UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2005

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
(Exact name of registrant as specified in its charter)

Delaware	**75-2677995**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5 Houston Center
1401 McKinney, Suite 2400
Houston, Texas 77010
(Address of principal executive offices)
Telephone Number - Area code (713) 759-2600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock par value $2.50 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes __X__ No ______

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ______ No __X__

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __X__ Accelerated filer ________ Non-accelerated filer ________

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ______ No __X__

The aggregate market value of Common Stock held by nonaffiliates on June 30, 2005, determined using the per share closing price on the New York Stock Exchange Composite tape of $47.82 on that date was approximately $21,322,000,000.

As of February 15, 2006, there were 516,240,651 shares of Halliburton Company Common Stock, $2.50 par value per share, outstanding.

Portions of the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492) are incorporated by reference into Part III of this report.

HALLIBURTON COMPANY
Index to Form 10-K
For the Year Ended December 31, 2005

PART I

Item 1. Business.

General description of business

Halliburton Company's predecessor was established in 1919 and incorporated under the laws of the State of Delaware in 1924. Halliburton Company provides a variety of services, products, maintenance, engineering, and construction to energy, industrial, and governmental customers.

Our six business segments are organized around how we manage the business: Production Optimization, Fluid Systems, Drilling and Formation Evaluation, Digital and Consulting Solutions, Government and Infrastructure, and Energy and Chemicals. We refer to the combination of Production Optimization, Fluid Systems, Drilling and Formation Evaluation, and Digital and Consulting Solutions segments as our Energy Services Group (ESG) and to the Government and Infrastructure and Energy and Chemicals segments as KBR. See Note 4 to the consolidated financial statements for financial information about our business segments.

Description of services and products

We offer a broad suite of services and products through our six business segments. The following summarizes our services and products for each business segment.

ENERGY SERVICES GROUP

The ESG provides a wide range of services and products to customers for the exploration, development, and production of oil and gas. The ESG serves major, national, and independent oil and gas companies throughout the world.

Production Optimization

Our 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 and completion tools and services.

Production enhancement services include stimulation services, pipeline process services, sand control services, coiled tubing tools and services, and hydraulic workover services. Stimulation services optimize oil and gas reservoir production through a variety of pressure pumping services and chemical processes, commonly known as fracturing and acidizing. Pipeline process services include pipeline and facility testing, commissioning, and cleaning via pressure pumping, chemical systems, specialty equipment, and nitrogen, which are provided to the midstream and downstream sectors of the energy business. Sand control services include fluid and chemical systems and pumping services for the prevention of formation sand production.

Completion tools and services include subsurface safety valves and flow control equipment, surface safety systems, packers and specialty completion equipment, intelligent completion systems, production automation, expandable liner hanger systems, sand control systems, slickline equipment and services, self-elevated workover platforms, tubing-conveyed perforating services and products, well servicing tools, and reservoir performance services. Reservoir performance services include drill stem and other well testing tools and services, underbalanced applications and real-time reservoir analysis, data acquisition services, and production applications.

Also included in this segment is WellDynamics, an intelligent well completions joint venture, which we consolidate for accounting purposes. Additionally, subsea operations conducted by Subsea 7, Inc., of which we formerly owned 50%, were included in this segment. We accounted for our 50% ownership of Subsea 7, Inc. using the equity method until January 2005, when we completed the sale of our interest in this joint venture to our partner, Siem Offshore (formerly DSND Subsea ASA).

Fluid Systems

Our Fluid Systems segment focuses on providing services and technologies to assist in the drilling and construction of oil and gas wells. This segment offers cementing and drilling fluids systems.

Cementing is the process used to bond the well and well casing while isolating fluid zones and maximizing wellbore stability. Cement and chemical additives are pumped to fill the space between the casing and the side of the wellbore. Our cementing service line also provides casing services and equipment.

Baroid Fluid Services provides drilling fluid systems, performance additives, solids control, and waste management services for oil and gas drilling, completion, and workover operations. In addition, Baroid Fluid Services sells products to a wide variety of industrial customers. Drilling fluids usually contain bentonite or barite in a water or oil base. Drilling fluids primarily improve wellbore stability and facilitate the transportation of cuttings from the bottom of a wellbore to the surface. Drilling fluids also help cool the drill bit, seal porous well formations, and assist in pressure control within a wellbore. Drilling fluids are often customized by onsite engineers for optimum stability and enhanced oil production.

Also included in this segment is our investment in Enventure, an expandable casing joint venture, which we account for using the cost method.

Drilling and Formation Evaluation

Our Drilling and Formation Evaluation segment is primarily involved in the drilling and formation evaluation process during bore-hole construction. Major services and products offered include:

- drilling systems and services;
- drill bits; and
- logging services.

Sperry Drilling Services provides drilling systems and services. These services include directional and horizontal drilling, measurement-while-drilling, logging-while-drilling, multilateral systems, and rig site information systems. Our drilling systems offer directional control while providing important measurements about the characteristics of the drill string and geological formations while drilling directional wells. Real-time operating capabilities enable the monitoring of well progress and aid decision-making processes.

Security DBS Drill Bits provides roller cone rock bits, fixed cutter bits, and related downhole tools used in drilling oil and gas wells. In addition, coring services and equipment are provided to acquire cores of the formation drilled for evaluation.

Logging services include open-hole wireline services, which provide information on formation evaluation such as resistivity, porosity, and density, rock mechanics, and fluid sampling. Cased-hole services are also offered, which provide cement bond evaluation, reservoir monitoring, pipe evaluation, pipe recovery, and perforating.

Digital and Consulting Solutions

Our Digital and Consulting Solutions segment provides integrated exploration, drilling, and production software information systems, consulting services, real-time operations, and other integrated solutions.

Landmark is a supplier of integrated exploration, drilling, and production software information systems as well as professional and data management services for the upstream oil and gas industry. Landmark software transforms vast quantities of seismic, well log, and other data into detailed computer models of petroleum reservoirs. The models are used by our customers to achieve optimal business and technical decisions in exploration, development, and production activities. Data management services provide efficient storage, browsing, and retrieval of large volumes of exploration and petroleum data. The services and products offered by Landmark integrate data workflows and operational processes across disciplines, including geophysics, geology, drilling, engineering, production, economics, finance, corporate planning, and key partners and suppliers.

This segment also provides value-added oilfield project management and integrated solutions to independent, integrated, and national oil companies. These offerings make use of all of our oilfield services, products, technologies, and project management capabilities to assist our customers in optimizing the value of their oil and gas assets.

Additionally, this segment holds investments in upstream oil and gas properties, primarily in the North America region, which leverage our technology, knowledge, and access to services and products.

KBR

KBR provides a wide range of services to energy, chemical, and industrial customers and government entities worldwide through two business segments, Government and Infrastructure and Energy and Chemicals.

Government and Infrastructure

Our Government and Infrastructure segment focuses on:

- construction, maintenance, and logistics services for government operations, facilities, and installations;

- civil engineering, construction, consulting, and project management services for state and local government agencies and private industries;
- integrated security solutions, including threat definition assessments, mitigation, and consequence management; design, engineering and program management; construction and delivery; and physical security, operations, and maintenance;
- dockyard operation and management through the Devonport Royal Dockyard Limited (DML), which is consolidated for financial reporting purposes, with services that include design, construction, surface/subsurface fleet maintenance, nuclear engineering and refueling, and weapons engineering; and
- privately financed initiatives, in which KBR funds the development or provision of an asset, such as a facility, service, or infrastructure for a government client, which we then own, operate and maintain, enabling our clients to utilize new assets at a reasonable cost.

Also included in this segment is our investment in the Alice Springs-Darwin Railroad (ASD). ASD is a privately financed project that was formed in 2001 to build and operate the transcontinental railroad from Alice Springs to Darwin, Australia. ASD has been granted a 50-year concession period by the Australian government. KBR provided engineering, procurement, and construction services for ASD and is the largest equity holder in the project with a 36.7% interest, with the remaining equity held by eleven other participants. We account for this investment under the equity method.

As part of our infrastructure projects, we occasionally take an ownership interest in the constructed asset, with a view toward monetization of that ownership interest after the asset has been operating for some period and increases in value. In this regard, in September 2005 we sold our 13% interest in a joint venture that owned the Dulles Greenway Toll Road in Virginia and recorded an $85 million gain on the sale.

Energy and Chemicals

Our Energy and Chemicals segment is a global engineering, procurement, construction, technology, and services provider for the energy and chemicals industries. Working both upstream and downstream in support of our customers, the Energy and Chemicals segment offers the following:

- downstream engineering and construction capabilities, including global engineering execution centers, as well as engineering, construction, and program management of liquefied natural gas (LNG), gas-to-liquids (GTL), ammonia, petrochemicals, crude oil refineries, and natural gas plants;
- upstream deepwater engineering, marine technology, and project management;
- production services provides plant operations, maintenance, and start-up services for upstream oil and gas facilities worldwide;
- in the United States, industrial services provides maintenance services to the petrochemical, forest product, power, and commercial markets;
- industry-leading licensed technologies in the areas of fertilizers and synthesis gas, olefins, refining, and chemicals and polymers; and
- consulting services in the form of expert technical and management advice that include studies, conceptual and detailed engineering, project management, construction supervision and design, and construction verification or certification in both upstream and downstream markets.

Included in this segment are a number of joint ventures including the following:

- TSKJ is a joint venture company formed to design and construct large scale projects in Nigeria. TSKJ's members are Technip, SA of France, Snamprogetti Netherlands B.V., which is an affiliate of ENI SpA of Italy, JGC Corporation of Japan, and KBR, each of which owns 25%. TSKJ has completed five LNG production facilities on Bonny Island, Nigeria and is currently working on a sixth such facility. We account for this investment under the equity method; and
- M. W. Kellogg Limited (MWKL) is a London-based joint venture that provides full engineering, procurement, and construction contractor services for LNG, GTL, and onshore oil and gas projects. MWKL is owned 55% by KBR and 45% by JGC Corporation. We consolidate MWKL for financial reporting purposes.

Business strategy

Our business strategy is to maintain global leadership in providing energy services and products and engineering and construction services. Our ability to be a global leader depends on meeting four key goals:

- establishing and maintaining technological leadership;
- achieving and continuing operational excellence;
- creating and continuing innovative business relationships; and
- preserving a dynamic workforce.

We also plan to initiate the separation of KBR from Halliburton in 2006. Our decision to separate KBR arose primarily because we do not believe the full value of KBR is currently reflected in Halliburton's stock price, and few synergies exist between the two business units. Our current plan is to effect an initial public offering (IPO) of less than 20% of KBR. We believe the IPO market is attractive, and valuation multiples of publicly traded engineering and construction companies are currently favorable. In response to interest we have received, we may consider selling some pieces of KBR, but this is not expected to change our IPO plans for the remainder of KBR. We expect that a Form S-1 for KBR will be filed with the United States Securities and Exchange Commission (SEC) after the 2005 audited financial statements of KBR are complete. Any sale of KBR stock would be registered under the Securities Act of 1933, and such shares of common stock would only be offered and sold by means of a prospectus. This annual report does not constitute an offer to sell or the solicitation of any offer to buy any securities of KBR, and there will not be any sale of any such securities in any state in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such state.

Markets and competition

We are one of the world's largest diversified energy services and engineering and construction services companies. Our services and products are sold in highly competitive markets throughout the world. Competitive factors impacting sales of our services and products include:

- price;
- service delivery (including the ability to deliver services and products on an "as needed, where needed" basis);
- health, safety, and environmental standards and practices;
- service quality;
- product quality;
- warranty; and
- technical proficiency.

We conduct business worldwide in about 100 countries. In 2005, based on the location of services provided and products sold, 27% of our consolidated revenue was from the United States, 24% of our consolidated revenue was from Iraq, primarily related to our work for the United States Government, and 10% of our consolidated revenue was from the United Kingdom. In 2004, 26% of our consolidated revenue was from Iraq and 22% of our consolidated revenue was from the United States. In 2003, 27% of our consolidated revenue was from the United States and 15% of our consolidated revenue was from Iraq. No other country accounted for more than 10% of our consolidated revenue during these periods. See Note 4 to the consolidated financial statements for additional financial information about geographic operations in the last three years. Because the markets for our services and products are vast and cross numerous geographic lines, a meaningful estimate of the total number of competitors cannot be made. The industries we serve are highly competitive and we have many substantial competitors. Largely all of our services and products are marketed through our servicing and sales organizations.

Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, expropriation or other governmental actions, and exchange control and currency problems. Except for our government services work in Iraq discussed above, we believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country would be material to the conduct of our operations taken as a whole.

Information regarding our exposure to foreign currency fluctuations, risk concentration, and financial instruments used to minimize risk is included in Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Instrument Market Risk and in Note 17 to the consolidated financial statements.

Customers

Our revenue during the past three years was mainly derived from the sale of services and products to the energy industry, including 61% in 2005, 54% in 2004, and 66% in 2003. Revenue from the United States Government, resulting primarily from work performed in the Middle East by our Government and Infrastructure segment, represented 31% of our 2005 consolidated revenue, 39% of our 2004 consolidated revenue, and 26% of our 2003 consolidated revenue. No other customer represented more than 10% of consolidated revenue in any period presented.

Backlog

Backlog represents the total dollar amount of revenue we expect to realize in the future as a result of performing work under contracts that have been awarded to us. Backlog is not a measure defined by generally accepted accounting principles, and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog. Backlog may not be indicative of future operating results. Many contracts do not provide for a fixed amount of work to be performed and are subject to modification or termination by the customer. The termination or modification of any one or more sizeable contracts or the addition of other contracts may have a substantial and immediate effect on backlog.

We generally include the full value of contracts in backlog when a contract is awarded and/or the scope is definitized. On our projects related to unconsolidated joint ventures, we include our percentage ownership of the joint venture's backlog. For long-term contracts, the amount included in backlog is limited to five years. In many instances, arrangements included in backlog are complex, nonrepetitive in nature, and may fluctuate in contract value and timing. Where contract duration is indefinite, projects included in backlog are limited to the estimated value of work to be completed within the following twelve months. Certain contracts provide maximum dollar limits, with actual authorization to perform work under the contract being agreed upon on a periodic basis with the customer. In these arrangements, only the amounts authorized are included in backlog. For projects where we solely act in a project management capacity, we only include our management scope of each project in backlog.

The following table summarizes our project backlog:

	December 31	
Millions of dollars	2005	2004
Firm orders:		
Government and Infrastructure	$ 3,403	$ 3,968
Energy and Chemicals - Gas monetization	3,651	443
Energy and Chemicals - Other	2,972	3,200
Energy Services Group segments	180	64
Total firm orders	10,206	7,675
Government orders firm but not yet funded, letters of intent, and contracts awarded but not signed:		
Government and Infrastructure	1,775	816
Total backlog	$ 11,981	$ 8,491

Gas monetization includes LNG and GTL projects.

We estimate that 76% of the Government and Infrastructure segment backlog and 52% of the Energy and Chemicals segment backlog at December 31, 2005 will be completed during 2006. Approximately 56% of total backlog at December 31, 2005 related to cost-reimbursable contracts with the remaining 44% relating to fixed-price contracts. Our backlog for projects related to unconsolidated joint ventures totaled $3.1 billion at December 31, 2005 and $1.1 billion at December 31, 2004. The increase in the government orders firm but not yet funded, letters of intent, and contracts awarded but not signed related to Task Order No. 89, assigned in the second quarter of 2005 under the LogCAP contract, that replaced several task orders that were nearing completion. Our backlog excludes contracts for recurring hardware and software maintenance and support services offered by Landmark.

Raw materials

Raw materials essential to our business are normally readily available. Current market conditions have triggered constraints in the supply chain of certain raw materials, such as, sand, cement, and specialty metals. The majority of our risk associated with the current supply chain constraints occurs in those situations where we have a relationship with a single supplier for a particular resource. Given high activity levels, particularly in the United States, we are proactively seeking ways to ensure the availability of resources, as well as manage the rising costs of raw materials. Our procurement department is actively leveraging our size and buying power through several programs designed to ensure that we have access to key materials at the best possible prices.

Research and development costs

We maintain an active research and development program. The program improves existing products and processes, develops new products and processes, and improves engineering standards and practices that serve the changing needs of our customers. Our expenditures for research and development activities were $220 million in 2005, $234 million in 2004, and $221 million in 2003, of which over 97% was company-sponsored in each year.

Patents

We own a large number of patents and have pending a substantial number of patent applications covering various products and processes. We are also licensed to utilize patents owned by others. We do not consider any particular patent or group of patents to be material to our business operations.

Seasonality

On an overall basis, our operations are not generally affected by seasonality. Weather and natural phenomena can temporarily affect the performance of our services, but the widespread geographical locations of our operations serve to mitigate those effects. Examples of how weather can impact our business include:

- the severity and duration of the winter in North America can have a significant impact on gas storage levels and drilling activity for natural gas;
- the timing and duration of the spring thaw in Canada directly affects activity levels due to road restrictions;
- typhoons and hurricanes can disrupt coastal and offshore operations; and
- severe weather during the winter months normally results in reduced activity levels in the North Sea and Russia.

In addition, due to higher spending near the end of the year by customers for software, Landmark results of operations are generally stronger in the fourth quarter of the year than at the beginning of the year.

Employees

At December 31, 2005, we employed approximately 106,000 people worldwide compared to 97,000 at December 31, 2004. At December 31, 2005, approximately 9% of our employees were subject to collective bargaining agreements. Based upon the geographic diversification of these employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole.

Environmental regulation

We are subject to numerous environmental, legal, and regulatory requirements related to our operations worldwide. In the United States, these laws and regulations include, among others:

- 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.

In addition to the federal laws and regulations, states and other countries where we do business may have numerous environmental, legal, and regulatory requirements by which we must 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. Our Health, Safety and Environment group has several programs in place to maintain environmental leadership and to prevent the occurrence of environmental contamination.

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.

Website access

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 are made available free of charge on our internet website at www.halliburton.com as soon as reasonably practicable after we have electronically filed the material with, or furnished it to, the SEC. The public may read and copy any materials our company has filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains our reports, proxy and information statements, and our other SEC filings. The address of that site is www.sec.gov. We have posted on our website our Code of Business Conduct, which applies to all of our employees and Directors and serves as a code of ethics for our principal executive officer, principal financial officer, principal accounting officer, and other persons performing similar functions. Any amendments to our Code of Business Conduct or any waivers from provisions of our Code of Business Conduct granted to the specified officers above are disclosed on our website within four business days after the date of any amendment or waiver pertaining to these officers.

Item 1(a). Risk Factors.

Information relating to risk factors is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Forward-Looking Information and Risk Factors."

Item 1(b). Unresolved Staff Comments.

None.

Item 2. Properties.

We own or lease numerous properties in domestic and foreign locations. The following locations represent our major facilities.

Location	Owned/Leased	Description
Energy Services Group		
Production Optimization Segment:		
Carrollton, Texas	Owned	Manufacturing facility
Alvarado, Texas	Owned/Leased	Manufacturing facility
Drilling and Formation Evaluation Segment:		
The Woodlands, Texas	Leased	Manufacturing facility
Shared Facilities:		
Duncan, Oklahoma	Owned	Manufacturing, technology, and campus facilities
Houston, Texas	Owned	Manufacturing and campus facilities
Houston, Texas	Owned/Leased	Campus facility
Houston, Texas	Leased	Campus facility
KBR		
Government and Infrastructure Segment:		
Arlington, Virginia	Leased	Campus facility
Energy and Chemicals Segment:		
Houston, Texas	Leased	Campus facility
Shared Facilities:		
Houston, Texas	Owned	Campus facility
Leatherhead, United Kingdom	Owned	Campus facility
Corporate		
Houston, Texas	Leased	Corporate executive offices

All of our owned properties are unencumbered.

In addition, we have 145 international and 108 United States field camps from which the ESG delivers its services and products. We also have numerous small facilities that include sales offices, project offices, and bulk storage facilities throughout the world. We own or lease marine fabrication facilities covering approximately 446 acres in Texas, England (primarily related to DML), and Scotland, which are used by KBR. Our marine facilities located in Texas and Scotland are currently for sale.

We have mineral rights to proven and probable reserves of barite and bentonite. These rights include leaseholds, mining claims, and owned property. We process barite and bentonite for use in our Fluid Systems segment in addition to supplying many industrial markets worldwide. Based on the number of tons of bentonite consumed in fiscal year 2005, we estimate that our 20 million tons of proven reserves in areas of active mining are sufficient to fulfill our internal and external needs for the next 14 years. We estimate that our 2.6 million tons of proven reserves of barite in areas of active mining equate to a 12-year supply based on current rates of production. These estimates are subject to change based on periodic updates to reserve estimates, future consumption, mining economics, and changes in environmental legislation.

We believe all properties that we currently occupy are suitable for their intended use.

Item 3. Legal Proceedings.

Information relating to various commitments and contingencies is described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in “Forward-Looking Information and Risk Factors” and in Notes 2, 10, 11, and 12 to the consolidated financial statements.

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

There were no matters submitted to a vote of security holders during the fourth quarter of 2005.

Executive Officers of the Registrant

The following table indicates the names and ages of the executive officers of the registrant as of February 15, 2006, along with a listing of all offices held by each:

Name and Age	Offices Held and Term of Office
* Albert O. Cornelison, Jr. (Age 56)	Executive Vice President and General Counsel of Halliburton Company, since December 2002 Vice President and General Counsel of Halliburton Company, May 2002 to December 2002 Vice President and Associate General Counsel of Halliburton Company, October 1998 to May 2002
* C. Christopher Gaut (Age 49)	Executive Vice President and Chief Financial Officer of Halliburton Company, since March 2003 Senior Vice President, Chief Financial Officer and Member - Office of the President and Chief Operating Officer of ENSCO International, Inc., January 2002 to February 2003 Senior Vice President and Chief Financial Officer of ENSCO International, Inc., December 1987 to December 2001
* Andrew R. Lane (Age 46)	Executive Vice President and Chief Operating Officer of Halliburton Company, since December 2004 President and Chief Executive Officer of Kellogg Brown & Root, Inc., July 2004 to November 2004 Senior Vice President, Global Operations of Halliburton Energy Services Group, April 2004 to July 2004 President, Landmark Division of Halliburton Energy Services Group, May 2003 to March 2004 President and Chief Executive Officer of Landmark Graphics, April 2002 to April 2003 Chief Operating Officer of Landmark Graphics, January 2002 to March 2002 Vice President, Production Enhancement PSL, Completion Products PSL and Tools/Testing/TCP of Halliburton Energy Services Group, January 2000 to December 2001
* David J. Lesar (Age 52)	Chairman of the Board, President and Chief Executive Officer of Halliburton Company, since August 2000 Director of Halliburton Company, since August 2000 President and Chief Operating Officer of Halliburton Company, May 1997 to August 2000 Chairman of the Board of Kellogg Brown & Root, Inc., January 1999 to August 2000 Executive Vice President and Chief Financial Officer of Halliburton Company, August 1995 to May 1997
Mark A. McCollum (Age 46)	Senior Vice President and Chief Accounting Officer of Halliburton Company, since August 2003 Senior Vice President and Chief Financial Officer of Tenneco Automotive, Inc., November 1999 to August 2003

Name and Age	Offices Held and Term of Office
Craig W. Nunez (Age 44)	Vice President and Treasurer of Halliburton Company, since February 2006 Treasurer of Colonial Pipeline Company, November 1999 to January 2006
* Lawrence J. Pope (Age 38)	Vice President, Human Resources & Administration of Halliburton Company, since January 2006 Senior Vice President, Administration of Kellogg Brown & Root, Inc., August 2004 to January 2006 Director, Finance and Administration for Drilling and Formation Evaluation Division of Halliburton Energy Services Group, July 2003 to August 2004 Division Vice President, Human Resources for Halliburton Energy Services Group, May 2001 to July 2003 Director, Human Resources for Halliburton Energy Services Group, May 1999 to May 2001
David R. Smith (Age 59)	Vice President, Tax of Halliburton Company, since May 2002 Vice President, Tax of Halliburton Energy Services, Inc., September 1998 to May 2002

* Members of the Policy Committee of the registrant.

There are no family relationships between the executive officers of the registrant or between any director and any executive officer of the registrant.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Halliburton Company’s common stock is traded on the New York Stock Exchange. Information relating to the high and low market prices of common stock and quarterly dividend payments is included under the caption “Quarterly Data and Market Price Information” on page 115 of this annual report. Cash dividends on common stock for 2005 and 2004 in the amount of $0.125 per share were paid in March, June, September, and December of each year. Our Board of Directors intends to consider the payment of quarterly dividends on the outstanding shares of our common stock in the future. The declaration and payment of future dividends, however, will be at the discretion of the Board of Directors and will depend upon, among other things, future earnings, general financial condition and liquidity, success in business activities, capital requirements, and general business conditions.

In February 2006, our Board of Directors approved a share repurchase program up to $1.0 billion. The Board of Directors approved a dividend for the first quarter of 2006 to shareholders of record at the close of business on March 2, 2006 of $0.15 per share, payable on March 23, 2006 reflecting a dividend increase of $0.025 per share. The Board of Directors also approved a 2:1 stock split, subject to shareholder approval at the 2006 annual shareholders meeting of a proposal to increase the number of authorized shares of common stock from one billion shares to two billion shares. Each shareholder would receive one additional share for each outstanding share held by the shareholder on the record date for the stock split. The record date will be announced after the approval of the increase in authorized shares of common stock.

At February 15, 2006, there were 20,912 shareholders of record. In calculating the number of shareholders, we consider clearing agencies and security position listings as one shareholder for each agency or listing.

Following is a summary of repurchases of our common stock during the three-month period ended December 31, 2005.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
October 1-31	14,775	$ 66.57	-
November 1-30	3,551	$ 60.32	-
December 1-31	19,162	$ 64.16	-
Total	37,488	$ 64.75	-

(a) All of the shares repurchased during the three-month period ended December 31, 2005 were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock grants. These share purchases were not part of a publicly announced program to purchase common shares.

Item 6. Selected Financial Data.

Information relating to selected financial data is included on page 114 of this annual report.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Information relating to Management’s Discussion and Analysis of Financial Condition and Results of Operations is included on pages 14 through 60 of this annual report.

Item 7(a). Quantitative and Qualitative Disclosures About Market Risk.

Information relating to market risk is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations under the caption “Financial Instrument Market Risk” on page 46 of this annual report.

Item 8. Financial Statements and Supplementary Data.

The related financial statement schedules are included under Part IV, Item 15 of this annual report.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9(a). Controls and Procedures.

In accordance with the Securities Exchange Act of 1934 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 December 31, 2005 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. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the three months ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

See page 61 for Management's Report on Internal Control Over Financial Reporting and page 63 for Report of Independent Registered Public Accounting Firm on our assessment of internal control over financial reporting and opinion on the effectiveness of the Company's internal control over financial reporting.

Item 9(b). Other Information.

None.

EXECUTIVE OVERVIEW

While 2005 began with the finalization of our asbestos and silica settlements in January, the highlight of the year was the strong operational performance of both of our business units, the Energy Services Group (ESG) and KBR.

ESG improved performance with a 26% increase in revenue and an 80% increase in operating income, compared to 2004. ESG operating margin (defined as operating income divided by revenue) increased nearly seven percentage points to 22.6% from 15.8% in 2004. ESG's improved operating income and margins in 2005 compared to 2004 are a direct result of:

- higher demand for oilfield services, with annual average worldwide rig counts increasing approximately 15%;
- improved utilization of equipment, which was evident by an increase in our revenue per fracturing job over 2004;
- increased pricing, particularly in areas of high demand and tight supply; and
- our continued focus on operating performance and return on capital. Our focus centered on exiting underperforming operations, achieving improved contract terms with our customers, and redeploying resources to more attractive markets.

At KBR, we saw the benefits from restructuring KBR in 2004. KBR delivered $498 million in operating income in 2005, resulting in a 4.6% operating margin. KBR revenue decreased in 2005 as a result of lower revenue on government services projects in the Middle East, while operating income increased $840 million over 2004. These results reflect:

- large losses in 2004 on our offshore fixed-price engineering, procurement, installation, and commissioning (EPIC) projects that did not recur in 2005, combined with improved profitability on our cost-reimbursable engineering projects;
- award fees received for our work in Iraq and the complete resolution of disputed dining facilities, fuel costs, and other issues, which resulted in the recording of $103 million of operating income related to our LogCAP and RIO contracts; and
- profit on newly awarded liquefied natural gas (LNG) and gas-to-liquids (GTL), or gas monetization infrastructure projects, designed to commercialize gas reserves around the world. Our backlog in these gas monetization projects was $3.7 billion at December 31, 2005.

During 2005, our operations were negatively impacted by several hurricanes in the Gulf of Mexico. ESG lost approximately $80 million in estimated revenue and approximately $45 million in estimated operating income primarily due to the temporary suspension of work related to damaged and lost customer rigs. KBR also incurred $5 million in expenses related to the hurricanes.

We achieved our goal of reducing our debt-to-capitalization ratio to the mid-30s. We redeemed $500 million of senior notes in April 2005 and paid off $300 million of floating rate senior notes that matured in October 2005. Our debt-to-capitalization ratio at December 31, 2005 was 33%.

The outlook for our business is positive. Strong commodity prices, a lack of excess oil supply compared to historical up-cycle periods, and continuing strong cash flow are driving increased spending plans for our exploration and production customers. We believe oil and gas prices will fluctuate in the future, but the fundamentals that support increased demand for our services or products are not expected to change significantly in the near term. We also expect continued growth in gas monetization projects, a particular strength for KBR. We believe the North American market will continue to grow in 2006, and we plan to deploy additional capital and labor resources in this market. We also expect regions outside North America to grow, particularly in the Middle East, Northern Africa, Russia, and the deep-water offshore markets, as we execute our international growth and investment strategy.

As such, in 2006 we are focusing on:

- improving the utilization of our equipment and deploying additional resources to address the growing demand for our services and products;

- increasing pricing (as the market allows) for ESG’s services and products due to expected labor and material cost increases and high demand from customers;
- leveraging our technologies to provide our customers with the ability to more efficiently drill wells and to increase the productivity of those wells;
- capitalizing on our strengths in the LNG and GTL markets. Forecasted LNG market growth remains strong and is expected to grow further. Significant numbers of new LNG liquefaction plant and LNG receiving terminal projects are proposed worldwide and are in various stages of development. Our experience in providing engineering, design, and construction services in the liquefied natural gas industry, particularly liquefaction facilities, positions us to benefit from the growth we are seeing in this industry; and
- diversifying the services of our Government and Infrastructure segment. We expect our work under the LogCAP contract to see a more rapid decline during 2006 than we saw in 2005. As a result, we are focused on diversifying the Government and Infrastructure project portfolio and we continued to expand our work for the United States Navy under the CONCAP construction contingency contract and are positioned for future contingency work for the United States Air Force under the AFCAP contract. In addition, we have strengthened our position with the United Kingdom Ministry of Defence.

We also plan to initiate the separation of KBR from Halliburton in 2006. Our decision to separate KBR arose primarily because we do not believe the full value of KBR is currently reflected in Halliburton’s stock price, and few synergies exist between the two business units. Our current plan is to effect an initial public offering (IPO) of less than 20% of KBR. We believe the IPO market is attractive and valuation multiples of publicly traded engineering and construction companies are currently favorable. In response to interest we have received, we may consider selling some pieces of KBR, but this is not expected to change our IPO plans for the remainder of KBR. We expect that a Form S-1 for KBR will be filed with the United States Securities and Exchange Commission (SEC) after the 2005 audited financial statements of KBR are complete. Any sale of KBR stock would be registered under the Securities Act of 1933, and such shares of common stock would only be offered and sold by means of a prospectus. This annual report does not constitute an offer to sell or the solicitation of any offer to buy any securities of KBR, and there will not be any sale of any such securities in any state in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such state.

In February 2006, our Board of Directors approved a share repurchase program up to $1.0 billion. The Board of Directors approved a dividend for the first quarter of 2006 to shareholders of record at the close of business on March 2, 2006 of $0.15 per share, payable on March 23, 2006 reflecting a dividend increase of $0.025 per share. The Board of Directors also approved a 2:1 stock split, subject to shareholder approval at the 2006 annual shareholders meeting of a proposal to increase the number of authorized shares of common stock from one billion shares to two billion shares. Each shareholder would receive one additional share for each outstanding share held by the shareholder on the record date for the stock split. The record date will be announced after the approval of the increase in authorized shares of common stock.

Detailed discussions of our United States government contract work, the Foreign Corrupt Practices Act investigations, and our liquidity and capital resources follow. Our operating performance is described in “Business Environment and Results of Operations” below.

United States Government Contract Work

We provide substantial work under our government contracts to the United States Department of Defense and other governmental agencies. These contracts include our worldwide United States Army logistics contracts, known as LogCAP, and contracts to rebuild Iraq’s petroleum industry, such as PCO Oil South. Our government services revenue related to Iraq totaled approximately $5.4 billion in 2005, $7.1 billion in 2004, and $3.6 billion in 2003.

Given the demands of working in Iraq and elsewhere for the United States government, we expect that from time to time we will have disagreements or experience performance issues with the various government customers for which we work. If performance issues arise under any of our government contracts, the government retains the right to pursue remedies which could include threatened termination or termination, under any affected contract. If any contract were so terminated, we may not receive award fees under the affected contract, and our ability to secure future contracts could be adversely affected, although we would receive payment for amounts owed for our allowable costs under cost-reimbursable contracts. Other remedies that could be sought by our government customers for any improper activities or performance issues include sanctions such as forfeiture of profits, suspension of payments, fines, and suspensions or debarment from doing business with the government. Further, the negative publicity that could arise from disagreements with our customers or sanctions as a result thereof could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts, and may also have a material adverse effect on our business, financial condition, results of operations, and cash flow.

DCAA audit issues

Our operations under United States government contracts are regularly reviewed and audited by the Defense Contract Audit Agency (DCAA) and other governmental agencies. The DCAA serves in an advisory role to our customer. When issues are found during the governmental agency audit process, these issues are typically discussed and reviewed with us. The DCAA then issues an audit report with its recommendations to our customer's contracting officer. In the case of management systems and other contract administrative issues, the contracting officer is generally with the Defense Contract Management Agency (DCMA). We then work with our customer to resolve the issues noted in the audit report. If our customer or a government auditor finds that we improperly charged any costs to a contract, these costs are not reimbursable, or, if already reimbursed, the costs must be refunded to the customer.

Dining facilities (DFAC). During 2003, the DCAA raised issues related to our invoicing to the Army Materiel Command (AMC) for food services for soldiers and supporting civilian personnel in Iraq and Kuwait. During 2004, we received notice from the DCAA that it was recommending withholding 19.35% of our DFAC billings relating to subcontracts entered into prior to February 2004 until it completed its audits. Approximately $213 million had been withheld as of March 31, 2005. Subsequent to February 2004, we renegotiated our DFAC subcontracts to address the specific issues raised by the DCAA and advised the AMC and the DCAA of the new terms of the arrangements. We have had no objection by the government to the terms and conditions associated with our new DFAC subcontract agreements. On March 31, 2005, we reached an agreement with the AMC regarding the costs associated with the DFAC subcontractors, which totaled approximately $1.2 billion. Under the terms of the agreement, the AMC agreed to the DFAC subcontractor costs except for $55 million, which it retained from the $213 million previously withheld amount. In the second quarter of 2005, the government released the funds to KBR.

During 2005, we reached settlement agreements with all but one subcontractor, Eurest Support Services (Cyprus) International Limited, or ESS, and resolved $44 million of the $55 million disallowed DFAC subcontractor costs. Accordingly, we paid the amounts due to all subcontractors with whom settlements have been finalized, in accordance with the agreement reached with the government, but withheld the remaining $11 million pending settlement with ESS. On September 30, 2005, ESS filed suit against us alleging various claims associated with its performance as a subcontractor in conjunction with our LogCAP contract in Iraq. The case was settled during the first quarter of 2006 without material impact to us.

Fuel. In December 2003, the DCAA issued a preliminary audit report that alleged that we may have overcharged the Department of Defense by $61 million in importing fuel into Iraq. The DCAA questioned costs associated with fuel purchases made in Kuwait that were more expensive than buying and transporting fuel from Turkey. We responded that we had maintained close coordination of the fuel mission with the Army Corps of Engineers (COE), which was our customer and oversaw the project throughout the life of the task orders, and that the COE had directed us to use the Kuwait sources. After a review, the COE concluded that we obtained a fair price for the fuel. Nonetheless, Department of Defense officials referred the matter to the agency's inspector general, which we understand commenced an investigation.

The DCAA issued various audit reports related to task orders under the RIO contract that reported $275 million in questioned and unsupported costs. The majority of these costs were associated with the humanitarian fuel mission. In these reports, the DCAA compared fuel costs we incurred during the duration of the RIO contract in 2003 and early 2004 to fuel prices obtained by the Defense Energy Supply Center (DESC) in April 2004 when the fuel mission was transferred to that agency. During the fourth quarter of 2005, we resolved all outstanding issues related to the RIO contract with our customer and settled the remaining questioned costs under this contract.

Laundry. Prior to the fourth quarter of 2005, we received notice from the DCAA that it recommended withholding $18 million of subcontract costs related to the laundry service for one task order in southern Iraq for which it believes we and our subcontractors have not provided adequate levels of documentation supporting the quantity of the services provided. In the fourth quarter of 2005, the DCAA issued a notice to disallow costs totaling approximately $12 million, releasing $6 million of amounts previously withheld. The $12 million has been withheld from the subcontractor. We are working with the DCMA and the subcontractor to resolve this issue.

Containers. In June 2005, the DCAA recommended withholding certain costs associated with providing containerized housing for soldiers and supporting civilian personnel in Iraq. Approximately $55 million has been withheld as of December 31, 2005 (down from $60 million originally reported because some issues have been resolved). The DCAA recommended that the costs be withheld pending receipt of additional explanation or documentation to support the subcontract costs. We have provided information we believe addresses the concerns raised by the DCAA. None of these amounts have been withheld from our subcontractors. We are working with the government and our subcontractors to resolve this issue.

Other issues. The DCAA is continuously performing audits of costs incurred for the foregoing and other services provided by us under our government contracts. During these audits, there are likely to be questions raised by the DCAA about the reasonableness or allowability of certain costs or the quality or quantity of supporting documentation. No assurance can be given that the DCAA might not recommend withholding some portion of the questioned costs while the issues are being resolved with our customer. Because of the intense scrutiny involving our government contracts operations, issues raised by the DCAA may be more difficult to resolve. We do not believe any potential withholding will have a significant or sustained impact on our liquidity.

Investigations

In early 2004, our internal audit function identified a potential $4 million overbilling by La Nouvelle Trading & Contracting Company, W.L.L. (La Nouvelle), one of our subcontractors under the LogCAP contract in Iraq, for services performed during 2003. In accordance with our policy and government regulation, the potential overcharge was reported to the Department of Defense Inspector General’s office as well as to our customer, the AMC. We reimbursed the AMC to cover that potential overbilling while we conducted our own investigation into the matter. We subsequently terminated La Nouvelle’s services under the LogCAP contract. In October 2004, La Nouvelle filed suit against us alleging $224 million in damages as a result of its termination. During the second quarter of 2005, this suit was settled without material impact to us. See Note 12 to the consolidated financial statements for further discussion.

In the first quarter of 2005, the United States Department of Justice (DOJ) issued two indictments associated with these issues against a former KBR procurement manager and a manager of La Nouvelle.

In October 2004, we reported to the Department of Defense Inspector General’s office that two former employees in Kuwait may have had inappropriate contacts with individuals employed by or affiliated with two third-party subcontractors prior to the award of the subcontracts. The Inspector General’s office may investigate whether these two employees may have solicited and/or accepted payments from these third-party subcontractors while they were employed by us.

In October 2004, a civilian contracting official in the COE asked for a review of the process used by the COE for awarding some of the contracts to us. We understand that the Department of Defense Inspector General’s office may review the issues involved.

We understand that the DOJ, an Assistant United States Attorney based in Illinois, and others are investigating these and other individually immaterial matters we have reported relating to our government contract work in Iraq. If criminal wrongdoing were found, criminal penalties could range up to the greater of $500,000 in fines per count for a corporation or twice the gross pecuniary gain or loss. We also understand that current and former employees of KBR have received subpoenas and have given or may give grand jury testimony related to some of these matters.

Withholding of payments

During 2004, the AMC issued a determination that a particular contract clause could cause it to withhold 15% from our invoices until our task orders under the LogCAP contract are definitized. The AMC delayed implementation of this withholding pending further review. During the third quarter of 2004, we and the AMC identified three senior management teams to facilitate negotiation under the LogCAP task orders, and these teams concluded their effort by successfully negotiating the final outstanding task order definitization on March 31, 2005. This made us current with regard to definitization of historical LogCAP task orders and eliminated the potential 15% withholding issue under the LogCAP contract.

Upon the completion of the RIO contract definitization process, the COE released all previously withheld amounts related to this contract in the fourth quarter of 2005.

The PCO Oil South project has definitized substantially all of the task orders, and we have collected a significant portion of the amounts previously withheld. We do not believe the withholding will have a significant or sustained impact on our liquidity because the withholding is temporary, and the definitization process is substantially complete.

We are working diligently with our customers to proceed with significant new work only after we have a fully definitized task order, which should limit withholdings on future task orders for all government contracts.

In addition, we had probable unapproved claims totaling $69 million at December 31, 2005 for the LogCAP and PCO Oil South contracts. These unapproved claims related to contracts where our costs have exceeded the customer’s funded value of the task order.

DCMA system reviews

Report on estimating system. On December 27, 2004, the DCMA granted continued approval of our estimating system, stating that our estimating system is “acceptable with corrective action.” We are in the process of completing these corrective actions. Specifically, based on the unprecedented level of support that our employees are providing the military in Iraq, Kuwait, and Afghanistan, we needed to update our estimating policies and procedures to make them better suited to such contingency situations. Additionally, we have completed our development of a detailed training program and have made it available to all estimating personnel to ensure that employees are adequately prepared to deal with the challenges and unique circumstances associated with a contingency operation.

Report on purchasing system. As a result of a Contractor Purchasing System Review by the DCMA during the fourth quarter of 2005, the DCMA granted the continued approval of our government contract purchasing system. The DCMA’s approval letter, dated October 28, 2005, stated that our purchasing system’s policies and practices are “effective and efficient, and provide adequate protection of the Government’s interest.”

Report on accounting system. We received two draft reports on our accounting system, which raised various issues and questions. We have responded to the points raised by the DCAA, but this review remains open. Once the DCAA finalizes the report, it will be submitted to the DCMA, who will make a determination of the adequacy of our accounting systems for government contracting.

The Balkans

We have had inquiries in the past by the DCAA and the civil fraud division of the DOJ into possible overcharges for work performed during 1996 through 2000 under a contract in the Balkans, for which inquiry has not yet been completed by the DOJ. Based on an internal investigation, we credited our customer approximately $2 million during 2000 and 2001 related to our work in the Balkans as a result of billings for which support was not readily available. We believe that the preliminary DOJ inquiry relates to potential overcharges in connection with a part of the Balkans contract under which approximately $100 million in work was done. We believe that any allegations of overcharges would be without merit. Amounts accrued related to this matter as of December 31, 2005 are not material.

Foreign Corrupt Practices Act investigations

The SEC is conducting a formal investigation into payments made in connection with the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The DOJ is also conducting a related criminal investigation. The government has also issued a subpoena to Halliburton seeking information, which we are furnishing, regarding current and former agents used in connection with multiple projects or services over the past 20 years located both in and outside of Nigeria in which The M .W. Kellogg Company, M. W. Kellogg, Ltd., Kellogg Brown & Root or their joint ventures, as well as the Halliburton energy services business, were participants. M. W. Kellogg, Ltd. is a joint venture in which Kellogg Brown & Root has a 55% interest. The M. W. Kellogg Company was a subsidiary of Dresser Industries before our 1998 acquisition of Dresser Industries and was later merged with a subsidiary of ours to form Kellogg Brown & Root.

The SEC and the DOJ have been reviewing these matters in light of the requirements of the United States Foreign Corrupt Practices Act (FCPA). We have been cooperating with the SEC and the DOJ, as well as with investigations into the Bonny Island project in France and Nigeria. Our Board of Directors has appointed a committee of independent directors to oversee and direct the FCPA investigations.

The matters under investigation relating to the Bonny Island project cover an extended period of time (in some cases significantly before our 1998 acquisition of Dresser Industries (which included M. W. Kellogg, Ltd. and The M .W. Kellogg Company)) and include TSKJ's use of a Japanese trading company that contracted to provide services to TSKJ. We have produced documents to the SEC and the DOJ both voluntarily and pursuant to subpoenas, and we are making our employees available to the SEC and the DOJ for interviews. In addition, we understand that the SEC has issued a subpoena to A. Jack Stanley, who formerly served as a consultant and chairman of KBR, and to others, including certain current and former KBR employees and at least one subcontractor of KBR. We further understand that the DOJ has invoked its authority under a sitting grand jury to issue subpoenas for the purpose of obtaining information abroad, and we understand that other partners in TSKJ have provided information to the DOJ and the SEC with respect to the investigations, either voluntarily or under subpoenas.

TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (an affiliate of ENI SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root (as successor to The M. W. Kellogg Company), each of which owns 25% of the venture. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA). Commencing in 1995, TSKJ entered into a series of agency agreements in connection with the Bonny Island project, including with Tri-Star Investments, of which Jeffrey Tesler is a principal. We understand that a French magistrate has officially placed Mr. Tesler under investigation for corruption of a foreign public official. In Nigeria, a legislative committee of the National Assembly and the Economic and Financial Crimes Commission, which is organized as part of the executive branch of the government, are also investigating these matters. Our representatives have met with the French magistrate and Nigerian officials. In October 2004, representatives of TSKJ voluntarily testified before the Nigerian legislative committee.

As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. We have reason to believe, based on the ongoing governmental and other investigations, that payments may have been made to Nigerian officials.

We notified the other owners of TSKJ of information provided by the investigations and asked each of them to conduct their own investigation. TSKJ has suspended the receipt of services from and payments to Tri-Star Investments and the Japanese trading company and has considered instituting legal proceedings to declare all agency agreements with Tri-Star Investments terminated and to recover all amounts previously paid under those agreements.

In June 2004, we terminated all relationships with Mr. Stanley and another consultant and former employee of M. W. Kellogg, Ltd. The terminations occurred because of violations of our Code of Business Conduct that allegedly involved the receipt of improper personal benefits in connection with TSKJ's construction of the natural gas liquefaction facility in Nigeria.

Until such time, if ever, as we can satisfy ourselves regarding compliance with applicable law and our Code of Business Conduct, we have also suspended the services of another agent who has worked for KBR outside of Nigeria on several current projects and on numerous older projects going back to the early 1980's. In addition, we are actively reviewing the compliance of an additional agent on a separate current Nigerian project with respect to which we have recently received from a joint venture partner on that project allegations of wrongful payments made by such agent.

In February 2005, TSKJ notified the Attorney General of Nigeria that TSKJ would not oppose the Attorney General's efforts to have sums of money held on deposit in banks in Switzerland transferred to Nigeria and to have the legal ownership of such sums determined in the Nigerian courts.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to $500,000 per violation, equitable remedies, including disgorgement, and injunctive relief. Criminal penalties could range up to the greater of $2 million per violation or twice the gross pecuniary gain or loss. Both the SEC and the DOJ could argue that continuing conduct may constitute multiple violations for purposes of assessing the penalty amounts per violation. Often, agreed dispositions for these types of matters result in a monitor being appointed by the SEC and/or the DOJ to review future business and practices with the goal of ensuring compliance with the FCPA. Fines and civil and criminal penalties could be mitigated, in the government's discretion, depending on the level of the cooperation in the investigations.

Potential consequences of a criminal indictment arising out of these matters could include suspension by the Department of Defense or another federal, state, or local government agency of KBR and its affiliates from their ability to contract with United States, state or local governments, or government agencies and, if a criminal or civil violation were found, KBR and its affiliates could be debarred from future contracts or new orders under current contracts to provide services to any such parties. During 2005, KBR and its affiliates had revenue of approximately $6.6 billion from its government contracts work with agencies of the United States or state or local governments. Consistent with our cooperation with the DOJ and the SEC, we would seek to obtain administrative agreements or waivers to avoid suspension or debarment. Generally, debarments can last up to three years. Suspension or debarment from the government contracts business would have a material adverse effect on the business and results of operations of KBR and Halliburton.

There can be no assurance that any governmental investigation or our investigation of these matters will not conclude that violations of applicable laws have occurred. The results of these investigations could have a material adverse effect on our business, prospects, results of operations, financial condition, and cash flows.

As of December 31, 2005, we have not accrued any amounts related to this investigation other than our current legal expenses.

Bidding practices investigation

In connection with the investigation into payments made in connection with the Nigerian project, information has been uncovered suggesting that Mr. Stanley and other former employees may have engaged in coordinated bidding with one or more competitors on certain foreign construction projects, and that such coordination possibly began as early as the mid-1980s, which was significantly before our 1998 acquisition of Dresser Industries.

On the basis of this information, we and the DOJ have broadened our investigations to determine the nature and extent of any improper bidding practices, whether such conduct violated United States antitrust laws, and whether former employees may have received payments in connection with bidding practices on some foreign projects.

If violations of applicable United States antitrust laws occurred, the range of possible penalties includes criminal fines, which could range up to the greater of $10 million in fines per count for a corporation, or twice the gross pecuniary gain or loss, and treble civil damages in favor of any persons financially injured by such violations. Suspension or debarment from contracting with the United States, state or local governments, or government agencies could also occur. Criminal prosecutions under applicable laws of relevant foreign jurisdictions and civil claims by or relationship issues with customers are also possible.

There can be no assurance that the results of these investigations will not have a material adverse effect on our business and results of operations.

As of December 31, 2005, we had not accrued any amounts related to this investigation other than our current legal expenses.

LIQUIDITY AND CAPITAL RESOURCES

We ended 2005 with cash and equivalents of $2.4 billion compared to $1.9 billion at December 31, 2004.

Significant sources of cash

Cash flows from operations contributed $701 million to cash in 2005. We received approximately $1.032 billion in asbestos- and silica-related insurance proceeds in 2005 and expect to receive additional amounts as follows:

Millions of dollars		
2006	$	193
2007		41
2008		46
2009		131
2010		16
Total	$	427

During the first quarter of 2005, we sold $891 million in investments in marketable securities. Our cash flow was supplemented by approximately $200 million from the sale of our 50% interest in Subsea 7, Inc. in January 2005 and $85 million from the sale of an investment in a United States toll road in September 2005.

Our working capital requirements for our Iraq-related work, excluding cash and equivalents, decreased from $700 million at December 31, 2004 to $495 million at December 31, 2005.

Further available sources of cash. In the first quarter of 2005, we entered into an unsecured $1.2 billion five-year revolving credit facility for general working capital purposes. The new credit facility replaced our secured $700 million three-year revolving credit facility and our secured $500 million 364-day revolving credit facility. The letter of credit issued under the previous secured $700 million three-year revolving credit facility is now under our unsecured $1.2 billion revolving facility and has a balance of $107 million as of December 31, 2005. The letter of credit reduces the availability under the revolving credit facility to approximately $1.1 billion. There were no cash drawings under the unsecured $1.2 billion revolving credit facility as of December 31, 2005.

KBR entered into an unsecured $850 million five-year revolving credit facility in the fourth quarter of 2005. Three letters of credit that totaled $25 million were subsequently issued under the KBR revolving credit facility, thus reducing the availability under the credit facility to approximately $825 million at December 31, 2005. There were no cash drawings under the unsecured $850 million revolving credit facility as of December 31, 2005.

Significant uses of cash

In 2005, we used approximately $2.4 billion to fund the asbestos and silica liability trusts and made the following payments:

Millions of dollars		
Cash payments related to asbestos and silica made in 2005:		
Payment to the asbestos and silica trust in accordance with		
the plan of reorganization	$	2,345
One-year non-interest-bearing note for the benefit of		
asbestos claimants		31
Cash payment related to insurance partitioning agreement		
in October 2004 - first of three installments		16
First installment payment for the silica note		15
Payments related to RHI Refractories agreement		11
Total	$	2,418

On April 26, 2005, we redeemed, at par plus accrued interest, all $500 million of our floating rate senior notes due 2007 that were issued in January 2004. On October 17, 2005, we repaid, at par plus accrued interest, our $300 million floating rate senior notes that matured.

Capital expenditures of $651 million in 2005 were 13% higher than in 2004. Capital spending in 2005 continued to be primarily directed to the Energy Services Group for the Production Optimization, Drilling and Formation Evaluation, and Fluid Systems segments.

We paid $254 million in dividends to our shareholders in 2005.

We also continued to fund operating cash shortfalls on the Barracuda-Caratinga project, a multiyear construction project to develop the Barracuda and Caratinga crude oilfields off the coast of Brazil. During 2005, we funded approximately $169 million, net of revenue received. This amount was net of payments to us of $138 million related to change orders.

Future uses of cash. The following table summarizes our significant contractual obligations and other long-term liabilities as of December 31, 2005:

	Payments due						
Millions of dollars	2006	2007	2008	2009	2010	Thereafter	Total
Long-term debt (1) (2)	$ 359	$ 31	$ 152	$ 1	$ 750	$ 1,879	$ 3,172
Operating leases	187	148	123	111	100	478	1,147
Purchase obligations (3)	644	30	19	10	4	10	717
Barracuda-Caratinga	12	-	-	-	-	-	12
Pension funding obligations (4)	164	-	-	-	-	-	164
Total	$ 1,366	$ 209	$ 294	$ 122	$ 854	$ 2,367	$ 5,212

(1) Long-term debt excludes the effect of a terminated interest rate swap of approximately $2 million.

(2) Long-term debt includes a silica note contributed to the trust for the benefit of silica personal injury claimants. Subsequent to the initial payment of $15 million, the silica note provides that we will contribute an amount to the silica trust at the end of each year for the next 30 years of up to $15 million. The note also provides for an extension of the note for 20 additional years under certain circumstances. We initially recorded the note at our estimated amount of approximately $24 million, including the initial payment of $15 million paid in January 2005. We will periodically reassess our valuation of this note based upon our projections of the amounts we believe we will be required to fund into the silica trust. Long-term debt also includes an asbestos insurance partitioning agreement that we reached in 2004 with Federal-Mogul, our insurance companies, and another party sharing in the insurance coverage to obtain their consent and support of a partitioning of the insurance policies. As part of the settlement, we agreed to pay $46 million in three installment payments. In 2004, we accrued $44 million, which represents the present value of the $46 million to be paid. The discount is accreted as interest expense (classified as discontinued operations) over the life of the expected future cash payments beginning in the fourth quarter of 2004. The first payment of $16 million was paid in January 2005, and the second payment of $15 million was paid in January 2006. The third and final payment of $15 million will be made in January 2007.

(3) The purchase obligations disclosed above do not include purchase obligations that KBR enters into with its vendors in the normal course of business that support existing contracting arrangements with its customers. The purchase obligations with their vendors can span several years depending on the duration of the projects. In general, the costs associated with the purchase obligations are expensed as the revenue is earned on the related projects.

(4) In order to mitigate a portion of the projected underfunding of our United Kingdom pension plans, ESG contributed $38 million and KBR contributed $74 million in February 2006. These amounts are included in the $164 million 2006 funding obligation.

Capital spending for 2006 is expected to be approximately $875 million. The capital expenditures budget for 2006 includes a steady level of activities related to our DML shipyard and increased spending in the Energy Services Group to accommodate higher activity levels.

In February 2006, our Board of Directors approved a share repurchase program up to $1.0 billion. The Board of Directors also approved a dividend for the first quarter of 2006 to shareholders of record at the close of business on March 2, 2006 of $0.15 per share, payable on March 23, 2006, reflecting a dividend increase of $0.025 per share.

As of December 31, 2005, we had commitments to fund approximately $79 million to related companies. These commitments arose primarily during the start-up of these entities or due to losses incurred by them. We expect approximately $61 million of the commitments to be paid during 2006.

We continue to fund operating cash shortfalls on the Barracuda-Caratinga project and are obligated to fund total shortages over the remaining project life. We expect the remaining project costs, net of revenue to be received, to be approximately $12 million.

Other factors affecting liquidity

Accounts receivable securitization facilities. In May 2004, we entered into an agreement to sell, assign, and transfer the entire title and interest in specified United States government accounts receivable of KBR to a third party. The total amount of receivables outstanding under this agreement as of December 31, 2004 was approximately $263 million. As of December 31, 2005, these receivables were collected, the balance was retired, and the facility was terminated.

In April 2002, we entered into an agreement to sell eligible United States Energy Services Group accounts receivable to a bankruptcy-remote limited-purpose funding subsidiary. As of December 31, 2004, we had sold $256 million of undivided ownership interest to unaffiliated companies. During the fourth quarter of 2005, these receivables were collected and the balance retired. No further receivables were sold, and the facility was terminated subsequent to December 31, 2005.

See "Off Balance Sheet Risk" below for further discussion regarding these facilities.

Letters of credit. In the normal course of business, we have agreements with banks under which approximately $1.2 billion of letters of credit or bank guarantees were outstanding as of December 31, 2005, including $434 million that relate to our joint ventures' operations. Also included in the letters of credit outstanding as of December 31, 2005 were $183 million of performance letters of credit and $114 million of retainage letters of credit related to the Barracuda-Caratinga project. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Credit ratings. Our current ratings are BBB on Standard & Poor's and Baa1 on Moody's Investors Service. In the fourth quarter of 2005, Moody's revised its long-term senior unsecured debt rating from Baa2 to Baa1 with a "stable" outlook. In the third quarter of 2005, Standard & Poor's revised its credit watch listing for us from "stable" to "positive," citing improved operating performance and debt reduction as reasons for the upgrade. In the first quarter of 2005, Standard & Poor's revised its credit watch listing for us from "developing" to "stable" and its short-term credit and commercial paper rating from A-3 to A-2. Our Moody's Investors Service short-term credit and commercial paper rating is P-2.

Debt covenants. Letters of credit related to our Barracuda-Caratinga project and our $1.2 billion revolving credit facility contain restrictive covenants, including covenants that require us to maintain financial ratios as defined by the agreements. For the letters of credit related to our Barracuda-Caratinga project, we are required to maintain interest coverage and leverage ratios. We are also required to maintain a minimum debt-to-capitalization ratio under our $1.2 billion revolving credit facility. At December 31, 2005, we were in compliance with these requirements.

In addition, the unsecured $850 million five-year revolving credit facility entered into by KBR contains covenants including a limitation on the amount KBR can invest in unconsolidated subsidiaries. KBR must also maintain financial ratios including a debt-to-capitalization ratio, a leverage ratio, and a fixed charge coverage ratio. At December 31, 2005, KBR was in compliance with these requirements.

BUSINESS ENVIRONMENT AND RESULTS OF OPERATIONS

We currently operate in about 100 countries throughout the world, where we provide a comprehensive range of discrete and integrated services and products to the energy industry and to other industrial and governmental customers. The majority of our consolidated revenue is derived from the sale of services and products to major, national, and independent oil and gas companies and governments around the world. The services and products provided to major, national, and independent oil and gas companies are used throughout the energy industry from the earliest phases of exploration, development, and production of oil and gas through refining, processing, and marketing. Our six business segments are organized around how we manage the business: Production Optimization, Fluid Systems, Drilling and Formation Evaluation, Digital and Consulting Solutions, Government and Infrastructure, and Energy and Chemicals. We refer to the combination of Production Optimization, Fluid Systems, Drilling and Formation Evaluation, and Digital and Consulting Solutions segments as the ESG, and the combination of Government and Infrastructure and Energy and Chemicals as KBR.

The industries we serve are highly competitive with many substantial competitors for each segment. In 2005, based upon the location of the services provided and products sold, 27% of our consolidated revenue was from the United States, 24% of our consolidated revenue was from Iraq, primarily related to work for the United States Government, and 10% of our consolidated revenue was from the United Kingdom. In 2004, 26% of our consolidated revenue was from Iraq, and 22% of our consolidated revenue was from the United States. In 2003, 27% of our consolidated revenue was from the United States, and 15% of our consolidated revenue was from Iraq. No other country accounted for more than 10% of our revenue during these periods.

Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, force majeure, war or other armed conflict, expropriation or other governmental actions, inflation, exchange controls, or currency devaluation. Except for our government services work in Iraq discussed above, we believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country would be material to our consolidated results of operations.

Halliburton Company

Activity levels within our 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, gas monetization, and marketing facilities by major, national, and independent oil and gas companies; and
- government spending levels.

Also impacting our activity is the status of the global economy, which impacts oil and gas consumption, demand for petrochemical products, and investment in infrastructure projects.

Energy Services Group

Some of the more significant barometers of current and future spending levels of oil and gas companies are oil and gas prices, exploration and production spending by international and national oil companies, the world economy, and global stability, which together drive worldwide drilling activity. Our ESG financial performance is significantly affected by oil and gas prices and worldwide rig activity, which are summarized in the following tables.

This table shows the average oil and gas prices for West Texas Intermediate crude oil, United Kingdom Brent, and Henry Hub natural gas:

Average Oil Prices (dollars per barrel)	2005	2004	2003
West Texas Intermediate	$ 56.30	$ 41.31	$ 31.14
United Kingdom Brent	$ 54.45	$ 38.14	$ 28.78
Average United States Gas Prices (dollars per million cubic feet)			
Henry Hub	$ 8.79	$ 5.85	$ 5.63

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

Land vs. Offshore	2005	2004	2003
United States:			
Land	1,287	1,093	924
Offshore	93	97	108
Total	1,380	1,190	1,032
Canada:			
Land	454	365	368
Offshore	4	4	4
Total	458	369	372
International (excluding Canada):			
Land	643	594	544
Offshore	265	242	226
Total	908	836	770
Worldwide total	2,746	2,395	2,174
Land total	2,384	2,052	1,836
Offshore total	362	343	338

Oil vs. Gas	2005	2004	2003
United States:			
Oil	194	165	157
Gas	1,186	1,025	875
Total	1,380	1,190	1,032
* Canada:	458	369	372
International (excluding Canada):			
Oil	703	648	576
Gas	205	188	194
Total	908	836	770
Worldwide total	2,746	2,395	2,174

* Canadian rig counts by oil and gas were not available.

Our customers' cash flows, in many instances, depend upon the revenue they generate from the sale of oil and gas. Higher oil and gas prices usually translate into higher exploration and production budgets. Higher prices also improve the economic attractiveness of marginal exploration areas. This drives additional investment by our customers in the sector, which benefits us. The opposite is true for lower oil and gas prices.

Over 2005, United States oil prices continued their upward trend, leveling off in the high-$50 per barrel range by year-end. Recent increases in crude oil prices are due to a combination of the following factors:

- growth in worldwide petroleum demand remains robust, despite high oil prices;
- projected growth in non-Organization of Petroleum Exporting Countries (non-OPEC) supplies is not expected to accommodate worldwide demand growth;
- worldwide spare crude oil production capacity has recently diminished and is projected to remain low;
- downstream sectors, such as refining and shipping, are expected to keep the level of uncertainty in world oil markets high as there is limited refining capacity available, particularly in the United States; and
- loss of additional capacity due to recent hurricanes in an already tight refining market.

The Energy Information Administration (EIA) forecasts prices for crude oil, petroleum products, and natural gas to remain high through 2006. The EIA projects West Texas Intermediate prices to average $63 per barrel in 2006 and $60 per barrel in 2007.

United States natural gas prices also continued to move higher in 2005. Despite adequate natural gas storage, high natural gas prices are expected to persist through 2006 according to Spears and Associates.

Heightened energy demand coupled with high petroleum and natural gas prices in 2005 contributed to a 15% increase in average worldwide rig count compared to 2004. This increase was primarily driven by the United States rig count, which grew 16% year-over-year. Our ESG revenue in the United States grew 36% year-over-year on this 16% rig count increase. Land gas drilling in the United States rose substantially, as gas prices remained high due to economic demand growth and higher fuel oil prices that discouraged switching to a lower-priced fuel source to minimize cost. Average Canadian rig counts increased 24% in 2005 compared to 2004. Outside of North America, average rig counts primarily increased in Latin America, Asia Pacific, and the Middle East, with most of the increase related to oil drilling.

In December 2005, Spears and Associates predicted that the United States average rig count in 2006 will increase 13% over 2005. Canadian and international average rig counts in 2006 are forecasted to rise 30% and 5%, respectively, over 2005. Many new land rigs are expected to enter the industry, as 2006 spending to drill and complete new wells is projected to increase more than 20% over 2005.

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. The discounts applied typically increase to partially or substantially offset price book increases in the weeks immediately following a price increase. The discount applied normally decreases over time if the activity levels remain strong. During periods of reduced activity, discounts normally increase, reducing the revenue for our services and, conversely, during periods of higher activity, discounts normally decline resulting in revenue increasing for our services.

In 2004 and 2005, we implemented several United States price book increases ranging from 5% to 18%, led by our pressure pumping services. We realized some of the benefits of these price book increases in 2005, and we expect further improvements during 2006. In addition, a price book increase of 5% for software products in our Digital and Consulting Solutions segment was implemented in January 2006. We anticipate that further price increases will be needed to offset the impact of inflationary pressures in our cost base.

Overall outlook. The outlook for world oil demand continues to remain strong, with China and North America accounting for approximately 45% of the expected demand growth in 2006. Chinese demand growth has declined recently, although oil demand growth is continuing in other populous countries, including India and Indonesia. Excess oil production capacity is expected to remain constrained and that, along with strong demand, is expected to keep supplies tight. Thus, any unexpected supply disruption or change in demand could lead to fluctuating prices. The International Energy Agency forecasts world petroleum demand growth in 2006 to increase 2% over 2005.

Our business is well-positioned in the United States. One of our fastest growing operations in this region is production enhancement, where we help our customers optimize the production rates from the wells by providing stimulation services. Among the other opportunities we expect is the recovery in deepwater drilling. Although overall rigs in the Gulf of Mexico are expected to decrease in 2006, demand for rigs to drill in the deepwater of the Gulf of Mexico is increasing. Despite having downsized our Gulf of Mexico operations due to its downturn in 2002-2003, we continue to have a significant presence in the area and are positioned to meet increasing customer demand. However, the Gulf of Mexico operations have been and can continue to be adversely affected by the hurricane season, which lasts from June through November. In the last half of 2005, four hurricanes adversely affected the Gulf of Mexico operations and some shut-in production remains. We expect customers to continue resuming activity in the Gulf of Mexico into the first half of 2006. These opportunities could be affected by sustained lower gas prices in the United States, which would reduce rig counts and activity in our production enhancement and other services.

In 2005, we were able to leverage our global infrastructure to increase the share of our business that comes from outside of the United States, as evidenced by a 20% increase over 2004 in ESG’s international revenue on a 13% increase in international rig count. Canada experienced tremendous activity growth in the latter half of 2005 and is expected to sustain growth in 2006.

