Poors Rating Services is lower than BB+;

(c) during any period in which the Notes no longer are assigned credit ratings by at least one of Moody's Investors Services, Inc. and Standard & Poor's Ratings Services or their successors;

(d) in the event that the Company calls the Notes for redemption, at any time prior to the close of business on the second Business Day immediately preceding the Redemption Date; or

(e) the Company becomes a party to a consolidation, merger or binding share exchange pursuant to which the Common Stock would be converted into cash or property (other than securities), in which case a Holder may surrender Notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date for the transaction until 15 days after the actual effective date of such transaction; or

(f) the Company elects to (i) distribute to all holders of Common Stock assets, debt securities or rights to purchase securities of the Company, which distribution has a per share value as determined by the Board of Directors exceeding 15% of the Last Reported Sale Price of a share of Common Stock on the Trading Day immediately preceding the declaration date for such distribution, or (ii) distribute to all holders of Common Stock rights entitling them to purchase, for a period expiring within 60 days after the date of such distribution, shares of Common Stock at less than the Last Reported Sale Price of Common Stock on the Trading Day immediately preceding the declaration date of the distribution. In the case of the foregoing clauses (i) and (ii), the Company must notify the Holders at least 20 Business Days immediately prior to the ex-dividend date for such distribution. Once the Company has given such notice, Holders may surrender their Notes for conversion at any time thereafter until the earlier of the close of business on the Business Day immediately prior to the ex-dividend date or the Company's announcement that such distribution will not take place; provided, however, that a Holder may not exercise this right to convert if the Holder may participate in the distribution without conversion. As used herein, the term "ex-dividend date," when used with respect to any issuance or distribution, shall mean the first date on which a sale of the Common Stock does not automatically transfer the right to receive the relevant dividend from the seller of the Common Stock to its buyer.

The number of shares of Common Stock issuable upon conversion of a Note per $1,000 principal amount (the "Conversion Rate") shall be that set forth in paragraph 9 in the Notes, subject to adjustment as herein set forth. The initial Conversion Rate is 26.5583 shares of Common Stock issuable upon conversion of a Convertible Note per $1,000 principal amount.

A Holder may convert a portion of the principal amount of Notes if the portion is $1,000 or a multiple of $1,000.

SECTION 9.2. Conversion Procedures. To convert Notes, a Holder must satisfy the requirements in this Section 9.2 and in paragraph 9 of the Notes. The date on which the Holder satisfies all those requirements and delivers an irrevocable conversion notice, together, if the Notes are in certificated form, with the certificated Note, to the Conversion Agent along with appropriate endorsements and transfer documents, if required, and pay any transfer or similar tax, if required, is the conversion date (the "Conversion Date"). As soon as practicable, but in no event later than the fifth Business Day following the Conversion Date, the Company shall deliver to the Holder, through the Conversion Agent, a certificate for the number of full shares of Common Stock issuable upon the conversion and cash in lieu of any fractional share determined pursuant to Section 9.3. Upon conversion, the Company may choose to deliver, in lieu of shares of Common Stock, cash or a combination of cash and shares of Common Stock as set forth in Section 9.17. The Person in whose name the certificate is registered shall be treated as a stockholder of record on and after the Conversion Date; provided, however, that no surrender of Notes on any date when

the stock transfer books of the Company shall be closed shall be effective to constitute the Person or Persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the Person or Persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; such conversion shall be at the Conversion Rate in effect on the date that such Notes shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed. Upon conversion of Notes, such Person shall no longer be a Holder of such Notes.

No payment or adjustment shall be made for dividends on or other distributions with respect to any Common Stock except as provided in Section 9.6 or as otherwise provided in this Indenture.

On conversion of Notes, that portion of accrued interest, if any, with respect to the converted Notes shall not be canceled, extinguished or forfeited, but rather shall be deemed to be paid in full to the Holder thereof through delivery of the Common Stock (together with the cash payment, if any, in lieu of fractional shares) or cash or a combination of cash and Common Stock in exchange for the Notes being converted pursuant to the provisions hereof, and the cash or the Fair Market Value of such shares of Common Stock (together with any such cash payment in lieu of fractional shares) shall be treated as issued, to the extent thereof, first in exchange for interest accrued and unpaid through the Conversion Date and the balance, if any, of such Fair Market Value of such cash or Common Stock (and any such cash payment) shall be treated as issued in exchange for the principal amount of the Notes being converted pursuant to the provisions hereof. Notwithstanding conversion of any Notes, the Holders of the Notes and any Common Stock issuable upon conversion thereof will continue to be entitled to receive Additional Amounts in accordance with the Registration Rights Agreement.

If a Holder converts more than one Note at the same time, the number of shares of Common Stock issuable upon the conversion shall be based on the total principal amount of the Notes converted.

Upon surrender of a Note that is converted in part, the Company shall execute, and the Trustee or the Authenticating Agent shall authenticate and deliver to the Holder, a new Note in an authorized denomination equal in principal amount to the unconverted portion of the Note surrendered.

If the last day on which Notes may be converted is not a Business Day in a place where a Conversion Agent is located, the Notes may be surrendered to that Conversion Agent on the next succeeding Business Day.

Notes in respect of which a Holder has delivered a notice of exercise of the option to require the Company to purchase such Notes pursuant to Article VI or VII may be converted only if the notice of exercise is withdrawn in accordance with the terms of Section 8.2.

SECTION 9.3. Cash Payments in Lieu of Fractional Shares. The Company shall not issue a fractional share of Common Stock upon conversion of Notes. Instead the Company shall deliver cash for the current market value of the fractional share. The current market value of a fractional share shall be determined to the

nearest 1/10,000th of a share by multiplying the Last Reported Sale Price of a full share of Common Stock on the Trading Day immediately preceding the Conversion Date by the fractional amount and rounding the product to the nearest whole cent.

SECTION 9.4. Taxes on Conversion. If a Holder converts Notes, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion. However, the Holder shall pay any such tax which is due because the Holder requests the shares to be issued in a name other than the Holder's name. The Conversion Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Conversion Agent receives a sum sufficient to pay any tax which shall be due because the shares are to be issued in a name other than the Holder's name. Nothing herein shall preclude any withholding tax required by law.

SECTION 9.5. Covenants of the Company. The Company shall, prior to issuance of any Notes hereunder, and from time to time as may be necessary, reserve out of its authorized but unissued Common Stock a sufficient number of shares of Common Stock to permit the conversion of the Notes.

All shares of Common Stock delivered upon conversion of the Notes shall be newly issued shares or treasury shares, shall be duly and validly issued and fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company shall endeavor promptly to comply with all federal and state securities laws regulating the order and delivery of shares of Common Stock upon the conversion of Notes, if any, and shall cause to have listed or quoted all such shares of Common Stock on each United States national securities exchange or over-the-counter or other domestic market on which the Common Stock is then listed or quoted.

SECTION 9.6. Adjustments to Conversion Rate. The Conversion Rate shall be adjusted from time to time, without duplication, as follows:

(a) In case the Company shall (i) pay a dividend or make a distribution on the Common Stock exclusively in shares of its Common Stock or other Capital Stock; (ii) subdivide or split its outstanding Common Stock into a greater number of shares; (iii) combine or reclassify its outstanding Common Stock into a smaller number of shares; or (iv) issue by reclassification of the shares of Common Stock any shares of the Company's Capital Stock, the Conversion Rate in effect immediately prior to the record date or effective date, as the case may be, for the adjustment pursuant to this Section 9.6(a) as described below, shall be adjusted so that the Holder of any Notes thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock which such Holder would have owned or have been entitled to receive after the happening of any of the events described above had such Notes been converted immediately prior to such record date or effective date, as the case may be. An adjustment made pursuant to this Section 9.6(a) shall become effective immediately after the applicable record date in the case of a dividend or distribution and shall become effective immediately after the applicable effective date in the case of subdivision, combination or reclassification of the Common Stock. If any dividend or distribution of the type described in

clause (i) above is not so paid or made, the Conversion Rate shall again be adjusted to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared.

(b) In case the Company shall issue rights or warrants to all holders of the Common Stock entitling them (for a period expiring within 60 days after the date of issuance of such rights or warrants) to subscribe for or purchase Common Stock at a price per share less than the Market Price per share of Common Stock on the record date fixed for determination of shareholders entitled to receive such rights or warrants, the Conversion Rate in effect immediately after such record date shall be adjusted so that the same shall equal the Conversion Rate determined by multiplying the Conversion Rate in effect immediately after such record date by a fraction of which (i) the numerator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock offered for subscription or purchase, and (ii) the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at the Market Price per share of Common Stock on the earlier of such record date or the Trading Day immediately preceding the ex distribution date for such issuance of rights or warrants. Such adjustment shall be made successively whenever any such rights or warrants are issued, and shall become effective immediately after the opening of business on the day following the record date for the determination of shareholders entitled to receive such rights or warrants. To the extent that shares of Common Stock are not delivered after the expiration of such rights or warrants, the Conversion Rate shall be readjusted to the Conversion Rate which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered. If such rights or warrants are not so issued, the Conversion Rate shall again be adjusted to be the Conversion Rate which would then be in effect if such record date for the determination of shareholders entitled to receive such rights or warrants had not been fixed. In determining whether any rights or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than such Market Price, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Company for such rights or warrants, the value of such consideration, if other than cash, to be determined by the Board of Directors.

(c) (i) In case the Company shall, whether by dividend or in a merger, amalgamation or consolidation or otherwise, distribute to all holders of Common Stock any evidence of indebtedness, shares of Capital Stock of any class or series, other securities, cash or assets (excluding (1) any dividend, distribution or issuance covered by those referred to in Section 9.6(a) or 9.6(b) and (2) any dividend or distribution payable exclusively in cash, shares of Capital Stock or similar Equity Interests in the case of a Spin-off, and (3) any dividend or distribution paid exclusively in cash referred to in Section 9.6(d) (any of the foregoing hereinafter in this Section 9.6(c) called the "Distributed Assets or Securities") in an aggregate amount per share of Common Stock that, combined together with the aggregate amount of any other such distributions to all holders of its Common Stock made within the 12 months preceding the date of payment of such distribution, and in respect of which no adjustment pursuant to this Section 9.6(c) has been made, exceeds 15% of the Distribution Adjustment Market Price on the Trading Day immediately preceding the declaration of such distribution, then the Conversion Rate shall be adjusted so that the same shall equal the Conversion Rate determined by dividing the

Conversion Rate in effect immediately prior to the close of business on the record date fixed for determination of holders of Common Stock entitled to receive that distribution by a fraction of which (A) the numerator shall be the Distribution Adjustment Market Price per share of the Common Stock, and (B) the denominator shall be (1) the Distribution Adjustment Market Price per share of the Common Stock plus (2) the Fair Market Value on the earlier of such record date or the Trading Day immediately preceding the ex date for such dividend or distribution (as described in a certificate filed with the Trustee and the Paying Agent) of the Distributed Assets or Securities so distributed applicable to one share of Common Stock. Such adjustment shall become effective immediately after the 10th consecutive Trading Day commencing on and including the first Trading Day after the "ex distribution date" with respect to the distribution.

(ii) In the event of a Spin-off, the Conversion Rate shall be adjusted so that the same shall equal the Conversion Rate determined by dividing the Conversion Rate in effect immediately prior to the close of business on the record date fixed for the determination of holders of Common Stock entitled to receive such distribution by a fraction of which (A) the numerator shall be the Spin-off Market Price per share of the Common Stock and (B) the denominator shall be (x) the Spin-off Market Price per share of the Common Stock plus (y) the Fair Market Value of the portion of those Shares of Capital Stock or similar Equity Interests so distributed applicable to one share of Common Stock on such record date. The adjustment to the Conversion Rate set forth in this Section 9.6(c)(ii) will occur at the earlier of (1) the 10th Trading Day from, and including, the effective date of the Spin-off and (2) the date of the Initial Public Offering of the securities being distributed in the Spin-off, if that Initial Public Offering is effected simultaneously with the Spin-off.

(iii) Notwithstanding the foregoing provisions of this Section 9.6(c), if (A) the Fair Market Value of the portion of the Distributed Assets or Securities so distributed applicable to one share of Common Stock is equal to or greater than the Distribution Adjustment Market Price of the Common Stock or (B) the Distribution Adjustment Market Price of the Common Stock is greater than the Fair Market Value per share of such Distributed Assets or Securities by less than $1.00, then, in lieu of the foregoing adjustment, adequate provision shall be made so that each Holder shall have the right to receive upon conversion, in addition to the shares of Common Stock, the kind and amount of assets, debt securities, or rights or warrants comprising the Distributed Assets or Securities the Holder would have received had such Holder converted such Notes immediately prior to the record date for the determination of shareholders entitled to receive such distribution. In the event that such distribution is not so paid or made, the Conversion Rate shall again be adjusted to the Conversion Rate which would then be in effect if such distribution had not been declared.

(d) In case the Company shall make any distributions, by dividend or otherwise, during any quarterly fiscal periods consisting exclusively of cash to all holders of outstanding shares of Common Stock in an aggregate amount that, together with (i) other all-cash distributions made to all holders of outstanding shares of Common Stock during such quarterly fiscal period and (ii) any cash and the Fair Market Value, as of the expiration of any tender or exchange offer (other than consideration payable in respect of any odd-lot tender offer), of consideration payable in respect of any tender or exchange offer by the Company or any of the Company's Subsidiaries for all or any portion

of shares of Common Stock concluded during such quarterly fiscal period, exceed the product of $0.125 (appropriately adjusted from time to time for any stock dividends on or subdivisions or combinations of the Common Stock) multiplied by the number of shares of Common Stock outstanding on the record date for such distribution, then, and in each such case, the Conversion Rate shall be adjusted so that the same shall equal the Conversion Rate determined by dividing the Conversion Rate in effect immediately prior to the close of business on the record date fixed for the determination of holders of Common Stock entitled to receive such distribution by a fraction of which (A) the numerator shall be the Distribution Adjustment Market Price per share of the Common Stock and (B) the denominator shall be (1) the Distribution Adjustment Market Price per share of Common Stock plus (2) the amount per share of such dividend or distribution to the extent it exceeds $0.125 (appropriately adjusted from time to time for any stock dividends on or subdivisions or combination of Common Stock) at the close of business on the day that the Common Stock trades ex distribution.

