BAKER HUGHES INC

FORM 10-Q
(Quarterly Report)

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-9397

BAKER HUGHES INCORPORATED

(a Delaware Corporation)

76-0207995

3900 Essex Lane
Houston, Texas 77027

Registrant's telephone number, including area code: (713) 439-8600

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

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

Class Outstanding at November 2, 2001 Common Stock, $1.00 par value per share 335,874,634 shares

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BAKER HUGHES INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues	$ 1,436.0	$ 1,353.7	$ 4,006.5	$ 3,850.0
Costs and expenses:				
Cost of revenues	1,008.8	1,019.5	2,860.6	2,976.8
Selling, general and administrative	214.9	188.1	616.8	565.9
Unusual charge (credit)	(3.4)	(1.7)	3.6	(25.4)
Total	1,220.3	1,205.9	3,481.0	3,517.3
Operating income	215.7	147.8	525.5	332.7
Equity in income of affiliates	19.6	0.6	38.9	1.9
Interest expense	(30.5)	(43.8)	(96.9)	(132.0)
Interest income	1.1	0.9	2.9	1.9
Gain (loss) on trading securities	--	(3.1)	--	14.1
Income before income taxes, extraordinary loss and cumulative effect of accounting change	205.9	102.4	470.4	218.6
Income taxes	(68.8)	(37.2)	(157.7)	(75.3)
Income before extraordinary loss and cumulative effect of accounting change	137.1	65.2	312.7	143.3
Extraordinary loss (net of $0.8 income tax benefit)	--	--	(1.5)	--
Cumulative effect of accounting change (net of $0.5 income tax expense)	--	--	0.8	--
Net income	$ 137.1	$ 65.2	$ 312.0	$ 143.3
Basic earnings per share:				
Income before extraordinary loss and cumulative effect of accounting change	$ 0.41	$ 0.20	$ 0.93	$ 0.43
Extraordinary loss	--	--	--	--
Cumulative effect of accounting change	--	--	--	--
Net income	$ 0.41	$ 0.20	$ 0.93	$ 0.43
Diluted earnings per share:				
Income before extraordinary loss and cumulative effect on accounting change	$ 0.41	$ 0.20	$ 0.92	$ 0.43
Extraordinary loss	--	--	--	--
Cumulative effect of accounting change	--	--	--	--
Net income	$ 0.41	$ 0.20	$ 0.92	$ 0.43
Cash dividends per share	$ 0.115	$ 0.115	$ 0.345	$ 0.345

See accompanying notes to consolidated condensed financial statements.

BAKER HUGHES INCORPORATED
CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions)

	September 30, 2001	December 31, 2000
ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 37.2	$ 34.6
Accounts receivable, net	1,415.8	1,310.4
Inventories	1,073.8	898.5
Other current assets	261.5	243.1
Total current assets	2,788.3	2,486.6
Investment in affiliates	897.8	869.3
Property, net	1,340.3	1,378.7
Goodwill and other intangibles, net	1,461.8	1,498.1
Other assets	233.8	220.0
Total assets	$ 6,722.0	$ 6,452.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 589.1	$ 469.3
Short-term borrowings and current portion of long-term debt	12.8	13.3
Accrued employee compensation	282.8	250.6
Other current liabilities	307.6	254.6
Total current liabilities	1,192.3	987.8
Long-term debt	1,822.1	2,049.6
Deferred income taxes	245.5	158.6
Other long-term liabilities	197.1	210.0
Stockholders' equity:		
Common stock	335.8	333.7
Capital in excess of par value	3,108.8	3,065.7
Retained earnings (accumulated deficit)	95.0	(101.3)
Accumulated other comprehensive loss	(274.6)	(251.4)
Total stockholders' equity	3,265.0	3,046.7
Total liabilities and stockholders' equity	$ 6,722.0	$ 6,452.7

See accompanying notes to consolidated condensed financial statements.

BAKER HUGHES INCORPORATED
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 312.0	$ 143.3
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation, depletion and amortization	251.2	474.8
Provision for deferred income taxes	60.9	42.8
Loss on extinguishment of debt	2.3	--
Gain on disposal or sale of assets	(21.1)	(48.9)
Gain on trading securities	--	(14.1)
Equity in income of affiliates	(38.9)	(1.9)
Change in accounts receivable	(115.5)	(78.0)
Change in inventories	(177.4)	(53.0)
Change in accounts payable	116.6	2.8
Change in accrued employee compensation and other current liabilities	93.6	22.3
Change in deferred revenue and other long-term liabilities	(13.5)	(14.5)
Changes in other assets and liabilities	(13.3)	(76.5)
Net cash flows from operating activities	456.9	399.1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for capital assets and multiclient seismic data	(204.7)	(452.2)
Proceeds from disposal or sale of assets	55.9	141.3
Proceeds from sale of trading securities	--	72.7
Net cash flows from investing activities	(148.8)	(238.2)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) from commercial paper and short-term debt	72.1	(167.0)
Net proceeds from sale/leaseback	--	117.7
Repayment of indebtedness	(301.8)	--
Proceeds from issuance of common stock	45.1	35.7
Dividends	(115.7)	(114.0)
Net cash flows from financing activities	(300.3)	(127.6)
Effect of foreign exchange rate changes on cash	(5.2)	(2.5)
Increase in cash and cash equivalents	2.6	30.8
Cash and cash equivalents, beginning of period	34.6	15.6
Cash and cash equivalents, end of period	$ 37.2	$ 46.4
Income taxes paid	$ 63.2	$ 84.8
Interest paid	$ 98.6	$ 141.9

See accompanying notes to consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The unaudited consolidated condensed financial statements of Baker Hughes Incorporated and its subsidiaries (the "Company") included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the presentations and disclosures herein are adequate to make the information not misleading. The unaudited consolidated condensed financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the interim periods. These unaudited consolidated condensed financial statements should be read in conjunction with the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2000. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

In the notes to the unaudited consolidated condensed financial statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated.

NOTE 2. DERIVATIVE INSTRUMENTS

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities that require an entity to recognize all derivatives as an asset or liability measured at fair value. Depending on the intended use of the derivative and its effectiveness, changes in its fair value will be reported in the period of change as either a component of earnings or a component of other comprehensive income. The adoption of SFAS No. 133 on January 1, 2001 resulted in a gain of $0.8 million, net of tax, recorded as the cumulative effect of an accounting change in the consolidated condensed statement of operations and a gain of $1.2 million, net of tax, recorded in accumulated other comprehensive income.

The Company monitors its exposure to various business risks including commodity price, foreign exchange rate and interest rate risks and occasionally uses derivative financial instruments to manage the impact of certain of these risks. The Company's policies do not permit the use of derivative financial instruments for speculative purposes. The Company uses forward exchange contracts and currency swaps to hedge certain firm commitments and transactions denominated in foreign currencies. The Company uses interest rate swaps to manage interest rate risk. The Company also uses crude oil swaps and collars to hedge price risk associated with the Company's crude oil production.

At the inception of any new derivatives, the Company designates the derivative as a cash flow hedge or fair value hedge. The Company documents all relationships between hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged item at both the inception of the hedge and on an ongoing basis.

To qualify for hedge accounting, the derivative must qualify either as a fair value hedge, cash flow hedge or a hedge of the net investment in foreign operations. A fair value hedge is a hedge of a recognized asset or liability or an unrecognized firm commitment. Both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item, are recorded in earnings and reported in the consolidated condensed statements of operations on the same line as the hedged item. A cash flow hedge is a hedge of a forecasted transaction or the variability of cash flows to be received or paid in the future related to a recognized asset or liability. The effective portion of the changes in the fair value of the derivative is recorded in accumulated other comprehensive income. When the hedged item is realized, the gain or loss included in accumulated other comprehensive income is reported on the same line in the consolidated condensed statements of operations as the hedged item. In addition, both the fair value changes excluded from the Company's effectiveness assessments and the ineffective portion of the changes in

the fair value of derivatives used as cash flow hedges are immediately recognized in earnings. The Company is not currently hedging any of its net investments in foreign operations.

During the three months ended September 30, 2001, the Company had two interest rate swaps that qualified as fair value hedges. They were fully effective, resulting in no net gain or loss recorded in the consolidated condensed statement of operations.