In our Middle East/Asia region, Saudi Arabia is working to increase production and has increased its demand for oil services. Our 51%-owned subsidiary, WellDynamics, is currently supplying intelligent well completions in the region. Our involvement in Oman and Indonesia has expanded as a result of numerous multiyear contracts to provide an array of fluid, drilling, and logging services, as well as cementing, stimulation, and completion tools services. In 2005, our Drilling and Formation Evaluation, Fluid Systems, and Production Optimization segments also had new contract start-ups in Malaysia and Thailand. We have mobilized additional service equipment and personnel to the region to meet the overall rig and exploration and production demand, and we expect to see continued growth in these markets.

In our Europe/Africa/CIS region, strengthening demand in northern and western Africa and the North Sea has improved our asset utilization in all of our oilfield service product lines, and we are positioned to capitalize on this opportunity. In Libya, for example, we were recently awarded a four-well hydraulic fracturing contract that required a sharing of resources with a neighboring operation in Egypt and technical support from Europe. The successful completion of this contract has triggered new opportunities with customers in Libya. Our involvement in Russia is expanding as we believe that the business environment from a risk perspective has improved from a year ago. Landmark was recently awarded a software maintenance and support contract in Russia, and our field development work in Western Siberia was recently expanded to include services from our Fluid Systems and Drilling and Formation Evaluation segments. Awards during 2005 in Azerbaijan in our Drilling and Formation Evaluation segment and in northern Kazakhstan in our Drilling and Formation Evaluation, Fluid Systems, and Production Optimization segments will further improve our position in the Caspian as this area expands its demand for oilfield services. In Angola, where demand is driven by deepwater development, our Fluid Systems and Production Optimization segments were awarded contracts in 2005 and are actively pursuing more.

In Latin America, our overall performance has improved from a year ago. Despite the early problems with our fixed-price, turnkey drilling projects in southern Mexico, margins have improved, and we expect to complete them in the spring of 2006. In 2005, our Fluid Systems segment had new contract start-ups in Colombia and Ecuador, and in Argentina our Drilling and Formation Evaluation segment began work on new logging and drilling services contracts.

Finally, technology is an important aspect of our business, and we continue to focus on the development, introduction, and application of new technologies. See Note 1 to the consolidated financial statements for information about our research and development expense in the last three years. We expect our 2006 investment in new technology to increase compared to our 2005 investment.

KBR

KBR provides a wide range of services to energy, chemical, and industrial customers and government entities worldwide. KBR’s customer base includes leading international oil and gas companies, national oil and gas companies, independent refiners, chemical producers, fertilizer producers, and domestic and foreign government entities. KBR projects are generally longer-term in nature than our ESG work and are impacted by more diverse drivers than short-term fluctuations in oil and gas prices and drilling activities, such as local economic cycles, introduction of new governmental regulation, and governmental outsourcing of services. Demand for KBR’s services depends primarily on customers’ capital expenditures for construction and defense services. KBR is currently benefiting from historically high crude oil and natural gas prices and general global economic expansion, primarily in the petroleum and petrochemical industries. Additionally, the heightened focus on domestic security, increased military operations and maintenance spending, and a global expansion in government outsourcing have all contributed to the growth of our business.

Effective October 1, 2004, we restructured KBR into two segments, Government and Infrastructure and Energy and Chemicals. As a result of the reorganization and in a continued effort to better position KBR for the future, we made several strategic organizational changes. We eliminated certain internal expenditures and took appropriate steps to streamline the entire organization. KBR’s results for 2005 reflect cost savings related to the restructuring.

Our Government and Infrastructure segment provides support services to military and civilian branches of governments throughout the world. Our most significant contract is the worldwide United States Army logistics contract, known as LogCAP. We were awarded the competitively bid LogCAP contract in December 2001 from the AMC to provide worldwide United States Army logistics services. The contract is a one-year contract with nine one-year renewal options. We are currently in year five of the contract. The AMC can terminate, reduce the amount of work, or replace our contract with a new competitively bid contract at any time during the term of the contract.

During the second quarter of 2005, a large task order was assigned for the next phase of work under the LogCAP contract in Iraq and replaces several task orders that are nearing completion. Despite this award, we expect the volume of work under our LogCAP contract to continue to decline into 2006, as our customer scales back the amount of services that we provide. In order to diversify our government services portfolio, we continue to expand our work for the United States Navy under the CONCAP construction contingency contract, the United States Air Force under the AFCAP contract, and the United Kingdom Ministry of Defence. In addition, KBR was recently awarded the competitively bid Indefinite Delivery/Indefinite Quantity contract to support the Department of Homeland Security's United States Immigration and Customs Enforcement facilities in the event of an emergency. This contract has a five-year term, consisting of a one-year base period and four one-year options.

In the civil infrastructure sector, there has been a general trend of historic under-investment. In particular, infrastructure related to the quality of water, wastewater, roads and transit, airports, and educational facilities has declined while demand for expanded and improved infrastructure continues to outpace funding. As a result, we expect increased opportunities for our engineering and construction services and for our privately financed project activities as our financing structures make us an attractive partner for state and local governments undertaking important infrastructure projects.

Our Energy and Chemicals segment develops energy and chemical projects throughout the world, including LNG and GTL gas monetization facilities, refineries, petrochemical plants, offshore oil and gas production platforms, and synthesis gas facilities. The major focus is on our gas monetization work. Forecasted LNG market growth remains strong and is expected to grow rapidly, with demand projected to double through 2015. Significant numbers of new LNG liquefaction plant and LNG receiving terminal projects are proposed worldwide and are in various stages of development. Committed LNG liquefaction engineering, procurement, and construction (EPC) projects will yield substantial growth in worldwide LNG liquefaction capacity. This trend is expected to continue through 2007 and beyond. Our extensive experience in providing engineering, design, and construction services in the liquefied natural gas industry, particularly liquefaction facilities, positions us to benefit from the growth we are seeing in this industry.

In March 2005, KBR, with a 50% ownership, and its joint venture partners were awarded a gas monetization contract valued at $1.8 billion for the engineering, procurement, construction, and commissioning of the Tangguh LNG facility in Indonesia. In April 2005, KBR, with a 50% ownership, and a joint venture partner were also awarded an EPC contract valued at $1.7 billion for a GTL facility in Escravos, Nigeria. Also in April 2005, KBR and its joint venture partners were awarded a front end engineering and design contract (FEED) encompassing offshore and onshore operations to monetize significant gas resources from fields located offshore Angola. In July 2005, KBR and our joint venture partners were awarded a cost reimbursable FEED contract and an option for a cost reimbursable engineering, procurement, and construction management (EPCM) contract for the greater Gorgon Downstream LNG Project in Western Australia. In August 2005, KBR renewed an alliance with one of its joint venture partners in order to build upon their respective strengths and work together to pursue and execute the engineering and construction of LNG and GTL projects around the world. In September 2005, this joint venture was awarded a project management contract for a GTL project in Qatar. In September 2005, KBR, with a 33% ownership, and its joint venture partners were also awarded a lump-sum turnkey contract valued at more than $2.0 billion to provide engineering, procurement, construction, pre-commissioning, commissioning, start-up, and operations services for Yemen's first LNG plant. At December 31, 2005, we had $3.7 billion in backlog related to major gas monetization projects.

In order to meet growing energy demands, oil and gas companies are increasing their exploration, production, and transportation spending to increase production capacity and supply. KBR is currently targeting reimbursable EPC and EPCM opportunities in northern and western Africa, the Caspian area, Asia Pacific, Latin America, and the North Sea.

Outsourcing of operations and maintenance work by industrial and energy companies has been increasing worldwide. Opportunities in this area are anticipated as the aging infrastructure in United States refineries and chemical plants requires more maintenance and repairs to minimize production downtime. More stringent industry safety standards and environmental regulations also lead to higher maintenance standards and costs.

Contract structure. Engineering and construction contracts can be broadly categorized as either cost-reimbursable or fixed-price, sometimes referred to as lump sum. 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 predetermine both the quantities of work to be performed and the costs associated with executing the work. While fixed-price contracts involve greater risk, they also are potentially more profitable for the contractor, since the owner/customer pays a premium to transfer many risks to the contractor.

Cost-reimbursable contracts include contracts where the price is variable based upon our actual costs incurred for time and materials, or for variable quantities of work priced at defined unit rates. Profit 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/customer retains many of the risks.

We are continuing with our strategy to move away from offshore fixed-price EPIC contracts within our Energy and Chemicals segment. We have only two remaining major fixed-price EPIC offshore projects. As of December 31, 2005, they were substantially complete.

RESULTS OF OPERATIONS IN 2005 COMPARED TO 2004

REVENUE: *Millions of dollars*	2005	2004	Increase (Decrease)	Percentage Change
Production Optimization	$ 4,284	$ 3,303	$ 981	30%
Fluid Systems	2,838	2,324	514	22
Drilling and Formation Evaluation	2,258	1,782	476	27
Digital and Consulting Solutions	720	589	131	22
Total Energy Services Group	10,100	7,998	2,102	26
Government and Infrastructure	8,148	9,393	(1,245)	(13)
Energy and Chemicals	2,746	3,075	(329)	(11)
Total KBR	10,894	12,468	(1,574)	(13)
Total revenue	$ 20,994	$ 20,466	$ 528	3%
Geographic - Energy Services Group segments only:				
Production Optimization:				
North America	$ 2,380	$ 1,694	$ 686	40%
Latin America	384	335	49	15
Europe/Africa/CIS	924	802	122	15
Middle East/Asia	596	472	124	26
Subtotal	4,284	3,303	981	30
Fluid Systems:				
North America	1,424	1,104	320	29
Latin America	374	338	36	11
Europe/Africa/CIS	659	568	91	16
Middle East/Asia	381	314	67	21
Subtotal	2,838	2,324	514	22
Drilling and Formation Evaluation:				
North America	805	610	195	32
Latin America	365	281	84	30
Europe/Africa/CIS	497	412	85	21
Middle East/Asia	591	479	112	23
Subtotal	2,258	1,782	476	27
Digital and Consulting Solutions:				
North America	210	201	9	4
Latin America	221	128	93	73
Europe/Africa/CIS	168	142	26	18
Middle East/Asia	121	118	3	3
Subtotal	720	589	131	22
Total Energy Services Group revenue by region:				
North America	4,819	3,609	1,210	34
Latin America	1,344	1,082	262	24
Europe/Africa/CIS	2,248	1,924	324	17
Middle East/Asia	1,689	1,383	306	22
Total Energy Services Group revenue	$ 10,100	$ 7,998	$ 2,102	26%

OPERATING INCOME (LOSS): *Millions of dollars*	2005	2004	Increase (Decrease)	Percentage Change
Production Optimization	$ 1,106	$ 633	$ 473	75%
Fluid Systems	544	348	196	56
Drilling and Formation Evaluation	483	225	258	115
Digital and Consulting Solutions	146	60	86	143
Total Energy Services Group	2,279	1,266	1,013	80
Government and Infrastructure	330	84	246	293
Energy and Chemicals	168	(426)	594	NM
Total KBR	498	(342)	840	NM
General corporate	(115)	(87)	(28)	(32)
Total operating income	$ 2,662	$ 837	$ 1,825	218%
Geographic - Energy Services Group segments only:				
Production Optimization:				
North America	$ 765	$ 376	$ 389	103%
Latin America	63	56	7	13
Europe/Africa/CIS	150	110	40	36
Middle East/Asia	128	91	37	41
Subtotal	1,106	633	473	75
Fluid Systems:				
North America	332	186	146	78
Latin America	58	55	3	5
Europe/Africa/CIS	103	70	33	47
Middle East/Asia	51	37	14	38
Subtotal	544	348	196	56
Drilling and Formation Evaluation:				
North America	217	102	115	113
Latin America	54	24	30	125
Europe/Africa/CIS	88	39	49	126
Middle East/Asia	124	60	64	107
Subtotal	483	225	258	115
Digital and Consulting Solutions:				
North America	62	58	4	7
Latin America	17	(5)	22	NM
Europe/Africa/CIS	46	(5)	51	NM
Middle East/Asia	21	12	9	75
Subtotal	146	60	86	143
Total Energy Services Group operating income by region:				
North America	1,376	722	654	91
Latin America	192	130	62	48
Europe/Africa/CIS	387	214	173	81
Middle East/Asia	324	200	124	62
Total Energy Services Group operating income	$ 2,279	$ 1,266	$ 1,013	80%

NM - Not Meaningful

The increase in consolidated revenue in 2005 compared to 2004 was attributable to increased revenue from our Energy Services Group, predominantly resulting from increased activity, higher utilization of our equipment, and our ability to raise prices due to higher exploration and production spending by our customers. This was partially offset by reduced activity in our government services projects, primarily in the Middle East, the winding down of offshore fixed-price EPIC operations, and other oil and gas projects nearing completion. Additionally, $80 million in estimated revenue was lost during 2005 due to Gulf of Mexico hurricanes. International revenue was 73% of consolidated revenue in 2005 and 78% of consolidated revenue in 2004, with the decrease primarily due to the decline of our government services projects abroad. Revenue from the United States Government for all geographic areas was approximately $6.6 billion or 31% of consolidated revenue in 2005 compared to $8.0 billion or 39% of consolidated revenue in 2004.

The increase in consolidated operating income was primarily due to stronger performance in our Energy Services Group resulting from improved demand due to increased rig activity and improved pricing and asset utilization. KBR's operating income increased primarily due to the resolution of disputed fuel costs and other issues as a result of favorable settlement of government audits, improved project execution, and savings from KBR's restructuring plan. Partially offsetting the consolidated operating income increase was an estimated $50 million adverse impact of Gulf of Mexico hurricanes in 2005, $45 million of which related to ESG and $5 million of which related to KBR.

In 2005, Iraq-related work contributed approximately $5.4 billion to consolidated revenue and $172 million to consolidated operating income, a 3.2% margin before corporate costs and taxes.

Following is a discussion of our results of operations by reportable segment.

Production Optimization increase in revenue compared to 2004 was derived from all regions. Production enhancement services revenue grew 37% largely driven by United States onshore operations due to strong demand for stimulation services coupled with improved equipment utilization and pricing. Higher rig activity in Canada and offshore Angola and increased equipment sales to China also contributed to production enhancement services revenue growth. Revenue from sales of completion tools increased 12% compared to 2004, benefiting from improved completions and perforating sales in Angola, the United Kingdom, and the United States, and increased underbalanced applications and perforating activity in southern Mexico. These improvements were partially offset by declines in the Caspian where completions, drill stem test, and reservoir information contracts concluded in 2004 and early 2005. WellDynamics revenue more than doubled in 2005 compared to 2004 due to a large contract for intelligent well completions in the Middle East. Our Subsea 7, Inc. joint venture, which was sold in January 2005, contributed $2 million equity income in 2004. International revenue was 49% of total segment revenue in 2005 compared to 54% in 2004.

The increase in segment operating income in 2005 included a $110 million gain on the sale in 2005 of our equity interest in the Subsea 7, Inc. joint venture, partially offset by a $54 million gain on the sale of our surface well testing operations in 2004. The segment operating income improvement spanned all regions. Production enhancement services operating income increased 81% largely due to higher land rig activity and improved utilization of resources in the United States, as well as higher utilization of marine vessels offshore Angola. A 44% improvement in completion tools operating income primarily resulted from a general increase in sales and activity in the United States and higher completions and perforating activity in West Africa and the United Kingdom. WellDynamics had operating income in 2005 compared to breakeven in 2004, primarily due to improved manufacturing efficiencies and improved customer acceptance of its intelligent well completions technology. Subsea 7, Inc. contributed $2 million equity income to segment results in 2004. Hurricanes in the Gulf of Mexico in 2005 negatively impacted Production Optimization operating income by an estimated $14 million.

Fluid Systems revenue increase compared to 2004 was driven by 24% growth in cementing services revenue and 21% growth in Baroid Fluid Services revenue. All geographic regions yielded increased revenue in both product service lines, with the largest increase in the United States due to higher onshore rig activity and higher deepwater rig activity in the Gulf of Mexico, as well as improved utilization and pricing. Sales of cementing services also improved due to increased activity in Canada and the North Sea and new contract start-ups in Indonesia. Baroid Fluid Services further benefited from increased activity in Angola, Indonesia, and the United Kingdom. International revenue was 55% of total segment revenue in 2005 compared to 58% in 2004.

Fluid Systems segment operating income increase compared to 2004 resulted from 62% growth from Baroid Fluid Services and 54% growth in operating income from cementing services. Baroid Fluid Services operating income benefited primarily from increased activity and improved pricing in the United States and increased activity and an improved product mix in Africa. Cementing services results increased predominantly in North America due to increased activity and improved pricing and asset utilization and in all other geographic regions due to generally higher global drilling activity. Hurricanes in the Gulf of Mexico in 2005 negatively impacted Fluid Systems operating income by an estimated $25 million.

Drilling and Formation Evaluation revenue increase in 2005 compared to 2004 was derived from all four regions in every product service line. The segment improvement was led by a 30% increase in drilling services revenue, particularly in North America due to improved pricing, higher rig activity, and new contract awards. Increased international activity, new contract start-ups, and expanded GeoPilot® services contributed to other region revenue increases, especially evident in the North Sea, the Middle East, and Latin America. Drill bits revenue increased 26% compared to 2004, largely benefiting from increased rig counts, improved pricing, and increased sales of fixed cutter bits in the United States. Logging services revenue grew 22% primarily due to increased cased hole activity and improved pricing in the United States, sales to India of logging equipment, and new contract awards in West Africa and the Middle East. Lower sales of logging equipment to China in 2005 partially offset the logging services revenue improvement. International revenue was 71% of total segment revenue in 2005 compared to 72% in 2004.

The segment operating income increase compared to 2004 spanned all geographic regions in all product service lines, with North America as the predominant contributor due to improved pricing, increased rig activity, and growth in higher margin services. Drill bits operating income in 2005 was nearly five times that of 2004, the majority of which occurred in North America. Drilling services operating income doubled from 2004 to 2005, resulting from increased global activity, improved utilization and pricing, and continued customer acceptance of GeoPilot® and other high margin services. Equipment sales in Nigeria also contributed to drilling services operating income increase. Logging services results grew 76%, additionally benefiting from higher activity in West Africa and the Middle East and sales of logging equipment to India. The increase in segment operating income included a $24 million gain related to a patent infringement case settlement. Hurricanes in the Gulf of Mexico in 2005 negatively impacted Drilling and Formation Evaluation operating income by an estimated $6 million.

Digital and Consulting Solutions revenue increase in 2005 was largely driven by project management services, with 40% revenue growth due to increased activity in Mexico and higher commodity prices in the United States, partially offset by the winding down of projects in the Middle East and Russia. Landmark revenue increased 13% in 2005 due to data bank project growth primarily in Nigeria, increased consulting, and higher sales and services in Algeria, partially offset by nonrecurring sales in India in 2004. International revenue was 73% of total segment revenue in 2005 compared to 69% in 2004.

The segment operating income improvement partially resulted from a 77% increase in Landmark operating income due to stronger software and service sales. Included in the 2005 results was a $17 million favorable insurance settlement related to a pipe fabrication and laying project in the North Sea. This was offset by $23 million in losses in 2005 on two fixed-price integrated solutions projects in Mexico, reflecting increased costs to complete the projects and longer drilling times than originally anticipated, chiefly due to unfavorable geologic conditions. Operating income in 2004 included a $13 million release of legal liability accruals in excess of the Anglo-Dutch settlement, offset by $33 million in losses on the fixed-price integrated solutions projects in Mexico and an $11 million charge for an intellectual property settlement.

Government and Infrastructure revenue for 2005 totaled $8.1 billion, a $1.2 billion decrease compared to 2004. Iraq-related activities in the Middle East decreased $1.6 billion primarily due to completion of our RIO contract. Partially offsetting the decrease was $362 million higher revenue earned by the DML shipyard and hurricane repair efforts to United States naval facilities on the Gulf Coast under the CONCAP contract.

Operating income for 2005 was $330 million compared to $84 million in 2004, a $246 million increase. Iraq-related income increased $97 million compared to 2004, primarily due to income from the award fees on definitized LogCAP task orders, settlement of DFAC issues, and resolution of disputed fuel costs and other issues. Increased activities from our DML shipyard positively impacted 2005 operating income by $13 million. In addition, hurricane repair efforts to United States naval facilities on the Gulf Coast under the CONCAP contract contributed to the increase. The 2005 results also included a combined $96 million in operating income from the sale of and one-time cash distribution from an interest in a United States toll road. The operating income comparison was adversely impacted by completion of the RIO contract in 2004. Segment results in 2004 included restructuring charges of $12 million.

Energy and Chemicals revenue for 2005 decreased $329 million compared to 2004. Revenue from offshore EPIC projects decreased $205 million as these projects were substantially completed during 2005. Additionally, revenue from several older LNG and oil and gas projects in Africa and Australia and an olefins project in the United States collectively decreased $424 million as these projects were also completed or substantially completed in 2005. Partially offsetting the decreases were higher activity on an offshore engineering and management project in the Caspian and a crude oil facility project in Canada, totaling $76 million. Additional increases resulted from revenue earned on projects awarded in 2005 located in Australia, Indonesia, and Nigeria, totaling $220 million.

Operating income totaled $168 million in 2005 compared to a $426 million loss in 2004, a $594 million increase. Contributing to improved operating income in 2005 were stronger results on many projects, including joint venture gas projects in Nigeria, offshore engineering and project management projects in Angola and the Caspian, and recently awarded LNG and GTL projects, collectively totaling $44 million. Additionally, 2005 results benefited from $21 million of gains on sales of assets and investments. Conversely, included in 2005 operating income were $30 million of losses on an Algerian gas processing plant project and $50 million of charges related to an unconsolidated Algerian joint venture. Included in the 2004 results were a $407 million loss on the Barracuda-Caratinga project in Brazil, $47 million of losses on the same gas processing plant project in Algeria, $29 million of losses on the Belanak project in Indonesia, and restructuring charges of $28 million.

General corporate expenses were $115 million in 2005 compared to $87 million in 2004. The increase was primarily due to increases to a self-insurance reserve, higher legal and other professional expenses on specific projects, and increased corporate communication costs.

NONOPERATING ITEMS

Interest expense decreased $22 million in 2005 compared to 2004, primarily due to the amortization in 2004 of issue costs related to a master letter of credit facility that expired in the fourth quarter of 2004, the redemption in April 2005 of $500 million of our floating rate senior notes, and interest on tax deficiencies in Indonesia in 2004.

Interest income increased $20 million in 2005 compared to 2004 due to higher cash investment balances.

Foreign currency losses, net grew to $13 million in 2005 from $3 million in 2004. The increase was primarily due to losses on the British pound sterling and the euro, partially offset by gains on the Brazilian real.

Other, net decreased $16 million in 2005 compared to 2004. The 2005 year included higher costs related to our ESG accounts receivable securitization facility and sales of our United States government accounts receivable. “Other, net” in 2004 included a $6 million pretax gain on the sale of our remaining shares of National Oilwell, Inc. common stock received in the January 2003 disposition of Mono Pumps.

Provision for income taxes from continuing operations in 2005 of $79 million resulted in an effective tax rate of 3% compared to an effective tax rate of 37% in 2004. Our 2005 tax rate is lower because we recorded favorable adjustments to our valuation allowance against our deferred tax asset related to asbestos and silica liabilities in 2005 totaling $805 million. Our strong 2005 earnings, coupled with an upward revision in our estimate of future domestic taxable income in 2006 and beyond, drove these adjustments. In 2006 and beyond, we expect our effective tax rate to return to the range of 35% to 37%.

Minority interest in net income of subsidiaries increased $31 million compared to 2004 primarily due to earnings growth from the DML shipyard, our GTL joint venture project in Nigeria, and our WellDynamics joint venture.

Income (loss) from discontinued operations, net of tax in 2004 included a $778 million pretax charge for the revaluation of the 59.5 million shares of Halliburton common stock contributed to the asbestos claimant trust, a $698 million pretax charge related to the write-down of the asbestos and silica insurance receivable, a $44 million accrual related to a partitioning agreement, and an $11 million pretax charge related to a delayed-draw term facility that expired in June 2004. The remaining amount primarily consisted of professional and administrative fees related to various aspects of the asbestos and silica settlement.

RESULTS OF OPERATIONS IN 2004 COMPARED TO 2003

REVENUE: *Millions of dollars*	2004	2003	Increase (Decrease)	Percentage Change
Production Optimization	$ 3,303	$ 2,758	$ 545	20%
Fluid Systems	2,324	2,039	285	14
Drilling and Formation Evaluation	1,782	1,643	139	8
Digital and Consulting Solutions	589	555	34	6
Total Energy Services Group	7,998	6,995	1,003	14
Government and Infrastructure	9,393	5,417	3,976	73
Energy and Chemicals	3,075	3,859	(784)	(20)
Total KBR	12,468	9,276	3,192	34
Total revenue	$ 20,466	$ 16,271	$ 4,195	26%
Geographic - Energy Services Group segments only:				
Production Optimization:				
North America	$ 1,694	$ 1,337	$ 357	27%
Latin America	335	317	18	6
Europe/Africa/CIS	802	643	159	25
Middle East/Asia	472	461	11	2
Subtotal	3,303	2,758	545	20
Fluid Systems:				
North America	1,104	990	114	12
Latin America	338	258	80	31
Europe/Africa/CIS	568	516	52	10
Middle East/Asia	314	275	39	14
Subtotal	2,324	2,039	285	14
Drilling and Formation Evaluation:				
North America	610	558	52	9
Latin America	281	261	20	8
Europe/Africa/CIS	412	386	26	7
Middle East/Asia	479	438	41	9
Subtotal	1,782	1,643	139	8
Digital and Consulting Solutions:				
North America	201	200	1	1
Latin America	128	71	57	80
Europe/Africa/CIS	142	143	(1)	(1)
Middle East/Asia	118	141	(23)	(16)
Subtotal	589	555	34	6
Total Energy Services Group revenue by region:				
North America	3,609	3,085	524	17
Latin America	1,082	907	175	19
Europe/Africa/CIS	1,924	1,688	236	14
Middle East/Asia	1,383	1,315	68	5
Total Energy Services Group revenue	$ 7,998	$ 6,995	$ 1,003	14%

OPERATING INCOME (LOSS): *Millions of dollars*	2004	2003	Increase (Decrease)	Percentage Change
Production Optimization	$ 633	$ 413	$ 220	53%
Fluid Systems	348	251	97	39
Drilling and Formation Evaluation	225	177	48	27
Digital and Consulting Solutions	60	(15)	75	NM
Total Energy Services Group	1,266	826	440	53
Government and Infrastructure	84	194	(110)	(57)
Energy and Chemicals	(426)	(225)	(201)	(89)
Shared KBR	-	(5)	5	100
Total KBR	(342)	(36)	(306)	NM
General corporate	(87)	(70)	(17)	(24)
Total operating income (loss)	$ 837	$ 720	$ 117	16%
Geographic - Energy Services Group segments only:				
Production Optimization:				
North America	$ 376	$ 194	$ 182	94%
Latin America	56	75	(19)	(25)
Europe/Africa/CIS	110	48	62	129
Middle East/Asia	91	96	(5)	(5)
Subtotal	633	413	220	53
Fluid Systems:				
North America	186	104	82	79
Latin America	55	52	3	6
Europe/Africa/CIS	70	58	12	21
Middle East/Asia	37	37	-	-
Subtotal	348	251	97	39
Drilling and Formation Evaluation:				
North America	102	60	42	70
Latin America	24	30	(6)	(20)
Europe/Africa/CIS	39	30	9	30
Middle East/Asia	60	57	3	5
Subtotal	225	177	48	27
Digital and Consulting Solutions:				
North America	58	(52)	110	212
Latin America	(5)	8	(13)	(163)
Europe/Africa/CIS	(5)	16	(21)	(131)
Middle East/Asia	12	13	(1)	(8)
Subtotal	60	(15)	75	NM
Total Energy Services Group operating income by region:				
North America	722	306	416	136
Latin America	130	165	(35)	(21)
Europe/Africa/CIS	214	152	62	41
Middle East/Asia	200	203	(3)	(1)
Total Energy Services Group operating income	$ 1,266	$ 826	$ 440	53%

NM - Not Meaningful

The increase in consolidated revenue in 2004 compared to 2003 was largely attributable to activity in our government services projects, primarily in the Middle East, and to increased sales of our Energy Services Group services and products as a result of the overall increase in worldwide rig counts. International revenue was 78% of consolidated revenue in 2004 and 73% of consolidated revenue in 2003, with the increase attributable to our government services projects abroad. Revenue from the United States Government for all geographic areas was approximately $8.0 billion or 39% of consolidated revenue in 2004 compared to $4.2 billion or 26% of consolidated revenue in 2003.

The increase in consolidated operating income was primarily due to stronger performance in our Energy Services Group resulting from favorable changes in oil and gas prices, which increased worldwide rig counts, and pricing improvements in the United States in 2004.

In 2004, Iraq-related work contributed approximately $7.1 billion to consolidated revenue and $78 million to consolidated operating income, a 1.1% margin before corporate costs and taxes.

Following is a discussion of our results of operations by reportable segment.

Production Optimization increase in revenue compared to 2003 was largely attributable to production enhancement services, which yielded $430 million in higher revenue. This was driven by a higher average land gas rig count and price increases in the United States, increased activity in Canada and Russia, and increases in pipeline process services and hydraulic workover activity in the United Kingdom. Completion tools and services activities contributed $59 million to the segment revenue increase on improved activity in the Middle East/Asia and Europe/Africa/CIS regions. WellDynamics contributed $49 million to segment revenue, driven by the consolidation of the joint venture during the first quarter of 2004 and increased demand for intelligent well completions services in the Middle East and North America. Prior to 2004, WellDynamics was accounted for under the equity method in the Digital and Consulting Solutions segment. The segment's improved revenue was partially offset by a significant reduction in sand control and completions activity in Nigeria and a $32 million decline compared to 2003 in revenue from our surface well testing operations sold in the third quarter of 2004. International revenue was 54% of total segment revenue in 2004 compared to 56% in 2003.

The increase in Production Optimization operating income for 2004 compared to 2003 was primarily driven by the higher production enhancement revenue described above, which contributed $155 million. Completion tools and services activities increase of $17 million primarily reflects higher sales of completions and sand control services in the United Kingdom and Norway and a more favorable product mix in Eurasia and Saudi Arabia, offset by a significant reduction in sand control tool sales in Nigeria in 2004. Included in the results were gains of $24 million from the sale of Halliburton Measurement Systems in the second quarter of 2003 and $54 million from the sale of our surface well testing operations in the third and fourth quarters of 2004. Segment results in 2004 also included a $2 million equity income contribution compared to a $9 million equity loss in 2003 from our Subsea 7, Inc. joint venture, largely attributable to changes in estimated project costs and claims recoveries.

Fluid Systems revenue increase in 2004 compared to 2003 was driven by a $177 million improvement in revenue from cementing activities, due primarily to increased land rig count and pricing improvements in the United States and start-up activity on recent contract awards in Mexico and Norway. Baroid Fluid Services contributed $95 million to the segment revenue increase, resulting largely from new land work in Mexico and land rig growth in the United States and Canada. These increases in segment revenue were partially offset by significantly decreased activity in the Gulf of Mexico. International revenue was 58% of total segment revenue in 2004 compared to 56% in 2003.

The Fluid Systems segment operating income increase compared to 2003 resulted from a cementing services increase of $68 million and Baroid Fluid Services increase of $22 million. These improved results occurred primarily in the United States due to increased land rig activity, improved pricing, and better utilization and cost management. Partially offsetting improved segment operating income in 2004 was a $17 million impact of reduced higher margin activity in the Gulf of Mexico. Included in 2003 results were equity losses of $7 million from the Enventure expandable casing joint venture, which did not reoccur in 2004. This joint venture is currently accounted for on a cost basis since reducing our ownership in the first quarter of 2004.

Drilling and Formation Evaluation revenue improvement in 2004 compared to 2003 was driven by a $66 million increase in logging and perforating services due to higher land rig activity and pricing improvements in the United States and equipment sales to China. Drilling services contributed $40 million to the segment revenue increase, resulting principally from new contracts in Norway and Brazil and higher activity in Canada, Venezuela, and Argentina. The increase in drilling services revenue was partially offset by a substantial decline in logging-while-drilling activity in the Gulf of Mexico. Drill bits sales increased $29 million, benefiting from increases in land rig activity, improved pricing, and better market penetration with fixed cutter and roller cone bits primarily in the United States, as well as sales growth in the Caspian Sea region and China. International revenue was 72% of total segment revenue in 2004 and in 2003.

The increase in Drilling and Formation Evaluation segment operating income was due to improved results in drilling services, which benefited from a lower depreciation expense of $35 million in 2004 compared to 2003 primarily due to extending depreciable asset lives in the second quarter of 2004. Logging and perforating services contributed $33 million to the increase, due to improved pricing and land rig activity in the United States and equipment sales in China. Drill bits contributed $12 million to improved segment results on higher revenue in the United States and the Caspian Sea region. Operating income for 2003 included a $36 million gain on the disposition of Mono Pumps in the first quarter of 2003.

Digital and Consulting Solutions revenue increased in 2004 compared to 2003 primarily due to a $27 million increase in Landmark. During 2004, Landmark achieved its highest revenue since we acquired it. Software-related sales in Landmark increased in 2004 due to strong acceptance of the new real-time (drilling) and GeoProbe® offerings. The increase in segment revenue was partially offset by a decline in subsea operations in the first half of 2004 and the absence of $11 million of revenue from Wellstream prior to the sale of this business in the first quarter of 2003. International revenue was 69% of total segment revenue in 2004 compared to 67% in 2003.

Segment operating income increased $75 million from a loss position in 2003. This segment recorded a $77 million charge related to the Anglo-Dutch lawsuit in the third quarter of 2003 and a $15 million loss on the disposition of Wellstream in the first quarter of 2003. For 2004, results were positively impacted by a $13 million release of legal liability accruals in the first quarter of 2004 pertaining to the April 2004 Anglo-Dutch settlement and increased integrated solutions operating income stemming from higher commodity prices. The increase in the segment was partially offset by a $33 million loss recorded in the fourth quarter of 2004 on two integrated solutions projects in Mexico. The loss resulted from operational start-up and subsurface problems on the initial wells, third-party and other cost increases, increased drilling times, and a work stoppage due to community blockage. The charge reflects the estimated total project loss through completion of the drilling program in mid-2006. Segment results for 2004 also included an $11 million charge for an intellectual property settlement.

Government and Infrastructure revenue increased $4.0 billion compared to 2003. The increase was primarily due to $3.7 billion higher revenue from government services contracts in the Middle East. Activities in the DML shipyard projects also contributed $108 million to increased revenue in 2004 compared to 2003.

The Government and Infrastructure operating income decrease resulted from $94 million in write-downs on infrastructure projects in Europe and Africa, a government project in Afghanistan, completion of the construction phase of a rail project in Australia, and reduction in activities in the government project in the Balkans. The 2004 results were also impacted by a restructuring charge of $12 million due to the reorganization of KBR. The charge related to personnel termination benefits. Partially offsetting the decreases was an increase in income of $14 million from Iraq-related activities primarily due to the LogCAP contract.

Energy and Chemicals decrease in revenue compared to 2003 was primarily due to lower revenue of $1.1 billion on the Barracuda-Caratinga project in Brazil, the Belanak project in Indonesia, completion of refining facilities in the United States, gas projects in Africa, offshore projects in Mexico, and a hydrocarbon project in Europe. The decrease was partially offset by higher revenue of $391 million on refining projects in Canada, an olefins project in the United States, operations and maintenance projects in the United States and the United Kingdom, and new offshore program management projects.

The operating loss for the segment in 2004 primarily resulted from $407 million of losses on the Barracuda-Caratinga project in Brazil, $47 million of losses on a gas project in Africa, and $29 million of losses on the Belanak project in Indonesia. The losses recognized on the Barracuda-Caratinga project were primarily due to the agreement with Petrobras, higher cost estimates, schedule delays, and increased contingencies for the balance of the project until completion. Specifically, in the second quarter, with the integration phase of the Barracuda vessel we experienced a significant reduction in productivity and rework required from the vessel conversion. Also included in the 2004 results was a restructuring charge of $28 million due to the reorganization of KBR. The charge related to personnel termination benefits and asset impairments. Operating losses in 2004 were partially offset by a $59 million increase on an LNG project in Egypt, a refining project in Canada, operations and maintenance projects in the United States and United Kingdom, and new offshore program management projects. The operating loss for 2003 included losses recognized on the Barracuda-Caratinga project of $238 million and losses on a hydrocarbon project in Belgium.

General corporate expenses for 2004 increased primarily due to a $7.5 million charge related to a settlement with the SEC, financing fees on outstanding credit facilities, Sarbanes-Oxley compliance expenses, and increased legal fees.

NONOPERATING ITEMS

Interest expense increased $90 million in 2004 compared to 2003, due primarily to interest on $1.2 billion convertible notes issued in June 2003, $1.05 billion senior floating and fixed notes issued in October 2003, $500 million senior floating-rate notes issued in January 2004, and interest on tax deficiencies in Indonesia and Mexico.

Interest income increased $14 million in 2004 compared to the same period in 2003, attributable to higher average daily cash balances during the year and interest on tax refunds in various jurisdictions.

Loss from discontinued operations, net of tax in 2004 included, on a pretax basis, a $778 million charge for the revaluation of 59.5 million shares of Halliburton common stock to be contributed to the asbestos claimant trust as part of the proposed settlement, a $698 million charge related to the write-down of the asbestos and silica insurance receivable, a $44 million charge related to our October 2004 partitioning agreement, and an $11 million charge related to the delayed-draw term facility, which expired in June 2004. The remaining amount primarily consisted of professional and administrative fees related to various aspects of the proposed asbestos and silica settlement, accretion on the asbestos insurance receivables, and our October 2004 partitioning agreement. The loss from discontinued operations was $1.145 billion in 2003. The benefit for income taxes on discontinued operations was $180 million in 2004, compared to a provision of $6 million for 2003. We have established a valuation allowance against the deferred tax asset arising from the asbestos and silica charges to reflect the expected net tax benefit from the future deductions the charges will create. In 2004, we increased the valuation allowance by $449 million to a balance of $1.073 billion. The balance at the end of 2003 was $624 million.

Cumulative effect of change in accounting principle, net for the year ended 2003 was an $8 million after-tax charge, or $0.02 per diluted share, related to our January 1, 2003 adoption of Statement of Financial Accounting Standards (SFAS) No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated assets’ retirement costs. 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimations and how they can impact our financial statements. A critical accounting estimate is one that requires our most difficult, subjective, or complex estimates and assessments and is fundamental to our results of operations. We identified our most critical accounting policies and estimates to be:

- percentage-of-completion accounting for contracts to provide construction, engineering, design, or similar services;
- accounting for government contracts;
- allowance for bad debts;
- forecasting our effective tax rate, including our future ability to utilize foreign tax credits and the realizability of deferred tax assets;
- legal and investigation matters; and
- pensions.

We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the following are the critical accounting policies used in the preparation of our consolidated financial statements, as well as the significant estimates and judgments affecting the application of these policies. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this report.

We have discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosure presented below.

Percentage of completion

Revenue from contracts to provide construction, engineering, design or similar services, almost all of which relates to KBR, is reported on the percentage-of-completion method of accounting. This method of accounting requires us to calculate job profit to be recognized in each reporting period for each job based upon our projections of future outcomes, which include:

- estimates of the total cost to complete the project;
- estimates of project schedule and completion date;
- estimates of the percentage the project is complete; and
- amounts of any probable unapproved claims and change orders included in revenue.

At the outset of each contract, we prepare a detailed analysis of our estimated cost to complete the project. Risks relating to service delivery, usage, productivity, and other factors are considered in the estimation process. Our project personnel periodically evaluate the estimated costs, claims, change orders, and percentage of completion at the project level. The 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, less costs incurred and estimated costs to complete. Anticipated losses on contracts are recorded in full in the period in which they become evident. Profits are recorded based upon the total estimated contract profit times 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 probable 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. Probable unapproved claims are recorded to the extent of costs incurred and include no profit element. In 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. We are actively engaged in claims negotiations with our customers, and the success of claims negotiations has a direct impact on the profit or loss recorded for any related long-term contract. Unsuccessful claims negotiations could result in decreases in estimated contract profits or additional contract losses, and successful claims negotiations could result in increases in estimated contract profits or recovery of previously recorded contract losses.

At least quarterly, significant projects are reviewed in detail by senior management. We have a long history of dealing with multiple types of projects and in preparing cost estimates. However, there are many factors that impact future costs, including but not limited to weather, inflation, labor and community disruptions, timely availability of materials, productivity, and other factors as outlined in our “Forward-Looking Information and Risk Factors.” These factors can affect the accuracy of our estimates and materially impact our future reported earnings. In the past, we have incurred substantial losses on projects that were not initially projected, including our Barracuda-Caratinga project (see “Barracuda-Caratinga project” in Note 2 of our consolidated financial statements for further discussion).

Accounting for government contracts

Most of the services provided to the United States government are governed by cost-reimbursable contracts. Services under our LogCAP, PCO Oil South, and Balkans support contracts are examples of these types of arrangements. Generally, these contracts contain both a base fee (a fixed profit percentage applied to our actual costs to complete the work) and an award fee (a variable profit percentage applied to definitized costs, which is subject to our customer’s discretion and tied to the specific performance measures defined in the contract, such as adherence to schedule, health and safety, quality of work, responsiveness, cost performance, and business management).

Base fee revenue is recorded at the time services are performed, based upon actual project costs incurred, and includes a reimbursement fee for general, administrative, and overhead costs. The general, administrative, and overhead cost reimbursement fees are estimated periodically in accordance with government contract accounting regulations and may change based on actual costs incurred or based upon the volume of work performed. Revenue is reduced for our estimate of costs that may be categorized as disputed or unallowable as a result of cost overruns or the audit process.

Award fees are generally evaluated and granted periodically by our customer. For contracts entered into prior to June 30, 2003, award fees are recognized during the term of the contract based on our estimate of amounts to be awarded. Once award fees are granted and task orders underlying the work are definitized, we adjust our estimate of award fees to actual amounts earned. Our estimates are often based on our past award experience for similar types of work. We have been receiving award fees on the Balkans project since 1995, and our estimates for award fees for this project have generally been accurate in the periods presented. During 2005, we began to receive LogCAP award fee scores, and, based on these actual amounts, we adjusted our accrual rate for future awards. The controversial nature of this contract may cause actual awards to vary significantly from past experience.

For contracts containing multiple deliverables entered into subsequent to June 30, 2003 (such as PCO Oil South), we analyze each activity within the contract to ensure that we adhere to the separation guidelines of Emerging Issues Task Force Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables,” and the revenue recognition guidelines of Staff Accounting Bulletin No. 104 “Revenue Recognition.” For service-only contracts and service elements of multiple deliverable arrangements, award fees are recognized only when definitized and awarded by the customer. Award fees on government construction contracts are recognized during the term of the contract based on our estimate of the amount of fees to be awarded.

Similar to many cost-reimbursable contracts, these government contracts are typically subject to audit and adjustment by our customer. Each contract is unique; therefore, the level of confidence in our estimates for audit adjustments varies depending on how much historical data we have with a particular contract. Further, the significant size and controversial nature of our contracts may cause actual awards to vary significantly from past experience.

The estimates employed in our accounting for government contracts affect our Government and Infrastructure segment.

Allowance for bad debts

We evaluate our accounts receivable through a continuous process of assessing our portfolio on an individual customer and overall basis. This process consists of a thorough review of historical collection experience, current aging status of the customer accounts, financial condition of our customers, and whether the receivables involve retentions. We also consider the economic environment of our customers, both from a marketplace and geographic perspective, in evaluating the need for an allowance. Based on our review of these factors, we establish or adjust allowances for specific customers and the accounts receivable portfolio as a whole. This process involves a high degree of judgment and estimation, and frequently involves significant dollar amounts. Accordingly, our results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts. Our estimates of allowances for bad debts have historically been accurate. Over the last five years, our estimates of allowances for bad debts, as a percentage of notes and accounts receivable before the allowance, have ranged from 2.8% to 6.0%. At December 31, 2005, allowance for bad debts totaled $90 million or 2.8% of notes and accounts receivable before the allowance, and at December 31, 2004, allowance for bad debts totaled $127 million or 4.2% of notes and accounts receivable before the allowance. The 29% decrease in allowance for bad debts is primarily due to improved collection processes as the percentage of receivables outstanding over 90 days decreased from 19%, as of December 31, 2004, to 10% as of December 31, 2005. A 1% change in our estimate of the collectibility of our notes and accounts receivable balance as of December 31, 2005 would have resulted in a $32 million adjustment to 2005 total operating costs and expenses.

Income tax accounting

We account for our income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes,” which requires the recognition of the amount of taxes payable or refundable for the current year and an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We apply the following basic principles in accounting for our income taxes:

- a current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year;
- a deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards;
- the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law, and the effects of potential future changes in tax laws or rates are not considered; and
- the value of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

We determine deferred taxes separately for each tax-paying component (an entity or a group of entities that is consolidated for tax purposes) in each tax jurisdiction. That determination includes the following procedures:

- identifying the types and amounts of existing temporary differences;
- measuring the total deferred tax liability for taxable temporary differences using the applicable tax rate;
- measuring the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rate;
- measuring the deferred tax assets for each type of tax credit carryforward; and
- reducing the deferred tax assets by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Our methodology for recording income taxes requires a significant amount of judgment in the use of assumptions and estimates. Additionally, we use forecasts of certain tax elements such as taxable income and foreign tax credit utilization, as well as evaluate the feasibility of implementing tax planning strategies. Given the inherent uncertainty involved with the use of such variables, there can be significant variation between anticipated and actual results. Unforeseen events may significantly impact these variables, and changes to these variables could have a material impact on our income tax accounts related to both continuing and discontinued operations.

We have operations in about 100 countries other than the United States. Consequently, we are subject to the jurisdiction of a significant number of taxing authorities. The income earned in these various jurisdictions is taxed on differing bases, including income actually earned, income deemed earned, and revenue-based tax withholding. The final determination of our tax liabilities involves the interpretation of local tax laws, tax treaties, and related authorities in each jurisdiction. Changes in the operating environment, including changes in tax law and currency/repatriation controls, could impact the determination of our tax liabilities for a tax year.

Tax filings of our subsidiaries, unconsolidated affiliates, and related entities are routinely examined in the normal course of business by tax authorities. These examinations may result in assessments of additional taxes, which we work to resolve with the tax authorities and through the judicial process. Predicting the outcome of disputed assessments involves some uncertainty. Factors such as the availability of settlement procedures, willingness of tax authorities to negotiate, and the operation and impartiality of judicial systems vary across the different tax jurisdictions and may significantly influence the ultimate outcome. We review the facts for each assessment, and then utilize assumptions and estimates to determine the most likely outcome and provide taxes, interest, and penalties as needed based on this outcome.

We have recorded a valuation allowance based on the anticipated impact of the asbestos and silica deductions on our ability to utilize future foreign tax credits in the United States. This valuation allowance is reassessed quarterly based on a number of estimates including future creditable foreign taxes and future taxable income. Factors such as actual operating results, material acquisitions or dispositions, and changes to our operating environment could alter the estimates, and such changes could have a material impact on the valuation allowance. For example, as a result of our strong 2005 earnings, coupled with an upward revision in our estimate of future domestic taxable income for 2006 and beyond, we recorded favorable adjustments to this valuation allowance in 2005 totaling $805 million.

Legal and investigation matters

As discussed in Note 12 of our consolidated financial statements, as of December 31, 2005, we have accrued an estimate of the probable and estimable costs for the resolution of some of these matters. For other matters for which the liability is not probable and reasonably estimable, we have not accrued any amounts. Attorneys in our legal department monitor and manage all claims filed against us and review all pending investigations. Generally, the estimate of probable costs related to these matters is developed in consultation with internal and outside legal counsel representing us. Our estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. The precision of these estimates is impacted by the amount of due diligence we have been able to perform. We attempt to resolve these matters through settlements, mediation, and arbitration proceedings when possible. If the actual settlement costs, final judgments, or fines, after appeals, differ from our estimates, our future financial results may be adversely affected. We have in the past recorded significant adjustments to our initial estimates of these types of contingencies.

Pensions

Our pension benefit obligations and expenses are calculated using actuarial models and methods, in accordance with SFAS No. 87, “Employers’ Accounting for Pensions.” Two of the more critical assumptions and estimates used in the actuarial calculations are the discount rate for determining the current value of plan benefits and the expected rate of return on plan assets. Other critical assumptions and estimates used in determining benefit obligations and plan expenses, including demographic factors such as retirement age, mortality, and turnover, are also evaluated periodically and updated accordingly to reflect our actual experience.

Discount rates are determined annually and are based on rates of return of high-quality fixed income investments currently available and expected to be available during the period to maturity of the pension benefits. Expected long-term rates of return on plan assets are determined annually and are based on an evaluation of our plan assets, historical trends, and experience, taking into account current and expected market conditions. Plan assets are comprised primarily of equity and debt securities. As we have both domestic and international plans, these assumptions differ based on varying factors specific to each particular country or economic environment.

The discount rate utilized to determine the projected benefit obligation at the measurement date for our United States pension plans remained flat at 5.75% at December 31, 2005 and 2004. The discount rate utilized to determine the projected benefit obligation at the measurement date for our United Kingdom pension plans, which constitute 95% of our international plans and 91% of all plans, was reduced from 5.50% at December 31, 2004 to 5.00% at December 31, 2005. This decrease in discount rate resulted in increases in the present value of our benefit obligations and plan expenses. An additional future decrease in the discount rate of 50 basis points for our United Kingdom pension plans would increase our projected benefit obligation by an estimated $400 million, while a similar increase in the discount rate would reduce our projected benefit obligation by an estimated $360 million.

Our defined benefit plans reduced pretax earnings by $84 million in 2005, $91 million in 2004, and $75 million in 2003. Included in the amounts were earnings from our expected pension returns of $196 million in 2005, $184 million in 2004, and $148 million in 2003. Unrecognized actuarial gains and losses are being recognized over a period of 4 to 32 years, which represents the expected remaining service life of the employee group. Our unrecognized actuarial gains and losses arise from several factors, including experience and assumptions changes in the obligations and the difference between expected returns and actual returns on plan assets. Actual returns for 2005, 2004, and 2003 were $553 million, $276 million, and $160 million, respectively. The difference between actual and expected returns is deferred as an unrecognized actuarial gain or loss and is recognized as future pension expense. Our unrecognized actuarial loss at December 31, 2005 was $678 million, of which $31 million will be recognized as a component of our expected 2006 pension expense. During 2005, we made contributions to fund our defined benefit plans of $81 million. We expect to make additional contributions in 2006 of approximately $164 million.

The actuarial assumptions used in determining our pension benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, and longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations.

OFF BALANCE SHEET RISK

Under an agreement to sell United States Energy Services Group accounts receivable to a bankruptcy-remote limited-purpose funding subsidiary, new receivables were added on a continuous basis to the pool of receivables. Collections reduced previously sold accounts receivable. This funding subsidiary sold an undivided ownership interest in this pool of receivables to entities managed by unaffiliated financial institutions under another agreement. Sales to the funding subsidiary were structured as “true sales” under applicable bankruptcy laws. While the funding subsidiary was wholly owned by us, its assets were not available to pay any creditors of ours or of our subsidiaries or affiliates. The undivided ownership interest in the pool of receivables sold to the unaffiliated companies, therefore, was reflected as a reduction of accounts receivable in our consolidated balance sheets. The funding subsidiary retained the interest in the pool of receivables that were not sold to the unaffiliated companies and was fully consolidated and reported in our financial statements.

The amount of undivided interests which could be sold under the program varied based on the amount of eligible Energy Services Group receivables in the pool at any given time and other factors. The maximum amount that could be sold and outstanding under this agreement at any given time was $300 million. As of December 31, 2004, we had sold $256 million of undivided ownership interest to unaffiliated companies. During the fourth quarter of 2005, these receivables were collected and the balance retired. No further receivables were sold, and the facility was terminated subsequent to December 31, 2005.

In May 2004, we entered into an agreement to sell, assign, and transfer the entire title and interest in specified United States government accounts receivable of KBR to a third party. The face value of the receivables sold to the third party was reflected as a reduction of accounts receivable in our consolidated balance sheets. The amount of receivables that could be sold under the agreement varied based on the amount of eligible receivables at any given time and other factors, and the maximum amount that could be sold and outstanding under this agreement at any given time was $650 million. The total amount of receivables outstanding under this agreement as of December 31, 2004 was approximately $263 million. As of December 31, 2005, these receivables were collected, the balance was retired, and the facility was terminated.

We have exposure to losses in certain unconsolidated variable interest entities. See Note 19 to the consolidated financial statements for more information.

FINANCIAL INSTRUMENT MARKET RISK

We are exposed to financial instrument market risk from changes in foreign currency exchange rates, interest rates, and, to a limited extent, commodity prices. We selectively manage these exposures through the use of derivative instruments to mitigate our market risk from these exposures. The objective of our risk management program is to protect our cash flows related to sales or purchases of goods or services from market fluctuations in currency rates. We do not use derivative instruments for trading purposes. 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 consider any of these risk management activities to be material. See Note 1 to the consolidated financial statements for additional information on our accounting policies on derivative instruments. See Note 17 to the consolidated financial statements for additional disclosures related to derivative instruments.

Interest rate risk

We have exposure to interest rate risk from our long-term debt.

The following table represents principal amounts of our long-term debt at December 31, 2005 and related weighted average interest rates on the repaid amounts by year of maturity for our long-term debt.

Millions of dollars	2006	2007	2008	2009	2010	Thereafter	Total
Fixed-rate debt:							
Repayment amount ($US)	$ 275	$ -	$ 150	$ -	$ 750	$ 1,875	$ 3,050
Weighted average interest rate on repaid amount	6.0%	-	5.6%	-	5.5%	4.8%	5.1%
Variable-rate debt:							
Repayment amount ($US)	$ 68	$ 16	$ 2	$ -	$ -	$ -	$ 86
Weighted average interest rate on repaid amount	6.9%	5.7%	6.0%	-	-	-	6.7%

The fair market value of long-term debt was $2.9 billion as of December 31, 2005.

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, among others:

- 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.

In addition to the federal laws and regulations, states and other countries where we do business may have numerous environmental, legal, and regulatory requirements by which we must 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. Our Health, Safety and Environment group has several programs in place to maintain environmental leadership and to prevent the occurrence of environmental contamination.

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 $50 million as of December 31, 2005 and $41 million as of December 31, 2004. The liability covers numerous properties and no individual property accounts for more than $10 million of the liability balance. We have subsidiaries that have been named as potentially responsible parties along with other third parties for 14 federal and state superfund sites for which we have established a liability. As of December 31, 2005, those 14 sites accounted for approximately $13 million of our total $50 million liability. 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.

NEW ACCOUNTING PRONOUNCEMENTS

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47 (FIN 47), “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143.” This statement clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability’s fair value can be reasonably estimated. The provisions of FIN 47 were adopted as of December 31, 2005. The total liability recorded at adoption 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. We own properties where we have below ground storage tanks, test wells, and other items that are required to be removed before we vacate the properties. A liability has not been recorded for these items because the fair value cannot be reasonably estimated. We believe there is an indeterminate settlement date for these obligations because the range of time over which we may settle the obligation is unknown or cannot be estimated.

In December 2004, the FASB issued SFAS No. 123R, “Share-Based Payment.” SFAS No. 123R is a revision of SFAS No. 123 and supersedes APB No. 25. In April 2005, the SEC adopted a rule that defers the required effective date of SFAS No. 123R. The SEC rule provides that SFAS No. 123R is now effective for registrants as of the beginning of the first fiscal year beginning after June 15, 2005. We adopted the provisions of SFAS No. 123R on January 1, 2006 using the modified prospective application. Accordingly, we will recognize compensation expense for all newly granted awards and awards modified, repurchased, or cancelled after January 1, 2006. Compensation expense for the unvested portion of awards that were outstanding as of January 1, 2006 will be recognized ratably over the remaining vesting period based on the fair value at date of grant as calculated under the Black-Scholes option pricing model. Compensation expense related to the unvested portion of these awards will be consistent with compensation expense included in our pro forma disclosure under SFAS No. 123. We will recognize compensation expense using the Black-Scholes pricing model for our Employee Stock Purchase Plan (ESPP) beginning with the January 1, 2006 purchase period.

We estimate that the effect on earnings per share in the periods following adoption of SFAS No. 123R will be a reduction of approximately $0.01 to $0.02 in net income per diluted share per quarter. This effect is consistent with our pro forma disclosure under SFAS No. 123 except that estimated forfeitures will be considered in the calculation of compensation expense under SFAS No. 123R. Additionally, the actual effect on net income and earnings per share will vary depending upon the number of options granted in subsequent periods compared to prior years and the number of shares purchased under the ESPP.

FORWARD-LOOKING INFORMATION AND RISK FACTORS

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-K are forward-looking and use words like “may,” “may not,” “believes,” “do not believe,” “expects,” “do not expect,” “anticipates,” “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 risk 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.

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 or furnished to the SEC. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.

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 materially and adversely affect our financial condition and results of operations, including the risks related to:

United States Government Contract Work

We provide substantial work under our government contracts to the United States Department of Defense and other governmental agencies. These contracts include our worldwide United States Army logistics contracts, known as LogCAP, and contracts to rebuild Iraq’s petroleum industry such as PCO Oil South. Our government services revenue related to Iraq totaled approximately $5.4 billion in 2005, $7.1 billion in 2004, and $3.6 billion in 2003. Most of the services provided to the United States government are subject to cost-reimbursable contracts where we have the opportunity to earn an award fee based on our customer’s evaluation of the quality of our performance. These award fees are evaluated and granted by our customer periodically. For the LogCAP and RIO contracts, we recognize award fees based on our estimate of amounts to be awarded. In determining our estimates, we consider, among other things, past award experience for similar types of work. These estimates are adjusted to actual when the task orders are definitized and the award fees have been finalized by our customer.

Given the demands of working in Iraq and elsewhere for the United States government, we expect that from time to time we will have disagreements or experience performance issues with the various government customers for which we work. If performance issues arise under any of our government contracts, the government retains the right to pursue remedies which could include threatened termination or termination, under any affected contract. If any contract were so terminated, we may not receive award fees under the affected contract, and our ability to secure future contracts could be adversely affected, although we would receive payment for amounts owed for our allowable costs under cost-reimbursable contracts. Other remedies that could be sought by our government customers for any improper activities or performance issues include sanctions such as forfeiture of profits, suspension of payments, fines, and suspensions or debarment from doing business with the government. Further, the negative publicity that could arise from disagreements with our customers or sanctions as a result thereof could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts, and may also have a material adverse effect on our business, financial condition, results of operations, and cash flow.

DCAA audit issues

Our operations under United States government contracts are regularly reviewed and audited by the DCAA and other governmental agencies. The DCAA serves in an advisory role to our customer. When issues are found during the governmental agency audit process, these issues are typically discussed and reviewed with us. The DCAA then issues an audit report with its recommendations to our customer’s contracting officer. In the case of management systems and other contract administrative issues, the contracting officer is generally with the DCMA. We then work with our customer to resolve the issues noted in the audit report. If our customer or a government auditor finds that we improperly charged any costs to a contract, these costs are not reimbursable, or, if already reimbursed, the costs must be refunded to the customer.

Laundry. Prior to the fourth quarter of 2005, we received notice from the DCAA that it recommended withholding $18 million of subcontract costs related to the laundry service for one task order in southern Iraq for which it believes we and our subcontractors have not provided adequate levels of documentation supporting the quantity of the services provided. In the fourth quarter of 2005, the DCAA issued a notice to disallow costs totaling approximately $12 million, releasing $6 million of amounts previously withheld. The $12 million has been withheld from the subcontractor. We are working with the DCMA and the subcontractor to resolve this issue.

Containers. In June 2005, the DCAA recommended withholding certain costs associated with providing containerized housing for soldiers and supporting civilian personnel in Iraq. Approximately $55 million has been withheld as of December 31, 2005 (down from $60 million originally reported because some issues have been resolved). The DCAA recommended that the costs be withheld pending receipt of additional explanation or documentation to support the subcontract costs. We have provided information we believe addresses the concerns raised by the DCAA. None of these amounts have been withheld from our subcontractors. We are working with the government and our subcontractors to resolve this issue.

Other issues. The DCAA is continuously performing audits of costs incurred for the foregoing and other services provided by us under our government contracts. During these audits, there are likely to be questions raised by the DCAA about the reasonableness or allowability of certain costs or the quality or quantity of supporting documentation. No assurance can be given that the DCAA might not recommend withholding some portion of the questioned costs while the issues are being resolved with our customer. Because of the intense scrutiny involving our government contracts operations, issues raised by the DCAA may be more difficult to resolve. We do not believe any potential withholding will have a significant or sustained impact on our liquidity.

Investigations

In October 2004, we reported to the Department of Defense Inspector General's office that two former employees in Kuwait may have had inappropriate contacts with individuals employed by or affiliated with two third-party subcontractors prior to the award of the subcontracts. The Inspector General's office may investigate whether these two employees may have solicited and/or accepted payments from these third-party subcontractors while they were employed by us.

In October 2004, a civilian contracting official in the COE asked for a review of the process used by the COE for awarding some of the contracts to us. We understand that the Department of Defense Inspector General's office may review the issues involved.

We understand that the DOJ, an Assistant United States Attorney based in Illinois, and others are investigating these and other individually immaterial matters we have reported relating to our government contract work in Iraq. If criminal wrongdoing were found, criminal penalties could range up to the greater of $500,000 in fines per count for a corporation or twice the gross pecuniary gain or loss. We also understand that current and former employees of KBR have received subpoenas and have given or may give grand jury testimony related to some of these matters.

Withholding of payments

The PCO Oil South project has definitized substantially all of the task orders, and we have collected a significant portion of the amounts previously withheld. We do not believe the withholding will have a significant or sustained impact on our liquidity because the withholding is temporary, and the definitization process is substantially complete.

We are working diligently with our customers to proceed with significant new work only after we have a fully definitized task order, which should limit withholdings on future task orders for all government contracts.

In addition, we had probable unapproved claims totaling $69 million at December 31, 2005 for the LogCAP and PCO Oil South contracts. These unapproved claims related to contracts where our costs have exceeded the customer's funded value of the task order.

DCMA system reviews

Report on estimating system. On December 27, 2004, the DCMA granted continued approval of our estimating system, stating that our estimating system is "acceptable with corrective action." We are in the process of completing these corrective actions. Specifically, based on the unprecedented level of support that our employees are providing the military in Iraq, Kuwait, and Afghanistan, we needed to update our estimating policies and procedures to make them better suited to such contingency situations. Additionally, we have completed our development of a detailed training program and have made it available to all estimating personnel to ensure that employees are adequately prepared to deal with the challenges and unique circumstances associated with a contingency operation.

Report on purchasing system. As a result of a Contractor Purchasing System Review by the DCMA during the fourth quarter of 2005, the DCMA granted the continued approval of our government contract purchasing system. The DCMA's approval letter, dated October 28, 2005, stated that our purchasing system's policies and practices are "effective and efficient, and provide adequate protection of the Government's interest."

Report on accounting system. We received two draft reports on our accounting system, which raised various issues and questions. We have responded to the points raised by the DCAA, but this review remains open. Once the DCAA finalizes the report, it will be submitted to the DCMA, who will make a determination of the adequacy of our accounting systems for government contracting.

The Balkans

We have had inquiries in the past by the DCAA and the civil fraud division of the DOJ into possible overcharges for work performed during 1996 through 2000 under a contract in the Balkans for which inquiry has not yet been completed by the DOJ. Based on an internal investigation, we credited our customer approximately $2 million during 2000 and 2001 related to our work in the Balkans as a result of billings for which support was not readily available. We believe that the preliminary DOJ inquiry relates to potential overcharges in connection with a part of the Balkans contract under which approximately $100 million in work was done. We believe that any allegations of overcharges would be without merit. Amounts accrued related to this matter as of December 31, 2005 are not material.

Development Fund for Iraq

We have some task orders issued and executed under the PCO Oil contract that are funded under the Development Fund for Iraq (DFI). We received notification in the third quarter of 2005 that United States government personnel have decided to cease all administration of DFI funded contracts after December 31, 2005. In December 2005, we received notification that this deadline was deferred until December 31, 2006. If not deferred again at year end 2006, that could mean that we may be required to obtain payment for all services provided under the affected task orders after that date and for all invoices submitted and not paid prior to that date from the sovereign Republic of Iraq. As our PCO Oil contract is with the United States government, it is unclear what the ramifications of such a change in funding, if implemented, would have or what the financial implications would be.

Foreign Corrupt Practices Act investigations

The SEC is conducting a formal investigation into payments made in connection with the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The DOJ is also conducting a related criminal investigation. The government has also issued a subpoena to Halliburton seeking information, which we are furnishing, regarding current and former agents used in connection with multiple projects or services over the past 20 years located both in and outside of Nigeria in which The M .W. Kellogg Company, M. W. Kellogg, Ltd., Kellogg Brown & Root or their joint ventures, as well as the Halliburton energy services business, were participants. M. W. Kellogg, Ltd. is a joint venture in which Kellogg Brown & Root has a 55% interest. The M. W. Kellogg Company was a subsidiary of Dresser Industries before our 1998 acquisition of Dresser Industries and was later merged with a subsidiary of ours to form Kellogg Brown & Root.

The SEC and the DOJ have been reviewing these matters in light of the requirements of the FCPA. We have been cooperating with the SEC and the DOJ, as well as with investigations into the Bonny Island project in France and Nigeria. Our Board of Directors has appointed a committee of independent directors to oversee and direct the FCPA investigations.

The matters under investigation relating to the Bonny Island project cover an extended period of time (in some cases significantly before our 1998 acquisition of Dresser Industries (which included M. W. Kellogg, Ltd. and The M .W. Kellogg Company)) and include TSKJ's use of a Japanese trading company that contracted to provide services to TSKJ. We have produced documents to the SEC and the DOJ both voluntarily and pursuant to subpoenas, and we are making our employees available to the SEC and the DOJ for interviews. In addition, we understand that the SEC has issued a subpoena to A. Jack Stanley, who formerly served as a consultant and chairman of KBR, and to others, including certain current and former KBR employees and at least one subcontractor of KBR. We further understand that the DOJ has invoked its authority under a sitting grand jury to issue subpoenas for the purpose of obtaining information abroad, and we understand that other partners in TSKJ have provided information to the DOJ and the SEC with respect to the investigations, either voluntarily or under subpoenas.

TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (an affiliate of ENI SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root (as successor to The M. W. Kellogg Company), each of which owns 25% of the venture. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA). Commencing in 1995, TSKJ entered into a series of agency agreements in connection with the Bonny Island project, including with Tri-Star Investments, of which Jeffrey Tesler is a principal. We understand that a French magistrate has officially placed Mr. Tesler under investigation for corruption of a foreign public official. In Nigeria, a legislative committee of the National Assembly and the Economic and Financial Crimes Commission, which is organized as part of the executive branch of the government, are also investigating these matters. Our representatives have met with the French magistrate and Nigerian officials. In October 2004, representatives of TSKJ voluntarily testified before the Nigerian legislative committee.