(e) Upon conversion of the Notes, the Holders shall receive, if they receive shares of Common Stock, in addition to the Common Stock issuable upon such conversion, the rights issued under the Rights Plan or under any future shareholder rights plan the Company implements (notwithstanding the occurrence of an event causing such rights to separate from the Common Stock at or prior to the time of conversion) unless, prior to conversion, the rights have expired, terminated or been redeemed or exchanged in accordance with the Rights Plan. If, and only if, the Holders of Notes receive rights under such shareholder rights plans as described in the preceding sentence upon conversion of their Notes, then no other adjustment pursuant to this Section 9.6 shall be made in connection with such shareholder rights plans.

(f) For purposes of this Section 9.6, the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company shall not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(g) Notwithstanding the foregoing, in the event of an adjustment pursuant to Sections 9.6(c) or (d), the "Maximum Conversion Rate" shall initially be 43.8212 and shall be appropriately adjusted from time to time for any stock dividends on or subdivisions or combinations of the Common Stock. The Maximum Conversion Rate shall not apply to any adjustments made pursuant to any of the events in Section 9.6(a) or Section 9.6(b).

SECTION 9.7. Calculation Methodology. No adjustment in the Conversion Price need be made unless the adjustment would require an increase or decrease of at least 1% in the Conversion Price then in effect, provided that any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment. Except as stated in this Article IX, the Conversion Rate will not be adjusted for the issuance of Common Stock or any securities convertible into or exchangeable for Common Stock or carrying the right to purchase any of the foregoing. Any adjustments that are made shall be carried forward and taken into account in any subsequent adjustment. All calculations under Article VIII, Section 9.6 and this Section 9.7 shall be made to the nearest cent or to the nearest 1/10,000th of a share, as the case may be.

SECTION 9.8. When No Adjustment Required. No adjustment to the Conversion Rate need be made:

(i) upon the issuance of any shares of Common Stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on securities of the Company and the investment of additional optional amounts in shares of Common Stock under any plan;

(ii) upon the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Company or any of its Subsidiaries;

(iii) upon the issuance of any shares of Common Stock pursuant to any option, warrant, right, or exercisable, exchangeable or convertible security not described in paragraph (ii) above and outstanding as of the date of this Indenture;

(iv) for a change in the par value or no par value of the Common Stock; or

(v) for accrued and unpaid interest (including Additional Amounts, if any).

To the extent the Notes become convertible into cash, assets, or property (other than Capital Stock of the Company or securities to which Section 9.12 applies), no adjustment shall be made thereafter as to the cash, assets or property. Interest shall not accrue on such cash.

SECTION 9.9. Notice of Adjustment. Whenever the Conversion Rate is adjusted, the Company shall promptly mail to Holders a notice of the adjustment. The Company shall file with the Trustee and the Conversion Agent such notice. The certificate shall, absent manifest error, be conclusive evidence that the adjustment is correct. Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such certificate except to exhibit the same to any Holder desiring inspection thereof.

SECTION 9.10. Voluntary Increase. The Company may make such increases in the Conversion Rate, in addition to those required by Section 9.6, as the Board of Directors considers to be advisable to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes. To the extent permitted by applicable law, the Company may from time to time increase the Conversion Rate by any amount for any period of time if the period is at least 20 days, the increase is irrevocable during the period and the Board of Directors shall have made a determination that such increase would be in the best interests of the Company, which determination shall be conclusive. Whenever the Conversion Rate is so increased, the Company shall mail to Holders and file with the Trustee and the Conversion Agent a notice of such increase. Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such notice except to exhibit the same to any Holder desiring inspection thereof. The Company shall mail the notice at least 15 days before the date the increased Conversion Rate takes affect. The notice shall state the increased Conversion Rate and the period it shall be in effect.

SECTION 9.11. Notice to Holders Prior to Certain Actions. In case:

(a) The Company shall declare a dividend (or any other distribution) on its Common Stock that would require an adjustment in the Conversion Rate pursuant to Section 9.6;

(b) The Company shall authorize the granting to all or substantially all the holders of its Common Stock of rights or warrants to subscribe for or purchase any share of any class or any other rights or warrants;

(c) Of any reclassification or reorganization of the Common Stock of the Company (other than a subdivision or combination of its outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Company is a party and for which approval of any shareholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company; or

(d) Of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, the Company shall cause to be filed with the Trustee and to be mailed to each Holder at its address appearing on the Note Register, as promptly as possible but in any event at least 15 days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution or rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, or rights or warrants are to be determined or (y) the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, reorganization, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up.

SECTION 9.12. Effect of Reclassification, Consolidation, Merger, Binding Share Exchange or Sale. If any of the following events occur, namely (a) any reclassification or change of outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination); (b) any consolidation, merger, combination or binding share exchange of the Company with another corporation as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock; or (c) any sale or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other corporation as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock, then the Company or the successor or purchasing corporation, as the case may be, shall execute with the Trustee a supplement to this Indenture, providing that each Note shall be convertible into the kind and amount of shares of stock and other securities or property or assets (including cash) receivable upon such reclassification, change, consolidation, merger, combination, binding share

exchange, sale or conveyance by a holder of a number of shares of Common Stock issuable upon conversion of such Note immediately prior to such reclassification, change, consolidation, merger, combination, binding share exchange, sale or conveyance. Such supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 9.12.

The Company shall cause notice of the execution of any such supplemental indenture to be mailed to each Holder, at its address appearing on the Note Register, within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture.

The above provisions of this Section 9.12 shall similarly apply to successive reclassifications, changes, consolidations, mergers, combinations, binding share exchanges, sales and conveyances.

If this Section 9.12 applies to any event or occurrence, Section 9.6 shall not apply.

SECTION 9.13. Responsibility of Trustee. The Trustee and any other Conversion Agent shall not at any time be under any duty or responsibility to any Holder to either calculate the Conversion Rate or determine whether any facts exist which may require any adjustment of the Conversion Rate, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same and shall be protected in relying upon an Officers' Certificate with respect to the same. The Trustee and any other Conversion Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock, or of any securities or property, which may at any time be issued or delivered upon the conversion of any Notes and the Trustee and any other Conversion Agent make no representations with respect thereto. Subject to the provisions of Article VI, neither the Trustee nor any Conversion Agent shall be responsible for any failure of the Company to issue, transfer or deliver any shares of Common Stock or stock certificates or other securities or property or cash upon the surrender of any Notes for the purpose of conversion or to comply with any of the duties, responsibilities or covenants of the Company contained in this Section. Without limiting the generality of the foregoing, neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any Indenture entered into pursuant to Article VIII relating either to the kind or amount of shares of stock or securities or property (including cash) receivable by Holders upon the conversion of their Notes after any event referred to in Section 9.12 or to any adjustment to be made with respect thereto, but, subject to the provisions of Article VI, may accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, the Officers' Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto.

SECTION 9.14. Simultaneous Adjustments. In the event that Section 9.6 requires adjustments to the Conversion Rate under more than one of Section 9.6(a), (b), (c) or (d), and the Record Dates for the distributions giving rise to such adjustments shall occur on the same date, then such adjustments shall be made by applying, first, the provisions of Section 9.6(c), second, the provisions of Section 9.6(a) and third, the provisions of Section 9.6(b);

provided, however, that nothing in this Section 9.14 shall be done to evade the principle set forth in Section 9.6(g) that the Maximum Conversion Rate shall not apply to any adjustments made with respect to any of the events in Section 9.6(a) or Section 9.6(b).

SECTION 9.15. Successive Adjustments. After an adjustment to the Conversion Rate under Section 9.6, any subsequent event requiring an adjustment under Section 9.6 shall cause an adjustment to the Conversion Rate as so adjusted.

SECTION 9.16. General Considerations. Whenever successive adjustments to the Conversion Rate are called for pursuant to Article IX, such adjustments shall be made to the Market Price as may be necessary or appropriate to effectuate the intent of Article IX and to avoid unjust or inequitable results as determined in good faith by the Board of Directors.

SECTION 9.17. Payment of Cash in Lieu of Common Stock. If a Holder elects to convert all or any portion of a Note into shares of Common Stock as set forth in Section 9.1 and delivers an irrevocable conversion notice, together, if the Notes are in certificated form, with the certificated Note as set forth in Section 9.2, the Company may choose to satisfy all or any portion of its conversion obligation (the "Conversion Obligation") in cash or a combination of cash and stock. Upon such election, the Company will notify such Holder through the Trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the Conversion Obligation or as a fixed dollar amount) at any time on or before the date that is three Business Days following receipt of written notice of conversion as specified in Section 9.2 (such period, the "Cash Settlement Notice Period"). If the Company elects to pay cash for any portion of the shares otherwise issuable to the Holder, the Holder may retract the conversion notice at any time during the two Business Day period beginning on the day after the final day of the Cash Settlement Notice Period (a "Conversion Retraction Period"); no such retraction can be made (and a conversion notice shall be irrevocable) if the Company does not elect to deliver cash in lieu of shares (other than cash in lieu of fractional shares). If the conversion notice has not been retracted, then settlement (in cash and/or shares) will occur on the Business Day following the final day of the 10 Trading Day period beginning on the day after the final day of the Conversion Retraction Period (the "Cash Settlement Averaging Period"). Settlement amounts will be computed as follows:

(a) if the Company elects to satisfy the entire Conversion Obligation in shares of Common Stock, the Company will deliver to such Holder a number of shares equal to (1) the aggregate original principal amount at maturity of the Securities to be converted divided by 1,000, multiplied by (2) the Conversion Rate;

(b) if the Company elects to satisfy the entire Conversion Obligation in cash, the Company will deliver to such Holder cash in an amount equal to the product of: (1) a number equal to (x) the aggregate original principal amount at maturity of Securities to be converted divided by 1,000, multiplied by (y) the Conversion Rate, and (2) the average Closing Price of the Common Stock during the Cash Settlement Averaging Period; and

(c) if the Company elects to satisfy a fixed portion (other than 100%) of the Conversion Obligation in cash, the Company will deliver to such Holder such

cash amount ("Cash Amount") and a number of shares equal to the greater of (1) one and (2) the excess, if any, of the number of shares calculated as set forth in clause (a) above over the number of shares equal to the sum, for each day of the Cash Settlement Averaging Period, of (x) 10% of the Cash Amount, divided by (y) the closing price of the Common Stock on such day.

ARTICLE X

Defaults and Remedies

SECTION 10.1. Events of Default. "Event of Default," wherever used herein with respect to the Notes, means any one or more of the following events:

(a) default in the payment of any installment of interest or Additional Amounts, if any, upon any of the Notes as and when the same shall become due and payable, and continuance of such default for a period of 30 days; or

(b) default in the payment of the principal of any of the Notes as and when the same shall become due and payable either at maturity, upon redemption, by declaration or otherwise; or

(c) failure on the part of the Company duly to observe or perform any other of the covenants or agreements on the part of the Company in the Notes or in this Indenture contained for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Company by the Trustee by registered mail, or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Notes then outstanding; or

(d) default by the Company in a scheduled payment at maturity, upon redemption or otherwise, in the aggregate principal amount of $125 million or more, after the expiration of any applicable grace period, of any Indebtedness or the acceleration of any Indebtedness of the Company in such aggregate principal amount, so that it becomes due and payable prior to the date on which it would otherwise have become due and payable and such payment default is not cured or such acceleration is not rescinded within 30 days after notice to the Company in accordance with the terms of the Indebtedness; or

(e) default on the part of the Company in its obligation to convert the Notes upon exercise of a Holder's conversion right in accordance with the terms of the Notes and Article IX and such conversion default is not cured or such conversion is not rescinded within 10 days after notice to the Company; or

(f) default on the part of the Company in its obligation to purchase Notes upon the occurrence of a Fundamental Change or the exercise by a Holder of its option to require the Company to repurchase such Holder's Notes in accordance with the terms of Article VI or Article VII, as applicable; or

(g) without the consent of the Company a court having jurisdiction shall enter an order for relief with respect to the Company under the Bankruptcy Code or without the consent of the Company a court having jurisdiction shall enter a judgment, order or decree adjudging the Company a bankrupt or insolvent, or enter an order for relief for reorganization, arrangement, adjustment or composition of or in respect of the Company under the Bankruptcy Code or applicable state insolvency law and the continuance of any such judgment, order or decree is unstayed and in effect for a period of 90 consecutive days; or

(h) the Company shall institute proceedings for entry of an order for relief with respect to the Company under the Bankruptcy Code or for an adjudication of insolvency, or shall consent to the institution of bankruptcy or insolvency proceedings against it, or shall file a petition seeking, or seek or consent to reorganization, arrangement, composition or relief under the Bankruptcy Code or any applicable state law, or shall consent to filing of such petition or to the appointment of a receiver, custodian, liquidator, assignee, trustee, sequestrator or similar official (other than a custodian pursuant to 8 Delaware Code ss.226 or any similar statute under other state laws) of the Company or of substantially all of its property, or the Company shall make a general assignment for the benefit of creditors as recognized under the Bankruptcy Code.

If an Event of Default with respect to the Notes then outstanding occurs and is continuing, then and in each and every such case, unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding, by notice in writing to the Company (and to the Trustee if given by Holders), may declare the principal of all the Notes and the interest, if any, accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding. This provision, however, is subject to the condition that if at any time after the principal (or such specified amount) of the Notes shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest if any, upon all of the Notes and the principal of any and all Notes, which shall have become due otherwise than by acceleration (with interest on overdue installments of interest, if any, to the extent that payment of such interest is enforceable under applicable law and on such principal at the rate borne by the Notes to the date of such payment or deposit) and the reasonable compensation, disbursements, expenses and advances of the Trustee, and any and all defaults under this Indenture, other than the nonpayment of principal of and accrued interest, if any, on the Notes, which shall have become due by acceleration, shall have been cured or shall have been waived in accordance with Section 10.7 or provision deemed by the Trustee to be adequate shall have been made therefore, then and in every such case the Holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon. If any Event of Default with respect to the Company specified in Section 10.1(g) or 10.1(h) occurs, all unpaid principal and

accrued interest on all Notes then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act by the Trustee or any Holder.

If the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Trustee and the Holders shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Trustee and the Holders shall continue as though no such proceeding had been taken.

Except with respect to an Event of Default pursuant to Section 10.1 (a), (b), (d), (e) or (f), the Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to a Responsible Officer by the Company, a Paying Agent or any Holder. In determining whether the Holders of the requisite aggregate principal amount of the Notes outstanding have given any request, demand, authorization or consent under the Indenture, the principal amount of Notes that will be deemed to be outstanding will be the amount of the principal of the Notes that would be due and payable as of the date of the determination upon a declaration of acceleration of the maturity of the Notes.