During the three months ended September 30, 2001, the Company entered into two crude oil contracts (costless collars) and several foreign currency forward contracts. During the three months ended September 30, 2001, the Company recorded a gain of $3.8 million ($2.5 million after tax) in revenue in the consolidated condensed statement of operations to recognize the effect of recording the two crude oil contracts at fair value.

NOTE 3. COMPREHENSIVE INCOME

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to owners. The components of the Company's comprehensive income, net of related tax, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net income	$ 137.1	$ 65.2	$ 312.0	$ 143.3
Other comprehensive income (loss):				
Foreign currency translation adjustments	16.1	(30.3)	(23.2)	(73.1)
Adoption of SFAS No. 133	--	--	1.2	--
Loss on derivative instruments	--	--	(1.2)	--
Total comprehensive income	$ 153.2	$ 34.9	$ 288.8	$ 70.2

Total accumulated other comprehensive loss consisted of the following:

	September 30, 2001	December 31, 2000
Foreign currency translation adjustments	$ (268.3)	$ (245.1)
Pension adjustment	(6.3)	(6.3)
Total accumulated other comprehensive loss	$ (274.6)	$ (251.4)

NOTE 4. UNUSUAL ITEMS

During the third quarter of 2001, the Company recognized a pre-tax gain of $3.4 million on the disposition of its interest in a joint venture. The Company received net proceeds of $6.0 million that were used to repay outstanding indebtedness.

During the first quarter of 2001, the Company recorded an unusual charge of $7.0 million. The cash portion of the charge was $6.0 million and consisted of severance for approximately 100 employees relating to the restructuring of the Baker Process operations in Germany. No payments were made during the first quarter of 2001, $0.3 million was paid during the second quarter of 2001 and $0.4 million was paid during the third quarter of 2001. Based on current estimates, the Company expects that $0.6 million of the accrued severance will be paid during the fourth quarter of 2001, with the remainder paid during 2002 as the employees leave the Company.

During the third quarter of 2000, the Company recognized a pre-tax gain of $1.7 million on the sale of a product line. The Company received net proceeds of $11.2 million that were used to repay outstanding indebtedness.

During the second quarter of 2000, the Company recognized a pre-tax gain of $11.2 million on the sale of two product lines. The Company received net proceeds of $31.4 million that were used to repay outstanding indebtedness. The Company also recorded an unusual credit of $12.5 million from net reductions to unusual charge accruals recorded in 1999 and prior years to reflect the current estimates of remaining expenditures. The net reductions primarily related to severance accruals and accruals for lease obligations. These items are reflected as unusual credits in the consolidated condensed statement of operations.

During the three and nine months ended September 30, 2000, the Company recorded pre-tax gains (losses) of $(3.1) million and $14.1 million, respectively, related to its holdings in Varco International, Inc. ("Varco"). As of September 30, 2000, the Company had disposed of all of its Varco holdings.

NOTE 5. EXTRAORDINARY LOSS

On May 28, 2001, the Company redeemed its outstanding Liquid Yield Options Notes ("LYONS") at a redemption price of $786.13 per $1,000 principal amount, for a total of $301.8 million. The redemption was funded through the issuance of commercial paper. In connection with the early extinguishment of debt, the Company recorded an extraordinary loss of $2.3 million ($1.5 million after tax) which represents the write-off of the remaining debt issuance costs.

NOTE 6. EARNINGS PER SHARE ("EPS")

A reconciliation of the number of shares used for the basic and diluted EPS calculation is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Weighted average common shares outstanding for basic EPS	335.8	331.2	335.5	330.5
Effect of dilutive securities - stock plans	1.5	2.6	2.0	1.9
Adjusted weighted average common shares outstanding for diluted EPS	337.3	333.8	337.5	332.4
Future potentially anti-dilutive shares excluded from diluted EPS:				
Options with option price greater than market price	5.1	3.6	4.6	3.7
LYONS convertible into common stock	--	7.2	--	7.2

NOTE 7. INVENTORIES

Inventories are comprised of the following:

	September 30, 2001	December 31, 2000
Finished goods	$ 857.2	$ 706.0
Work in process	95.1	82.0
Raw materials	121.5	110.5
Total	$ 1,073.8	$ 898.5

NOTE 8. SEGMENT AND RELATED INFORMATION

The Company has eight divisions that have separate management teams and infrastructures that offer different products and services. The divisions have been aggregated into two reportable segments, "Oilfield" and "Process."

The Oilfield segment consists of six divisions - Baker Atlas, Baker Hughes INTEQ, Baker Oil Tools, Baker Petrolite, Centrilift and Hughes Christensen - that manufacture and sell equipment and provide services used in the drilling, completion, production and maintenance of oil and gas wells and in reservoir measurement and evaluation. They have been aggregated because the long-term financial performance of these divisions is affected by similar economic conditions and the consolidated results are evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. The principal markets for this segment include all major oil and gas producing regions of the world, including North America, Latin America, Europe, Africa, the Middle East and the Far East. Customers include major multi-national, independent and national oil companies. The Oilfield segment also includes the Company's interest in an oil and gas property in Nigeria and its investments in affiliates.

The Process segment consists of two divisions - Bird Machine Company and EIMCO Process Equipment - that manufacture and sell process equipment for separating solids from liquids and liquids from liquids through filtration, sedimentation, centrifugation and flotation processes. The principal markets for this segment include all regions of the world where there are significant industrial, chemical, and municipal wastewater applications and base metals activity. Customers include municipalities, contractors, engineering companies and pulp and paper, minerals, industrial and oil and gas producers. The Process segment also includes a refining and production product line. On October 30, 2001, the Company contributed certain assets and liabilities of this product line to a new entity in exchange for cash, notes receivable and an ownership interest in the new entity.

The Company evaluates the performance of its segments based on income before income taxes, accounting changes, unusual items and interest income and expense. Intersegment sales and transfers are not significant.

Summarized segment financial information is shown in the following table. The "Other" column includes corporate-related items, net interest expense and, as it relates to segment profit (loss), income and expense items not allocated to reportable segments.

	Oilfield	Process	Other	Total
REVENUES				
Three months ended September 30, 2001	$ 1,348.8	$ 87.2	$ --	$ 1,436.0
Three months ended September 30, 2000	$ 1,273.5	$ 80.2	$ --	$ 1,353.7
Nine months ended September 30, 2001	$ 3,762.8	$ 243.7	$ --	$ 4,006.5
Nine months ended September 30, 2000	$ 3,605.3	$ 244.7	$ --	$ 3,850.0
SEGMENT PROFIT (LOSS)				
Three months ended September 30, 2001	$ 263.2	$ (2.6)	$ (54.7)	$ 205.9
Three months ended September 30, 2000	$ 167.6	$ (0.6)	$ (64.6)	$ 102.4
Nine months ended September 30, 2001	$ 669.8	$ (9.9)	$ (189.5)	$ 470.4
Nine months ended September 30, 2000	$ 388.4	$ (3.5)	$ (166.3)	$ 218.6
TOTAL ASSETS				
As of September 30, 2001	$ 5,842.0	$ 337.3	$ 542.7	$ 6,722.0
As of December 31, 2000	$ 5,597.9	$ 332.3	$ 522.5	$ 6,452.7

The following table presents the details of "Other" segment loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Corporate expenses	$ (28.7)	$ (20.3)	$ (91.9)	$ (75.7)
Interest, net	(29.4)	(42.9)	(94.0)	(130.1)
Unusual (charge) credit	3.4	1.7	(3.6)	25.4
Gain (loss) on trading securities	--	(3.1)	--	14.1
Total	$ (54.7)	$ (64.6)	$ (189.5)	$ (166.3)

NOTE 9. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, Business Combinations. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. Business combinations accounted for under the pooling of interest method prior to June 30, 2001 will not be changed. The adoption of SFAS No. 141 by the Company will not have an impact on the balance sheet, statement of operations or cash flows of the Company.