As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. We have reason to believe, based on the ongoing governmental and other investigations, that payments may have been made to Nigerian officials.

We notified the other owners of TSKJ of information provided by the investigations and asked each of them to conduct their own investigation. TSKJ has suspended the receipt of services from and payments to Tri-Star Investments and the Japanese trading company and has considered instituting legal proceedings to declare all agency agreements with Tri-Star Investments terminated and to recover all amounts previously paid under those agreements.

In June 2004, we terminated all relationships with Mr. Stanley and another consultant and former employee of M. W. Kellogg, Ltd. The terminations occurred because of violations of our Code of Business Conduct that allegedly involved the receipt of improper personal benefits in connection with TSKJ's construction of the natural gas liquefaction facility in Nigeria.

Until such time, if ever, as we can satisfy ourselves regarding compliance with applicable law and our Code of Business Conduct, we have also suspended the services of another agent who has worked for KBR outside of Nigeria on several current projects and on numerous older projects going back to the early 1980's. In addition, we are actively reviewing the compliance of an additional agent on a separate current Nigerian project with respect to which we have recently received from a joint venture partner on that project allegations of wrongful payments made by such agent. In February 2005, TSKJ notified the Attorney General of Nigeria that TSKJ would not oppose the Attorney General's efforts to have sums of money held on deposit in banks in Switzerland transferred to Nigeria and to have the legal ownership of such sums determined in the Nigerian courts.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to $500,000 per violation, equitable remedies, including disgorgement, and injunctive relief. Criminal penalties could range up to the greater of $2 million per violation or twice the gross pecuniary gain or loss. Both the SEC and the DOJ could argue that continuing conduct may constitute multiple violations for purposes of assessing the penalty amounts per violation. Often, agreed dispositions for these types of matters result in a monitor being appointed by the SEC and/or the DOJ to review future business and practices with the goal of ensuring compliance with the FCPA. Fines and civil and criminal penalties could be mitigated, in the government's discretion, depending on the level of the cooperation in the investigations.

Potential consequences of a criminal indictment arising out of these matters could include suspension by the Department of Defense or another federal, state, or local government agency of KBR and its affiliates from their ability to contract with United States, state or local governments, or government agencies and, if a criminal or civil violation were found, KBR and its affiliates could be debarred from future contracts or new orders under current contracts to provide services to any such parties. During 2005, KBR and its affiliates had revenue of approximately $6.6 billion from its government contracts work with agencies of the United States or state or local governments. Consistent with our cooperation with the DOJ and the SEC, we would seek to obtain administrative agreements or waivers to avoid suspension or debarment. Generally, debarments can last up to three years. Suspension or debarment from the government contracts business would have a material adverse effect on the business and results of operations of KBR and Halliburton.

There can be no assurance that any governmental investigation or our investigation of these matters will not conclude that violations of applicable laws have occurred. The results of these investigations could have a material adverse effect on our business, prospects, results of operations, financial condition, and cash flows.

In addition, we understand that the actions of some officers and key employees within our KBR Energy and Chemicals segment are of interest to the SEC and the DOJ in the FCPA investigations. If, as a result of these investigations, or as a result of our determining that their conduct was inconsistent with employment by a publicly-held company, one or more of these officers or employees were to take a leave of absence or resign or were temporarily or permanently relieved of their duties, such events could have a material adverse effect on our business.

As of December 31, 2005, we have not accrued any amounts related to this investigation other than our current legal expenses.

Bidding practices investigation

In connection with the investigation into payments made in connection with the Nigerian project, information has been uncovered suggesting that Mr. Stanley and other former employees may have engaged in coordinated bidding with one or more competitors on certain foreign construction projects, and that such coordination possibly began as early as the mid-1980s, which was significantly before our 1998 acquisition of Dresser Industries.

On the basis of this information, we and the DOJ have broadened our investigations to determine the nature and extent of any improper bidding practices, whether such conduct violated United States antitrust laws, and whether former employees may have received payments in connection with bidding practices on some foreign projects.

If violations of applicable United States antitrust laws occurred, the range of possible penalties includes criminal fines, which could range up to the greater of $10 million in fines per count for a corporation, or twice the gross pecuniary gain or loss, and treble civil damages in favor of any persons financially injured by such violations. Suspension or debarment from contracting with the United States, state or local governments, or government agencies could also occur. Criminal prosecutions under applicable laws of relevant foreign jurisdictions and civil claims by or relationship issues with customers are also possible.

There can be no assurance that the results of these investigations will not have a material adverse effect on our business and results of operations.

As of December 31, 2005, we had not accrued any amounts related to this investigation other than our current legal expenses.

Operations in Iran

We received and responded to an inquiry in mid-2001 from the Office of Foreign Assets Control (OFAC) of the United States Treasury Department with respect to operations in Iran by a Halliburton subsidiary incorporated in the Cayman Islands. The OFAC inquiry requested information with respect to compliance with the Iranian Transaction Regulations. These regulations prohibit United States citizens, including United States corporations and other United States business organizations, from engaging in commercial, financial, or trade transactions with Iran, unless authorized by OFAC or exempted by statute. Our 2001 written response to OFAC stated that we believed that we were in compliance with applicable sanction regulations. In January 2004, we received a follow-up letter from OFAC requesting additional information. We responded to this request on March 19, 2004. We understand this matter has now been referred by OFAC to the DOJ. In July 2004, we received a grand jury subpoena from an Assistant United States District Attorney requesting the production of documents. We are cooperating with the government's investigation and have responded to the subpoena by producing documents on September 16, 2004.

Separate from the OFAC inquiry, we completed a study in 2003 of our activities in Iran during 2002 and 2003 and concluded that these activities were in compliance with applicable sanction regulations. These sanction regulations require isolation of entities that conduct activities in Iran from contact with United States citizens or managers of United States companies. Notwithstanding our conclusions that our activities in Iran were not in violation of United States laws and regulations, we announced that, after fulfilling our current contractual obligations within Iran, we intend to cease operations within that country and to withdraw from further activities there.

Geopolitical and International Environment

International and political events

A significant portion of our revenue is derived from our non-United States operations, which exposes us to risks inherent in doing business in each of the countries in which we transact business. The occurrence of any of the risks described below could have a material adverse effect on our consolidated results of operations and consolidated financial condition.

Our operations in countries other than the United States accounted for approximately 73% of our consolidated revenue during 2005, 78% of our consolidated revenue during 2004, and 73% of consolidated revenue in 2003. Based upon the location of services provided and products sold, 24% of our consolidated revenue in 2005, 26% during 2004, and 15% during 2003 was from Iraq, primarily related to our work for the United States Government. Also, 10% of our consolidated revenue during 2005 was from the United Kingdom. Operations in countries other than the United States are subject to various risks peculiar to each country. With respect to any particular country, these risks may include:

- expropriation and nationalization of our assets in that country;
- political and economic instability;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;
- natural disasters, including those related to earthquakes and flooding;
- inflation;
- currency fluctuations, devaluations, and conversion restrictions;
- confiscatory taxation or other adverse tax policies;
- governmental activities that limit or disrupt markets, restrict payments, or limit the movement of funds;
- governmental activities that may result in the deprivation of contract rights; and
- governmental activities that may result in the inability to obtain or retain licenses required for operation.

Due to the unsettled political conditions in many oil-producing countries and countries in which we provide governmental logistical support, our revenue and profits are subject to the adverse consequences of war, the effects of terrorism, civil unrest, strikes, currency controls, and governmental actions. Countries where we operate that have significant amounts of political risk include: Afghanistan, Algeria, Indonesia, Iran, Iraq, Nigeria, Russia, and Venezuela. In addition, military action or continued unrest in the Middle East could impact the supply and pricing for oil and gas, disrupt our operations in the region and elsewhere, and increase our costs for security worldwide.

In addition, investigations by governmental authorities (see “Foreign Corrupt Practices Act investigations” above), as well as legal, social, economic, and political issues in Nigeria, could materially and adversely affect our Nigerian business and operations. In September 2004, the Federal Republic of Nigeria issued a directive to one of our subsidiaries banning us from receiving new contracts from the Nigerian government or from companies controlled by the Nigerian government. We believe this directive to have been originally issued as a result of an adverse reaction in Nigeria to the theft from us of radioactive material that we used in wireline logging operations, which was subsequently recovered and returned to Nigeria. We received official notification that the contract ban had been lifted on September 7, 2005. Subsequently, by letters dated December 19, 2005, we were notified by the Nigerian Nuclear Regulatory Authority that we had been issued licenses to use radioactive sources.

Our facilities and our employees are under threat of attack in some countries where we operate, including Iraq and Saudi Arabia. In addition, the risk related to loss of life of our personnel and our subcontractors in these areas continues.

We are also subject to the risks that our employees, joint venture partners, and agents outside of the United States may fail to comply with applicable laws.

Military action, other armed conflicts, or terrorist attacks

Military action in Iraq, military tension involving North Korea and Iran, as well as the terrorist attacks of September 11, 2001 and subsequent terrorist attacks, threats of attacks, and unrest, have caused instability or uncertainty in the world's financial and commercial markets and have significantly increased political and economic instability in some of the geographic areas in which we operate. Acts of terrorism and threats of armed conflicts in or around various areas in which we operate, such as the Middle East and Indonesia, could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of personnel or assets.

Such events may cause further disruption to financial and commercial markets and may generate greater political and economic instability in some of the geographic areas in which we operate. In addition, any possible reprisals as a consequence of the war and ongoing military action in Iraq, such as acts of terrorism in the United States or elsewhere, could materially and adversely affect us in ways we cannot predict at this time.

Income taxes

We have operations in about 100 countries other than the United States. Consequently, we are subject to the jurisdiction of a significant number of taxing authorities. The income earned in these various jurisdictions is taxed on differing bases, including net income actually earned, net income deemed earned, and revenue-based tax withholding. The final determination of our tax liabilities involves the interpretation of local tax laws, tax treaties, and related authorities in each jurisdiction, as well as the significant use of estimates and assumptions regarding the scope of future operations and results achieved and the timing and nature of income earned and expenditures incurred. Changes in the operating environment, including changes in tax law and currency/repatriation controls, could impact the determination of our tax liabilities for a tax year.

Foreign exchange and currency risks

A sizable portion of our consolidated revenue and consolidated operating expenses are in foreign currencies. As a result, we are subject to significant risks, including:

- foreign exchange risks resulting from changes in foreign exchange rates and the implementation of exchange controls; and
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries.

We conduct business in countries that have nontraded or "soft" currencies which, because of their restricted or limited trading markets, may be more difficult to exchange for "hard" currency. We may accumulate cash in soft currencies, and we may be limited in our ability to convert our profits into United States dollars or to repatriate the profits from those countries.

We selectively use hedging transactions to limit our exposure to risks from doing business in foreign currencies. For those currencies that are not readily convertible, our ability to hedge our exposure is limited because financial hedge instruments for those currencies are nonexistent or limited. Our ability to hedge is also limited because pricing of hedging instruments, where they exist, is often volatile and not necessarily efficient.

In addition, the value of the derivative instruments could be impacted by:

- adverse movements in foreign exchange rates;
- interest rates;
- commodity prices; or
- the value and time period of the derivative being different than the exposures or cash flows being hedged.

Customers and Business

Exploration and production activity

Demand for our services and products depends on oil and natural gas industry activity and expenditure levels that are directly affected by trends in oil and natural gas prices.

Demand for our services and products is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other factors that are beyond our control. Any prolonged reduction in oil and natural gas prices will depress the immediate levels of exploration, development, and production activity, often reflected as changes in rig counts. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity result in a corresponding decline in the demand for our oil and natural gas well services and products, which could have a material adverse effect on our revenue and profitability. Factors affecting the prices of oil and natural gas include:

- governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves;
- global weather conditions and natural disasters;
- worldwide political, military, and economic conditions;
- the level of oil production by non-OPEC countries and the available excess production capacity within OPEC;
- economic growth in China and India;
- oil refining capacity and shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- the cost of producing and delivering oil and gas;
- potential acceleration of development of alternative fuels; and
- the level of demand for oil and natural gas, especially demand for natural gas in the United States.

Historically, the markets for oil and gas have been volatile and are likely to continue to be volatile. Spending on exploration and production activities and capital expenditures for refining and distribution facilities by large oil and gas companies have a significant impact on the activity levels of our businesses. In the current environment where oil and gas demand exceeds supply, the ability to rebalance supply with demand may be constrained by the global availability of rigs. Full utilization of rigs could lead to limited growth in revenue. In addition, the extent of the growth in oilfield services may be limited by the availability of equipment and manpower.

Governmental and capital spending

Our business is directly affected by changes in governmental spending and capital expenditures by our customers. Some of the changes that may materially and adversely affect us include:

- a decrease in the magnitude of governmental spending and outsourcing for military and logistical support of the type that we provide. For example, the current level of government services being provided in the Middle East will not likely continue for an extended period of time and the current rate of spending has decreased substantially compared to 2005 and 2004. We expect the volume of work under our LogCAP contract to continue to decline in 2006 as our customer scales back the amount of services we provide. The government can terminate, reduce the amount of work, or replace our LogCAP contract with a new competitively bid contract at anytime during the term of the contract;
- an increase in the magnitude of governmental spending and outsourcing for military and logistical support, which can materially and adversely affect our liquidity needs as a result of additional or continued working capital requirements to support this work;
- a decrease in capital spending by governments for infrastructure projects of the type that we undertake;
- the consolidation of our customers, which could:
  - cause customers to reduce their capital spending, which would in turn reduce the demand for our services and products; and
  - result in customer personnel changes, which in turn affects the timing of contract negotiations and settlements of claims and claim negotiations with engineering and construction customers on cost variances and change orders on major projects;

- adverse developments in the business and operations of our customers in the oil and gas industry, including write-downs of reserves and reductions in capital spending for exploration, development, production, processing, refining, and pipeline delivery networks; and
- ability of our customers to timely pay the amounts due us.

Customers

Both our Energy Services Group and KBR depend on a limited number of significant customers. While, except for the United States Government, none of these customers represented more than 10% of consolidated revenue in any period presented, the loss of one or more significant customers could have a material adverse effect on our business and our consolidated results of operations.

Acquisitions, dispositions, investments, and joint ventures

We continually seek opportunities to maximize efficiency and value through various transactions, including purchases or sales of assets, businesses, investments, or joint ventures. These transactions are intended to result in the realization of savings, the creation of efficiencies, the generation of cash or income, or the reduction of risk. Acquisition transactions may be financed by additional borrowings or by the issuance of our common stock. These transactions may also affect our consolidated results of operations.

These transactions also involve risks and we cannot ensure that:

- any acquisitions would result in an increase in income;
- any acquisitions would be successfully integrated into our operations and internal controls;
- any disposition would not result in decreased earnings, revenue, or cash flow;
- any dispositions, investments, acquisitions, or integrations would not divert management resources; or
- any dispositions, investments, acquisitions, or integrations would not have a material adverse effect on our results of operations or financial condition.

We conduct some operations through joint ventures, where control may be shared with unaffiliated third parties. As with any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. We also cannot control the actions of our joint venture partners, including any nonperformance, default, or bankruptcy of our joint venture partners. These factors could potentially materially and adversely affect the business and operations of the joint venture and, in turn, our business and operations.

We own a 36.7% interest in a joint venture that is the holder of a 50-year concession contract with the Australian government to operate and maintain a railway in Australia. We account for this investment on the equity method of accounting. Construction on the railway was completed in late 2003, and operations commenced in early 2004. This joint venture continues to gain new customers and believes that the originally planned customer base will ultimately be developed, although results through December 2005 have been less than planned. As a result, this joint venture has incurred inception-to-date losses, of which our share is $37 million, which have been recorded in our financial statements as a loss and a reduction to our investment balance in this company. As of December 31, 2005, our investment in this joint venture and the related company that performed the construction of the railroad was $87 million. In addition, we have a remaining commitment to purchase an additional $9 million subordinated operating note.

Unless revenue is increased, this joint venture may violate certain loan covenants in the future. Management of this joint venture is currently undertaking a reforecast of the business, which they expect to complete during the first quarter of 2006. The results of this reforecast will be used to review the projected financial status of this joint venture, including the possible need for future financial restructurings, and will be used by us to assess any impairment in our investment.

Risks related to contracts

Our long-term contracts to provide services are either on a cost-reimbursable basis or on a fixed-price basis. Our failure to estimate accurately the resources and time required for a fixed-price project or our failure to complete our contractual obligations within the time frame and costs committed could have a material adverse effect on our business, results of operations, and financial condition. In connection with projects covered by fixed-price contracts, we bear the risk of cost over-runs, operating cost inflation, labor availability and productivity, and supplier and subcontractor pricing and performance. In both our fixed-price contracts and our cost-reimbursable contracts, we generally rely on third parties for many support services, and we are subject to liability for engineering or systems failures. Occasionally we contract to perform work for, as well as take a minority ownership interest in, a developmental entity. We may incur contractually reimbursable costs, make an equity investment prior to this entity achieving operational status or completing its full project financing. Should a developmental project fail to achieve full financial close, we could incur losses including our contractual receivables and our equity investment.

Risks under our fixed-price contracts. Our significant EPC projects may encounter difficulties that may result in additional costs to us, reductions in revenue, claims, or disputes. These projects generally involve complex design and engineering, significant procurement of equipment and supplies, and extensive construction management. Many of these projects involve design and engineering production and construction phases that may occur over extended time periods, often in excess of two years. We could encounter difficulties that may be beyond our control in design, engineering, equipment and supply delivery, schedule changes, and other factors. These factors could impact our ability to complete the project in accordance with the original delivery schedule. For example, the equipment we purchase for a project or that is provided to us by the customer could not perform as expected, and these performance failures may result in delays in completion of the project or additional costs to us or the customer to complete the project and, in some cases, may require us to obtain alternate equipment at additional cost.

In addition, some of our contracts may require that our customers provide us with design or engineering information or with equipment or materials to be used on the project. In some cases, the customer may provide us with deficient design or engineering information or equipment or may provide the information or equipment to us later than required by the project schedule. The customer may also determine, after commencement of the project, to change various elements of the project. Our project contracts generally require the customer to compensate us for additional work or expenses incurred due to customer-requested change orders or failure of the customer to provide us with specified design or engineering information or equipment. Under these circumstances, we generally negotiate with the customer with respect to the amount of additional time required and the compensation to be paid to us. We are subject to the risk that we are unable to obtain, through negotiation, arbitration, litigation, or otherwise, adequate amounts to compensate us for the additional work or expenses incurred by us due to customer-requested change orders or failure by the customer to timely provide required items. A failure to obtain adequate compensation for these matters could require us to record an adjustment to amounts of revenue and gross profit that were recognized in prior periods. Any such adjustments, if substantial, could have a material adverse effect on our results of operations and financial condition.

We may be required to pay liquidated damages upon our failure to meet schedule or performance requirements of our contracts. In certain circumstances, we guarantee facility completion by a scheduled acceptance date or achievement of certain acceptance and performance testing levels. Failure to meet any such schedule or performance requirements could result in additional costs, and the amount of such additional costs could exceed projected profit margins for the project. These additional costs include liquidated damages paid under contractual penalty provisions, which can be substantial and can accrue on a daily basis. In addition, our actual costs could exceed our projections. Performance problems for existing and future contracts could cause actual results of operations to differ materially from those anticipated by us and could cause us to suffer damage to our reputation within our industry and our client base.

Risks under our fixed-price or cost-reimbursable contracts. We generally rely on third-party subcontractors as well as third-party equipment manufacturers to assist us with the completion of our contracts. To the extent that we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount we are required to pay for these goods and services exceeds the amount we have estimated in bidding for fixed-price work, we could experience losses in the performance of these contracts. Any delay by subcontractors to complete their portion of the project, or any failure by a subcontractor to satisfactorily complete its portion of the project, and other factors beyond our control may result in delays in the overall progress of the project or may cause us to incur additional costs, or both. These delays and additional costs may be substantial, and we may be required to compensate the project customer for these delays. While we may recover these additional costs from the responsible vendor, subcontractor, or other third party, we may not be able to recover all of these costs in all circumstances. In addition, if a subcontractor or a manufacturer is unable to deliver its services, equipment, or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, we may be required to purchase the services, equipment, or materials from another source at a higher price. This may reduce the profit or award fee to be realized or result in a loss on a project for which the services, equipment, or materials were needed.

Our projects expose us to potential professional liability, product liability, warranty, and other claims. We engineer, construct, and perform services in large industrial facilities in which accidents or system failures can be disastrous. Any catastrophic occurrences in excess of insurance limits at locations engineered or constructed by us or where our services are performed could result in significant professional liability, product liability, warranty, and other claims against us. The failure of any systems or facilities that we engineer or construct could result in warranty claims against us for significant replacement or reworking costs. In addition, once our construction is complete, we may face claims with respect to the performance of these facilities.

Barracuda-Caratinga project. The Barracuda and Caratinga vessels are both fully operational. We reached agreement with Petrobras, subject to Lender's consent that enables us to achieve conclusion of the Lenders' Reliability Test and final acceptance of the FPSOs. These acceptances eliminate any further risk of liquidated damages being assessed. Pursuant to the agreed terms, FPSO Final Acceptance will occur during the first quarter of 2006.

In addition, at Petrobras' direction, we have replaced certain bolts located on the subsea flow-lines that have failed through mid-November 2005, and we understand that additional bolts have failed thereafter, which have been replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. The original design specification for the bolts was issued by Petrobras, and as such, we believe the cost resulting from any replacement is not our responsibility. Petrobras has indicated, however, that they do not agree with our conclusion. We have notified Petrobras that this matter is in dispute. We believe several possible solutions may exist, including replacement of the bolts. Estimates indicate that costs of these variouis solutions range up to $140 million. Should Petrobras instruct us to replace the subsea bolts, the prime contract terms and conditions regarding change orders require that Petrobras make progress payments of our reasonable costs incurred. Petrobras could, however, perform any replacement of the bolts and seek reimbursement from KBR. On March 9, 2006 Petrobras notified KBR that they have submitted this matter to arbitration claiming $220 million plus interest for the cost of monitoring and replacing the defective stud bolts and, in addition, all of the costs and expenses of the arbitration including the cost of attorneys fees. We do not understand the basis for the amount claimed by Petrobras. We intend to vigorously defend ourselves and pursue recovery of the costs we have incurred to date through the arbitration process.   See Note 2 to the consolidated financial statements for more information.

Environmental requirements

Our businesses are subject to a variety of environmental laws, rules, and regulations in the United States and other countries, including those covering hazardous materials and requiring emission performance standards for facilities. For example, our well service operations routinely involve the handling of significant amounts of waste materials, some of which are classified as hazardous substances. We also store, transport, and use radioactive and explosive materials in certain of our operations. Environmental requirements include, for example, those concerning:

- the containment and disposal of hazardous substances, oilfield waste, and other waste materials;
- the importation and use of radioactive materials;
- the use of underground storage tanks; and
- the use of underground injection wells.

Environmental and other similar requirements generally are becoming increasingly strict. Sanctions for failure to comply with these requirements, many of which may be applied retroactively, may include:

- administrative, civil, and criminal penalties;
- revocation of permits to conduct business; and
- corrective action orders, including orders to investigate and/or clean-up contamination.

Failure on our part to comply with applicable environmental requirements could have a material adverse effect on our consolidated financial condition. We are also exposed to costs arising from environmental compliance, including compliance with changes in or expansion of environmental requirements, which could have a material adverse effect on our business, financial condition, operating results, or cash flows.

We are exposed to claims under environmental requirements, and, from time to time, such claims have been made against us. In the United States, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations we could be exposed to liability for clean-up costs, natural resource damages, and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties. Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our consolidated results of operations.

Changes in environmental requirements may negatively impact demand for our services. For example, oil and natural gas exploration and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). A decline in exploration and production, in turn, could materially and adversely affect us.

Law and regulatory requirements

In the countries in which we conduct business, we are subject to multiple and at times inconsistent regulatory regimes, including those that govern our use of radioactive materials, explosives, and chemicals in the course of our operations. Various national and international regulatory regimes govern the shipment of these items. Many countries, but not all, impose special controls upon the export and import of radioactive materials, explosives, and chemicals. Our ability to do business is subject to maintaining required licenses and complying with these multiple regulatory requirements applicable to these special products. In addition, the various laws governing import and export of both products and technology apply to a wide range of services and products we offer. In turn, this can affect our employment practices of hiring people of different nationalities because these laws may prohibit or limit access to some products or technology by employees of various nationalities. Changes in, compliance with, or our failure to comply with these laws may negatively impact our ability to provide services in, make sales of equipment to, and transfer personnel or equipment among some of the countries in which we operate and could have a material adverse affect on the results of operations.

Raw materials

Raw materials essential to our business are normally readily available. Current market conditions have triggered constraints in the supply chain of certain raw materials, such as, sand, cement, and specialty metals. The majority of our risk associated with the current supply chain constraints occurs in those situations where we have a relationship with a single supplier for a particular resource.

Intellectual property rights

We rely on a variety of intellectual property rights that we use in our services and products. We may not be able to successfully preserve these intellectual property rights in the future, and these rights could be invalidated, circumvented, or challenged. In addition, the laws of some foreign countries in which our services and products may be sold do not protect intellectual property rights to the same extent as the laws of the United States. Our failure to protect our proprietary information and any successful intellectual property challenges or infringement proceedings against us could materially and adversely affect our competitive position.

Technology

The market for our services and products is characterized by continual technological developments to provide better and more reliable performance and services. If we are not able to design, develop, and produce commercially competitive products and to implement commercially competitive services in a timely manner in response to changes in technology, our business and revenue could be materially and adversely affected, and the value of our intellectual property may be reduced. Likewise, if our proprietary technologies, equipment and facilities, or work processes become obsolete, we may no longer be competitive, and our business and revenue could be materially and adversely affected.

Systems

Our business could be materially and adversely affected by problems encountered in the installation of a new SAP financial system to replace the current systems for KBR.

Reliance on management

We depend greatly on the efforts of our executive officers and other key employees to manage our operations. The loss or unavailability of any of our executive officers or other key employees could have a material adverse effect on our business.

Technical personnel

Many of the services that we provide and the products that we sell are complex and highly engineered and often must perform or be performed in harsh conditions. We believe that our success depends upon our ability to employ and retain technical personnel with the ability to design, utilize, and enhance these services and products. In addition, our ability to expand our operations depends in part on our ability to increase our skilled labor force. The demand for skilled workers is high, and the supply is limited. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If either of these events were to occur, our cost structure could increase, our margins could decrease, and our growth potential could be impaired.

Weather

Our businesses could be materially and adversely affected by severe weather, particularly in the Gulf of Mexico where we have operations. Repercussions of severe weather conditions 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.

Because demand for natural gas in the United States drives a significant amount of our Energy Services Group’s United States business, warmer than normal winters in the United States are detrimental to the demand for our services to gas producers.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Halliburton Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in the Securities Exchange Act Rule 13a-15(f).

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation to assess the effectiveness of our internal control over financial reporting as of December 31, 2005 based upon criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2005, our internal control over financial reporting is effective.

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by our independent registered public accounting firm, KPMG LLP.

HALLIBURTON COMPANY

by

/s/ David J. Lesar	/s/ C. Christopher Gaut
David J. Lesar	C. Christopher Gaut
Chairman of the Board,	Executive Vice President and
President, and	Chief Financial Officer
Chief Executive Officer	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Halliburton Company:

We have audited the accompanying consolidated balance sheets of Halliburton Company and subsidiaries as of December 31, 2005 and December 31, 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Halliburton Company and subsidiaries as of December 31, 2005 and December 31, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Halliburton Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Houston, Texas
March 3, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Halliburton Company:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Halliburton Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Halliburton Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Halliburton Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by COSO. Also, in our opinion, Halliburton Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Halliburton Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 3, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Houston, Texas
March 3, 2006

HALLIBURTON COMPANY
Consolidated Statements of Operations

Millions of dollars and shares except per share data	Years ended December 31 2005	2004	2003
Revenue:			
Services	$ 18,420	$ 18,327	$ 14,383
Product sales	2,587	2,137	1,863
Equity in earnings (losses) of unconsolidated affiliates, net	(13)	2	25
Total revenue	20,994	20,466	16,271
Operating costs and expenses:			
Cost of services	16,017	17,441	13,589
Cost of sales	2,129	1,882	1,679
General and administrative	380	361	330
Gain on sale of business assets, net	(194)	(55)	(47)
Total operating costs and expenses	18,332	19,629	15,551
Operating income	2,662	837	720
Interest expense	(207)	(229)	(139)
Interest income	64	44	30
Foreign currency losses, net	(13)	(3)	-
Other, net	(14)	2	1
Income from continuing operations before income taxes, minority interest, and change in accounting principle	2,492	651	612
Provision for income taxes	(79)	(241)	(234)
Minority interest in net income of subsidiaries	(56)	(25)	(39)
Income from continuing operations before change in accounting principle	2,357	385	339
Income (loss) from discontinued operations, net of tax (provision) benefit of $(1), $180, and $(6)	1	(1,364)	(1,151)
Cumulative effect of change in accounting principle, net of tax benefit of $5	-	-	(8)
Net income (loss)	$ 2,358	$ (979)	$ (820)
Basic income (loss) per share:			
Income from continuing operations before change in accounting principle	$ 4.67	$ 0.88	$ 0.78
Income (loss) from discontinued operations, net	-	(3.13)	(2.65)
Cumulative effect of change in accounting principle, net	-	-	(0.02)
Net income (loss)	$ 4.67	$ (2.25)	$ (1.89)
Diluted income (loss) per share:			
Income from continuing operations before change in accounting principle	$ 4.54	$ 0.87	$ 0.78
Income (loss) from discontinued operations, net	-	(3.09)	(2.64)
Cumulative effect of change in accounting principle, net	-	-	(0.02)
Net income (loss)	$ 4.54	$ (2.22)	$ (1.88)
Basic weighted average common shares outstanding	505	437	434
Diluted weighted average common shares outstanding	519	441	437

See notes to consolidated financial statements.

HALLIBURTON COMPANY
Consolidated Balance Sheets

Millions of dollars and shares except per share data	December 31 2005	2004
Assets		
Current assets:		
Cash and equivalents	$ 2,391	$ 1,917
Investments in marketable securities	-	891
Receivables:		
Notes and accounts receivable (less allowance for bad debts of $90 and $127)	3,152	2,873
Unbilled work on uncompleted contracts	1,456	1,812
Insurance for asbestos- and silica-related liabilities	193	1,066
Total receivables	4,801	5,751
Inventories	953	791
Current deferred income taxes	592	301
Other current assets	590	379
Total current assets	9,327	10,030
Property, plant, and equipment, net of accumulated depreciation of $3,838 and $3,674	2,648	2,553
Noncurrent deferred income taxes	838	780
Goodwill	765	795
Equity in and advances to related companies	382	541
Insurance for asbestos- and silica-related liabilities	203	350
Other assets	847	815
Total assets	$ 15,010	$ 15,864
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 1,967	$ 2,339
Advanced billings on uncompleted contracts	661	553
Accrued employee compensation and benefits	648	473
Current maturities of long-term debt	361	347
Short-term notes payable	22	15
Asbestos- and silica-related liabilities	-	2,408
Other current liabilities	778	997
Total current liabilities	4,437	7,132
Long-term debt	2,813	3,593
Employee compensation and benefits	718	635
Other liabilities	525	464
Total liabilities	8,493	11,824
Minority interest in consolidated subsidiaries	145	108
Shareholders' equity:		
Common shares, par value $2.50 per share - authorized 1,000 shares, issued 527 and 458 shares	1,317	1,146
Paid-in capital in excess of par value	2,818	277
Common shares to be contributed to asbestos trust - 59.5 shares	-	2,335
Deferred compensation	(98)	(74)
Accumulated other comprehensive income	(266)	(146)
Retained earnings	2,975	871
	6,746	4,409
Less 13 and 16 shares of treasury stock, at cost	374	477
Total shareholders' equity	6,372	3,932
Total liabilities and shareholders' equity	$ 15,010	$ 15,864

See notes to consolidated financial statements.

HALLIBURTON COMPANY
Consolidated Statements of Shareholders' Equity

Millions of dollars and shares	2005	2004	2003
Balance at January 1	$ 3,932	$ 2,547	$ 3,558
Dividends and other transactions with shareholders	202	(123)	(174)
Common shares to be contributed to asbestos trust - 59.5 shares	-	2,335	-
Comprehensive income (loss):			
Net income (loss)	2,358	(979)	(820)
Cumulative translation adjustments	(48)	33	43
Realization of (gains) losses included in net income (loss)	7	(1)	15
Net cumulative translation adjustments	(41)	32	58
Pension liability adjustments	(54)	115	(88)
Unrealized gains (losses) on investments and derivatives	(12)	5	13
Realization of gains on investments and derivatives	(13)	-	-
Net unrealized gains (losses) on investments and derivatives	(25)	5	13
Total comprehensive income (loss)	2,238	(827)	(837)
Balance at December 31	$ 6,372	$ 3,932	$ 2,547

See notes to consolidated financial statements.

HALLIBURTON COMPANY
Consolidated Statements of Cash Flows

Millions of dollars	Years ended December 31 2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ 2,358	$ (979)	$ (820)
Adjustments to reconcile net income (loss) to net cash from operations:			
(Income) loss from discontinued operations	(1)	1,364	1,151
Depreciation, depletion, and amortization	504	509	518
Provision (benefit) for deferred income taxes, including $0, $(167), and $27 related to discontinued operations	(235)	(176)	(86)
Distributions from (advances to) related companies, net of equity in (earnings) losses	39	(39)	13
Change in accounting principle, net	-	-	8
Gain on sale of assets	(192)	(62)	(52)
Asbestos and silica liability payment related to Chapter 11 filing	(2,345)	(119)	(311)
Collection of asbestos- and silica-related insurance receivables	1,032	-	-
Other changes:			
Receivables and unbilled work on uncompleted contracts	423	(506)	(1,442)
Accounts receivable facilities transactions	(519)	519	(180)
Inventories	(152)	(33)	(50)
Accounts payable	(317)	439	733
Other	106	11	(257)
Total cash flows from operating activities	701	928	(775)
Cash flows from investing activities:			
Capital expenditures	(651)	(575)	(515)
Sales of property, plant, and equipment	132	166	107
Dispositions of business assets, net of cash disposed	299	127	230
Acquisitions of business assets, net of cash acquired	(108)	(25)	(6)
Proceeds from sales of securities	15	22	57
Sales (purchases) of short-term investments in marketable securities, net	891	(180)	(576)
Investments - restricted cash	1	89	(18)
Other investing activities	(69)	(30)	(51)
Total cash flows from investing activities	510	(406)	(772)
Cash flows from financing activities:			
Proceeds from long-term debt, net of offering costs	24	496	2,192
Proceeds from exercises of stock options	342	63	21
Payments to reacquire common stock	(12)	(7)	(6)
Borrowings (repayments) of short-term debt, net	10	(7)	(32)
Payments on long-term debt	(823)	(20)	(296)
Payments of dividends to shareholders	(254)	(221)	(219)
Other financing activities	(7)	(21)	(24)
Total cash flows from financing activities	(720)	283	1,636
Effect of exchange rate changes on cash	(17)	8	43
Increase in cash and equivalents	474	813	132
Cash and equivalents at beginning of year	1,917	1,104	972
Cash and equivalents at end of year	$ 2,391	$ 1,917	$ 1,104
Supplemental disclosure of cash flow information:			
Cash payments during the year for:			
Interest	$ 210	$ 211	$ 114
Income taxes	$ 282	$ 265	$ 173

See notes to consolidated financial statements.

Note 1. Description of Company and Significant Accounting Policies

Description of Company

Halliburton Company's predecessor was established in 1919 and incorporated under the laws of the State of Delaware in 1924. We are one of the world's largest oilfield services companies and a leading provider of engineering and construction services. We have six business segments that are organized around how we manage our business: Production Optimization, Fluid Systems, Drilling and Formation Evaluation, and Digital and Consulting Solutions, collectively, the Energy Services Group (ESG); and Government and Infrastructure and Energy and Chemicals, collectively known as KBR. Through the ESG, we provide a comprehensive range of services and products for the exploration, development, and production of oil and gas. We serve major, national, and independent oil and gas companies throughout the world. KBR provides a wide range of services to energy, chemical, and industrial customers and to governmental entities worldwide.

Use of estimates

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States, requiring 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 revenue and expenses during the reporting period.

Ultimate results could differ from those estimates.

Basis of presentation

The consolidated financial statements include the accounts of our company and all of our subsidiaries that we control or variable interest entities for which we have determined that we are the primary beneficiary (see Note 19). All material intercompany accounts and transactions are eliminated. Investments in companies in which we have significant influence are accounted for using the equity method. If we do not have significant influence, we use the cost method.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Revenue recognition

Overall. Our service and products are generally sold based upon purchase orders or contracts with our customers that do not include right of return provisions or other significant post-delivery obligations. Our products are produced in a standard manufacturing operation, even if produced to our customer's specifications. We recognize revenue from product sales when title passes to the customer, the customer assumes risks and rewards of ownership, and collectibility is reasonably assured. Service revenues, including training and consulting services, are recognized when the services are rendered and collectibility is reasonably assured. Rates for services are typically priced on a per day, per meter, per man hour, or similar basis.

Software sales. Sales of perpetual software licenses, net of any deferred maintenance and support fees, are recognized as revenue upon shipment. Sales of time-based licenses are recognized as revenue over the license period. Maintenance and support fees are recognized as revenue ratably over the contract period, usually a one-year duration.

Percentage-of-completion. Revenue from contracts to provide construction, engineering, design, or similar services, almost all of which relates to KBR, is reported on the percentage-of-completion method of accounting. Progress is generally based upon physical progress, man-hours, or costs incurred, depending on the type of job. All known or anticipated losses on contracts are provided for when they become evident. Claims and change orders that are in the process of being negotiated with customers for extra work or changes in the scope of work are included in revenue when collection is deemed probable.

Accounting for government contracts. Most of the services provided to the United States government are governed by cost-reimbursable contracts. Services under our LogCAP, PCO Oil South, and Balkans support contracts are examples of these types of arrangements. Generally, these contracts contain both a base fee (a fixed profit percentage applied to our actual costs to complete the work) and an award fee (a variable profit percentage applied to definitized costs, which is subject to our customer's discretion and tied to the specific performance measures defined in the contract, such as adherence to schedule, health and safety, quality of work, responsiveness, cost performance, and business management). Similar to many cost-reimbursable contracts, these government contracts are typically subject to audit and adjustment by our customer.

Base fee revenue is recorded at the time services are performed, based upon actual project costs incurred, and includes a reimbursement fee for general, administrative, and overhead costs. The general, administrative, and overhead cost reimbursement fees are estimated periodically in accordance with government contract accounting regulations and may change based on actual costs incurred or based upon the volume of work performed. Revenue is reduced for our estimate of costs that may be categorized as disputed or unallowable as a result of cost overruns or the audit process.

Award fees are generally evaluated and granted periodically by our customer. For contracts entered into prior to June 30, 2003, award fees are recognized during the term of the contract based on our estimate of amounts to be awarded. Once award fees are granted and task orders underlying the work are definitized, we adjust our estimate of award fees to actual amounts earned. Our estimates are often based on our past award experience for similar types of work.

For contracts containing multiple deliverables entered into subsequent to June 30, 2003 (such as PCO Oil South), we analyze each activity within the contract to ensure that we adhere to the separation guidelines of Emerging Issues Task Force Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," and the revenue recognition guidelines of Staff Accounting Bulletin No. 104, "Revenue Recognition." For service-only contracts and service elements of multiple deliverable arrangements, award fees are recognized only when definitized and awarded by the customer. Award fees on government construction contracts are recognized during the term of the contract based on our estimate of the amount of fees to be awarded.

Research and development

Research and development expenses are charged to income as incurred. Research and development expenses were $220 million in 2005, $234 million in 2004, and $221 million in 2003, of which over 97% was company-sponsored in each year.

Software development costs

Costs of developing software for sale are charged to expense as research and development when incurred until technological feasibility has been established for the product. Once technological feasibility is established, software development costs are capitalized until the software is ready for general release to customers. We capitalized costs related to software developed for resale of $21 million in 2005, $16 million in 2004, and $17 million in 2003. Amortization expense of software development costs was $22 million for 2005 and 2004 and $17 million for 2003. Once the software is ready for release, amortization of software development costs begins. Capitalized software development costs are amortized over periods not exceeding five years.

Cash equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. Cost represents invoice or production cost for new items and original cost less allowance for condition for used material returned to stock. Production cost includes material, labor, and manufacturing overhead. Some domestic manufacturing and field service finished products and parts inventories for drill bits, completion products, and bulk materials are recorded using the last-in, first-out method. The remaining inventory is recorded on the average cost method.

Allowance for bad debts

We establish an allowance for bad debts through a review of several factors, including historical collection experience, current aging status of the customer accounts, financial condition of our customers, and whether the receivables involve retentions.

Property, plant, and equipment

Other than those assets that have been written down to their fair values due to impairment, property, plant, and equipment are reported at cost less accumulated depreciation, which is generally provided on the straight-line method over the estimated useful lives of the assets. Some assets are depreciated on accelerated methods. Accelerated depreciation methods are also used for tax purposes, wherever permitted. Upon sale or retirement of an asset, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recognized. We follow the successful efforts method of accounting for oil and gas properties.

Goodwill

The reported amounts of goodwill for each reporting unit are reviewed for impairment on an annual basis and more frequently when negative conditions such as significant current or projected operating losses exist. The annual impairment test for goodwill is a two-step process and involves comparing the estimated fair value of each reporting unit to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired, and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test would be performed to measure the amount of impairment loss to be recorded, if any. Our annual impairment tests resulted in no goodwill impairment.

Evaluating impairment of long-lived assets

When events or changes in circumstances indicate that long-lived assets other than goodwill may be impaired, an evaluation is performed. For an asset classified as held for use, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to fair value is required. When an asset is classified as held for sale, the asset's book value is evaluated and adjusted to the lower of its carrying amount or fair value less cost to sell. In addition, depreciation and amortization is ceased while it is classified as held for sale.

Income taxes

We recognize the amount of taxes payable or refundable for the year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will not be realized.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances.

We generally do not provide income taxes on the undistributed earnings of non-United States subsidiaries because such earnings are intended to be reinvested indefinitely to finance foreign activities. Taxes are provided as necessary with respect to earnings that are not permanently reinvested. The American Job Creations Act of 2004 introduced a special dividends received deduction with respect to the repatriation of certain foreign earnings to a United States taxpayer under certain circumstances. Based on our analysis of the Act, we decided not to utilize the special deduction.

Derivative instruments

At times, we enter into derivative financial transactions to hedge existing or projected exposures to changing foreign currency exchange rates, interest rates, and commodity prices. We do not enter into derivative transactions for speculative or trading purposes. We recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value and reflected through the results of operations. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against:

- the change in fair value of the hedged assets, liabilities, or firm commitments through earnings; or
- recognized in other comprehensive income until the hedged item is recognized in earnings.

The ineffective portion of a derivative's change in fair value is recognized in earnings. Recognized gains or losses on derivatives entered into to manage foreign exchange risk are included in foreign currency gains and losses in the consolidated statements of income. Gains or losses on interest rate derivatives are included in interest expense, and gains or losses on commodity derivatives are included in operating income.

Foreign currency translation

Foreign entities whose functional currency is the United States dollar translate monetary assets and liabilities at year-end exchange rates, and nonmonetary items are translated at historical rates. Income and expense accounts are translated at the average rates in effect during the year, except for depreciation, cost of product sales and revenue, and expenses associated with nonmonetary balance sheet accounts, which are translated at historical rates. Gains or losses from changes in exchange rates are recognized in consolidated income in the year of occurrence. Foreign entities whose functional currency is not the United States dollar translate net assets at year-end rates and income and expense accounts at average exchange rates. Adjustments resulting from these translations are reflected in the consolidated statements of shareholders' equity as cumulative translation adjustments.

Stock-based compensation

At December 31, 2005, we have six stock-based employee compensation plans. We account for these plans under the recognition and measurement principles of Accounting Principles Board (APB) 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 (ESPP) 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. The weighted average assumptions and resulting fair values of options granted are as follows:

	Assumptions				Weighted Average
	Risk-Free Interest Rate	Expected Dividend Yield	Expected Life (in years)	Expected Volatility	Fair Value of Options Granted
2005	4.3%	0.8%	5	51%	$ 22.83
2004	3.7%	1.3%	5	54%	$ 13.37
2003	3.2%	1.9%	5	59%	$ 12.37

Included in the pro forma compensation table below is the fair value of the ESPP shares. The fair value of these shares was estimated using the Black-Scholes model with the following assumptions for 2005: risk-free interest rate of 4.4%; expected dividend yield of 0.8%; expected life of six months; and expected volatility of 34%.

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

	Years ended December 31		
Millions of dollars except per share data	2005	2004	2003
Net income (loss), as reported	$ 2,358	$ (979)	$ (820)
Total stock-based employee compensation expense determined under fair value based method for all awards (except restricted stock), net of related tax effects	(30)	(28)	(30)
Net income (loss), pro forma	$ 2,328	$ (1,007)	$ (850)
Basic income (loss) per share:			
As reported	$ 4.67	$ (2.25)	$ (1.89)
Pro forma	$ 4.61	$ (2.31)	$ (1.96)
Diluted income (loss) per share:			
As reported	$ 4.54	$ (2.22)	$ (1.88)
Pro forma	$ 4.49	$ (2.28)	$ (1.95)

We also maintain a restricted stock program wherein the fair market value of the stock on the date of grant is amortized and ratably charged to income over the period during which the restrictions lapse. The related expense, net of tax, reflected in net income (loss) as reported was $20 million in 2005, $14 million in 2004, and $13 million in 2003.

See Note 14 for further detail on stock incentive plans.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, “Share-Based Payment.” SFAS No. 123R is a revision of SFAS No. 123 and supersedes APB No. 25. In April 2005, the United States Securities and Exchange Commission (SEC) adopted a rule that defers the required effective date of SFAS No. 123R. The SEC rule provides that SFAS No. 123R is now effective for registrants as of the beginning of the first fiscal year beginning after June 15, 2005. We adopted the provisions of SFAS No. 123R on January 1, 2006 using the modified prospective application. Accordingly, we will recognize compensation expense for all newly granted awards and awards modified, repurchased, or cancelled after January 1, 2006. Compensation expense for the unvested portion of awards that were outstanding as of January 1, 2006 will be recognized ratably over the remaining vesting period based on the fair value at date of grant as calculated under the Black-Scholes option pricing model. Compensation expense related to the unvested portion of these awards will be consistent with compensation expense included in our pro forma disclosure under SFAS No. 123. We will recognize compensation expense using the Black-Scholes pricing model for our ESPP beginning with the January 1, 2006 purchase period.

We estimate that the effect on earnings per share in the periods following adoption of SFAS No. 123R will be a reduction of approximately $0.01 to $0.02 in net income per diluted share per quarter. This effect is consistent with our pro forma disclosure under SFAS No. 123 except that estimated forfeitures will be considered in the calculation of compensation expense under SFAS No. 123R. Additionally, the actual effect on net income and earnings per share will vary depending upon the number of options granted in subsequent periods compared to prior years and the number of shares purchased under the ESPP.

Note 2. Percentage-of-Completion Contracts

Revenue from contracts to provide construction, engineering, design, or similar services is reported on the percentage-of-completion method of accounting using measurements of progress toward completion appropriate for the work performed. Commonly used measurements are physical progress, man-hours, and costs incurred.

Billing practices for these 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 revenue recognized under the percentage-of-completion method of accounting. Billings in excess of recognized revenue are recorded in “Advance billings on uncompleted contracts.” When billings are less than recognized revenue, the difference is recorded in “Unbilled work on uncompleted contracts.” With the exception of claims and change orders that 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 percentage-of-completion 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 in a limited number of projects that have significant uncertainties in the estimation of costs, we do not delay income recognition until projects have reached a specified percentage of completion. Generally, 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 percentage-of-completion 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. Probable unapproved claims are recorded to the extent of costs incurred and include no profit element. In 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 equal to the costs incurred related to probable unapproved claims. Therefore, the difference between the probable unapproved claims included in determining contract profit or loss and the probable unapproved claims accrued revenue 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” or “Other assets” as of December 31 for each period are as follows:

Millions of dollars	2005	2004	2003
Probable unapproved claims	$ 175	$ 182	$ 233
Probable unapproved claims accrued revenue	172	182	225
Probable unapproved claims from unconsolidated related companies	92	51	10

As of December 31, 2005, the probable unapproved claims, including those from unconsolidated related companies relate to six contracts, most of which are complete or substantially complete. See Note 11 for a discussion of government contract claims, which are not included in the table above.

A significant portion of the probable unapproved claims as of December 31, 2005 ($150 million related to our consolidated entities and $45 million related to our unconsolidated related companies) arose from three completed projects with Petroleos Mexicanos (PEMEX) that are currently subject to arbitration proceedings. In addition, we have “Other assets” of $64 million for previously approved services that are unpaid by PEMEX and have been included in these arbitration proceedings. Actual amounts we are seeking from PEMEX in the arbitration proceedings are in excess of these amounts. The arbitration proceedings are expected to extend through 2007. PEMEX has asserted unspecified counterclaims in each of the three arbitrations; however, it is premature based upon our current understanding of those counterclaims to make any assessment of their merits. As of December 31, 2005, we had not accrued any amounts related to the counterclaims in the arbitrations.

We have contracts with probable unapproved claims that will likely not be settled within one year totaling $172 million at December 31, 2005 and $153 million at December 31, 2004 included in the table above, which are reflected as "Other assets" on the consolidated balance sheets. Other probable unapproved claims that we believe will be settled within one year, included in the table above, have been recorded to "Unbilled work on uncompleted contracts" on the consolidated balance sheets. Our unconsolidated related companies include probable unapproved claims as revenue to determine the amount of profit or loss for their contracts. Probable unapproved claims from our related companies are included in "Equity in and advances to related companies."

Unapproved change orders

We have other contracts for which we are negotiating change orders to the contract scope and have agreed upon the scope of work but not the price. These change orders amounted to $61 million at December 31, 2005. Unapproved change orders at December 31, 2004 were $43 million. Our share of change orders from unconsolidated related companies totaled $5 million at December 31, 2005 and $37 million at December 31, 2004.

Barracuda-Caratinga project

Following is the status, as of December 31, 2005, of our Barracuda-Caratinga project, a multiyear construction project to develop the Barracuda and Caratinga crude oilfields located off the coast of Brazil:

- the project was approximately 98% complete;
- we recorded losses on this project of $407 million in 2004 and $238 million in 2003;
- the losses recorded include $22 million in liquidated damages paid in 2004 based on our agreement with Petrobras;
- the $300 million of advance payments received from our customer have been completely repaid; and
- we have received $138 million related to approved change orders.

The Barracuda and Caratinga vessels are both fully operational. We reached agreement with Petrobras, subject to Lender's consent that enables us to achieve conclusion of the Lenders' Reliability Test and final acceptance of the FPSOs. These acceptances eliminate any further risk of liquidated damages being assessed. Pursuant to the agreed terms, FPSO Final Acceptance will occur during the first quarter of 2006.

In addition, at Petrobras' direction, we have replaced certain bolts located on the subsea flow-lines that have failed through mid-November 2005, and we understand that additional bolts have failed thereafter, which have been replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. The original design specification for the bolts was issued by Petrobras, and as such, we believe the cost resulting from any replacement is not our responsibility. Petrobras has indicated, however, that they do not agree with our conclusion. We have notified Petrobras that this matter is in dispute. We believe several possible solutions may exist, including replacement of the bolts. Estimates indicate that costs of these variouis solutions range up to $140 million. Should Petrobras instruct us to replace the subsea bolts, the prime contract terms and conditions regarding change orders require that Petrobras make progress payments of our reasonable costs incurred. Petrobras could, however, perform any replacement of the bolts and seek reimbursement from KBR. On March 9, 2006 Petrobras notified KBR that they have submitted this matter to arbitration claiming $220 million plus interest for the cost of monitoring and replacing the defective stud bolts and, in addition, all of the costs and expenses of the arbitration including the cost of attorneys fees. We do not understand the basis for the amount claimed by Petrobras. We intend to vigorously defend ourselves and pursue recovery of the costs we have incurred to date through the arbitration process.

We continue to fund operating cash shortfalls on this project and estimate that we will pay approximately $12 million during 2006, which represents remaining project costs, net of revenue to be received.

Note 3. Acquisitions and Dispositions

Dulles Greenway Toll Road

As part of our infrastructure projects, we occasionally take an ownership interest in the constructed asset, with a view toward monetization of that ownership interest after the asset has been operating for some period and increases in value. In September 2005, we sold our 13% interest in a joint venture that owned the Dulles Greenway Toll Road in Virginia. We received $85 million in cash from the sale. Because of unfavorable early projections of traffic to support the toll road after it had opened, we wrote down our investment in the toll road in 1996. At the time of the sale, our investment had a net book value of zero, and therefore, we recorded the entire $85 million of cash proceeds to operating income in our Government and Infrastructure segment.

Subsea 7, Inc.

In January 2005, we completed the sale of our 50% interest in Subsea 7, Inc. to our joint venture partner, Siem Offshore (formerly DSND Subsea ASA), for approximately $200 million in cash. As a result of the transaction, we recorded a gain of approximately $110 million during the first quarter of 2005. We accounted for our 50% ownership of Subsea 7, Inc. using the equity method in our Production Optimization segment.

Surface Well Testing

In August 2004, we sold our surface well testing and subsea test tree operations within our Production Optimization segment to Power Well Service Holdings, LLC, an affiliate of First Reserve Corporation, for approximately $129 million, of which we received $126 million in cash. During 2004, we recorded a $54 million gain on the sale.

Enventure and WellDynamics

In the first quarter of 2004, Halliburton and Shell Technology Ventures (Shell, an unrelated party) restructured two joint venture companies, Enventure Global Technology LLC (Enventure) and WellDynamics B.V. (WellDynamics), in an effort to more closely align the ventures with near-term priorities in the core businesses of the venture owners. Prior to this transaction, Enventure (part of our Fluid Systems segment) and WellDynamics (formerly part of our Digital and Consulting Solutions segment) were owned equally by Shell and us. Shell acquired an additional 33.5% of Enventure, leaving us with 16.5% ownership in return for enhanced and extended agreements and licenses with Shell for its Poroflex™ expandable sand screens and a distribution agreement for its Versaflex™ expandable liner hangers. As a result of this transaction, we changed the way we account for our ownership in Enventure from the equity method to the cost method of accounting for investments. We acquired an additional 1% of WellDynamics from Shell, giving us 51% ownership and control of day-to-day operations. In addition, Shell received an option to obtain our remaining interest in Enventure for an additional 14% interest in WellDynamics. No gain or loss resulted from the transaction. Beginning in the first quarter of 2004, WellDynamics was consolidated and is now included in our Production Optimization segment. The consolidation of WellDynamics resulted in an increase to our goodwill of $109 million, which was previously carried as equity method goodwill in “Equity in and advances to related companies.”

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. The gain on the sale of Halliburton Measurement Systems’ assets was $24 million and was 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 upon Tyne, United Kingdom, and Panama City, Florida, as well as assets and contracts in Brazil. Wellstream had $34 million in goodwill recorded at the disposition date. The transaction resulted in a loss of $15 million, which was included in our Digital and Consulting Solutions segment. Included in the loss is the write-off of the cumulative translation adjustment related to Wellstream of approximately $9 million.

Mono Pumps

In January 2003, we sold our Mono Pumps business to National Oilwell, Inc. The sale price of approximately $88 million was paid with $23 million in cash and 3.2 million shares of National Oilwell, Inc. common stock, which were valued at $65 million on January 15, 2003. We recorded a gain of $36 million on the sale in the first quarter of 2003, which was included in our Drilling and Formation Evaluation segment. Included in the gain was the write-off of the cumulative translation adjustment related to Mono Pumps of approximately $5 million. In February 2003, we sold 2.5 million of our 3.2 million shares of National Oilwell, Inc. common stock for $52 million, which resulted in a gain of $2 million, and in February 2004, we sold the remaining shares for $20 million, resulting in a gain of $6 million. The gains related to the sale of the National Oilwell, Inc. common stock were recorded in “Other, net.”

Note 4. Business Segment Information

During the second quarter of 2003, we restructured our Energy Services Group into four segments, and, in the fourth quarter of 2004, we restructured KBR into two segments, which form the basis for the six segments we now report. The segments mirror the way our chief operating decision maker regularly reviews the operating results, assesses performance, and allocates resources.

Energy Services Group

Following is a summary of our Energy Services Group segments.

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 and completion tools and services.

Production enhancement services include stimulation services, pipeline process services, sand control services, coiled tubing tools and services, and hydraulic workover services. Stimulation services optimize oil and gas reservoir production through a variety of pressure pumping services and chemical processes, commonly known as fracturing and acidizing. Pipeline process services include pipeline and facility testing, commissioning, and cleaning via pressure pumping, chemical systems, specialty equipment, and nitrogen, which are provided to the midstream and downstream sectors of the energy business. Sand control services include fluid and chemical systems and pumping services for the prevention of formation sand production.

Completion tools and services include subsurface safety valves and flow control equipment, surface safety systems, packers and specialty completion equipment, intelligent completion systems, production automation, expandable liner hanger systems, sand control systems, slickline equipment and services, self-elevated workover platforms, tubing-conveyed perforating services and products, well servicing tools, and reservoir performance services. Reservoir performance services include drill stem and other well testing tools and services, underbalanced applications and real-time reservoir analysis, data acquisition services, and production applications.

Also included in the Production Optimization segment are WellDynamics, an intelligent well completions joint venture, which was consolidated beginning in the first quarter of 2004, and, until January 2005, subsea operations conducted by Subsea 7, Inc., of which we formerly owned 50% and accounted for it using the equity method.

Fluid Systems. The Fluid Systems segment focuses on providing services and technologies to assist in the drilling and construction of oil and gas wells. This segment consists of:

- cementing services, which involve the process used to bond the well and well casing while isolating fluid zones and maximizing wellbore stability. Our cementing service line also provides casing equipment and services;
- Baroid Fluid Services, which provides drilling fluid systems, performance additives, solids control, and waste management services for oil and gas drilling, completion, and workover operations; and
- Enventure, an expandable casing joint venture, which we account for using the cost method.

Drilling and Formation Evaluation. The Drilling and Formation Evaluation segment is primarily involved in the drilling and formation evaluation process during bore-hole construction. Major services and products offered include:

- Sperry Drilling Services, which provides drilling systems and services. These services include directional and horizontal drilling, measurement-while-drilling, logging-while-drilling, multilateral systems, and rig site information systems. Our drilling systems offer directional control while providing important measurements about the characteristics of the drill string and geological formations while drilling directional wells. Real-time operating capabilities enable the monitoring of well progress and aid decision-making processes;
- Security DBS Drill Bits, which provides roller cone rock bits, fixed cutter bits, and related downhole tools used in drilling oil and gas wells. In addition, coring equipment and services are provided to acquire cores of the formation drilled for evaluation; and
- logging services, which include open-hole wireline services that provide information on formation evaluation, including resistivity, porosity, and density, rock mechanics, and fluid sampling. Also offered are cased-hole services, which provide cement bond evaluation, reservoir monitoring, pipe evaluation, pipe recovery, and perforating.

Digital and Consulting Solutions. The Digital and Consulting Solutions segment provides integrated exploration, drilling, and production software information systems, consulting services, real-time operations, value-added oilfield project management, and other integrated solutions. Included in this business segment is Landmark, a supplier of integrated exploration, drilling, and production software information systems, as well as professional and data management services for the upstream oil and gas industry.

KBR

KBR provides a wide range of services to energy, chemical, and industrial customers and government entities worldwide. Following is a summary of KBR’s segments.

Government and Infrastructure. The Government and Infrastructure segment is one of the largest government logistics and services contractors with worldwide civil infrastructure capabilities. This segment provides construction, maintenance, and logistics services for government operations, facilities, and installations. Other major operations include civil engineering, consulting, project management services for state and local governments and private industries, integrated security solutions, dockyard operation and maintenance through the Devonport Royal Dockyard Limited (DML) subsidiary, and privately financed initiatives.

Also included in this segment is the Alice Springs-Darwin Railroad (ASD). ASD is a privately financed project that was formed in 2001 to build and operate the transcontinental railroad from Alice Springs to Darwin, Australia. ASD has been granted a 50-year concession period by the Australian government. KBR provided engineering, procurement, and construction (EPC) services for ASD and is the largest equity holder in the project with a 36.7% interest, with the remaining equity held by eleven other participants. We account for this investment under the equity method.

Energy and Chemicals. The Energy and Chemicals segment is a global engineering, procurement, construction, technology, and services provider for the energy and chemicals industries. Working both upstream and downstream in support of our customers, Energy and Chemicals offers the following:

- downstream engineering and construction capabilities, including global engineering execution centers, as well as engineering, construction, and program management of liquefied natural gas, ammonia, petrochemicals, crude oil refineries, and natural gas plants;
- upstream deepwater engineering, marine technology, and project management;
- plant operations, maintenance, and start-up services for both upstream and downstream oil and gas facilities worldwide, as well as maintenance services for the petrochemical, forest product, power, and commercial markets;
- industry-leading licensed technologies in the areas of fertilizers and synthesis gas, olefins, refining, and chemicals and polymers; and
- consulting services in the form of expert technical and management advice that include studies, conceptual and detailed engineering, project management, construction supervision and design, and construction verification or certification in both upstream and downstream markets.

Included in this segment are a number of joint ventures including the following:

- TSKJ is a joint venture company formed to design and construct large scale projects in Nigeria. TSKJ's members are Technip, SA of France, Snamprogetti Netherlands B.V., which is an affiliate of ENI SpA of Italy, JGC Corporation of Japan, and KBR, each of which owns 25%. TSKJ has completed five LNG production facilities on Bonny Island, Nigeria and is currently working on a sixth such facility. We account for this investment under the equity method.
- M. W. Kellogg Limited (MWKL) is a London-based joint venture that provides full engineering, procurement, and construction contractor services for LNG, gas-to-liquids, and onshore oil and gas projects. MWKL is owned 55% by KBR and 45% by JGC Corporation. We consolidate MWKL for financial reporting purposes.

General corporate. General corporate represents assets not included in a business segment and is primarily composed of cash and cash equivalents, deferred tax assets, and insurance for asbestos and silica litigation claims.

Other. Intersegment revenue and revenue between geographic areas are immaterial. Our equity in pretax earnings and losses of unconsolidated affiliates that are accounted for on the equity method is included in revenue and operating income of the applicable segment.

Revenue from the United States Government, which was derived almost entirely from our Government and Infrastructure segment, totaled $6.6 billion or 31% of consolidated revenue in 2005, $8.0 billion or 39% of consolidated revenue in 2004, and $4.2 billion or 26% of consolidated revenue in 2003. No other customer represented more than 10% of consolidated revenue in any period presented.

The tables below present information on our business segments.

Operations by business segment

Millions of dollars	Years ended December 31 2005	2004	2003
Revenue:			
Production Optimization	$ 4,284	$ 3,303	$ 2,758
Fluid Systems	2,838	2,324	2,039
Drilling and Formation Evaluation	2,258	1,782	1,643
Digital and Consulting Solutions	720	589	555
Total Energy Services Group	10,100	7,998	6,995
Government and Infrastructure	8,148	9,393	5,417
Energy and Chemicals	2,746	3,075	3,859
Total KBR	10,894	12,468	9,276
Total	$ 20,994	$ 20,466	$ 16,271
Operating income (loss):			
Production Optimization	$ 1,106	$ 633	$ 413
Fluid Systems	544	348	251
Drilling and Formation Evaluation	483	225	177
Digital and Consulting Solutions	146	60	(15)
Total Energy Services Group	2,279	1,266	826
Government and Infrastructure	330	84	194
Energy and Chemicals	168	(426)	(225)
Shared KBR	-	-	(5)
Total KBR	498	(342)	(36)
General corporate	(115)	(87)	(70)
Total	$ 2,662	$ 837	$ 720
Capital expenditures:			
Production Optimization	$ 254	$ 220	$ 161
Fluid Systems	94	74	96
Drilling and Formation Evaluation	201	172	169
Digital and Consulting Solutions	26	32	27
Total Energy Services Group	575	498	453
Government and Infrastructure	33	41	45
Energy and Chemicals	4	9	5
Shared KBR	39	27	12
Total KBR	76	77	62
Total	$ 651	$ 575	$ 515

Within the Energy Services Group and KBR, not all assets are associated with specific segments. Those assets specific to segments 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 are considered to be shared among the segments within the two groups. For segment operating income presentation, the depreciation expense associated with these shared KBR assets is allocated to the two segments under KBR.

Revenue by country is determined based on the location of services provided and products sold.

Operations by business segment (continued)

	Years ended December 31		
Millions of dollars	2005	2004	2003
Depreciation, depletion, and amortization:			
Production Optimization	$ 165	$ 159	$ 144
Fluid Systems	88	83	77
Drilling and Formation Evaluation	131	139	168
Digital and Consulting Solutions	64	75	78
Total Energy Services Group	448	456	467
Government and Infrastructure	32	27	22
Energy and Chemicals	9	11	16
Shared KBR	15	15	12
Total KBR	56	53	50
General corporate	-	-	1
Total	$ 504	$ 509	$ 518
Total assets:			
Production Optimization	$ 2,466	$ 2,040	$ 1,962
Fluid Systems	1,438	1,230	1,248
Drilling and Formation Evaluation	1,328	1,126	1,254
Digital and Consulting Solutions	803	768	794
Shared energy services	494	452	596
Total Energy Services Group	6,529	5,616	5,854
Government and Infrastructure	2,645	3,309	2,758
Energy and Chemicals	1,957	1,656	2,078
Shared KBR	326	198	246
Total KBR	4,928	5,163	5,082
General corporate	3,553	5,085	4,620
Total	$ 15,010	$ 15,864	$ 15,556

Prior year shared energy services assets, capital expenditures, and depreciation, depletion, and amortization have been reclassified due to allocation of fixed assets to the Energy Services Group business segments from shared energy services and to be consistent with the current year presentation.

Operations by geographic area

	Years ended December 31		
Millions of dollars	2005	2004	2003
Revenue:			
United States	$ 5,655	$ 4,461	$ 4,415
Iraq	5,116	5,362	2,399
United Kingdom	2,013	1,646	1,473
Kuwait	416	1,841	856
Other countries	7,794	7,156	7,128
Total	$ 20,994	$ 20,466	$ 16,271
Long-lived assets:			
United States	$ 2,409	$ 2,485	$ 4,461
United Kingdom	563	697	630
Other countries	1,300	1,126	917
Total	$ 4,272	$ 4,308	$ 6,008

Note 5. Receivables (Other than "Insurance for asbestos- and silica-related liabilities")

Our receivables are generally not collateralized. At December 31, 2005, 38% of our consolidated receivables related to our United States government contracts, primarily for projects in the Middle East. Receivables from the United States government at December 31, 2004 represented 39% of consolidated receivables.