SECTION 10.2. Payment of Notes On Default; Suit Therefor. The Company covenants that (a) if a default shall be made in the payment of any installment of interest upon the Notes then outstanding as and when the same shall become due and payable, and such default shall have continued for a period of 30 days, or (b) if a default shall be made in the payment of the principal of any of the Notes as and when the same shall have become due and payable, whether at maturity of the Notes or upon redemption or by declaration or otherwise, then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the Holders of the Notes, the whole amount that then shall have become due and payable on all such Notes for principal or interest, if any, or both, as the case may be, with interest upon the overdue principal and (to the extent that payment of such interest is enforceable under applicable law) upon the overdue installments of interest, if any, at the rate borne by the Notes; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Trustee, its agents, attorneys and counsel and any expenses or liabilities incurred by the Trustee hereunder other than through its negligence or bad faith.

If the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other obligor on the Notes and collect in the manner provided by law out of the property of the Company or any other obligor on the Notes, wherever situated, the moneys adjudged or decreed to be payable.

If there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes then outstanding under any bankruptcy, insolvency or other similar law now or hereafter in effect, or if a receiver or trustee or similar official shall have been appointed for the property of the Company or such other obligor, or in the case of any other similar judicial proceedings relative to the Company or other obligor upon the Notes, or to the creditors or property of the Company or such

other obligor, the Trustee, irrespective or whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 10.2, shall be entitled and empowered by intervention if such proceedings or otherwise to file and prove a claim or claims for the whole amount of principal and interest, if any, owing and unpaid in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the Holders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes, its or their creditors, or its or their property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses, and any receiver, assignee or trustee or similar official in bankruptcy or reorganization is hereby authorized by each of the Holders to make such payments to the Trustee, and, if the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for compensation and expenses, including counsel fees incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses and counsel fees out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, moneys, securities and other property which the Holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as Trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

SECTION 10.3. Application of Moneys Collected by Trustee. Any moneys collected by the Trustee pursuant to Section 10.2 with respect to the Notes then outstanding shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such moneys, upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

FIRST: To the payment of costs and expenses of collection and reasonable compensation to the Trustee, its agents, attorneys and counsel, and of all other expenses and liabilities incurred, and all advances made, by the Trustee pursuant to Section 11.7 except as a result of its negligence or bad faith;

SECOND: If the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest, if any, on the Notes, in the order of the maturity of the installments of such interest, if any, with interest (to the extent that such interest has been collected by the Trustee) upon the overdue installments of interest, if any, at the rate borne by the Notes, such payment to be made ratably to the Persons entitled thereto;

THIRD: If the principal of the outstanding Notes shall have become due, by declaration or otherwise, to the payment of the whole amount then owing and unpaid upon the Notes for principal and interest, if any, with interest on the overdue principal and (to the extent that such interest has been collected by the Trustee) upon overdue installments of interest, if any, at the rate borne by the Notes; and in case such moneys shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal and interest, if any, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal and accrued and unpaid interest; and

FOURTH: To the payment of any surplus then remaining to the Company, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same.

No claim for interest which in any manner at or after maturity shall have been transferred or pledged separate or apart from the Notes to which it relates, or which in any manner shall have been kept alive after maturity by an extension (otherwise than pursuant to an extension made pursuant to a plan proposed by the Company to the Holders of all of the Notes then outstanding), purchase, funding or otherwise by or on behalf or with the consent or approval of the Company shall be entitled, in case of a default hereunder, to any benefit of this Indenture, except after prior payment in full of the principal of all of the Notes then outstanding and of all claims for interest not so transferred, pledged, kept alive, extended, purchased or funded.

SECTION 10.4. Proceedings by Holders. No Holder of any Notes then outstanding shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or the Notes or for the appointment of a receiver or trustee or similar official, or for any other remedy hereunder or thereunder, unless such Holder previously shall have given to the Trustee written notice of default and of the continuance thereof, as hereinbefore provided, and unless the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding shall have made written request to the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding, it being understood and intended, and being expressly covenanted by the Holder of every Note with every other taker and Holder and the Trustee, that no one or more Holders of the Notes shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture or of the Notes to affect, disturb or prejudice the rights of any other Holder of such Notes or to obtain or seek to obtain priority over or preference as to any other such Holder, or to enforce any right under this Indenture or the Notes, except in the manner herein provided and for the equal, ratable and common benefit of all Holders of Notes.

Notwithstanding any other provisions in this Indenture, however, the right of any Holder of any Note to receive payment of the principal of and interest, if any, on such Note, on or after the respective due dates expressed in such

Note, or to institute suit for the enforcement of any such payment on or after such respective dates shall not be impaired or affected without the consent of such Holder.

SECTION 10.5. Proceedings by Trustee. In case of an Event of Default hereunder, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceedings in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

SECTION 10.6. Remedies Cumulative and Continuing. All powers and remedies given by this Article X to the Trustee or to the Holders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the Holders, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any Holder to exercise any right or power accruing upon any default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 10.4, every power and remedy given by this Article X or by law to the Trustee or to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Holders.

SECTION 10.7. Direction of Proceedings; Waiver of Defaults by Majority of Holders. The Holders of a majority in aggregate principal amount of the Notes then outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the Notes; provided, however, that (subject to the provisions of Section 11.1) the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine upon advice of counsel that the action or proceeding so directed may not lawfully be taken or if the Trustee in good faith by its board of directors, its executive committee, or a trust committee of directors or Responsible Officers or both shall determine that the action or proceeding so directed would involve the Trustee in personal liability. The Holders of a majority in aggregate principal amount of the Notes then outstanding may on behalf of the Holders of all of the Notes waive any past default or Event of Default hereunder and its consequences except a default in the payment of interest, if any, on, or the principal of, the Notes. Upon any such waiver the Company, the Trustee and the Holders of the Notes shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section 10.7, said default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing.

SECTION 10.8. Notice of Defaults. The Trustee shall, within 90 days after the occurrence of a default, with respect to the Notes then outstanding, mail to all Holders of the Notes, as the names and the addresses of such Holders appear

upon the Notes register, notice of all defaults known to the Trustee with respect to the Notes, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purpose of this Section 10.8 being hereby defined to be the events specified in clauses (a), (b), (c), (d), (e), (f), (g) and (h) of Section 10.1, not including periods of grace, if any, provided for therein and irrespective of the giving of the written notice specified in said clause (c) but in the case of any default of the character specified in said clause (c) no such notice to Holders shall be given until at least 60 days after the giving of written notice thereof to the Company pursuant to said clause (c).

SECTION 10.9. Undertaking to Pay Costs. All parties to this Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the cost of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorney's fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 10.9 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder or group of Holders, holding in the aggregate more than 10% in principal amount of the Notes then outstanding, or to any suit instituted by any Holders for the enforcement of the payment of the principal of or interest, if any, on any Note against the Company on or after the due date expressed in such Note.

ARTICLE XI

Trustee

SECTION 11.1. Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs; provided that if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of any of the Holders unless such Holders have provided the Trustee indemnity or security reasonably satisfactory to the Trustee against loss, liability or expense.

(b) Except during the continuance of an Event of Default:

(i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any

such certificates or opinions which by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall examine such certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 10.5.

(d) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(e) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(f) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(g) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 11.1 and to the provisions of the TIA.

(h) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders unless such Holders shall have provided to the Trustee security or indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees and expenses) and liabilities that might be incurred by it in compliance with such request or direction.

SECTION 11.2. Rights of Trustee.

(a) The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any paper or document believed by it to be genuine and to have been signed or presented by the proper Person or Persons. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate or Opinion of Counsel.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any attorney or agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute willful misconduct or negligence.

(e) The Trustee may consult with counsel of its selection, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, notice, request, direction, consent, order, bond or other paper or document; but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company at reasonable times and in a reasonable manner, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(g) The Trustee shall not be deemed to have knowledge of any Default or Event of Default except (i), during any period it is serving as Registrar and Paying Agent for the Notes, any Event of Default occurring pursuant to Section 10.1(a) and 10.1(b), or (ii) any Default or Event of Default of which a Responsible Officer shall have received written notification or obtained Actual Knowledge. "Actual Knowledge" shall mean the actual fact or statement of knowing by a Responsible Officer without independent investigation with respect thereto.

(h) In no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

(j) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 11.3. Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 11.10 and 11.11. In addition, the Trustee shall be permitted to engage in transactions with the Company; provided, however, that if the Trustee acquires any conflicting interest the Trustee must (i) eliminate such conflict within 90 days of acquiring such conflicting interest or (ii) resign.

SECTION 11.4. Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the Notes or the proceeds from the Notes, and it shall not be responsible for any statement of the Company in this Indenture or in any document issued in connection with the sale of the Notes or in the Notes other than the Trustee's certificate of authentication or for the use or application of any funds received by any Paying Agent other than the Trustee.

SECTION 11.5. Notice of Defaults. If a Default or Event of Default occurs and is continuing and if a Responsible Officer has actual knowledge thereof, the Trustee shall mail to each Holder notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment of principal of or interest on any Note (including payments pursuant to the required repurchase provisions of such Note, if any), the Trustee may withhold the notice if and so long as its board of directors, a committee of its board of directors or a committee of its Responsible Officers and/or a Responsible Officer in good faith determines that withholding the notice is in the interests of Holders.

SECTION 11.6. Reports by Trustee to Holders. As promptly as practicable after each January 15 beginning with the January 15 following the date of this Indenture, and in any event prior to July 15 in each year, the Trustee shall mail to each Holder a brief report dated as of such January 15 that complies with TIA ss. 313(a), if and to the extent such report may be required by the TIA. The Trustee also shall comply with TIA ss. 313(b). The Trustee shall also transmit by mail all reports required by TIA ss. 313(c).

A copy of each report at the time of its mailing to Holders shall be filed with the SEC and each stock exchange (if any) on which the Notes are listed. The Company agrees to notify promptly the Trustee in writing whenever the Notes become listed on any stock exchange and of any delisting thereof.

SECTION 11.7. Compensation and Indemnity. The Company shall pay to the Trustee from time to time such compensation for its services as the parties shall agree in writing from time to time. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it, including, but not limited to, costs of collection, costs of preparing and reviewing reports, certificates and other documents, costs of preparation and mailing of notices to Holders and reasonable costs of counsel, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and

experts. The Company shall indemnify the Trustee, and each of its officers, directors, counsel and agents, against any and all loss, liability or expense (including, but not limited to, reasonable attorneys' fees and expenses) incurred by it in connection with the administration of this trust and the performance of its duties hereunder, including the costs and expenses of enforcing this Indenture (including this Section 11.7) and of defending itself against any claims (whether asserted by any Holder, the Company or otherwise). The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee may have separate counsel and the Company shall pay the fees and expenses of such counsel. The Company need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own willful misconduct, negligence or bad faith, subject to the exceptions contained in Section 11.1(c).

To secure the Company's payment obligations in this Section 11.7, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on particular Notes. The Trustee's right to receive payment of any amounts due under this Section 11.7 shall not be subordinate to any other liability or indebtedness of the Company.

The Company's payment obligations pursuant to this Section and any lien arising hereunder shall survive the discharge of this Indenture and the resignation or removal of the Trustee. When the Trustee incurs expenses after the occurrence of a Default specified in Section 10.1(g) or (h) with respect to the Company, the expenses are intended to constitute expenses of administration under the Bankruptcy Code.

SECTION 11.8. Replacement of Trustee. The Trustee may resign at any time by so notifying the Company. The Holders of a majority in principal amount of the Notes may remove the Trustee by so notifying the Company and the Trustee in writing and may appoint a successor Trustee. The Company shall remove the Trustee if:

(1) the Trustee fails to comply with Section 11.10;

(2) the Trustee is adjudged bankrupt or insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns or is removed by the Company or by the Holders of a majority in principal amount of the Notes and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal

of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 11.7.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee or the Holders of 10% in principal amount of the Notes may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 11.10, unless the Trustee's duty to resign is stayed as provided in TIA ss. 310(b), any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section 11.8, the Company's obligations under Section 11.7 shall continue for the benefit of the retiring Trustee.

SECTION 11.9. Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have.

SECTION 11.10. Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA ss. 310(a). The Trustee shall have a combined capital and surplus of at least $50 million as set forth in its most recent filed annual report of condition. The Trustee shall comply with TIA ss. 310(b).

SECTION 11.11. Preferential Collection of Claims Against Company. If and when the Trustee shall be or become a creditor of the Company, the Trustee shall comply with TIA ss. 311(a), excluding any creditor relationship listed in TIA ss. 311(b). A Trustee who has resigned or been removed shall be subject to TIA ss. 311(a) to the extent indicated.

ARTICLE XII

Satisfaction and Discharge of Indenture; Unclaimed Moneys

SECTION 12.1. Satisfaction and Discharge of Indenture. If at any time (a) the Company shall have paid or caused to be paid the principal of and interest, if any, on all the Notes outstanding (other than Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.8) as and when the same shall have become due and payable, or (b) the Company shall have delivered to the Trustee for cancellation all Notes theretofore authenticated (other than Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.8); and if, in any such case, the Company shall also pay or cause to be paid all other sums payable hereunder by the Company, then this Indenture shall cease to be of further effect, and the Trustee, on demand of the Company accompanied by an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the satisfaction and discharge contemplated by this provision have been complied with, and at the cost and expense of the Company, shall execute proper instruments acknowledging such satisfaction and discharging this Indenture. The Company agrees to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred, and to compensate the Trustee for any services thereafter reasonably and properly rendered, by the Trustee in connection with this Indenture or the Notes.

If at any time the exact amount described in clause (ii) below can be determined at the time of making the deposit referred to in such clause (ii), (i) all of the Notes not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and (ii) the Company shall have irrevocably deposited or caused to be deposited with the Trustee as funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of the Notes, cash in an amount (other than moneys repaid by the Trustee or any Paying Agent to the Company in accordance with Section 12.4) or U.S. Government Obligations, maturing as to principal and interest, if any, at such times and in such amounts as will insure the availability of cash, or a combination thereof, sufficient in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay the principal of and interest, if any, on all of the Notes on each date that such principal or interest, if any, is due and payable in accordance with the terms of this Indenture and the Notes; then the Company shall be deemed to have paid and discharged the entire indebtedness on all the Notes on the date of the deposit referred to in clause (b) above and the provisions of this Indenture with respect to the Notes shall no longer be in effect (except as to (i) rights of registration of transfer and exchange of Notes, (ii) substitution of mutilated, defaced, destroyed, lost or stolen Notes, (iii) rights of Holders of Notes to receive payments of principal thereof and interest, if any, thereon upon the original stated due dates therefor (but not upon acceleration), (iv) the rights, obligations, duties and immunities of the Trustee hereunder, (v) the rights of the Holders of Notes as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them and (vi) the obligations of the Company under Section 2.3 with respect to the Notes) and the Trustee, on demand of the Company accompanied by an Officer's Certificate and an

Opinion of Counsel, each stating that all conditions precedent contemplated by this provision have been complied with, and at the cost and expense of the Company, shall execute proper instruments acknowledging the same.