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired in a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. SFAS No. 142 requires that a transitional impairment test be performed within six months of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle. The Company has not completed its analysis of the impact of the adoption of SFAS No. 142 on its consolidated financial statements. The Company will adopt SFAS No. 142 for its fiscal year beginning January 1, 2002.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability associated with an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated over the life of the asset. The Company has not completed its analysis of the impact, if any, of the adoption of SFAS No. 143 on its consolidated financial statements. The Company will adopt SFAS No. 143 for it fiscal year beginning January 1, 2003.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and modifies the accounting and reporting of discontinued operations. The Company currently expects there to be no impact on the Company's consolidated financial statements upon adoption of SFAS No. 144. The Company will adopt SFAS No. 144 for its fiscal year beginning January 1, 2002.

NOTE 10. SUBSEQUENT EVENT

On October 30, 2001, the Company and Sequel Holdings, Inc. ("Sequel") created an entity to operate under the name of Petreco, Inc. ("Petreco"). The Company contributed approximately $19.0 million of net assets of the refining and production product line of its Baker Process segment to Petreco. In conjunction with the transaction, the Company received $9.0 million in cash, two promissory notes totaling $10.0 million, and an ownership interest consisting of 100% of the common stock of Petreco, which represents 49% of the voting power of Petreco. Sequel has an ownership interest in Petreco consisting of 100% of the Series A Preferred Stock, which represents 51% of the voting power of Petreco. Petreco profits would be shared by the Company and Sequel in 49% and 51% interests, respectively. Sequel is entitled to a liquidation preference upon the liquidation or sale of Petreco. The amount of the promissory notes is subject to adjustment resulting from achieving certain financial targets in 2001. The Company will account for its ownership in Petreco using the equity method and does not expect to recognize any gain or loss from the initial formation of the entity due to the Company's material continued involvement in the operations of Petreco.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's consolidated condensed financial statements and the related notes thereto.

FORWARD-LOOKING STATEMENTS

MD&A includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (each a "Forward-Looking Statement"). The words "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "forecasts," "will," "could," "may" and similar expressions, and the negative thereof, are intended to identify forward-looking statements. No assurance can be given that actual results may not differ materially from those in the forward-looking statements herein for reasons including the effects of competition, the level of petroleum industry exploration and production expenditures, world economic conditions, prices of, and the demand for, crude oil and natural gas, drilling activity, weather, the legislative environment in the United States and other countries, OPEC policy, conflict in the Middle East and other major petroleum producing or consuming regions, acts of war or terrorism, the development of technology that lowers overall finding and development costs and the condition of the capital and equity markets. See "-Business Environment" for a more detailed discussion of certain of these factors.

Baker Hughes' expectations regarding its level of capital expenditures described in "-Capital Resources and Liquidity - Investing Activities" below are only its forecasts regarding these matters. In addition to the factors described in the previous paragraph and in "-Business Environment," these forecasts may be substantially different from actual results, which are affected by the following factors: the accuracy of the Company's estimates regarding its spending requirements; regulatory, legal and contractual impediments to spending reduction measures; the occurrence of any unanticipated acquisition or research and development opportunities; changes in the Company's strategic direction; and the need to replace any unanticipated losses in capital assets.

BUSINESS ENVIRONMENT

The Company has eight divisions each with separate management teams and infrastructures that offer different products and services. The divisions have been aggregated into two reportable segments - "Oilfield" and "Process."

The Oilfield segment currently consists of six divisions - Baker Atlas, Baker Hughes INTEQ, Baker Oil Tools, Baker Petrolite, Centrilift and Hughes Christensen - that manufacture and sell equipment and provide related services used in exploring for, developing and producing hydrocarbon reserves. The Oilfield segment also includes the Company's interest in an oil and gas property in Nigeria.

The Process segment consists of two divisions - Bird Machine Company and EIMCO Process Equipment - that manufacture and sell process equipment for separating solids from liquids and liquids from liquids through filtration, sedimentation, centrifugation and flotation processes. The Process segment also includes a refining and production product line. On October 30, 2001, the Company contributed certain assets and liabilities of this product line to a new entity in exchange for cash, notes receivable and an ownership interest in the new entity.

The business environment for the Company's Oilfield segment and its corresponding operating results can be significantly affected by the level of industry capital expenditures for the exploration and production of oil and gas reserves. These expenditures are influenced strongly by oil company expectations about the supply and demand for crude oil and natural gas products and by the energy price environment that results from supply and demand imbalances.

Key factors currently influencing the worldwide crude oil and gas markets are:

o Production control: the degree to which OPEC nations and other large producing countries, such as Mexico, Norway, and Russia, are willing and able to control production and exports of crude oil.

o Global economic growth: particularly the impact of the U.S. and Western European economies and economic activity in Japan, China, South Korea and the developing areas of Asia where the correlation between energy demand and economic growth is strong.

o Oil and gas storage inventories: relative to historic levels.

o Technological progress: in the design and application of new products that allow oil and gas companies to drill fewer wells and to drill, complete and produce wells faster and at lower cost.

o Maturity of the resource base: of known hydrocarbon reserves in the maturing provinces of the North Sea, U.S., Canada and Latin America.

o The pace of new investment: access to capital and the reinvestment of available cash flow into existing and emerging markets.

o Price volatility: the impact of widely fluctuating commodity prices on the stability of the market and subsequent impact on customer spending.

o The potential for supply disruption: from key oil exporting countries, including, but not limited to, Iraq, Saudi Arabia, and other Middle Eastern countries, due to political or military activity.

o Weather: the impact of variations in temperatures as compared with normal weather patterns and the related effect on demand for oil and natural gas.

o Acts of Terrorism: the recent terrorist attacks on the United States have had a variety of adverse effects on business, financial and general economic conditions in the U.S. and elsewhere. In addition, the complete U.S. response to these attacks is unknown. At this time, the Company is not able to predict the nature, extent and duration of these effects, if any, on the Company's business and finances.

OIL AND GAS PRICES

Generally, customer expectations about their prospects from oil and gas sales and customer expenditures to explore for or produce oil and gas rise or fall with corresponding changes in the prices of oil or gas. Accordingly, changes in these expenditures will normally result in increased or decreased demand for the Company's products and services in its Oilfield segment. Crude oil and natural gas prices are summarized in the table below as averages of the daily closing prices during each of the periods indicated. While reading the Company's outlook set forth below, caution is advised that the factors described above in "-Forward-Looking Statements" and "-Business Environment" could negatively impact the Company's expectations for oil and gas demand, oil and gas prices and drilling activity.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Crude Oil, US Spot Prices, WTI, Cushing ($/Bbl)	$ 27.07	$ 31.65	$ 27.92	$ 29.83
Natural Gas, US Spot Prices, Henry Hub ($/MMBtu)	$ 2.69	$ 4.49	$ 4.43	$ 3.57

During the three months ended September 30, 2001, oil prices averaged $27.07 per barrel, ranging from a weekly low of $23.43 per barrel to a high of $29.89 per barrel. Slower economic growth and higher OPEC production levels contributed to an increase in inventories and a moderation in oil prices. Although oil prices fell in the three months ended September 30, 2001 compared with the three months ended September 30, 2000, prices were generally above OPEC's self-declared target zone.

During the three months ended September 30, 2001, natural gas prices averaged $2.69/MMBtu, down significantly compared with the $4.49/MMBtu average price for the three months ended September 30, 2000. Weekly prices during the third quarter of 2001 ranged from a high of $3.23/MMBtu to a low of $1.82/MMBtu. The decline in natural gas prices was driven by a decline in demand for natural gas, slowing U.S. economic growth and reduced storage injection demand, offset only partially by increased demand from fuel switching back to natural gas. A modest increase in production also

contributed to the decline in prices. By the end of the quarter, it became apparent that natural gas storage levels at the beginning of the winter 2001/2002 withdrawal season would likely approach historic highs.

ROTARY RIG COUNT

The Company is engaged in the oilfield service industry providing products and services that are used in exploring for, developing and producing oil and gas reservoirs. When drilling or workover rigs are active, they consume the products and services produced by the oilfield service industry. The active rig count acts as a leading indicator of consumption of products and services used in drilling, completing, producing and processing hydrocarbons.