Under an agreement to sell United States Energy Services Group accounts receivable to a bankruptcy-remote limited-purpose funding subsidiary, new receivables were added on a continuous basis to the pool of receivables. Collections reduced previously sold accounts receivable. This funding subsidiary sold an undivided ownership interest in this pool of receivables to entities managed by unaffiliated financial institutions under another agreement. Sales to the funding subsidiary were structured as "true sales" under applicable bankruptcy laws. While the funding subsidiary was wholly owned by us, its assets were not available to pay any creditors of ours or of our subsidiaries or affiliates. The undivided ownership interest in the pool of receivables sold to the unaffiliated companies, therefore, was reflected as a reduction of accounts receivable in our consolidated balance sheets. The funding subsidiary retained the interest in the pool of receivables that were not sold to the unaffiliated companies and was fully consolidated and reported in our financial statements.

The amount of undivided interests which could be sold under the program varied based on the amount of eligible Energy Services Group receivables in the pool at any given time and other factors. The maximum amount that could be sold and outstanding under this agreement at any given time was $300 million. As of December 31, 2004, we had sold $256 million of undivided ownership interest to unaffiliated companies. During the fourth quarter of 2005, these receivables were collected and the balance retired. No further receivables were sold, and the facility was terminated subsequent to December 31, 2005.

In May 2004, we entered into an agreement to sell, assign, and transfer the entire title and interest in specified United States government accounts receivable of KBR to a third party. The face value of the receivables sold to the third party was reflected as a reduction of accounts receivable in our consolidated balance sheets. The amount of receivables that could be sold under the agreement varied based on the amount of eligible receivables at any given time and other factors, and the maximum amount that could be sold and outstanding under this agreement at any given time was $650 million. The total amount of receivables outstanding under this agreement as of December 31, 2004 was approximately $263 million. As of December 31, 2005, these receivables were collected, the balance was retired, and the facility was terminated.

Note 6. 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, bulk materials, and other tools that are recorded using the last-in, first-out method, which totaled $42 million at December 31, 2005 and $37 million at December 31, 2004. If the average cost method had been used, total inventories would have been $21 million higher than reported at December 31, 2005 and $17 million higher than reported at December 31, 2004. The cost of the remaining inventory was recorded on the average cost method. Inventories at December 31, 2005 and December 31, 2004 were composed of the following:

	December 31	
Millions of dollars	2005	2004
Finished products and parts	$ 715	$ 602
Raw materials and supplies	181	156
Work in process	57	33
Total	$ 953	$ 791

Finished products and parts are reported net of obsolescence reserves of $98 million at December 31, 2005 and $119 million at December 31, 2004.

Note 7. Investments

Investments in marketable securities

Our investments in marketable securities are reported at fair value. At December 31, 2004, our investments in marketable securities consisted of auction rate securities classified as available-for-sale. The 2004 balance of the auction rate securities was previously classified as cash and equivalents due to our intent and ability to quickly liquidate these securities to fund current operations and due to their interest rate reset feature. The auction rate securities were reclassified as investments in marketable securities. There was no impact on net income or cash flow from operating activities as a result of the reclassification. These auction rate securities were liquidated in March 2005.

Restricted cash

At December 31, 2005, we had restricted cash of $123 million in “Other assets,” which consisted of:

- $100 million as collateral for potential future insurance claim reimbursements; and
- $23 million related to cash collateral agreements for outstanding letters of credit for various construction projects.

At December 31, 2004, we had restricted cash of $121 million in “Other assets” and $17 million in “Other current assets,” which consisted of similar items as above.

Note 8. Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2005 and 2004 were composed of the following:

Millions of dollars	2005	2004
Land	$ 66	$ 68
Buildings and property improvements	940	1,088
Machinery, equipment, and other	5,480	5,071
Total	6,486	6,227
Less accumulated depreciation	3,838	3,674
Net property, plant, and equipment	$ 2,648	$ 2,553

Machinery, equipment, and other includes oil and gas properties of $309 million at December 31, 2005 and $308 million at December 31, 2004.

The percentages of total buildings and property improvements and total machinery, equipment, and other, excluding oil and gas investments, are depreciated over the following useful lives:

	Buildings and Property Improvements	
	2005	2004
1-10 years	25%	19%
11-20 years	45%	45%
21-30 years	11%	16%
31-40 years	19%	20%

	Machinery, Equipment, and Other	
	2005	2004
1-5 years	25%	28%
6-10 years	69%	63%
11-20 years	6%	9%

In the second quarter of 2004, we implemented a change in accounting estimate to more accurately reflect the useful life of some of the tools of our Drilling and Formation Evaluation segment. This resulted in a combined $35 million reduction in depreciation expense in the last three quarters of 2004, thereby reducing our consolidated net loss by $22 million, or $0.05 per share, for 2004. We extended the useful lives of these tools based on our review of their service lives, technological improvements in the tools, and recent changes to our repair and maintenance practices which helped to extend the lives.

Note 9. Debt

Short-term notes payable consist primarily of overdraft and other facilities with varying rates of interest. Long-term debt at December 31, 2005 and 2004 consisted of the following:

Millions of dollars	2005	2004
3.125% convertible senior notes due July 2023	$ 1,200	$ 1,200
5.5% senior notes due October 2010	748	748
Medium-term notes due 2006 thru 2027	600	600
7.6% debentures of Halliburton due August 2096	294	294
8.75% debentures due February 2021	200	200
0.75% plus three-month LIBOR senior notes repaid in April 2005	-	500
1.5% plus three-month LIBOR senior notes repaid in October 2005	-	300
Other	132	98
Total long-term debt	3,174	3,940
Less current portion	361	347
Noncurrent portion of long-term debt	$ 2,813	$ 3,593

Convertible notes

In June 2003, we issued $1.2 billion of 3.125% convertible senior notes due July 15, 2023, with interest payable semiannually. The notes are our senior unsecured obligations ranking equally with all of our existing and future senior unsecured indebtedness.

The notes are convertible under any of the following circumstances:

- during any 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. This circumstance was achieved in the third and fourth quarters of 2005. There were no conversions of these notes as of February 15, 2006;
- 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 Investors Service 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 the occurrence of stock dividends in common stock, the issuance of rights or warrants, stock splits and combinations, the distribution of indebtedness, securities, or assets, or excess cash distributions.

Upon conversion, we must settle the principal amount of the notes in cash, and for any amounts in excess of the aggregate principal we have the right to deliver shares of our common stock, cash, or a combination of cash and common stock.

See Note 16 for discussion of supplemental indenture on these notes.

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 underlying indenture.

Senior notes due 2007

In January 2004, we issued $500 million aggregate principal amount of senior notes due 2007 bearing interest at a floating rate equal to three-month LIBOR (London interbank offered rates) plus 0.75%, payable quarterly. In April 2005, we redeemed, at par plus accrued interest, all $500 million of these senior notes.

Floating- and fixed-rate senior notes

In October 2003, we completed an offering of $1.05 billion of floating- and fixed-rate unsecured senior notes. The fixed-rate notes, with an aggregate principal amount of $750 million, will mature on October 15, 2010 and bear interest at a rate equal to 5.5%, payable semiannually. The fixed-rate notes were initially offered on a discounted basis at 99.679% of their face value. The discount is being amortized to interest expense over the life of the bonds. The floating-rate notes, with an aggregate principal amount of $300 million and interest at a rate equal to three-month LIBOR plus 1.5%, were repaid at par plus accrued interest in October 2005.

Medium-term notes

We have outstanding notes under our medium-term note program as follows:

Due	Rate	Amount *(in millions)*
08/2006	6.00%	$ 275
12/2008	5.63%	$ 150
05/2017	7.53%	$ 50
02/2027	6.75%	$ 125

At December 31, 2005, the $275 million 6.00% medium-term notes due August 2006 were included in “Current maturities of long-term debt” in the consolidated balance sheet. We may redeem the 6.00% and 5.63% medium-term notes in whole or in part at any time subject to a redemption price equal to the greater of 100% of the principal amount of such notes or the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the redemption date at the treasury rate plus 15 basis points. The 7.53% notes may not be redeemed prior to maturity. Each holder of the 6.75% medium-term notes has the right to require us to repay their notes in whole or in part on February 1, 2007. The medium-term notes do not have sinking fund requirements and rank equally with our existing and future senior unsecured indebtedness.

Revolving credit facilities

In March 2005, we entered into a $1.2 billion variable rate, five-year unsecured revolving credit agreement, which replaced a secured $700 million three-year revolving credit facility and a secured $500 million 364-day revolving credit facility. The letter of credit outstanding under the previous $700 million revolving credit facility is now outstanding under our $1.2 billion revolving credit agreement and had a balance of $107 million as of December 31, 2005. As of December 31, 2005, approximately $1.1 billion was available for borrowing under the $1.2 billion revolving credit agreement, but no borrowings had been made.

KBR entered into an unsecured $850 million five-year revolving credit facility in the fourth quarter of 2005. Three letters of credit that totaled $25 million were subsequently issued under the KBR revolving credit facility, thus reducing the availability under the credit facility to approximately $825 million at December 31, 2005. There were no cash drawings under the unsecured $850 million revolving credit facility as of December 31, 2005.

Debt covenants

Letters of credit related to our Barracuda-Caratinga project and our $1.2 billion revolving credit facility contain restrictive covenants, including covenants that require us to maintain certain financial ratios as defined by the agreements. For the letters of credit related to our Barracuda-Caratinga project, we are required to maintain certain interest coverage and leverage ratios. We are also required to maintain a minimum debt-to-capitalization ratio under our $1.2 billion revolving credit facility. At December 31, 2005, we were in compliance with these requirements.

In addition, the unsecured $850 million five-year revolving letter of credit facility entered into by KBR contains covenants including a limitation on the amount KBR can invest in unconsolidated subsidiaries. KBR must also maintain certain financial ratios including a debt-to-capitalization ratio, a leverage ratio, and a fixed charge coverage ratio. At December 31, 2005, KBR was in compliance with these requirements.

Maturities

Our debt, excluding the effects of our terminated interest rate swaps of $2 million, matures as follows: $359 million in 2006; $31 million in 2007; $152 million in 2008; $1 million in 2009; $750 million in 2010; and $1,879 million thereafter.

Note 10. Asbestos and Silica Obligations and Insurance Recoveries

Several of our subsidiaries, particularly DII Industries and Kellogg Brown & Root, had been named as defendants in a large number of asbestos- and silica-related lawsuits. The plaintiffs' alleged injuries were primarily a result of exposure to:

- asbestos used in products manufactured or sold by former divisions of DII Industries (primarily refractory materials, gaskets, and packing materials used in pumps and other industrial products);
- asbestos in materials used in the construction and maintenance projects of Kellogg Brown & Root or its subsidiaries; and
- silica related to sandblasting and drilling fluids operations.

Effective December 31, 2004, we resolved all open and future claims in the prepackaged Chapter 11 proceedings of DII Industries, Kellogg Brown & Root, and our other affected subsidiaries (which were filed on December 16, 2003) upon the plan of reorganization becoming final and nonappealable. The following table presents a rollforward of our asbestos- and silica-related liabilities and insurance receivables.

Millions of dollars		
Asbestos- and silica-related liabilities:		
December 31, 2004 balance (of which $2,408 was current)	$	(2,445)
Payment to trusts in accordance with the plan of reorganization		2,345
First installment payment of partitioning agreement		16
Cash settlement payment to the silica trust		15
Payment on one-year asbestos note		8
Reclassification of remaining note balances to other current liabilities and long-term debt		61
Asbestos- and silica-related liabilities - December 31, 2005 balance	$	-
Insurance for asbestos- and silica-related liabilities:		
December 31, 2004 balance (of which $1,066 was current)	$	1,416
Payments received		(1,032)
Accretion		15
Other		(3)
Insurance for asbestos- and silica-related liabilities - December 31, 2005 balance (of which $193 is current)	$	396

In accordance with the plan of reorganization, in January 2005 we contributed the following to trusts for the benefit of current and future asbestos and silica personal injury claimants:

- approximately $2.345 billion in cash, which represents the remaining portion of the $2.775 billion total cash settlement after payments of $311 million in December 2003 and $119 million in June 2004;
- 59.5 million shares of Halliburton common stock;
- a one-year non-interest-bearing note of $31 million for the benefit of asbestos claimants. We prepaid the initial installment on the note of approximately $8 million in January 2005 and paid an additional $15 million during the third quarter of 2005. The final payment on the note of approximately $8 million was made in the fourth quarter of 2005; and

- a silica note for the benefit of silica claimants. The note provides that we will contribute an amount to the silica trust at the end of each year for the next 30 years of up to $15 million. The note also provides for an extension of the note for 20 additional years under certain circumstances. As of December 31, 2005, we estimated the value of this note plus the initial cash payment of $15 million, paid in January 2005, to be approximately $24 million. We will periodically reassess our valuation of this note based upon our projections of the amounts we believe we will be required to fund into the silica trust.

Our plan of reorganization called for a portion of our total asbestos liability to be settled by contributing 59.5 million shares of Halliburton common stock to the trust. In 2004, we revalued the 59.5 million shares to $2.335 billion ($39.24 per share) at December 31, 2004 from approximately $1.6 billion ($26.27 per share) at December 31, 2003, resulting in charges to discontinued operations totaling $778 million. Effective December 31, 2004, concurrent with receiving final and nonappealable confirmation of our plan of reorganization, we reclassified from a long-term liability to shareholders' equity the final value of the 59.5 million shares of Halliburton common stock to be contributed to the asbestos trust. In January 2005, when the 59.5 million shares were actually contributed to the trust, the $2.335 billion value of the common shares was reclassified to common stock and paid-in capital in excess of par value on the consolidated balance sheets.

Insurance settlements

During 2004, we settled insurance disputes with substantially all the insurance companies for asbestos- and silica-related claims and all other claims under the applicable insurance policies and terminated all the applicable insurance policies. Under the terms of our insurance settlements, we would receive cash proceeds with a nominal amount of approximately $1.5 billion and with a then present value of approximately $1.4 billion for our asbestos- and silica-related insurance receivables. The present value was determined by discounting the expected future cash payments with a discount rate implicit in the settlements, which ranged from 4.0% to 5.5%. This discount is being accreted as interest income (classified as discontinued operations) over the life of the expected future cash payments. Cash payments of approximately $1.032 billion related to these receivables were received in 2005. Under the terms of the settlement agreements, we will receive cash payments of the remaining amounts, totaling $427 million at December 31, 2005, in several installments through 2010.

A significant portion of the insurance coverage applicable to Worthington Pump, a former division of DII Industries, was alleged by Federal-Mogul (and others who formerly were associated with Worthington Pump prior to its acquisition by DII Industries) to be shared with them. During 2004, we reached an agreement with Federal-Mogul, our insurance companies, and another party sharing in the insurance coverage to obtain their consent and support of a partitioning of the insurance policies. Under the terms of the agreement, DII Industries was allocated 50% of the limits of any applicable insurance policy, and the remaining 50% of limits of the insurance policies were allocated to the remaining policyholders. As part of the settlement, DII Industries agreed to pay $46 million in three installment payments. In 2004, we accrued $44 million, which represents the present value of the $46 million to be paid. The discount is accreted as interest expense (classified as discontinued operations) over the life of the expected future cash payments beginning in the fourth quarter of 2004. The first payment of $16 million was paid in January 2005, and the second payment of $15 million was paid in January 2006. The third and final payment of $15 million will be made in January 2007.

DII Industries and Federal-Mogul agreed to share equally in recoveries from insolvent London-based insurance companies. To the extent that Federal-Mogul's recoveries from certain insolvent London-based insurance companies received on or before January 1, 2006 did not equal at least $4.5 million, DII Industries agreed to also pay to Federal-Mogul the difference between their recoveries from the insolvent London-based insurance companies and $4.5 million. Accordingly, DII Industries paid Federal-Mogul $1.6 million in January 2006. This amount is expected to be received back from Federal-Mogul following any recoveries received by Federal-Mogul from the insolvent London-based insurance companies after January 1, 2006.

Under the insurance settlements entered into as part of the resolution of our Chapter 11 proceedings, we have agreed to indemnify our insurers under certain historic general liability insurance policies in certain situations. We have concluded that the likelihood of any claims triggering the indemnity obligations is remote, and we believe any potential liability for these indemnifications will be immaterial. At December 31, 2005, we had not recorded any liability associated with these indemnifications.

Note 11. United States Government Contract Work

We provide substantial work under our government contracts to the United States Department of Defense and other governmental agencies. These contracts include our worldwide United States Army logistics contracts, known as LogCAP, and contracts to rebuild Iraq's petroleum industry, such as PCO Oil South. Our government services revenue related to Iraq totaled approximately $5.4 billion in 2005, $7.1 billion in 2004, and $3.6 billion in 2003.

Given the demands of working in Iraq and elsewhere for the United States government, we expect that from time to time we will have disagreements or experience performance issues with the various government customers for which we work. If performance issues arise under any of our government contracts, the government retains the right to pursue remedies which could include threatened termination or termination, under any affected contract. If any contract were so terminated, we may not receive award fees under the affected contract, and our ability to secure future contracts could be adversely affected, although we would receive payment for amounts owed for our allowable costs under cost-reimbursable contracts. Other remedies that could be sought by our government customers for any improper activities or performance issues include sanctions such as forfeiture of profits, suspension of payments, fines, and suspensions or debarment from doing business with the government. Further, the negative publicity that could arise from disagreements with our customers or sanctions as a result thereof could have an adverse effect on our reputation in the industry, reduce our ability to compete for new contracts, and may also have a material adverse effect on our business, financial condition, results of operations, and cash flow.

DCAA audit issues

Our operations under United States government contracts are regularly reviewed and audited by the Defense Contract Audit Agency (DCAA) and other governmental agencies. The DCAA serves in an advisory role to our customer. When issues are found during the governmental agency audit process, these issues are typically discussed and reviewed with us. The DCAA then issues an audit report with its recommendations to our customer's contracting officer. In the case of management systems and other contract administrative issues, the contracting officer is generally with the Defense Contract Management Agency (DCMA). We then work with our customer to resolve the issues noted in the audit report. If our customer or a government auditor finds that we improperly charged any costs to a contract, these costs are not reimbursable, or, if already reimbursed, the costs must be refunded to the customer.

Dining facilities (DFAC). During 2003, the DCAA raised issues related to our invoicing to the Army Materiel Command (AMC) for food services for soldiers and supporting civilian personnel in Iraq and Kuwait. During 2004, we received notice from the DCAA that it was recommending withholding 19.35% of our DFAC billings relating to subcontracts entered into prior to February 2004 until it completed its audits. Approximately $213 million had been withheld as of March 31, 2005. Subsequent to February 2004, we renegotiated our DFAC subcontracts to address the specific issues raised by the DCAA and advised the AMC and the DCAA of the new terms of the arrangements. We have had no objection by the government to the terms and conditions associated with our new DFAC subcontract agreements. On March 31, 2005, we reached an agreement with the AMC regarding the costs associated with the DFAC subcontractors, which totaled approximately $1.2 billion. Under the terms of the agreement, the AMC agreed to the DFAC subcontractor costs except for $55 million, which it retained from the $213 million previously withheld amount. In the second quarter of 2005, the government released the funds to KBR.

During 2005, we reached settlement agreements with all but one subcontractor, Eurest Support Services (Cyprus) International Limited, or ESS, and resolved $44 million of the $55 million disallowed DFAC subcontractor costs. Accordingly, we paid the amounts due to all subcontractors with whom settlements have been finalized, in accordance with the agreement reached with the government, but withheld the remaining $11 million pending settlement with ESS. On September 30, 2005, ESS filed suit against us alleging various claims associated with its performance as a subcontractor in conjunction with our LogCAP contract in Iraq. The case was settled during the first quarter of 2006 without material impact to us.

Fuel. In December 2003, the DCAA issued a preliminary audit report that alleged that we may have overcharged the Department of Defense by $61 million in importing fuel into Iraq. The DCAA questioned costs associated with fuel purchases made in Kuwait that were more expensive than buying and transporting fuel from Turkey. We responded that we had maintained close coordination of the fuel mission with the Army Corps of Engineers (COE), which was our customer and oversaw the project throughout the life of the task orders, and that the COE had directed us to use the Kuwait sources. After a review, the COE concluded that we obtained a fair price for the fuel. Nonetheless, Department of Defense officials referred the matter to the agency's inspector general, which we understand commenced an investigation.

The DCAA issued various audit reports related to task orders under the RIO contract that reported $275 million in questioned and unsupported costs. The majority of these costs were associated with the humanitarian fuel mission. In these reports, the DCAA compared fuel costs we incurred during the duration of the RIO contract in 2003 and early 2004 to fuel prices obtained by the Defense Energy Supply Center (DESC) in April 2004 when the fuel mission was transferred to that agency. During the fourth quarter of 2005, we resolved all outstanding issues related to the RIO contract with our customer and settled the remaining questioned costs under this contract.

Laundry. Prior to the fourth quarter of 2005, we received notice from the DCAA that it recommended withholding $18 million of subcontract costs related to the laundry service for one task order in southern Iraq for which it believes we and our subcontractors have not provided adequate levels of documentation supporting the quantity of the services provided. In the fourth quarter of 2005, the DCAA issued a notice to disallow costs totaling approximately $12 million, releasing $6 million of amounts previously withheld. The $12 million has been withheld from the subcontractor. We are working with the DCMA and the subcontractor to resolve this issue.

Containers. In June 2005, the DCAA recommended withholding certain costs associated with providing containerized housing for soldiers and supporting civilian personnel in Iraq. Approximately $55 million has been withheld as of December 31, 2005 (down from $60 million originally reported because some issues have been resolved). The DCAA recommended that the costs be withheld pending receipt of additional explanation or documentation to support the subcontract costs. We have provided information we believe addresses the concerns raised by the DCAA. None of these amounts have been withheld from our subcontractors. We are working with the government and our subcontractors to resolve this issue.

Other issues. The DCAA is continuously performing audits of costs incurred for the foregoing and other services provided by us under our government contracts. During these audits, there are likely to be questions raised by the DCAA about the reasonableness or allowability of certain costs or the quality or quantity of supporting documentation. No assurance can be given that the DCAA might not recommend withholding some portion of the questioned costs while the issues are being resolved with our customer. Because of the intense scrutiny involving our government contracts operations, issues raised by the DCAA may be more difficult to resolve. We do not believe any potential withholding will have a significant or sustained impact on our liquidity.

Investigations

In early 2004, our internal audit function identified a potential $4 million overbilling by La Nouvelle Trading & Contracting Company, W.L.L. (La Nouvelle), one of our subcontractors under the LogCAP contract in Iraq, for services performed during 2003. In accordance with our policy and government regulation, the potential overcharge was reported to the Department of Defense Inspector General's office as well as to our customer, the AMC. We reimbursed the AMC to cover that potential overbilling while we conducted our own investigation into the matter. We subsequently terminated La Nouvelle's services under the LogCAP contract. In October 2004, La Nouvelle filed suit against us alleging $224 million in damages as a result of its termination. During the second quarter of 2005, this suit was settled without material impact to us. See Note 12 for further discussion.

In the first quarter of 2005, the United States Department of Justice (DOJ) issued two indictments associated with these issues against a former KBR procurement manager and a manager of La Nouvelle.

In October 2004, we reported to the Department of Defense Inspector General's office that two former employees in Kuwait may have had inappropriate contacts with individuals employed by or affiliated with two third-party subcontractors prior to the award of the subcontracts. The Inspector General's office may investigate whether these two employees may have solicited and/or accepted payments from these third-party subcontractors while they were employed by us.

In October 2004, a civilian contracting official in the COE asked for a review of the process used by the COE for awarding some of the contracts to us. We understand that the Department of Defense Inspector General's office may review the issues involved.

We understand that the DOJ, an Assistant United States Attorney based in Illinois, and others are investigating these and other individually immaterial matters we have reported relating to our government contract work in Iraq. If criminal wrongdoing were found, criminal penalties could range up to the greater of $500,000 in fines per count for a corporation or twice the gross pecuniary gain or loss. We also understand that current and former employees of KBR have received subpoenas and have given or may give grand jury testimony related to some of these matters.

Withholding of payments

During 2004, the AMC issued a determination that a particular contract clause could cause it to withhold 15% from our invoices until our task orders under the LogCAP contract are definitized. The AMC delayed implementation of this withholding pending further review. During the third quarter of 2004, we and the AMC identified three senior management teams to facilitate negotiation under the LogCAP task orders, and these teams concluded their effort by successfully negotiating the final outstanding task order definitization on March 31, 2005. This made us current with regard to definitization of historical LogCAP task orders and eliminated the potential 15% withholding issue under the LogCAP contract.

Upon the completion of the RIO contract definitization process, the COE released all previously withheld amounts related to this contract in the fourth quarter of 2005.

The PCO Oil South project has definitized substantially all of the task orders, and we have collected a significant portion of the amounts previously withheld. We do not believe the withholding will have a significant or sustained impact on our liquidity because the withholding is temporary, and the definitization process is substantially complete.

We are working diligently with our customers to proceed with significant new work only after we have a fully definitized task order, which should limit withholdings on future task orders for all government contracts.

In addition, we had probable unapproved claims totaling $69 million at December 31, 2005 for the LogCAP and PCO Oil South contracts. These unapproved claims related to contracts where our costs have exceeded the customer's funded value of the task order.

DCMA system reviews

Report on estimating system. On December 27, 2004, the DCMA granted continued approval of our estimating system, stating that our estimating system is "acceptable with corrective action." We are in the process of completing these corrective actions. Specifically, based on the unprecedented level of support that our employees are providing the military in Iraq, Kuwait, and Afghanistan, we needed to update our estimating policies and procedures to make them better suited to such contingency situations. Additionally, we have completed our development of a detailed training program and have made it available to all estimating personnel to ensure that employees are adequately prepared to deal with the challenges and unique circumstances associated with a contingency operation.

Report on purchasing system. As a result of a Contractor Purchasing System Review by the DCMA during the fourth quarter of 2005, the DCMA granted the continued approval of our government contract purchasing system. The DCMA's approval letter, dated October 28, 2005, stated that our purchasing system's policies and practices are "effective and efficient, and provide adequate protection of the Government's interest."

Report on accounting system. We received two draft reports on our accounting system, which raised various issues and questions. We have responded to the points raised by the DCAA, but this review remains open. Once the DCAA finalizes the report, it will be submitted to the DCMA, who will make a determination of the adequacy of our accounting systems for government contracting.

The Balkans

We have had inquiries in the past by the DCAA and the civil fraud division of the DOJ into possible overcharges for work performed during 1996 through 2000 under a contract in the Balkans, for which inquiry has not yet been completed by the DOJ. Based on an internal investigation, we credited our customer approximately $2 million during 2000 and 2001 related to our work in the Balkans as a result of billings for which support was not readily available. We believe that the preliminary DOJ inquiry relates to potential overcharges in connection with a part of the Balkans contract under which approximately $100 million in work was done. We believe that any allegations of overcharges would be without merit. Amounts accrued related to this matter as of December 31, 2005 are not material.

Note 12. Other Commitments and Contingencies

Foreign Corrupt Practices Act investigations

The SEC is conducting a formal investigation into payments made in connection with the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The DOJ is also conducting a related criminal investigation. The government has also issued a subpoena to Halliburton seeking information, which we are furnishing, regarding current and former agents used in connection with multiple projects or services over the past 20 years located both in and outside of Nigeria in which The M .W. Kellogg Company, M. W. Kellogg, Ltd., Kellogg Brown & Root or their joint ventures, as well as the Halliburton energy services business, were participants. M. W. Kellogg, Ltd. is a joint venture in which Kellogg Brown & Root has a 55% interest. The M. W. Kellogg Company was a subsidiary of Dresser Industries before our 1998 acquisition of Dresser Industries and was later merged with a subsidiary of ours to form Kellogg Brown & Root.

The SEC and the DOJ have been reviewing these matters in light of the requirements of the United States Foreign Corrupt Practices Act (FCPA). We have been cooperating with the SEC and the DOJ, as well as with investigations into the Bonny Island project in France and Nigeria. Our Board of Directors has appointed a committee of independent directors to oversee and direct the FCPA investigations.

The matters under investigation relating to the Bonny Island project cover an extended period of time (in some cases significantly before our 1998 acquisition of Dresser Industries (which included M. W. Kellogg, Ltd. and The M .W. Kellogg Company)) and include TSKJ's use of a Japanese trading company that contracted to provide services to TSKJ. We have produced documents to the SEC and the DOJ both voluntarily and pursuant to subpoenas, and we are making our employees available to the SEC and the DOJ for interviews. In addition, we understand that the SEC has issued a subpoena to A. Jack Stanley, who formerly served as a consultant and chairman of KBR, and to others, including certain current and former KBR employees and at least one subcontractor of KBR. We further understand that the DOJ has invoked its authority under a sitting grand jury to issue subpoenas for the purpose of obtaining information abroad, and we understand that other partners in TSKJ have provided information to the DOJ and the SEC with respect to the investigations, either voluntarily or under subpoenas.

TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (an affiliate of ENI SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root (as successor to The M. W. Kellogg Company), each of which owns 25% of the venture. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA). Commencing in 1995, TSKJ entered into a series of agency agreements in connection with the Bonny Island project, including with Tri-Star Investments, of which Jeffrey Tesler is a principal. We understand that a French magistrate has officially placed Mr. Tesler under investigation for corruption of a foreign public official. In Nigeria, a legislative committee of the National Assembly and the Economic and Financial Crimes Commission, which is organized as part of the executive branch of the government, are also investigating these matters. Our representatives have met with the French magistrate and Nigerian officials. In October 2004, representatives of TSKJ voluntarily testified before the Nigerian legislative committee.

As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. We have reason to believe, based on the ongoing governmental and other investigations, that payments may have been made to Nigerian officials.

We notified the other owners of TSKJ of information provided by the investigations and asked each of them to conduct their own investigation. TSKJ has suspended the receipt of services from and payments to Tri-Star Investments and the Japanese trading company and has considered instituting legal proceedings to declare all agency agreements with Tri-Star Investments terminated and to recover all amounts previously paid under those agreements.

In June 2004, we terminated all relationships with Mr. Stanley and another consultant and former employee of M. W. Kellogg, Ltd. The terminations occurred because of violations of our Code of Business Conduct that allegedly involved the receipt of improper personal benefits in connection with TSKJ's construction of the natural gas liquefaction facility in Nigeria.

Until such time, if ever, as we can satisfy ourselves regarding compliance with applicable law and our Code of Business Conduct, we have also suspended the services of another agent who has worked for KBR outside of Nigeria on several current projects and on numerous older projects going back to the early 1980's. In addition, we are actively reviewing the compliance of an additional agent on a separate current Nigerian project with respect to which we have recently received from a joint venture partner on that project allegations of wrongful payments made by such agent.

In February 2005, TSKJ notified the Attorney General of Nigeria that TSKJ would not oppose the Attorney General's efforts to have sums of money held on deposit in banks in Switzerland transferred to Nigeria and to have the legal ownership of such sums determined in the Nigerian courts.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to $500,000 per violation, equitable remedies, including disgorgement, and injunctive relief. Criminal penalties could range up to the greater of $2 million per violation or twice the gross pecuniary gain or loss. Both the SEC and the DOJ could argue that continuing conduct may constitute multiple violations for purposes of assessing the penalty amounts per violation. Often, agreed dispositions for these types of matters result in a monitor being appointed by the SEC and/or the DOJ to review future business and practices with the goal of ensuring compliance with the FCPA. Fines and civil and criminal penalties could be mitigated, in the government's discretion, depending on the level of the cooperation in the investigations.

Potential consequences of a criminal indictment arising out of these matters could include suspension by the Department of Defense or another federal, state, or local government agency of KBR and its affiliates from their ability to contract with United States, state or local governments, or government agencies and, if a criminal or civil violation were found, KBR and its affiliates could be debarred from future contracts or new orders under current contracts to provide services to any such parties. During 2005, KBR and its affiliates had revenue of approximately $6.6 billion from its government contracts work with agencies of the United States or state or local governments. Consistent with our cooperation with the DOJ and the SEC, we would seek to obtain administrative agreements or waivers to avoid suspension or debarment. Generally, debarments can last up to three years. Suspension or debarment from the government contracts business would have a material adverse effect on the business and results of operations of KBR and Halliburton.

There can be no assurance that any governmental investigation or our investigation of these matters will not conclude that violations of applicable laws have occurred. The results of these investigations could have a material adverse effect on our business, prospects, results of operations, financial condition, and cash flows.

As of December 31, 2005, we have not accrued any amounts related to this investigation other than our current legal expenses.

Bidding practices investigation

In connection with the investigation into payments made in connection with the Nigerian project, information has been uncovered suggesting that Mr. Stanley and other former employees may have engaged in coordinated bidding with one or more competitors on certain foreign construction projects, and that such coordination possibly began as early as the mid-1980s, which was significantly before our 1998 acquisition of Dresser Industries.

On the basis of this information, we and the DOJ have broadened our investigations to determine the nature and extent of any improper bidding practices, whether such conduct violated United States antitrust laws, and whether former employees may have received payments in connection with bidding practices on some foreign projects.

If violations of applicable United States antitrust laws occurred, the range of possible penalties includes criminal fines, which could range up to the greater of $10 million in fines per count for a corporation, or twice the gross pecuniary gain or loss, and treble civil damages in favor of any persons financially injured by such violations. Suspension or debarment from contracting with the United States, state or local governments, or government agencies could also occur. Criminal prosecutions under applicable laws of relevant foreign jurisdictions and civil claims by or relationship issues with customers are also possible.

There can be no assurance that the results of these investigations will not have a material adverse effect on our business and results of operations.

As of December 31, 2005, we had not accrued any amounts related to this investigation other than our current legal expenses.

SEC investigation of change in accounting for revenue on long-term construction projects and related disclosures

In August 2004, we reached a settlement in the investigation by the SEC involving our 1998 and 1999 disclosure of an accounting for the recognition of revenue from unapproved claims on long-term construction projects. Our settlement with the SEC covers a failure to disclose a 1998 change in accounting practice. We disclosed the change in accounting practice in our 1999 Annual Report on Form 10-K and continued to do so in subsequent periods. The SEC did not determine that we departed from generally accepted accounting principles nor did it find errors in accounting or fraud. We neither admitted nor denied the SEC's findings but paid a $7.5 million civil penalty and recorded a charge of that amount in the second quarter of 2004. As part of the settlement, the Company agreed to cease and desist from committing or causing future securities law violations.

Securities and related litigation

On June 3, 2002, a class action lawsuit was filed against us in federal court on behalf of purchasers of our common stock during the period of approximately May 1998 until approximately May 2002 alleging violations of the federal securities laws in connection with the accounting change and disclosures involved in the SEC investigation discussed above. In addition, the plaintiffs allege that we overstated our revenue from unapproved claims by recognizing amounts not reasonably estimable or probable of collection. In the weeks that followed, approximately twenty similar class actions were filed against us. Several of those lawsuits also named as defendants Arthur Andersen LLP, our independent accountants for the period covered by the lawsuits, and several of our present or former officers and directors. The class action cases were later consolidated, and the amended consolidated class action complaint, styled *Richard Moore*, *et al. v. Halliburton Company, et al.*, was filed and served upon us on or about April 11, 2003 (the "*Moore* class action"). In October 2002 and March 2003, two derivative actions arising out of essentially the same facts and circumstances were filed. Both of those actions have now been dismissed.

In early May 2003, we announced that we had entered into a written memorandum of understanding setting forth the terms upon which the *Moore* class action would be settled. In June 2003, the lead plaintiffs in the *Moore* class action filed a motion for leave to file a second amended consolidated complaint, which was granted by the court. In addition to restating the original accounting and disclosure claims, the second amended consolidated complaint includes claims arising out of the 1998 acquisition of Dresser Industries, Inc. by Halliburton, including that we failed to timely disclose the resulting asbestos liability exposure (the "Dresser claims"). The Dresser claims were included in the settlement discussions leading up to the signing of the memorandum of understanding and were among the claims the parties intended to have resolved by the terms of the proposed settlement of the consolidated *Moore* class action and the derivative action. The memorandum of understanding called for Halliburton to pay $6 million, which would be funded by insurance proceeds.

On June 7, 2004, the court entered an order preliminarily approving the settlement. Following the transfer of the case to another district judge and a final hearing on the fairness of the settlement, on September 9, 2004, the court entered an order holding that evidence of the settlement's fairness was inadequate, denying the motion for final approval of the settlement in the *Moore* class action, and ordering the parties, among other things, to mediate. After the court's denial of the motion to approve the settlement, we withdrew from the settlement as we believe we are entitled to do by its terms. The mediation was held on January 27, 2005 and, at the conclusion of that day, was declared by the mediator to be at an impasse with no settlement having been reached.

After the mediation, the lead plaintiff and lead counsel filed motions to withdraw as lead plaintiff and lead counsel. The court conducted a hearing on those motions on April 29, 2005. At that hearing, the court granted the motions, appointed new co-lead counsel and a new lead plaintiff, directed that they file a third consolidated amended complaint not later than May 9, 2005, and that we file our motion to dismiss not later than June 8, 2005. That motion has now been filed and fully briefed. The court held oral arguments on that motion on August 2, 2005, at which time the court took the motion under advisement. We await the court's ruling. Should the motion to dismiss be denied, we intend to vigorously defend the action.

Newmont Gold

In July 1998, Newmont Gold, a gold mining and extraction company, filed a lawsuit over the failure of a blower manufactured and supplied to Newmont by Roots, a former division of Dresser Equipment Group. The plaintiff alleges that during the manufacturing process, Roots had reversed the blades of a component of the blower known as the inlet guide vane assembly, resulting in the blower's failure and the shutdown of the gold extraction mill for a period of approximately one month during 1996. In January 2002, a Nevada trial court granted summary judgment to Roots on all counts, and Newmont appealed. In February 2004, the Nevada Supreme Court reversed the summary judgment and remanded the case to the trial court, holding that fact issues existed requiring a trial. Based on pretrial reports, the damages claimed by the plaintiff are in the range of $33 million to $39 million. We believe that we have valid defenses to Newmont Gold's claims and intend to vigorously defend the matter. The case was scheduled for trial beginning the last full week of May 2005. At the conclusion of jury selection, we again requested a motion for change of venue we had filed earlier. That motion was denied by the trial court, and the Nevada Supreme Court affirmed. Our present intention is to request that the three judge panel that decided the appeal reconsider its ruling, failing which we may request that the entire Nevada Supreme Court rehear the appeal. Should those efforts be unsuccessful, the case will be returned to the trial court where a new trial setting will be ordered and the case will proceed to trial. As of December 31, 2005, we had not accrued any amounts related to this matter.

Smith International award

In June 2004, a Texas district court jury returned a verdict in our favor in connection with a patent infringement lawsuit we filed against Smith International (Smith). We were awarded $24 million in damages by the jury. We filed the lawsuit in September 2002, seeking damages for Smith's infringement of our patented Energy Balanced™ roller cone drill bit technology. The jury found that Smith's competing bits willfully infringed on three of our patents. During the fourth quarter of 2005, this case was settled along with cases dealing with the same and related technology and pending in Tyler and Houston, Texas, the United Kingdom, and Italy.

Improper payments reported to the SEC

During the second quarter of 2002, we reported to the SEC 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 our audit of the foreign subsidiary. We conducted an investigation assisted by outside legal counsel, and, based on the findings of the investigation, we terminated several employees. None of our senior officers were involved. We are cooperating with the SEC in its review of the matter. We took further action to ensure that our foreign subsidiary paid all taxes owed in Nigeria. A preliminary assessment of approximately $4 million was issued by the Nigerian tax authorities in the second quarter of 2003. We are cooperating with the Nigerian tax authorities to determine the total amount due as quickly as possible.

Operations in Iran

We received and responded to an inquiry in mid-2001 from the Office of Foreign Assets Control (OFAC) of the United States Treasury Department with respect to operations in Iran by a Halliburton subsidiary incorporated in the Cayman Islands. The OFAC inquiry requested information with respect to compliance with the Iranian Transaction Regulations. These regulations prohibit United States citizens, including United States corporations and other United States business organizations, from engaging in commercial, financial, or trade transactions with Iran, unless authorized by OFAC or exempted by statute. Our 2001 written response to OFAC stated that we believed that we were in compliance with applicable sanction regulations. In January 2004, we received a follow-up letter from OFAC requesting additional information. We responded to this request on March 19, 2004. We understand this matter has now been referred by OFAC to the DOJ. In July 2004, we received a grand jury subpoena from an Assistant United States District Attorney requesting the production of documents. We are cooperating with the government's investigation and have responded to the subpoena by producing documents on September 16, 2004. As of December 31, 2005, we had not accrued any amounts related to this investigation.

Separate from the OFAC inquiry, we completed a study in 2003 of our activities in Iran during 2002 and 2003 and concluded that these activities were in compliance with applicable sanction regulations. These sanction regulations require isolation of entities that conduct activities in Iran from contact with United States citizens or managers of United States companies. Notwithstanding our conclusions that our activities in Iran were not in violation of United States laws and regulations, we announced that, after fulfilling our current contractual obligations within Iran, we intend to cease operations within that country and to withdraw from further activities there.

Litigation brought by La Nouvelle

In October 2004, La Nouvelle, a subcontractor to us in connection with our government services work in Kuwait and Iraq, filed suit alleging breach of contract and interference with contractual and business relations. The relief sought included $224 million in damages for breach of contract, which included $34 million for wrongful interference and an unspecified sum for consequential and punitive damages. The dispute arose from our termination of a master agreement pursuant to which La Nouvelle operated a number of DFACs in Kuwait and Iraq and the replacement of La Nouvelle with ESS, which, prior to La Nouvelle's termination, had served as La Nouvelle's subcontractor. In addition, La Nouvelle alleged that we wrongfully withheld from La Nouvelle certain sums due La Nouvelle under its various subcontracts. During the second quarter of 2005, this litigation was settled without material impact to us.

David Hudak and International Hydrocut Technologies Corp.

On October 12, 2004, David Hudak and International Hydrocut Technologies Corp. (collectively, Hudak) filed suit against us in the United States District Court alleging civil Racketeer Influenced and Corporate Organizations Act violations, fraud, breach of contract, unfair trade practices, and other torts. The action, which seeks unspecified damages, arises out of Hudak's alleged purchase in early 1994 of certain explosive charges that were later alleged by the DOJ to be military ordnance, the possession of which by persons not possessing the requisite licenses and registrations is unlawful. As a result of that allegation by the government, Hudak was charged with, but later acquitted of, certain criminal offenses in connection with his possession of the explosive charges. As mentioned above, the alleged transaction(s) took place more than 10 years ago. The fact that most of the individuals that may have been involved, as well as the entities themselves, are no longer affiliated with us will complicate our investigation. For those reasons and because the litigation is in its most preliminary stages, it is premature to assess the likelihood of an adverse result. We have filed a motion to dismiss and, alternatively, a motion to transfer venue and are awaiting the court's decision on those motions. It is, however, our intention to vigorously defend this action. As of December 31, 2005, we had not accrued any amounts related to this matter.

Convoy ambush litigation

Several of the families of truck drivers, employed by KBR and killed when a fuel convoy was ambushed in Iraq on April 9, 2004, have filed suit against us. These suits allege that we are responsible for the deaths of these drivers for a variety of reasons and assert legal claims for fraud, wrongful death, civil rights violations, and violations of the Racketeer Influenced and Corrupt Organizations Act. We deny the allegations of wrongdoing and fully intend to vigorously defend the actions. We believe that our conduct was entirely lawful and that our liability is limited by federal law. On July 1, 2005, the federal court in Houston, Texas denied our motion to dismiss based upon a narrow exception to the Defense Base Act. As of December 31, 2005, we had not accrued any amounts related to these matters.

Iraq overtime litigation

During the fourth quarter of 2005, a group of present and former employees working on the LogCAP contract in Iraq and elsewhere filed a class action lawsuit alleging that KBR wrongfully failed to pay time and a half for hours worked in excess of 40 per work week and that "uplift" pay, consisting of a foreign service bonus, an area differential, and danger pay, was only applied to the first 40 hours worked in any work week. The class alleged by plaintiffs consists of all current and former employees on the LogCAP contract from December 2001 to present. The basis of plaintiffs' claims is their assertion that they are intended third-party beneficiaries of the LogCAP contract, and that the LogCAP contract obligated KBR to pay time and a half for all overtime hours. We have moved to dismiss the case on a number of bases, and that motion remains pending at this time. In the event the motion to dismiss is denied, we intend to vigorously defend this case. It is premature to assess the probability of an adverse result in this action. However, because the LogCAP contract is cost-reimbursable, we could charge any overtime and "uplift" pay to the customer in the event of an adverse judgment. As of December 31, 2005, we had not accrued any amounts related to this matter.

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, among others:

- 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.

In addition to the federal laws and regulations, states and other countries where we do business may have numerous environmental, legal, and regulatory requirements by which we must 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. Our Health, Safety and Environment group has several programs in place to maintain environmental leadership and to prevent the occurrence of environmental contamination.

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 $50 million as of December 31, 2005 and $41 million as of December 31, 2004. The liability covers numerous properties, and no individual property accounts for more than $10 million of the liability balance. We have subsidiaries that have been named as potentially responsible parties along with other third parties for 14 federal and state superfund sites for which we have established a liability. As of December 31, 2005, those 14 sites accounted for approximately $13 million of our total $50 million liability. 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.

Letters of credit

In the normal course of business, we have agreements with banks under which approximately $1.2 billion of letters of credit or bank guarantees were outstanding as of December 31, 2005, including $434 million that relate to our joint ventures' operations. Also included in letters of credit outstanding as of December 31, 2005 were $183 million of performance letters of credit and $114 million of retainage letters of credit related to the Barracuda-Caratinga project. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Other commitments

As of December 31, 2005, we had commitments to fund approximately $79 million to related companies. These commitments arose primarily during the start-up of these entities or due to losses incurred by them. We expect approximately $61 million of the commitments to be paid during 2006.

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. However, 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 for liquidated damages of $70 million at December 31, 2005 and $44 million at December 31, 2004 (including amounts related to our share of unconsolidated subsidiaries) that we could incur based upon completing the projects as forecasted.

Leases

We are obligated under operating leases, principally for the use of land, offices, equipment, field facilities, and warehouses. Total rentals, net of sublease rentals, were as follows:

Millions of dollars	2005	2004	2003
Rental expense	$ 721	$ 693	$ 451

Future total rentals on noncancelable operating leases are as follows: $187 million in 2006; $148 million in 2007; $123 million in 2008; $111 million in 2009; $100 million in 2010; and $478 million thereafter.

Note 13. Income Taxes

The components of the provision for income taxes on continuing operations were:

	Years ended December 31		
Millions of dollars	2005	2004	2003
Current income taxes:			
Federal	$ (106)	$ (88)	$ (167)
Foreign	(199)	(156)	(181)
State	(9)	(6)	1
Total current	(314)	(250)	(347)
Deferred income taxes:			
Federal	305	3	80
Foreign	(56)	6	25
State	(14)	-	8
Total deferred	235	9	113
Provision for income taxes	$ (79)	$ (241)	$ (234)

The United States and foreign components of income from continuing operations before income taxes, minority interest, and change in accounting principle were as follows:

Millions of dollars	Years ended December 31 2005	2004	2003
United States	$ 1,721	$ 135	$ 254
Foreign	771	516	358
Total	$ 2,492	$ 651	$ 612

The reconciliations between the actual provision for income taxes on continuing operations and that computed by applying the United States statutory rate to income from continuing operations before income taxes, minority interest, and change in accounting principle were as follows:

	Years ended December 31 2005	2004	2003
United States statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	1.0	0.6	0.9
Impact of foreign operations	(1.2)	-	0.8
Adjustments of prior year taxes	0.1	(2.1)	1.6
Dispositions	-	-	(1.6)
Valuation allowance	(32.3)	-	-
Other items, net	0.5	3.6	1.5
Total effective tax rate on continuing operations	3.1%	37.1%	38.2%

The major component of the difference between the 2005 statutory tax rate compared to the effective tax rate is the release of a valuation allowance established in prior years.

We generally do not provide income taxes on the undistributed earnings of non-United States subsidiaries because such earnings are intended to be reinvested indefinitely to finance foreign activities. Taxes are provided as necessary with respect to earnings that are not permanently reinvested. The American Job Creations Act of 2004 introduced a special dividends received deduction with respect to the repatriation of certain foreign earnings to a United States taxpayer under certain circumstances. Based on our analysis of the Act, we decided not to utilize the special deduction.

The primary components of our deferred tax assets and liabilities and the related valuation allowances, including deferred tax accounts associated with discontinued operations, were as follows:

Millions of dollars	December 31 2005		December 31 2004	
Gross deferred tax assets:				
Net operating loss carryforwards	$	861	$	115
Employee compensation and benefits		299		263
Foreign tax credit carryforward		146		135
Capitalized research and experimentation		113		85
Accrued liabilities		102		69
Insurance accruals		58		71
Construction contract accounting		41		75
Alternative minimum tax credit carryforward		21		21
Asbestos- and silica-related liabilities		-		1,770
Other		291		261
Total gross deferred tax assets	$	1,932	$	2,865
Gross deferred tax liabilities:				
Depreciation and amortization	$	156	$	182
Insurance for asbestos- and silica-related liabilities		-		318
Other		20		33
Total gross deferred tax liabilities	$	176	$	533
Valuation allowances:				
Foreign tax credit limitation	$	146	$	135
Future tax attributes related to United States net operating loss		137		1,073
Net operating loss carryforwards		43		43
Total valuation allowances	$	326	$	1,251
Net deferred income tax asset	$	1,430	$	1,081

We have $186 million of foreign net operating loss carryforwards that expire from 2006 through 2015 and additional foreign net operating loss carryforwards of $124 million with indefinite expiration dates. During 2005, our existing deferred tax asset related to asbestos and silica liabilities became a United States net operating loss, due to the tax deduction of the related costs in 2005. As a result, a domestic net operating loss carryforward of $2.1 billion was created, which expires in 2025. The federal alternative minimum tax credits are available to reduce future United States federal income taxes on an indefinite basis.

We have established a valuation allowance against foreign tax credit carryovers and certain foreign operating loss carryforwards on the basis that we believe these assets will not be utilized in the statutory carryover period. We continue to carry a valuation allowance against our deferred tax asset related to asbestos and silica liabilities, which are now included in our United States net operating loss, although the amount of the valuation allowance was significantly reduced during 2005. The valuation allowance represents the anticipated impact of the United States net operating loss on our ability to utilize future foreign tax credits. We anticipate that the United States net operating loss will displace future foreign tax credits, and those credits will expire unutilized. Our 2005 tax rate is lower because we recorded favorable adjustments to our valuation allowance against our deferred tax asset related to asbestos and silica liabilities in 2005 totaling $805 million. Our strong 2005 earnings, coupled with an upward revision in our estimate of future domestic taxable income in 2006 and beyond, drove these adjustments.

Note 14. Shareholders' Equity and Stock Incentive Plans

The following tables summarize our common stock and other shareholders' equity activity:

Millions of dollars	Common Stock	Capital in Excess of Par Value	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income
Balance at December 31, 2002	$ 1,141	$ 293	$ (630)	$ (75)	$ 3,110	$ (281)
Cash dividends paid	-	-	-	-	(219)	-
Stock-based compensation and employee stock purchase, net	1	(19)	60	11	-	-
Treasury stock purchased	-	-	(7)	-	-	-
Tax benefit from exercise of options and restricted stock	-	(1)	-	-	-	-
Total dividends and other transactions with shareholders	1	(20)	53	11	(219)	-
Comprehensive income (loss):						
Net loss	-	-	-	-	(820)	-
Other comprehensive income:						
Cumulative translation adjustment	-	-	-	-	-	43
Realization of losses included in net income	-	-	-	-	-	15
Minimum pension liability adjustment, net of tax of $25	-	-	-	-	-	(88)
Net unrealized gains on investments and derivatives	-	-	-	-	-	13
Total comprehensive loss	-	-	-	-	(820)	(17)
Balance at December 31, 2003	$ 1,142	$ 273	$ (577)	$ (64)	$ 2,071	$ (298)

Millions of dollars	Common Stock	Capital in Excess of Par Value	Asbestos Trust Shares	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income
Balance at December 31, 2003	$ 1,142	$ 273	$ -	$ (577)	$ (64)	$ 2,071	$ (298)
Cash dividends paid	-	-	-	-	-	(221)	-
Stock-based compensation and employee stock purchase, net	4	(3)	-	107	(10)	-	-
Treasury stock purchased	-	-	-	(7)	-	-	-
Tax benefit from exercise of options and restricted stock	-	7	-	-	-	-	-
Total dividends and other transactions with shareholders	4	4	-	100	(10)	(221)	-
Asbestos trust shares	-	-	2,335	-	-	-	-
Comprehensive income (loss):							
Net loss	-	-	-	-	-	(979)	-
Other comprehensive income:							
Cumulative translation adjustment	-	-	-	-	-	-	33
Realization of gains included in net income	-	-	-	-	-	-	(1)
Minimum pension liability adjustment, net of tax of $49	-	-	-	-	-	-	115
Net unrealized gains on investments and derivatives net of tax of $8	-	-	-	-	-	-	5
Total comprehensive loss	-	-	-	-	-	(979)	152
Balance at December 31, 2004	$ 1,146	$ 277	$ 2,335	$ (477)	$ (74)	$ 871	$ (146)
Cash dividends paid	-	-	-	-	-	(254)	-
Stock-based compensation and employee stock purchase, net	22	280	-	115	(24)	-	-
Treasury stock purchased	-	-	-	(12)	-	-	-
Tax benefit from exercise of options and restricted stock	-	75	-	-	-	-	-
Total dividends and other transactions with shareholders	22	355	-	103	(24)	(254)	-
Asbestos trust shares	149	2,186	(2,335)	-	-	-	-
Comprehensive income (loss):							
Net income	-	-	-	-	-	2,358	-
Other comprehensive income:							
Cumulative translation adjustment	-	-	-	-	-	-	(48)
Realization of losses included in net income	-	-	-	-	-	-	7
Minimum pension liability adjustment, net of tax benefit of $23	-	-	-	-	-	-	(54)
Net unrealized losses on investments and derivatives, net of tax benefit of $15	-	-	-	-	-	-	(25)
Total comprehensive income	-	-	-	-	-	2,358	(120)
Balance at December 31, 2005	$ 1,317	$ 2,818	$ -	$ (374)	$ (98)	$ 2,975	$ (266)

Accumulated other comprehensive income	December 31		
Millions of dollars	2005	2004	2003
Cumulative translation adjustment	$ (72)	$ (31)	$ (63)
Pension liability adjustments	(184)	(130)	(245)
Unrealized gains (losses) on investments and derivatives	(10)	15	10
Total accumulated other comprehensive income	$ (266)	$ (146)	$ (298)

Shares of common stock	December 31		
Millions of shares	2005	2004	2003
Issued	527	458	457
In treasury	(13)	(16)	(18)
Total shares of common stock outstanding	514	442	439

In February 2006, the Board of Directors approved a 2:1 stock split, subject to shareholder approval at the 2006 annual shareholders meeting of a proposal to increase the number of authorized shares of common stock from one billion shares to two billion shares. Each shareholder would receive one additional share for each outstanding share held by the shareholder on the record date for the stock split. The record date will be announced after the approval of the increase in authorized shares of common stock.

Our 1993 Stock and Incentive Plan provides for the grant of any or all of the following types of awards:

- stock options, including incentive stock options and nonqualified stock options;
- stock appreciation rights, in tandem with stock options or freestanding;
- restricted stock;
- performance share awards; and
- stock value equivalent awards.

Under the terms of the 1993 Stock and Incentive Plan, as amended, 49 million shares of common stock have been reserved for issuance to key employees. The plan specifies that no more than 16 million shares can be awarded as restricted stock. At December 31, 2005, 12 million shares were available for future grants under the 1993 Stock and Incentive Plan, of which seven million shares remained available for restricted stock awards.

All stock options under the 1993 Stock and Incentive Plan are granted at the fair market value of the common stock at the grant date. No further stock option grants are being made under the stock plans of acquired companies.

The following table represents our stock options granted, exercised, and forfeited during the past three years, and includes exercised and forfeited shares from our acquired companies' stock plans.

Stock Options	Number of Shares *(in millions)*	Exercise Price per Share	Weighted Average Exercise Price per Share
Outstanding at December 31, 2002	18.5	$ 9.10 - 61.50	$ 32.10
Granted	2.4	18.60 - 24.76	23.45
Exercised	(0.4)	8.28 - 23.52	14.75
Forfeited	(1.0)	9.10 - 54.50	32.07
Outstanding at December 31. 2003	19.5	$ 9.10 - 61.50	$ 31.34
Granted	2.2	26.03 - 40.18	29.22
Exercised	(1.5)	9.10 - 39.55	21.87
Forfeited	(0.8)	9.10 - 54.50	33.19
Outstanding at December 31, 2004	19.4	$ 9.10 - 61.50	$ 31.74
Granted	1.4	40.94 - 68.92	49.44
Exercised	(9.1)	9.10 - 61.50	32.09
Forfeited	(0.5)	9.10 - 62.71	33.02
Outstanding at December 31, 2005	11.2	$ 9.10 - 68.92	$ 33.61

Options outstanding at December 31, 2005 were composed of the following:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares *(in millions)*	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares *(in millions)*	Weighted Average Exercise Price
$ 9.10 - 23.79	2.5	6.5	$ 18.65	1.7	$ 17.25
$ 23.80 - 32.40	3.5	5.9	28.78	1.9	28.90
$ 32.41 - 40.93	2.8	4.4	38.76	2.7	38.76
$ 40.94 - 68.92	2.4	6.8	50.61	1.0	52.10
$ 9.10 - 68.92	11.2	5.9	$ 33.61	7.3	$ 32.92

There were 14.1 million options exercisable with a weighted average exercise price of $34.15 at December 31, 2004 and 13.8 million options exercisable with a weighted average exercise price of $34.59 at December 31, 2003.

Stock options generally expire 10 years from the grant date. Stock options under the 1993 Stock and Incentive Plan vest ratably over a three- or four-year period. Options under the non-employee directors' plan vest after six months.

Restricted shares awarded under the 1993 Stock and Incentive Plan were 1,141,325 in 2005, 1,177,312 in 2004, and 431,865 in 2003. The shares awarded are net of forfeitures of 260,240 in 2005, 143,908 in 2004, and 248,620 in 2003. The weighted average fair market value per share at the date of grant of shares granted was $47.60 in 2005, $29.80 in 2004, and $22.94 in 2003.

Our Restricted Stock Plan for Non-Employee Directors allows for each non-employee director to receive an annual award of 400 restricted shares of common stock as a part of compensation. We reserved 100,000 shares of common stock for issuance to non-employee directors. Under this plan we issued 3,200 restricted shares in 2005 and 4,000 restricted shares in both 2004 and 2003. At December 31, 2005, 49,200 shares have been issued to non-employee directors under this plan. The weighted average fair market value per share at the date of grant of shares granted was $56.73 in 2005, $31.30 in 2004, and $22.24 in 2003.

Our Employees' Restricted Stock Plan was established for employees who are not officers, for which 200,000 shares of common stock have been reserved. At December 31, 2005, 151,850 shares (net of 43,550 shares forfeited) have been issued. There were no forfeitures in 2005 or 2004. Forfeitures were 800 in 2003. No further grants are being made under this plan.

Under the terms of our Career Executive Incentive Stock Plan, 15 million shares of our common stock were reserved for issuance to officers and key employees at a purchase price not to exceed par value of $2.50 per share. At December 31, 2005, 11.7 million shares (net of 2.2 million shares forfeited) have been issued under the plan. The last grant made under this plan was in December 1992. No further grants will be made under the Career Executive Incentive Stock Plan.

Restricted shares issued under the 1993 Stock and Incentive Plan, Restricted Stock Plan for Non-Employee Directors, Employees' Restricted Stock Plan, and the Career Executive Incentive Stock Plan are limited as to sale or disposition. These restrictions lapse periodically over an extended period of time not exceeding 10 years. Restrictions may also lapse for early retirement and other conditions in accordance with our established policies. Upon termination of employment, shares in which restrictions have not lapsed must be returned to us, resulting in restricted stock forfeitures. The fair market value of the stock on the date of issuance is being amortized and charged to income over the period during which the restrictions lapse, with similar credits to paid-in capital in excess of par value. At December 31, 2005, the unamortized amount is $98 million. We recognized compensation costs of $31 million in 2005, $21 million in 2004, and $20 million in 2003.

During 2002, our Board of Directors approved the 2002 ESPP and reserved 12 million shares for issuance. Under the ESPP, eligible employees may have up to 10% of their earnings withheld, subject to some limitations, to be used to purchase shares of common stock. Unless the Board of Directors shall determine otherwise, each six-month offering period commences on January 1 and July 1 of each year. The price at which common stock may be purchased under the ESPP is equal to 85% of the lower of the fair market value of the common stock on the commencement date or last trading day of each offering period. Through the ESPP, there were approximately 1.3 million shares sold in 2005, approximately 1.7 million shares sold in 2004, and approximately 1.3 million shares sold in 2003.

In February 2006, our Board of Directors approved a share repurchase program up to $1.0 billion, which replaces our previous share repurchase program. The stock repurchase program does not require a specific number of shares to be purchased and the program may be effected through solicited or unsolicited transactions in the market or in privately negotiated transactions. The program may be terminated or suspended at any time.

Note 15. Preferred Stock

Our preferred stock consists of five million total authorized shares at December 31, 2005. We previously declared a dividend of one preferred stock purchase right on each outstanding share of common stock. The dividend was also applicable to each share of our common stock that was issued subsequent to adoption of the Rights Agreement entered into with Mellon Investor Services LLC. Each preferred stock purchase right entitled its holder to buy one two-hundredth of a share of our Series A Junior Participating Preferred Stock, without par value, at an exercise price of $75. These preferred stock purchase rights were subject to antidilution adjustments, which were described in the Rights Agreement entered into with Mellon. The preferred stock purchase rights did not have any voting rights and were not entitled to dividends. The preferred stock purchase rights expired on December 15, 2005 with the expiration of the Rights Agreement. On December 19, 2005, we filed a Certificate of Elimination, which eliminated all rights and preferences related to shares of our preferred stock.

Note 16. Income (Loss) Per Share

Basic income (loss) per share is based on the weighted average number of common shares outstanding during the period and, effective January 1, 2005, includes the 59.5 million shares that were contributed to the trusts established for the benefit of asbestos claimants. Diluted income (loss) per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. A reconciliation of the number of shares used for the basic and diluted income (loss) per share calculation is as follows:

Millions of shares	2005	2004	2003
Basic weighted average common shares outstanding	505	437	434
Dilutive effect of:			
Stock options	5	2	2
Convertible senior notes premium	8	-	-
Restricted stock	1	1	-
Other	-	1	1
Diluted weighted average common shares outstanding	519	441	437

In December 2004, we entered into a supplemental indenture that requires us to satisfy our conversion obligation for our convertible senior notes in cash, rather than in common stock, for at least the aggregate principal amount of the notes. This reduced the resulting potential earnings dilution to only include the conversion premium, which is the difference between the conversion price per share of common stock and the average share price. See the table above for the dilutive effect for 2005. The conversion price of $37.65 per share of common stock was greater than our average share price in 2004 and 2003 and, consequently, did not result in dilution.

Excluded from the computation of diluted income (loss) per share were options to purchase one million shares of common stock that were outstanding in 2005, nine million shares of common stock outstanding in 2004, and 15 million shares of common stock outstanding in 2003. These options were outstanding during these years but were excluded because the option exercise price was greater than the average market price of the common shares.

Note 17. Financial Instruments and Risk Management

Foreign exchange risk

Techniques in managing foreign exchange risk include, but are not limited to, foreign currency borrowing and investing and the use of currency derivative instruments. We selectively manage significant exposures to potential foreign exchange losses considering current market conditions, future operating activities, and the associated cost in relation to the perceived risk of loss. The purpose of our foreign currency risk management activities is to protect us from the risk that the eventual dollar cash flows resulting from the sale and purchase of services and products in foreign currencies will be adversely affected by changes in exchange rates.

We manage our currency exposure through the use of currency derivative instruments as it relates to the major currencies, which are generally the currencies of the countries in which we do the majority of our international business. These contracts generally have an expiration date of two years or less. Forward exchange contracts, which are commitments to buy or sell a specified amount of a foreign currency at a specified price and time, are generally used to manage identifiable foreign currency commitments. Forward exchange contracts and foreign exchange option contracts, which convey the right, but not the obligation, to sell or buy a specified amount of foreign currency at a specified price, are generally used to manage exposures related to assets and liabilities denominated in a foreign currency. None of the forward or option contracts are exchange traded. While derivative instruments are subject to fluctuations in value, the fluctuations are generally offset by the value of the underlying exposures being managed. The use of some contracts may limit our ability to benefit from favorable fluctuations in foreign exchange rates.

Foreign currency contracts are not utilized to manage exposures in some currencies due primarily to the lack of available markets or cost considerations (non-traded currencies). We attempt to manage our working capital position to minimize foreign currency commitments in non-traded currencies and recognize that pricing for the services and products offered in these countries should cover the cost of exchange rate devaluations. We have historically incurred transaction losses in non-traded currencies.

Assets, liabilities, and forecasted cash flows denominated in foreign currencies. We utilize the derivative instruments described above to manage the foreign currency exposures related to specific assets and liabilities that are denominated in foreign currencies; however, we have not elected to account for these instruments as hedges for accounting purposes. Additionally, we utilize the derivative instruments described above to manage forecasted cash flows denominated in foreign currencies generally related to long-term engineering and construction projects. Beginning in 2003, we designated these contracts related to engineering and construction projects as cash flow hedges. The ineffective portion of these hedges was included in operating income in the accompanying consolidated statement of operations and was not material in 2005, 2004, or 2003. As of December 31, 2005, we had approximately $18 million in unrealized net losses on these cash flow hedges and, as of December 31, 2004, we had approximately $23 million in unrealized net gains on these cash flow hedges and $10 million as of December 31, 2003. We included these unrealized gains and losses on these cash flow hedges in other comprehensive income in the accompanying consolidated balance sheets. We expect approximately $10 million of the unrealized net losses on these cash flow hedges to be reclassified into earnings within a year. Changes in the timing or amount of the future cash flows being hedged could result in hedges becoming ineffective, and, as a result, the amount of unrealized gain or loss associated with those hedges would be reclassified from other comprehensive income into earnings. At December 31, 2005, the maximum length of time over which we are hedging our exposure to the variability in future cash flows associated with foreign currency forecasted transactions is 45 months. The fair value of these contracts was immaterial as of December 31, 2005, $27 million as of December 31, 2004, and immaterial as of December 31, 2003.