In addition to discharge of this Indenture pursuant to the next preceding paragraph, if the exact amount described in subparagraph (a) below can be determined at the time of making the deposit referred to in such subparagraph (a), the Company shall be deemed to have paid and discharged the entire indebtedness on all of the Notes on the 91st day after the date of the deposit referred to in subparagraph (a) below, and the provisions of this Indenture with respect to the Notes shall no longer be in effect (except as to (i) rights of registration of transfer and exchange of Notes, (ii) substitution of mutilated, defaced, destroyed, lost or stolen Notes, (iii) rights of Holders of Notes to receive payments of principal thereof and interest, if any, thereon upon the original stated due dates therefor (but not upon acceleration), (iv) the rights, obligations, duties and immunities of the Trustee hereunder, (v) the rights of the Holders of the Notes as beneficiaries hereof with respect to the property so deposited with the Trustee payable to all or any of them and (vi) the obligations of the Company under Section 2.3 with respect to the Notes) and the Trustee, on demand of the Company accompanied by an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent contemplated by this provision have been complied with, and at the cost and expense of the Company, shall execute proper instruments acknowledging the same, if

(a) with reference to this provision the Company has irrevocably deposited or caused to be irrevocably deposited with the Trustee as funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of the Notes (i) cash in an amount, or (ii) U.S. Government Obligations, maturing as to principal and interest, if any, at such times and in such amounts as will insure the availability of cash, or (iii) a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay the principal of and interest, if any, on all of the Notes on each date that such principal or interest, if any, is due and payable in accordance with the terms of this Indenture and the Notes;

(b) such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which the Company is a party or by which it is bound; and

(c) the Company has delivered to the Trustee an Opinion of Counsel based on the fact that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (y), since the date hereof, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and such opinion shall confirm that, the Holders of the Notes of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred.

SECTION 12.2. Application by Trustee of Funds Deposited for Payment of Notes. Subject to Section 12.4, all moneys deposited with the Trustee pursuant to Section 12.1 shall be held in trust and applied by it to the payment, either directly or through any Paying Agent (including the Company acting as its own paying agent), to the Holders of the Notes for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to

become due thereon for principal and interest, if any, but such money need not be segregated from other funds except to the extent required by law.

SECTION 12.3. Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this indenture with respect to the Notes, all moneys then held by any Paying Agent under the provisions of this Indenture with respect to the Notes shall, upon demand of the Company, be repaid to it or paid to the Trustee and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

SECTION 12.4. Return of Moneys Held by Trustee and Paying Agent Unclaimed for Two Years. Any moneys deposited with or paid to the Trustee or any Paying Agent for the payment of the principal of or interest, if any, on the Notes and not applied but remaining unclaimed for two years after the date upon which such principal or interest, if any, shall have become due and payable, shall, upon the written request of the Company and unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be repaid to the Company by the Trustee or such Paying Agent, and the Holder of the Notes shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Company for any payment which such Holder may be entitled to collect, and all liability of the Trustee or any Paying Agent with respect to such moneys shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment with respect to moneys deposited with it for any payment in respect of the Notes, shall, at the expense of the Company, mail by first-class mail to Holders of the Notes at their addresses as they shall appear on the Note register notice that such moneys remain and that, after a date specified therein, which shall not be less than thirty days from the date of such mailing or publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 12.5. Indemnity for U.S. Government Obligations. The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 12.1 or the principal or interest received in respect of such obligations.

ARTICLE XIII

Amendments

SECTION 13.1. Without Consent of Holders. The Company and the Trustee may amend this Indenture or the Notes without notice to or consent of any Holder:

(1) to cure any ambiguity or correct any inconsistency;

(2) to evidence the assumption by a Successor Company of the Company's obligations under this Indenture and the Notes;

(3) secure the Notes;

(4) to add additional covenants or Events of Default for the protection of the holders of the Notes;

(5) to evidence the acceptance of appointment of a successor trustee; or

(6) to amend the Indenture or the Notes in any other manner necessary or desirable and that will not adversely affect the rights of any Holder.

After an amendment under this Section 13.1 becomes effective, the Company shall mail to Holders a notice briefly describing such amendment. The failure to give such notice to all Holders, or any defect therein, shall not impair or affect the validity of an amendment under this Section 13.1.

SECTION 13.2. With Consent of Holders. The Company and the Trustee may amend this Indenture or the Notes without notice to any Holder but with the written consent of the Holders of at least a majority in principal amount of the Notes then outstanding. However, without the consent of each Note then outstanding, an amendment may not:

(1) extend the stated maturity of the principal of any Note;

(2) reduce the amount of the principal of any Note;

(3) reduce the rate or extend the time of payment of interest on any Note;

(4) reduce or alter the method of computation of any amount payable on or at redemption or repayment of any Note;

(5) change the coin of currency in which principal, interest and redemption or repurchase price are payable;

(6) change the terms applicable to redemption or repurchase in a manner adverse to the Noteholder;

(7) make any change that adversely affects the right to convert the Notes, or decrease the conversion rate with respect to the Notes;

(8) impair of affect the right to institute suit for the enforcement of any payment or repayment of any Note; or

(9) reduce the percentage stated above of the holders of Notes who must consent to a modification to the Indenture or the Notes.

It shall not be necessary for the consent of the Holders under this Section 13.2 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section 13.2 becomes effective, the Company shall mail to Holders a notice briefly describing such amendment. The failure to give such notice to all Holders, or any defect therein, shall not impair or

affect the validity of an amendment under this Section 13.2.

SECTION 13.3. Compliance with Trust Indenture Act. Every amendment to this Indenture or the Notes shall comply with the TIA as then in effect.

SECTION 13.4. Revocation and Effect of Consents and Waivers. A consent to an amendment or a waiver by a Holder of a Note shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent or waiver is not made on the Note. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Note or portion of the Note if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Holder. An amendment or waiver made pursuant to Section 13.2 shall become effective upon receipt by the Trustee of the requisite number of written consents.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall become valid or effective more than 120 days after such record date.

SECTION 13.5. Notation on or Exchange of Notes. If an amendment changes the terms of a Note, the Trustee may require the Holder of the Note to deliver it to the Trustee. The Trustee may place an appropriate notation on the Note regarding the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Note shall issue and the Trustee shall authenticate a new Note that reflects the changed terms. Failure to make the appropriate notation or to issue a new Note shall not affect the validity of such amendment.

SECTION 13.6. Trustee To Sign Amendments. The Trustee shall sign any amendment authorized pursuant to this Article XIII if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing such amendment the Trustee shall be entitled to receive indemnity satisfactory to it and to receive, and (subject to Section 11.1) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Indenture.

ARTICLE XIV

Miscellaneous

SECTION 14.1. Trust Indenture Act Controls. If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the provision required by the TIA shall control.

SECTION 14.2. Notices. Any notice or communication shall be in writing and delivered in person or mailed by first-class mail addressed as follows:

if to the Company:

Halliburton Company
1401 McKinney, Suite 2400
Houston, Texas 77010
Attention: Chief Financial Officer
Facsimile No.: (713) 759-2603

With copies to:
Baker Botts L.L.P.
910 Louisiana, Suite 3200
Houston, Texas 77002
Attention: Darrell W. Taylor
Facsimile No.: (713) 229-2813

if to the Trustee:

JPMorgan Chase Bank
600 Travis, Suite 1150
Houston, Texas 77002
Attention: Institutional Trust Services
Facsimile No.: (713) 577-5200

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Holder shall be mailed to the Holder at the Holder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 14.3. Communication by Holders with Other Holders. Holders may communicate pursuant to TIA ss. 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA ss. 312(c).

SECTION 14.4. Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company or such other obligor upon the Notes, as the case may be, shall furnish to the Trustee such certificates and opinions as may be required under the TIA. Each such certificate or opinion shall be given in the form of one or more Officer's Certificates, if to be given by an Officer, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the TIA and any other requirements set forth in this Indenture. Notwithstanding the foregoing, in the case of any such request or application as to which the furnishing of any Officer's Certificate or Opinion of Counsel is specifically required by any provision of this Indenture relating to such particular request or application, no additional certificate or opinion need be furnished.

SECTION 14.5. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(1) a statement that the individual making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

In giving such Opinion of Counsel, counsel may rely as to factual matters on an Officers' Certificate or on certificates of public officials.

SECTION 14.6. When Notes Disregarded. In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Company or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes which a Responsible Officer of the Trustee actually knows are so owned shall be so disregarded. Also, subject to the foregoing, only Notes outstanding at the time shall be considered in any such determination.

SECTION 14.7. Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by, or a meeting of, Holders. The Registrar and the Paying Agent may make reasonable rules for their functions.

SECTION 14.8. Governing Law. This Indenture and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 14.9. No Recourse Against Others. An incorporator, director, officer, employee, stockholder or controlling person, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Notes.

SECTION 14.10. Successors. All agreements of the Company in this Indenture and the Notes shall bind their respective successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 14.11. Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

SECTION 14.12. Variable Provisions. The Company initially appoints the Trustee as Paying Agent and Registrar and custodian with respect to any Global Notes.

SECTION 14.13. Qualification of Indenture. The Company shall qualify this Indenture under the TIA in accordance with the terms and conditions of the Registration Rights Agreement and shall pay all reasonable costs and expenses (including attorneys' fees and expenses for the Company and the Trustee) incurred in connection therewith, including, but not limited to, costs and expenses of qualification of the Indenture and the Notes and printing this Indenture and the Notes. The Trustee shall be entitled to receive from the Company any such Officers' Certificates, Opinions of Counsel or other documentation as it may reasonably request in connection with any such qualification of this Indenture under the TIA.

IN WITNESS WHEREOF, the parties have caused this Indenture to be duly executed as of the date first written above.

HALLIBURTON COMPANY

By:

Name:
Title:

JPMORGAN CHASE BANK, as Trustee

By:

Name:
Title:

EXHIBIT A

[FORM OF FACE OF SECURITY]

[Global Note]
[Certificated Note]

[UNTIL THIS SECURITY IS SOLD UNDER AN EFFECTIVE REGISTRATION STATEMENT, IT SHALL BEAR THE FOLLOWING LEGEND.] THIS NOTE AND ANY COMMON STOCK ISSUABLE UPON THE CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THIS NOTE AND ANY COMMON STOCK ISSUABLE UPON THE CONVERSION OF THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT

(A) (1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A,

(2) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE),

(3) TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR

(4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND

(B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS.

THIS NOTE, ANY SHARES OF COMMON STOCK ISSUABLE UPON ITS CONVERSION AND ANY RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY

THE RESTRICTIONS ON RESALES AND OTHER TRANSFERS OF THIS NOTE AND ANY SUCH SHARES TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE AND SUCH SHARES SHALL BE DEEMED BY THE ACCEPTANCE OF THIS NOTE AND ANY SUCH SHARES TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

[IF THIS SECURITY HAS BEEN TRANSFERRED PURSUANT TO REGULATION S, IT SHALL BEAR THE FOLLOWING LEGEND.] THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE.

BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), (2) BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) (THE "RESALE RESTRICTION TERMINATION DATE"), ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A TRANSACTION INVOLVING A MINIMUM PRINCIPAL AMOUNT OF THE SECURITIES OF $250,000, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO OR FOR OFFER OR SALE IN CONNECTION WITH ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (i) PURSUANT TO CLAUSE (D), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (ii) IN

THE CASE OF THE FOREGOING CLAUSE (E), A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE COMPANY AND THE TRUSTEE. THIS LEGEND WILL BE REMOVED AFTER 40 CONSECUTIVE DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DAY ON WHICH THE SECURITIES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S) AND (B) THE DATE OF THE CLOSING OF THE ORIGINAL OFFERING. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. BY ITS ACQUISITION OF THIS SECURITY THE HOLDER THEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (I) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE AND HOLD THIS SECURITY CONSTITUTES THE ASSETS OF AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OF PLANS, INDIVIDUAL RETIREMENT ACCOUNTS OR OTHER ARRANGEMENTS THAT ARE SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE") OR PROVISIONS UNDER ANY FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE ("SIMILAR LAWS"), OR OF AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE "PLAN ASSETS" OF SUCH PLANS, ACCOUNTS OR ARRANGEMENTS, OR (II) THE PURCHASE AND HOLDING OF THIS SECURITY WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS.

[IF THIS SECURITY IS TO BE A GLOBAL NOTE-] THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OF A DEPOSITARY. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY.

[FOR AS LONG AS THIS GLOBAL SECURITY IS DEPOSITED WITH OR ON BEHALF OF THE DEPOSITORY TRUST COMPANY IT SHALL BEAR THE FOLLOWING LEGEND.] UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), NEW YORK, NEW YORK, TO HALLIBURTON COMPANY OR IS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED I THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE

TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS N WHOLE, BUT NOT IN PART, TO DTC, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

No. ----------

Principal Amount $ ----------

as revised by the Schedule of Increases and Decreases in the Global Note attached hereto

CUSIP NO. ----------

HALLIBURTON COMPANY

3?% Convertible Senior Note due July 15, 2023

Halliburton Company, a Delaware corporation, promises to pay to Cede & Co., or registered assigns, the principal sum of $ Dollars, as revised by the Schedule of Increases and Decreases in the Global Note attached hereto, on July 15, 2023.

Interest Payment Dates: January 15 and July 15.

Record Dates: January 1 and July 1.

Additional provisions of this Note are set forth on the other side of this Note.

HALLIBURTON COMPANY

By: ----------

By: ----------

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

Dated:

JPMORGAN CHASE BANK

as Trustee, certifies that this is one of the Notes referred to in the Indenture.

By: ----------
Authorized Signatory

[FORM OF REVERSE SIDE OF SECURITY]

HALLIBURTON COMPANY

3?% Convertible Senior Note due July 15, 2023

1. Interest

Halliburton Company, a Delaware corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Note at the rate per annum shown above.

The Company will pay interest semiannually on January 15 and July 15 of each year. Interest on the Notes will accrue from the most recent date to which interest has been paid on the Notes or, if no interest has been paid, from June 30, 2003. The Company shall pay interest on overdue principal (plus interest on such interest to the extent lawful), at the rate borne by the Notes to the extent lawful. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The amount of interest payable for any partial period shall be computed on the basis of a 360-day year of twelve 30-day months and the days elapsed in any partial month.