Rig count trends are governed by the exploration and development spending by oil and gas companies, which in turn is influenced by current and future price expectations for oil and natural gas. Rig counts therefore reflect the relative strength and stability of energy prices. The Company's rotary rig counts are summarized in the table below as averages for each of the periods indicated and are based on weekly rig counts for the U.S. and Canada and monthly rig counts for all other areas.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
U.S. - Land	1,093	829	1,046	728
U.S. - Offshore	149	154	161	137
Canada	323	313	363	335
North America	1,565	1,296	1,570	1,200
Latin America	264	247	265	216
North Sea	57	51	55	44
Other Europe	39	39	38	38
Africa	53	47	54	44
Middle East	186	161	177	153
Asia Pacific	158	149	155	137
Outside North America	757	694	744	632
Worldwide	2,322	1,990	2,314	1,832
U.S. Workover Rigs	1,227	1,027	1,233	1,034

OUTLOOK

While reading the Company's outlook set forth below, caution is advised that the factors described above in "-Forward Looking Statements" and "-Business Environment" could negatively impact the Company's expectations for oil demand, oil and gas prices and drilling activity.

Oil - Through the fourth quarter of 2001, oil prices are expected to be influenced primarily by expectations for U.S. and world economies and OPEC's willingness and ability to control production to achieve its price targets. Other factors that could influence prices include changes in non-OPEC oil supply, exports of oil from Iraq, political- or military-based supply disruptions, and weather. Oil prices are expected to weaken throughout the fourth quarter of 2001 and into the first half of 2002. If OPEC is willing and able to act aggressively to support prices and if the U.S. and world economies do not weaken significantly, the decline is likely to be more modest. On the other hand, if OPEC is unwilling or unable to act aggressively to support prices and if the U.S. and world economies weaken, oil prices could weaken significantly.

Natural Gas - U. S. natural gas prices are expected to average between $2.50-$3.30/MMBtu in the fourth quarter of 2001 with possible weather-driven price spikes above or below this range. In the fourth quarter of 2001 and throughout 2002, prices are expected to be influenced by U.S. economic activity, particularly in those industrial segments of the U.S. economy that consume natural gas; demands for electricity; deviations of the weather from normal patterns; the natural gas storage levels at the end of the winter 2001/2002 withdrawal season; and expectations regarding the ability of the industry to inject enough gas during the summer of 2002 to meet demands during the winter of 2002/2003. Lower natural gas prices in the second half of 2002 are expected to result in decreased North American natural gas-directed drilling activity in the fourth quarter of 2001 and into the first half of 2002, which is, in turn, expected to result in reduced North American natural gas production capacity.

Customer Spending - Based upon the Company's discussions with its major customers and review of published industry surveys and reports, anticipated customer spending trends are as follows:

o North America - In the fourth quarter of 2001, customer spending is expected to decrease from the third quarter of 2001. Spending in North America is expected to be down 15-20% in 2002 compared with 2001.

o Outside North America - Customer spending directed at developing oil supplies is expected to continue to increase modestly through the fourth quarter of 2001 and into the first half of 2002.

RESULTS OF OPERATIONS

REVENUES

Revenues for the three months ended September 30, 2001 increased 6.1% to $1,436.0 million compared with revenues of $1,353.7 million for the three months ended September 30, 2000. Excluding revenues from Western Geophysical, the Company's seismic division that was contributed to a venture in November 2000, revenues increased 22.4% for the three months ended September 30, 2001 compared with the three months ended September 30, 2000.

Oilfield revenues, excluding Western Geophysical, increased 23.4% to $1,348.8 million for the three months ended September 30, 2001 compared with revenues of $1,092.6 million for the three months ended September 30, 2000. Geographically, Oilfield revenues in North America, which account for 45.5% of total Oilfield revenues, increased 35.0% for the three months ended September 30, 2001 compared with the three months ended September 30, 2000. This increase reflects the increased drilling activity in this area, as evidenced by a 20.8% increase in the North American rig count, and improved pricing for the Company's products and services. Outside North America, Oilfield revenues increased 15.2% for the three months ended September 30, 2001 compared with the three months ended September 30, 2000. This increase reflects the ongoing improvement in international drilling activity, particularly in Latin America, the North Sea, the Middle East and Asia Pacific.

Revenues for the nine months ended September 30, 2001 increased 4.1% to $4,006.5 million compared with revenues of $3,850.0 million for the nine months ended September 30, 2001. Excluding revenues from Western Geophysical, revenues increased 22.4% for the nine months ended September 30, 2001 compared with the nine months ended September 30, 2000. Revenues were impacted by significantly higher drilling activity levels worldwide and improved pricing for the Company's products and services.

GROSS MARGIN

Gross margin for the three months ended September 30, 2001 and 2000 was 29.7% and 24.7%, respectively. Excluding Western Geophysical, gross margin for the three months ended September 30, 2001 and 2000 was 29.7% and 26.1%, respectively. Gross margin for the nine months ended September 30, 2001 and 2000 was 28.6% and 22.7%, respectively. Excluding Western Geophysical, gross margin for the nine months ended September 30, 2001 and 2000 was 28.6% and 25.0%, respectively. The improvements in gross margin are primarily the result of pricing improvements for the Company's products and services, primarily in North America, and higher utilization of the Company's assets. In addition, productivity gains at every Oilfield division and continued cost management measures throughout the Company contributed to the improvement.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative ("SG&A") expense as a percentage of consolidated revenues was 15.0% and 13.9%, for the three months ended September 30, 2001 and 2000, respectively. Excluding Western Geophysical, SG&A expense as a percentage of consolidated revenues for the three months ended September 30, 2001 and 2000 was 15.0% and 15.1%, respectively. SG&A expense as a percentage of consolidated revenues for the nine months ended September 30, 2001 and 2000 was 15.4% and 14.7%, respectively. Excluding Western Geophysical, SG&A expense as a percentage of consolidated revenues for the nine months ended September 30, 2001 and 2000 was 15.4% and 16.6%, respectively. These decreases in SG&A expense as a percentage of consolidated revenues are primarily due to a higher revenue base and the fact that SG&A expenses are generally more fixed in nature.

UNUSUAL CHARGES

2001

During the third quarter of 2001, the Company recognized a pre-tax gain of $3.4 million on the disposition of its interest in a joint venture. The Company received net proceeds of $6.0 million that were used to repay outstanding indebtedness.

During the first quarter of 2001, the Company recorded an unusual charge of $7.0 million. The cash provision of the charge totaled $6.0 million and consisted of severance costs for approximately 100 employees relating to the restructuring of the Baker Process operations in Germany. No payments were made during the first quarter of 2001, $0.3 million was paid in the second quarter of 2001, and $0.4 million was paid in the third quarter of 2001. Based on current estimates, the Company expects that $0.6 million of the accrued severance will be paid during the fourth quarter of 2001, with the remainder paid during 2002 as the employees leave the Company.

2000

In October 2000, the Company's Board of Directors approved the Company's plan to substantially exit the oil and gas exploration business, resulting in an unusual charge of $105.0 million. The cash provision of the charge totaled $13.3 million and consisted of $5.5 million of severance costs for approximately 50 employees and $7.8 million for other contractual obligations. Of the total cash charge of $13.3 million, $5.2 million has been paid through September 30, 2001. The remaining accrual will be paid out as the employees leave the Company or according to the contractual obligations.

INTEREST EXPENSE

Interest expense for the three and nine months ended September 30, 2001 decreased $13.3 million and $35.1 million, respectively, compared with the three and nine months ended September 30, 2000. These decreases were primarily due to lower debt levels. Average commercial paper and money market borrowings for the three and nine months ended September 30, 2001 were $365.8 million and $283.3 million, respectively, compared with average commercial paper and money market borrowings for the three and nine months ended September 30, 2000 of $988.9 million and $1,042.5 million, respectively. The reduction in commercial paper and money market borrowings from corresponding prior year periods was primarily due to the cash proceeds received from the formation of Western GECO in November 2000 and cash flow from operations.

GAIN ON TRADING SECURITIES

In the fourth quarter of 1999, the Company announced its intention to sell its holdings of Varco International, Inc. ("Varco") and reclassified these holdings from available for sale securities to trading securities. During the three and nine months ended September 30, 2000, the Company recorded pre-tax gains (losses) of $(3.1) million and $14.1 million, respectively. As of September 30, 2000, the Company had disposed of all of its Varco holdings.

INCOME TAXES

The effective income tax rate for the three months ended September 30, 2001 and 2000 was 33.4% and 36.3%, respectively. The effective income tax rate for the nine months ended September 30, 2001 and 2000 was 33.5% and 34.4%, respectively. These rates differ from the statutory income tax rate of 35.0% due to lower taxes from international operations, partially offset by the non-deductibility of certain goodwill amortization.