Notional amounts and fair market values. The notional amounts of open forward contracts and option contracts were $666 million at December 31, 2005 and $1.4 billion at December 31, 2004. The notional amounts of our foreign exchange contracts do not generally represent amounts exchanged by the parties and, thus, are not a measure of our exposure or of the cash requirements related to these contracts. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as exchange rates.

Credit risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash equivalents, investments, and trade receivables. It is our practice to place our cash equivalents and investments in high quality securities with various investment institutions. We derive the majority of our revenue from our United States government contracts, primarily for projects in the Middle East, and from sales and services, including engineering and construction, to the energy industry. Within the energy industry, trade receivables are generated from a broad and diverse group of customers. There are concentrations of receivables in the United States and the United Kingdom. We maintain an allowance for losses based upon the expected collectibility of all trade accounts receivable. In addition, see Note 5 for discussion of United States government receivables.

There are no significant concentrations of credit risk with any individual counterparty related to our derivative contracts. We select counterparties based on their profitability, balance sheet, and a capacity for timely payment of financial commitments, which is unlikely to be adversely affected by foreseeable events.

Interest rate risk

We have several debt instruments outstanding that have both fixed and variable interest rates. We manage our ratio of fixed-rate to variable-rate debt through the use of different types of debt instruments and derivative instruments. As of December 31, 2005, we held no material interest rate derivative instruments.

Fair market value of financial instruments. The estimated fair market value of long-term debt was $2.9 billion at December 31, 2005 and $3.7 billion at December 31, 2004, as compared to the carrying amount of $3.2 billion at December 31, 2005 and $3.9 billion at December 31, 2004. The fair market value of fixed-rate long-term debt is based on quoted market prices for those or similar instruments. The carrying amount of variable-rate long-term debt approximates fair market value because these instruments reflect market changes to interest rates. The carrying amount of short-term financial instruments, cash and equivalents, receivables, short-term notes payable, and accounts payable, as reflected in the consolidated balance sheets, approximates fair market value due to the short maturities of these instruments. The currency derivative instruments are carried on the balance sheet at fair value and are based upon third-party quotes.

Note 18. Retirement Plans

Our company and subsidiaries have various plans that cover a significant number of our employees. These plans include defined contribution plans, defined benefit plans, and other postretirement plans:

- our defined contribution plans provide retirement benefits in return for services rendered. These plans provide an individual account for each participant and have terms that specify how contributions to the participant's account are to be determined rather than the amount of pension benefits the participant is to receive. Contributions to these plans are based on pretax income and/or discretionary amounts determined on an annual basis. Our expense for the defined contribution plans for both continuing and discontinued operations totaled $164 million in 2005, $147 million in 2004, and $87 million in 2003. Additionally, we participate in a Canadian multi-employer plan to which we contributed $24 million and $20 million in 2005 and 2004, respectively. For 2004, we amended certain defined contribution plans to allow for a non-elective contribution, which resulted in an increase of $53 million over the 2003 expense;
- our defined benefit plans include both funded and unfunded pension plans, which define an amount of pension benefit to be provided, usually as a function of age, years of service, or compensation; and
- our postretirement medical plans are offered to specific eligible employees. These plans are contributory. For some plans, our liability is limited to a fixed contribution amount for each participant or dependent. The plan participants share the total cost for all benefits provided above our fixed contributions. Participants' contributions are adjusted as required to cover benefit payments. We have made no commitment to adjust the amount of our contributions; therefore, the computed accumulated postretirement benefit obligation amount is not affected by the expected future health care cost inflation rate.

Dresser Retiree Medical

Through 2003, we were responsible for the majority of the costs for the Dresser Retiree Medical Plan. An amendment was made to this plan at the end of 2003 to limit our share of the costs and eventually eliminate the plan in 2005. We presented the impact of this amendment in our 2003 notes to consolidated financial statements, which reduced our projected benefit obligation by $86 million and increased our unrecognized prior service benefit by the same amount, with no impact to our balance sheet or statement of operations. In December 2004, the United States District Court ruled that we must continue to maintain the Dresser Retiree Medical Plan as we had in the past. We revised our 2003 presentation of the projected benefit obligation and unrecognized prior service benefit to reflect the plan at its pre-amendment amounts. We also adjusted our annual postretirement benefit expense by $13 million in the fourth quarter of 2004.

Benefit obligation and plan assets

Plan assets, expenses, and obligation for retirement plans in the following tables include both continuing and discontinued operations. We use a September 30 measurement date for our international plans and an October 31 measurement date for our domestic plans.

Benefit obligation	Pension Benefits United States	Int'l	United States	Int'l	Other Postretirement Benefits	
Millions of dollars	2005		2004		2005	2004
Change in benefit obligation						
Benefit obligation at beginning of period	$ 166	$ 3,127	$ 160	$ 2,501	$ 175	$ 188
Service cost	1	72	1	92	1	1
Interest cost	9	172	10	155	10	11
Plan participants' contributions	-	16	-	22	9	12
Effect of business combinations and new plans	-	1	-	14	-	-
Amendments	-	-	-	(1)	-	-
Settlements/curtailments	-	(69)	-	(9)	-	-
Currency fluctuations	-	(41)	-	371	-	-
Actuarial (gain) loss	8	416	8	72	(19)	(16)
Benefits paid	(11)	(94)	(13)	(90)	(17)	(21)
Benefit obligation at end of period	$ 173	$ 3,600	$ 166	$ 3,127	$ 159	$ 175
Accumulated benefit obligation at end of period	$ 172	$ 3,014	$ 165	$ 2,451	$ -	$ -

Plan assets	Pension Benefits United States	Int'l	United States	Int'l	Other Postretirement Benefits	
Millions of dollars	2005		2004		2005	2004
Change in plan assets						
Fair value of plan assets at beginning of period	$ 125	$ 2,576	$ 113	$ 2,003	$ -	$ -
Actual return on plan assets	12	541	17	259	-	-
Employer contributions	7	74	8	77	8	9
Settlements and transfers	-	(1)	-	(8)	-	-
Plan participants' contributions	-	16	-	22	9	12
Effect of business combinations and new plans	-	-	-	9	-	-
Currency fluctuations	-	(35)	-	304	-	-
Benefits paid	(11)	(94)	(13)	(90)	(17)	(21)
Fair value of plan assets at end of period	$ 133	$ 3,077	$ 125	$ 2,576	$ -	$ -

Our target allocations for 2006 by asset category and our pension plan asset allocations at December 31, 2005 and 2004 were as follows:

	Target Allocation	Percentage of Plan Assets at Year-End United States	Int'l	United States	Int'l
	2006	2005		2004	
Asset category					
Equity securities	55% - 70%	63%	62%	63%	64%
Debt securities	25% - 45%	36%	30%	33%	34%
Real estate	0%	0%	0%	0%	0%
Other	0% - 10%	1%	8%	4%	2%
Total	100%	100%	100%	100%	100%

Our investment strategy varies by country depending on the circumstances of the underlying plan. Typically, less mature plan benefit obligations are funded by using more equity securities, as they are expected to achieve long-term growth while exceeding inflation. More mature plan benefit obligations are funded using more fixed income securities, as they are expected to produce current income with limited volatility. Risk management practices include the use of multiple asset classes and investment managers within each asset class for diversification purposes. Specific guidelines for each asset class and investment manager are implemented and monitored.

Funded status

The funded status of the plans, reconciled to the amount reported on the consolidated balance sheets, was as follows:

	Pension Benefits				Other Postretirement Benefits	
	United States	Int'l	United States	Int'l		
Millions of dollars	2005		2004		2005	2004
Fair value of plan assets at end of period	$ 133	$ 3,077	$ 125	$ 2,576	$ -	$ -
Benefit obligation at end of period	173	3,600	166	3,127	159	175
Funded status	$ (40)	$ (523)	$ (41)	$ (551)	$ (159)	$ (175)
Employer contribution	-	21	-	19	1	1
Unrecognized transition asset	(1)	-	(1)	-	-	-
Unrecognized actuarial loss (gain)	76	602	74	632	(7)	12
Unrecognized prior service benefit	-	(8)	-	(3)	(3)	(4)
Purchase accounting adjustment	-	(78)	-	(82)	-	-
Net amount recognized	$ 35	$ 14	$ 32	$ 15	$ (168)	$ (166)

Amounts recognized in the consolidated balance sheets were as follows:

	Pension Benefits				Other Postretirement Benefits	
	United States	Int'l	United States	Int'l		
Millions of dollars	2005		2004		2005	2004
Prepaid benefit cost	$ 37	$ 115	$ 34	$ 103	$ -	$ -
Accrued benefit liability, including additional minimum liability	(77)	(295)	(74)	(214)	(168)	(166)
Intangible asset	-	2	-	8	-	-
Accumulated other comprehensive income, net of tax	49	135	47	83	-	-
Deferred tax asset	26	57	25	35	-	-
Net amount recognized	$ 35	$ 14	$ 32	$ 15	$ (168)	$ (166)

We recognized an additional minimum pension liability for the underfunded defined benefit plans of $72 million in 2005, of which $54 million was recorded as "other comprehensive income." We reduced our additional minimum pension liability by $164 million in 2004, of which $115 million was recorded as "Other comprehensive income." The additional minimum liability is equal to the excess of the accumulated benefit obligation over plan assets and accrued liabilities. A corresponding amount is recognized as either an intangible asset or a change to accumulated other comprehensive income.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets as of December 31, 2005 and 2004 were as follows:

Millions of dollars	Pension Benefits 2005	2004
Projected benefit obligation	$ 2,170	$ 1,942
Accumulated benefit obligation	$ 1,952	$ 1,629
Fair value of plan assets	$ 1,756	$ 1,503

Expected cash flows

Contributions. Funding requirements for each plan are determined based on the local laws of the country where such plan resides. In certain countries the funding requirements are mandatory while in other countries they are discretionary. We currently expect to contribute $160 million to our international pension plans in 2006. For our domestic plans, we expect our contributions to be no more than $4 million in 2006. In order to mitigate a portion of the projected underfunding of our United Kingdom pension plans, ESG contributed $38 million and KBR contributed $74 million in February 2006. These amounts are included in the $160 million 2006 funding obligation. We do not have a required minimum contribution for our domestic plans; however, we may make additional discretionary contributions, which will be determined after the actuarial valuations are complete.

Benefit payments. The following table presents the expected benefit payments over the next 10 years.

	Pension Benefits		Other
Millions of dollars	United States	Int’l	Postretirement Benefits
2006	$ 13	$ 96	$ 14
2007	11	99	15
2008	11	105	15
2009	11	107	15
2010	11	111	15
Years 2011 - 2015	58	380	72

Net periodic cost

	Pension Benefits						Other Postretirement Benefits		
	United States	Int’l	United States	Int’l	United States	Int’l			
Millions of dollars	2005		2004		2003		2005	2004	2003
Components of net periodic benefit cost									
Service cost	$ 1	$ 72	$ 1	$ 92	$ 1	$ 72	$ 1	$ 1	$ 1
Interest cost	9	172	10	155	10	120	10	11	12
Expected return on plan assets	(10)	(186)	(11)	(173)	(12)	(136)	-	-	-
Transition amount	-	-	-	(1)	-	(1)	-	-	-
Amortization of prior service cost	-	-	-	-	-	-	(1)	(1)	-
Settlements/curtailments	-	5	1	(2)	2	-	-	-	-
Recognized actuarial loss	4	17	3	16	1	18	-	1	1
Net periodic benefit cost	$ 4	$ 80	$ 4	$ 87	$ 2	$ 73	$ 10	$ 12	$ 14

Assumptions

Assumed long-term rates of return on plan assets, discount rates for estimating benefit obligations, and rates of compensation increases vary for the different plans according to the local economic conditions. The rates used were as follows:

Weighted-average assumptions used to determine benefit obligations at measurement date	Pension Benefits						Other Postretirement Benefits		
	United States	Int'l	United States	Int'l	United States	Int'l			
	2005		2004		2003		2005	2004	2003
Discount rate	5.75%	2.25-8.0%	5.75%	2.5-8.0%	6.25%	2.5-9.0%	5.75%	5.75%	6.25%
Rate of compensation increase	4.5%	2.0-5.0%	4.5%	2.0-5.0%	4.5%	2.0-6.5%	N/A	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31	Pension Benefits						Other Postretirement Benefits		
	United States	Int'l	United States	Int'l	United States	Int'l			
	2005		2004		2003		2005	2004	2003
Discount rate	5.75%	2.5-8.0%	6.25%	2.5-9.0%	7.0%	2.5-7.5%	5.75%	6.25%	7.0%
Expected return on plan assets	8.5%	5.0-7.0%	8.5%	5.25-7.5%	8.75%	5.5-8.0%	N/A	N/A	N/A
Rate of compensation increase	4.5%	2.0-5.0%	4.5%	2.0-6.5%	4.5%	2.0-7.0%	N/A	N/A	N/A

The weighted average assumptions for the Nigerian and Indonesian plans are not included in the above tables as the plans were immaterial. The discount rate was determined based on the rates of return of high-quality fixed income investments as of the measurement date. Our discount rate assumption for the United States domestic pension plans was based on the weighted average annualized yield of the Moody Baa-Aaa corporate bonds. For our United Kingdom pension plans, which constitute 95% of our international pension plans' projected benefit obligation, the discount rate was based on the annualized yield of the iBoxx AA corporate bonds, and was reduced from 5.5% at December 31, 2004 to 5.0% at December 31, 2005. This decrease in the discount rate resulted in increases in the present value of our benefit obligations.

The overall expected long-term rate of return on assets was determined based upon an evaluation of our plan assets, historical trends, and experience, taking into account current and expected market conditions.

Assumed health care cost trend rates at December 31	2005	2004	2003
Health care cost trend rate assumed for next year	10.0%	11.5%	13.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%	5.0%
Year that the rate reached the ultimate trend rate	2008	2008	2008

Assumed health care cost trend rates are not expected to have a significant impact on the amounts reported for the total of the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point	
Millions of dollars	Increase	(Decrease)
Effect on total of service and interest cost components	$ -	$ -
Effect on the postretirement benefit obligation	$ 8	$ (7)

Note 19. Related Companies

We conduct some of our operations through joint ventures that are in partnership, corporate, and other business forms and are principally accounted for using the equity method. Financial information pertaining to related companies for our continuing operations is set out in the following tables. This information includes the total related-company balances and not our proportional interest in those balances.

Combined summarized financial information for all jointly owned operations that are accounted for under the equity method was as follows:

Combined operating results	Years ended December 31		
Millions of dollars	2005	2004	2003
Revenue	$ 3,626	$ 3,887	$ 3,708
Operating income (loss)	$ (25)	$ 7	$ 201
Net income (loss)	$ (7)	$ (12)	$ 175

Combined financial position	December 31	
Millions of dollars	2005	2004
Current assets	$ 2,421	$ 2,339
Noncurrent assets	2,760	2,723
Total	$ 5,181	$ 5,062
Current liabilities	$ 2,226	$ 1,950
Noncurrent liabilities	2,400	2,394
Shareholders’ equity	555	718
Total	$ 5,181	$ 5,062

The FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (FIN 46), in January 2003. In December 2003, the FASB issued FIN 46R, a revision that supersedes the original interpretation. We adopted FIN 46R effective January 1, 2004.

FIN 46R 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. Previously, entities were generally consolidated based upon a controlling financial interest through ownership of a majority voting interest in the entity.

The following details our variable interests in variable interest entities by business segment.

Production Optimization segment:

- during the second quarter of 2001, we formed a joint venture, WellDynamics, with Shell in which we held a 50% equity interest and accounted for the investment using the equity method in our Digital and Consulting Solutions segment. The joint venture was established for the further development and deployment of new technologies related to completions and well intervention services and products. In the first quarter of 2004, Halliburton and Shell restructured WellDynamics whereby Halliburton acquired an additional 1% of WellDynamics from Shell, giving Halliburton 51% ownership and control of day-to-day operations. The joint venture is considered a variable interest entity under FIN 46, and we have determined that we are the primary beneficiary of the entity. Beginning in the first quarter of 2004, WellDynamics was consolidated. The consolidation of WellDynamics resulted in an increase to our goodwill of $109 million, which was previously carried as equity method goodwill in our investment balance, and an increase in long-term debt of $27 million. There are no assets of WellDynamics that collateralize its obligations;

Government and Infrastructure segment:

- during 2001, we formed a joint venture that owns and operates heavy equipment transport vehicles in the United Kingdom and in which we own a 50% equity interest with an unrelated partner. This variable interest entity 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 was completed in the second quarter of 2004, and the operating and service contract related to the assets extends through 2023. The proceeds from the debt financing were 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. As of December 31, 2005, the joint venture had total assets of $147 million and total liabilities of $152 million. Our aggregate exposure to loss as a result of our involvement with this joint venture is limited to our equity investment and subordinated debt of $7 million and any future losses related to the operation of the assets. We are not the primary beneficiary. The joint venture is accounted for under the equity method of accounting;
- we are involved in three privately funded initiatives executed through joint ventures to design, build, operate, and maintain roadways for certain government agencies in the United Kingdom. We have a 25% ownership interest in these joint ventures and account for them under the equity method. The joint ventures have obtained financing through third parties that is not guaranteed by us. These joint ventures are considered variable interest entities. We are not the primary beneficiary of these joint ventures and, therefore, account for them using the equity method. As of December 31, 2005, these joint ventures had total assets of $1.4 billion and total liabilities of $1.5 billion. Our maximum exposure to loss is limited to our equity investments in and loans to the joint ventures, which totaled $35 million at December 31, 2005;
- we participate in a privately funded initiative executed through an unincorporated joint venture and operating company formed for operating and maintaining a railroad freight business in Australia. We own 36.7% of the joint venture and operating company and we are accounting for these investments using the equity method. This joint venture is considered a variable interest entity. The joint venture is funded through senior and subordinated debt and equity contributions from the joint venture partners. We are not the primary beneficiary of the joint venture. As of December 31, 2005, the joint venture had total assets of $796 million and total liabilities of $672 million. Our maximum exposure to loss is limited to our equity investments and senior operating notes in the joint venture and the operating company totaling $81 million and our commit to fund an additional $9 million of notes to the operating company as of December 31, 2005; and
- we participate in a privately funded initiative executed through certain joint ventures formed to design, build, operate, and maintain a viaduct and several bridges in southern Ireland. The joint ventures were funded through debt and were formed with very little equity. We have up to a 25% ownership interest in the project's joint ventures, and we are accounting for this interest under the equity method. These joint ventures are considered variable interest entities. We are not the primary beneficiary of the joint ventures. As of December 31, 2005, the joint ventures had total assets of $239 million and total liabilities of $226 million. Our maximum exposure to loss is limited to our equity investments in and loan to the joint venture, totaling $4 million at December 31, 2005, and our share of any future losses resulting from the project.

Energy and Chemicals segment:

We perform many of our long-term energy-related construction projects through incorporated or unincorporated joint ventures. Typically, these ventures are dissolved upon completion of the project. Many of these ventures are funded by advances from the project owner and, accordingly, require no equity investment by the joint venture partners or shareholders. Occasionally, a venture incurs losses, which then requires funding by the joint venture partners or shareholders in proportion to their interest percentages. The ventures with little or no initial equity investment are considered variable interest entities. Our significant variable interest entities are:

- during 2005, we formed a joint venture to engineer and construct a gas monetization facility. We own a 50% equity interest and determined that we are the primary beneficiary of the joint venture. The joint venture is consolidated. At December 31, 2005, the joint venture's had $324 million in total assets and $311 million in total liabilities. There are no consolidated assets that collateralize the joint venture obligations, however at December 31, 2005, the joint venture had approximately $173 million of cash which relates to advance billings in connection with the joint venture's obligations under the EPC contract; and
- we also have equity ownership in three joint ventures to execute EPC projects. Our equity ownership ranges from 33% to 50%, and these joint ventures are considered variable interest entities. We are not the primary beneficiary, and we account for these joint ventures under the equity method. At December 31, 2005, these joint ventures had aggregate assets of $861 million and aggregate liabilities of $912 million.

Note 20. Reorganization of Business Operations

Effective October 1, 2004, we restructured KBR into two segments, Government and Infrastructure and Energy and Chemicals. In 2004, we recorded restructuring and related costs of $40 million related to the reorganization. The total restructuring charges consisted of $31 million in personnel termination benefits and $9 million in impairment charges on technology-related assets. For the year ended December 31, 2004, $32 million of the restructuring charge was included in "Cost of services" and $8 million was included in "General and administrative" on the consolidated statements of operations. As of December 31, 2005, all amounts related to the 2004 restructuring have been paid and the balance in the restructuring reserve account has been reduced to zero.

Note 21. New Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143." This statement clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The provisions of FIN 47 were adopted as of December 31, 2005. The total liability recorded at adoption 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. We own properties where we have below ground storage tanks, test wells, and other items that are required to be removed before we vacate the properties. A liability has not been recorded for these items because the fair value cannot be reasonably estimated. We believe there is an indeterminate settlement date for these obligations because the range of time over which we may settle the obligation is unknown or cannot be estimated.

HALLIBURTON COMPANY
Selected Financial Data
(Unaudited)

Millions of dollars and shares except per share and employee data	Years ended December 31 2005	2004	2003	2002	2001
Total revenue	$ 20,994	$ 20,466	$ 16,271	$ 12,572	$ 13,046
Total operating income (loss)	$ 2,662	$ 837	$ 720	$ (112)	$ 1,084
Nonoperating expense, net	(170)	(186)	(108)	(116)	(130)
Income (loss) from continuing operations before income taxes and minority interest	2,492	651	612	(228)	954
Provision for income taxes	(79)	(241)	(234)	(80)	(384)
Minority interest in net income of consolidated subsidiaries	(56)	(25)	(39)	(38)	(19)
Income (loss) from continuing operations	$ 2,357	$ 385	$ 339	$ (346)	$ 551
Income (loss) from discontinued operations	$ 1	$ (1,364)	$ (1,151)	$ (652)	$ 257
Net income (loss)	$ 2,358	$ (979)	$ (820)	$ (998)	$ 809
Basic income (loss) per share:					
Continuing operations	$ 4.67	$ 0.88	$ 0.78	$ (0.80)	$ 1.29
Net income (loss)	4.67	(2.25)	(1.89)	(2.31)	1.89
Diluted income (loss) per share:					
Continuing operations	4.54	0.87	0.78	(0.80)	1.28
Net income (loss)	4.54	(2.22)	(1.88)	(2.31)	1.88
Cash dividends per share	0.50	0.50	0.50	0.50	0.50
Return on average shareholders' equity	45.76%	(30.22)%	(26.86)%	(24.02)%	18.64%
Financial position:					
Net working capital	$ 4,890	$ 2,898	$ 1,355	$ 2,288	$ 2,665
Total assets	15,010	15,864	15,556	12,844	10,966
Property, plant, and equipment, net	2,648	2,553	2,526	2,629	2,669
Long-term debt (including current maturities)	3,174	3,940	3,437	1,476	1,484
Shareholders' equity	6,372	3,932	2,547	3,558	4,752
Total capitalization	9,568	7,887	6,002	5,083	6,280
Shareholders' equity per share	12.40	8.90	5.80	8.16	10.95
Basic weighted average common shares outstanding	505	437	434	432	428
Diluted weighted average common shares outstanding	519	441	437	432	430
Other financial data:					
Capital expenditures	$ (651)	$ (575)	$ (515)	$ (764)	$ (797)
Long-term borrowings (repayments), net	(799)	476	1,896	(15)	412
Depreciation, depletion, and amortization expense	504	509	518	505	531
Goodwill amortization included in depreciation, depletion, and amortization expense	-	-	-	-	42
Payroll and employee benefits	(5,888)	(5,608)	(5,154)	(4,875)	(4,818)
Number of employees	106,000	97,000	101,000	83,000	85,000

HALLIBURTON COMPANY
Quarterly Data and Market Price Information
(Unaudited)

Millions of dollars except per share data	Quarter First	Second	Third	Fourth	Year
2005					
Revenue	$ 4,938	$ 5,163	$ 5,095	$ 5,798	$ 20,994
Operating income	586	607	690	779	2,662
Income from continuing operations	367	391	499	1,100	2,357
Income (loss) from discontinued operations	(2)	1	-	2	1
Net income	365	392	499	1,102	2,358
Earnings per share:					
Basic income per share:					
Income from continuing operations	0.73	0.78	0.99	2.16	4.67
Income (loss) from discontinued operations	-	-	-	-	-
Net income	0.73	0.78	0.99	2.16	4.67
Diluted income per share:					
Income from continuing operations	0.72	0.76	0.95	2.08	4.54
Income (loss) from discontinued operations	-	-	-	-	-
Net income	0.72	0.76	0.95	2.08	4.54
Cash dividends paid per share	0.125	0.125	0.125	0.125	0.50
Common stock prices (1)					
High	45.29	49.39	69.78	69.37	69.78
Low	37.18	39.65	45.76	54.70	37.18
2004					
Revenue	$ 5,519	$ 4,956	$ 4,790	$ 5,201	$ 20,466
Operating income (loss)	175	(26)	342	346	837
Income (loss) from continuing operations	76	(58)	186	181	385
Loss from discontinued operations	(141)	(609)	(230)	(384)	(1,364)
Net loss	(65)	(667)	(44)	(203)	(979)
Earnings per share:					
Basic income (loss) per share:					
Income (loss) from continuing operations	0.17	(0.13)	0.43	0.41	0.88
Loss from discontinued operations	(0.32)	(1.39)	(0.54)	(0.88)	(3.13)
Net loss	(0.15)	(1.52)	(0.11)	(0.47)	(2.25)
Diluted income (loss) per share:					
Income (loss) from continuing operations	0.17	(0.13)	0.42	0.40	0.87
Loss from discontinued operations	(0.32)	(1.39)	(0.51)	(0.86)	(3.09)
Net loss	(0.15)	(1.52)	(0.09)	(0.46)	(2.22)
Cash dividends paid per share	0.125	0.125	0.125	0.125	0.50
Common stock prices (1)					
High	32.70	32.35	33.98	41.69	41.69
Low	25.80	27.35	26.45	33.08	25.80

(1) New York Stock Exchange - composite transactions high and low intraday price.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required for the directors of the Registrant is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492), under the caption "Election of Directors." The information required for the executive officers of the Registrant is included under Part I on pages 10 and 11 of this annual report. The information required for a delinquent form required under Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492), under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

Audit Committee financial experts

In the business judgment of the Board of Directors, all four members of the Audit Committee, Robert L. Crandall, J. Landis Martin, Jay A. Precourt, and Debra L. Reed are independent and have accounting or related financial management experience required under the listing standards and have been designated by the Board of Directors as "audit committee financial experts."

Item 11. Executive Compensation.

This information is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492) under the captions "Compensation Committee Report on Executive Compensation," "Comparison of Cumulative Total Return," "Summary Compensation Table," "Option Grants for Fiscal 2005," "Aggregated Option Exercises in Fiscal 2005 and December 31, 2005 Option Values," "Long-Term Incentive Plans - Awards in Fiscal 2005," "Employment Contracts and Change-in-Control Arrangements," and "Directors' Compensation."

Item 12(a). Security Ownership of Certain Beneficial Owners.

This information is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492) under the caption "Stock Ownership of Certain Beneficial Owners and Management."

Item 12(b). Security Ownership of Management.

This information is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492) under the caption "Stock Ownership of Certain Beneficial Owners and Management."

Item 12(c). Changes in Control.

Not applicable.

Item 12(d). Securities Authorized for Issuance Under Equity Compensation Plans.

This information is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492) under the caption "Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions.

This information is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492) under the caption "Certain Relationships and Related Transactions" to the extent any disclosure is required.

Item 14. Principal Accounting Fees and Services.

This information is incorporated by reference to the Halliburton Company Proxy Statement for our 2006 Annual Meeting of Stockholders (File No. 1-3492) under the caption "Fees Paid to KPMG LLP."

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements:

The reports of the Independent Registered Public Accounting Firm and the financial statements of the Company as required by Part II, Item 8, are included on pages 62 and 63 and pages 64 through 113 of this annual report. See index on page 13.

2. Financial Statement Schedules:

Note: All schedules not filed with this report required by Regulation S-X have been omitted as not applicable or not required, or the information required has been included in the notes to financial statements.

3. Exhibits:

Exhibit Number	Exhibits
3.1	Restated Certificate of Incorporation of Halliburton Company filed with the Secretary of State of Delaware on May 21, 2004 (incorporated by reference to Exhibit 3.1 to Halliburton's Registration Statement on Form S-4 filed on July 19, 2004, Registration No. 333-112977).
3.2	By-laws of Halliburton revised effective February 12, 2003 (incorporated by reference to Exhibit 3.2 to Halliburton's Form 10-K for the year ended December 31, 2002, File No. 1-3492).
3.3	Certificate of Elimination with respect to Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K filed December 19, 2005, File No. 1-3492).
4.1	Form of debt security of 8.75% Debentures due February 12, 2021 (incorporated by reference to Exhibit 4(a) to the Form 8-K of Halliburton Company, now known as Halliburton Energy Services, Inc. (the Predecessor) dated as of February 20, 1991, File No. 1-3492).
4.2	Senior Indenture dated as of January 2, 1991 between the Predecessor and Texas Commerce Bank National Association, as Trustee (incorporated by reference to Exhibit 4(b) to the Predecessor's Registration Statement on Form S-3 (Registration No. 33-38394) originally filed with the Securities and Exchange Commission on December 21, 1990), as supplemented and amended by the First Supplemental Indenture dated as of December 12, 1996 among the Predecessor, Halliburton and the Trustee (incorporated by reference to Exhibit 4.1 of Halliburton's Registration Statement on Form 8-B dated December 12, 1996, File No. 1-3492).

4.3	Resolutions of the Predecessor's Board of Directors adopted at a meeting held on February 11, 1991 and of the special pricing committee of the Board of Directors of the Predecessor adopted at a meeting held on February 11, 1991 and the special pricing committee's consent in lieu of meeting dated February 12, 1991 (incorporated by reference to Exhibit 4(c) to the Predecessor's Form 8-K dated as of February 20, 1991, File No. 1-3492).
4.4	Second Senior Indenture dated as of December 1, 1996 between the Predecessor and Texas Commerce Bank National Association, as Trustee, as supplemented and amended by the First Supplemental Indenture dated as of December 5, 1996 between the Predecessor and the Trustee and the Second Supplemental Indenture dated as of December 12, 1996 among the Predecessor, Halliburton and the Trustee (incorporated by reference to Exhibit 4.2 of Halliburton's Registration Statement on Form 8-B dated December 12, 1996, File No. 1-3492).
4.5	Third Supplemental Indenture dated as of August 1, 1997 between Halliburton and Texas Commerce Bank National Association, as Trustee, to the Second Senior Indenture dated as of December 1, 1996 (incorporated by reference to Exhibit 4.7 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
4.6	Fourth Supplemental Indenture dated as of September 29, 1998 between Halliburton and Chase Bank of Texas, National Association (formerly Texas Commerce Bank National Association), as Trustee, to the Second Senior Indenture dated as of December 1, 1996 (incorporated by reference to Exhibit 4.8 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
4.7	Resolutions of Halliburton's Board of Directors adopted by unanimous consent dated December 5, 1996 (incorporated by reference to Exhibit 4(g) of Halliburton's Form 10-K for the year ended December 31, 1996, File No. 1-3492).
4.8	Form of debt security of 6.75% Notes due February 1, 2027 (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K dated as of February 11, 1997, File No. 1-3492).
4.9	Resolutions of Halliburton's Board of Directors adopted at a special meeting held on September 28, 1998 (incorporated by reference to Exhibit 4.10 to Halliburton's Form 10-K for the year ended December 31, 1998, File No. 1-3492).
4.10	Copies of instruments that define the rights of holders of miscellaneous long-term notes of Halliburton and its subsidiaries, totaling $10 million in the aggregate at December 31, 2005, have not been filed with the Commission. Halliburton agrees to furnish copies of these instruments upon request.
4.11	Form of debt security of 7.53% Notes due May 12, 2017 (incorporated by reference to Exhibit 4.4 to Halliburton's Form 10-Q for the quarter ended March 31, 1997, File No. 1-3492).
4.12	Form of debt security of 5.63% Notes due December 1, 2008 (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K dated as of November 24, 1998, File No. 1-3492).

4.13	Form of Indenture, between Dresser and Texas Commerce Bank National Association, as Trustee, for 7.60% Debentures due 2096 (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-3 filed by Dresser as amended, Registration No. 333-01303), as supplemented and amended by Form of Supplemental Indenture, between Dresser and Texas Commerce Bank National Association, Trustee, for 7.60% Debentures due 2096 (incorporated by reference to Exhibit 4.1 to Dresser's Form 8-K filed on August 9, 1996, File No. 1-4003).
4.14	Second Supplemental Indenture dated as of October 27, 2003 between DII Industries, LLC and JPMorgan Chase Bank, as Trustee, to the Indenture dated as of April 18, 1996, as supplemented by the First Supplemental Indenture dated as of August 6, 1996 (incorporated by reference to Exhibit 4.15 to Halliburton's Form 10-K for the year ended December 31, 2003, File No. 1-3492).
4.15	Third Supplemental Indenture dated as of December 12, 2003 among DII Industries, LLC, Halliburton and JPMorgan Chase Bank, as Trustee, to the Indenture dated as of April 18, 1996, as supplemented by the First Supplemental Indenture dated as of August 6, 1996 and the Second Supplemental Indenture dated as of October 27, 2003 (incorporated by reference to Exhibit 4.16 to Halliburton's Form 10-K for the year ended December 31, 2003, File No. 1-3492).
4.16	Form of debt security of 6% Notes due August 1, 2006 (incorporated by reference to Exhibit 4.2 to Halliburton's Form 8-K dated January 8, 2002, File No. 1-3492).
4.17	Credit Facility in the amount of £80 million dated November 29, 2002 between Devonport Royal Dockyard Limited and Devonport Management Limited and The Governor and Company of the Bank of Scotland, HSBC Bank Plc and The Royal Bank of Scotland Plc (incorporated by reference to Exhibit 4.22 to Halliburton's Form 10-K for the year ended December 31, 2002, File No. 1-3492).
4.18	Senior Indenture dated as of June 30, 2003 between Halliburton and JPMorgan Chase Bank, as Trustee (incorporated by reference to Exhibit 4.1 to Halliburton's Form 10-Q for the quarter ended June 30, 2003, File No. 1-3492).
4.19	Form of note of 3.125% Convertible Senior Notes due July 15, 2023 (included as Exhibit A to Exhibit 4.18 above).
4.20	First Supplemental Indenture dated as of December 17, 2004 between Halliburton and JPMorgan Chase Bank, National Association (formerly JPMorgan Chase Bank), as trustee, to Indenture dated as of June 30, 2003, between Halliburton and JPMorgan Chase Bank, National Association (formerly JPMorgan Chase Bank), as trustee (incorporated by reference to Exhibit 4.1 to Halliburton's Form 8-K filed on December 21, 2004, File No. 1-3492).
4.21	Senior Indenture dated as of October 17, 2003 between Halliburton and JPMorgan Chase Bank, as Trustee (incorporated by reference to Exhibit 4.1 to Halliburton's Form 10-Q for the quarter ended September 30, 2003, File No. 1-3492).
4.22	First Supplemental Indenture dated as of October 17, 2003 between Halliburton and JPMorgan Chase Bank, as Trustee, to the Senior Indenture dated as of October 17, 2003 (incorporated by reference to Exhibit 4.2 to Halliburton's Form 10-Q for the quarter ended September 30, 2003, File No. 1-3492).

4.23	Form of note of 5.5% senior notes due October 15, 2010 (included as Exhibit B to Exhibit 4.22 above).
4.24	Second Supplemental Indenture dated as of December 15, 2003 between Halliburton and JPMorgan Chase Bank, as Trustee, to the Senior Indenture dated as of October 17, 2003, as supplemented by the First Supplemental Indenture dated as of October 17, 2003 (incorporated by reference to Exhibit 4.27 to Halliburton's Form 10-K for the year ended December 31, 2003, File No. 1-3492).
4.25	Form of note of 7.6% debentures due 2096 (included as Exhibit A to Exhibit 4.24 above).
4.26	Stockholder Agreement between Halliburton and the DII Industries, LLC Asbestos PI Trust dated January 20, 2005 (incorporated by reference to Exhibit 10.1 to Halliburton's Form 8-K filed January 25, 2005, File No. 1-3492).
4.27	Amendment to Stockholder Agreement dated March 17, 2005 between Halliburton Company and DII Industries, LLC Asbestos PI Trust (incorporated by reference to Exhibit 10.1 to Halliburton's Form 8-K filed March 18, 2005, File No. 1-3492).
10.1	Halliburton Company Career Executive Incentive Stock Plan as amended November 15, 1990 (incorporated by reference to Exhibit 10(a) to the Predecessor's Form 10-K for the year ended December 31, 1992, File No. 1-3492).
10.2	Retirement Plan for the Directors of Halliburton Company, as amended and restated effective May 16, 2000 (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended September 30, 2000, File No. 1-3492).
* 10.3	Halliburton Company 1993 Stock and Incentive Plan, as amended and restated effective February 16, 2006.
10.4	Halliburton Company Restricted Stock Plan for Non-Employee Directors (incorporated by reference to Appendix B of the Predecessor's proxy statement dated March 23, 1993, File No. 1-3492).
10.5	Dresser Industries, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 2000 (incorporated by reference to Exhibit 10.16 to Halliburton's Form 10-K for the year ended December 31, 2000, File No. 1-3492).
10.6	ERISA Excess Benefit Plan for Dresser Industries, Inc., as amended and restated effective June 1, 1995 (incorporated by reference to Exhibit 10.7 to Dresser's Form 10-K for the year ended October 31, 1995, File No. 1-4003).
10.7	ERISA Compensation Limit Benefit Plan for Dresser Industries, Inc., as amended and restated effective June 1, 1995 (incorporated by reference to Exhibit 10.8 to Dresser's Form 10-K for the year ended October 31, 1995, File No. 1-4003).
10.8	Supplemental Executive Retirement Plan of Dresser Industries, Inc., as amended and restated effective January 1, 1998 (incorporated by reference to Exhibit 10.9 to Dresser's Form 10-K for the year ended October 31, 1997, File No. 1-4003).

	10.9	Amendment No. 1 to the Supplemental Executive Retirement Plan of Dresser Industries, Inc. (incorporated by reference to Exhibit 10.1 to Dresser's Form 10-Q for the quarter ended April 30, 1998, File No. 1-4003).
	10.10	Dresser Industries, Inc. Deferred Compensation Plan for Non-Employee Directors, as restated and amended effective November 1, 1997 (incorporated by reference to Exhibit 4.5 to Dresser's Registration Statement on Form S-8, Registration No. 333-40829).
	10.11	Dresser Industries, Inc. 1992 Stock Compensation Plan (incorporated by reference to Exhibit A to Dresser's Proxy Statement dated February 7, 1992, File No. 1-4003).
	10.12	Amendments No. 1 and 2 to Dresser Industries, Inc. 1992 Stock Compensation Plan (incorporated by reference to Exhibit A to Dresser's Proxy Statement dated February 6, 1995, File No. 1-4003).
	10.13	Amendment No. 3 to the Dresser Industries, Inc. 1992 Stock Compensation Plan (incorporated by reference to Exhibit 10.25 to Dresser's Form 10-K for the year ended October 31, 1997, File No. 1-4003).
	10.14	Employment Agreement (David J. Lesar) (incorporated by reference to Exhibit 10(n) to the Predecessor's Form 10-K for the year ended December 31, 1995, File No. 1-3492).
	10.15	Employment Agreement (Mark A. McCollum) (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended September 30, 2003, File No. 1-3492).
	10.16	Halliburton Company Benefit Restoration Plan, as amended and restated effective January 1, 2004 (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended September 30, 2004, File No. 1-3492).
*	10.17	Halliburton Annual Performance Pay Plan, as amended and restated effective January 26, 2006.
	10.18	Halliburton Company Performance Unit Program (incorporated by reference to Exhibit 10.2 to Halliburton's Form 10-Q for the quarter ended September 30, 2001, File No. 1-3492).
	10.19	Form of Nonstatutory Stock Option Agreement for Non-Employee Directors (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-Q for the quarter ended September 30, 2000, File No. 1-3492).
	10.20	Halliburton Elective Deferral Plan as amended and restated effective May 1, 2002 (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended June 30, 2002, File No. 1-3492).
*	10.21	Halliburton Company 2002 Employee Stock Purchase Plan, as amended and restated May 17, 2005.
	10.22	Halliburton Company Directors' Deferred Compensation Plan as amended and restated effective as of October 22, 2002 (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended September 30, 2002, File No. 1-3492).

	10.23	Employment Agreement (Albert O. Cornelison) (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-Q for the quarter ended June 30, 2002, File No. 1-3492).
	10.24	Employment Agreement (David R. Smith) (incorporated by reference to Exhibit 10.39 to Halliburton's Form 10-K for the year ended December 31, 2002, File No. 1-3492).
	10.25	Employment Agreement (C. Christopher Gaut) (incorporated by reference to Exhibit 10.1 to Halliburton's Form 10-Q for the quarter ended March 31, 2003, File No. 1-3492).
	10.26	Employment Agreement (Andrew R. Lane) (incorporated by reference to Exhibit 10.3 to Halliburton's Form 10-Q for the quarter ended September 30, 2004, File No. 1-3492).
	10.27	Five Year Revolving Credit Agreement dated as of March 10, 2005, among Halliburton, as Borrower, the Banks and the Issuing Banks party thereto, Citicorp North America, Inc. ("CNAI"), as Paying Agent, and CNAI and JPMorgan Chase Bank, N.A., as Co-Administrative Agents (incorporated by reference to Exhibit 10.1 to Halliburton's Form 8-K filed March 10, 2005, File No. 1-3492).
	10.28	Underwriting Agreement dated March 17, 2005 among Halliburton Company, DII Industries, LLC Asbestos PI Trust, J.P. Morgan Securities Inc., Goldman, Sachs & Co., and Citigroup Global Markets Inc. (incorporated by reference to Exhibit 10.2 to Halliburton's Form 8-K filed March 18, 2005, File No. 1-3492).
*	10.29	Halliburton Company Supplemental Executive Retirement Plan as amended and restated effective December 7, 2005.
*	10.30	Five Year Revolving Credit Agreement, dated as of December 16, 2005, among KBR Holdings, LLC, a Delaware limited liability company, as Borrower, the Banks and the Issuing Banks party thereto, Citibank, N.A. ("Citibank"), as Paying Agent, and Citibank and HSBC Bank USA, National Association, as Co-Administrative Agents.
*	12	Statement of Computation of Ratio of Earnings to Fixed Charges.
*	21	Subsidiaries of the Registrant.
*	23.1	Consent of KPMG LLP.
	24.1	Powers of attorney for the following directors signed in January 2004 (incorporated by reference to Exhibit 24.1 to Halliburton's Form 10-K for the year ended December 31, 2003, File No. 1-3492): Robert L. Crandall Kenneth T. Derr W. R. Howell Ray L. Hunt J. Landis Martin Jay A. Precourt Debra L. Reed
*	24.2	Power of attorney for S. Malcolm Gillis signed in July 2005.

*	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-K.

** Furnished with this Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SUPPLEMENTAL SCHEDULE

The Board of Directors and Shareholders
Halliburton Company:

Under date of March 3, 2006, we reported on the consolidated balance sheets of Halliburton Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, which are included in the Company's Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule (Schedule II) included in the Company's Annual Report on Form 10-K. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Houston, Texas
March 3, 2006

HALLIBURTON COMPANY

Schedule II - Valuation and Qualifying Accounts

(Millions of Dollars)

The table below presents valuation and qualifying accounts for continuing operations.

Descriptions	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
Year ended December 31, 2003:					
Deducted from accounts and notes receivable:					
Allowance for bad debts	$ 157	$ 44	$ 4	$ (30) (a)	$ 175
Accrued reorganization charges	$ 10	$ -	$ -	$ (9)	$ 1
Reserve for disputed and unallowable costs incurred under government contracts	$ 13	$ -	$ 36 (b)	$ (1)	$ 48
Year ended December 31, 2004:					
Deducted from accounts and notes receivable:					
Allowance for bad debts	$ 175	$ 22	$ 2	$ (72) (a)	$ 127
Accrued reorganization charges	$ 1	$ 40	$ -	$ (22)	$ 19
Reserve for disputed and unallowable costs incurred under government contracts	$ 48	$ -	$ 83 (b)	$ -	$ 131
Year ended December 31, 2005:					
Deducted from accounts and notes receivable:					
Allowance for bad debts	$ 127	$ 64	$ -	$ (101) (a)	$ 90
Accrued reorganization charges	$ 19	$ -	$ -	$ (19)	$ -
Reserve for disputed and unallowable costs incurred under government contracts	$ 131	$ -	$ 11 (b)	$ (9)	$ 133

(a) Receivable write-offs, net of recoveries, and reclassifications.

(b) Reserves have been recorded as reductions of revenue, net of reserves no longer required.

SIGNATURES

As required by Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on its behalf by the undersigned authorized individuals on this 10th day of March, 2006.

HALLIBURTON COMPANY

By /s/ David J. Lesar
David J. Lesar
Chairman of the Board,
President, and Chief Executive Officer

As required by the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated on this 10th day of March, 2006.

Signature	Title
/s/ David J. Lesar David J. Lesar	Chairman of the Board, President, Chief Executive Officer, and Director
/s/ C. Christopher Gaut C. Christopher Gaut	Executive Vice President and Chief Financial Officer
/s/ Mark A. McCollum Mark A. McCollum	Senior Vice President and Chief Accounting Officer

Signature	Title
* Robert L. Crandall Robert L. Crandall	Director
* Kenneth T. Derr Kenneth T. Derr	Director
* S. Malcolm Gillis S. Malcolm Gillis	Director
* W. R. Howell W. R. Howell	Director
* Ray L. Hunt Ray L. Hunt	Director
* J. Landis Martin J. Landis Martin	Director
* Jay A. Precourt Jay A. Precourt	Director
* Debra L. Reed Debra L. Reed	Director

* /s/ Margaret E. Carriere
Margaret E. Carriere, Attorney-in-fact

EXHIBIT 10.3

HALLIBURTON COMPANY

1993 STOCK AND INCENTIVE PLAN
AS AMENDED AND RESTATED FEBRUARY 16, 2006

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, Restricted Stock Unit 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 is hereby amended and restated effective as of February 16, 2006.

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, Restricted Stock Unit 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 XIII, 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 Award. 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” means a Restriction Period that is not less than three (3) years from the date of grant of a Restricted Stock Award or Restricted Stock Unit Award.

(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 XI 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) "Restricted Stock Unit" means a unit evidencing the right to receive one share of Common Stock or an equivalent value equal to the Fair Market Value of a share of Common Stock (as determined by the Committee) that is restricted or subject to forfeiture provisions.

(cc) "Restricted Stock Unit Award" means as Award granted under Article X of the Plan.

(dd) "Restricted Stock Unit Award Agreement" means a written agreement between the Company and a Holder with respect to a Restricted Stock Unit Award.

(ee) "Restriction Period" means a period of time beginning as of the date upon which a Restricted Stock Award or Restricted Stock Unit Award is made pursuant to the Plan and ending as of the date upon which the Common Stock subject to such Award is issued (if not previously issued), no longer restricted or subject to forfeiture provisions.

(ff) "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.

(gg) "Stock Appreciation Right" means an Award granted under Article VIII of the Plan.

(hh) "Stock Appreciation Rights Agreement" means a written agreement between the Company and a Holder with respect to an Award of Stock Appreciation Rights.

(ii) "Stock Value Equivalent Award" means an Award granted under Article XII of the Plan.

(jj) "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.

(kk) "Successor Holder" shall have the meaning given such term in Paragraph (f) of Article XV.

III. EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan as amended and restated herein shall be effective February 16, 2006, the date of its adoption by the Board. 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 and Restricted Stock Unit Awards have lapsed and all Performance Awards and Stock Value Equivalent Awards have been satisfied; provided, however, that, notwithstanding any other provision of the Plan, Awards shall not be granted under the Plan after May 20, 2013.

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, Restricted Stock Award and Restricted Stock Unit 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.

(e) *Engagement of an Agent*. The Company may, in its discretion, engage an agent to (i) maintain records of Awards and Holders’ holdings under the Plan, (ii) execute sales transactions in shares of Common Stock at the direction of Holders, (iii) deliver sales proceeds as directed by Holders, and (iv) hold shares of Common Stock owned without restriction by Holders, including shares of Common Stock previously obtained through the Plan that are transferred to the agent by Holders at their discretion. Except to the extent otherwise agreed by the Company and the agent, when an individual loses his or her status as an employee or Non-employee Director of the Company, the agent shall have no obligation to provide any further services to such person and the shares of Common Stock previously held by the agent under the Plan may be distributed to the person or his or her legal representative.

V. GRANT OF OPTIONS, STOCK APPRECIATION RIGHTS, RESTRICTED STOCK AWARDS, RESTRICTED STOCK UNIT 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 Restricted Stock Unit 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 XIII 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 XIII. 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 Restricted Stock Unit 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.

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 XIII, 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.

VII. 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 XIII, 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.

VIII. 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 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 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 and Restricted Stock Unit Awards of up to an aggregate of 550,000 shares (subject to adjustment as set forth in Article XIII), 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 XIII.

(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.

IX. RESTRICTED STOCK UNIT AWARDS

(a) *Restricted Period To Be Established by the Committee*. At the time a Restricted Stock Unit Award is made, the Committee shall establish the Restriction Period applicable to such Award; provided, however, that except as set forth below and as permitted by Paragraph (b) of this Article X, such Restriction Period shall not be less than the Minimum Criteria. An Award which provides for the lapse of restrictions 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 and Restricted Stock Unit Awards of up to an aggregate of 550,000 shares (subject to adjustment as set forth in Article XIII), 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 Unit Award may have a different Restriction Period, in the discretion of the Committee. The Restriction Period applicable to a particular Restricted Stock Unit Award shall not be changed except as permitted by Paragraph (b) of this Article or by Article XIII.

(b) *Other Terms and Conditions*. At the time of a Restricted Stock Unit Award, the Committee may, in its sole discretion, prescribe additional terms, conditions or restrictions relating to the Restricted Stock Unit Award, 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 Unit Award Agreement. Cash dividend equivalents may be paid during, or may be accumulated and paid at the end of, the Restriction Period with respect to a Restricted Stock Unit Award, as determined by the Committee. The Committee, in its sole discretion, may provide for the deferral of a Restricted Stock Unit Award. 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.

(c) *Payment for Restricted Stock Unit*. A Holder shall not be required to make any payment for Common Stock received pursuant to a Restricted Stock Unit 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) *Restricted Stock Units in Substitution for Units Granted by Other Corporations*. Restricted Stock Unit Awards may be granted under the Plan from time to time in substitution for restricted stock units 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.

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, Stock Appreciation Rights or Restricted Stock Units may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an Option, Stock Appreciation Rights or Restricted Stock Unit Award, 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 Award relates or may thereafter be exercised (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and, as applicable, 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, as applicable, 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 or payment in settlement of a Restricted Stock Unit Award theretofore granted, the Holder shall be entitled to purchase or receive, as applicable, under such Award, in lieu of the number of shares of Common Stock as to which such Award relates or 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 Award.

(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 or Restricted Stock Unit 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, Restricted Stock Unit 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 Awards 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, Restricted Stock Unit Award, 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 XIII and XIV 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 Award Agreement, Restricted Stock Unit Award 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.

(i) *Section 409A*. Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under the Plan, or any deferral permitted under the Plan, would result in the imposition of an applicable tax under Section 409A of the Code and related regulations and Treasury pronouncements ("Section 409A"), that Plan provision or Award will be reformed, and that deferral provision will be structured, to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Participant's rights with respect to an Award.

EXHIBIT 10.17

HALLIBURTON ANNUAL PERFORMANCE PAY PLAN
AS AMENDED AND RESTATED EFFECTIVE JANUARY 26, 2006

INDEX

HALLIBURTON
ANNUAL PERFORMANCE PAY PLAN

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

ARTICLE I

PURPOSE

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

ARTICLE II

DEFINITIONS

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

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

"Base Salary" shall mean the annualized pay rate of a Participant as in effect on January 1 of a Plan Year, including base pay a Participant could have received in cash in lieu of (i) contributions made on such Participant's behalf to a qualified Plan maintained by the Company or to any cafeteria plan under Section 125 of the Code maintained by the Company and (ii) deferrals of compensation made at the Participant's election pursuant to a plan or arrangement of the Company or an Affiliate, but excluding any Rewards under this Plan and any other bonuses, incentive pay or special awards.

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

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

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

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

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

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

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

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

"Company" shall mean Halliburton Company and its successors.

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

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

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

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

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

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

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

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

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

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

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

"Payment Date" shall mean, with respect to a particular Plan Year, the date payment is actually made following the end of the applicable Plan Year but no later than the last business day of February of the year next following the end of such Plan Year, or as soon as administratively practicable thereafter.

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

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

"Plan" shall mean the Halliburton Annual Performance Pay Plan as amended and restated effective January 1, 2002, and as the same may thereafter be amended from time to time.

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

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

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

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

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

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

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

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

ARTICLE III

PARTICIPATION

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

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

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

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

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

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

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

ARTICLE IV

ADMINISTRATION

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

ARTICLE V

REWARD DETERMINATIONS

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

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

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

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

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

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

ARTICLE VI

DISTRIBUTION OF REWARDS

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

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

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

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

ARTICLE VII

TERMINATION OF EMPLOYMENT

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

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

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

ARTICLE VIII

RIGHTS OF PARTICIPANTS AND BENEFICIARIES

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

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

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

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

ARTICLE IX

CORPORATE CHANGE

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

ARTICLE X

AMENDMENT AND TERMINATION

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

ARTICLE XI

MISCELLANEOUS

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

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

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

11.4 **Effective Date**. This amendment and restatement of the Plan shall be effective from and after January 1, 2002, and shall remain in effect until such time as it may be terminated or amended pursuant to Article X.

<u>EXHIBIT 10.21</u>

HALLIBURTON COMPANY
2002 EMPLOYEE STOCK PURCHASE PLAN

AS AMENDED AND RESTATED MAY 17, 2005

1. *Purpose*. The HALLIBURTON COMPANY 2002 EMPLOYEE STOCK PURCHASE PLAN (the “Plan”) is intended to provide an incentive for eligible employees of HALLIBURTON COMPANY (the “Company”) and certain of its subsidiaries to acquire or increase a proprietary interest in the Company through the purchase of shares of the Company’s common stock. The Plan is intended to qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”). The provisions of the Plan shall be construed in a manner consistent with the requirements of that section of the Code.

2. *Definitions*. Where the following words and phrases are used in the Plan, they shall have the respective meanings set forth below, unless the context clearly indicates to the contrary:

“Board” means the Board of Directors of the Company.

“Committee” means the Board or a committee of members of the Board appointed by the Board to administer this Plan.

“Company” means Halliburton Company and, where required by the context, shall include any Participating Company.

“Corporate Change” means one of the following events: (i) the merger, consolidation, or other reorganization of the Company in which the outstanding Stock is converted into or exchanged for a different class of securities of the Company, a class of securities of any other issuer (except a direct or indirect wholly owned subsidiary of the Company), cash or other property; (ii) the sale, lease or exchange of all or substantially all of the assets of the Company to any other corporation or entity (except a direct or indirect wholly owned subsidiary of the Company); or (iii) the adoption by the stockholders of the Company of a plan of liquidation or dissolution.

“Eligible Compensation” means an employee’s regular straight-time earnings or base salary, determined before giving effect to any elective salary reduction or deferral agreements and including vacation, sick time and short-term disability pay, but excluding overtime, incentive compensation, bonuses, special payments, commissions, severance pay, long-term disability pay, geographical coefficients, shift differential and any other items of compensation.

“Eligible Employee” means, as of each Enrollment Date, each employee of the Company or a Participating Company who, as of such Enrollment Date, has completed a six-month period of service with the Company and/or its Subsidiaries (service with an acquired entity or operation shall be credited for this purpose), but excluding (i) employees who are employed in a foreign country whose laws or regulations effectively prohibit participation in the Plan, (ii) employees who are customarily employed by the Company less than twenty (20) hours per week or less than five (5) months in any calendar year, or (iii) unless required by local law, employees who are on an unpaid leave of absence for more than 90 days. Additionally, the Committee may also determine that a designated group of highly compensated employees are ineligible to participate in the Plan so long as the group fits within the definition of “highly compensated employee” in Code Section 414(q).

“Enrollment Date” means the first day of each Purchase Period.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean the closing price for a share of Stock on the New York Stock Exchange (or if the Stock is not then listed on such exchange, such other national securities exchange on which the Stock is then listed) for the last Trading Day on the date of such determination, as reported on the New York Stock Exchange (or such other national securities exchange) Composite Tape or such other source as the Committee deems reliable, or if no prices are reported on that date, on the last preceding date on which such prices are so reported.

"Participating Company" means any present or future parent corporation or Subsidiary of the Company that participates in the Plan pursuant to paragraph 4.

"Purchase Date" means the last Trading Day of each Purchase Period.

"Purchase Period" means a period of approximately six months beginning on (i) the first Trading Day on or after each July 1 and ending on the last Trading Day in the period ending the following December 31, or (ii) the first Trading Day on or after each January 1 and ending on the last Trading Day in the period ending the following June 30. The first Purchase Period shall begin on the first Trading Day on or after July 1, 2002. The Committee shall have the power to change the duration of Purchase Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced at least five days prior to the scheduled beginning of the first Purchase Period to be affected thereafter.

"Purchase Price" means an amount equal to 85% of the Fair Market Value of a share of Stock on the Enrollment Date or on the Purchase Date, whichever is lower, subject to adjustment pursuant to paragraph 13.

"Stock" means the Company's common stock, par value $2.50 per share.

"Subsidiary" means a corporation, domestic or foreign, which is a "subsidiary" of the Company, as defined in section 424(f) of the Code, whether or not such corporation exists or is hereafter organized or acquired by the Company or a subsidiary.

"Trading Day" means a day on which the principal national stock exchange on which the Stock is traded is open for trading.

3. *Administration of the Plan*. The Plan shall be administered by the Committee. Subject to the provisions of the Plan, the Committee shall interpret the Plan, make such rules as it deems necessary for the proper administration of the Plan, and make all other determinations necessary or advisable for the administration of the Plan and the purchase of Stock under the Plan, including without limitation establishing the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars. In addition, the Committee shall correct any defect or supply any omission or reconcile any inconsistency in the Plan, or in any stock purchase right granted under the Plan, correct any mistakes in the administration of the Plan in the manner and to the extent that the Committee deems necessary or desirable to effectuate the intent of the Plan. The Committee shall, in its sole discretion, make such decisions or determinations and take such actions, and all such decisions, determinations and actions taken or made by the Committee pursuant to this and the other paragraphs of the Plan shall be conclusive on all parties. The Committee shall not be liable for any decision, determination or action taken in good faith in connection with the administration of the Plan. The Committee shall have the authority to delegate routine day-to-day administration of the Plan to such officers and employees of the Company as the Committee deems appropriate.

4. *Participating Companies*. The Committee may designate any present or future parent corporation of the Company or Subsidiary that is eligible by law to participate in the Plan as a Participating Company by written instrument delivered to the designated Participating Company. Such written instrument shall specify the effective date of such designation and shall become, as to such designated Participating Company and employees in its employment, a part of the Plan. The terms of the Plan may be modified as applied to the Participating Company only to the extent permitted under Section 423 of the Code. Transfer of employment among the Company and Participating Companies shall not be considered a termination of employment hereunder. Any Participating Company may, by appropriate action of its Board of Directors, terminate its participation in the Plan. Moreover, the Committee may, in its discretion, terminate a Participating Company's Plan participation in the Plan at any time. The Participating Companies at any time shall be listed on Attachment A hereto as it may be amended from time to time by the Committee.

5. *Eligibility*. Subject to the further provisions hereof, all Eligible Employees as of an Enrollment Date shall be eligible to participate in the Plan with respect to the Purchase Period beginning as of such date.

6. *Stock Subject to the Plan*. Subject to the provisions of paragraph 13, the aggregate number of shares of Stock which may be sold under the Plan shall not exceed 12,000,000 shares, which shares may be authorized but unissued shares or treasury shares, including shares bought on the open market or otherwise for purposes of the Plan.

7. *Stock Purchase Rights.*

(a) *Grant of Stock Purchase Rights.* On each Enrollment Date the Company shall grant a stock purchase right to each Eligible Employee who elects to participate in the Plan for the Purchase Period beginning on such date. Subject to subparagraphs 7(f) and (g), the number of shares of Stock subject to a stock purchase right for a participant shall be equal to the quotient of (i) the aggregate payroll deductions withheld on behalf of such participant during the Purchase Period, plus any amounts carried over from the prior Purchase Period, divided by (ii) the Purchase Price of the Stock applicable to the Purchase Period; provided, however, that the maximum number of shares of Stock that may be subject to any stock purchase right for a participant during any Purchase Period may not exceed 10,000 shares (subject to adjustment as provided in paragraph 13). Whole and fractional shares shall be purchased, unless the Committee determines that the purchase of fractional shares is administratively impracticable; any payroll deductions accumulated in a participant's account and not applied to the purchase of shares shall be retained in the participant's account and applied in the next Purchase Period, subject to withdrawal by the participant pursuant to paragraph 9. Any references in the Plan to "shares" shall include fractional shares, if any, purchased by the participant under the Plan.

(b) *Election to Participate; Payroll Deduction Authorization.* An Eligible Employee may participate in the Plan only by means of payroll deduction. Except as provided in subparagraph 7(f), each Eligible Employee who elects to participate in the Plan shall deliver to the Company, within the time period prescribed by the Committee, a payroll deduction authorization in the form prescribed by the Company, whereby he gives notice of his election to participate in the Plan as of the next following Enrollment Date, and whereby he designates an integral percentage (except as provided below) to be deducted from his Eligible Compensation for each pay period paid during the Purchase Period and paid into the Plan for his account. The designated percentage may not be less than 1% nor exceed 10%; provided, however, the minimum contribution per pay period shall be $10.

(c) *Changes in Payroll Authorization.* All payroll deductions made for a participant shall be credited to his account under the Plan. A participant may discontinue his participation in the Plan as provided in paragraph 9 hereof, or may increase or decrease the rate of his payroll deductions during the Purchase Period by completing or filing with the Company, at a time and in a manner prescribed by the Committee, a new payroll deduction authorization form authorizing a change in his payroll rate. The Committee may, in its discretion, limit the number of payroll rate changes during any Purchase Period. The change in rate shall be effective as soon as administratively practicable after the Company's receipt of the new payroll deduction authorization form. A participant's payroll deduction authorization form shall remain in effect for successive Purchase Periods unless terminated as provided in paragraph 9 hereof.

(d) *Automatic Payroll Reduction*. Notwithstanding the foregoing, to the extent necessary to comply with subparagraphs 7(f) and (g) hereof, a participant's payroll deductions may be decreased to 0% at any time during a Purchase Period. Payroll deductions shall recommence at the rate provided in such participant's payroll deduction authorization form at the beginning of the first Purchase Period that is scheduled to end in the following calendar year, unless terminated by the participant as provided in paragraph 9 hereof.

(e) *Tax Withholding*. At the time the stock purchase right is exercised, in whole or in part, or at the time some or all of the Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state or other tax withholding obligations, if any, that arise upon the exercise of the stock purchase right or the disposition of the Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including without limitation any withholding required to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Stock purchased by the participant.

(f) *$25,000 Limitation.* Notwithstanding anything in the Plan to the contrary, no employee shall be granted a stock purchase right under the Plan which permits his rights to purchase Stock under the Plan and under all other employee stock purchase plans of the Company and its parent corporation and Subsidiaries to accrue at a rate which exceeds $25,000 of Fair Market Value of Stock (determined at the time such stock purchase right is granted) for each calendar year in which such stock purchase right is outstanding at any time (within the meaning of Section 423(b)(8) of the Code). Any payroll deductions in excess of the amount specified in the foregoing sentence shall be returned to the participant as soon as administratively feasible after the next following Enrollment Date.

(g) *Special Restriction on Participation.* Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee shall be granted a stock purchase right under the Plan to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company and/or hold outstanding options to purchase such stock possessing 5% or more of the total combined voting power or value of all classes of the capital stock of the Company, its parent corporation or any Subsidiary.

8. *Exercise of Stock Purchase Rights.*

(a) *General Statement.* Subject to the limitations set forth in paragraph 7, unless a participant withdraws from the Plan as provided in paragraph 9, each participant in the Plan automatically and without any act on his part shall be deemed to have exercised his stock purchase right on each Purchase Date to the extent of his unused payroll deductions under the Plan and to the extent the issuance of Stock to such participant upon such exercise is lawful.

(b) *Delivery of Shares to Custodian.* As soon as practicable after each Purchase Date, the Company shall deliver to a custodian selected by the Committee one or more certificates representing (or shall otherwise cause to be credited to the account of such custodian) the aggregate number of whole shares of Stock with respect to which stock purchase rights were exercised on such Purchase Date of all of the participating employees hereunder. Such custodian shall keep accurate records of the beneficial interests of each participant in such shares by means of participant accounts under the Plan, and shall provide each participant with periodic statements with respect thereto as may be directed by the Committee. The Committee may require that shares be retained with such custodian, or other designated broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. If the Company is required to obtain from any U.S. commission or agency authority to issue any such shares, the Company shall seek to obtain such authority. Inability of the Company to obtain from any commission or agency (whether U.S. or foreign) authority which counsel for the Company deems necessary for the lawful issuance of any such shares shall relieve the Company from liability to any participant in the Plan except to return to him the amount of his payroll deductions under the Plan which would have otherwise been used upon exercise of the relevant stock purchase right.

(c) *Withdrawal of Shares.* A participant may, at any time, in such form and manner as established by the custodian, direct the custodian to deliver to the participant all or part of the shares held by the custodian in his account or to sell such shares and deliver to the participant the proceeds therefrom, less applicable expenses.

(d) *Dividends.* With respect to an individual's Stock held by the custodian pursuant to subparagraph 8(b), the custodian shall automatically reinvest in additional shares of Stock for such participant's account any cash dividends received by the custodian and attributable to such Stock and the custodian shall, in accordance with procedures adopted by the custodian, facilitate the participant's voting rights attributable to shares held in a participant's account. The participant may elect to receive dividends in cash by following the procedures established by the custodian.

9. *Withdrawal from the Plan.*

(a) *General Statement.* Any participant may withdraw in whole from the Plan prior to the Purchase Date relating to a particular Purchase Period. Partial withdrawals shall not be permitted. A participant who wishes to withdraw from the Plan must timely deliver to the Company a notice of withdrawal in a form prepared by the Company during the Purchase Period at a time and in a manner prescribed by the Committee. The Company shall, as soon as administratively practicable, following the receipt of the notice of withdrawal, refund to the participant the amount of his payroll deductions under the Plan which have not yet been used to purchase shares upon the exercise of his stock purchase rights; and thereupon, automatically and without any further act on his part, his payroll deduction authorization and his interest in unexercised stock purchase rights under the Plan shall terminate in full.