2. Method of Payment

On or before the date on which any principal of or interest in any Note is due and payable, the Company shall irrevocably deposit with the Trustee or the Paying Agent money sufficient to pay such principal and/or interest. The Company will pay interest (except Defaulted Interest) on the principal amount of the Notes on each January 15 and July 15, beginning January 15, 2004, to the Persons who are registered Holders of Notes at the close of business on the January 1 and July 1 next preceding the Interest Payment Date even if Notes are canceled or repurchased after the record date and on or before the Interest Payment Date.

The Company will pay principal and interest and Additional Amounts, if any, in money of the United States that at the time of payment is legal tender for payment of public and private debts. Payments (including principal and interest and Additional Amounts, if any) in respect of the Notes represented by the Global Notes, will be made by the transfer of immediately available funds to the accounts specified by the Depositary. The Company will make all payments in respect of a Definitive Note (including principal and interest) at the office or agency maintained by the Company for such purposes in the City of New York or, at the Company's option, by mailing a check to the registered address of each Holder thereof as such address shall appear on the Note Register; provided, however, that payments on the Notes may also be made, at the Company's option, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder requests payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 15 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion). If a payment date is a date other than a Business Day, payment may be made at that place on the next succeeding day that is a Business Day and no interest shall accrue for the intervening period.

3. Paying Agent and Registrar

Initially, JPMorgan Chase Bank ("Trustee"), will act as Paying Agent, Conversion Agent and Registrar. The Company may appoint and change any Paying Agent, Conversion Agent, Registrar or co-registrar without notice to any Holder. The Company or any of its domestically incorporated Wholly Owned Subsidiaries may act as Paying Agent, Conversion Agent, Registrar or co-registrar.

4. Indenture

The Company issued the Notes under an Indenture dated as of June 30, 2003 (as it may be amended or supplemented from time to time in accordance with the terms thereof, the "Indenture"), among the Company and the Trustee. Capitalized terms herein are used as defined in the Indenture unless otherwise indicated. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 as in effect from time to time (the "Act"). The Notes are subject to all such terms, and Holders are referred to the Indenture and the Act for a statement of those terms. To the extent permitted by applicable law, in the event of any inconsistency between the terms of this Note and the terms of the Indenture, the terms of the Indenture shall control.

The Notes are general unsecured senior obligations of the Company limited to $1,200,000,000 aggregate principal amount.

5. Redemption at the Option of the Company

No sinking fund is provided for the Notes. The Notes are redeemable for cash in whole, or in part, at any time on or after July 15, 2008 at the option of the Company at a redemption price ("Redemption Price") equal to 100% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest (including Additional Amounts, if any) to the Redemption Date.

6. Notice of Redemption at the Option of the Company

Notice of redemption at the option of the Company shall be mailed at least 30 days but not more than 60 days before a Redemption Date to the Trustee, the Paying Agent and each Holder of Notes to be redeemed at the Holder's registered address. If money sufficient to pay the Redemption Price of all Notes (or portions thereof) to be redeemed on the Redemption Date is deposited with the Paying Agent prior to or on the Redemption Date, on and after the Redemption Date interest (including Additional Amounts, if any), if any, shall cease to accrue on such Notes or portions thereof. Notes in denominations larger than $1,000 principal amount may be redeemed in part but only in integral multiples of $1,000 principal amount.

7. Purchase by the Company at the Option of the Holder; Purchase at the Option of the Holder Upon a Fundamental Change

(a) Subject to the terms and conditions of the Indenture, a Holder shall have the option to require the Company to purchase the Notes held by such Holder on July 15, 2008, July 15, 2013 and July 15, 2018 (each, a "Purchase Date") at a

purchase price (the "Purchase Price") equal to 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest (including Additional Amounts, if any) to such Purchase Date, upon delivery of a Purchase Notice containing the information set forth in the Indenture, from the opening of business on the date that is 20 Business Days prior to such Purchase Date until the close of business on the fifth Business Day prior to such Purchase Date and upon delivery of the Notes to the Paying Agent by the Holder as set forth in the Indenture. The Company will pay the Purchase Price in cash.

Notes in denominations larger than $1,000 principal amount may be purchased in part, but only in integral multiples of $1,000 principal amount.

(b) If a Fundamental Change shall occur at any time prior to July 15, 2008, each Holder shall have the right, at such Holder's option and subject to the terms and conditions of the Indenture, to require the Company to purchase any or all of such Holder's Notes or any portion of the principal amount thereof that is equal to $1,000 or an integral multiple of $1,000 on the day that is 35 days after the date of the Company Notice of the occurrence of the Fundamental Change (subject to extension to comply with applicable law) for a Fundamental Change Purchase Price equal to 100% of the principal amount of Notes purchased plus accrued and unpaid interest (including Additional Amounts, if any) to the Fundamental Change Purchase Date, which Fundamental Change Purchase Price shall be paid by the Company in cash, as set forth in the Indenture.

(c) Holders have the right to withdraw any Purchase Notice or Fundamental Change Purchase Notice, as the case may be, by delivery to the Paying Agent of a written notice of withdrawal in accordance with the provisions of the Indenture.

(d) If cash sufficient to pay a Fundamental Change Purchase Price or Purchase Price, as the case may be, of all Notes or portions thereof to be purchased as of the Purchase Date or the Fundamental Change Purchase Date, as the case may be, is deposited with the Paying Agent on the Business Day following the Purchase Date or the Fundamental Change Purchase Date, as the case may be, interest (including Additional Amounts, if any) shall cease to accrue on such Notes (or portions thereof) on and after such date, and the Holder thereof shall have no other rights as such (other than the right to receive the Purchase Price or Fundamental Change Purchase Price, as the case may be, upon surrender of such Note).

8. Ranking

The Notes shall be unsecured and shall rank equally in right of payment with all of the Company's other existing and future unsecured and unsubordinated Indebtedness.

9. Conversion

Subject to the procedures set forth in the Indenture, a Holder may convert Notes into Common Stock on or before the close of business on July 15, 2023 during the periods and upon satisfaction of at least one of the conditions set forth below:

(a) in any calendar quarter (and only during such calendar quarter) if the Last Reported Sale Price for Common Stock for at least 20 Trading Days during the period of 30 consecutive Trading Days ending on the last Trading Day of the previous calendar quarter is greater than or equal to 120% of the Conversion Price per share of Common Stock on such last Trading Day;

(b) during any period in which both (A) the credit rating assigned to the Notes by Moody's Investors Service, Inc. is lower than Ba1 and (B) the credit rating assigned to the Notes by Standard & Poors Rating Services is lower than BB+;

(c) during any period in which the Notes no longer are assigned credit ratings by at least one of Moody's Investors Services, Inc. and Standard & Poor's Ratings Services or their successors;

(d) in the event that the Company calls the Notes for redemption, at any time prior to the close of business on the second Business Day immediately preceding the Redemption Date; or

(e) the Company becomes a party to a consolidation, merger or binding share exchange pursuant to which the Common Stock would be converted into cash or property (other than securities), in which case a Holder may surrender Notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date for the transaction until 15 days after the actual effective date of such transaction; or

(f) the Company elects to (i) distribute to all holders of Common Stock assets, debt securities or rights to purchase securities of the Company, which distribution has a per share value as determined by the Board of Directors exceeding 15% of the Last Reported Sale Price of a share of Common Stock on the Trading Day immediately preceding the declaration date for such distribution, or (ii) distribute to all holders of Common Stock rights entitling them to purchase, for a period expiring within 60 days after the date of such distribution, shares of Common Stock at less than the Last Reported Sale Price of Common Stock on the Trading Day immediately preceding the declaration date of the distribution. In the case of the foregoing clauses (i) and (ii), the Company must notify the Holders at least 20 Business Days immediately prior to the ex-dividend date for such distribution. Once the Company has given such notice, Holders may surrender their Notes for conversion at any time thereafter until the earlier of the close of business on the Business Day immediately prior to the ex-dividend date or the Company's announcement that such distribution will not take place; provided, however, that a Holder may not exercise this right to

convert if the Holder may participate in the distribution without conversion. As used herein, the term "ex-dividend date," when used with respect to any issuance or distribution, shall mean the first date on which a sale of the Common Stock does not automatically transfer the right to receive the relevant dividend from the seller of the Common Stock to its buyer.

Notes in respect of which a Holder has delivered a notice of exercise of the option to require the Company to purchase such Notes pursuant to Article VI or VII may be converted only if the notice of exercise is withdrawn in accordance with the terms of the Indenture.

The initial Conversion Rate is 26.5583 shares of Common Stock per $1,000 principal amount, subject to adjustment in certain events described in the Indenture. The Company shall deliver, at its option, shares of Common Stock, cash or a combination of cash and shares of Common Stock. The Company shall deliver cash or a check in lieu of any fractional share of Common Stock.

Holders of Notes at the close of business on a regular record date will receive payment of interest, payable on the corresponding Interest Payment Date notwithstanding the conversion of such Notes at any time after the close of business on such regular record date. Notes surrendered for conversion by a Holder during the period from the close of business on any regular record date to the opening of business on the immediately following Interest Payment Date must be accompanied by payment of an amount equal to the interest that the Holder is to receive on the Notes; provided, however, that no such payment need be made if (1) the Company has specified a Redemption Date that is after a regular record date and on or prior to the immediately following Interest Payment Date, (2) the Company has specified a Purchase Date following a Fundamental Change that is during such period, or (3) any overdue interest exists at the time of conversion with respect to such Notes to the extent of such overdue interest. The Holders of the Notes and any Common Stock issuable upon conversion thereof will continue to be entitled to receive Additional Amounts in accordance with the Registration Rights Agreement.

To convert the Notes a Holder must (1) complete and manually sign the irrevocable conversion notice on the back of the Notes (or complete and manually sign a facsimile of such notice) and deliver such notice to the Conversion Agent at the office maintained by the Conversion Agent for such purpose, (2) surrender the Notes to the Conversion Agent, (3) furnish appropriate endorsements and transfer documents if required by the Conversion Agent, the Company or the Trustee and (4) pay any transfer or similar tax, if required.

A Holder may convert a portion of the Notes only if the principal amount of such portion is $1,000 or a multiple of $1,000. No payment or adjustment shall be made for dividends on the Common Stock except as provided in the Indenture. On conversion of the Notes, that portion of accrued and unpaid interest attributable to the period from the Issue Date to the Conversion Date with respect to the converted portion of the Notes shall not be canceled, extinguished or forfeited, but rather shall be deemed to be paid in full to the Holder thereof through the delivery of the Common Stock (together with any cash payment in lieu of fractional shares) in exchange for the portion of the Notes being converted pursuant to the terms hereof; and the Fair Market Value of such shares of Common Stock, cash or a combination thereof, at the Company's election (together with any such cash payment in lieu of fractional shares, if any) shall

be treated as issued, to the extent thereof, first in exchange for interest accrued and unpaid through the Conversion Date, and the balance, if any, of such Fair Market Value of such Common Stock (and any such cash payment) shall be treated as issued in exchange for the principal amount of the Notes being converted pursuant to the provisions hereof. Notwithstanding the conversion of any Notes, the Holders of the Notes and any Common Stock issuable upon conversion thereof will continue to be entitled to receive Additional Amounts in accordance with the Registration Rights Agreement.

10. Denominations; Transfer; Exchange

The Notes are in registered form, without coupons, in denominations of principal amount of $1,000 and whole multiples of $1,000. A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange any Notes for a period beginning 15 days before an Interest Payment Date and ending on such Interest Payment Date. In the event of any redemption or purchase in part, the Registrar need not register the transfer of or exchange any Notes selected for redemption (except, in the case of a Note to be redeemed in part, the portion of the Note not to be redeemed) or any Notes in respect of which a Purchase Notice or Fundamental Change Purchase Notice has been given and not withdrawn (except, in the case of a Note to be purchased in part, the portion of the Note not to be purchased) for a period of 15 days before the mailing of a Redemption Notice, Purchase Notice or Fundamental Change Purchase Notice.

11. Persons Deemed Owners

The registered Holder of this Note may be treated as the owner of this Note for all purposes.

12. Unclaimed Money

If money for the payment of the principal of or interest on the Notes remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its written request unless an abandoned property law designates another person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee for payment.

13. Defeasance

Subject to certain conditions set forth in the Indenture, the Company at any time may terminate some or all of its obligations under the Notes and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Notes to maturity.

14. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture and the Notes may be amended with the written consent of the Holders of at least

a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) and (ii) any past default (other than with respect to nonpayment) or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes). Subject to certain exceptions set forth in the Indenture, without the consent of any Holder, the Company and the Trustee may amend the Indenture or the Notes.

15. Defaulted Interest

Except as otherwise specified with respect to the Notes, any Defaulted Interest on any Note shall forthwith cease to be payable to the registered Holder thereof on the relevant regular record date or accrual date, as the case may be, by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company as provided for in Section 2.13.

16. Defaults and Remedies

If an Event of Default occurs and is continuing, the Trustee, or the Holders of at least 25% in aggregate principal amount of the Notes at the time outstanding, may declare the principal amount and any accrued and unpaid interest (including Additional Amounts, if any), of all the Notes to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default, which shall result in the Notes being declared due and payable immediately upon the occurrence of such Events of Default.

Events of Default in respect of the Notes are set forth in Section 10.1. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Notes unless it receives reasonable indemnity or security. Subject to certain limitations, conditions and exceptions, Holders of a majority in aggregate principal amount of the Notes at the time outstanding may direct the Trustee in its exercise of any trust or power, including the annulment of a declaration of acceleration.

17. Consolidation, Merger and Sale of Assets

In the event of a consolidation, merger, or sale of assets to convey, transfer or lease of all or substantially all of Company's property or assets as described in Article IV, the successor corporation to the Company shall succeed to and be substituted for the Company, and may exercise the Company's rights and powers under this Indenture, and thereafter, except in the case of a lease, the Company shall be relieved of all obligations and covenants under the Indenture and the Notes.

18. Trustee Dealings with the Company

Subject to certain limitations set forth in the Indenture, each of the Trustee, Paying Agent, Conversion Agent and Registrar under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with and collect obligations owed to it by the Company or

its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee, Paying Agent, Conversion Agent or Registrar.

19. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

20. Authentication

This Note shall not be valid until an authorized signatory of the Trustee (or an authenticating agent acting on its behalf) manually signs the certificate of authentication on the other side of this Note.

21. Abbreviations

Customary abbreviations may be used in the name of a Holder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian) and U/G/M/A (=Uniform Gift to Minors Act).

22. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Note Identification Procedures the Company has caused CUSIP numbers to be printed on the Notes. No representation is made as to the accuracy of such numbers as printed on the Notes and reliance may be placed only on the other identification numbers placed thereon.