CAPITAL RESOURCES AND LIQUIDITY

OPERATING ACTIVITIES

Net cash inflows from operating activities were $456.9 million and $399.1 million for the nine months ended September 30, 2001 and 2000, respectively. The increase in cash flow is primarily due to increased profitability and improved balance sheet management.

INVESTING ACTIVITIES

Net cash outflows from investing activities were $148.8 million and $238.2 million for the nine months ended September 30, 2001 and 2000, respectively.

Expenditures for capital assets totaled $204.7 million and $452.2 million for the nine months ended September 30, 2001 and 2000, respectively. Excluding Western Geophysical, expenditures for capital assets were $204.7 million and $205.7 million for the nine months ended September 30, 2001 and 2000, respectively. The Company currently expects 2001 capital expenditures to be between $300.0 million to $315.0 million excluding any acquisitions. Funds provided from operations and available lines of credit are expected to be adequate to meet future capital expenditure requirements.

Proceeds from the disposal or sale of assets generated $55.9 million and $141.3 million for the nine months ended September 30, 2001 and 2000, respectively. Proceeds from the sale of the Company's Varco holdings generated $72.7 million in the nine months ended September 30, 2000.

The words "expected" and "expects" are intended to identify Forward-Looking Statements in "Investing Activities." See "-Forward-Looking Statements" and "-Business Environment" above for a description of risk factors related to these Forward-Looking Statements.

FINANCING ACTIVITIES

Net cash outflows from financing activities were $300.3 million and $127.6 million for the nine months ended September 30, 2001 and 2000, respectively.

On May 28, 2001, the Company redeemed its outstanding Liquid Yield Options Notes at a redemption price of $786.13 per $1,000 principal amount, for a total of $301.8 million. The redemption was funded through the issuance of commercial paper. The Company anticipates that the redemption will not have a significant impact on interest expense in future periods.

Total debt outstanding at September 30, 2001 was $1,834.9 million compared with $2,062.9 million at December 31, 2000. Debt was repaid using cash flow from operations and $55.9 million in proceeds from the disposal or sale of assets. The debt to equity ratio was 0.56 at September 30, 2001 compared with 0.68 at December 31, 2000.

At September 30, 2001, the Company had $1,278.3 million of credit facilities with commercial banks, of which $800.5 million was committed. These facilities are subject to normal banking terms and conditions that do not significantly restrict the Company's activities.

DERIVATIVE AND HEDGE ACCOUNTING

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities that require an entity to recognize all derivatives as an asset or liability measured at fair value. Depending on the intended use of the derivative and its effectiveness, changes in its fair value will be reported in the period of change as either a component of earnings or a component of other comprehensive income. The adoption of SFAS No. 133 on January 1, 2001 resulted in a gain of $0.8 million, net of tax, recorded as the cumulative effect of an accounting change in the consolidated condensed statement of operations and a gain of $1.2 million, net of tax, recorded in accumulated other comprehensive income.

EURO CONVERSION

A single European currency (the "Euro") was introduced on January 1, 1999, at which time the conversion rates between the old, or legacy, currencies and the Euro were set for participating member countries. However, the legacy currencies in those countries will continue to be used as legal tender through December 31, 2001. Thereafter, the legacy currencies will be canceled, and Euro bills and coins will be used in the participating countries.

Most of the Company's products and services are essentially priced with reference to the U.S. dollar. As a result, the Company does not believe that it will be subject to a significant increase in pricing transparency due to the introduction of the Euro. The Company's customers may require billing in two or more currencies. Until the Company's financial computer systems are modified or replaced to handle Euro-denominated transactions, the Company will, in most cases, need to apply a methodology whereby legacy currencies are first converted into Euros according to a legally prescribed fixed exchange ratio and then, when the customer requires, converted from Euros to a second national currency. The Company does not believe that this conversion will materially affect its contracts. Most of the Company's contracts are either bids in response to requests for tenders or purchase orders, both of which are short term in nature. Longer term contracts are sufficiently flexible to permit pricing in multiple currencies. The Euro conversion period is longer than most of the pricing features of these contracts, thus permitting a pricing conversion to the Euro as new orders are issued. The same is true with most of the Company's contracts with vendors.

During 1997, the Company began a multi-year initiative designed to develop and implement an enterprise-wide software system. The initiative, named "Project Renaissance," utilizes SAP R/3 as its software platform across all significant operations of the Company. SAP R/3 is programmed to process in Euros for most of the Company's accounting, financial and operational functions, and the Company expects that the implementation of this system will address its Euro issues in these areas. Because the Company has engaged in this implementation for operational purposes and not solely to address Euro issues, the Company has not separately determined the cost of converting these systems for use with the Euro. These Euro conversion costs are embedded in the cost of Project Renaissance and are not susceptible to separate quantification. The Company has completed or will complete implementation of SAP R/3 in its major European operations prior to December 31, 2001. In operations where SAP R/3 will not be implemented, the Company will make certain modifications to its legacy computer systems, or replace them, to address certain Euro conversion issues. The Company began converting certain legacy currency based financial records to the Euro beginning in January 2001, and as of October 31, 2001, had completed a conversion of all significant operations. The financial records of the remaining operations are expected to be converted by December 15, 2001.

The Company continues to assess the impact of the Euro on its operations and financial, accounting and operational systems. The Company does not presently anticipate that the transition to the Euro will have a significant impact on its results of operations, financial position or cash flows.

The words "anticipate," "will," "may," and "expects" are intended to identify a Forward-Looking Statement in " - Euro Conversion." The Company's anticipation regarding the lack of significance of the Euro introduction on the Company's operations is only its forecast regarding this matter. This forecast may be substantially different from actual results, which are affected by factors such as the following: unforeseen difficulties in remediating specific computer systems to accommodate the Euro due to the complexity of hardware and software; the failure of the Company to implement SAP R/3 or another Euro compliant computer system in a geographic location that prices in Euros; the inability of third parties to adequately address their own Euro systems issues, including vendors, contractors, financial institutions, U.S. and foreign governments and customers; the delay in completion of a phase of the Company's remediation of a computer system to accommodate the Euro necessary to begin a later phase; the discovery of a greater number of hardware and software systems or technologies with material Euro issues than the Company presently anticipates; and the lack of alternatives that the Company previously believed existed.

ITEM 3. QUANTITATIVE AND QUALITATIVE MARKET RISK DISCLOSURES

During the quarter, the Company entered into two crude oil contracts (costless collars) to mitigate price risk associated with the Company's interest in an oil producing property in Nigeria. Both contracts used Dated Brent as the reference commodity. The Company entered into the first contract on August 2, 2001. This contract established a cap of $27.00 and a floor of $23.25 for the five-month period ending December 31, 2001. The Company entered into the second contract on September 14, 2001. This contract established a cap of $27.50 and a floor of $23.50 for the six-month period ending June 30, 2002. The fair market value of these contracts at September 30, 2001 resulted in an asset of $1.1 million and an asset $2.7 million, respectively. Due to the value of the contracts and the Company's opinion that current oil prices would not be sustainable, the Company elected to terminate these contracts prior to their maturity date. Accordingly, both contracts were terminated on October 3, 2001, and the Company received a cash payment of $4.4 million.

At September 30, 2001, the Company had entered into foreign currency forward contracts with notional amounts of $0.4 million, $5.1 million and $0.8 million to hedge exposure to currency fluctuations in the Euro, Canadian Dollar and Indonesian Rupiah, respectively. At September 30, 2001, the fair market value of these forward contracts, based on quoted market prices for contracts with similar terms and maturity dates, was a $0.2 million liability.