(b) *Leave of Absence.* A participant who goes on a leave of absence shall be deemed to have elected to withdraw from the Plan at the end of 90 days, unless such participant is on a paid leave of absence or his or her continued participation is required by applicable local law.

(c) *Eligibility Following Withdrawal.* A participant who withdraws from the Plan shall be eligible to participate again in the Plan upon expiration of the Purchase Period during which he withdrew (provided that he is otherwise an Eligible Employee at such later time).

10. *Termination of Eligible Employment.* If the employment of a participant with the Company terminates for any reason whatsoever or the participant ceases to be an Eligible Employee, then his participation in the Plan automatically and without any act on his part shall terminate as of the date of such termination of employment or change in status. The Company shall, as soon as administratively practicable, refund to him (or his estate or personal representative, as the case may be) the amount of his payroll deductions under the Plan which have not yet been used to purchase Stock, and thereupon his interest in unexercised stock purchase rights under the Plan shall terminate in full.

11. *Restriction Upon Assignment of Stock Purchase Rights*. A stock purchase right granted under the Plan shall not be transferable otherwise than by will or the laws of descent and distribution. Each stock purchase right shall be exercisable, during a participant's lifetime, only by the participant to whom granted. The Company shall not recognize and shall be under no duty to recognize any assignment or purported assignment by an employee of any of his stock purchase rights under the Plan.

12. *No Shareholder Rights or Privileges Until Exercise of Stock Purchase Rights*. With respect to shares of Stock subject to a stock purchase right, a participant shall not be deemed to be a shareholder, and he shall not have any of the rights or privileges of a shareholder, until such stock purchase right has been exercised and shares delivered pursuant to subparagraph 8(b).

13. *Changes in Stock; Adjustments*. Whenever any change is made in the Stock, by reason of a stock dividend or by reason of subdivision, stock split, reverse stock split, recapitalization, reorganization, combination, reclassification of shares or other similar change, appropriate action will be taken by the Committee to adjust any or all of (i) the number and type of shares subject to the Plan, (ii) the number and type of shares subject to outstanding stock purchase rights and (iii) the Purchase Price with respect to any of the foregoing.

In the event of a Corporate Change, unless a successor corporation assumes or substitutes new stock purchase rights (within the meaning of Section 424(a) of the Code) for all stock purchase rights then outstanding, (i) the Purchase Date for all stock purchase rights then outstanding shall be accelerated to a date fixed by the Committee prior to the effective date of the Corporate Change and (ii) upon such effective date any unexercised stock purchase rights shall expire and the Company promptly shall refund to each participant the amount of such participant's payroll deductions under the Plan which have not yet been used to purchase Stock.

14. *Use of Funds; No Interest Paid*. All funds received or held by the Company under the Plan shall be included in the general funds of the Company free of any trust or other restriction, and may be used for any corporate purpose. No interest shall be paid to any participant on amounts credited to his account.

15. *Term of the Plan*. The Plan shall be effective July 1, 2002, provided the Plan is approved by the shareholders of the Company prior to such date. If not sooner terminated under the provisions of paragraph 16, the Plan shall automatically terminate upon and no further payroll deductions shall be made and no further stock purchase rights shall be granted after the date all of the shares of Stock reserved for issuance under the Plan, as increased and/or adjusted from time to time, have been sold under the Plan. If on the final Purchase Date there is an insufficient number of shares of Stock available for all purchases under stock purchase rights exercised on such date, the number of available shares shall be prorated among the then purchasing participants in an equitable manner as determined by the Committee based on their deductions for such Purchase Period and all remaining amounts shall be returned to the participants.

16. *Amendment or Termination of the Plan*. The Board in its discretion may terminate the Plan at any time with respect to any Stock for which stock purchase rights have not theretofore been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided, however, that, except as provided below, no change in any stock purchase right theretofore granted may be made that would materially impair the stock purchase rights of the participant without the consent of such participant. In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Board may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to (i) altering the Purchase Price for any Purchase Period including a Purchase Period underway at the time of the change in Purchase Price; and (ii) shortening any Purchase Period so that Purchase Period ends on a new Purchase Date, including a Purchase Period underway at the time of the Board action.

17. *Securities Laws*. The Company shall not be obligated to issue any Stock pursuant to any stock purchase right granted under the Plan at any time when the offer, issuance or sale of shares covered by such stock purchase right has not been registered under the Securities Act of 1933, as amended, or does not comply with such other state, federal or foreign laws, rules or regulations, or the requirements of any stock exchange upon which the Stock may then be listed, as the Company or the Committee deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the requirements of such laws, rules, regulations or requirements available for the offer, issuance and sale of such shares. Further, all Stock acquired pursuant to the Plan shall be subject to the Company's policies concerning compliance with securities laws and regulations, as such policies may be amended from time to time. The terms and conditions of stock purchase rights granted hereunder to, and the purchase of shares by, persons subject to Section 16 of the Exchange Act shall comply with any applicable provisions of Rule 16b-3. As to such persons, the Plan shall be deemed to contain, and such stock purchase rights shall contain, and the shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required from time to time by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

18. 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 that 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 stock purchase right granted under the Plan. No employee, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.

19. Miscellaneous Provisions.

(a) Number and Gender. Wherever appropriate herein, words used in the singular shall be considered to include the plural and words used in the plural shall be considered to include the singular. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender.

(b) Headings. The headings and subheadings in the Plan are included solely for convenience, and if there is any conflict between such headings or subheadings and the text of the Plan, the text shall control.

(c) Not a Contract of Employment. The adoption and maintenance of the Plan shall not be deemed to be a contract between the Company or any Participating Company and any person or to be consideration for the employment of any person. Participation in the Plan at any given time shall not be deemed to create the right to participate in the Plan, or any other arrangement permitting an employee of the Company or any Participating Company to purchase Stock at a discount, in the future. The stock purchase rights and obligations under any participant's terms of employment with the Company or any Participating Company shall not be affected by participation in the Plan. Nothing herein contained shall be deemed to give any person the right to be retained in the employ of the Company or any Participating Company or to restrict the right of the Company or any Participating Company to discharge any person at any time, nor shall the Plan be deemed to give the Company or any Participating Company the right to require any person to remain in the employ of the Company or such Participating Company or to restrict any person's right to terminate his employment at any time. The Plan shall not afford any participant any additional right to compensation as a result of the termination of such participant's employment for any reason whatsoever.

(d) Compliance with Applicable Laws. The Company's obligation to offer, issue, sell or deliver Stock under the Plan is at all times subject to all approvals of and compliance with any governmental authorities (whether domestic or foreign) required in connection with the authorization, offer, issuance, sale or delivery of Stock as well as all federal, state, local and foreign laws. Without limiting the scope of the preceding sentence, and notwithstanding any other provision in the Plan, the Company shall not be obligated to grant stock purchase rights or to offer, issue, sell or deliver Stock under the Plan to any employee who is a citizen or resident of a jurisdiction the laws of which, for reasons of its public policy or otherwise, prohibit the Company from taking any such action with respect to such employee.

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

(f) Governing Law. All provisions of the Plan shall be construed in accordance with the laws of Delaware except to the extent preempted by federal law.

EXHIBIT 10.29

HALLIBURTON COMPANY

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

AS AMENDED AND RESTATED

EFFECTIVE DECEMBER 7, 2005

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HALLIBURTON COMPANY

SUPPLEMENTAL

EXECUTIVE RETIREMENT PLAN

Halliburton Company, having heretofore established the Halliburton Company Senior Executives' Deferred Compensation Plan, pursuant to the provisions of Article X of said Plan, hereby splits said Plan into the Halliburton Company Supplemental Executive Retirement Plan and the Halliburton Company Benefit Restoration Plan and amends and restates the Halliburton Company Supplemental Executive Retirement Plan to read as follows and to be effective in accordance with the provisions of Article XII hereof. The Plan was further amended, effective December 7, 2005, to add a vesting requirement of five consecutive years of participation in the Plan for awards made in the 2005 and subsequent Allocation Years. Each current Participant shall get credit for years of participation in the Plan prior to this amendment for vesting purposes under the Plan.

ARTICLE I

Purpose of the Plan

The purpose of the Halliburton Company Supplemental Executive Retirement Plan is to provide supplemental retirement benefits to Participants in order to promote growth of the Company and provide additional means of attracting and holding qualified competent executives.

ARTICLE II
Definitions

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

(A) **Account:** An individual account for each Participant on the books of such Participant's Employer to which is credited amounts allocated for the benefit of such Participant pursuant to the provisions of Article IV, Paragraph (D) and interest credited pursuant to the provisions of Article IV, Paragraph (G).

(B) **Administrative Committee:** The administrative committee appointed by the Compensation Committee to administer the Plan.

(C) **Allocation Year**: The calendar year for which an allocation is made to a Participant's Account pursuant to Article IV.

(D) **Board:** The Board of Directors of the Company.

(E) **Code:** The Internal Revenue Code of 1986, as amended.

(F) **Compensation Committee:** The Compensation Committee of the Board.

(G)**Company:** Halliburton Company.

(H) **Employee:** Any employee of an Employer. The term does not include independent contractors or persons who are retained by an Employer as consultants only.

(I) **Employer:** The Company and any Subsidiary designated as an Employer in accordance with the provisions of Article III of the Plan.

(J) **ERISA:** The Employee Retirement Income Security Act of 1974, as amended.

(K)**Participant:** A Senior Executive who is selected as a Participant for an Allocation Year. The Compensation Committee shall be the sole judge of who shall be eligible to be a Participant for any Allocation Year. The selection of a Senior Executive to be a Participant for a particular Allocation Year shall not constitute him or her a Participant for another Allocation Year unless he or she is selected to be a Participant for such other Allocation Year by the Compensation Committee.

(L) **<u>Plan</u>:** The Halliburton Company Supplemental Executive Retirement Plan, as amended and restated December 7, 2005. The prior version of the Plan was the amendment and restatement effective January 1, 2001.

(M) **<u>Senior Executive</u>:** An Employee who is a senior executive, including an officer, of an Employer (whether or not he or she is also a director thereto), who is employed by an Employer on a full-time basis, who is compensated for such employment by a regular salary and who, in the opinion of the Compensation Committee, is one of the key personnel of an Employer in a position to contribute materially to its continued growth and development and to its future financial success.

(N) **<u>Subsidiary</u>:** At any given time, a company (whether a corporation, partnership, llimited liability company or other form of entity) in which the Company or any other of the Subsidiaries or both owns, directly or indirectly, an aggregate equity interest of 80% or more.

(O) **<u>Termination of Service</u>:** Severance from employment with an Employer for any reason other than a transfer between Employers.

(P) **<u>Trust</u>:** Any trust created pursuant to the provisions of Article IX.

(Q) **<u>Trust Agreement</u>:** The agreement establishing the Trust.

(R) **<u>Trustee</u>:** The trustee of the Trust.

(S) **<u>Trust Fund</u>:** Assets under the Trust as may exist from time to time.

ARTICLE III

<u>Administration of the Plan</u>

(A) The Compensation Committee shall appoint an Administrative Committee to administer, construe and interpret the Plan. Such Administrative Committee, or such successor Administrative Committee as may be duly appointed by the Compensation Committee, shall serve at the pleasure of the Compensation Committee. Decisions of the Administrative Committee, with respect to any matter involving the Plan, shall be final and binding on the Company, its shareholders, each Employer and all officers and other executives of the Employers. For purposes of the Employee Retirement Income Security Act of 1974, the Administrative Committee shall be the Plan "administrator" and shall be the "named fiduciary" with respect to the general administration of the Plan.

(B) The Administrative Committee shall maintain complete and adequate records pertaining to the Plan, including but not limited to Participants' Accounts, amounts transferred to the Trust, reports from the Trustee and all other records which shall be necessary or desirable in the proper administration of the Plan. The Administrative Committee shall furnish the Trustee such information as is required to be furnished by the Administrative Committee or the Company pursuant to the Trust Agreement.

(C) The Company (the "Indemnifying Party") hereby agrees to indemnify and hold harmless the members of the Administrative Committee (the "Indemnified Parties") against any losses, claims, damages or liabilities to which any of the Indemnified Parties may become subject to the extent that such losses, claims, damages or liabilities or actions in respect thereof arise out of or are based upon any act or omission of the Indemnified Party in connection with the administration of this Plan (including any act or omission of such Indemnified Party constituting negligence, but excluding any act or omission of such Indemnified Party constituting gross negligence or willful misconduct), and will reimburse the Indemnified Party for any legal or other expenses reasonably incurred by him or her in connection with investigating or defending against any such loss, claim, damage, liability or action.

(D) Promptly after receipt by the Indemnified Party under the preceding paragraph of notice of the commencement of any action or proceeding with respect to any loss, claim, damage or liability against which the Indemnified Party believes he or she is indemnified under the preceding paragraph, the Indemnified Party shall, if a claim with respect thereto is to be made against the Indemnifying Party under such paragraph, notify the Indemnifying Party in writing of the commencement thereof, provided, however, that the omission so to notify the Indemnifying Party shall not relieve it from any liability which it may have to the Indemnified Party to the extent the Indemnifying Party is not prejudiced by such omission. If any such action or proceeding shall be brought against the Indemnified Party, and it shall notify the Indemnifying Party of the commencement thereof, the Indemnifying Party shall be entitled to participate therein, and, to the extent that it shall wish, to assume the defense thereof, with counsel reasonably satisfactory to the Indemnified Party, and, after notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense thereof, the Indemnifying Party shall not be liable to such Indemnified Party under the preceding paragraph for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation or reasonable expenses of actions taken at the written request of the Indemnifying Party. The Indemnifying Party shall not be liable for any compromise or settlement of any such action or proceeding effected without its consent, which consent will not be unreasonably withheld.

(E) The Administrative Committee may designate any Subsidiary as an Employer by written instrument delivered to the Secretary of the Company and the designated Employer. Such written instrument shall specify the effective date of such designated participation, may incorporate specific provisions relating to the operation of the Plan which apply to the designated Employer only and shall become, as to such designated Employer and its employees, a part of the Plan. Each designated Employer shall be conclusively presumed to have consented to its designation and to have agreed to be bound by the terms of the Plan and any and all amendments thereto upon its submission of information to the Administrative Committee required by the terms of or with respect to the Plan; provided, however, that the terms of the Plan may be modified so as to increase the obligations of an Employer only with the consent of such Employer, which consent shall be conclusively presumed to have been given by such Employer upon its submission of any information to the Administrative Committee required by the terms of or with respect to the Plan. Except as modified by the Administrative Committee in its written instrument, the provisions of this Plan shall be applicable with respect to each Employer separately, and amounts payable hereunder shall be paid by the Employer which employs the particular Participant, if not paid from the Trust Fund.

(F) No member of the Administrative Committee shall have any right to vote or decide upon any matter relating solely to himself or herself under the Plan or to vote in any case in which his or her individual right to claim any benefit under the Plan is particularly involved. In any case in which an Administrative Committee member is so disqualified to act and the remaining members cannot agree, the Compensation Committee shall appoint a temporary substitute member to exercise all the powers of the disqualified member concerning the matter in which he or she is disqualified.

ARTICLE IV

Allocations Under the Plan,
Participation in the Plan and Selection for Awards

(A) Each Allocation Year the Compensation Committee shall, in its sole discretion, determine what amounts shall be available for allocation to the Accounts of the Participants pursuant to Paragraph (D) below.

(B) No award shall be made to any person while he or she is a voting member of the Compensation Committee.

(C) The Compensation Committee from time to time may adopt, amend or revoke such regulations and rules as it may deem advisable for its own purposes to guide in determining which of the Senior Executives it shall deem to be Participants for a particular Allocation Year and the method and manner of payment thereof to the Participants.

(D) The Compensation Committee, during the Allocation Year involved or during the next succeeding Allocation Year, shall determine which Senior Executives it shall designate as Participants for such Allocation Year and the amounts allocated to each Participant for such Allocation Year. In making its determination, the Compensation Committee shall consider such factors as the Compensation Committee may in its sole discretion deem material. The Compensation Committee, in its sole discretion, may notify a Senior Executive at any time during a particular Allocation Year or in the Allocation Year following the Allocation Year for which the award is made that he or she has been selected as a Participant for all or part of such Allocation Year, and may determine and notify him or her of the amount which shall be allocated to such Participant for such Allocation Year. The decision of the Compensation Committee in selecting a Senior Executive to be a Participant or in making any allocation to him or her shall be final and conclusive, and nothing herein shall be deemed to give any Senior Executive or his or her legal representatives or assigns any right to be a Participant for such Allocation Year or to be allocated any amount except to the extent of the amount, if any, allocated to a Participant for a particular Allocation Year, but at all times subject to the provisions of the Plan.

(E) A Senior Executive whose service is terminated during the Allocation Year may be selected as a Participant for such part of the Allocation Year prior to his or her Termination of Service and be granted such award with respect to his or her services during such part of the Allocation Year as the Compensation Committee, in its sole discretion and under any rules it may promulgate, may determine.

(F) Allocations to Participants under the Plan shall be made by crediting their respective Accounts on the books of their Employers as of the last day of the Allocation Year. Accounts of Participants shall also be credited with interest as of the last day of each Allocation Year, at the rate set forth in Paragraph (G) below, on the average monthly credit balance of the Account being calculated by using the balance of each Account on the first day of each month. Prior to Termination of Service, the annual interest shall accumulate as a part of the Account balance. After Termination of Service, the annual interest for such Allocation Year may be paid as more particularly set forth hereinafter in Article VII, Paragraph (C).

(G)Interest shall be credited on amounts allocated to Participants' Accounts at the rate of 5% per annum for periods prior to Termination of Service and at the rate of 10% per annum for periods subsequent to Termination of Service.

ARTICLE V

Non-Assignability of Awards

No Participant shall have any right to commute, encumber, pledge, transfer or otherwise dispose of or alienate any present or future right or expectancy which he or she may have at any time to receive payments of any allocations made to such Participant, all such allocations being expressly hereby made non-assignable and non-transferable; provided, however, that nothing in this Article shall prevent transfer (A) by will, (B) by the applicable laws of descent and distribution or (C) pursuant to an order that satisfies the requirements for a "qualified domestic relations order" as such term is defined in section 206(d)(3)(B) of the ERISA and section 414(p)(1)(A) of the Code, including an order that requires distributions to an alternate payee prior to a Participant's "earliest retirement age" as such term is defined in section 206(d)(3)(E)(ii) of the ERISA and section 414(p)(4)(B) of the Code. Attempts to transfer or assign by a Participant (other than in accordance with the preceding sentence) shall, in the sole discretion of the Compensation Committee after consideration of such facts as it deems pertinent, be grounds for terminating any rights of such Participant to any awards allocated to but not previously paid over to such Participant.

ARTICLE VI
Vesting

All amounts, including interest, credited to a Participant’s Account prior to the 2005 Allocation Year shall be fully vested and not subject to forfeiture for any reason, except as provided in Article V, regardless of the number of years of participation in the Plan by such Participant. All amounts, including interest, credited to a Participant’s Account, which are attributable to the 2005 Allocation Year and any subsequent Allocation Years in which such Participant may receive an award, shall be fully vested and not subject to forfeiture for any reason, except as provided in Article V, when such Participant has five consecutive years of participation in the Plan as measured from the date such Participant first became a Participant in the Plan.

ARTICLE VII

Distribution of Awards

(A) Upon Termination of Service of a Participant the Administrative Committee (i) shall certify to the Trustee or the treasurer of the Employer, as applicable, the vested amount credited to the Participant's Account on the books of each Employer for which the Participant was employed at a time when he or she earned an award hereunder, (ii) shall determine whether the payment of the vested amount credited to the Participant's Account under the Plan is to be paid directly by the applicable Employer, from the Trust Fund, if any, or by a combination of such sources (except to the extent the provisions of the Trust Agreement if any, specify payment from the Trust Fund) and (iii) shall determine and certify to the Trustee or the treasurer of the Employer, as applicable, the method of payment of the vested amount credited to a Participant's Account, selected by the Administrative Committee from among the following alternatives:

(1) A single lump sum payment upon Termination of Service;

(2) A payment of one-half of the Participant's balance upon Termination of Service, with payment of the additional one-half to be made on or before the last day of a period of one year following Termination of Service; or

(3) Payment in monthly installments over a period not to exceed ten years with such payments to commence upon Termination of Service.

The above notwithstanding, if the total vested amount credited to the Participant's Account upon Termination of Service is less than $50,000, such amount shall always be paid in a single lump sum payment upon Termination of Service.

(B) The Trustee or the treasurer of the Employer, as applicable, shall thereafter make payments of awards in the manner and at the times so designated, subject, however, to all of the other terms and conditions of this Plan and the Trust Agreement if any. This Plan shall be deemed to authorize the payment of all or any portion of a Participant's award from the Trust Fund to the extent such payment is required by the provisions of the Trust Agreement, if any.

(C) Interest on the second half of a payment under Paragraph (A)(2) above shall be paid with the final payment, while interest on payments under Paragraph (A)(3) above may be paid at each year end or may be paid as a part of a level monthly payment computed by the Administrative Committee through the use of such methodologies as the Administrative Committee shall select from time to time for such purpose.

(D) If a Participant shall die while in the service of an Employer the vesting provision in Article VI shall not apply to such Participant’s Account. If a Participant shall die after Termination of Service and prior to the time when all amounts payable to him or her under the Plan have been paid to such Participant, any remaining amounts payable to the Participant hereunder shall be payable to the estate of the Participant. The Administrative Committee shall cause the Trustee or the treasurer of the Employer, as applicable, to pay to the estate of the Participant all of the awards then standing to his or her credit in a lump sum or in such other form of payment consistent with the alternative methods of payment set forth above as the Administrative Committee shall determine after considering such facts and circumstances relating to the Participant and his or her estate as it deems pertinent.

(E) If the Plan is terminated pursuant to the provisions of Article X, the Compensation Committee may, at its election and in its sole discretion, cause the Trustee or the treasurer of the Employer, as applicable, to pay to all Participants all of the awards then standing to their credit in the form of lump sum payments.

ARTICLE VIII

Nature of Plan

This Plan constitutes a mere promise by the Employers to make benefit payments in the future and Participants have the status of general unsecured creditors of the Employers. Further, the adoption of this Plan and any setting aside of amounts by the Employers with which to discharge their obligations hereunder shall not be deemed to create a trust; legal and equitable title to any funds so set aside shall remain in the Employers, and any recipient of benefits hereunder shall have no security or other interest in such funds. Any and all funds so set aside shall remain subject to the claims of the general creditors of the Employers, present and future. This provision shall not require the Employers to set aside any funds, but the Employers may set aside such funds if they choose to do so.

ARTICLE IX

Funding of Obligation

Article VIII above to the contrary notwithstanding, the Employers may fund all or part of their obligations hereunder by transferring assets to a trust if the provisions of the trust agreement creating the Trust require the use of the Trust's assets to satisfy claims of an Employer's general unsecured creditors in the event of such Employer's insolvency and provide that no Participant shall at any time have a prior claim to such assets. Any transfers of assets to a trust may be made by each Employer individually or by the Company on behalf of all Employers. The assets of the Trust shall not be deemed to be assets of this Plan.

ARTICLE X

Amendment or Termination of Plan

The Compensation Committee shall have the power and right from time to time to modify, amend, supplement, suspend or terminate the Plan as it applies to each Employer, provided that no such change in the Plan may deprive a Participant of the amounts allocated to his or her Account or be retroactive in effect to the prejudice of any Participant and the interest rate applicable to amounts credited to Participants' Accounts for periods subsequent to Termination of Service shall not be reduced below 6% per annum. Any such modification, amendment, supplement suspension or termination shall be in writing and signed by a member of the Compensation Committee.

ARTICLE XI
General Provisions

(A) No Participant shall have any preference over the general creditors of an Employer in the event of such Employer’s insolvency.

(B) Nothing contained herein shall be construed to give any person the right to be retained in the employ of an Employer or to interfere with the right of an Employer to terminate the employment of any person at any time.

(C) If the Administrative Committee receives evidence satisfactory to it that any person entitled to receive a payment hereunder is, at the time the benefit is payable, physically, mentally or legally incompetent to receive such payment and to give a valid receipt therefor, and that an individual or institution is then maintaining or has custody of such person and that no guardian, committee or other representative of the estate of such person has been duly appointed, the Administrative Committee may direct that such payment thereof be paid to such individual or institution maintaining or having custody of such person, and the receipt of such individual or institution shall be valid and a complete discharge for the payment of such benefit.

(D) Payments to be made hereunder may, at the written request of the Participant, be made to a bank account designated by such Participant, provided that deposits to the credit of such Participant in any bank or trust company shall be deemed payment into his or her hands.

(E) Wherever any words are used herein in the masculine, feminine or neuter gender, they shall be construed as though they were also used in another gender in all cases where they would so apply, and whenever any words are used herein in the singular or plural form, they shall be construed as though they were also used in the other form in all cases where they would so apply.

(F) THIS PLAN SHALL BE CONSTRUED AND ENFORCED UNDER THE LAWS OF THE STATE OF TEXAS EXCEPT TO THE EXTENT PREEMPTED BY FEDERAL LAW.

ARTICLE XII

Effective Date

This amendment and restatement of the Plan shall be effective from and after December 7, 2005, and shall continue in force during subsequent years unless amended or revoked by action of the Compensation Committee.

HALLIBURTON COMPANY

By: /s/ David J. Lesar

David J. Lesar
Chairman, President and Chief
Executive Officer

EXHIBIT 10.30

U.S.$ 850,000,000

FIVE YEAR REVOLVING CREDIT AGREEMENT

Dated as of December 16, 2005

Among

KBR HOLDINGS, LLC

as Borrower,

THE ISSUING BANKS NAMED HEREIN

as Issuing Banks,

THE BANKS NAMED HEREIN

as Banks,

CITIBANK, N.A.

as Paying Agent and Co-Administrative Agent,

HSBC BANK USA, NATIONAL ASSOCIATION

as Co-Administrative Agent,

UBS SECURITIES LLC

as Syndication Agent,

and

THE ROYAL BANK OF SCOTLAND PLC,

SUMITOMO MITSUI BANKING CORPORATION

as Co-Documentation Agents

Co-Lead Arrangers:

CITIGROUP GLOBAL MARKETS INC.,

HSBC SECURITIES (USA) INC.

and

UBS SECURITIES LLC

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FIVE YEAR REVOLVING CREDIT AGREEMENT

Dated as of December 16, 2005

KBR Holdings, LLC, a Delaware limited liability company (the "Borrower"), the lenders party hereto and Citibank, N.A., a national banking association ("Citibank"), as Paying Agent hereunder, agree as follows:

ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms. As used in this Agreement, the terms "Borrower" and "Citibank" shall have the meanings set forth above and the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Advance" means a Revolving Credit Advance under Section 2.01 or a Letter of Credit Advance under Section 2.03 and refers to a Base Rate Advance or a Eurodollar Rate Advance (each, a "Type" of Advance).

"Affected Bank" has the meaning specified in Section 2.15.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or any Subsidiary of such Person.

"Agent" means Citibank in its capacity as Paying Agent pursuant to Article VII and any successor in such capacity pursuant to Section 7.06.

"Agent's Account" means the account of the Agent maintained by the Agent with Citibank at its office at 2 Penns Way, Suite 200, New Castle, Delaware 19720, Account No. 36852248, Attention: Halliburton Account Officer, or such other account as the Agent shall specify in writing to the Banks.

"Agent Parties" has the meaning specified in Section 8.02(b).

"Agreement" means this Five Year Revolving Credit Agreement dated as of the date hereof among the Borrower, the Banks and the Agent, as amended from time to time in accordance with the terms hereof.

"Applicable Commitment Fee Rate" has the meaning specified in Annex A hereto.

"Applicable Lending Office" means, with respect to each Bank, (i) in the case of a Base Rate Advance, such Bank's Domestic Lending Office, and (ii) in the case of a Eurodollar Rate Advance, such Bank's Eurodollar Lending Office.

"Applicable Margin" has the meaning specified in Annex A hereto.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Bank and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit E.

"Assuming Lender" has the meaning specified in Section 2.19.

"Assumption Agreement" has the meaning specified in Section 2.19.

"Available Amount" of any Letter of Credit means, at any time, the Dollar Equivalent of the maximum amount available to be drawn under such Letter of Credit at such time as set forth in Section 2.01(b) (assuming compliance at such time with all conditions to drawing).

"Banks" means the Issuing Banks and the other banks and other financial institutions party hereto from time to time as lenders, including each Eligible Assignee that becomes a party hereto pursuant to Section 8.08(a), (b) and (d).

"Barracuda-Caratinga Guaranteed Debt" has the meaning specified in the Subordination Agreement.

"Barracuda-Caratinga L/C" means each of the following: Standby Letters of Credit No. B2483 in a principal amount of $1,139,303.70, No. 96143/80085 in a principal amount of $3,128,674.90, No. S842511 in a principal amount of $11,826,120.00, No. S825023 in a principal amount of $259,400,000.00, No. 96130/80085 in a principal amount of $5,877,227.50 and No. S331669 in a principal amount of $107,341,282.35, which Standby Letters of Credit have an aggregate principal amount of $388,712,608.45 (as each of the same may be amended, restated, modified, supplemented or replaced from time to time) issued by ABN AMRO Bank NV, Bank of Nova Scotia, Lloyds TSB Bank Plc, The Royal Bank of Scotland Plc and HSBC Bank USA (or any of their respective assigns or successors) for the account of the Borrower or a Subsidiary of the Borrower in respect of the Barracuda-Caratinga Project and irrevocably and unconditionally guaranteed by, or the direct obligation of, the Parent.

"Barracuda-Caratinga Losses" means any cash losses in respect of the Barracuda-Caratinga Project relating to or arising from any accounting charges arising from, or in connection with, the disclosure regarding bolts made in Note 2 of the Notes to Condensed Consolidated Financial Statements in Form 10-Q of the Parent for the quarterly period ended September 30, 2005 filed with the Securities and Exchange Commission.

"Barracuda-Caratinga Project" means the development, engineering, procurement, construction, operation and maintenance of an offshore oil field FPSO project in Brazil by certain of the Parent's Subsidiaries and Petrobras S.A.

"Base Rate" means, for any period, a fluctuating interest rate per annum as shall be in effect from time to time which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate; and

(b) the sum (adjusted to the nearest 1/8 of 1% or, if there is no nearest 1/8 of 1%, to the next higher 1/8 of 1%) of (i) ½ of one percent per annum plus (ii) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 360 days) being determined weekly on each Monday (or, if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Federal Reserve Board for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) three-month Dollar non-personal time deposits in the United States, plus (iii) the average during such three-week period of the annual assessment rates estimated by Citibank for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring Dollar deposits of Citibank in the United States; and

(c) the sum of ½ of one percent per annum plus the Federal Funds Rate in effect from time to time.

"Base Rate Advance" means an Advance which bears interest as provided in Section 2.07(a).

"Borrowing" means a borrowing consisting of Advances of the same Type made on the same day by the Banks pursuant to Section 2.01 and, if such Advances are Eurodollar Rate Advances, having Interest Periods of the same duration.

"Borrowing Sublimit" means an amount equal to $850,000,000 available to the Borrower for Revolving Credit Advances, as the same may be reduced pursuant to Section 2.05(b); provided that the Borrowing Sublimit shall not be applicable to any Revolving Credit Advances with respect to which the proceeds therefrom are used to repay any Letter of Credit Advance pursuant to Section 2.06(c). The Borrowing Sublimit is part of, and not in addition to, the Revolving Credit Facility.

"Business Day" means a day of the year on which banks are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advance, on which dealings in Dollar deposits are carried on in the London interbank market

"Capital Expenditures" means, for any period, all expenditures made, directly or indirectly, by the Borrower or any of its consolidated Subsidiaries during such period for equipment, fixed assets, real property or improvements, or for replacements or substitutions therefore or additions thereto, that have been or should be, in accordance with GAAP, reflected as additions to property, plant or equipment on a consolidated balance sheet of the Borrower or have a useful life of more than one year.

"Cash Equivalents" means

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof, in each case maturing within one year after such date and having, at the time of the acquisition thereof, the highest rating obtainable from either S&P or Moody's;

(c) commercial paper maturing no more than one year from the date of creation thereof and having, at the time of the acquisition thereof, a rating of at least A-1 from S&P or at least P-1 from Moody's;

(d) certificates of deposit or bankers' acceptances maturing within one year after such date and issued or accepted by any Bank or by any commercial bank organized under the laws of the United States, any state thereof, the District of Columbia or any foreign country recognized by the United States that (a) is at least "adequately capitalized" (as defined in the regulations of its primary Federal banking regulator), (b) has Tier 1 capital (as defined in such regulations) of not less than $100,000,000 (or the foreign currency equivalent thereof) and (c) has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act);

(e) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (d) above; and

(f) money market funds that (i) comply with the criteria set forth in Securities and Exchange Commission Rule 2a 7 under the Investment Company Act of 1940, (ii) are rated AAA by S&P and Aaa by Moody's and (iii) have portfolio assets of at least $5,000,000,000; and

(g) substantially similar investments denominated in foreign currencies (including similarly capitalized foreign banks).

"CERCLIS" means the Comprehensive Environmental Response, Compensation and Liability Information System maintained by the U.S. Environmental Protection Agency.

"Co-Administrative Agents" means Citibank and HSBC Bank, solely in their capacities as co-administrative agents under the Agreement.

"Co-Documentation Agents" means The Royal Bank of Scotland Plc and Sumitomo Mitsui Banking Corporation, solely in their capacities as co-documentation agents under the Agreement.

"Co-Lead Arrangers" means Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and UBS Securities LLC.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor Federal tax code, and the regulations promulgated and rulings issued thereunder, in each case as now or hereafter in effect, and any reference to any statutory provision shall be deemed to be a reference to any successor provision or provisions.

"Commercial Letter of Credit" means a letter of credit qualifying as a "commercial letter of credit" under 12 C.F.R. Part 3, Appendix A, Section 3(b)(3)(i) or any successor U.S. Comptroller of the Currency regulation.

"Commitment" means a Revolving Credit Commitment or a Letter of Credit Commitment.

"Commitment Date" has the meaning specified in Section 2.19.

"Commitment Fee" has the meaning specified in Section 2.04(a).

"Commitment Increase" has the meaning specified in Section 2.19.

"Communications" has the meaning specified in Section 8.02(b).

"Consolidated Debt" means at any time (i) the Indebtedness of the Borrower and its consolidated Subsidiaries calculated on a consolidated basis as of such time, determined in accordance with GAAP (excluding (x) Project Financing and Permitted Non-Recourse Indebtedness and (y) at the time of determination, the aggregate outstanding principal amount of any Subordinated Debt to the extent of the aggregate outstanding principal amount of any Halliburton Cash Management Note) minus (ii) Unrestricted Cash.

"Consolidated Debt to Total Consolidated Capitalization Ratio" means, as of any date of calculation, the ratio of the Borrower's Consolidated Debt outstanding on such date to the sum of (i) Consolidated Debt and (ii) Consolidated Net Worth outstanding on such date; provided, however, no amounts attributable to Project Finance Subsidiaries shall be included in the calculation of Consolidated Debt to Total Consolidated Capitalization Ratio.

"Consolidated Net Worth" means at any time the consolidated stockholders' equity of the Borrower and its consolidated Subsidiaries calculated on a consolidated basis as of such time (excluding treasury stock but including minority interests), determined in accordance with GAAP (excluding from such calculation (i) charges to the extent indemnified or required to be indemnified pursuant to the Indemnity Agreement or in respect of which a subordinated loan or a capital contribution is or will be required to be made pursuant to the Subordination Agreement and (ii) any such indemnification, subordinated loan or capital contribution).

"Convert", "Conversion" and "Converted" each refers to a conversion of Revolving Credit Advances of one Type into Revolving Credit Advances of the other Type pursuant to Section 2.09, 2.15 or 2.16.

"Default" means any event or condition which with notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Litigation" has the meaning specified in Section 4.01(i).

"Dollar Equivalent" means, on any date, (i) in relation to an amount denominated in a currency other than Dollars, the equivalent in Dollars determined by using the quoted spot rate at which the Agent's principal office in London offers to exchange Dollars for such currency in London prior to 4:00 P.M. (London time) on such date and (ii) in relation to an amount denominated in Dollars, such amount.

"Dollars" and "$" means lawful money of the United States of America.

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" opposite its name on Schedule I hereto, in the Assignment and Acceptance pursuant to which it became a Bank, or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

"Domestic Subsidiary" means any Subsidiary incorporated or organized under the laws of a state of the United States or the District of Columbia.

"EBITDA" means, for any period, (a) the sum, determined on a consolidated basis, of (i) net income (or net loss), (ii) interest expense, including commissions and fees incurred in respect of letters of credit, (iii) income tax expense, (iv) depreciation expense, (v) amortization expense, (vi) minority interest in income of Subsidiaries, (vii) charges related to restructuring, asset impairment or other extraordinary items, (viii) charges indemnified or required to be indemnified pursuant to the Indemnity Agreement or in respect of which a subordinated loan or a capital contribution is or will be required to be made pursuant to the Subordination Agreement, minus (b) cash payments related to restructuring, asset impairment or other extraordinary items to the extent previously included in the computation of EBITDA pursuant to clause (a)(vii) of this definition (except to the extent indemnified or required to be indemnified pursuant to the Indemnity Agreement or in respect of which a subordinated loan or a capital contribution is or will be required to be made pursuant to the Subordination Agreement), in each case of the Borrower and its Subsidiaries, determined in accordance with GAAP for such period (excluding any Project Finance Subsidiary); provided however that with respect to any Project Finance Subsidiary, any cash distribution made by such Project Finance Subsidiary to the Borrower or any Subsidiary of the Borrower (other than any Project Finance Subsidiary) to the extent not previously included in the equity and earnings of such Person shall be included for purposes of calculation of EBITDA.

"Effective Date" means has the meaning specified in Section 3.01.

"Eligible Assignee" means (i) any Bank, (ii) any Affiliate of any Bank and (iii) with the consent of the Agent (which consent shall not be unreasonably withheld) and, so long as no Event of Default under Section 6.01(a) or 6.01(e) shall have occurred and be continuing, the Borrower (which consent shall not be unreasonably withheld), any other Person not covered by clause (i) or (ii) of this definition; provided, however, that neither any Relevant Party nor any Affiliate of any Relevant Party shall be an Eligible Assignee.

"Environmental Action" means any action, suit, demand, demand letter, claim, notice of non compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, any Environmental Permit or Hazardous Material or arising from alleged injury or threat to health, safety or the environment, including, without limitation, (a) by any Governmental Authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any Governmental Authority or third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any Federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, writ, judgment, injunction, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, health, safety or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"Equity Interests" means, with respect to any Person, shares of capital stock of (or other ownership or profit interests in) such Person, warrants, options or other rights for the purchase or other acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or other acquisition from such Person of such shares (or such other interests), and other ownership or profit interests in such Person (including, without limitation, partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are authorized or otherwise existing on any date of determination.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" means any Person that for purposes of Title IV of ERISA is a member of the Borrower's controlled group, or under common control with the Borrower, within the meaning of Section 414(a) or (b) of the Code, and, for purposes of Section 412 of the Code, Section 414(m) of the Code.

"ERISA Event" means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such Section) are met with respect to a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of a Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to a Plan; (c) the provision by the administrator of any Plan of a notice of intent to terminate such Plan pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of the Borrower or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any Plan; (g) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate a Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, a Plan.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Federal Reserve Board, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto, in the Assignment and Acceptance pursuant to which it became a Bank (or, if no such office is specified, its Domestic Lending Office), or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Borrowing, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in U.S. dollars at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period for a period equal to such Interest period (provided that, if for any reason such rate is not available, the term "Eurodollar Rate" shall mean, for any Interest Period for all Eurodollar Rate Advances comprising part of the same Borrowing, an interest rate per annum (rounded upward to the nearest whole multiple of 1/100 of 1% per annum, if such rate per annum is not such a multiple) equal to the rate per annum at which deposits in Dollars are offered by the principal office of Citibank in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to Citibank's Eurodollar Rate Advance comprising part of such Borrowing and for a period equal to such Interest Period).

"Eurodollar Rate Advance" means an Advance which bears interest as provided in Section 2.07(b).

"Eurodollar Rate Reserve Percentage" of any Bank for any Interest Period for all Eurodollar Rate Advances comprising part of the same borrowing means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Existing Debt" has the meaning specified in Section 5.02(b)(ii).

"Federal Funds Rate" means, for any day, a fluctuating interest rate per annum equal for such day to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System or any successor thereof.

"FIN 46" means FASB Interpretation No. 46 "*Consolidation of Variable Interest Entities*" published January 2003 by the Financial Accounting Standards Board, as the same may be amended from time to time.

"Fixed Charge Coverage Ratio" means, for any period, the ratio of (a) EBITDA minus Capital Expenditures plus the net cash proceeds of any fixed assets sold in the ordinary course of business during such period to (b) the sum of (i) interest payable on, and amortization of debt discount in respect of, all Indebtedness, plus (ii) principal amounts of all Indebtedness due and payable, if any, plus (iii) commissions and fees incurred in respect of letters of credit, in each case, of or by the Borrower and its Subsidiaries for or during such period; provided, however, no amounts attributable to Project Finance Subsidiaries and Permitted Non-Recourse Indebtedness shall be included in the calculation of Fixed Charge Coverage Ratio.

"Foreign Currency" means any lawful currency (other than Dollars) that is freely transferable or convertible into Dollars.

"G&I Business Unit" means the Government & Infrastructure Business Unit of the Borrower.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governing Body" means the board of directors or other body having the power to direct or cause the direction of the management and policies of a Person that is a corporation, partnership, trust, joint venture, joint stock company, or limited liability company.

"Government Working Capital Reduction" means any amount by which any working capital of the Borrower and the Subsidiaries of the Borrower pursuant to the GWC Contracts is less than the level certified pursuant to Section 3.01(b)(viii), which working capital shall be determined using the same methodology as used in the officer's certificate delivered pursuant to Section 3.01(b)(viii).

"Governmental Authority" means any nation or government, any state, province, city, municipal entity or other political subdivision thereof, and any governmental, executive, legislative, judicial, administrative or regulatory agency, department, authority, instrumentality, commission, board, bureau or similar body, whether federal, state, provincial, territorial, local or foreign.

"Guarantee" means the guarantee of the Subsidiary Guarantors substantially in the form of Exhibit D, together with each other guarantee and guarantee supplement delivered pursuant to Section 5.01(j), in each case as amended, amended and restated, modified or otherwise supplemented.

"GWC Contracts" means Restore Iraqi Oil Contract No. DACA63-03-D-C005, Project and Contracting Office Contract No. W9126G-04-D-0001 and Logistics Civil Augmentation Program (Logcap) Support Contract No. DAAA09-02-D-0007, including any related subcontracts.

"Halliburton Cash Management Note" shall mean the demand promissory note made by the Parent or, to the extent that HESI, at the time such demand promissory note is made and during the term thereof, continues to engage in substantially the same or similar business activities as of the date hereof, HESI, in favor of Borrower, substantially in the form of Exhibit G.

"Hazardous Materials" means (a) petroleum or petroleum products, by-products or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"Hedging Obligation" means an Obligation of the Borrower or a Subsidiary entered into in the ordinary course of business pursuant to an interest rate swap, cap or collar agreement, interest rate future or option contract, currency swap agreement, currency future or option contract or other hedging agreement.

"HESI" means Halliburton Energy Services, Inc., a Delaware corporation.

"HSBC Bank" means HSBC Bank USA, National Association, a national banking association.

"Increase Date" has the meaning specified in Section 2.19.

"Increasing Lender" has the meaning specified in Section 2.19.

"Indebtedness" means, for any Person, (a) its liabilities for borrowed money including, with respect to the Borrower, the Intercompany Note and the KBR Cash Management Note, or the deferred purchase price of property or services (other than current accounts and salaries payable or accrued in the ordinary course of business), (b) Obligations of such Person for borrowed money evidenced by bonds, debentures, notes or other similar instruments, (c) all Obligations of such Person under acceptance, letter of credit or similar facilities including, with respect to the Borrower and its Subsidiaries, Other Guaranteed L/C Debt, (d) all Indebtedness of others the payment, purchase or other acquisition or Obligation of which such Person has assumed, or the payment, purchase or other acquisition or Obligation of which such Person has otherwise become directly or contingently liable for, (e) leases required to be capitalized, each determined in accordance with GAAP, (f) all indebtedness referred to in clauses (a) through (e) above of another Person secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such indebtedness (other than a pledge by the Borrower or any Subsidiary permitted by Section 5.02(a)(vii) and (viii)) (provided that, for purposes of determining the amount of Indebtedness of the type described in this clause, the amount of such Indebtedness shall be limited to the lesser of the fair market value of such asset or the amount of such Indebtedness); provided that for the avoidance of doubt, Indebtedness shall not include (i) the Obligations under letter of credit reimbursement agreements with respect to (x) fifty percent (50%) of the face amount of any Performance Letters of Credit and (y) one hundred percent (100%) of the face amount of any Commercial Letters of Credit, in each case, so long as such letters of credit remain undrawn, (ii) the Obligations of the Borrower and the Subsidiaries of the Borrower under letters of credit, acceptances and bank guarantees issued on account of the Borrower and such Subsidiaries to the extent that the Obligations of the Borrower or such Subsidiary thereunder are irrevocably and unconditionally guaranteed or collateralized with cash or cash equivalents by the Parent, (iii) Hedging Obligations, and (iv) letters of credit, acceptances and bank guarantees to the extent collateralized with cash and/or cash equivalents. For the avoidance of doubt, where one letter of credit, acceptance or bank guarantee is issued for the account of the Borrower or one of its Subsidiaries and which supports another letter of credit, acceptance or bank guarantee of the Borrower or such Subsidiary, the related Indebtedness shall only be included once.

"Indemnity Agreement" means the indemnity agreement among the Parent and the Banks, substantially in the form of Exhibit H.

"Indemnified Costs" has the meaning specified in Section 7.05.

"Indemnified Party" has the meaning specified in Section 8.04(c).

"Initial Extension of Credit" means the earlier to occur of the initial Revolving Credit Borrowing and the initial issuance of a Letter of Credit hereunder.

"Intercompany Note" means that certain existing intercompany note made by the Borrower to HESI in an amount not to exceed $774,000,000.

"Interest Period" means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date of such Eurodollar Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, with respect to Eurodollar Rate Advances, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months (or, as to any Interest Period, such other period as the Borrower and each of the Banks may agree to for such Interest Period), in each case as the Borrower may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period (or, as to any Interest Period, at such other time as the Borrower and the Banks may agree to for such Interest Period), select; provided, however, that:

(i) Interest Periods commencing on the same date for Advances comprising part of the same Borrowing shall be of the same duration;

(ii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;

(iii) any Interest Period which begins on the last Business Day of the calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month in which it would have ended if there were a numerically corresponding day in such calendar month; and

(iv) the Borrower may not select an Interest Period for any Advance if the last day of such Interest Period would be later than the date on which the Advances are then payable in full or if any Event of Default under Section 6.01(a) shall have occurred and be continuing at the time of selection.

"Investment" in any Person means any loan or advance to such Person, any purchase or other acquisition of any Equity Interests or Indebtedness or the assets comprising a division or business unit or a substantial part or all of the business of such Person, any capital contribution to such Person or any other direct or indirect investment in such Person, including, without limitation, any acquisition by way of a merger or consolidation (or similar transaction) and any arrangement pursuant to which the investor incurs Indebtedness of the type referred to in clause (c) or (d) of the definition of "Indebtedness" in respect of such Person.

"Issuing Bank" means each of (a) Citibank, HSBC Bank, Sumitomo Mitsui Banking Corporation, The Royal Bank of Scotland Plc, Standard Chartered Bank and Lloyds TSB Bank Plc, in their capacities as initial issuing banks, (b) any other Bank that, by written agreement with the Borrower (and with the consent of the Agent not to be unreasonably withheld), agrees to be an Issuing Bank, and (c) any Eligible Assignee to which a Letter of Credit Commitment has been assigned pursuant to Section 8.08 so long as each such Eligible Assignee expressly agrees to perform in accordance with their terms all the obligations that by the terms of the Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office and the amount of its Letter of Credit Commitment (which information shall be recorded by the Agent in the Register), for so long as such initial Issuing Bank or Eligible Assignee, as the case may be, shall have a Letter of Credit Commitment. An Issuing Bank may, with the prior consent of the Borrower (not to be unreasonably withheld), arrange for one or more Letters of Credit to be issued by an Affiliate of such Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate solely with respect to such Letters of Credit issued by such Affiliate; provided that such designation shall not result in or grant to such Affiliate the status or rights of a Bank pursuant to this Agreement.

"Joint Venture Debt" has the meaning specified in Section 5.02(a)(viii).

"JV Subsidiary" means each Subsidiary of the Borrower (a) that, at any time, directly holds an Equity Interest in any joint venture (not a Subsidiary) and (b) that has no other material assets.

"KBR Cash Management Note" shall mean the demand promissory note made by the Borrower in favor of the Parent or HESI, substantially in the form of Exhibit I, and which is Subordinated Debt.

"L/C Cash Collateral Account" means the l/c cash collateral deposit account, Account No. 30618602, with Citibank, as securities intermediary and depository bank, at its office at One Penns Way, 2nd Floor, New Castle, Delaware 19720, in the name of the Borrower but under the sole control and dominion of the Agent and subject to the terms of this Agreement.

"L/C Related Documents" has the meaning specified in Section 2.06(b)(iii)(A).

"Letter of Credit" has the meaning set forth in Section 2.01(b).

"Letter of Credit Advance" means an Advance made by any Issuing Bank or any Bank pursuant to Section 2.03(c).

"Letter of Credit Commitment" of any Issuing Bank means, at any time, the amount set opposite such Issuing Bank's name on Schedule I under the heading "Letter of Credit Commitments" or as reflected for such Issuing Bank in the relevant Assignment and Acceptance to which it is a party, as such amount may be terminated, reduced or increased pursuant to Section 2.05, Section 2.19, Section 6.01 or Section 8.08.

"Leverage Ratio" means, at any date of determination, the ratio of Consolidated Debt of the Borrower and its Subsidiaries at such date to EBITDA; provided, however, no amounts attributable to Project Finance Subsidiaries shall be included in the calculation of Leverage Ratio.

"Lien" means any lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including, without limitation, the lien or retained security title of a conditional vendor, a statutory deemed trust and any easement, right of way or other encumbrance on title to real property; provided, however, that for the avoidance of doubt, the interest of a Person as owner or lessor under charters or leases of property and the rights of setoff of banks shall not constitute a "Lien" on or in respect of the relevant property.

"Loan Documents" means this Agreement, the Guarantee, the Notes, the Indemnity Agreement and the Subordination Agreement.

"Loan Parties" means the Borrower and the Subsidiary Guarantors.

"Material Adverse Change" means a material adverse change in the business, condition (financial or otherwise), operations, performance, properties, contingent liabilities, material agreements or prospects of the Borrower, the Subsidiary Guarantors and their respective Subsidiaries, taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, condition (financial or otherwise), operations, performance, properties, contingent liabilities, material agreements or prospects of the Borrower, the Subsidiary Guarantors and their respective Subsidiaries, taken as a whole, (b) the rights and remedies of the Agent or any Bank under any Loan Document or (c) the ability of each of the Borrower or any Subsidiary Guarantor to perform its Obligations under any Loan Document to which it is or is to be a party.

"Material Domestic Subsidiary" means, at any date, any wholly-owned Domestic Subsidiary of the Borrower which is a Material Subsidiary of the Borrower.

"Material Subsidiary" means, as at any date of determination, each first-tier Subsidiary now existing or hereafter acquired or formed by the Borrower generating more than $30,000,000 of revenues for the most recently ended four quarters.

"Maturity Date" means December 16, 2010.

"Moody's" means Moody's Investors Service, Inc. or any successor to its debt ratings business.

"MMM" means a joint venture formed under a Partners Agreement dated July 3, 2000, which was later amended and restated on August 22, 2000 and March 29, 2002, as the same may be amended from time to time, including its associated joint ventures.

"Multiple Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and at least one Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"NPL" means the National Priorities List under CERCLA.

"Note" means a promissory note of the Borrower payable to the order of any Bank, in substantially the form of Exhibit A hereto, evidencing the aggregate indebtedness of the Borrower to such Bank resulting from the Advances owing to such Bank.

"Notice" has the meaning specified in Section 8.02(c).

“Notice of Issuance and Application for Letter of Credit” has the meaning specified in Section 2.03(a).

“Notice of Revolving Credit Borrowing” has the meaning specified in Section 2.02(a).

“Obligation” means, with respect to any Person, any payment, performance or other obligation of such Person of any kind, including, without limitation, any liability of such Person on any claim, whether or not the right of any creditor to payment in respect of such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured or unsecured, and whether or not such claim is discharged, stayed or otherwise affected by any proceeding referred to in Section 6.01(f). Without limiting the generality of the foregoing, the Obligations of the Borrower under the Loan Documents include (a) the obligation to pay principal, interest, Letter of Credit commissions, charges, expenses, fees, attorneys’ fees and disbursements, indemnities and other amounts payable by the Borrower under any Loan Document and (b) the obligation of the Borrower to reimburse any amount in respect of any of the foregoing that any Bank, in its sole discretion, may elect to pay or advance on behalf of the Borrower.

“Other Guaranteed Debt” has the meaning specified in the Subordination Agreement.

“Other Guaranteed L/C Debt” has the meaning specified in the Subordination Agreement.

“Other L/C Guarantees” has the meaning specified in the Subordination Agreement.

“Other Taxes” has the meaning specified in Section 2.13(b).

“Parent” means Halliburton Company, a Delaware corporation.

“Patriot Act” shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56, signed into law October 26, 2001.

“PBGC” means the Pension Benefit Guaranty Corporation (or any successor).

“Performance Letter of Credit” means a letter of credit qualifying as a “performance based standby letter of credit” under 12 C.F.R. Part 3, Appendix A, Section 3(b)(2)(i) or any successor U.S. Comptroller of the Currency regulation.

“Permitted Non-Recourse Indebtedness” means Indebtedness and other Obligations of the Borrower or any Subsidiary or Project Finance Subsidiary of the Borrower incurred in connection with the acquisition or construction by the Borrower or such Subsidiary of any property with respect to which:

(a) the holders of such Indebtedness and other Obligations agree that they will look solely to the property so acquired or constructed and securing such Indebtedness and other Obligations, and neither the Borrower nor any such Subsidiary (i) provides any direct or indirect credit support, including any undertaking, agreement or instrument that would constitute Indebtedness or (ii) is otherwise directly or indirectly liable for such Indebtedness; and

(b) no default with respect to such Indebtedness or Obligations would cause, or permit (after notice or passage of time or otherwise), according to the terms thereof, any holder (or any representative of any such holder) of any other Indebtedness of the Borrower or such Subsidiary (other than a Project Finance Subsidiary and Subsidiaries thereof) to declare a default on such Indebtedness or cause the payment, repurchase, redemption, defeasance or other acquisition or retirement for value thereof to be accelerated or payable prior to any scheduled principal payment, scheduled sinking fund or maturity.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof or any trustee, receiver, custodian or similar official.

"Plan" means a Single Employer Plan, a Multiple Employer Plan or a Welfare Plan.

"Platform" has the meaning specified in Section 8.02(b).

"Pre-IPO Repositioning" means an internal repositioning of the corporate structure of the Borrower and direct and indirect Subsidiaries of the Parent and the Borrower that would result in a corporate structure for the Borrower, the Subsidiaries of the Borrower, the interest holders in the Borrower and the Parent as follows: The Borrower will initially continue to be a 100% indirect Subsidiary of the Parent if and until such time as an entity that is a Subsidiary of the Parent and of which the Borrower is a direct or indirect Subsidiary has shares of common equity sold to third parties unrelated to the Parent or the Borrower in an underwritten public offering or otherwise. Prior to any such sale of common equity, the corporate positioning of the Subsidiaries of the Parent directly or indirectly holding interests of the Borrower may be changed. The corporate structure within the Parent group of the Borrower and Subsidiaries of the Borrower may also be repositioned in advance of any sale of such common equity.

"Primary Currency" has the meaning specified in Section 8.11(c).

"Pro Rata Share" of any amount means, with respect to any Bank at any time, such amount times a fraction the numerator of which is the amount of such Bank's Revolving Credit Commitment at such time (or, if the Commitments shall have been terminated pursuant to Section 2.05 or 6.01, such Revolving Credit Commitment as in effect immediately prior to such termination) and the denominator of which is the Revolving Credit Facility at such time (or, if the Commitments shall have been terminated pursuant to Section 2.05 or 6.01, the Revolving Credit Facility as in effect immediately prior to such termination).

"Project Finance Subsidiary" means (a) a Subsidiary of the Borrower and (b) any Person which is not a Subsidiary of the Borrower or any of its Subsidiaries in which the Borrower or any of its Subsidiaries holds a minority interest with respect to which the earnings of such Person are included in the consolidated financial statements of the Borrower and its consolidated subsidiaries, in each case, that is a special-purpose entity created solely to (i) construct or acquire any asset or project that will be or is financed solely with Project Financing for such asset or project and related equity investments in, loans to, or capital contributions in, such Person that are not prohibited hereby and/or (ii) own an interest in any such asset or project.

"Project Financing" means Indebtedness and other Obligations that (a) are incurred by a Project Finance Subsidiary, (b) are secured by a Lien of the type permitted under Section 5.02(a)(vii) and (c) constitute Permitted Non-Recourse Indebtedness (other than recourse to the assets of, and Equity Interests in, any Project Finance Subsidiary).

"Project L/C Guarantee" has the meaning specified in the Subordination Agreement.

"Projections" has the meaning specified in Section 4.01(m).

"Property" or "asset" (in each case, whether or not capitalized) means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Register" has the meaning specified in Section 8.08(c).

"Regulation U" means Regulation U of the Federal Reserve Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Relevant Parties" means the Parent, HESI and the Loan Parties.

"Required Banks" means at any time Banks owed or holding at least a majority in interest of the sum of (i) the aggregate principal amount of the Advances outstanding at such time; (ii) the Available Amount of all Letters of Credit outstanding at such time (calculated by reference to each Bank's Pro Rata Share) and (iii) the aggregate Unused Revolving Credit Commitments at such time.

"Responsible Officer" means each of the chairman and chief executive officer, the president, the chief financial officer, the treasurer, the secretary or any vice president (whether or not further described by other terms, such as, for example, senior vice president or vice president-operations) of the Borrower or, if any such office is vacant, any Person performing any of the functions of such office.

"Revolving Credit Advance" means an Advance by a Bank to the Borrower pursuant to Section 2.01 and refers to a Base Rate Advance or a Eurodollar Rate Advance.

"Revolving Credit Borrowing" means a borrowing consisting of simultaneous Revolving Credit Advances of the same Type made by the Banks.

"Revolving Credit Commitment" means, with respect to any Bank at any time, the amount set forth opposite such Bank's name on Schedule I hereto under the caption "Revolving Credit Commitment" or, if such Bank has entered into one or more Assignment and Acceptances, set forth for such Bank in the Register maintained by the Agent pursuant to Section 8.08(c) as such Bank's "Revolving Credit Commitment", as such amount may be reduced at or prior to such time pursuant to Section 2.05 or increased pursuant to Section 2.19.

"Revolving Credit Facility" means, at any time, the aggregate amount of the Banks' Revolving Credit Commitments at such time.

"S&P" means Standard & Poor's Ratings Service Group, a division of The McGraw-Hill Companies, Inc. on the date hereof, or any successor to its debt ratings business.

"SEC" means the Securities and Exchange Commission or any successor thereof.

"Single Employer Plan" means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and no Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Solvent" and "Solvency" mean, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Subordinated Debt" has the meaning specified in the Subordination Agreement.

"Subordination Agreement" means the subordination and undertaking agreement among the Parent, the Borrower and the Agent, substantially in the form of Exhibit F.

"Subsidiary" of any Person means any corporation (including a business trust), partnership, joint stock company, trust, unincorporated association, joint venture or other entity of which more than 50% of the outstanding capital stock, securities or other ownership interests having ordinary voting power to elect directors of such corporation or, in the case of any other entity, others performing similar functions (irrespective of whether or not at the time capital stock, securities or other ownership interests of any other class or classes of such corporation or such other entity shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person, by such Person and one or more other Subsidiaries of such Person or by one or more other Subsidiaries of such Person.

"Subsidiary Guarantors" means the Subsidiaries of the Borrower listed on Schedule III hereto and each other Material Domestic Subsidiary of the Borrower that shall be required to execute and deliver a guarantee supplement pursuant to Section 5.01(j) and each other Subsidiary which shall execute and deliver a guarantee supplement in accordance with the procedures set forth for Material Domestic Subsidiaries in Section 5.01(j); provided that (i) within 10 Business Days after the date financial statements are delivered pursuant to Section 5.01(d)(i) or (ii), as the case may be, the Borrower shall cause additional Subsidiaries, if any are required, to each duly execute and deliver to the Agent a guarantee supplement, in form and substance reasonably satisfactory to the Agent, guaranteeing the other Loan Parties' Obligations under the Loan Documents such that the aggregate revenues of the Borrower and all Subsidiary Guarantors shall not be less than 95% of the aggregate revenues of the Borrower and the wholly-owned Domestic Subsidiaries of the Borrower for the four-quarter period ending on the date of such financial statements and (ii) within 60 days thereafter, deliver to the Agent, upon the request of the Agent in its sole discretion, a signed copy of a favorable opinion, addressed to the Agent and the Banks, of counsel for the Loan Parties reasonably acceptable to the Agent as to (A) such guarantee supplement being the legal, valid and binding obligations of each additional Subsidiary Guarantor party thereto enforceable in accordance with its terms and (B) such other matters as the Agent may reasonably request.

"Surety Guarantees" has the meaning specified in the Subordination Agreement.

"Syndication Agent" means UBS Securities LLC, solely in its capacity as syndication agent under the Agreement.

"Taxes" has the meaning specified in Section 2.13(a).

“Termination Date” means December 16, 2010, or the earlier date of termination in whole of the Commitments pursuant to Section 2.05 or Section 6.01.

“Type” has the meaning specified in the definition of Advance.

“Unrestricted Cash” means cash available to the Borrower and its Subsidiaries to pay any indebtedness or other Obligations of the Borrower and its Subsidiaries without need of third party approval or consent and net of any tax that would be imposed in order to repatriate such cash to the Borrower.

“Unused Revolving Credit Commitment” means, with respect to any Bank at any time, (a) such Bank’s Revolving Credit Commitment at such time minus (b) without duplication, the sum of (i) the aggregate principal amount of all Revolving Credit Advances and Letter of Credit Advances made by such Bank and outstanding at such time plus (ii) such Bank’s Pro Rata Share of (A) the aggregate Available Amount of all Letters of Credit outstanding at such time and (B) the aggregate principal amount of all Letter of Credit Advances made by the Issuing Banks pursuant to Section 2.03(c) and outstanding at such time.

“Utilization Spread” means, on any date of determination, (a) the aggregate principal amount of all Advances and Available Amount of all Letters of Credit outstanding at such time *divided by* (b) the Revolving Credit Facility.

“Welfare Plan” means a welfare plan, as defined in Section 3(1) of ERISA, that is maintained for employees of any Loan Party or in respect of which any Loan Party could have liability.

“Withdrawal Liability” has the meaning specified in Part I of Subtitle E of Title IV of ERISA.

Section 1.02 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each means “to but excluding”.

Section 1.03 Accounting Terms; GAAP. (a) Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Agent notifies the Borrower that the Required Banks request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. Notwithstanding the foregoing, any entity that is not a Subsidiary but would be required to be consolidated in the financial statements of the Borrower because of FIN 46, (i) shall not be considered a “Subsidiary” for purposes of this Agreement and (ii) shall not be included in any computation of any financial covenant herein.

(b) In this Agreement, references to “pro forma compliance” shall mean pro forma compliance as determined in accordance with GAAP for the immediately preceding four fiscal quarters as of the date of determination and as such methodology is reasonably approved by the Agent.

Section 1.04 Miscellaneous. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article, Section, Schedule and Exhibit references are to Articles and Sections of and Schedules and Exhibits to this Agreement, unless otherwise specified.

Section 1.05 Ratings. A rating, whether public or private, by S&P or Moody’s shall be deemed to be in effect on the date of announcement or publication by S&P or Moody’s, as the case may be, of such rating or, in the absence of such announcement or publication, on the effective date of such rating and will remain in effect until the announcement or publication of, or (in the absence of such announcement or publication) the effective date of, any change in such rating. In the event the standards for any rating by Moody’s or S&P are revised, or such rating is designated differently (such as by changing letter designations to numerical designations), then the references herein to such rating shall be deemed to refer to the revised or redesignated rating for which the standards are closest to, but not lower than, the standards at the date hereof for the rating which has been revised or redesignated, all as determined by the Required Banks in good faith. Long-term debt supported by a letter of credit, guarantee or other similar credit enhancement mechanism shall not be considered as senior unsecured long-term debt. If either Moody’s or S&P has at any time more than one rating applicable to senior unsecured long-term debt of any Person, the lowest such rating shall be applicable for purposes hereof. For example, if Moody’s rates some senior unsecured long-term debt of any Person Baa1 and other such debt of such Person Baa2, the senior unsecured long-term debt of such Person shall be deemed to be rated Baa2 by Moody’s.

ARTICLE II
AMOUNTS AND TERMS OF THE REVOLVING CREDIT ADVANCES

Section 2.01 The Revolving Credit Advances. (a) Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances in Dollars to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount not to exceed such Bank’s Unused Revolving Credit Commitment at such time; provided that (i) no Revolving Credit Advance shall be required to be made, except as a part of a Revolving Credit Borrowing that is in an aggregate amount not less than $10,000,000 in the case of Eurodollar Rate Advances and $5,000,000 in the case of Base Rate Advances and in an integral multiple of $1,000,000, (ii) each Revolving Credit Borrowing shall consist of Revolving Credit Advances of the same Type made on the same day by the Banks ratably according to their respective Revolving Credit Commitments and (iii) the aggregate principal amount of all Revolving Credit Advances outstanding at such time shall not exceed the Borrowing Sublimit. Within the limits of each Bank’s Unused Revolving Credit Commitment in effect from time to time, the Borrower may borrow, prepay pursuant to Section 2.10 and reborrow under this Section 2.01. The Borrower agrees to give a Notice of Revolving Credit Borrowing in accordance with Section 2.02(a) as to each Revolving Credit Advance.