23. Governing Law

This Note shall be governed by, and construed in accordance with, the laws of the State of New York.

The Company will furnish to any Holder upon written request and without charge to the Holder a copy of the Indenture which has in it the text of this Note in larger type. Requests may be made to:

Halliburton Company
1401 McKinney, Suite 2400
Houston, Texas 77010
Attention: Chief Financial Officer
Facsimile No.: (713) 759-2603

ASSIGNMENT FORM

To assign this Note, fill in the form below:

I or we assign and transfer this Note to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint ---------- agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

- ---

Date: ---------- Your Signature: ----------

Signature Guarantee:

(Signature must be guaranteed)

- ---

Sign exactly as your name appears on the other side of this Note.

The signature(s) should be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program), pursuant to S.E.C. Rule 17Ad-15.

In connection with any transfer or exchange of any of the Notes evidenced by this certificate occurring prior to the date that is two years after the later of the date of original issuance of such Notes and the last date, if any, on which such Notes were owned by the Company or any Affiliate of the Company, the undersigned confirms that such Notes are being:

CHECK ONE BOX BELOW:

1 ------ acquired for the undersigned's own account, without transfer; or

2 ------ transferred to the Company; or

3 ------ transferred pursuant to and in compliance with Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"); or

4 ------ transferred pursuant to an effective registration statement under the Securities Act; or

5 ------ transferred pursuant to and in compliance with Regulation S under the Securities Act; or

6 transferred to an institutional accredited investor (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act), that has furnished to the Trustee a signed letter containing certain representations and agreements (the form of which letter appears as Section 2.7 of the Indenture); or

------

7 transferred pursuant to another available exemption from the registration requirements of the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Notes evidenced by this certificate in the name of any person other than the registered Holder thereof; provided, however, that if box (5), (6) or (7) is checked, the Trustee or the Company may require, prior to registering any such transfer of the Notes, in their sole discretion, such legal opinions, certifications and other information as the Trustee or the Company may reasonably request to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, such as the exemption provided by Rule 144 under such Act.

Signature

Signature Guarantee:

- ---

(Signature must be guaranteed)

Signature

- ---

The signature(s) should be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program), pursuant to S.E.C. Rule 17Ad-15.

TO BE COMPLETED BY PURCHASER IF (1) OR (3) ABOVE IS CHECKED.

The undersigned represents and warrants that it is purchasing this Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act, as amended, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated: NOTICE: To be executed by an executive officer

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL SECURITY

The following increases or decreases in this Global Note have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Note	Amount of increase in Principal Amount of this Global Note	Principal Amount of this Global Note following such decrease or increase	Signature of authorized signatory of Trustee or Notes Custodian

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Section 7.1 of the Indenture, check the box:

If you want to elect to have only part of this Note purchased by the Company pursuant to Section 7.1 of the Indenture, state the amount in principal amount (must be integral multiple of $1,000): $.

Date: ----------

Your Signature: ----------

(Sign exactly as your name appears on the other side of the Note)

Signature Guarantee: ----------

(Signature must be guaranteed)

The signature(s) should be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program), pursuant to S.E.C. Rule 17Ad-15.

FORM OF CERTIFICATE TO BE DELIVERED UPON EXCHANGE
OR REGISTRATION OF TRANSFER OF SECURITIES

Re: 3?% Convertible Senior Notes due July 15, 2023 of Halliburton Company (the "Company").

This Certificate relates to $ _____ principal amount of Notes held in * _____ book-entry or * _____ definitive form by (the "Transferor").

The Transferor has requested the Trustee by written order to exchange or register the transfer of a Note or Notes.

In connection with such request and in respect of each such Note, the Transferor does hereby certify that the Transferor is familiar with the Indenture, dated as of June 30, 2003 (as amended or supplemented to date, the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (the "Trustee"), relating to the above-captioned Notes and that the transfer of this Note does not require registration under the Securities Act (as defined below) because:*

_____ Such Note is being acquired for the Transferor's own account without transfer.

_____ Such Note is being transferred (i) to a " qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")), in accordance with Rule 144A under the Securities Act or (ii) pursuant to an exemption from registration in accordance with Rule 904 of Regulation S under the Securities Act (and in the case of clause (ii), based upon an opinion of counsel if the Company or the Trustee so requests, together with a certification in substantially the form of the Form of Certificate to be Delivered in Connection with Transfers Pursuant to Regulation S attached to this Note).

_____ Such Note is being transferred (i) pursuant to an exemption from registration in accordance with Rule 144 under the Securities Act (and based upon an opinion of counsel if the Company or the Trustee so requests) or (ii) pursuant to an effective registration statement under the Securities Act.

_____ Such Note is being transferred in reliance on and in compliance with another exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel if the Company or the Trustee so requests).

* Fill in blank or check appropriate box, as applicable.

You are entitled to rely upon this certificate and you are irrevocably authorized to produce this certificate or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

[INSERT NAME OF TRANSFEROR]

By:

Name:
Title:
Address:

Date:

FORM OF CERTIFICATE TO BE DELIVERED IN CONNECTION
WITH TRANSFERS PURSUANT TO REGULATION S

----------, ----

JPMorgan Chase Bank, as Registrar
600 Travis, Suite 1150
Houston, Texas 77002
Attention: Institutional Trust Services

Ladies and Gentlemen:

In connection with our proposed sale of certain 3?% Convertible Senior Notes due July 15, 2023 (the "Notes"), of Halliburton Company (the "Company"), we represent that:

(i) the offer or sale of the Notes was made in an "offshore transaction";

(ii) at the time the buy order was originated, the transferee was outside the United States or we and any person acting on our behalf reasonably believed that the transferee was outside the United States;

(iii) no directed selling efforts have been made by us in the United States in contravention of the requirements of Rule 903(a) or Rule 904(a) of Regulation S under the U.S. Securities Act of 1933, as applicable;

(iv) if this transfer of the Note is being made prior to the expiration of the one-year Distribution Compliance Period, such interest that is being transferred is held immediately thereafter through The Euroclear System or Clearstream Banking, societe anonyme; and

(v) the transaction is not part of a plan or scheme to evade the registration requirements of the U.S. Securities Act of 1933.

You and the Company are entitled to rely upon this letter and you are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Terms used in this certificate have the meanings set forth in Regulation S under the U.S. Securities Act of 1933.

Very truly yours,

Name of Transferor:

By:

Name:
Title:
Address:

FORM OF CONVERSION NOTICE

To: Halliburton Company

The undersigned registered holder of this Note hereby exercises the option to convert this Note, or portion hereof (which is $1,000 principal amount or an integral multiple thereof) designated below, for shares of Common Stock of Halliburton Company in accordance with the terms of the Indenture referred to in this Note, and directs that the shares, if any, issuable and deliverable upon such conversion, together with any check for cash deliverable upon such conversion, and any Notes representing any unconverted principal amount hereof, be issued and delivered to the registered holder hereof unless a different name has been indicated below. If shares or any portion of this Note not converted are to be issued in the name of a Person other than the undersigned, the undersigned shall pay all transfer taxes payable with respect thereto.

This notice shall be deemed to be an irrevocable exercise of the option to convert this Note.

Dated: ----------

Signature(s)

Signature(s) must be guaranteed by a commercial bank or trust company or a member firm of a major stock exchange if shares of Common Stock are to be issued, or Notes to be delivered, other than to or in the name of the registered holder.

Signature Guarantee

Fill in for registration of shares if to be delivered, and Notes, if to be issued, other than to and in the name of registered holder:

- ------------------------------------
(Name)

- ------------------------------------
(Street Address)

- ------------------------------------
(City, state and zip code)

Principal Amount to be purchased (if less than all):

$,000

Social Security or Other Taxpayer Number

Please print name and address

FORM OF FUNDAMENTAL CHANGE PURCHASE NOTICE

To: Halliburton Company

The undersigned registered holder of this Note hereby acknowledges receipt of a notice from Halliburton Company (the "Company") as to the occurrence of a Fundamental Change with respect to the Company and requests and instructs the Company to repurchase this Note, or the portion hereof (which is $1,000 principal amount or a integral multiple thereof) designated below, in accordance with the terms of the Indenture referred to in this Note and directs that the check of the Company, in payment for this Note or the portion thereof and any Notes representing any unrepurchased principal amount hereof, be issued and delivered to the registered holder hereof unless a different name has been indicated below. If any portion of this Note not repurchased is to be issued in the name of a Person other than the undersigned, the undersigned shall pay all transfer taxes payable with respect thereto.

Dated: ----------
Signature(s)

Signature(s) must be guaranteed by a commercial bank or trust company or a member firm of a major stock exchange if Notes are to be delivered, other than to or in the name of the registered holder.

Signature Guarantee

Fill in for registration of Notes if to be issued other than to and in the name of registered holder:

- ----------
(Name)

- ----------
(Street Address)

- ----------
(City, state and zip code)

Please print name and address

Principal Amount to be purchased (if less than all): $, 000

Social Security or Other Taxpayer Number

EXHIBIT B

FORM OF TRANSFER CERTIFICATE FOR TRANSFER
OF RESTRICTED COMMON STOCK

[NAME AND ADDRESS OF COMMON STOCK TRANSFER AGENT]

Re: Halliburton Company 3?% Convertible Senior Notes Due 2023 (the "Notes")

Reference is hereby made to the Indenture dated as of June 30, 2003 between the Company and the Trustee (collectively, the "Indenture"). Capitalized terms used but not defined herein shall have the meanings given them in the Indenture.

This letter relates to _____ shares of Common Stock represented by the accompanying certificate(s) that were issued upon conversion of Notes and which are held in the name of [name of transferor] (the "Transferor") to effect the transfer of such Common Stock.

In connection with the transfer of such shares of Common Stock, the undersigned confirms that such shares of Common Stock are being transferred:

CHECK ONE BOX BELOW

(1) ------ to the Company; or

(2) ------ to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933) in accordance with Rule 144A under the Securities Act of 1933;

(3) ------ pursuant to and in compliance with Regulation S under the Securities Act of 1933 in off-shore transactions to non-U.S. Persons; or

(4) ------ pursuant to an exemption from registration under the Securities Act of 1933 provided by Rule 144 thereunder.

Unless one of the boxes is checked, the transfer agent will refuse to register any of the Common Stock evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (2) or (3) is checked, the transfer agent may require, prior to registering any such transfer of the Common Stock such certifications and other information, and if box (3) is checked such legal opinions, as the Company has reasonably requested in writing, by delivery to the transfer agent of a standing letter of

instruction, to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933.

[Name of Transferor],

By
Name:
Title:

Dated:

HALLIBURTON COMPANY

1993 STOCK AND INCENTIVE PLAN

As Amended and Restated February 12, 2003

I. PURPOSE

The purpose of the Halliburton Company 1993 Stock and Incentive Plan (the "Plan") is to provide a means whereby Halliburton Company, a Delaware corporation (the "Company"), and its Subsidiaries may attract, motivate and retain highly competent employees and to provide a means whereby selected employees can acquire and maintain stock ownership and receive cash awards, thereby strengthening their concern for the long-term welfare of the Company. The Plan is also intended to provide employees with additional incentive and reward opportunities designed to enhance the profitable growth of the Company over the long term. A further purpose of the Plan is to allow awards under the Plan to Non-employee Directors in order to enhance the Company's ability to attract and retain highly qualified Directors. Accordingly, the Plan provides for granting Incentive Stock Options, Options which do not constitute Incentive Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Awards, Stock Value Equivalent Awards, or any combination of the foregoing, as is best suited to the circumstances of the particular employee or Non-employee Director as provided herein. The Plan was established February 18, 1993, has been amended from time to time thereafter, and effective as of February 12, 2003, is amended and restated to remove the expiration date of the Plan, to rename the Plan and to make certain other changes.

II. DEFINITIONS

The following definitions shall be applicable throughout the Plan unless specifically modified by any paragraph:

(a) "Award" means, individually or collectively, any Option, Stock Appreciation Right, Restricted Stock Award, Performance Award or Stock Value Equivalent Award.

(b) "Award Document" means the relevant award agreement or other document containing the terms and conditions of an Award.

(c) "Beneficial Owners" shall have the meaning set forth in Rule 13d-3 promulgated under the Exchange Act.

(d) "Board" means the Board of Directors of Halliburton Company.

(e) "Change of Control Value" means, for the purposes of Paragraph (f) of Article XII, the amount determined in Clause (i), (ii) or (iii), whichever is applicable, as follows: (i) the per share price offered to stockholders of the Company in any merger, consolidation, sale of assets or dissolution transaction, (ii) the per share price offered to stockholders of the Company in any tender offer or exchange offer whereby a Corporate Change takes place or (iii) if a Corporate Change occurs other than as described in Clause (i) or Clause (ii), the fair market value per share determined by the Committee as of the date determined by the Committee to be the date of cancellation and surrender of an Option or Stock Appreciation Right. If the consideration offered to stockholders of the Company in any transaction described in this Paragraph (e) consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered which is other than cash.

(f) "Code" means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

(g) "Committee" means the committee selected by the Board to administer the Plan in accordance with Paragraph (a) of Article IV of the Plan.

(h) "Common Stock" means the Common Stock, par value $2.50 per share, of the Company.

(i) "Company" means Halliburton Company, a Delaware corporation.

(j) "Corporate Change" shall conclusively be deemed to have occurred on a Corporate Change Effective Date if an event set forth in any one of the following paragraphs shall have occurred:

(i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities; or

(ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new Director (other than a Director whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of Directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(iii) there is consummated a merger or consolidation of the Company or any direct or indirect Subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or any of its affiliates other than in connection with the acquisition by the Company or any of its affiliates of a business) representing 20% or more of the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale, disposition, lease or exchange by the Company of all or substantially all of the Company's assets, other than a sale, disposition, lease or exchange by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, a "Corporate Change" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the Common Stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(k) "Corporate Change Effective Date" shall mean:

(i) the first date that the direct or indirect ownership of 20% or more combined voting power of the Company's outstanding securities results in a Corporate Change as described in clause (i) of such definition above; or

(ii) the date of the election of Directors that results in a Corporate Change as described in clause (ii) of such definition; or

(iii) the date of the merger or consideration that results in a Corporate Change as described in clause (iii) of such definition; or

(iv) the date of stockholder approval that results in a Corporate Change as described in clause (iv) of such definition.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any specified date, the closing price of the Common Stock on the New York Stock Exchange (or, if the Common Stock is not then listed on such exchange, such other national securities exchange on which the Common Stock is then listed) on that date, or if no prices are reported on that date, on the last preceding date on which such prices of the Common Stock are so reported or, in the sole discretion of the Committee for purposes of determining the Fair Market Value of the Common Stock at the time of exercise of an Option or a Stock Appreciation Right, such Fair Market Value shall be the prevailing price of the Common Stock as of the time of exercise. If the Common Stock is not then listed or quoted on any national securities exchange but is traded over the counter at the time a determination of its Fair Market Value is required to be made hereunder, its Fair Market Value shall be deemed to be equal to the average between the reported high and low sales prices of Common Stock on the most recent date on which Common Stock was publicly traded. If the Common Stock is not publicly traded at the time a determination of its value is required to be made hereunder, the determination of its Fair Market Value shall be made by the Committee in such manner as it deems appropriate.