Certain borrowings of the Company are denominated in currencies other than its functional currency. At September 30, 2001, these nonfunctional currency borrowings totaled $14.7 million with exposures primarily between the U.S. Dollar and the Euro, the Saudi Riyal, the Brazilian Real and the Thai Baht. A 10% appreciation of the U.S. Dollar against these currencies would not have a significant effect on the future earnings of the Company.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has been named as a defendant in a number of shareholder class action securities fraud suits that purported stockholders of the Company filed shortly after the Company's announcement on December 8, 1999 regarding the accounting issues that the Company discovered at its Baker Hughes INTEQ division. These suits were consolidated into one lawsuit in the federal district court for the Southern District of Texas pursuant to the Private Securities Litigation Reform Act of 1995. The court dismissed this suit in March 2001, and the plaintiffs filed an appeal with respect to the dismissal in April 2001 in the U.S. Fifth Circuit Court of Appeals. The Company believes the allegations in this suit are without merit and that the plaintiffs will be unsuccessful in their appeal. The Company intends to vigorously contest the appeal and defend the suit if the plaintiffs are successful on appeal. Even so, an adverse outcome on appeal and in any subsequent litigation could have an adverse impact on the Company's results of operations or financial condition.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3.2 Bylaws, as amended on October 25, 2001.

(b) Reports on Form 8-K:

A Current Report on Form 8-K was filed with the Commission on July 6, 2001, reporting the issuance of a press release whereby the Company had offered to consent to the entry of a cease-and-desist order with the U.S. Securities and Exchange Commission.

A Current Report on Form 8-K was filed with the Commission on September 12, 2001, reporting the issuance by the Commission of the order in the Administrative Proceeding related to the matter reported in the Current Report on Form 8-K filed on July 6, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BAKER HUGHES INCORPORATED
(REGISTRANT)

Date: November 13, 2001	*By: /s/ G. STEPHEN FINLEY* *---* *Sr. Vice President - Finance and Administration and Chief Financial Officer (principal financial officer)*
Date: November 13, 2001	*By: /s/ ALAN J. KEIFER* *---* *Vice President and Controller (principal accounting officer)*

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.2	Bylaws, as amended on October 25, 2001.

EXHIBIT 3.2

BYLAWS
OF
BAKER HUGHES INCORPORATED

As Amended October 25, 2001

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BYLAWS
OF
BAKER HUGHES INCORPORATED

ARTICLE I

Offices

Section 1. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

Meetings of Stockholders

Section 1. All meetings of the stockholders shall be held at such place either within or without the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting.

Section 2. An annual meeting of stockholders shall be held on the fourth Wednesday in April in each year, if not a legal holiday, and if a legal holiday, then on the next business day following, at 11:00 a.m. or at such other date and time as may be determined from time to time by resolution adopted by the Board of Directors, for the purpose of electing, subject to Article III,
Section 2 hereof, one class of the directors of the Corporation, and transacting such other business as may properly be brought before the meeting.

Section 3. A majority of the stock issued and outstanding and entitled to vote at any meeting of stockholders, the holders of which are present in person or represented by proxy, without regard to class or series, shall constitute a quorum for the transaction of business except as otherwise provided by law, by the Certificate of Incorporation, or by these Bylaws. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum and the votes present may continue to transact business until adjournment provided that any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, a majority of the voting stock represented in person or by proxy may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote thereat.

Section 4. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or the Certificate of Incorporation or these Bylaws, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 5. At each meeting of the stockholders, each stockholder having the right to vote may vote in person or may authorize another person or persons to act for him by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless said instrument provides for a longer period. All proxies must be filed with the Secretary of the Corporation at the beginning of each meeting in order to be counted in any vote at the meeting. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. Each stockholder shall have one vote for each share of stock having voting power, registered in his name on the books of the Corporation on the record date set by the Board of Directors as provided in Article V, Section 6 hereof.

Section 6. Special meetings of the stockholders, for any purpose, or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called at any time by the Board of Directors or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose powers and authority, as provided in a resolution of the Board of Directors or in these Bylaws, include the power to call such meetings. Special meetings of stockholders of the Corporation may not be called by any other person or persons. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 7. Any notice requested to be given to stockholders by statute, the Certificate of Incorporation or these Bylaws, including notice of any meeting of stockholders, shall be given personally, by first-class mail or by telegraphic communication, charges prepaid, addressed to the stockholder at the address of such stockholder appearing on the books of the Corporation or given by the stockholder to the Corporation for the purpose of notice. If no such address appears on the Corporation's books or has been so given, notice shall be deemed to have been given if sent by first-class mail or telegraphic communication to the Corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where such principal executive office is located. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram.

If any notice addressed to a stockholder at the address of such stockholder appearing on the books of a Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the stockholder at such address, all further notices shall be deemed to have been duly given without further mailing if the same shall be available to the stockholder upon written demand of the stockholder at the principal executive office of the Corporation for a period of one year from the date of the giving of such notice.

Section 8. Attendance of a person at a meeting shall constitute a waiver of notice to such person of such meeting, except when the person objects at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened, or objects to the consideration of matters not included in the notice of the meeting.

Section 9. The officer or agent who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where their meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept open at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine such list or to vote at any meetings of stockholders.

Section 10. No action shall be taken by stockholders except at an annual or special meeting of stockholders, and stockholders may not act by written consent.

Section 11. Before any meeting of stockholders, the Board of Directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the chairman of the meeting may, and on the request of any stockholder or a stockholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one or three. If inspectors are appointed at a meeting on the request of one or more stockholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one or three inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill such vacancy.

The duties of these inspectors shall be as follows:

(a) Determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies;

(b) Receive votes or ballots;

(c) Hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) Count and tabulate all votes;

(e) Determine when the polls shall close;

(f) Determine the results; and

(g) Do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

Section 12. Meetings of the stockholders shall be presided over by the Chairman of the Board of Directors, or in his absence, by the Vice Chairman, the President or by any Vice President, or, in the absence of any of such officers, by a chairman to be chosen by a majority of the stockholders entitled to vote at the meeting who are present in person or by proxy. The Secretary, or, in his absence, any person appointed by the chairman, shall act as secretary of all meetings of the stockholders.

Section 13. The order of business at all meetings of stockholders shall be as determined by the chairman of the meeting.

Section 14. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting of the stockholders except in accordance with the procedures hereinafter set forth in this Section 14; provided, however, that nothing in this Section 14 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with said procedures.

At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (1) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, (2) otherwise properly brought before the meeting by or at the direction of the Board, or (3) otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than one hundred twenty (120) days in advance of the first annual anniversary of the date of the Corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) calendar days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. Any adjournment(s) or postponement(s) of the original meeting whereby the meeting will reconvene within 30 days from the original date shall be deemed for purposes of notice to be a continuation of the original meeting and no business may be brought before any such reconvened meeting unless timely notice of such business was given to the Secretary of the Corporation for the meeting as originally scheduled. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and their reasons for conducting such business at the annual meeting,
(ii) the name and record address of the stockholder proposing such business,
(iii) the class and number of shares of the Corporation which are beneficially owned by the stockholders, and (iv) any material interest of the stockholder in such business.

The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 14, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 15. Notwithstanding anything in these Bylaws to the contrary, only persons who are nominated in accordance with the procedures hereinafter set forth in this Section 15 shall be eligible for election as directors of the Corporation.

Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders only (1) by or at the direction of the Board of Directors or (2) by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 15. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 120 days, nor more than 150 days, in advance of the first annual anniversary of the date of the Corporation's proxy statement released to stockholders in connection with the previous year's annual meeting of stockholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. Any adjournment(s) or postponement(s) of the original meeting whereby the meeting will reconvene within thirty (30) days from the original date shall be deemed for purposes of notice to be a continuation of the original meeting and no nominations by a shareholder of persons to be elected directors of the Corporation may be made at any such reconvened meeting other than pursuant to a notice that was timely for the meeting on the date originally scheduled. Such stockholder's notice shall set forth: (i) as to each person whom the stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or any successor regulation thereto (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (ii) as to the stockholder giving notice (A) the name and address, as they appear on the Corporation's books, of such stockholder, and (B) the class and number of shares of the Corporation which are beneficially owned by such stockholder. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by this Section 15, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III

Directors

Section 1. The Board of Directors shall consist of a minimum of nine
(9) and a maximum of twelve (12) directors. The number of directors shall be fixed from time to time within the minimum and the maximum number established by the then elected Board of Directors. The number of directors until changed by the Board shall be twelve (12). The maximum number of directors may not be increased by the Board of Directors

to exceed sixteen without the affirmative vote of 75% of the members of the entire Board. The directors need not be stockholders. No officer of the Corporation may serve on a board of directors of any company having a present or retired employee on the Corporation's Board of Directors. No person may stand for election as a director if within the previous one (1) year he has resigned from the Board as a result of the tenure provisions of Article III, Section 3 hereof regarding service for more than ten (10), eleven (11) or twelve (12) consecutive years on the Board. No person associated with an organization whose services are contracted by the Corporation shall serve on the Corporation's Board of Directors; provided, however, that this prohibition may be waived by a majority of the members of the whole Board if the Board in its judgment determines that such waiver would be in the best interest of the Corporation.