(b) Letters of Credit. Each Issuing Bank agrees, on the terms and conditions hereinafter set forth, to issue letters of credit (collectively, the "Letters of Credit", and each a "Letter of Credit") for the account of the Borrower (such issuance, and any funding of a draw thereunder, to be made by the Issuing Banks (including through such branches or Affiliates as such Issuing Bank and the Borrower shall jointly agree) in reliance on the agreements of the other Banks pursuant to Section 2.03) from time to time on any Business Day during the period from the Effective Date until 10 days prior to the Maturity Date in an aggregate Available Amount (i) for all Letters of Credit issued by the Issuing Banks not to exceed at any time the lesser of (A) the aggregate Letter of Credit Commitments at such time and (B) the Letter of Credit Commitment of such Issuing Bank at such time (or such greater amount as such Issuing Bank shall approve) and (ii) for each such Letter of Credit not to exceed an amount equal to the Unused Revolving Credit Commitments of the Banks at such time. No Letters of Credit shall have expiration dates later than 10 Business Days prior to the Maturity Date. Within the limits referred to above, the Borrower may request the issuance of Letters of Credit under this Section 2.01(b), repay any Letter of Credit Advances resulting from drawings thereunder pursuant to Section 2.03(a) and request the issuance of additional Letters of Credit under this Section 2.01(b).

Section 2.02 Making the Revolving Credit Advances. (a) Each Revolving Credit Borrowing shall be made on notice in the form of Exhibit B-1 (a "Notice of Revolving Credit Borrowing"), given not later than 11:00 A.M. (New York City time) (i) on the date of a proposed Revolving Credit Borrowing comprised of Base Rate Advances and (ii) on the third Business Day prior to the date of a proposed Revolving Credit Borrowing comprised of Eurodollar Rate Advances, by the Borrower to the Agent, which shall give to each Bank prompt notice thereof by facsimile. Each Notice of Revolving Credit Borrowing shall be by facsimile, confirmed immediately in writing, in substantially the form of Exhibit B-1, specifying therein the requested (i) date of such Revolving Credit Borrowing, (ii) Type of Revolving Credit Advances comprising such Revolving Credit Borrowing, (iii) aggregate amount of such Revolving Credit Borrowing, and (iv) if such Revolving Credit Borrowing is to be comprised of Eurodollar Rate Advances, the initial Interest Period for each such Revolving Credit Advance. Each Bank shall, before 2:00 p.m. (New York City time) on the date of such Revolving Credit Borrowing, make available for the account of its Applicable Lending Office to the Agent at its address referred to in Section 8.02, in same day funds, such Bank's ratable portion of such Revolving Credit Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower at the Agent's aforesaid address.

(b) Notwithstanding any other provision in this Agreement, at no time shall there be more than ten Revolving Credit Borrowings outstanding; provided that for purposes of the limitation set forth in this sentence, all Revolving Credit Borrowings consisting of Base Rate Advances shall constitute a single Revolving Credit Borrowing.

(c) Each Notice of Revolving Credit Borrowing shall be irrevocable and binding on the Borrower. In the case of any Revolving Credit Borrowing that the related Notice of Revolving Credit Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date specified in such Notice of Revolving Credit Borrowing for such Revolving Credit Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund the Revolving Credit Advance to be made by such Bank as part of such Revolving Credit Borrowing when such Revolving Credit Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Bank prior to the time of any Revolving Credit Borrowing that such Bank will not make available to the Agent such Bank's ratable portion of such Revolving Credit Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Revolving Credit Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such ratable portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Revolving Credit Advances comprising such Revolving Credit Borrowing and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's Revolving Credit Advance as part of such Revolving Credit Borrowing for all purposes.

(e) The failure of any Bank to make the Revolving Credit Advance to be made by it as part of any Revolving Credit Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its Revolving Credit Advance on the date of such Revolving Credit Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the Revolving Credit Advance to be made by such other Bank on the date of any Revolving Credit Borrowing.

Section 2.03 Issuance of and Drawings and Reimbursement Under Letters of Credit. (a) Request for Issuance. Each Letter of Credit shall be issued upon notice and application, given not later than 11:00 A.M. (New York City time) on at least the third Business Day (or a later day, if acceptable to the relevant Issuing Bank in its sole discretion, but in no event later than the first Business Day) prior to the date of the proposed issuance of such Letter of Credit, by the Borrower to any Issuing Bank: Each of the Borrower and such Issuing Bank shall give to the Agent prompt notice of such notice of issuance by telex or facsimile. Each such notice of issuance of a Letter of Credit (a "Notice of Issuance and Application for Letter of Credit") shall be by telephone, confirmed immediately in writing, or telex or facsimile (or by electronic communication, if arrangements for doing so have been approved by the applicable Issuing Bank), in the form of Exhibit B-2, specifying therein the requested (A) date of such issuance (which shall be a Business Day), (B) Available Amount of such Letter of Credit, (C) expiration date of such Letter of Credit, (D) name and address of the Subsidiary on behalf of which such issuance of such Letter of Credit is requested, if applicable, (E) name and address of the beneficiary of such Letter of Credit, (F) form of such Letter of Credit and (G) the requested currency of such Letter of Credit, if other than Dollars. If the requested form of such Letter of Credit is acceptable to such Issuing Bank in its reasonable discretion, such Issuing Bank will, upon fulfillment of the applicable conditions set forth in Article III, make such Letter of Credit available to the Borrower at its office referred to in Section 8.02 or as otherwise agreed with the Borrower in connection with such issuance; provided that no Issuing Bank shall be obligated to issue any Letter of Credit in a Foreign Currency, but each Issuing Bank shall be permitted to do so in its sole discretion if requested by the Borrower; provided, further that no Issuing Bank shall be required to issue any Letter of Credit if after giving effect to such issuance the aggregate face amount of all outstanding Letters of Credit issued under this Agreement by such Issuing Bank would exceed its Letter of Credit Commitment, unless such Issuing Bank shall have otherwise agreed. Notwithstanding the foregoing, no Issuing Bank shall issue any Letter of Credit after it has received a notice from the Agent or the Required Banks that a Default or Event of Default has occurred and is continuing, until it receives a subsequent notice from the Agent or the Required Banks that such Default or Event of Default has been cured or waived. Each of the Borrower and each Issuing Bank shall promptly notify the Agent of any issuance of, amendment to, or extension of, any Letter of Credit issued hereunder.

(b) Letter of Credit Reports. Each Issuing Bank shall furnish (A) to the Agent on the first Business Day of each week a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the previous week and drawings during such week under all Letters of Credit issued by such Issuing Bank, (B) to the Agent on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the preceding month and drawings during such month under all Letters of Credit issued by such Issuing Bank and (C) to the Agent on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit issued by such Issuing Bank. The Agent shall promptly deliver such report to the Banks and the Borrower by the means provided for delivery of Communications pursuant to Section 8.02.

(c) Drawing and Reimbursement. The payment by any Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by such Issuing Bank of a Letter of Credit Advance, which shall be a Base Rate Advance, in the Dollar Equivalent amount of such draft. Upon the issuance of a Letter of Credit by any Issuing Bank under Section 2.03(a), such Issuing Bank shall be deemed, without further action by any party hereto, to have sold to each Bank, and each Bank shall be deemed, without further action by any party hereto, to have purchased from such Issuing Bank, a participation in such Letter of Credit in an amount for each Bank equal to such Bank's Pro Rata Share of the Available Amount of such Letter of Credit, effective upon the issuance of such Letter of Credit. In consideration and in furtherance of the foregoing, each Bank hereby absolutely and unconditionally agrees to pay such Bank's Pro Rata Share of each Letter of Credit Advance made by such Issuing Bank and not reimbursed by the Borrower forthwith on the date due by making available for the account of its Applicable Lending Office to the Agent for the account of such Issuing Bank by deposit to the Agent's Account, in same day funds, an amount equal to such Bank's Pro Rata Share of such Letter of Credit Advance. Each Bank acknowledges and agrees that its obligation to acquire participations pursuant to this Section 2.03(c) in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default or the termination of the Commitments, and that each such payment shall be made without any off-set, abatement, withholding or reduction whatsoever. Upon any such participation of a Bank of a portion of a Letter of Credit Advance, such Issuing Bank represents and warrants to such other Bank that such Issuing Bank is the legal and beneficial owner of such interest being assigned by it, free and clear of any liens, but makes no other representation or warranty and assumes no responsibility with respect to such Letter of Credit Advance, the Loan Documents or the Borrower. If and to the extent that any Bank shall not have so made the amount of such Letter of Credit Advance available to the Agent, such Bank agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date such Letter of Credit Advance is due until the date such amount is paid to the Agent, at the Federal Funds Rate for its account or the account of such Issuing Bank, as applicable. If such Bank shall pay to the Agent such amount for the account of such Issuing Bank on any Business Day, such amount so paid in respect of principal shall constitute a Letter of Credit Advance made by such Bank on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Letter of Credit Advance made by such Issuing Bank shall be reduced by such amount on such Business Day.

(d) Failure to Make Letter of Credit Advances. The failure of any Bank to make the Letter of Credit Advance to be made by it on the date specified in Section 2.03(c) shall not relieve any other Bank of its obligation hereunder to make its Letter of Credit Advance on such date, but no Bank shall be responsible for the failure of any other Bank to make the Letter of Credit Advance to be made by such other Bank on such date.

Section 2.04 Fees. (a) Commitment Fees. The Borrower agrees to pay to the Agent for the account of each Bank a commitment fee through the Termination Date on the amount of such Bank's Unused Revolving Credit Commitment, (i) from the date of this Agreement in the case of each Bank listed on the signature pages hereof or (ii) from the effective date specified in the Assignment and Acceptance pursuant to which it became a Bank, payable quarterly in arrears (within three Business Days after receipt from the Agent of an invoice therefore) for each period ending on the last day of each March, June, September and December hereafter, commencing December 31, 2005, and on the Termination Date, at a rate per annum equal to the Applicable Commitment Fee Rate in effect from time to time (the "Commitment Fee").

(b) Letter of Credit Fees, Etc. (i) The Borrower shall pay to the Agent for the account of each Bank a commission, payable in arrears quarterly (within three Business Days after receipt from the Agent of an invoice therefor) for each period ending on the last day of each March, June, September and December, commencing December 31, 2005 and on the Termination Date, on such Bank's Pro Rata Share of the average daily aggregate Available Amount during such quarter of all Letters of Credit then outstanding at a rate equal to the Applicable Margin on Eurodollar Rate Advances in effect from time to time; provided, however, that with respect to Performance Letters of Credit and Commercial Letters of Credit such commission shall be equal to 50% of such Applicable Margin from time to time.

(ii) The Borrower shall pay to each Issuing Bank, for its own account, (A) an issuance fee for each Letter of Credit issued by such Issuing Bank in an amount equal to 0.125% of the Available Amount of such Letter of Credit on the date of issuance of such Letter of Credit, payable on such date and (B) such other commissions, fronting fees, transfer fees and other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrower and Issuing Bank shall agree.

(c) Other Fees. The Borrower agrees to pay to the Agent, the Co-Lead Arrangers, and the Banks such other fees as may be separately agreed to in writing.

Section 2.05 Reduction of Commitments. (a) Optional. The Borrower shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or reduce ratably in part the Unused Revolving Credit Commitments; provided that each partial reduction shall be in the minimum aggregate amount of $10,000,000 and in an integral multiple of $5,000,000. Any termination or reduction of any of the Commitments shall be permanent.

(b) Mandatory. The Borrowing Sublimit shall be automatically and permanently reduced upon any sale, lease, transfer or other disposition of all or substantially all of the G&I Business Unit to a Person other than the Borrower or any Subsidiary of the Borrower to $350,000,000; provided that such reduction shall become effective upon the compliance by the Borrower or such Subsidiary of all terms and conditions specified in Section 5.02(e)(iii).

Section 2.06 Repayment of Advances; Required Cash Collateral. (a) Revolving Credit Advances. The Borrower shall repay the principal amount of each Revolving Credit Advance owing to each Bank on the Termination Date or on such earlier date as may be applicable pursuant hereto.

(b) Letter of Credit Advances.

(i) Each Issuing Bank, shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit issued by such Issuing Bank. Such Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by facsimile) of such demand for payment and whether such Issuing Bank has made or will make a Letter of Credit Advance with respect thereto; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse such Issuing Bank and the Banks with respect to any such Letter of Credit Advance.

(ii) The Borrower shall repay to the Agent for the account of each Issuing Bank and each other Bank that has made a Letter of Credit Advance on the earlier of the third Business Day following the date on which such Letter of Credit Advance is made and the Termination Date the outstanding principal amount of each Letter of Credit Advance made by each of them.

(iii) The Obligations of the Borrower under this Agreement and any other agreement or instrument, in each case relating to any Letter of Credit, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and such other agreement or instrument under all circumstances, including, without limitation, the following circumstances (it being understood that any such payment by the Borrower is without prejudice to, and does not constitute a waiver of, any rights the Borrower might have or might acquire as a result of the payment by any Issuing Bank of any draft or the reimbursement by the Borrower thereof):

(A) any lack of validity or enforceability of any Loan Document, any Letter of Credit or any other agreement or instrument relating thereto (all of the foregoing being, collectively, the "L/C Related Documents");

(B) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations of the Borrower in respect of any L/C Related Document or any other amendment or waiver of or any consent to departure from all or any of the L/C Related Documents;

(C) the existence of any claim, set-off, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for which any such beneficiary or any such transferee may be acting), any Issuing Bank or any other Person, whether in connection with the transactions contemplated by the L/C Related Documents or any unrelated transaction;

(D) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(E) payment by any Issuing Bank under a Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit;

(F) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any guarantee, for all or any of the Obligations of the Borrower in respect of the L/C Related Documents; or

(G) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including, without limitation, any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or a guarantor.

(c) Required Payment and Cash Collateral. (i) Letters of Credit. If on any date the sum of the aggregate Available Amount of all Letters of Credit outstanding on such date plus the aggregate principal amount of Advances outstanding on such date exceeds the aggregate Commitments on such date, the Borrower shall, within three Business Days thereafter, (i) prepay Advances in an aggregate principal amount sufficient to reduce the sum of the Available Amount of all Letters of Credit outstanding on such date plus the aggregate principal amount of Advances outstanding on such date to be less than or equal to the aggregate Commitments on such date or (ii) if no Advances are outstanding at such time, pay to the Agent in same day funds at the Agent's office, for deposit in the L/C Cash Collateral Account, an amount equal to such excess, which amount shall be released within three Business Days after notice from the Borrower to the Agent that the sum of the aggregate Available Amount of all Letters of Credit plus the aggregate principal amount of Advances outstanding on such date no longer exceeds the aggregate Commitments.

(ii) Revolving Credit Advances. If on any date the sum of the aggregate principal amount of Revolving Credit Advances outstanding on such date exceeds the Borrowing Sublimit on such date, the Borrower shall, within three Business Days thereafter, prepay Revolving Credit Advances in an aggregate principal amount sufficient to reduce the sum of the Revolving Credit Advances outstanding on such date to be less than or equal to the Borrowing Sublimit on such date.

Section 2.07 Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the Base Rate in effect from time to time plus the Applicable Margin in effect from time to time, payable quarterly in arrears on the last day of each March, June, September and December and on the date such Base Rate Advance shall be Converted or paid in full; provided that upon the occurrence and during the continuance of an Event of Default any amount of principal of a Base Rate Advance due hereunder shall bear interest, payable on demand, at a rate per annum equal at all times to the sum of the rate otherwise payable thereon plus 2%.

(b) During such periods as such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Advance to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Margin in effect from time to time, payable on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Revolving Credit Advance shall be Converted or paid in full; provided that upon the occurrence and during the continuance of an Event of Default any amount of principal of a Eurodollar Rate Advance due hereunder shall bear interest, payable on demand, at a rate per annum equal at all times to the sum of the Eurodollar Rate for such Interest Period plus the Applicable Margin in effect from time to time plus 2%.

(c) Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Borrower shall pay simple interest, to the fullest extent permitted by law, on the amount of any interest, fee or other amount (other than principal of Advances which is covered by Sections 2.07(a) and 2.07(b)) payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to the sum of the rate of interest in effect from time to time for Base Rate Advances plus 2% per annum.

Section 2.08 Additional Interest on Eurodollar Rate Advances. The Borrower shall pay to each Bank, so long as such Bank shall be required under regulations of the Federal Reserve Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Advance of such Bank during such periods as such Advance is a Eurodollar Rate Advance, from the date of such Advance until such principal amount is paid in full, at an interest rate per annum equal at all times to the remainder obtained by subtracting (i) the Eurodollar Rate for the Interest Period then in effect for such Eurodollar Rate Advance from (ii) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage of such Bank for such Interest Period, payable on each date on which interest is payable on such Eurodollar Rate Advance. Such additional interest shall be determined by such Bank and notified to the Borrower through the Agent.

Section 2.09 Interest Rate Determination. (a) The Agent shall give prompt notice to the Borrower and the Banks of the applicable interest rate determined by the Agent for purposes of Section 2.07(b).

(b) If the Agent is unable to determine the Eurodollar Rate for any Eurodollar Rate Advances:

(i) the Agent shall forthwith notify the Borrower and the Banks that the interest rate cannot be determined for such Eurodollar Rate Advances,

(ii) each such Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefore, Convert into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(iii) the obligation of the Banks to make Eurodollar Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Banks that the circumstances causing such suspension no longer exist.

(c) If, with respect to any Eurodollar Rate Advances, the Required Banks notify the Agent (A) that the Eurodollar Rate for any Interest Period for such Advances will not adequately reflect the cost to such Required Banks of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period or (B) that Dollar deposits for the relevant amounts and Interest Period for their respective Advances are not available to them in the London interbank market, the Agent shall forthwith so notify the Borrower and the Banks, whereupon

(i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefore, Convert into a Base Rate Advance, and

(ii) the obligation of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Banks that the circumstances causing such suspension no longer exist.

(d) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Banks and such Revolving Credit Advances will automatically, on the last day of the then existing Interest Period therefore, Convert into Base Rate Advances (or if such Advances are then Base Rate Advances, will continue as Base Rate Advances).

(e) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than $10,000,000, such Advances shall automatically Convert into Base Rate Advances, and on and after such date the right of the Borrower to Convert such Advances into Eurodollar Rate Advances shall terminate.

(f) Upon the occurrence and during the continuance of any Event of Default under Section 6.01(a), (i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefore, Convert into a Base Rate Advance and (ii) the obligation of the Banks to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended.

Section 2.10 Optional Prepayments. The Borrower shall have no right to prepay any principal amount of any Advance other than as provided in this Section 2.10. The Borrower may, upon notice given to the Agent before 11:00 A.M. (New York City time) on at least the first Business Day prior to the date of prepayment in the case of Base Rate Advances or upon at least three Business Days' notice to the Agent in the case of Eurodollar Rate Advances, in each case stating the proposed date (which shall be a Business Day) and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, subject to the terms thereof, prepay the outstanding principal amounts of the Advances comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount not less than $10,000,000 in the case of Eurodollar Rate Advances and $5,000,000 in the case of Base Rate Advances and in integral multiples of $1,000,000, and after giving effect thereto no Borrowing then outstanding shall have a principal amount of less than $5,000,000; and (y) in the case of any such prepayment of a Eurodollar Rate Advance, the Borrower shall be obligated to reimburse the Banks in respect thereof pursuant to Section 8.04(b).

Section 2.11 Payments and Computations. (a) The Borrower shall make each payment hereunder and under the Notes not later than 11:00 A.M. (New York City time) on the day when due in Dollars to the Agent (except that payments under Section 2.08 shall be paid directly to the Bank entitled thereto) at Two Penns Way, Suite 200, New Castle, Delaware 19720, in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, Commitment Fees or Letter of Credit Fees ratably (except amounts payable pursuant to Section 2.12 or Section 2.13 and except that any Bank may receive less than its ratable share of interest to the extent Section 8.06 is applicable to it) to the Banks for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Bank to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.08(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Bank assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves. At the time of each payment of any principal of or interest on any Borrowing to the Agent, the Borrower shall notify the Agent of the Borrowing to which such payment shall apply. In the absence of such notice the Agent may specify the Borrowing to which such payment shall apply.

(b) All computations of interest based on the Base Rate (except during such times as the Base Rate is determined pursuant to clause (c) of the definition thereof), of Commitment Fees and of Letter of Credit Fees shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate, the Federal Funds Rate or, during such times as the Base Rate is determined pursuant to clause (c) of the definition thereof, the Base Rate shall be made by the Agent, and all computations of interest pursuant to Section 2.08 shall be made by a Bank, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Agent (or in the case of Section 2.08, by a Bank) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest, Commitment Fees and Letter of Credit Fees, as the case may be; provided, however, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at the Federal Funds Rate.

Section 2.12 Increased Costs and Capital Requirements. (a) If, due to either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any law or regulation by any Governmental Authority charged with the interpretation or administration thereof or (ii) the compliance with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to any Bank of agreeing to make or making, funding or maintaining any Eurodollar Rate Advance or of agreeing to issue or of issuing or maintaining or participating in Letters of Credit or of agreeing to make or of making or maintaining Letter of Credit Advances (excluding, for purposes of this Section 2.12, any such increased costs resulting from (x) Taxes or Other Taxes (as to which Section 2.13 shall govern) and (y) changes in the basis of taxation of overall net income or overall gross income by the United States or by the foreign jurisdiction or state under the laws of which such Bank is organized or has its Applicable Lending Office or any political subdivision thereof), then the Borrower shall from time to time, within 15 days after demand by such Bank (with a copy of such demand to the Agent), pay to the Agent for the account of such Bank additional amounts sufficient to compensate such Bank for such increased cost; provided, however, that the Borrower shall not be required to pay to such Bank any portion of such additional amounts that are incurred more than 90 days prior to any such demand, unless such additional amounts had not been imposed or were not determinable on the date that is 90 days prior to such demand. A certificate setting forth in reasonable detail the amount of such increased cost, submitted to the Borrower and the Agent by such Bank, shall be conclusive and binding for all purposes, absent manifest error.

(b) If following the introduction of or any change in any applicable law or regulation or any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) any Bank determines that compliance by such Bank with any such law or regulation or guideline or request regarding capital adequacy affects or would affect the amount of capital required or expected to be maintained by such Bank or any Person controlling such Bank and that the amount of such capital is increased by or based upon the existence of such Bank’s commitment to lend or to issue or participate in Letters of Credit hereunder and other commitments of such type or the issuance or maintenance of or participation in Letters of Credit (or similar contingent Obligations), then, within 15 days after demand by such Bank (with a copy of such demand to the Agent), the Borrower shall pay to the Agent for the account of such Bank, from time to time as specified by such Bank, additional amounts sufficient to compensate such Bank or such Person in the light of such circumstances, to the extent that such Bank reasonably determines such increase in capital to be allocable to the existence of such Bank’s commitment to lend or to issue or participate in Letters of Credit hereunder or to the issuance of or participation in any Letters of Credit; provided, however, that the Borrower shall not be required to pay to such Bank any portion of such additional amounts that are incurred more than 90 days prior to any such demand, unless such additional amounts had not been imposed or were not determinable on the date that is 90 days prior to such demand. A certificate setting forth in reasonable detail such amounts submitted to the Borrower and the Agent by such Bank shall be conclusive and binding for all purposes, absent manifest error.

(c) Each Bank shall make reasonable efforts (consistent with its internal policies and legal and regulatory restrictions) to select a jurisdiction for its Applicable Lending Office or change the jurisdiction of its Applicable Lending Office, as the case may be, so as to avoid the imposition of any increased costs under this Section 2.12 or to eliminate the amount of any such increased cost which may thereafter accrue; provided that no such selection or change of the jurisdiction for its Applicable Lending Office shall be made if, in the reasonable judgment of such Bank, such selection or change would be disadvantageous to such Bank.

Section 2.13 Taxes. (a) Any and all payments by the Borrower hereunder or under the Notes shall be made, in accordance with Section 2.11, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges and withholdings, and all liabilities with respect thereto, excluding, in the case of each Bank and the Agent, taxes imposed on its overall net income (including branch profits), and franchise taxes imposed on or measured by net income, by the jurisdiction under the laws of which such Bank or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its overall net income (including branch profits), and franchise taxes imposed on or measured by net income, by the jurisdiction of such Bank's Applicable Lending Office or principal executive office or any political subdivision thereof, and all liabilities with respect thereto (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"), except as may otherwise be required by law. If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Bank or the Agent, (i) the sum payable shall be increased by such amount (an "Additional Amount") as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.13) such Bank or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. Any such payment by the Borrower shall be made in the name of the relevant Bank or the Agent (as the case may be).

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Notes or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or any of the Notes (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Bank and the Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.13) imposed on or paid by such Bank or the Agent (as the case may be) and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Payments under any indemnification provided for in this Section 2.13(c) shall be made within 30 days from the date such Bank or the Agent (as the case may be) makes written demand therefore describing such Taxes or Other Taxes in reasonable detail.

(d) If the Agent or a Bank reasonably determines that it has finally and irrevocably received a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower, or with respect to which the Borrower has paid Additional Amounts, pursuant to this Section 2.13, it shall within 30 days from the date of such receipt pay over such refund to the Borrower (but only to the extent such refund is attributable, as reasonably determined by such Agent or Bank, to such indemnity payments made, or Additional Amounts paid, by the Borrower under this Section 2.13 with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of the Agent or Bank and without interest (other than interest paid by the relevant taxation authority with respect to such refund); provided, however, that the Borrower, upon the request of the Agent or Bank, agrees to repay the amount paid over to the Borrower (plus penalties, interest or other charges, if any, imposed by the relevant taxation authority in respect of such repayment) to the Agent or Bank in the event the Agent or Bank is required to repay such refund to the applicable taxation authority. Nothing contained in this Section 2.13(d) shall interfere with the right of the Agent or any Bank to arrange its tax affairs in whatever manner it determines appropriate nor oblige the Agent or any Bank to claim any tax credit or to disclose any information relating to its tax affairs or any computations in respect thereof or require the Agent or any Bank to do anything that would prejudice its ability to benefit from any other tax relief to which it may be entitled.

(e) Within 30 days after the date of any payment of Taxes, the Borrower will furnish to the Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing payment thereof (or other evidence of payment reasonably satisfactory to the Agent). In the case of any payment hereunder or under the Notes by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel reasonably acceptable to the Agent stating that such payment is exempt from Taxes imposed by the jurisdiction from which such payment is made. For purposes of this Section 2.13(e) and Section 2.13(f), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Code.

(f) Each Bank organized under the laws of a jurisdiction outside the United States, (i) on or prior to the date of the Initial Extension of Credit in the case of each such Bank listed on the signature pages hereof, (ii) on the date of the Assignment and Acceptance pursuant to which it becomes a Bank, (iii) on or before the date, if any, it changes its Applicable Lending Office, and (iv) from time to time thereafter if reasonably requested in writing by the Borrower or the Agent or promptly upon the obsolescence or invalidity of any form previously delivered by such Bank (but only so long as such Bank remains lawfully able to do so), shall provide the Agent and the Borrower with two original Internal Revenue Service Forms W-8BEN or W-8ECI (or, in the case of a Bank that is entitled to claim exemption from withholding of United States federal income tax under Section 871(h) or 881(c) of the Code, (A) a certificate representing that such Bank is not a "bank" for purposes of Section 881(c) of the Code, is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrower and is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code) and (B) Internal Revenue Service Form W-8BEN), as appropriate, or any successor or other form prescribed by the Internal Revenue Service, properly completed and duly executed by such Bank, certifying that such Bank is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or the Notes (or, in the case of a Bank providing the certificate described in clause (A), certifying that such Bank is a foreign corporation, partnership, estate or trust). If the forms provided by a Bank at the time such Bank first becomes a party to this Agreement indicate or require a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes for purposes of this Section 2.13 unless and until such Bank provides the appropriate forms certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such forms; provided, however, that if, at the effective date of the Assignment and Acceptance pursuant to which a Bank becomes a party to this Agreement (or the date, if any, a Bank changes its Applicable Lending Office), the Bank assignor (or such Bank) was entitled to payments under subsection (a) of this Section 2.13 in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes, subject to the provisions of this subsection (f)) United States withholding tax, if any, applicable with respect to the Bank assignee (or such Bank) on such date.

(g) For any period with respect to which a Bank has failed to provide the Borrower with the appropriate form described in subsection (f) above (other than if such failure is due to a change in law, or in the interpretation or application thereof by any Governmental Authority charged with the interpretation or application thereof, occurring after the date on which a form originally was required to be provided or if such form otherwise is not required under subsection (f) above), such Bank shall not be entitled to indemnification or payment of an Additional Amount under subsection (a) or (c) of this Section 2.13 with respect to Taxes imposed by the United States to the extent such United States Taxes exceed the United States Taxes that would have been imposed had such form been provided; provided, however, that should a Bank become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes.

(h) Any Bank claiming any indemnity payment or Additional Amounts payable pursuant to this Section 2.13 shall use commercially reasonable efforts (consistent with its generally applicable internal policy and legal and regulatory restrictions) to file any certificate or document reasonably requested in writing by the Borrower or to designate a different Applicable Lending Office following the reasonable request in writing of the Borrower if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or Additional Amounts that may thereafter accrue and would not, in the sole determination of such Bank, require the disclosure of information that the Bank reasonably considers confidential, or be otherwise disadvantageous to such Bank.

Section 2.14 Sharing of Payments, Etc. If any Bank shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the principal of or interest on the Advances owing to it (except amounts payable pursuant to Sections 2.08, 2.12 or 2.13, and except that any Bank may receive less than its ratable share of interest to the extent Section 8.06 is applicable to it) in excess of its ratable share of payments on account of the principal of or interest on the Advances obtained by all the Banks, such Bank shall forthwith purchase from the other Banks such participations in the Advances owing to them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of them, provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase from each Bank shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of such Bank's ratable share (according to the proportion of (i) the amount of the participation purchased from such Bank as a result of such excess payment to (ii) the total amount of such excess payment) of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (i) the amount of such Bank's required repayment to (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 2.14 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation.

Section 2.15 Illegality. Notwithstanding any other provision of this Agreement, if any Bank ("Affected Bank") shall notify the Borrower and the Agent that the introduction of or any change in any law or regulation makes it unlawful, or any central bank or other Governmental Authority asserts that it is unlawful, for any Bank, or its Eurodollar Lending Office, to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (i) the obligation of the Affected Bank to make, or to Convert Advances into, Eurodollar Rate Advances shall forthwith be suspended (and any request by the Borrower for a Borrowing comprised of Eurodollar Rate Advances shall, as to each Affected Bank, be deemed a request for a Base Rate Advance to be made on the same day as the Eurodollar Rate Advances of the Banks that are not Affected Banks and such Base Rate Advance shall be considered as part of such Borrowing) until the Affected Bank shall notify the Borrower, the Banks and the Agent that the circumstances causing such suspension no longer exist and (ii) forthwith after such notice from an Affected Bank to the Agent and the Borrower, all Eurodollar Rate Advances of such Affected Bank shall be deemed to be Converted to Base Rate Advances (but will otherwise continue to be considered as a part of the respective Borrowings that they were a part of prior to such Conversion); provided, however, that, before making any such demand, such Bank agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Eurodollar Lending Office if the making of such a designation would allow such Bank or its Eurodollar Lending Office to continue to perform its obligations to make Eurodollar Rate Advances or to continue to fund or maintain Eurodollar Rate Advances and would not, in the judgment of such Bank, be otherwise materially disadvantageous to such Bank. In the event any Bank shall notify the Agent of the occurrence of any circumstance contemplated under this Section 2.15, all payments and prepayments of principal that would otherwise have been applied to repay the Eurodollar Rate Advances that would have been made by such Bank or the Converted Eurodollar Rate Advances shall instead be applied to repay the Base Rate Advances made by such Bank in lieu of such Eurodollar Rate Advances or resulting from the Conversion of such Eurodollar Rate Advances and shall be made at the time that payments on the Eurodollar Rate Advances of the Banks that are not Affected Banks are made. Each Bank that has delivered a notice of illegality pursuant to this Section 2.15 above agrees that it will notify the Borrower as soon as practicable if the conditions giving rise to the illegality cease to exist.

Section 2.16 Conversion of Advances. The Borrower may on any Business Day, upon notice given to the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.02(b), 2.09 and 2.15, Convert all Advances of one Type comprising the same Borrowing into Advances of the other Type; provided, however, that (i) any Conversion of any Eurodollar Rate Advances into Base Rate Advances shall be made on, and only on, the last day of an Interest Period for such Eurodollar Rate Advances, except as provided in Section 2.15, and (ii) Advances comprising a Borrowing may not be Converted into Eurodollar Rate Advances if the outstanding principal amount of such Borrowing is less than $10,000,000 or if any Event of Default under Section 6.01(a) shall have occurred and be continuing on the date the related notice of Conversion would otherwise be given pursuant to this Section 2.16. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower. If any Event of Default under Section 6.01(a) shall have occurred and be continuing on the third Business Day prior to the last day of any Interest Period for any Eurodollar Rate Advances, the Borrower agrees to Convert all such Advances into Base Rate Advances on the last day of such Interest Period.

Section 2.17 Replacement or Removal of Bank. In the event that any Bank shall claim payment of any increased costs pursuant to Section 2.12 or the Borrower is required to pay any Additional Amounts, Taxes or Other Taxes to or on account of any Bank pursuant to Section 2.13, or exercises its rights under Section 2.15, or if any Bank fails to execute and deliver a consent, amendment or waiver to this Agreement requested by the Borrower by the date specified by the Borrower (or gives the Borrower written notice prior to such date of its intention not to do so) the Borrower shall have the right, if no Default or Event of Default then exists, to (a) replace such Bank with an Eligible Assignee in accordance with Section 8.08(a), (b) and (d) (including execution of an appropriate Assignment and Acceptance); provided that such Eligible Assignee (i) shall unconditionally offer in writing (with a copy to the Agent) to purchase on a date therein specified all of such Bank's rights hereunder and interest in the Advances owing to such Bank and the Note held by such Bank without recourse at the principal amount of such Note plus interest, Commitment Fees and Letter of Credit Fees accrued thereon to the date of such purchase and (ii) shall execute and deliver to the Agent an Assignment and Acceptance, as assignee, pursuant to which such Eligible Assignee becomes a party hereto with a Commitment equal to that of the Bank being replaced (plus, if such Eligible Assignee is already a Bank, the amount of its Commitment prior to such replacement), provided, further, that no Bank or other Person shall have any obligation to increase its Commitment or otherwise to replace, in whole or in part, any Bank or (b) remove such Bank without replacing it; provided that the Borrower may not remove a Bank pursuant to this clause (b) if the aggregate Commitments of all Banks so removed would exceed $100,000,000. Upon satisfaction of the requirements set forth in the first sentence of this Section 2.17, acceptance of such offer to purchase by the Bank to be replaced, payment to such Bank of the purchase price in immediately available funds by the Eligible Assignee replacing such Bank, execution of such Assignment and Acceptance by such Bank, such Eligible Assignee and the Agent, the payment by the Borrower of all requested costs accruing to the date of purchase which the Borrower is obligated to pay under Section 8.04 and all other amounts owed by the Borrower to such Bank (other than Commitment Fees and Letter of Credit Fees accrued for the account of such Bank and the principal of and interest on the Advances of such Bank purchased by such Eligible Assignee) and notice by the Borrower to the Agent that such payment has been made, such Eligible Assignee shall constitute a "Bank" hereunder with a Commitment as so specified and the Bank being so replaced shall no longer constitute a "Bank" hereunder except that the rights under Sections 2.07, 2.12, 2.13 and 8.04 of the Bank being so replaced shall continue with respect to events and occurrences before or concurrently with its ceasing to be a "Bank" hereunder. If, however, (x) a Bank accepts such an offer and such Eligible Assignee fails to purchase such rights and interest on such specified date in accordance with the terms of such offer or such Eligible Assignee or the Agent fails to execute the relevant Assignment and Acceptance, the Borrower shall continue to be obligated to pay the increased costs to such Bank pursuant to Section 2.12 or the additional amounts pursuant to Section 2.13, as the case may be, or (y) the Bank proposed to be replaced fails to accept such purchase offer or to execute the relevant Assignment and Acceptance, the Borrower shall not be obligated to pay to such Bank such increased costs or additional amounts incurred or accrued from and after the date of such purchase offer.

Section 2.18 Evidence of Indebtedness. Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Advance owing to such Bank from time to time, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder. The Borrower agrees that upon notice by any Bank to the Borrower (with a copy of such notice to the Agent) to the effect that a promissory note or other evidence of indebtedness is required or appropriate in order for such Bank to evidence (whether for purposes of pledge, enforcement or otherwise) the Advances owing to, or to be made by, such Bank, the Borrower shall promptly execute and deliver to such Bank, with a copy to the Agent, a Note in substantially the form of Exhibit A hereto, payable to the order of such Bank in a principal amount equal to the Revolving Credit Commitment of such Bank. All references to Notes in the Loan Documents shall mean Notes, if any, to the extent issued hereunder.

Section 2.19 Increase in the Aggregate Revolving Credit Commitments; Increase in Letter of Credit Commitment. (a) The Borrower may, at any time and from time to time prior to the Termination Date, by notice to the Agent, request that the aggregate amount of the Revolving Credit Commitments to be used solely for the issuance of Letters of Credit be increased by an amount of not less than $50,000,000 and in integral multiples of $10,000,000 in excess thereof (each a "Commitment Increase") to be effective as of a date that is at least 90 days prior to the scheduled Maturity Date (the "Increase Date") as specified in the related notice to the Agent; provided, however, that (i) in no event shall the aggregate amount of the Revolving Credit Commitments at any time exceed $1,100,000,000 and (ii) on the date of any request by the Borrower for a Commitment Increase and on the related Increase Date, the applicable conditions set forth in Section 3.02 shall be satisfied. Any Commitment Increase shall not increase the Borrowing Sublimit.

(b) The Agent shall promptly notify the Banks of a request by the Borrower for a Commitment Increase, which notice shall include (i) the proposed amount of such requested Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Banks wishing to participate in the Commitment Increase must commit to an increase in the amount of their respective Revolving Credit Commitments (the "Commitment Date"). Each Bank that is willing to participate in such requested Commitment Increase (each an "Increasing Lender") shall, in its sole discretion, give written notice to the Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Revolving Credit Commitment. If the Banks notify the Agent that they are willing to increase the amount of their respective Revolving Credit Commitments by an aggregate amount that exceeds the amount of the requested Commitment Increase, the requested Commitment Increase shall be allocated among the Banks willing to participate therein in such amounts as are agreed between the Borrower and the Agent.

(c) Promptly following each Commitment Date, the Agent shall notify the Borrower as to the amount, if any, by which the Banks are willing to participate in the requested Commitment Increase. If the aggregate amount by which the Banks are willing to participate in any requested Commitment Increase on any such Commitment Date is less than the requested Commitment Increase, then the Borrower may extend offers to one or more Eligible Assignees to participate in any portion of the requested Commitment Increase that has not been committed to by the Banks as of the applicable Commitment Date; provided, however, that the Revolving Credit Commitment of each such Eligible Assignee shall be in an amount of $10,000,000 or an integral multiple of $1,000,000 in excess thereof. The Borrower, at its discretion, may withdraw its request for a Commitment Increase at any time prior to the Increase Date.

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Commitment Increase in accordance with Section 2.19(c) (each such Eligible Assignee, an "Assuming Lender") shall become a Bank party to this Agreement as of such Increase Date and the Revolving Credit Commitment of each Increasing Lender for such requested Commitment Increase shall be so increased by such amount (or by the amount allocated to such Bank pursuant to the last sentence of Section 2.19(b)) as of such Increase Date; provided, however, that the Agent shall have received on or before such Increase Date the following, each dated such date:

(i) an assumption agreement from each Assuming Lender, if any, in form and substance satisfactory to the Borrower and the Agent (each an "Assumption Agreement"), duly executed by such Eligible Assignee, the Agent and the Borrower; and

(ii) confirmation from each Increasing Lender of the increase in the amount of its Commitment in a writing satisfactory to the Borrower and the Agent.

(e) At any time, any Issuing Bank and the Borrower may agree to increase the Letter of Credit Commitment of such Issuing Bank with the consent of the Agent. The Agent shall adjust the Letter of Credit Commitments of the existing Issuing Banks to the extent of the increase in such Issuing Bank's Letter of Credit Commitment as the affected Issuing Banks and the Agent shall agree in writing.

(f) Any Bank may become an Issuing Bank by written agreement between such Bank and the Borrower, subject to notice to and the consent of the Agent. The Agent shall notify the Banks of the designation of any additional Issuing Bank hereunder and shall adjust the Letter of Credit Commitments of the existing Issuing Banks to the extent of such new Issuing Bank's Letter of Credit Commitment as the affected Issuing Banks and the Agent shall agree in writing.

On each Increase Date, upon fulfillment of the conditions set forth in Section 2.19(d), at the time any Issuing Bank and the Borrower agree to increase the Letter of Credit Commitment of such Issuing Bank pursuant to Section 2.19(e) and at the time any Bank becomes an Issuing Bank pursuant to Section 2.19(f), the Agent shall notify the Banks (including, without limitation, each Assuming Lender, if applicable) and the Borrower, on or before 1:00 P.M. (New York City time), by telecopier, of the occurrence of the Commitment Increase to be effected on such Increase Date, the Letter of Credit Commitment increase and the effective date thereof or any Bank becoming an Issuing Bank and the effective date thereof, as the case may be, and, in each case, shall record in the Register the relevant information with respect to each Increasing Lender, each Assuming Lender, each Letter of Credit Commitment increase or adjustment, as applicable, and any addition of an Issuing Bank, as applicable, on such date. On the last day of the Interest Period in effect on any Increase Date, the Borrower shall make such Borrowings and prepayments as shall be necessary to cause the outstanding Advances to be ratable with the revised Commitments resulting from any non-ratable increase in the Commitments under this Section 2.19.

ARTICLE III
CONDITIONS OF LENDING

Section 3.01 Conditions Precedent to Effectiveness. This Agreement shall become effective on and as of the first date (the "Effective Date") on which the Agent shall have received counterparts of this Agreement duly executed by the Borrower and all of the Banks and the following additional conditions precedent shall have been satisfied, except that Section 2.04(a) shall become effective as of the first date on which the Agent shall have received counterparts of this Agreement duly executed by the Borrower and all of the Banks:

(a) The Borrower shall have notified the Agent in writing as to the proposed Effective Date.

(b) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance reasonably satisfactory to the Agent and (except for the Notes) in sufficient copies for each Bank:

(i) The Notes to the order of the Banks to the extent requested by any Bank pursuant to Section 2.18.

(ii) The Guarantee duly executed by each Subsidiary Guarantor.

(iii) Certified copies of the resolutions of the Governing Body of each Relevant Party approving each Loan Document to which it is a party, and of all documents evidencing other necessary corporate or organizational action and governmental approvals, if any, with respect to each Loan Document.

(iv) A copy of a certificate of the Secretary of State of the jurisdiction of incorporation of each Relevant Party, dated reasonably near the Effective Date certifying (A) as to a true and correct copy of the charter or other formation document, as the case may be, of such Relevant Party and each amendment thereto on file in such Secretary's office and (B) that (1) such amendments are the only amendments to such Relevant Party's charter on file in such Secretary's office, (2) such Relevant Party has paid all franchise taxes to the date of such certificate and (3) such Relevant Party is duly incorporated and in good standing or presently subsisting under the laws of the State of the jurisdiction of its organization.

(v) A certificate of the Borrower signed on behalf of the Borrower by its President or a Vice President and its Secretary or any Assistant Secretary, dated the Effective Date (the statements made in which certificate shall be true on and as of the Effective Date), certifying as to (A) the absence of any amendments to the formation document of the Borrower since the date of the Secretary of State's certificate referred to in Section 3.01(b)(iv), (B) a true and correct copy of the limited liability company agreement of the Borrower as in effect on the date on which the resolutions referred to in Section 3.01(b)(iii) were adopted and on the Effective Date, (C) the due organization and good standing or valid existence of the Borrower as a limited liability company organized under the laws of the jurisdiction of its organization, and the absence of any proceeding for the dissolution or liquidation of the Borrower, (D) the truth of the representations and warranties contained in the Loan Documents as though made on and as of the Effective Date and (E) the absence of any event occurring and continuing, or resulting from the Initial Extension of Credit, that constitutes a Default or Event of Default.

(vi) A certificate of each other Relevant Party signed on behalf of such other Relevant Party by its Secretary or any Assistant Secretary, dated the Effective Date (the statements made in which certificate shall be true on and as of the Effective Date), certifying as to (A) the absence of any amendments to the charter or other formation document, as the case may be, of such Relevant Party since the date of the Secretary of State's certificate referred to in Section 3.01(b)(iv), (B) a true and correct copy of the bylaws, limited liability company agreement or partnership agreement, as the case may be, of such Relevant Party as in effect on the date on which the resolutions referred to in Section 3.01(b)(iii) were adopted and on the Effective Date, and (C) the due organization and good standing or valid existence of such Relevant Party as a corporation, limited liability company or limited partnership organized under the laws of the jurisdiction of its organization, and the absence of any proceeding for the dissolution or liquidation of such Relevant Party.

(vii) A certificate of the Secretary or an Assistant Secretary of each Relevant Party certifying the names and true signatures of the officers of such Relevant Party authorized to sign each Loan Document to which it is a party and the other documents to be delivered by the Relevant Parties hereunder.

(viii) A certificate of the President or Vice President of the Borrower certifying working capital of the Borrower and the Subsidiaries of the Borrower as of November 30, 2005 pursuant to the GWC Contracts.

(ix) A favorable opinion of James H. Lehmann, Senior Vice President-Legal of the Borrower, in substantially the form of Exhibit C-1 hereto.

(x) A favorable opinion of Bruce A. Metzinger, Assistant Secretary and Assistant General Counsel of the Parent, in substantially the form of Exhibit C-2 hereto.

(xi) A favorable opinion of Baker Botts, LLP, counsel for the Borrower, in substantially the form of Exhibit C-3 hereto.

(xii) A favorable opinion of Shearman & Sterling LLP, counsel for the Agent, in form and substance satisfactory to the Agent.

(xiii) A certificate of the President or Vice President of the Borrower certifying that not less than $300,000,000 of intercompany payable owed by the Borrower to HESI has been capitalized.

(c) The Borrower shall have delivered to the Agent (i) evidence satisfactory to the Agent that (A) the maturity date of the Intercompany Note shall be on a date on or after December 31, 2010 and (B) the Parent and the Borrower shall have completed the capitalization of the Intercompany Note of an amount not less than $300,000,000; (ii) the Subordination Agreement duly executed by the Parent, HESI, the Borrower and the Agent and (iii) the Indemnity Agreement duly executed by the Parent and the Agent.

(d) All accrued fees and reasonable out-of-pocket expenses of the Co-Lead Arrangers (including the reasonable fees and expenses of counsel to the Co-Lead Arrangers for which invoices have been submitted) shall have been paid.

(e) The Borrower shall have paid all accrued fees and reasonable out-of-pocket expenses of the Agent (including reasonable fees and expenses of counsel for which invoices have been submitted).

Section 3.02 Conditions Precedent to Each Revolving Credit Advance, Each Commitment Increase and Each Issuance, Renewal, Amendment, Increase and Extension of Each Letter of Credit. The obligation of each Bank to make an Advance (other than a Letter of Credit Advance made by an Issuing Bank or a Revolving Credit Bank pursuant to Section 2.03(c)) (including, without limitation, the initial Revolving Credit Advance) and each Issuing Bank to issue, renew, extend or amend Letters of Credit (including the initial Letter of Credit), each Commitment Increase and each amendment of a Letter of Credit that has the effect of increasing the Available Amount of such Letter of Credit or extending the Expiration Date thereof shall be subject to the conditions precedent that on the date of such Advance, such Commitment Increase or such issuance, renewal, extension, amendment or increase of a Letter of Credit, the following statements shall be true (and each of the giving of the applicable Notice of Revolving Credit Borrowing, Notice of Issuance and Application for Letter of Credit, request for amendment of any Letter of Credit, request for a Commitment Increase, request for increase of a Letter of Credit or extending the Expiration Date thereof and the acceptance by the Borrower of the proceeds of such Advance or such Commitment Increase, such Letter of Credit or of the renewal, amendment, increase or extension of such Letter of Credit shall constitute a representation and warranty by the Borrower that on the date of such Advance, such Commitment Increase or such issuance, renewal, amendment, increase or extension of such Letter of Credit such statements are true):

(i) the representations and warranties contained in each Loan Document are correct on and as of the date of such Revolving Credit Advance or such Letter of Credit (except (A) those representations and warranties contained in (I) Section 4.01(i) to the extent such matters are subject to, and covered by, (x) the Indemnity Agreement and (y) the Disclosed Litigation, and (II) Section 4.01(f) and (B) those other representations and warranties that expressly relate solely to a specific earlier date, which shall remain correct as of such earlier date) before and after giving effect to such Borrowing or issuance or renewal and to the application of the proceeds therefrom, as though made on and as of such date;

(ii) no event has occurred and is continuing, or would result from such Borrowing or such issuance or renewal or from the application of the proceeds therefrom, which constitutes a Default or an Event of Default; and

(iii) there exists no request or directive issued by any Governmental Authority, central bank or comparable agency, injunction, stay, order, litigation or proceeding purporting to affect or calling into question the legality, validity or enforceability of any Loan Document or the consummation of any transaction (including any Advance or proposed Advance or issuance, renewal, amendment, increase or extension of a Letter of Credit or proposed Letter of Credit) contemplated hereby.

Section 3.03 Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, the Agent, the Co-Lead Arrangers and each Bank shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to such Persons unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Person prior to the date that the Borrower, by notice to the Agent, designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Banks and the Borrower of the occurrence of the Effective Date, which notice shall be conclusive and binding.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Each Loan Party and each of its Subsidiaries (i) is a corporation, limited liability company or limited partnership duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) is duly qualified and in good standing as a foreign corporation or company in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed and (iii) has all requisite corporate, limited liability company or partnership (as applicable) power and authority (including, without limitation, all permits, approvals, licenses or other authorizations to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted, except for any failures to be so organized, existing, qualified to do business or in good standing or to have such power and authority as would not, individually or in the aggregate, have a Material Adverse Effect.

(b) Set forth on Schedule 4.01(b) hereto is a complete and accurate list of the Borrower and all Subsidiary Guarantors as of the date hereof, showing as of the date hereof (as to such Person) the jurisdiction of its organization, the number of shares, membership interests or partnership interests (as applicable) of each class of its Equity Interests authorized, and the number outstanding, on the date hereof and the percentage of each such class of its Equity Interests owned (directly or indirectly) by the Borrower or such Subsidiary Guarantor. All of the outstanding Equity Interests in each Subsidiary Guarantor have been validly issued, are fully paid and non-assessable and are owned by the Borrower or one or more of its Subsidiaries free and clear of all Liens. As of the date hereof, the copy of the charter of the Borrower and each Subsidiary Guarantor and each amendment thereto provided pursuant to Section 3.01(b)(iv) is a true and correct copy of each such document, each of which is valid and in full force and effect

(c) The execution, delivery and performance by each Loan Party of each Loan Document to which it is or is to be a party and the consummation of the transactions contemplated hereby or thereby (including, without limitation, each Revolving Credit Borrowing and issuance or renewal of a Letter of Credit hereunder and the use of the proceeds thereof) and the transactions contemplated thereby (i) are within such Loan Party's organizational power, (ii) have been duly authorized by all necessary organizational action, and (iii) do not contravene (A) such Loan Party's certificate of organization or by-laws, (B) any law, rule, regulation, order, writ, injunction or decree, or (C) any contractual restriction under any material agreements binding on or affecting such Loan Party or any Subsidiary of such Loan Party or any other contractual restriction the contravention of which would have a Material Adverse Effect.

(d) No authorization, approval, consent, license or other action by, and no notice to or filing with, any Governmental Authority or other Person is required for the due execution, delivery and performance by any Loan Party of each Loan Document to which it is or is to be a party, or for the consummation of the transactions contemplated hereby or thereby (including, without limitation, each Revolving Credit Borrowing and issuance or renewal of a Letter of Credit hereunder and the use of the proceeds thereof) and the transactions contemplated thereby, except (i) consents, authorizations, filings and notices which have been obtained or made and are in full force and effect, (ii) approvals that would be required under agreements that are not material agreements and (iii) as otherwise permitted by the Loan Documents.

(e) This Agreement has been, and each other Loan Document when delivered hereunder will have been, duly executed and delivered by each Loan Party party thereto and constitute legal, valid and binding obligations of each Loan Party party thereto enforceable against such Loan Party in accordance with their respective terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally.

(f) The combined balance sheet of the Borrower and its combined subsidiaries as at December 31, 2004, and the related combined statement of income and combined statement of cash flows of the Borrower and its combined subsidiaries for the fiscal year then ended, accompanied by an unqualified opinion of KPMG LLP, independent public accountants, and the combined balance sheet of the Borrower and its combined subsidiaries as at September 30, 2005, and the related combined statement of income and combined statement of cash flows of the Borrower and its combined subsidiaries for the nine months then ended, duly certified by the chief financial officer of the Borrower, copies of which have been furnished to each Bank, fairly present, subject, in the case of said balance sheet as at September 30, 2005, and said statements of income and cash flows for the nine months then ended, to normal year-end adjustments, the combined financial condition of the Borrower and its combined subsidiaries as at such dates and the combined results of operations of the Borrower and its combined subsidiaries for the periods ended on such dates, all in accordance with GAAP applied on a consistent basis (which combined statements are substantially similar to statements prepared on a consolidated basis). Since September 30, 2005 through the date hereof there has been no Material Adverse Change (excluding the Disclosed Litigation and matters subject to, or covered by, the Indemnity Agreement, which is addressed in Section 4.01(i) below).

(g) Except as to matters subject to, or covered by the Indemnity Agreement and except for Disclosed Litigation, each Loan Party and its Subsidiaries is in compliance, in all material respects, with the requirements of all applicable laws, rules, regulations and orders, including, without limitation, compliance with ERISA, Environmental Laws and Environmental Permits.

(h) As of the Effective Date, each Loan Party is, individually and together with its Subsidiaries, Solvent.

(i) Other than the matters described on Schedule 4.01(i) hereto (the "Disclosed Litigation") and matters subject to, or covered by, the Indemnity Agreement, there is no litigation, investigation or proceeding pending against or to the Borrower's knowledge threatened against or affecting, the Borrower, any of its Subsidiaries or any of its or their respective rights or properties before any court or by or before any arbitrator or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (i) that could reasonably be expected to have a Material Adverse Effect or (ii) that in any manner draws into question or purports to affect any transaction contemplated hereby or the legality, validity, binding effect or enforceability of the Borrower's Obligations or the rights and remedies of the Banks relating to this Agreement and the other Loan Documents, and, as of the Effective Date, there has been no material adverse change since December 15, 2005 in the status, or financial effect on any Loan Party or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 4.01(i) hereto.

(j) Neither the Borrower nor any Subsidiary is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U). No proceeds of any Advance or any Letter of Credit will be used in any manner that is not permitted by Section 5.02(m).

(k) No Loan Party is an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

(l) Neither any Loan Party nor any of its Subsidiaries is a “holding company”, or a “subsidiary company” of a “holding company”, or an “affiliate” of a “holding company” or of a “subsidiary company” of a “holding company”, as such terms are defined in the Public Utility Holding Company Act of 1935, as amended, so long as such statute shall be in effect.

(m) No statement or information contained in this Agreement or any other document, certificate or statement furnished to the Agent or the Banks by or on behalf of the Borrower for use in connection with the transactions contemplated by this Agreement or the Notes (as modified or supplemented by other information furnished) contains as of the date such statement, information, document or certificate was so furnished any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances under which they were made; provided, however, that, with respect to any such information, exhibit or report consisting of statements, estimates, pro forma financial information, forward-looking statements and projections regarding the future performance of the Borrower or any of its Subsidiaries (“Projections”), no representation or warranty is made other than that such Projections have been prepared in good faith based upon assumptions believed to be reasonable at the time.

(n) Other than as could not reasonably be expected to have a Material Adverse Effect (or those matters constituting Disclosed Litigation), (i) there are no strikes, lockouts or other material labor disputes or grievances against the Borrower or any of its Subsidiaries, or, to the Borrower’s knowledge, threatened against or affecting the Borrower or any of its Subsidiaries, and (ii) no significant unfair labor practice charges or grievances are pending against the Borrower or any of its Subsidiaries, or to the Borrower’s knowledge, threatened against any of them before any Governmental Authority. All payments due from the Borrower or any of its Subsidiaries pursuant to the provisions of any collective bargaining agreement have been paid or accrued as a liability on the books of the Borrower or such Subsidiary, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(o) (i) No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan that has resulted in or is reasonably expected to result in a Material Adverse Effect.

(ii) No Loan Party and no ERISA Affiliate has incurred or is reasonably expected to incur any Withdrawal Liability to any Multiemployer Plan that has resulted in or is reasonably expected to result in a Material Adverse Effect.

(iii) No Loan Party and no ERISA Affiliate has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and no such Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA to the extent such termination or reorganization has resulted in or is reasonably expected to result in a Material Adverse Effect.

(p) (i) Except where such event could not reasonably be expected to have a Material Adverse Effect, the operations and properties of each Loan Party and each of its Subsidiaries comply with all applicable Environmental Laws and Environmental Permits, all past non-compliance with such Environmental Laws and Environmental Permits has been resolved without ongoing obligations or costs, and no circumstances exist that could be reasonably expected to (A) form the basis of an Environmental Action against any Loan Party or any of its Subsidiaries or any of their properties or (B) cause any such property to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law.

(ii) Except where such event could not reasonably be expected to have a Material Adverse Effect, (A) none of the properties currently or formerly owned or operated by any Loan Party or any of its Subsidiaries is listed or proposed for listing on the NPL or on the CERCLIS or any analogous foreign, state or local list or is adjacent to any such property; (B) there are no and never have been any underground or aboveground storage tanks or any surface impoundments, septic tanks, pits, sumps or lagoons in which Hazardous Materials are being or have been treated, stored or disposed on any property currently owned or operated by any Loan Party or any of its Subsidiaries or, to the best of its knowledge, on any property formerly owned or operated by any Loan Party or any of its Subsidiaries; (C) there is no asbestos or asbestos-containing material on any property currently owned or operated by any Loan Party or any of its Subsidiaries; and (D) Hazardous Materials have not been released, discharged or disposed of on any property currently or formerly owned or operated by any Loan Party or any of its Subsidiaries.

(iii) All Hazardous Materials generated, used, treated, handled or stored at, or transported to or from, any property currently or formerly owned or operated by any Loan Party or any of its Subsidiaries have been disposed of in a manner not reasonably expected to result in a Material Adverse Effect.

(q) (i) Neither any Loan Party nor any of its Subsidiaries is party to any tax sharing agreement other than (A) as of the Effective Date, the agreement entered into among the Parent and certain of its Subsidiaries on January 1, 2001, as amended and restated June 2, 2002 and further amended on January 1, 2003, and (B) since the Effective Date, (I) tax sharing arrangements permitted pursuant to Section 5.01(i)(vii) and (II) any other tax sharing agreement that does not materially increase the Obligations of the Borrower or any of its Subsidiaries with respect to the allocation of any tax liability among such parties.

(ii) Each Loan Party and each of its Subsidiaries has filed, has caused to be filed or has been included in all material tax returns (Federal, state, local and foreign) required to be filed and has paid all material taxes shown thereon to be due, together with applicable interest and penalties except taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves. For purposes of this Section 4.01(q)(ii), any determination with respect to “material” shall be made as to the Borrower and the Subsidiaries of the Borrower taken as a whole.

(r) Each Loan Party and each of its Subsidiaries maintains, or the Parent maintains on behalf of such Loan Party or such Subsidiary, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which each Loan Party and such Subsidiary operates.

(s) Each Loan Party has (i) good and marketable title to (in the case of fee interests in real property), (ii) valid leasehold interests in (in the case of leasehold interests in real or personal property), or (iii) good title to (in the case of all other personal property), all of their respective properties and assets, in each case to the extent reasonably necessary to the conduct of such Loan Party's business.

(t) Neither the Borrower nor any of its Subsidiaries is in violation of any laws relating to terrorism or money laundering, including, without limitation, the Patriot Act, except to the extent such violation could not reasonably be expected to have a Material Adverse Effect.

(u) As of the date of the Pre-IPO Repositioning if such Pre-IPO Repositioning shall have occurred and immediately after giving effect to the transactions contemplated in connection therewith, (i) the assets and liabilities of the Borrower and its Subsidiaries, taken as a whole, shall remain as specified in the combined financial statements of the Borrower and its Subsidiaries delivered pursuant to Section 4.01(f), except (A) as otherwise permitted in accordance with this Agreement (other than Section 5.04) and (B) that a Subsidiary of the Borrower shall cease to be the holder of the note dated December 15, 2003 in a principal amount equal to $1,000,000,000 made by DII Industries, LLC, and (ii) no interim action or activity in respect of the Pre-IPO Repositioning could, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

ARTICLE V
COVENANTS OF THE BORROWER

Section 5.01 Affirmative Covenants. So long as any Advance or any other amount payable by the Borrower hereunder or under any other Loan Document shall remain unpaid, any Letter of Credit shall be outstanding or any Bank shall have any Commitment hereunder, the Borrower will, unless the Required Banks shall otherwise consent in writing:

(a) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply, with all applicable laws, rules, regulations and orders (including, without limitation, ERISA, Environmental Laws and Environmental Permits) except to the extent that failure to so comply (in the aggregate for all such failures) could not reasonably be expected to have a Material Adverse Effect.

(b) Preservation of Corporate or Organizational Existence, Etc. (i) Preserve and maintain and cause each of its Subsidiaries to preserve and maintain (unless, in the case of any Subsidiary, the Borrower or such Subsidiary determines that such preservation and maintenance is no longer necessary in the conduct of the business of the Borrower and its Subsidiaries, taken as a whole), its corporate or organizational existence, rights (charter and statutory), franchises, permits, licenses, approvals and privileges in the jurisdiction of its organization; provided, however, that the Borrower and its Subsidiaries may consummate any merger, consolidation conveyance, transfer, lease, disposition, spin-off, split-off or similar transaction permitted under Section 5.02(d) and provided further that neither the Borrower nor any of its Subsidiaries shall be required to preserve any right, permit, license, approval, privilege, franchise or, solely in the case of Subsidiaries, existence, where the failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect and (ii) qualify and remain qualified and cause each of its Subsidiaries to qualify and remain qualified, as a foreign organization in each jurisdiction in which qualification is necessary or desirable in view of its business and operations or the ownership of its Properties, except where the failure to so qualify or remain qualified could not, individually or in the aggregate, reasonably be expected to give rise to a Material Adverse Effect.

(c) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments, charges and like levies levied or imposed upon it or upon its income, profits or Property prior to the date on which penalties attach thereto and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its Property; provided that neither the Borrower nor any Subsidiary shall be required to pay and discharge any such tax, assessment, charge, levy or claim if the failure to do so (in the aggregate for all such failures) could not reasonably be expected to have a Material Adverse Effect.

(d) Reporting Requirements. Furnish to the Agent:

(i) not later than 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, the consolidated balance sheet of the Borrower and its consolidated subsidiaries as at the end of such quarter and the consolidated statements of income and cash flows of the Borrower and its consolidated subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, all in reasonable detail and duly certified (subject to normal year-end adjustments) by a Responsible Officer of the Borrower as having been prepared in accordance with GAAP, together with (A) a certificate of said officer stating that no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action that the Borrower has taken and proposes to take with respect thereto and (B) a schedule in form satisfactory to the Agent of the computations used by the Borrower in determining compliance with the covenants contained in Section 5.03, including a reconciliation in reasonable detail of excluding (x) Project Finance Subsidiaries and (y) entities excluded because of the last sentence of Section 1.03(a) with respect to FIN 46, on the computation of compliance with the covenants contained in Section 5.03;

(ii) not later than 120 days after the end of each fiscal year of the Borrower, copies of the audited consolidated balance sheet of the Borrower and its consolidated subsidiaries as at the end of such fiscal year and audited consolidated statements of income, retained earnings and cash flows of the Borrower and its consolidated subsidiaries for such fiscal year, in each case accompanied by an opinion as to such audit report of KPMG LLP or other independent public accountants of recognized standing acceptable to the Required Lenders certified in a manner to which the Agent has not objected, together with a certificate of a Responsible Officer of the Borrower (A) as to compliance with the terms of this Agreement, (B) stating that no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action that the Borrower has taken and proposes to take with respect thereto and (C) setting forth in reasonable detail the calculations necessary to demonstrate compliance with Section 5.03 and reconciling in reasonable detail the effect of excluding (x) Project Finance Subsidiaries and (y) entities excluded because of the last sentence of Section 1.03(a) with respect to FIN 46, on the computation of compliance with the covenants contained in Section 5.03;

(iii) as soon as possible, and in any event within ten days after any Responsible Officer has obtained knowledge of the occurrence of any Default or Event of Default, written notice thereof setting forth details of such Default or Event of Default and the actions that the Borrower has taken and proposes to take with respect thereto;

(iv) during such time as the Parent's senior unsecured long-term debt rating is not at least Baa3 by Moody's and BBB- by S&P, promptly (and in any event within five Business Days) after any change in, or withdrawal or termination of, the rating of any senior unsecured long-term debt of the Parent by Moody's or S&P, notice thereof;

(v) promptly after the sending or filing thereof, copies of all reports that the Borrower sends to any of its holders of common stock other than to the Parent;

(vi) Promptly after a Responsible Officer has obtained knowledge of the commencement thereof, notice of all actions, suits, investigations, litigation and proceedings before any Governmental Authority affecting any Loan Party or any of its Subsidiaries of the type described in Section 4.01(i), and promptly after a Responsible Officer has obtained knowledge of the occurrence thereof, notice of any adverse change in the status of the Disclosed Litigation from that described on Schedule 4.01(i) hereto which could reasonably be expected to have a Material Adverse Effect.

(vii) (A) (I) Promptly and in any event within 10 Business Days after any Loan Party knows or has reason to know that any ERISA Event has occurred which is reasonably likely to result in liability to the Loan Party in excess of $25,000,000, a statement of a Responsible Officer of the Borrower describing such ERISA Event and the action, if any, that such Loan Party or ERISA Affiliate has taken and proposes to take with respect thereto and (II) on the date any records, documents or other information must be furnished to the PBGC with respect to any Plan pursuant to Section 4010 of ERISA, a copy of such records, documents and information.

(B) Promptly and in any event within 10 Business Days after receipt thereof by any Loan Party or any ERISA Affiliate from the sponsor of a Multiemployer Plan, copies of each notice concerning (I) the imposition of Withdrawal Liability by any such Multiemployer Plan, (II) the reorganization or termination, within the meaning of Title IV of ERISA, of any such Multiemployer Plan, if the amount of liability incurred, or that may be incurred, by such Loan Party in connection with any event described in clause (I) or (II) is reasonably likely to be in excess of $25,000,000.

(viii) such other information as any Bank through the Agent may from time to time reasonably request.