(n) "Holder" means an employee or Non-employee Director of the Company who has been granted an Award.

(o) "Immediate Family" means, with respect to a particular Holder, the Holder's spouse, parent, brother, sister, children and grandchildren (including adopted and step children and grandchildren).

(p) "Incentive Stock Option" means an Option within the meaning of Section 422 of the Code.

(q) "Minimum Criteria" shall have the meaning given such term in Paragraph (a) of Article IX.

(r) "Non-employee Director" means a member of the Board who is not an employee or former employee of the Company or its Subsidiaries.

(s) "Option" means an Award granted under Article VII of the Plan and includes both Incentive Stock Options to purchase Common Stock and Options which do not constitute Incentive Stock Options to purchase Common Stock.

(t) "Option Agreement" means a written agreement between the Company and a Holder with respect to an Option.

(u) "Optionee" means a Holder who has been granted an Option.

(v) "Parent Corporation" shall have the meaning set forth in Section 424(e) of the Code.

(w) "Performance Award" means an Award granted under Article X of the Plan.

(x) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(y) "Plan" means the Halliburton Company 1993 Stock and Incentive Plan.

(z) "Restricted Stock Award" means an Award granted under Article IX of the Plan.

(aa) "Restricted Stock Award Agreement" means a written agreement between the Company and a Holder with respect to a Restricted Stock Award.

(bb) "Restriction Period" shall have the meaning given such term in Paragraph (a) of Article IX.

(cc) "Spread" means, in the case of a Stock Appreciation Right, an amount equal to the excess, if any, of the Fair Market Value of a share of Common Stock on the date such right is exercised over the exercise price of such Stock Appreciation Right.

(dd) "Stock Appreciation Right" means an Award granted under Article VIII of the Plan.

(ee) "Stock Appreciation Rights Agreement" means a written agreement between the Company and a Holder with respect to an Award of Stock Appreciation Rights.

(ff) "Stock Value Equivalent Award" means an Award granted under Article XI of the Plan.

(gg) "Subsidiary" means a company (whether a corporation, partnership, joint venture or other form of entity) in which the Company or a corporation in which the Company owns a majority of the shares of capital stock, directly or indirectly, owns a greater than 20% equity interest, except that with respect to the issuance of Incentive Stock Options the term "Subsidiary" shall have the same meaning as the term "subsidiary corporation" as defined in Section 424(f) of the Code.

(hh) "Successor Holder" shall have the meaning given such term in Paragraph (f) of Article XIV.

III. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan as amended and restated herein shall be effective February 12, 2003, the date of its adoption by the Board, provided the Plan is approved by the stockholders of the Company within twelve (12) months thereafter and on or prior to the date of the first annual meeting of stockholders of the Company held thereafter. Notwithstanding any provision of the Plan or in any Option Agreement or Stock Appreciation Rights Agreement, no Option or Stock Appreciation Right granted on or after February 12, 2003, shall be exercisable prior to such stockholder approval. Subject to the provisions of Article XIII, the Plan shall remain in effect until all Options and Stock Appreciation Rights granted under the Plan have been exercised or expired by reason of lapse of time, all restrictions imposed upon Restricted Stock Awards have lapsed and all Performance Awards and Stock Value Equivalent Awards have been satisfied.

IV. ADMINISTRATION

(a) Composition of Committee. The Plan shall be administered by a Committee of Directors of the Company which shall be appointed by the Board.

(b) Powers. The Committee shall have authority, in its discretion, to determine which eligible individuals shall receive an Award, the time or times when such Award shall be made, whether an Incentive Stock Option, nonqualified Option or Stock Appreciation Right shall be granted, the number of shares of Common Stock which may be issued under each Option, Stock Appreciation Right and Restricted Stock Award, and the value of each Performance Award and Stock Value Equivalent Award. The Committee shall have the authority, in its discretion, to establish the terms and conditions applicable to any Award, subject to any specific limitations or provisions of the Plan. In making such determinations the Committee may take into account the nature of the services rendered by the respective individuals, their responsibility level, their present and potential contribution to the Company's success and such other factors as the Committee in its discretion shall deem relevant.

(c) Additional Powers. The Committee shall have such additional powers as are delegated to it by the other provisions of the Plan. Subject to the express provisions of the Plan, the Committee is authorized to construe the Plan and the respective Award Documents executed thereunder, to prescribe such rules and regulations relating to the Plan as it may deem advisable to carry out the Plan, and to determine the terms, restrictions and provisions of each Award, including such terms, restrictions and provisions as shall be requisite in the judgment of the Committee to cause designated Options to qualify as Incentive Stock Options, and to make all other determinations necessary or advisable for administering the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in any Award Document relating to an Award in the manner and to the extent the Committee shall deem expedient to carry the Award into effect. The determinations of the Committee on the matters referred to in this Article IV shall be conclusive.

(d) Delegation of Authority. The Committee may delegate some or all of its power to the Chief Executive Officer of the Company as the Committee deems appropriate; provided, however, that (i) the Committee may not delegate its power with regard to the grant of an Award to any person who is a "covered employee" within the meaning of Section 162(m) of the Code or who, in the Committee's judgment, is likely to be a covered employee at any time during the period an Award to such employee would be outstanding; (ii) the Committee may not delegate its power with regard to the selection for participation in the Plan of an officer or other person subject to Section 16 of the Exchange Act or decisions concerning the timing, pricing or amount of an Award to such an officer or other person and (iii) any delegation of the power to grant Awards shall be permitted by applicable law.

V. GRANT OF OPTIONS, STOCK APPRECIATION RIGHTS, RESTRICTED STOCK AWARDS, PERFORMANCE AWARDS AND STOCK VALUE EQUIVALENT AWARDS; SHARES SUBJECT TO THE PLAN

(a) Award Limits. The Committee may from time to time grant Awards to one or more individuals determined by it to be eligible for participation in the Plan in accordance with the provisions of Article VI. The aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 49,000,000 shares, of which no more than 16,000,000 may be issued in the form of Restricted Stock Awards or pursuant to Performance Awards. Notwithstanding anything contained herein to the contrary, the number of Option shares or Stock Appreciation Rights, singly or in combination, together with shares or share equivalents under Performance Awards granted to any Holder in any one calendar year, shall not in the aggregate exceed 500,000. The cash value determined as of the date of grant of any Performance Award not denominated in Common Stock granted to any Holder for any one calendar year shall not exceed $5,000,000. Any shares which remain unissued and which are not subject to outstanding Options or Awards at the termination of the Plan shall cease to be subject to the Plan, but, until termination of the Plan, the Company shall at all times reserve a sufficient number of shares to meet the requirements of the Plan. Shares shall be deemed to have been issued under the Plan only to the extent actually issued and delivered pursuant to an Award. To the extent that an Award lapses or the rights of its Holder terminate or the Award is paid in cash, any shares of Common Stock subject to such Award shall again be available for the grant of an Award. The aggregate number of shares which may be issued under the Plan shall be subject to adjustment in the same manner as provided in Article XII with respect to shares of Common Stock subject to Options then outstanding. The 500,000-share limit on Stock Options and Stock Appreciation Rights Awards to a Holder in any calendar year shall be subject to adjustment in the same manner as provided in Article XII. Separate stock certificates shall be issued by the Company for those shares acquired pursuant to the exercise of an Incentive Stock Option and for those shares acquired pursuant to the exercise of any Option which does not constitute an Incentive Stock Option. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate.

(b) Stock Offered. The stock to be offered pursuant to the grant of an Award may be authorized but unissued Common Stock or Common Stock previously issued and reacquired by the Company.

VI. ELIGIBILITY

Awards made pursuant to the Plan may be granted to individuals who, at the time of grant, are employees of the Company or any Parent Corporation or Subsidiary of the Company or are Non-employee Directors. An Award may also be granted to a person who has agreed to become an employee of the Company or any Parent

Corporation or Subsidiary of the Company within the subsequent three (3) months. An Award made pursuant to the Plan may be granted on more than one occasion to the same person, and such Award may include an Incentive Stock Option, an Option which is not an Incentive Stock Option, an Award of Stock Appreciation Rights, a Restricted Stock Award, a Performance Award, a Stock Value Equivalent Award or any combination thereof. Each Award shall be evidenced in such manner and form as may be prescribed by the Committee.

VII. STOCK OPTIONS

(a) Stock Option Agreement. Each Option shall be evidenced by an Option Agreement between the Company and the Optionee which shall contain such terms and conditions as may be approved by the Committee. The terms and conditions of the respective Option Agreements need not be identical. Specifically, an Option Agreement may provide for the payment of the option price, in whole or in part, by the delivery of a number of shares of Common Stock (plus cash if necessary) having a Fair Market Value equal to such option price.

(b) Option Period. The term of each Option shall be as specified by the Committee at the date of grant; provided that, in no case, shall the term of an Option exceed ten (10) years.

(c) Limitations on Exercise of Option. An Option shall be exercisable in whole or in such installments and at such times as determined by the Committee.

(d) Option Price. The purchase price of Common Stock issued under each Option shall be determined by the Committee, but such purchase price shall not be less than the Fair Market Value of Common Stock subject to the Option on the date the Option is granted.

(e) Options and Rights in Substitution for Stock Options Granted by Other Corporations. Options and Stock Appreciation Rights may be granted under the Plan from time to time in substitution for stock options held by employees of corporations who become, or who became prior to the effective date of the Plan, employees of the Company or of any Subsidiary as a result of a merger or consolidation of the employing corporation with the Company or such Subsidiary, or the acquisition by the Company or a Subsidiary of all or a portion of the assets of the employing corporation, or the acquisition by the Company or a Subsidiary of stock of the employing corporation with the result that such employing corporation becomes a Subsidiary.

(f) Repricing Prohibited. Except for adjustments pursuant to Article XII, the purchase price of Common Stock for any outstanding Option granted under the Plan may not be decreased after the date of grant nor may an outstanding Option granted under the Plan be surrendered to the Company as consideration for the grant of a new Option with a lower purchase price. Any other action that is deemed to be a repricing under any applicable rule of the New York Stock Exchange shall be prohibited.

VIII. STOCK APPRECIATION RIGHTS

(a) Stock Appreciation Rights. A Stock Appreciation Right is the right to receive an amount equal to the Spread with respect to a share of Common Stock upon the exercise of such Stock Appreciation Right. Stock Appreciation Rights may be granted in connection with the grant of an Option, in which case the Option Agreement will provide that exercise of Stock Appreciation Rights will result in the surrender of the right to purchase the shares under the Option as to which the Stock Appreciation Rights were exercised. Alternatively, Stock Appreciation Rights may be granted independently of Options in which case each Award of Stock Appreciation Rights shall be evidenced by a Stock Appreciation Rights Agreement between the Company and the Holder which shall contain such terms and conditions as may be approved by the Committee. The

terms and conditions of the respective Stock Appreciation Rights Agreements need not be identical. The Spread with respect to a Stock Appreciation Right may be payable either in cash, shares of Common Stock with a Fair Market Value equal to the Spread or in a combination of cash and shares of Common Stock. Upon the exercise of any Stock Appreciation Rights granted hereunder, the number of shares reserved for issuance under the Plan shall be reduced only to the extent that shares of Common Stock are actually issued in connection with the exercise of such Right.

(b) Exercise Price. The exercise price of each Stock Appreciation Right shall be determined by the Committee, but such exercise price shall not be less than the Fair Market Value of a share of Common Stock on the date the Stock Appreciation Right is granted.

(c) Exercise Period. The term of each Stock Appreciation Right shall be as specified by the Committee at the date of grant; provided that, in no case, shall the term of a Stock Appreciation Right exceed ten (10) years.

(d) Limitations on Exercise of Stock Appreciation Right. A Stock Appreciation Right shall be exercisable in whole or in such installments and at such times as determined by the Committee.

(e) Repricing Prohibited. Except for adjustments pursuant to Article XII, the exercise price of a Stock Appreciation Right may not be decreased after the date of grant nor may an outstanding Stock Appreciation Right granted under the Plan be surrendered to the Company as consideration for the grant of a new Stock Appreciation Right with a lower exercise price. Any other action that is deemed to be a repricing under any applicable rule of the New York Stock Exchange shall be prohibited.

IX. RESTRICTED STOCK AWARDS

(a) Restricted Period To Be Established by the Committee. At the time a Restricted Stock Award is made, the Committee shall establish a period of time (the "Restriction Period") applicable to such Award; provided, however, that, except as set forth below and as permitted by Paragraph (b) of this Article IX, such Restriction Period shall not be less than three (3) years from the date of grant (the "Minimum Criteria"). An award which provides for the lapse of restrictions on shares applicable to such Award in equal annual installments over a period of at least three (3) years from the date of grant shall be deemed to meet the Minimum Criteria. The foregoing notwithstanding, with respect to Restricted Stock Awards of up to an aggregate 550,000 shares (subject to adjustment as set forth in Article XII), the Minimum Criteria shall not apply and the Committee may establish such lesser Restriction Periods applicable to such Awards as it shall determine in its discretion. Subject to the foregoing, each Restricted Stock Award may have a different Restriction Period, in the discretion of the Committee. The Restriction Period applicable to a particular Restricted Stock Award shall not be changed except as permitted by Paragraph (b) of this Article or by Article XII.

(b) Other Terms and Conditions. Common Stock awarded pursuant to a Restricted Stock Award shall be represented by a stock certificate registered in the name of the Holder of such Restricted Stock Award or, at the option of the Company, in the name of a nominee of the Company. The Holder shall have the right to receive dividends during the Restriction Period, to vote the Common Stock subject thereto and to enjoy all other stockholder rights, except that (i) the Holder shall not be entitled to possession of the stock certificate until the Restriction Period shall have expired, (ii) the Company shall retain custody of the stock during the Restriction Period, (iii) the Holder may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the stock during the Restriction Period, and (iv) a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Award shall cause a forfeiture of the Restricted Stock Award. At the time of such Award, the Committee may, in its sole

discretion, prescribe additional terms, conditions or restrictions relating to Restricted Stock Awards, including, but not limited to, rules pertaining to the termination of a Holder's service (by retirement, disability, death or otherwise) prior to expiration of the Restriction Period as shall be set forth in a Restricted Stock Award Agreement.