Section 2. The Board of Directors shall be divided into three classes, Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of directors by three, and if a fraction is also contained in such quotient then if such fraction is one-third (1/3), the extra director shall be a member of Class III, and if the fraction is two-thirds (2/3), one of the extra directors shall be a member of Class III and the other a member of Class II. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, however, that the directors initially appointed to Class I shall serve for a term ending on the date of the first annual meeting next following September 30, 1988, the directors initially appointed to Class II shall serve for a term ending on the date of the second annual meeting next following September 30, 1988, and the directors initially appointed to Class III shall serve for a term ending on the date of the third annual meeting next following September 30, 1988. One class of the directors shall be elected at each annual meeting of the stockholders. If any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of stockholders held for that purpose. All directors shall hold office until their respective successors are elected and qualified or until their earlier death, resignation or removal.

Section 3. Directors who are employees of the Corporation must resign from the Board of Directors at the time of any diminution in their duties or responsibilities as an officer, at the time they leave the employ of the Corporation for any reason or on their 70th birthday. A director's term of office shall automatically terminate on the date of the annual meeting of stockholders following: (i) his seventieth (70th) birthday; (ii) the third anniversary of his retirement from his principal occupation; (iii) unless he is an officer of the Corporation, the date on which he has served on the Corporation's Board of Directors a total of ten (10) complete years; (iv) any fiscal year in which he has failed to attend at least sixty-six percent (66%) of the meetings of the Board of Directors and any committees of the Board of Directors on which such director serves; or (v) the first anniversary of any change in his employment (other than a promotion or lateral movement within the same organization). The above requirements of Section 3 of Article III may be waived by a majority of the members of the whole Board (excluding the director whose resignation would otherwise be required) if the Board in its judgment determines that such waiver would be in the best interest of the Corporation. Any director may be removed for cause by the holders of a majority of the shares of the Corporation entitled to vote in the election of directors; stockholders may not remove any director without cause. The Board of Directors may not remove any director for or without cause, and no recommendation by the Board of Directors that a director be removed for cause may be made to the stockholders except by the affirmative vote of not less than seventy-five percent (75%) of the members of the whole Board; provided that

the Board may remove any director who fails to resign as required by the provisions of these Bylaws.

Section 4. Except as otherwise provided by statute or the Certificate of Incorporation, in the case of any increase in the number of directors, such additional director or directors shall be proposed for election to terms of office that will most nearly result in each class of directors containing one-third (1/3) of the entire number of members of the whole Board, and, unless such position is to be filled by a vote of the stockholders at an annual or special meeting, shall be elected by a majority vote of the directors in such class or classes, voting separately by class. In the case of any vacancy in the Board of Directors, however created, the vacancy or vacancies shall be filled by majority vote of the directors remaining in the class in which the vacancy occurs or, if only one such director remains, by such director. In the event one or more directors shall resign, effective at a future date, such vacancy or vacancies shall be filled as provided herein. Directors so chosen or elected shall hold office for the remaining term of the directorship to which appointed. Any director elected or chosen as provided herein shall serve for the unexpired term of office or until his successor is elected and qualified or until his earlier death, resignation or removal.

In the event of any decrease in the authorized number of directors, (a) each director then serving as such shall nevertheless continue as a director of the class of which he is a member until the expiration of this current term, or his prior death, resignation or removal, and (b) the newly eliminated directorships resulting from such decrease shall be apportioned by the Board of Directors to such class or classes as shall, so far as possible, bring the number of directors in the respective classes into conformity with the formula in Section 2 hereof as applied to the newly authorized number of directors.

Section 5. The property and business of the Corporation shall be managed by or under the direction of its Board of Directors. In addition to the powers and authorities by these Bylaws expressly conferred upon them, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute, by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Meetings of the Board of Directors

Section 6. The directors may hold their meetings and have one or more offices, and keep the books of the Corporation outside the State of Delaware.

Section 7. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board. Except as otherwise provided by statute, any business may be transacted at any regular meeting of the Board of Directors.

Section 8. Special meetings of the Board of Directors may be called by the Chairman of the Board, the Vice Chairman or the President on at least twenty-four hours' notice, or such shorter period as the person calling deems appropriate, to each director. Special meetings shall be called by the President or the Secretary in like manner and on like notice on the written request of any two directors unless the Board consists of only one director, in which case special meetings shall be called by the President or Secretary in like manner and on like notice on the written request of the sole director.

Section 9. At all meetings of the Board of Directors a majority of the authorized number of directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and the vote of a majority of the directors present at any meeting at which there is a quorum, shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute, by the Certificate of Incorporation or by these Bylaws. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. If only one director is authorized, such sole director shall constitute a quorum. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action is approved by at least a majority of the required quorum for such meeting.

Section 10. Unless otherwise restricted by statute, the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 11. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in a meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

Committees of Directors

Section 12. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each such committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. If no alternate members have been appointed, the committee member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. The Board of Directors shall, by resolution passed by a majority of the whole Board, designate one member of each committee as chairman of such committee. Each such chairman shall hold such office for a period not in excess of five years, and shall upon surrender of such chairmanship resign from membership on such committee. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, but no such committee shall have the power or authority to authorize an amendment to the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation, or fix the number or shares of any series of stock or authorize the increase or decrease of the shares of any series), adopt an agreement of

merger or consolidation, recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amend the Bylaws of the Corporation; and, unless the resolution or the Certificate of Incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger.

Section 13. Special meetings of committees may be called by the Chairman of such committee, the Chairman of the Board or the President, on at least twenty-four (24) hours' notice, or such shorter period as the person calling deems appropriate, to each member. Alternate members shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules of the government of any committee not inconsistent with the provisions of these Bylaws. If a committee is comprised of an odd number of members, a quorum shall consist of a majority of that number. If the committee is comprised of an even number of members, a quorum shall consist of one-half (1/2) of that number. If a committee is comprised of two members, a quorum shall consist of both members.

Section 14. Each Committee shall keep regular minutes of its meetings and report the same to the Board of Directors when requested.

Compensation of Directors

Section 15. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Indemnification

Section 16. (a) The Corporation shall indemnify every person who is or was a party or is or was threatened to be made a party to any threatened, pending or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that he is or was a director, officer or employee of the Corporation or any of its direct or indirect wholly-owned subsidiaries or, while a director, officer or employee of the Corporation or any of its direct or indirect wholly-owned subsidiaries, is or was serving at the request of the Corporation or any of its direct or indirect wholly-owned subsidiaries, as a director, officer or employee, of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including counsel fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, to the full extent permitted by applicable law; provided that the Corporation shall not be obligated to indemnify any such person against any such action, suit or proceeding which is brought by such person against the Corporation or any of its direct or indirect wholly-owned subsidiaries or the directors of the Corporation or any of its direct or indirect wholly-owned subsidiaries, other than an action brought by such person to enforce his rights to indemnification hereunder, unless a

majority of the Board of Directors of the Corporation shall have previously approved the bringing of such action, suit or proceeding, and provided further that the Corporation shall not be obligated to indemnify any such person against any action, suit or proceeding arising out of any adjudicated criminal, dishonest or fraudulent acts, errors or omissions of such person or any adjudicated willful, intentional or malicious acts, errors or omissions of such person.

(b) The Corporation shall indemnify every person who is or was a party or is or was threatened to be made a party to any threatened, pending or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was licensed to practice law and an employee (including an employee who is or was an officer) of the Corporation or any of its direct or indirect wholly-owned subsidiaries and, while acting in the course of such employment committed or is alleged to have committed any negligent acts, errors or omissions in rendering professional legal services at the request of the Corporation or pursuant to his employment (including, without limitation, rendering written or oral legal opinions to third parties) against expenses (including counsel fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, to the full extent permitted by applicable law; provided that the Corporation shall not be obligated to indemnify any such person against any action, suit or proceeding arising out of any adjudicated criminal, dishonest or fraudulent acts, errors or omissions of such person or any adjudicated willful, intentional or malicious acts, errors or omissions of such person.