Information required to be delivered pursuant to Section 5.01(d)(i) or Section 5.01(d)(ii) shall be deemed to have been delivered on the date on which the Borrower provides notice to the Agent that such information has been posted on the Borrower's website on the Internet at http://www.kbr.com or at another website identified in such notice and accessible by the Banks without charge; provided that the Borrower shall deliver paper copies of the information referred to in such Sections to the Agent for distribution to (x) any Bank to which the above referenced websites are for any reason not available if such Bank has so notified the Borrower and (y) any Bank that has notified the Borrower that it desires paper copies of all such information; provided further that the Agent shall notify the Banks as provided in Section 8.02 of any materials delivered pursuant to this Section 5.01(d) (other than clause (v) hereof). Information required to be delivered pursuant to Section 5.01(d)(v) shall be deemed to have been delivered on the date when posted on a website as provided in the preceding sentence.

(e) Inspections. At any reasonable time and from time to time, in each case upon reasonable notice to the Borrower and subject to any applicable restrictions or limitations on access to any facility or information that is classified or restricted by contract or by law, regulation or governmental guidelines, permit each Bank to visit and inspect the properties of the Borrower or any Material Subsidiary of the Borrower, and to examine and make copies of and abstracts from the records and books of account of the Borrower and its material Subsidiaries and discuss the affairs, finances and accounts of the Borrower and its material Subsidiaries with its and their officers and independent accountants provided, however, that advance notice of any discussion with such independent public accountants shall be given to the Borrower and the Borrower shall have the opportunity to be present at any such discussion.

(f) Keeping of Books. Keep proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each Subsidiary in accordance with GAAP on a consolidated basis.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Material Subsidiaries to maintain and preserve, all of its material properties that are used or useful in the conduct of the business of the Borrower and its Material Subsidiaries, taken as a whole, in good working order and condition, ordinary wear and tear excepted.

(h) Maintenance of Insurance. Maintain, and cause each of its Material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Material Subsidiary operates; provided that the Loan Parties shall be deemed to be in compliance with the requirements of this Section 5.01(h) to the extent the Parent shall maintain such insurance on behalf of such Loan Parties; provided further that the Loan Parties shall be permitted to self-insure in such amounts and covering such risks as is usual and customary among companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Material Subsidiary operates.

(i) Transactions with Affiliates. Conduct, and cause each of its Subsidiaries to conduct, all transactions otherwise permitted under this Agreement with any of their Affiliates on terms that are fair and reasonable and, if a comparable arm's-length transaction is known by the Borrower, no less favorable to the Borrower or such Subsidiary, taken as a whole, than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate; provided, however, that the foregoing restriction shall not apply to:

(i) transactions between or among the Borrower and its subsidiaries;

(ii) transactions or payments pursuant to any employment arrangements or employee, officer or director benefit plans or arrangements entered into by the Borrower or any of its Subsidiaries in the ordinary course of business;

(iii) to the extent permitted by law, customary loans, advances, fees and compensation paid to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Borrower or any of its Subsidiaries;

(iv) transactions pursuant to any contract or agreement in effect on the date hereof, as the same may be amended, modified or replaced from time to time, so long as any such contract or agreement as so amended, modified or replaced is, taken as a whole, no less favorable to the Borrower and its Subsidiaries in any material respect than the contract or agreement as in effect on the date hereof;

(v) any transaction or series of transactions between the Borrower or any Subsidiary and any of their joint ventures, provided that (a) such transaction or series of transactions is in the ordinary course of business and consistent with past practices of the Borrower, and/or its Subsidiaries and their joint ventures and (b) such Affiliate transaction involves aggregate consideration paid to such Affiliate not in excess of $20,000,000;

(vi) the Intercompany Note, the Subordination Agreement, the Indemnity Agreement, the Halliburton Cash Management Note and the KBR Cash Management Note;

(vii) transactions pursuant to which (i) taxes are allocated among the Borrower and its Affiliates in any manner consistent with Section 1552 (or any successor provision) of the Code and Regulation 1.1502-33(d) of the Treasury Regulations, (ii) insurance, information technology, and other general and administrative expenses are allocated among the Borrower and its Affiliates in any manner consistent with Section 482 (or any successor provision) of the Code, and (iii) interest is charged or credited to Affiliates in any reasonable manner not inconsistent with the Code; or

(viii) transactions permitted by Section 5.02(e)(iv), Section 5.02(f)(vii) and Section 5.02(g).

(j) Covenant to Guarantee Obligations. Upon the formation or acquisition of any new direct or indirect Material Domestic Subsidiaries by any Loan Party or upon the request of the Agent thereafter, at the Borrower's expense: (i) within 10 Business Days after such formation or acquisition, cause each such Material Domestic Subsidiary to duly execute and deliver to the Agent a guarantee supplement, in form and substance reasonably satisfactory to the Agent, guaranteeing the other Loan Parties' Obligations under the Loan Documents; (ii) within 60 days after such request, formation or acquisition, deliver to the Agent, upon the request of the Agent in its sole discretion, a signed copy of a favorable opinion, addressed to the Agent and the Banks, of counsel for the Loan Parties reasonably acceptable to the Agent as to (A) such guarantee supplement being the legal, valid and binding obligations of each additional Subsidiary Guarantor party thereto enforceable in accordance with its terms and (B) such other matters as the Agent may reasonably request and (iii) at any time and from time to time, promptly execute and deliver, and cause each Loan Party and each newly acquired or newly formed Material Domestic Subsidiary to execute and deliver, any and all further instruments and documents and take, and cause each Loan Party and each such newly acquired or newly formed Material Domestic Subsidiary to take, all such other action as the Agent may reasonably deem necessary or desirable in obtaining the full benefits of such guarantees. In addition, the Borrower may cause any other Subsidiary to become a Subsidiary Guarantor by delivering a guarantee supplement to the Guarantee and within 60 days thereafter, deliver to the Agent, upon the request of the Agent in its sole discretion, a signed copy of a favorable opinion, addressed to the Agent and the Banks, of counsel for the Loan Parties reasonably acceptable to the Agent as to (A) such guarantee supplement being the legal, valid and binding obligations of each additional Subsidiary Guarantor party thereto enforceable in accordance with its terms and (B) such other matters as the Agent may reasonably request.

Section 5.02 Negative Covenants. So long as any Advance or any other amount payable by the Borrower hereunder or under any other Loan Document shall remain unpaid, any Letter of Credit shall be outstanding or any Bank shall have any Commitment hereunder, the Borrower will not, without the written consent of the Required Banks:

(a) Liens, Etc. Create or suffer to exist, or permit any of its Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its Properties whether now owned or hereafter acquired to secure Indebtedness or reimbursement Obligations in respect of letters of credit, acceptances or bank guarantees, or assign, or permit any of its Subsidiaries to assign, any accounts or other right to receive income, except:

(i) Liens on or with respect to any of the properties of the Borrower and any of its Subsidiaries existing on the date hereof and set forth on Schedule 5.02(a)(i);

(ii) (A) Liens upon or in property acquired (including acquisitions through merger or consolidation) or constructed or improved by the Borrower or any of its Subsidiaries including general tangibles, proceeds and improvements, accessories and upgrades thereto and created contemporaneously with, or within 12 months after, such acquisition or the completion of construction or improvement to secure or provide for the payment of all or a portion of the purchase price of such property or the cost of construction or improvement thereof (including any Indebtedness incurred to finance such acquisition, construction or improvement), as the case may be and (B) Liens on property (including any unimproved portion of partially improved property) of the Borrower or any of its Subsidiaries created within 12 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 (including any Indebtedness incurred to finance such construction) if, in the opinion of the Borrower, such property or such portion thereof was prior to such construction substantially unimproved for the use intended by the Borrower; provided, however, no such Lien shall extend to or cover any property other than the property being acquired, constructed or improved (including any unimproved portion of a partially improved property) including general intangibles, proceeds and improvements, accessories and upgrades thereto;

(iii) Liens arising in connection with capitalized leases, provided that no such Lien shall extend to or cover any assets other than the assets subject to such capitalized leases and proceeds (including, without limitation, proceeds from associated contracts and insurances) of, and improvements, accessories and upgrades to, the property leased pursuant thereto;

(iv) Any Lien existing on any property including general intangibles, proceeds and improvements, accessories and upgrades thereto prior to the acquisition (including acquisition through merger or consolidation) thereof by the Borrower or any of its Subsidiaries or existing on any property of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary, provided that such a Lien is not created in contemplation or in connection with such acquisition or such Person becoming a Subsidiary and no such Lien shall be extended to cover property other than the asset being acquired including general intangibles proceeds and improvements, accessories and upgrades thereto;

(v) Liens to secure any extension, renewal, refunding or replacement (or successive extensions, renewals, refinancing, refundings or replacements), in whole or in part, of any Indebtedness or other Obligation secured by any Lien referred to in clauses (ii), (iii), (iv), (vii), and (ix), provided that (A) the principal amount of the Indebtedness or other Obligation secured thereby is no greater than the outstanding principal amount of such Indebtedness or other Obligation immediately before such extension, renewal, refinancing, refunding or replacement and (B) such Lien shall only extend to such assets as are already subject to a Lien in respect of such Indebtedness or other Obligation;

(vi) Liens on the Equity Interests of Mid-Valley, Inc. in favor of the trusts organized pursuant to Sections 524(g) and 105(a) of the Bankruptcy Code as provided in the Plan of Reorganization of those entities and other Subsidiaries of the Borrower;

(vii) Liens (A) arising in connection with the pledge of any Equity Interests in (and assets of) any Project Finance Subsidiary, so long as such Liens secure only Project Financing and (B) securing Permitted Non-Recourse Indebtedness;

(viii) Liens arising in connection with the pledge of any Equity Interests in any joint venture (that is not a Subsidiary), and liens on the assets of a JV Subsidiary, in each case to secure Joint Venture Debt of such joint venture and/or such JV Subsidiary. "Joint Venture Debt" shall mean Indebtedness and other obligations as to which the lenders will not, pursuant to the terms in the agreements governing such Indebtedness, have any recourse to the stock or assets of the Borrower or any Subsidiary, other than such pledged assets of such JV Subsidiary;

(ix) Liens securing reimbursement obligations in respect of local jurisdiction overdraft facilities, letters of credit, acceptances or bank guarantees and other Indebtedness, provided that at the time of the creation, incurrence or assumption of any reimbursement obligations in respect of local jurisdiction overdraft facilities, letters of credit, acceptances or bank guarantees or other Indebtedness secured by such Liens and after giving effect thereto, the sum of the principal amount of such reimbursement obligations in respect of such local jurisdiction overdraft facilities, letters of credit, acceptances or bank guarantees and other Indebtedness secured by Liens permitted by this clause (ix) shall not exceed $75,000,000.

(b) Indebtedness. Create, incur, assume or suffer to exist, or permit any of its Subsidiaries to create, incur, assume or suffer to exist, any Indebtedness, except:

(i) Indebtedness under the Loan Documents;

(ii) Indebtedness of each Loan Party and its Subsidiaries outstanding on the date hereof specified in Schedule 5.02(b)(ii) ("Existing Debt") and any refinancings, refundings, renewals, replacements or extensions thereof; provided that the aggregate principal amount of all such Indebtedness is not increased at the time of any such refinancing, refunding, renewal, replacement or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing, refunding, renewal, replacement or extension and by an amount equal to any existing commitments unutilized thereunder;

(iii) Indebtedness of any Person that becomes a Subsidiary of any Loan Party or is merged or consolidated into a Subsidiary of any Loan Party after the date hereof in accordance with the terms of Section 5.02(d), which Indebtedness is existing at the time such Person becomes a Subsidiary of such Loan Party or at the time of such merger or consolidation, as the case may be (other than Indebtedness incurred solely in contemplation of such Person becoming a Subsidiary of such Loan Party);

(iv) Indebtedness secured by Liens permitted by Section 5.02(a)(ii) in an aggregate principal amount at any time outstanding not to exceed $75,000,000;

(v) Indebtedness secured by Liens permitted by Section 5.02(a)(iii) and Section 5.02(a)(v);

(vi) Indebtedness incurred by any Project Finance Subsidiary in respect of any Project Financing or any Permitted Non-Recourse Indebtedness;

(vii) Indebtedness among Borrower and its Subsidiaries;

(viii) Indebtedness of the Borrower and its Subsidiaries to Persons other than Borrower or any of its Subsidiaries in an aggregate principal amount not to exceed at any time $250,000,000; provided that not more than $75,000,000 of such Indebtedness may be secured by Liens pursuant to Section 5.02(a)(ix);

(ix) Indebtedness of the Borrower or any Subsidiary of the Borrower owed to the Parent or HESI in respect of the KBR Cash Management Note or the obligation of the Borrower or such Subsidiary to reimburse the Parent or HESI in respect of payments or cash collateralization made by the Parent or HESI under Other L/C Guarantees, Surety Guarantees, Project L/C Guarantees or Barracuda-Caratinga Losses and acceptances and bank guarantees issued on behalf of Borrower or any Subsidiary of the Borrower to the extent that the obligations of the Borrower or such Subsidiary thereunder constitute Other Guaranteed Debt; provided that (i) such Other Guaranteed Debt shall have a final maturity no earlier than 6 months following the Maturity Date and (ii) such Other Guaranteed Debt and KBR Cash Management Note shall be subordinated in right of payment to the Obligations of the Borrower hereunder pursuant to the terms of the Subordination Agreement.

(c) Change in Nature of Business. Make any material change in the nature of the business of the Borrower and its Subsidiaries as carried on at the date hereof, taken as a whole, except as otherwise permitted pursuant to Section 5.02(e)(iii) and Section 5.02(e)(iv).

(d) Mergers, Etc. Merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions, all or substantially all of its assets (whether now owned or hereafter acquired) to, any Person; provided, however, that:

(i) this Section 5.02(d) shall not prohibit any such merger or consolidation if the Borrower is the surviving entity in such merger or consolidation;

(ii) any Subsidiary of the Borrower may convey, transfer, lease or otherwise dispose of assets to, or merge into or consolidate with, the Borrower (provided the Borrower is the surviving entity) or any other Subsidiary of the Borrower; provided, however, no Subsidiary Guarantor shall be permitted to transfer, lease or otherwise dispose of, all or substantially all of its assets to a foreign Subsidiary of the Borrower;

(iii) as part of any acquisition permitted under Section 5.02(f), any Subsidiary of the Borrower may merge into or consolidate with, or convey, transfer, lease or otherwise dispose of assets to, any other Person or permit any other Person to merge into or consolidate with, or convey, transfer, lease or otherwise dispose of assets to it; provided that the Person surviving such merger shall be a Subsidiary of the Borrower; and provided further that, in the case of any merger or consolidation to which a Subsidiary Guarantor is a party, the Person formed by such merger or consolidation shall be a Subsidiary Guarantor;

(iv) as part of any acquisition permitted under Section 5.02(f), any Affiliate of the Borrower other than a Subsidiary may merge into or consolidate with, or convey, transfer, lease or otherwise dispose of assets to, any other Person or permit any other Person to merge into or consolidate with, or convey, transfer, lease or otherwise dispose of assets to it;

(v) as part of any sale or other disposition permitted under Section 5.02(e), any Subsidiary of the Borrower may merge into or consolidate with any other Person or permit any other Person to merge into or consolidate with it;

provided further that in each case, immediately before and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing.

(e) Sales, Etc., of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets, or grant any option or other right to purchase, lease or otherwise acquire, or permit any of its Subsidiaries to grant any option or other right to purchase, lease or otherwise acquire (unless such option or other right is subject to and conditioned upon the approval of the Required Lenders or the termination of this Agreement), any assets, except:

(i) sales of inventory in the ordinary course of its business and the granting of any option or other right to purchase, lease or otherwise acquire inventory in the ordinary course of its business;

(ii) in a transaction authorized by Section 5.02(d);

(iii) the sale, transfer or other disposition of all or substantially all of the G&I Business Unit; provided that (A) the cash portion, if any, of the purchase price for such G&I Business Unit paid to the Borrower and its Subsidiaries shall be either the sole consideration paid or shall be in an amount at least equal to the amount required to satisfy all Obligations referred to in (E) below, (B) prior to, and after giving effect to such sale, transfer or other disposition, the Borrower shall be in pro forma compliance with the covenants contained in Section 5.03, (C) no Default or Event of Default shall have occurred and be continuing, (D) the Borrower shall pay the aggregate principal amount of all Advances outstanding at such time in excess of the Borrowing Sublimit pursuant to Section 2.05(b) and (E) to the extent of such outstanding Obligations, the net cash proceeds thereof (net of, without limitation, amounts contributed or to be contributed within one year to any pension plan in the United Kingdom and other amounts the repatriation of which will require the imposition of tax or require the approval or consent of a third party) are used by the Borrower to prepay, redeem, purchase, defease or otherwise satisfy the Obligations of the Borrower in respect of the Intercompany Note;

(iv) the sale, transfer or other disposition of all or any part of the offshore maintenance operations of the Borrower or any of its Subsidiaries;

(v) sales, transfers or other dispositions of assets among the Borrower and its Subsidiaries; provided, however, no Subsidiary Guarantor shall be permitted to transfer, lease or otherwise dispose of, all or substantially all of its assets to a foreign Subsidiary of the Borrower;

(vi) goods, equipment or other property that are, in the reasonable opinion of the Borrower or such Subsidiary, obsolete or unproductive or utilized as trade-in for goods, equipment or other property of at least comparable value;

(vii) in order to resolve disputes that occur in the ordinary course of business, Borrower and its Subsidiaries may discount or otherwise compromise for less than the face value thereof, notes or accounts receivable;

(viii) Borrower and its Subsidiaries may sell or dispose of Equity Interests of any of its Subsidiaries in order to qualify members of the Governing Body of any such Subsidiary if required by applicable law;

(ix) licenses or sublicenses by Borrower and its Subsidiaries of software, trademarks, patents and other intellectual property and leases of real property interests in the ordinary course of business and which do not materially interfere with the business of Borrower or any of its Subsidiaries;

(x) transfers of condemned property to the respective Governmental Authority that has condemned the same (whether by deed in lieu of condemnation or otherwise), and transfers of properties that have been subject to a casualty to the respective insurer of such property or its designee as part of an insurance settlement;

(xi) Borrower and its Subsidiaries may sell or otherwise dispose of Cash Equivalents permitted to be made or owned pursuant to Section 5.02(f)(iv);

(xii) sales, transfers or other dispositions by the Borrower or any of its Subsidiaries of Equity Interests (and assets of) in Project Finance Subsidiaries and joint venture interests held by the Borrower or any of its Subsidiaries;

(xiii) sales, transfers or other dispositions by the Borrower or any of its Subsidiaries of assets in an aggregate principal amount not to exceed $100,000,000 during any fiscal year of the Borrower (plus any sales, transfers or other dispositions the net cash proceeds of which are reinvested in equipment or other productive assets within one year of such sale, transfer or other disposition); and

(xiv) the sale by the Borrower and its Subsidiaries of (A) the Nigg, Scotland fabrication yard and (B) the Greens Bayou fabrication yard.

(f) Investments in Other Persons. Make or hold, or permit any of its Subsidiaries to make or hold, any Investment in any Person, except:

(i) Investments existing on the date hereof;

(ii) Investments by the Borrower and its Subsidiaries in their Subsidiaries (including, if as a result of such Investment (i) a Person becomes a Subsidiary of the Borrower or (ii) a Person is merged, consolidated or amalgamated with or into, or conveys substantially all of its assets to, or is liquidated into, the Borrower or a Subsidiary); provided that any advances and guarantees by the Borrower and its Subsidiaries in favor of their respective Subsidiaries (other than Subsidiary Guarantors) shall be in the ordinary course of business consistent with past practices;

(iii) advances under the Halliburton Cash Management Note provided that (A) such transfers are consistent with past practices, (B) Parent's senior unsecured long term debt is rated at least BBB- by S&P and Baa3 by Moody's at the time of each such transfer, and (C) no Default or Event of Default shall have occurred and be continuing;

(iv) any Investment in Cash Equivalents;

(v) any acquisition of assets solely in exchange for, or with the net cash proceeds of, an issuance of Equity Interests of the Borrower;

(vi) any Investment made with the proceeds of a capital contribution from the Parent or its Subsidiaries (other than the Borrower and its Subsidiaries);

(vii) Investments by the Borrower and its Subsidiaries in all or any part of the Equity Interests in MMM held by the Parent and its Subsidiaries.

(viii) other Investments in (A) Allenby-Connaught not to exceed an aggregate amount of $105,000,000, (B) Egypt Basic Industries Company (EBIC) not to exceed an aggregate amount of $22,500,000, and (C) in other joint ventures and other minority interests in an aggregate amount not to exceed $75,000,000 plus the net cash proceeds of sales permitted by Section 5.02(e)(xii) and of sales of Investments made pursuant to this Section 5.02(f)(viii) and sales of other minority interests and dividends and distributions received from Project Finance Subsidiaries and other minority interests and from Investments made pursuant to this Section 5.02(f)(viii), in each case, at the time such Investment is made;

(ix) Investments in any joint venture made during any fiscal year of the Borrower or within 45 days after the end of such fiscal year in amounts that, together with all other Investments made in such joint venture in respect of such fiscal year in reliance on this Section 5.02(f)(ix) during such fiscal year or within 45 days after the end of such fiscal year, do not exceed the amount of dividends or distributions previously paid in respect of such fiscal year to the Borrower or any Subsidiary by such joint venture;

(x) Borrower and its Subsidiaries may make Investments with the net cash proceeds from sales of Equity Interests in the Borrower; and

(xi) Investments of amounts referred to in Section 5.02(g)(viii) to the extent such funds are available for distribution on account of the equity interests of the Borrower.

(g) Restricted Payments. Declare or pay any dividends, purchase, redeem, retire, defease or otherwise acquire for value any of its Equity Interests now or hereafter outstanding, return any capital to its stockholders, partners or members (or the equivalent Persons thereof) as such, make any distribution of assets, Equity Interests, Obligations or securities to its stockholders, partners or members (or the equivalent Persons thereof) as such or issue or sell any Equity Interests, or permit any of its Subsidiaries to do any of the foregoing, or permit any of its Subsidiaries to purchase, redeem, retire, defease or otherwise acquire for value any Equity Interests in the Borrower, except that, so long as no Default or Event of Default shall have occurred and be continuing at the time of any action described below or would result therefrom:

(i) Borrower and any Subsidiary may make dividends and distributions payable in Equity Interests;

(ii) any Subsidiary may make dividends and distributions payable to the Borrower or any Subsidiary;

(iii) any Subsidiary may make dividends and distributions payable to the holders of a class of Equity Interests of such Subsidiary on a pro rata basis or a basis that is more favorable to the Borrower;

(iv) any Subsidiary may issue Equity Interests to the Borrower or any other Subsidiary;

(v) Borrower may issue Equity Interests to the extent not constituting an Event of Default under Section 6.01(i);

(vi) Equity Interests of any Subsidiary may be issued or sold to the extent permitted by Section 5.02(d) or 5.02(e);

(vii) Borrower or any Subsidiary may take such action to the extent constituting an Investment permitted by Section 5.02(f);

(viii) From and after payment, prepayment, redemption, purchase, defeasance or other satisfaction of the Obligations of the Borrower in respect of the Intercompany Note in full as provided in Section 5.02(j), the Borrower may distribute or return any capital in an amount equal to (A) proceeds from the disposition of the G&I Business Unit, to the extent remaining after application to the Intercompany Note pursuant to Section 5.02(e)(iii), (B) proceeds from the disposition of the offshore maintenance operations and (C) the Government Working Capital Reduction to the extent remaining after application to the Intercompany Note pursuant to Section 5.02(j); provided in the case of each of clause (A), (B) and (C) above that no amount of any Advance shall be outstanding at the time of such payment; and

(ix) Borrower may make dividends and distributions payable with the net cash proceeds from sales of Equity Interests in the Borrower.

(h) Amendments of Constitutive Documents. Amend, or permit any of its Subsidiaries to amend, its certificate of incorporation or bylaws or other constitutive documents other than amendments that could not be reasonably expected to have a Material Adverse Effect.

(i) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in (i) accounting policies or reporting practices, except as required or permitted by GAAP, or (ii) fiscal year.

(j) Prepayments of Intercompany Note. Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment in violation of any subordination terms of, the Intercompany Note, except (i) any payment of scheduled interest on such Intercompany Note, (ii) any such prepayment, redemption, purchase, defeasance or other satisfaction of the Obligations of the Borrower in respect of the Intercompany Note with the net cash proceeds of any sales made pursuant to Section 5.02(e)(iii) or Section 5.02(e)(iv), or from Government Working Capital Reduction and (iii) any payment, redemption, purchase, defeasance or other satisfaction of the Obligations of the Borrower in respect of the Intercompany Note with the net cash proceeds from the sale of Equity Interests of the Borrower or a holding company of the Borrower; provided that prior, and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing and the Borrower shall be in pro forma compliance with the covenants contained in Section 5.03.

(k) Payments of Other Guaranteed Debt, Barracuda-Caratinga Guaranteed Debt, KBR Cash Management Note, Etc. (i) Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment in violation of any subordination terms of, the Other Guaranteed Debt, except any payment of scheduled interest on such Other Guaranteed Debt; provided that prior, and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing and the Borrower shall be in pro forma compliance with the covenants contained in Section 5.03, and (ii) pay, prepay, redeem, purchase, defease or otherwise satisfy in any manner, or make any payment in violation of any terms of the Subordination Agreement in respect of, the Barracuda-Caratinga Guaranteed Debt; provided that after the payment, prepayment, redemption, purchase, defeasance or other satisfaction of the Obligations of the Borrower in respect of the Intercompany Note in full as provided in Section 5.02(j), the Borrower or any of its Subsidiaries may use any proceeds remaining from the disposition of the G&I Business Unit, the offshore maintenance operations or the Government Working Capital Reduction, as the case may be, to pay, prepay, redeem, purchase, defease or otherwise in any manner any Other Guaranteed Debt or Barracuda-Caratinga Guaranteed Debt to the extent of such proceeds; provided, further, that the Borrower may pay, prepay, redeem, purchase, defease or otherwise satisfy the Other Guaranteed Debt, the Barracuda-Caratinga Debt and the Indebtedness arising under the KBR Cash Management Note with the net cash proceeds from the sale of Equity Interests of the Borrower or a holding company of the Borrower.

(l) Amendments to Intercompany Note. Amend, modify or change in any manner any term or condition of the Intercompany Note, agree in any manner to any other amendment, modification or change of any term or condition of the Intercompany Note or take any other action in connection with the Intercompany Note that would impair the interest or rights of the Agent or any Bank, or permit any of its Subsidiaries to do any of the foregoing.

(m) Use of Proceeds. Use the proceeds of any Advance or any Letter of Credit for any purpose other than for working capital and general corporate purposes of the Borrower and its Subsidiaries or use any such proceeds (i) in a manner which violates or results in a violation of any law or regulation, (ii) to purchase or carry any margin stock (as defined in Regulation U), (iii) to extend credit to others for the purpose of purchasing or carrying any margin stock (as defined in Regulation U), (iv) to prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment in violation of any subordination terms of, the Intercompany Note, other than as permitted pursuant to Section 5.02(e)(iii), (v) to pay any dividends, return any capital, or make any distribution of assets, Equity Interests, Obligations or securities to the Parent, except as expressly provided in the Loan Documents, (vi) to acquire any equity security of a class which is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, if such acquisition would give the Borrower a controlling interest in the Person that has issued such security, unless the Governing Body of such Person or of the parent of such Person shall have approved such acquisition or (vii) to pay, prepay, redeem, purchase, defease or otherwise satisfy any other Indebtedness (excluding any Indebtedness arising in respect of Letters of Credit issued hereunder to guarantee any other letter of credit, bank guarantee or similar instrument but including, without limitation, the KBR Cash Management Note).

Section 5.03 Financial Covenants. So long as any Advance or any other amount payable by the Borrower hereunder or under any other Loan Document shall remain unpaid, any Letter of Credit shall be outstanding or any Bank shall have any Commitment hereunder, the Borrower will:

(a) Consolidated Debt to Total Consolidated Capitalization Ratio. Maintain at all times a maximum Consolidated Debt to Total Consolidated Capitalization Ratio of (i) from the date hereof until June 30, 2007, 0.55 to 1.00 and (ii) thereafter, 0.50 to 1.00.

(b) Leverage Ratio. Maintain, as of the end of each quarter for the four quarters then ended, a Leverage Ratio of not more than 3.50 to 1.00.

(c) Fixed Charge Coverage Ratio. Maintain, as of the end of each quarter for the four quarters then ended, a Fixed Charge Coverage Ratio of not less than 3.00 to 1.00.

Section 5.04 Pre-IPO Repositioning Exclusion. Notwithstanding any other provisions of this Agreement, the Parent and its Subsidiaries may complete the Pre-IPO Repositioning.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.01 Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) (i) The Borrower shall fail to pay any principal of any Advance when the same becomes due and payable, whether at the due date thereof or by acceleration thereof or otherwise or (ii) the Borrower shall fail to pay any interest on any Advance or any fees hereunder or other amount payable hereunder, or any Relevant Party shall fail to make any other payment under any Loan Document, in each case under this clause (ii), within five Business Days of when the same becomes due and payable, whether at the due date thereof or by acceleration thereof or otherwise; or

(b) Any representation, warranty or certification made by any Relevant Party (or any of its Responsible Officers) herein pursuant to or in connection with any Loan Document or in any certificate or document furnished to any Bank pursuant to or in connection with any Loan Document, or any representation or warranty deemed to have been made by any Relevant Party pursuant to Section 3.02, shall prove to have been incorrect or misleading in any material respect when made or so deemed to have been made; or

(c) (i) The Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(b), (e), (i) or (j), 5.02 or 5.03 of this Agreement; or (ii) any Loan Party shall fail to perform or observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed (other than any term, covenant or agreement covered by Section 6.01(a)) and, in each case under this clause (ii), such failure shall remain unremedied for 30 days after notice thereof shall have been given to such Loan Party by the Agent or by any Bank; or

(d) Any Loan Party or any of its Material Subsidiaries shall fail to pay any principal of, premium or interest on or any other amount payable in respect of any Indebtedness (other than Project Financing or Permitted Non-Recourse Debt) of such Loan Party or such Material Subsidiary (as the case may be) that is outstanding in a principal amount of at least $100,000,000 either individually or in the aggregate for all such Loan Parties and Material Subsidiaries (but excluding Indebtedness outstanding hereunder), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness or otherwise to cause, or to permit the holder thereof to cause, such Indebtedness to mature; or any such Indebtedness shall become due prior to its stated maturity (other than by a regularly-scheduled required payment and mandatory prepayments from proceeds of asset sales, debt incurrence, excess cash flow, equity issuances and insurance proceeds); provided that for the avoidance of doubt the parties acknowledge and agree that any payment required to be made under a guarantee described in the definition herein of Indebtedness shall be due and payable at the time such payment is due and payable under the terms of such guarantee (taking into account any applicable grace period) and such payment shall not be deemed to have been accelerated or have become due as a result of the obligation guaranteed having become due; or

(e) Any Relevant Party or any Material Subsidiary of any Relevant Party shall be adjudicated a bankrupt or insolvent by a court of competent jurisdiction, or generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Relevant Party or any such Material Subsidiary seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its Property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 90 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its Property) shall occur; or such Relevant Party or any such Material Subsidiary shall take any corporate or organizational action to authorize any of the actions set forth above in this subsection (e) (provided that for purposes of this clause (e), “Relevant Party” shall only include the Parent and HESI to the extent each is party to a Loan Document); or

(f) Any final, non-appealable judgment or order by a court of competent jurisdiction for the payment of money in excess of $100,000,000 over and above the amount of insurance coverage available from a financially sound insurer that has acknowledged coverage shall be rendered against any Loan Party or any Material Subsidiary of any Loan Party and not discharged within 30 days after such order or judgment becomes final; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against a substantial part of the property of any Loan Party or any Material Subsidiary of any Loan Party and such judgment, writ, warrant of attachment or execution or similar process shall not be released, stayed, vacated or fully bonded within 30 days after its issue or levy; or

(g) Any non monetary judgment or order by a court or Governmental Authority of competent jurisdiction shall be rendered against any Loan Party or any Subsidiary of any Loan Party that could reasonably likely to have a Material Adverse Effect, and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(h) Any provision of any Loan Document after delivery thereof pursuant to Section 3.01 or 5.01(j) shall for any reason cease to be valid and binding on or enforceable against any Relevant Party party to it, or any such Relevant Party shall so state in writing; or

(i) The Parent shall at any time for any reason cease to be the direct or indirect record and beneficial owner of no less than fifty-one percent (51%) of the Equity Interests in the Borrower; or

(j) Any Loan Party shall incur, or, in the reasonable opinion of the Required Banks, shall be reasonably likely to incur liability in excess of $100,000,000 in the aggregate as a result of one or more of the following: (i) the occurrence of any ERISA Event; (ii) the partial or complete withdrawal of any Loan Party or any of its ERISA Affiliates from a Multiemployer Plan; or (iii) the reorganization or termination of a Multiemployer Plan; or

then, and in any such event, the Agent (i) shall at the request, or may with the consent, of the Required Banks, by notice to the Borrower, declare the obligation of each Bank to make Advances (other than Letter of Credit Advances by an Issuing Bank or a Bank pursuant to Section 2.03(c)) and of each Issuing Bank to issue Letters of Credit to be terminated, whereupon the same (and all of the Commitments) shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Banks, by notice to the Borrower, declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such other amounts shall become and be forthwith due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration or any other notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the event of any actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code, (A) the Commitment of each Bank and the obligation of each Bank to make Advances (other than Letter of Credit Advances by an Issuing Bank or a Bank pursuant to Section 2.03(c)) and of each Issuing Bank to issue Letters of Credit shall automatically be terminated, and (B) the Advances, all interest thereon and all other amounts payable under this Agreement shall automatically and immediately become and be due and payable, without presentment, demand, protest, notice of intent to accelerate, notice of acceleration, or any other notice of any kind, all of which are hereby expressly waived by the Borrower.

Section 6.02 Actions in Respect of the Letters of Credit upon Default. If any Event of Default shall have occurred and be continuing, the Agent may, or shall at the request of the Required Banks, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, make demand upon the Borrower to, and forthwith upon such demand the Borrower will, pay to the Agent on behalf of the Banks in same day funds at the Agent's office designated in such demand, for deposit in the L/C Cash Collateral Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding. If at any time the Agent determines that any funds held in the L/C Cash Collateral Account are subject to any right or claim of any Person other than the Agent and the Banks or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrower will, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the L/C Cash Collateral Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Collateral Account that the Agent determines to be free and clear of any such right and claim. Upon the drawing of any Letter of Credit for which funds are on deposit in the L/C Cash Collateral Account, such funds shall be applied to reimburse the relevant Issuing Bank or the Banks, as applicable, to the extent permitted by applicable law.

ARTICLE VII
THE AGENT

Section 7.01 Authorization and Action. Each Bank hereby appoints and authorizes the Agent to take such action as Agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms hereof or of any other Loan Document, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Banks and such instructions shall be binding upon all Banks and all holders of Notes; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to any Loan Document or applicable law. The Agent agrees to give to each Bank prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

Section 7.02 Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with any Loan Document, except for their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (i) may consult with legal counsel (including, without limitation, counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (ii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations (whether written or oral) made in or in connection with any of the Loan Documents or any other instrument or document; (iii) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any of Loan Documents or any other instrument or document on the part of the Borrower, any Subsidiary Guarantor or any Subsidiary of the Loan Parties or to inspect the Property (including the books and records) of the Borrower, any Subsidiary Guarantor or any Subsidiary of the Loan Parties; (iv) shall not be responsible to any Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any of the Loan Documents or any other instrument or document; and (v) shall incur no liability under or in respect of any of Loan Documents or any other instrument or document by acting upon any notice (including telephonic notice), consent, certificate or other instrument or writing (which may be by facsimile, telegram or telex) believed by it to be genuine and signed, given or sent by the proper party or parties.

Section 7.03 The Agent and its Affiliates. With respect to its Commitment, the Advances owed to it and the Notes issued to it, each Bank which is also the Agent shall have the same rights and powers under this Agreement as any other Bank and may exercise the same as though it were not the Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include any Bank serving as the Agent in its individual capacity. Any Bank serving as the Agent and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any Subsidiary Guarantor, any Affiliate of the Loan Parties and any Person who may do business with or own securities of the Borrower, any Subsidiary Guarantor or any Affiliate of the Borrower, all as if such Bank were not the Agent and without any duty to account therefore to the Banks.

Section 7.04 Bank Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank and based on the financial statements delivered pursuant to Section 5.01(d) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents or any other instrument or document.

Section 7.05 Indemnification. The Banks agree to indemnify the Agent (to the extent not promptly reimbursed by the Borrower), ratably according to either (a) the respective amounts of the Banks' Revolving Credit Commitments, or (b) if no Revolving Credit Commitments are at the time outstanding, the respective amounts of the Revolving Credit Commitments immediately prior to the time the Revolving Credit Commitments ceased to be outstanding), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent in any way relating to or arising out of any of the Loan Documents or any other instrument or document furnished pursuant hereto or in connection herewith, or any action taken or omitted by the Agent under any of the Loan Documents or any other instrument or document furnished pursuant hereto or in connection herewith ("Indemnified Costs"); provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct as found in a final, non-appealable judgment by a court of competent jurisdiction. Without limitation of the foregoing, each Bank agrees to reimburse the Agent promptly upon demand for such Bank's ratable share of any costs and expenses (including, without limitation, counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, any of the Loan Documents or any other instrument or document furnished pursuant hereto or in connection herewith to the extent that the Agent is not reimbursed for such expenses by the Borrower. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 7.05 applies whether any such investigation, litigation or proceeding is brought by the Agent, any other Agent, any Bank or a third party.

Section 7.06 Successor Agent. The Agent may resign at any time by giving written notice thereof to the Banks and the Borrower and may be removed at any time with or without cause by the Required Banks. Upon any such resignation or removal, the Required Banks shall have the right to appoint a successor Agent which, if such successor Agent is not a Bank, is approved by the Borrower (which approval will not be unreasonably withheld). If no successor Agent shall have been so appointed by the Required Banks (and, if not a Bank, approved by the Borrower), and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Documents. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

Section 7.07 Co-Lead Arrangers, Co-Administrative Agents, Syndication Agent, Co-Documentation Agents. The Co-Lead Arrangers, Co-Administrative Agents, Syndication Agent and Co-Documentation Agents shall have no duties, obligations or liabilities hereunder or in connection herewith.

ARTICLE VIII
MISCELLANEOUS

Section 8.01 Amendments, Etc. No amendment or waiver of any provision of any Loan Document, nor consent to any departure by the Relevant Party therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall: (a) waive any of the conditions specified in Section 3.01 of this Agreement without the written consent of each Bank, (b) increase the Commitment of any Bank or subject any Bank to any additional obligations without the written consent of such Bank, (c) reduce the principal of, or interest on, the Advances or any fees or other amounts payable hereunder, without the written consent of each Bank affected thereby, (d) postpone any date fixed for any payment of principal of, or interest on, the Advances or any fees or other amounts payable hereunder without the written consent of each Bank affected thereby, (e) amend the definition of "Required Banks" without the written consent of each Bank; (f) amend Section 2.14 of this Agreement or this Section 8.01 of this Agreement without the written consent of each Bank, or (g) except as provided in the next sentence, release any Subsidiary Guarantor from its guarantee under the Guarantee without the written consent of each Bank; and provided, further, that (x) no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Banks required above to take such action, affect the rights or duties of the Agent under this Agreement or any of the Notes and (y) no amendment, waiver or consent shall, unless in writing and signed by each Issuing Bank in addition to the Banks required above to take such action, affect the rights or obligations of the Issuing Banks under this Agreement.

Notwithstanding the foregoing, any guarantee of a Subsidiary Guarantor under the Guarantee shall be terminated from time to time as necessary to effect the sale, merger or consolidation of any Subsidiary Guarantor permitted by this Agreement and the Agent shall execute and deliver all release and termination documents reasonably requested in connection therewith.

Section 8.02 Notices, Etc. (a) All notices and other communications provided for hereunder shall be either (x) in writing (including facsimile communication) and mailed, telecopied, or delivered or (y) as and to the extent set forth in Section 8.02(b) and in the proviso to this Section 8.02(a), (i) if to the Borrower, at its address at 4100 Clinton Drive, Post Office Box 3, Houston, TX 77001-0003 Attention: Vice President and Treasurer, Facsimile: (713) 753-2517; (ii) if to any Bank listed on the signature pages hereof, at its Domestic Lending Office specified opposite its name on Schedule II hereto; (iii) if to any other Banks, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it becomes a Bank; (iv) if to the Agent, at the addresses set forth below:

Two Penns Way, Suite 200
New Castle, Delaware 19720
Facsimile No.: (302) 894-6120
Attention: Bank Loan Syndications Department

with a copy to:

333 Clay, Suite 3700
Houston, Texas 77002
Facsimile No.: (713) 654-2849
Attention: Amy Pincu, Director

(but references herein to the address of the Agent for purposes of payments or making available funds or for purposes of Section 8.08(c) shall not include the address to which copies are to be sent); or, as to the Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent, provided that materials required to be delivered pursuant to Section 5.01(d)(i), (ii) or (iii), unless delivered by posting to a website as provided in Section 5.01(d), shall be delivered to the Agent as specified in Section 8.02(b) or as otherwise specified to the Borrower by the Agent. Each such notice or communication shall be effective (i) if mailed, upon receipt, (ii) if delivered by hand, upon delivery with written receipt, and (iii) if telecopied, when receipt is confirmed by telephone, except that any notice or communication to the Agent pursuant to this Agreement shall not be effective until actually received by the Agent.

(b) The Borrower hereby agrees that it will provide to the Agent all information, documents and other materials that it is obligated to furnish to the Agent pursuant to the Loan Documents, including, without limitation, all notices, requests, financial statements, financial and other reports, certificates and other information materials, but excluding any such communication that (i) relates to a request for a new, or a conversion of an existing, borrowing or other extension of credit (including any election of an interest rate or interest period relating thereto), (ii) relates to the payment of any principal or other amount due under the Credit Agreement prior to the scheduled date therefore, (iii) provides notice of any default or event of default under the Credit Agreement, (iv) is required to be delivered to satisfy any condition precedent to the effectiveness of the Credit Agreement and/or any borrowing or other extension of credit thereunder or (v) is delivered by posting to a website as provided in Section 5.01(d) (all such non-excluded communications being referred to herein collectively as "Communications"), by transmitting the Communications in an electronic/soft medium in a format acceptable to the Agent to oploanswebadmin@citigroup.com. In addition, the Borrower agrees to continue to provide the Communications to the Agent in the manner specified in the Loan Documents but only to the extent requested by the Agent. The Borrower further agrees that the Agent may make the Communications available to the Banks by posting the Communications on Intralinks or a substantially similar electronic transmission system (the "Platform"). THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE". THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE COMMUNICATIONS, OR THE ADEQUACY OF THE PLATFORM AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS OR OMISSIONS IN THE COMMUNICATIONS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY THE AGENT PARTIES IN CONNECTION WITH THE COMMUNICATIONS OR THE PLATFORM. IN NO EVENT SHALL THE AGENT OR ANY OF ITS AFFILIATES OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ADVISORS OR REPRESENTATIVES (COLLECTIVELY, "AGENT PARTIES") HAVE ANY LIABILITY TO THE BORROWER, ANY LENDER OR ANY OTHER PERSON OR ENTITY FOR DAMAGES OF ANY KIND, INCLUDING, WITHOUT LIMITATION, DIRECT OR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, LOSSES OR EXPENSES (WHETHER IN TORT, CONTRACT OR OTHERWISE) ARISING OUT OF THE BORROWER'S OR THE AGENT'S TRANSMISSION OF COMMUNICATIONS THROUGH THE INTERNET, EXCEPT TO THE EXTENT THE LIABILITY OF ANY AGENT PARTY IS FOUND IN A FINAL NON-APPEALABLE JUDGMENT BY A COURT OF COMPETENT JURISDICTION TO HAVE RESULTED PRIMARILY FROM SUCH AGENT PARTY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. The Agent agrees that the receipt of the Communications by the Agent at its e-mail address set forth above shall constitute effective delivery of the Communications to the Agent for purposes of the Loan Documents.

(c) Each Bank agrees that notice to it (as provided in the next sentence) (a "Notice") specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Bank for purposes of this Agreement; provided that if requested by any Bank the Agent shall deliver a copy of the Communications to such Bank by email or facsimile. Each Bank agrees (i) to notify the Agent in writing of such Bank's e-mail address to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Bank becomes a party to this Agreement (and from time to time thereafter to ensure that the Agent has on record an effective e-mail address for such Bank) and (ii) that any Notice may be sent to such e-mail address.

(d) Nothing herein shall prejudice the right of the Agent or any Lender to give any notice or other communication pursuant to any Loan Document in any other manner specified in such Loan Document.

Section 8.03 No Waiver; Remedies. No failure on the part of any Bank or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 8.04 Expenses and Taxes; Compensation. (a) The Borrower agrees to pay on demand (i) all reasonable out-of-pocket costs and expenses (including, without limitation, reasonable fees and expenses of counsel) of the Co-Lead Arrangers and the Agent and each of their respective affiliates in connection with the preparation, execution, delivery and administration of the Loan Documents and the other documents and instruments delivered hereunder or in connection with any amendments, modifications, consents or waivers in connection with the Loan Documents, (ii) all reasonable fees and expenses of counsel for the Co-Lead Arrangers and the Agent, during the existence of any Event of Default, any Bank with respect to advising the Agent or, during the existence of any Event of Default, any Bank as to its rights and responsibilities under the Loan Documents and (iii) all reasonable out-of-pocket costs and expenses (including, without limitation, reasonable fees and expenses of counsel) of the Co-Lead Arrangers, the Agent and each Bank in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of the Loan Documents (including the enforcement of rights under this Section 8.04(a)) and the other documents and instruments delivered hereunder and rights and remedies hereunder and thereunder.

(b) If any payment or purchase of principal of, or Conversion of, any Eurodollar Rate Advance is made other than on the last day of the Interest Period for such Advance, as a result of a payment, purchase or Conversion pursuant to Section 2.09, Section 2.10, Section 2.15, Section 2.16 or Section 2.17, acceleration of the maturity of the Advances pursuant to Section 6.01 or for any other reason, the Borrower shall, within 15 days after demand by any Bank (with a copy of such demand to the Agent), pay to the Agent for the account of such Bank any amounts required to compensate such Bank for any additional losses, costs or expenses which it may reasonably incur as a result of such payment, purchase or Conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense reasonably incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Bank to fund or maintain such Advance. A certificate as to the amount of such additional losses, costs or expenses, submitted to the Borrower and the Agent by such Bank, shall be conclusive and binding for all purposes, absent manifest error.

(c) The Borrower agrees to indemnify and hold harmless the Agent, the Banks, the Co-Lead Arrangers and their respective directors, officers, employees, affiliates, advisors, attorneys and agents (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, fees and expenses of counsel) for which any of them may become liable or which may be incurred by or asserted against any of the Indemnified Parties in connection with or arising out of (i) any Loan Document or any other document or instrument delivered in connection herewith or the actual or proposed use of the proceeds of any Advance or Letter of Credit or any of the transactions contemplated hereby or thereby, (ii) the existence of any condition on any property of the Borrower, any Subsidiary Guarantor or any of their Subsidiaries that constitutes a violation of any environmental protection law or any other law, rule, regulation or order, or (iii) any investigation, litigation, or proceeding, whether or not any of the Indemnified Parties is a party thereto, related to or in connection with any of the foregoing or any Loan Document, including, without limitation, any transaction in which any proceeds of any Advance or Letter of Credit are applied, including, without limitation, in each of the foregoing cases, any such claim, damage, loss, liability or expense resulting from the negligence of any Indemnified Party, but excluding any such claim, damage, loss, liability or expense sought to be recovered by any Indemnified Party to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnified Party.

(d) Except as set forth in the next succeeding sentence, each of the Banks and the Agent and each of their respective directors, officers, employees, affiliates, advisors and agents shall not be liable to the Borrower for, and the Borrower agrees not to assert any claim for, amounts constituting special, indirect, consequential, punitive, treble or exemplary damages arising out of or in connection with any breach by such Bank or the Agent of any of its obligations hereunder. If the Borrower becomes liable to a third party for amounts constituting punitive, treble or exemplary damages as a result of a breach of an obligation hereunder by a Bank or the Agent, as the case may be, the Borrower shall be entitled to claim and recover (and does not waive its rights to claim and recover) such amounts from such Bank or the Agent, as the case may be, to the extent such Bank or the Agent, as the case may be, would be liable to the Borrower for such amounts but for the limitation set forth in the preceding sentence.

(e) Without prejudice to the survival of any other agreement of the Borrower hereunder, all obligations of the Borrower under Section 2.12, Section 2.13 and this Section 8.04 shall survive the termination of the Commitments and this Agreement and the payment in full of all amounts hereunder and under the Notes.

Section 8.05 Right of Set-Off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making by the Required Banks of the request or the granting by the Required Banks of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (or by any branch, agency, subsidiary or other Affiliate of such Bank, wherever located) to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any Note held by such Bank, whether or not such Bank shall have made any demand under this Agreement or any such Note and although such obligations may be unmatured. Each Bank agrees promptly to notify the Borrower after any such set-off and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Bank may have.

Section 8.06 Limitation and Adjustment of Interest. (a) Notwithstanding anything to the contrary set forth herein, in any other Loan Document or in any other document or instrument, no provision of any of the Loan Documents or any other instrument or document furnished pursuant hereto or in connection herewith is intended or shall be construed to require the payment or permit the collection of interest in excess of the maximum non-usurious rate permitted by applicable law. Accordingly, if the transactions with any Bank contemplated hereby would be usurious under applicable law, if any, then, in that event, notwithstanding anything to the contrary in any Note payable to such Bank, this Agreement or any other document or instrument, it is agreed as follows: (i) the aggregate of all consideration which constitutes interest under applicable law that is contracted for, taken, reserved, charged or received by such Bank under any Note payable to such Bank, this Agreement or any other document or instrument shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be canceled automatically and, if theretofore paid, shall, at the option of such Bank, be credited by such Bank on the principal amount of the indebtedness owed to such Bank by the Borrower or refunded by such Bank to the Borrower, and (ii) in the event that the maturity of any Note payable to such Bank is accelerated or in the event of any required or permitted prepayment, then such consideration that constitutes interest under law applicable to such Bank may never include more than the maximum amount allowed by such applicable law and excess interest, if any, to such Bank provided for in this Agreement or otherwise shall be canceled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall, at the option of such Bank, be credited by such Bank on the principal amount of the indebtedness owed to such Bank by the Borrower or refunded by such Bank to the Borrower. In determining whether or not the interest contracted for, taken, reserved, charged or received by any Bank exceeds the maximum non-usurious rate permitted by applicable law, such determination shall be made, to the extent that doing so does not result in a violation of applicable law, by amortizing, prorating, allocating and spreading, in equal parts during the period of the full stated term of the loans hereunder, all interest at any time contracted for, taken, charged, received or reserved by such Bank in connection with such loans.

(b) In the event that at any time the interest rate applicable to any Advance made by any Bank would exceed the maximum non-usurious rate allowed by applicable law, the rate of interest to accrue on the Advances by such Bank shall be limited to the maximum non-usurious rate allowed by applicable law, but shall accrue, to the extent permitted by law, on the principal amount of the Advances made by such Bank from time to time outstanding, if any, at the maximum non-usurious rate allowed by applicable law until the total amount of interest accrued on the Advances made by such Bank equals the amount of interest which would have accrued if the interest rates applicable to the Advances pursuant to Article II had at all times been in effect. In the event that upon the final payment of the Advances made by any Bank and termination of the Commitment of such Bank, the total amount of interest paid to such Bank hereunder and under the Notes is less than the total amount of interest which would have accrued if the interest rates applicable to such Advances pursuant to Article II had at all times been in effect, then the Borrower agrees to pay to such Bank, to the extent permitted by law, an amount equal to the excess of (a) the lesser of (i) the amount of interest which would have accrued on such Advances if the maximum non-usurious rate allowed by applicable law had at all times been in effect or (ii) the amount of interest which would have accrued on such Advances if the interest rates applicable to such Advances pursuant to Article II had at all times been in effect over (b) the amount of interest otherwise accrued on such Advances in accordance with this Agreement.

Section 8.07 Binding Effect. This Agreement shall become effective as provided in Section 3.01 hereof and thereafter shall be binding upon and inure to the benefit of the Borrower and the Agent and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations hereunder or under any other Loan Document or any interest herein or therein without the prior written consent of all of the Banks.

Section 8.08 Assignments and Participations. (a) Each Bank may assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and the Notes held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement, (ii) except in the case of an assignment of all of a Bank's rights and obligations under this Agreement, the amount of the Commitment of the assigning Bank being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than $5,000,000, (iii) each such assignment shall be to an Eligible Assignee, and (iv) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with the Notes subject to such assignment and a processing and recordation fee of $3,000. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and (y) the Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith or the execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith; (ii) such assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any other Person or the performance or observance by the Borrower or any other Person of any of its respective obligations under any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.01(d) and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement, any of the other Loan Documents or any other instrument or document; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as Agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to the Agent by the terms hereof or thereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(c) The Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Banks and the Commitment of, and the principal amount of the Revolving Credit Advances owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and an assignee representing that it is an Eligible Assignee, together with the Notes, if any, subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit E, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower shall execute and deliver to the Agent in exchange for the surrendered Notes, if any, a new Note (if requested by the assignee) payable to the order of such Eligible Assignee in an amount equal to the Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment hereunder, a new Note payable to the order of the assigning Bank in an amount equal to the Commitment retained by it hereunder (such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit A).

(e) Each Bank may sell participations to one or more banks or other entities (other than the Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and the Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement (including, without limitation, its Commitment to the Borrower hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Notes for all purposes of this Agreement, (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and (v) the terms of any such participation shall not restrict such Bank's ability to make any amendment or waiver of this Agreement or any Note or such Bank's ability to consent to any departure by the Borrower therefrom without the approval of the participant, except that the approval of the participant may be required to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

(f) Each Issuing Bank may assign to an Eligible Assignee all of its rights and obligations under the undrawn portion of its Letter of Credit Commitment at any time; provided, however, that (i) each such assignment shall be to an Eligible Assignee and (ii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with a processing and recordation fee of $3,000.

(g) Any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.08, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower or any of its Subsidiaries furnished to such Bank by or on behalf of the Borrower or any of its Subsidiaries; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to comply with Section 8.14.

(h) Notwithstanding any other provision set forth in this Agreement, any Bank may at any time create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Revolving Credit Advances owing to it and the Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Board.

Section 8.09 No Liability of Issuing Banks. The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any Letter of Credit with respect to its use of such Letter of Credit. Neither any Issuing Bank nor any of its officers or directors shall be liable or responsible for: (a) the use that may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by such Issuing Bank against presentation of documents that do not comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit, except that the Borrower shall have a claim against such Issuing Bank, and such Issuing Bank shall be liable to the Borrower, to the extent of any direct, but not consequential, damages suffered by the Borrower that the Borrower proves were caused by (i) such Issuing Bank's willful misconduct or gross negligence as determined in a final, non-appealable judgment by a court of competent jurisdiction in determining whether documents presented under any Letter of Credit comply with the terms of the Letter of Credit or (ii) such Issuing Bank's willful failure to make lawful payment under a Letter of Credit after the presentation to it of a draft and certificates strictly complying with the terms and conditions of the Letter of Credit. In furtherance and not in limitation of the foregoing, such Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

Section 8.10 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile shall be as effective as delivery of a manually executed counterpart of this Agreement.

Section 8.11 Judgment (a) If for the purposes of obtaining judgment in any court it is necessary to convert a sum due hereunder in Dollars into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent could purchase Dollars with such other currency at Citibank's principal office in London at 11:00 A.M. (London time) on the Business Day preceding that on which final judgment is given.

(b) If for the purposes of obtaining judgment in any court it is necessary to convert a sum due hereunder in a Foreign Currency into Dollars, the parties agree to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent could purchase such Foreign Currency with Dollars at Citibank's principal office in London at 11:00 A.M. (London time) on the Business Day preceding that on which final judgment is given.

(c) The obligation of the Borrower in respect of any sum due from it in any currency (the "Primary Currency") to any Bank or the Agent hereunder shall, notwithstanding any judgment in any other currency, be discharged only to the extent that on the Business Day following receipt by such Bank or the Agent (as the case may be), of any sum adjudged to be so due in such other currency, such Bank or the Agent (as the case may be) may in accordance with normal banking procedures purchase the applicable Primary Currency with such other currency; if the amount of the applicable Primary Currency so purchased is less than such sum due to such Bank or the Agent (as the case may be) in the applicable Primary Currency, the Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such Bank or the Agent (as the case may be) against such loss, and if the amount of the applicable Primary Currency so purchased exceeds such sum due to any Bank or the Agent (as the case may be) in the applicable Primary Currency, such Bank or the Agent (as the case may be) agrees to remit to the Borrower such excess.

Section 8.12 Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York. Without limiting the intent of the parties set forth above, (i) Chapter 346 of the Texas Finance Code (formerly known as Chapter 15, Subtitle 3, Title 79, of the Revised Civil Statutes of Texas, 1925), as amended (relating to revolving loans and revolving triparty accounts), shall not apply to this Agreement, the Notes or the transactions contemplated hereby, and (ii) to the extent that any Bank may be subject to Texas law limiting the amount of interest payable for its account, such Bank shall utilize the indicated (weekly) rate ceiling from time to time in effect as provided in Chapter 303 of the Texas Finance Code (formerly known as Article 5069-1.04 of the Revised Civil Statutes of Texas), as amended.

Section 8.13 Jurisdiction; Damages. To the fullest extent it may effectively do so under applicable law, (i) each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its Property, to the non-exclusive jurisdiction of any New York state court or federal court sitting in New York City, and any appellate court from any appeal thereof, in any action or proceeding arising out of or relating to this Agreement, any of the Notes, or any other instrument or document furnished pursuant hereto or in connection herewith or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of such action or proceeding may be heard and determined in any such court; (ii) each of the parties hereto hereby irrevocably and unconditionally waives the defense of an inconvenient forum to the maintenance of such action or proceeding and any objection that it may now or hereafter have to the laying of venue of any such action or proceeding in any such court; (iii) the Borrower hereby agrees that service of copies of the summons and complaint and any other process which may be served in any such action or proceeding may be made by mailing or delivering a copy of such process to the Borrower at its address specified in Section 8.02; and (iv) each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing herein shall affect the rights of any Bank or the Agent to serve legal process in any other manner permitted by law or affect the right that any party hereto may otherwise have to bring any action or proceeding relating to this Agreement, any of the Notes or any other instrument or document furnished pursuant hereto or in connection herewith in the courts of any other jurisdiction. Each of the Borrower, the Agent and the Banks hereby irrevocably and unconditionally waives, to the fullest extent it may effectively do so under applicable law, any right it may have to claim or recover in any action or proceeding referred to in this Section 8.13 any exemplary or punitive damages. The Borrower hereby further irrevocably waives, to the fullest extent it may effectively do so under applicable law, any right it may have to claim or recover in any action or proceeding referred to in this Section 8.13 any special or consequential damages.

Section 8.14 Confidentiality. Each Bank agrees that it will use reasonable efforts, to the extent not inconsistent with practical business requirements, not to disclose without the prior consent of the Borrower (other than to employees, auditors, accountants, counsel or other professional advisors of the Agent or any Bank) any information with respect to the Borrower, each Guarantor or their respective Subsidiaries which is furnished pursuant to this Agreement, provided that any Bank may disclose any such information (a) as has become generally available to the public, (b) as may be required or appropriate in any report, statement or testimony submitted to or required by any municipal, state or Federal regulatory body having or claiming to have jurisdiction over any Bank or its Affiliates or submitted to or required by the Federal Reserve Board or the Federal Deposit Insurance Corporation or similar organizations (whether in the United States or elsewhere) or their successors, and including any self-regulatory body having or claiming authority to regulate or oversee any aspect of any Bank's or its Affiliates' businesses, (c) as may be required or appropriate in response to any summons or subpoena in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to any Bank, (e) to any assignee, participant, prospective assignee, or prospective participant that has agreed to comply with this Section 8.14, (f) in connection with the exercise of any remedy by any Bank pertaining to this Agreement, any of the Notes or any other document or instrument delivered in connection herewith, (g) in connection with any litigation involving any Bank pertaining to any Loan Document or any other document or instrument delivered in connection herewith, (h) to any Bank or the Agent, or (i) to any Affiliate of any Bank.

Section 8.15 Patriot Act Notice. Each Bank and the Agent (for itself and not on behalf of any Bank) hereby notifies the Borrower that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Bank or the Agent, as applicable, to identify the Borrower in accordance with the Patriot Act. The Borrower shall provide, to the extent commercially reasonable in light of applicable restrictions or limitations under contract or law, regulation or governmental guidelines, such information and take such actions as are reasonably requested by the Agent or any Banks in order to assist the Agent and the Banks in maintaining compliance with the Patriot Act.

Section 8.16 Waiver of Jury Trial. Each of the Borrower, the Agent and the Banks hereby irrevocably and unconditionally waives, to the fullest extent it may effectively do so under applicable law, any and all right to trial by jury in any action or proceeding arising out of or relating to this Agreement, any of the Notes, any other Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith or the transactions contemplated hereby.

[Remainder of page intentionally blank.**]**

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWER:

KBR HOLDINGS, LLC

By: /s/ Cedric W. Burgher
Name: Cedric W. Burger
Title: Vice President and Chief Financial Officer

Taxpayer Identification of Borrower: 32-0158407

Address of Principal Place of Business of Borrower:
4100 Clinton Dr.
Houston, Texas 77020

* Bank signature pages omitted.

EXHIBIT 12

HALLIBURTON COMPANY
Computation of Ratio of Earnings to Fixed Charges
(Unaudited)
(Millions of dollars, except ratios)

	Years Ended December 31				
	2005	2004	2003	2002	2001
Earnings available for fixed charges:					
Income (loss) from continuing operations before income taxes, minority interest, and cumulative effects of accounting changes, net	$ 2,492	$ 651	$ 612	$ (228)	$ 954
Add:					
Distributed earnings from equity in unconsolidated affiliates	98	61	113	33	38
Fixed charges	281	295	203	168	209
Subtotal	2,871	1,007	928	(27)	1,201
Less:					
Undistributed equity in earnings and losses of unconsolidated affiliates	(13)	2	25	74	107
Total earnings available for fixed charges	$ 2,884	$ 1,005	$ 903	$ (101)	$ 1,094
Fixed charges:					
Interest expense	$ 207	$ 229	$ 139	$ 113	$ 147
Rental expense representative of interest	74	66	64	55	62
Total fixed charges	$ 281	$ 295	$ 203	$ 168	$ 209
Ratio of earnings to fixed charges	10.3	3.4	4.4	(a)	5.2

(a) For the year ended December 31, 2002, earnings were inadequate to cover fixed charges by $269 million.

EXHIBIT 21

HALLIBURTON COMPANY
Subsidiaries of the Registrant
December 31, 2005

NAME OF COMPANY	STATE OR COUNTRY OF INCORPORATION
Baroid International Trading, LLC	United States
BITC (US) LLC	United States
BITC Holdings (US) LLC	United States
Breswater Marine Contracting B.V.	Netherlands
Brown & Root Toll Road Investment Partners, Inc.	United States
Devonport Management Limited	United Kingdom
Devonport Royal Dockyard Limited	United Kingdom
DII Industries, LLC	United States
Halliburton Affiliates, LLC	United States
Halliburton AS	Norway
Halliburton Canada Holdings, Inc.	United States
Halliburton Energy Cayman Islands Limited	Cayman Islands
Halliburton Energy Services, Inc.	United States
Halliburton Group Canada Inc.	Canada
Halliburton Group Canada (Partnership)	Canada
Halliburton Group Holdings (1) Company	Canada
Halliburton International, Inc.	United States
Halliburton Netherlands Operations Cooperatie	Netherlands
Halliburton Norway Holdings C.V.	Netherlands
Halliburton Partners Canada, Inc.	Canada
Hobbymarkt Delft BV	Netherlands
KBR Group Holdings, LLC	United States
KBR Holdings, LLC	United States
Kellogg Brown & Root Holdings (U.K.) Limited	United Kingdom
Kellogg Brown & Root Holdings Limited	United Kingdom
Kellogg Brown & Root Limited	United Kingdom
Kellogg Brown & Root LLC	United States
Kellogg Brown & Root Services, Inc.	United States
Kellogg Energy Services, Inc.	United States

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Halliburton Company:

We consent to the incorporation by reference in the registration statements (Nos. 33-65772, 333-32731, and 333-74408) on Form S-3 and (Nos. 33-54881, 333-40717, 333-37533, 333-13475, 333-65373, 333-55747, 333-83223, 333-45518, 333-73046, 333-76496, 333-91058 and 333-86080) on Form S-8 of Halliburton Company of our reports dated March 3, 2006, with respect to the consolidated balance sheets of Halliburton Company as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 Annual Report on Form 10-K of Halliburton Company.

/s/ KPMG LLP
KPMG LLP

Houston, Texas
March 3, 2006

EXHIBIT 24.2

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, the undersigned, a Director of Halliburton Company, do hereby constitute and appoint David J. Lesar, C. Christopher Gaut and Margaret E. Carriere, or any of them acting alone, my true and lawful attorneys or attorney, to do any and all acts and things and execute any and all instruments which said attorneys or attorney may deem necessary or advisable to enable Halliburton Company to comply with the Securities Exchange Act of 1934, as amended, and all rules, regulations and requirements of the Securities and Exchange Commission in respect thereof, in connection with the filing of Annual Reports on Form 10-K, until revoked by me, otherwise cancelled, or replaced by a new Power of Attorney and to any instruments or documents filed as a part of or in connection therewith; and I hereby ratify and confirm all that said attorneys or attorney shall do or cause to be done by virtue hereof.

IN TESTIMONY WHEREOF, witness my hand this 3rd day of July, 2005.

/s/ S. Malcolm Gillis
S. Malcolm Gillis

<u>EXHIBIT 31.1</u>

Section 302 Certification

I, David J. Lesar, certify that:

1. I have reviewed this annual report on Form 10-K for the year 2005 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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: March 10, 2006

/s/ David J. Lesar
David J. Lesar
Chief Executive Officer
Halliburton Company

EXHIBIT 31.2

Section 302 Certification

I, C. Christopher Gaut, certify that:

1. I have reviewed this annual report on Form 10-K for the year 2005 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

(d) 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: March 10, 2006

/s/ C. Christopher Gaut
C. Christopher Gaut
Chief Financial Officer
Halliburton Company

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, and accompanies the Annual Report on Form 10-K for the period ended December 31, 2005 of Halliburton Company (the “Company”) 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 that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange 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.

Date: March 10, 2006

/s/ David J. Lesar
David J. Lesar
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is provided pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, and accompanies the Annual Report on Form 10-K for the period ended December 31, 2005 of Halliburton Company (the "Company") 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 that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange 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.

Date: March 10, 2006

/s/ C. Christopher Gaut
C. Christopher Gaut
Chief Financial Officer