(c) Payment for Restricted Stock. A Holder shall not be required to make any payment for Common Stock received pursuant to a Restricted Stock Award, except to the extent otherwise required by law and except that the Committee may, in its discretion, charge the Holder an amount in cash not in excess of the par value of the shares of Common Stock issued under the Plan to the Holder.

(d) Miscellaneous. Nothing in this Article shall prohibit the exchange of shares issued under the Plan (whether or not then subject to a Restricted Stock Award) pursuant to a plan of reorganization for stock or securities in the Company or another corporation a party to the reorganization, but the stock or securities so received for shares then subject to the restrictions of a Restricted Stock Award shall become subject to the restrictions of such Restricted Stock Award. Any shares of stock received as a result of a stock split or stock dividend with respect to shares then subject to a Restricted Stock Award shall also become subject to the restrictions of the Restricted Stock Award.

X. PERFORMANCE AWARDS

(a) Performance Period. The Committee shall establish, with respect to and at the time of each Performance Award, a performance period over which the performance applicable to the Performance Award of the Holder shall be measured.

(b) Performance Awards. Each Performance Award may have a maximum value established by the Committee at the time of such Award.

(c) Performance Measures. A Performance Award granted under the Plan that is intended to qualify as qualified performance-based compensation under Section 162(m) of the Code shall be awarded contingent upon the achievement of one or more performance measures. The performance criteria for Performance Awards shall consist of objective tests based on the following: earnings, cash flow, cash value added performance, stockholder return and/or value, revenues, operating profits (including EBITDA), net profits, earnings per share, stock price, cost reduction goals, debt to capital ratio, financial return ratios, profit return and margins, market share, working capital and customer satisfaction. The Committee may select one criterion or multiple criteria for measuring performance. Performance criteria may be measured on corporate, subsidiary or business unit performance, or on a combination thereof. Further, the performance criteria may be based on comparative performance with other companies or other external measure of the selected performance criteria. A Performance Award that is not intended to qualify as qualified performance-based compensation under Section 162(m) of the Code shall be based on achievement of such goals and be subject to such terms, conditions and restrictions as the Committee or its delegate shall determine.

(d) Payment. Following the end of the performance period, the Holder of a Performance Award shall be entitled to receive payment of an amount, not exceeding the maximum value of the Performance Award, if any, based on the achievement of the performance measures for such performance period, as determined by the Committee in its sole discretion. Payment of a Performance Award (i) may be made in cash, Common Stock or a combination thereof, as determined by the Committee in its sole discretion, (ii) shall be made in a lump sum or in installments as prescribed by the Committee in its sole discretion, and (iii) to the extent applicable, shall be based on the Fair Market Value of the

Common Stock on the payment date. If a payment of cash or issuance of Common Stock is to be made on a deferred basis, the Committee shall establish whether interest or dividend equivalents shall be credited on the deferred amounts and any other terms and conditions applicable thereto.

(e) Termination of Service. The Committee shall determine the effect of termination of service during the performance period on a Holder's Performance Award.

XI. STOCK VALUE EQUIVALENT AWARDS

(a) Stock Value Equivalent Awards. Stock Value Equivalent Awards are rights to receive an amount equal to the Fair Market Value of shares of Common Stock or rights to receive an amount equal to any appreciation or increase in the Fair Market Value of Common Stock over a specified period of time, which vest over a period of time as established by the Committee, without payment of any amounts by the Holder thereof (except to the extent otherwise required by law) or satisfaction of any performance criteria or objectives. Each Stock Value Equivalent Award may have a maximum value established by the Committee at the time of such Award.

(b) Award Period. The Committee shall establish, with respect to and at the time of each Stock Value Equivalent Award, a period over which the Award shall vest with respect to the Holder.

(c) Payment. Following the end of the determined period for a Stock Value Equivalent Award, the Holder of a Stock Value Equivalent Award shall be entitled to receive payment of an amount, not exceeding the maximum value of the Stock Value Equivalent Award, if any, based on the then vested value of the Award. Payment of a Stock Value Equivalent Award (i) shall be made in cash, (ii) shall be made in a lump sum or in installments as prescribed by the Committee in its sole discretion, and (iii) shall be based on the Fair Market Value of the Common Stock on the payment date. Cash dividend equivalents may be paid during, or may be accumulated and paid at the end of, the determined period with respect to a Stock Value Equivalent Award, as determined by the Committee. If payment of cash is to be made on a deferred basis, the Committee shall establish whether interest shall be credited, the rate thereof and any other terms and conditions applicable thereto.

(d) Termination of Service. The Committee shall determine the effect of termination of service during the applicable vesting period on a Holder's Stock Value Equivalent Award.

XII. RECAPITALIZATION OR REORGANIZATION

(a) Except as hereinafter otherwise provided, in the event of any recapitalization, reorganization, merger, consolidation, combination, exchange, stock dividend, stock split, extraordinary dividend or divestiture (including a spin-off) or any other change in the corporate structure or shares of Common Stock occurring after the date of the grant of an Award, the Committee shall, in its discretion, make such adjustment as to the number and price of shares of Common Stock or other consideration subject to such Awards as the Committee shall deem appropriate in order to prevent dilution or enlargement of rights of the Holders.

(b) The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities having any priority or preference with respect to or affecting Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(c) The shares with respect to which Options or Stock Appreciation Rights may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an Option or Stock Appreciation Rights, the Company shall effect a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend on Common Stock without receipt of consideration by the Company, the number of shares of Common Stock with respect to which such Option or Stock Appreciation Rights may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased.

(d) If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise of an Option or Stock Appreciation Rights theretofore granted, the Holder shall be entitled to purchase or receive, as applicable, under such Option or Stock Appreciation Rights, in lieu of the number of shares of Common Stock as to which such Option or Stock Appreciation Rights shall then be exercisable, the number and class of shares of stock and securities and the cash and other property to which the Holder would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Holder had been the holder of record of the number of shares of Common Stock then covered by such Option or Stock Appreciation Rights.

(e) In the event of a Corporate Change, unless an Award Document otherwise provides, as of the Corporate Change Effective Date (i) any outstanding Options and Stock Appreciation Rights shall become immediately vested and fully exercisable, (ii) any restrictions on Restricted Stock Awards shall immediately lapse, (iii) all performance measures upon which an outstanding Performance Award is contingent shall be deemed achieved and the Holder shall receive a payment equal to the maximum amount of the Award he or she would have been entitled to receive, prorated to the Corporate Change Effective Date, and (iv) any outstanding cash Awards including, but not limited to, Stock Value Equivalent Awards shall immediately vest and be paid based on the vested value of the Award.

(f) In the relevant Award Document, the Committee may provide that, no later than two (2) business days prior to any Corporate Change referenced in Clause (ii), (iii) or (iv) of the definition thereof or ten (10) business days after any Corporate Change referenced in Clause (i) of the definition thereof, the Committee may, in its sole discretion, (i) require the mandatory surrender to the Company by selected Optionees of some or all of the outstanding Options held by such Optionees (irrespective of whether such Options are then exercisable under the provisions of the Plan) as of a date (before or after a Corporate Change) specified by the Committee, in which event the Committee shall thereupon cancel such Options and pay to each Optionee an amount of cash per share equal to the excess, if any, of the Change of Control Value of the shares subject to such Option over the exercise price(s) under such Options for such shares, (ii) require the mandatory surrender to the Company by selected Holders of Stock Appreciation Rights of some or all of the outstanding Stock Appreciation Rights held by such Holders (irrespective of whether such Stock Appreciation Rights are then exercisable under the provisions of the Plan) as of a date (before or after a Corporate Change) specified by the Committee, in which event the Committee shall thereupon cancel such Stock Appreciation Rights and pay to each Holder an amount of cash equal to the Spread with respect to such Stock Appreciation Rights with the Fair Market Value of the Common Stock at such time to be deemed to be the Change of Control Value, or (iii) require the mandatory surrender to the Company by selected Holders of Restricted Stock Awards or Performance Awards of some or all of the outstanding Awards held by such Holder (irrespective of whether such Awards are vested under the provisions of the Plan) as of a date (before or after a Corporate

Change) specified by the Committee, in which event the Committee shall thereupon cancel such Awards and pay to each Holder an amount of cash equal to the Change of Control Value of the shares, if the Award is denominated in Common Stock, or an amount of cash equal to the Fair Market Value of the Common Stock at such time, if the Award is not denominated in Common Stock.

(g) Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Common Stock subject to Options or Stock Appreciation Rights theretofore granted, the purchase price per share of Common Stock subject to Options or the calculation of the Spread with respect to Stock Appreciation Rights.

XIII. AMENDMENT OR TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan or alter or amend the Plan or any part thereof from time to time; provided that no change in any Award theretofore granted may be made which would impair the rights of the Holder without the consent of the Holder, and provided, further, that the Board may not, without approval of the stockholders, amend the Plan to effect a "material revision" of the Plan, where a "material revision" includes, but is not limited to, a revision that: (a) materially increases the benefits accruing to a Holder under the Plan, (b) materially increases the aggregate number of securities that may be issued under the Plan, (c) materially modifies the requirements as to eligibility for participation in the Plan, (d) changes the types of awards available under the Plan or, (e) amends or deletes the provisions that prevent the Committee from amending the terms and conditions of an outstanding Option or Stock Appreciation Rights to alter the exercise price.

XIV. OTHER

(a) No Right To An Award. Neither the adoption of the Plan nor any action of the Board or of the Committee shall be deemed to give an employee or a non-employee Director any right to be granted an Option, a Stock Appreciation Right, a right to a Restricted Stock Award or a right to a Performance Award or Stock Value Equivalent Award or any other rights hereunder except as may be evidenced by an Award or by an Option or Stock Appreciation Agreement duly executed on behalf of the Company, and then only to the extent of and on the terms and conditions expressly set forth therein. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to assure the payment of any Award.

(b) No Employment Rights Conferred. Nothing contained in the Plan or in any Award made hereunder shall:

(i) confer upon any employee any right to continuation of employment with the Company or any Subsidiary; or

(ii) interfere in any way with the right of the Company or any Subsidiary to terminate his or her employment at any time.

(c) No Rights to Serve as a Director Conferred. Nothing contained in the Plan or in any Award made hereunder shall confer upon any Director any right to continue their position as a Director of the Company.

(d) Other Laws; Withholding. The Company shall not be obligated to issue any Common Stock pursuant to any Award granted under the Plan at any time when the offering of the shares covered by such Award has not been registered under the Securities Act of 1933 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 for the Company, there is no exemption from the registration requirements of such laws, rules or regulations available for the issuance and sale of such shares. No fractional shares of Common Stock shall be delivered, nor shall any cash in lieu of fractional shares be paid. The Company shall have the right to deduct in connection with all Awards any taxes required by law to be withheld and to require any payments necessary to enable it to satisfy its withholding obligations. The Committee may permit the Holder of an Award to elect to surrender, or authorize the Company to withhold, shares of Common Stock (valued at their Fair Market Value on the date of surrender or withholding of such shares) in satisfaction of the Company's withholding obligation, subject to such restrictions as the Committee deems appropriate.

(e) No Restriction on Corporate Action. Nothing contained in the Plan shall be construed to prevent the Company or any Subsidiary from taking any corporate action which is deemed by the Company or such Subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No Holder, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.

(f) Restrictions on Transfer. Except as otherwise provided herein, an Award shall not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated by a Holder other than by will or the laws of descent and distribution or pursuant to a "qualified domestic relations order" as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, and shall be exercisable during the lifetime of the Holder only by such Holder, the Holder's guardian or legal representative, a transferee under a qualified domestic relations order or a transferee as described below. The Committee may prescribe and include in the respective Award Documents hereunder other restrictions on transfer. Any attempted assignment or transfer in violation of this section shall be null and void. Upon a Holder's death, the Holder's personal representative or other person entitled to succeed to the rights of the Holder (the "Successor Holder") may exercise such rights as are provided under the applicable Award Document. A Successor Holder must furnish proof satisfactory to the Company of his or her rights to exercise the Award under the Holder's will or under the applicable laws of descent and distribution. Notwithstanding the foregoing, the Committee shall have the authority, in its discretion, to grant (or to sanction by way of amendment to an existing grant) Awards (other than Incentive Stock Options) which may be transferred by the Holder for no consideration to or for the benefit of the Holder's Immediate Family, to a trust solely for the benefit of the Holder and his Immediate Family, or to a partnership or limited liability company in which the Holder and members of his Immediate Family have at least 99% of the equity, profit and loss interest, in which case the Award Document shall so state. A transfer of an Award pursuant to this Paragraph (f) shall be subject to such rules and procedures as the Committee may establish. In the event an Award is transferred as contemplated in this Paragraph (f), such Award may not be subsequently transferred by the transferee except by will or the laws of descent and distribution, and such Award shall continue to be governed by and subject to the terms and limitations of the Plan and the relevant written instrument for the Award and the transferee shall be entitled to the same rights as the Holder under Articles XII and XIII hereof as if no transfer had taken place. No transfer shall be effective unless and until written notice of such transfer is provided to the Committee, in the form and manner prescribed by the Committee. The consequences of termination of employment shall continue to be applied with respect to the original Holder, following which the Awards shall be exercised by the transferee only to the extent and for the periods specified in the Plan and the related Award Document.

The Option Agreement, Stock Appreciation Rights Agreement, Restricted Stock Agreement or other Award Document shall specify the effect of the death of the Holder on the Award.

(g) Governing Law. This Plan shall be construed in accordance with the laws of the State of Texas, 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.

(h) Foreign Awardees. Without amending the Plan, the Committee may grant Awards to eligible persons who are foreign nationals on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to foster and promote achievement of the purposes of the Plan and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, subplans and the like as may be necessary or advisable to comply with the provisions of laws and regulations in other countries or jurisdictions in which the Company or its Subsidiaries operate.

CERTIFICATION

I, David J. Lesar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Halliburton Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

/s/ David J. Lesar

David J. Lesar
Chief Executive Officer

CERTIFICATION

I, C. Christopher Gaut, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Halliburton Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

/s/ C. Christopher Gaut

C. Christopher Gaut
Executive Vice President and
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Halliburton Company (the "Company") on Form 10-Q for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Lesar, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David J. Lesar

David J. Lesar
Chief Executive Officer
August 11, 2003

CERTIFICATION PURSUANT
TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Halliburton Company (the "Company") on Form 10-Q for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Christopher Gaut, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Christopher Gaut

C. Christopher Gaut
Chief Financial Officer
August 11, 2003