(c) The Corporation shall indemnify every person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, or employee of the Corporation, or any of its direct or indirect wholly-owned subsidiaries or, while a director, officer, or employee of the Corporation or any of its direct or indirect wholly-owned subsidiaries, is or was serving at the request of the Corporation or any of its direct or indirect wholly-owned subsidiaries, as a director, officer, or employee of another corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(d) To the extent that a director, officer, or employee of the Corporation, or any of its direct or indirect wholly-owned subsidiaries, has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a), (b) and (c) of this section, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(e) Any indemnification under subsections (a), (b) and (c) of this section (unless ordered by a court) shall be made by the Corporation only as authorized in the

specific case upon a determination that indemnification of the director, officer, or employee is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a), (b) and (c) of this section. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

(f) Expenses (including attorneys' fees) incurred by an officer or director of the Corporation or any of its direct or indirect wholly-owned subsidiaries in defending a civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Section 16. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

(g) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 16 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any provision of law, the Corporation's Certificate of Incorporation, the Certificate of Incorporation or Bylaws or other governing documents of any direct or indirect wholly-owned subsidiary of the Corporation, or any agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding any of the positions or having any of the relationships referred to in this Section 16.

(h) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 16 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE IV

Officers

Section 1. The officers of the Corporation shall be a Chairman of the Board, a Vice Chairman of the Board, a President, a Chief Financial Officer, a Vice President, a Secretary, a Treasurer and a Controller. The Corporation may also have, at the discretion of the Board of Directors, one or more additional Vice Presidents, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article.

Section 2. The officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article, shall be chosen by the Board of Directors, and each shall serve at the pleasure of the Board, subject to the rights, if any, of any officer under any contract of employment.

Section 3. The Board of Directors may appoint, and may empower the President to appoint, such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the Board of Directors may from time to time determine.

Section 4. Any officer may be removed, either with or without cause, by the Board of Directors, at any regular or special meeting thereof, or except in case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors, provided that such removal shall not prejudice the remedy of such officer for breach of any contract of employment.

Any officer may resign at any time by giving written notice to the Corporation. Any such resignation shall take effect on receipt of such notice or at any later time specified therein. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any such resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 5. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to such office.

Section 6. The Chairman of the Board shall, if present, preside at all meetings of the Board of Directors and of the stockholders, and shall exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by the Bylaws.

Section 7. The Vice Chairman of the Board shall exercise and perform such powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed in these Bylaws. In the absence of the Chairman of the Board, the Vice Chairman of the Board shall preside at all meetings of the stockholders and the Board of Directors.

Section 8. The President shall be the chief executive officer of the Corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and the officers of the Corporation. In the absence of the Chairman of the Board and the Vice Chairman of the Board, the President shall preside at all meetings of the stockholders and the Board of Directors. He shall have the general powers and duties of management usually vested in the office of President of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or the Bylaws.

Section 9. In the absence or disability of the President, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors, or if not ranked, the Vice President designated by the President, shall perform all the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, these Bylaws or the President.

Section 10. The Secretary shall keep or cause to be kept, at the principal office or such other place as the Board of Directors may order, a book of minutes of all meetings and actions of directors, committees of directors and stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at directors' and committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The Secretary shall keep, or cause to be kept, at the principal office or at the office of the Corporation's transfer agent or registrar, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors required by these Bylaws or by law to be given, and he shall keep the seal of the Corporation, if one be adopted, in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by the Bylaws.

Section 11. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall be open at all times to inspection by any director.

The Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and Directors, whenever they request it, an account of all of his transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws.

Section 12. The Treasurer and the Controller shall each have such powers and perform such duties as from time to time may be prescribed for him by the Board of Directors, the President or these Bylaws.

ARTICLE V

Certificate of Stock

Section 1. Shares of the stock of the Corporation may be represented by certificates or uncertificated. Owners of shares of the stock of the Corporation shall be recorded in the share register of the Corporation, and ownership of such shares shall be evidenced by a certificate or book-entry notation in the share register of the Corporation. Any certificates representing such shares shall be signed by, or in the name of the Corporation by, the Chairman or Vice Chairman of the Board of Directors, or the President or a Vice President, and by the Secretary or any Assistant Secretary, if one be appointed, or the Treasurer or an Assistant Treasurer of the Corporation, certifying the number of shares represented by the certificate owned by such stockholder in the Corporation.

Section 2. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 3. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided by statute, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Lost, Stolen or Destroyed Certificates

Section 4. The Board of Directors, the Secretary and the Treasurer each may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the owner of such certificate, or his legal representative. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to furnish the Corporation a bond in such form and substance and with such surety as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Transfers of Stock

Section 5. Upon surrender to the Corporation, or the transfer agent of the Corporation, of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate or other evidence of such new shares to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Uncertificated shares shall be transferred in the share register of the Corporation upon the written instruction originated by the appropriate person to transfer the shares.

Fixing Record Date

Section 6. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of the stockholders, or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Registered Stockholder

Section 7. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of Delaware.

ARTICLE VI

General Provisions

Dividends

Section 1. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of the Corporation's capital stock, subject to the provisions of the Certificate of Incorporation.

Section 2. Before declaration of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, thinks proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interests of the Corporation, and the Board of Directors may thereafter abolish any such reserve in its absolute discretion.

Checks

Section 3. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Corporation shall be signed by such officer or officers as the Board of Directors or the President or any Vice President, acting jointly, may from time to time designate.

Section 4. The President, any Vice President, the Secretary or the Treasurer may enter into contracts and execute instruments on behalf of the Corporation. The Board of Directors, the President or any Vice President may authorize any officer or officers, and any employee or employees or agent or agents of the Corporation or any of its subsidiaries, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Fiscal Year

Section 5. The fiscal year of the Corporation shall be January 1 through December 31, unless otherwise fixed by resolution of the Board of Directors.

Notices

Section 6. Whenever, under the provisions of the statutes, the Certificate of Incorporation or these Bylaws, notice is required to be given to any director, it shall not be construed to require personal notice, but such notice may be given in writing, by mail, addressed to such director, at his address as it appears on the records of the Corporation (unless prior to mailing of such notice he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case such notice shall be mailed to the address designated in the request) with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail; provided, however, that, in the case of notice of a special meeting of the Board of Directors, if such meeting is to be held within seven calendar days after the date of such notice, notice shall be deemed given as of the date such notice shall be accepted for delivery by a courier service that provides "opening of business next day" delivery, so long as at least one attempt shall have been made, on or before the date such notice is accepted for delivery by such courier service, to provide notice by telephone to each director at his principal place of business and at his principal residence. Notice to directors may also be given by telegram, by personal delivery, by telephone or by facsimile.

Section 7. Whenever any notice is required to be given under the provisions of the statutes, the Certificate of Incorporation or these Bylaws, a waiver thereof in writing, or by telegraph, cable or other written form of recorded communication, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Annual Statement

Section 8. The Board of Directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the Corporation.

ARTICLE VII

Amendments

Section 1. Except any amendment to this Article VII and to Article II,
Section 6, Article II, Section 10, Article III, Section 1 (as it relates to increases in the number of directors), Article III, Section 2, the last sentence of Article III, Section 3 (as it relates to removal of directors), Article III,
Section 4, Article III, Section 16 and Article VI, Section 6 of these Bylaws, or any of such provisions, which shall require approval by the affirmative vote of directors representing at least seventy-five percent (75%) of the number of directors provided for in accordance with Article III, Section 1, and except as otherwise expressly provided in a bylaw adopted by the stockholders as hereinafter provided, the directors, by the affirmative vote of a majority of the whole Board and without the assent or vote of the stockholders, may at any meeting, make, repeal, alter, amend or rescind any of these Bylaws, provided the substance of the proposed amendment or other action shall have been stated in a notice of the meeting.

Section 2. These Bylaws may not be altered, amended or rescinded, and new Bylaws may not be adopted, by the stockholders of the Corporation except by the vote of the holders of not less than seventy-five percent (75%) of the total voting power of all shares of stock of the Corporation entitled to vote in the election of directors, considered for such purpose as one class.

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