

# ENSCO PLC

## FORM 10-Q (Quarterly Report)

Filed 08/12/02 for the Period Ending 06/30/02

|             |                                   |
|-------------|-----------------------------------|
| Telephone   | 4402076594660                     |
| CIK         | 0000314808                        |
| Symbol      | ESV                               |
| SIC Code    | 1381 - Drilling Oil and Gas Wells |
| Industry    | Oil Well Services & Equipment     |
| Sector      | Energy                            |
| Fiscal Year | 12/31                             |

# ENSCO INTERNATIONAL INC

## FORM 10-Q (Quarterly Report)

Filed 8/12/2002 For Period Ending 6/30/2002

|             |   |
|-------------|---|
| Address     | 500 NORTH AKARD STREET SUITE 4300<br>DALLAS, Texas 75201-3331 |
| Telephone   | 214-397-3000  |
| CIK         | 0000314808  |
| Industry    | Oil Well Services & Equipment                                 |
| Sector      | Energy  |
| Fiscal Year | 12/31   |

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

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-8097

**ENSCO International Incorporated**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**76-0232579**

(I.R.S. Employer  
Identification No.)

**2700 Fountain Place  
1445 Ross Avenue**

**Dallas, Texas**

(Address of principal executive offices)

**75202-2792**

(Zip Code)

Registrant's telephone number, including area code: **(214) 922-1500**

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  No

There were 148,793,561 shares of Common Stock, \$.10 par value, of the registrant outstanding as of August 8, 2002.

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**ENSCO INTERNATIONAL INCORPORATED**

**INDEX TO FORM 10-Q**

# FOR THE QUARTER ENDED JUNE 30, 2002

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## **PART I - FINANCIAL INFORMATION**

### **Item 1. *Financial Statements***

#### **REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors  
of ENSCO International Incorporated

We have reviewed the accompanying consolidated balance sheet of ENSCO International Incorporated (the Company) (a Delaware corporation), as of June 30, 2002, and the related consolidated statements of income for the three-month and six-month periods ended June

30, 2002 and 2001, and the consolidated statement of cash flows for the six-month periods ended June 30, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of ENSCO International Incorporated as of December 31, 2001, and the related consolidated statements of income and cash flows for the year then ended and in our report dated June 24, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 7 to the consolidated financial statements, the Company no longer records amortization expense for goodwill in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets".

/s/ KPMG LLP

Dallas, Texas  
July 17, 2002

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**ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
(In millions, except per share amounts)  
(Unaudited)

|                               | <b>Three Months Ended</b> |                    |
|-------------------------------|---------------------------|--------------------|
|                               | <b>June 30,</b>           |                    |
|                               | <b><u>2002</u></b>        | <b><u>2001</u></b> |
| OPERATING REVENUES            | \$157.2                   | \$215.5            |
| OPERATING EXPENSES            |                           |                    |
| Operating costs               | 84.3                      | 89.7               |
| Depreciation and amortization | 29.4                      | 29.1               |
| General and administrative    | 4.6                       | 4.2                |
|                               | <hr/>                     | <hr/>              |
|                               | 118.3                     | 123.0              |
|                               | <hr/>                     | <hr/>              |
| OPERATING INCOME              | 38.9                      | 92.5               |

|  |         |         |
|--|---------|---------|
| OTHER INCOME (EXPENSE)                     |         |         |
| Interest income                            | 1.6     | 2.3     |
| Interest expense, net                      | (8.1)   | (8.5)   |
| Other, net                                 | --      | --      |
|  | (6.5)   | (6.2)   |
| <hr/>                                      |         |         |
| INCOME BEFORE INCOME TAXES                 | 32.4    | 86.3    |
| PROVISION FOR INCOME TAXES                 |         |         |
| Current income taxes                       | 3.0     | 16.8    |
| Deferred income taxes                      | 6.1     | 8.3     |
|  | 9.1     | 25.1    |
| <hr/>                                      |         |         |
| NET INCOME                                 | \$ 23.3 | \$ 61.2 |
| <hr/>                                      |         |         |
| EARNINGS PER SHARE                         |         |         |
| Basic                                      | \$ .17  | \$ .44  |
| Diluted                                    | .17     | .44     |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING |         |         |
| Basic                                      | 135.3   | 138.5   |
| Diluted                                    | 136.2   | 139.7   |
| CASH DIVIDENDS PER SHARE                   |         |         |
|  | \$ .025 | \$ .025 |

The accompanying notes are an integral part of these financial statements.

**ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
(In millions, except per share amounts)  
(Unaudited)

|                               | <b>Six Months Ended</b> |                    |
|-------------------------------|-------------------------|--------------------|
|                               | <b>June 30,</b>         |                    |
|                               | <b><u>2002</u></b>      | <b><u>2001</u></b> |
| OPERATING REVENUES            | \$299.5                 | \$410.8            |
| OPERATING EXPENSES            |                         |                    |
| Operating costs               | 172.6                   | 179.3              |
| Depreciation and amortization | 57.9                    | 58.0               |
| General and administrative    | 9.0                     | 7.9                |
|                               | 239.5                   | 245.2              |
| <hr/>                         |                         |                    |
| OPERATING INCOME              | 60.0                    | 165.6              |
| OTHER INCOME (EXPENSE)        |                         |                    |
| Interest income               | 3.1                     | 4.6                |
| Interest expense, net         | (15.9)                  | (16.8)             |
| Other, net                    | 8.2                     | .2                 |
|                               | (4.6)                   | (12.0)             |
| <hr/>                         |                         |                    |
| INCOME BEFORE INCOME TAXES    | 55.4                    | 153.6              |

|  |        |         |
|--|--------|---------|
| PROVISION FOR INCOME TAXES                 |        |         |
| Current income taxes                       | 5.0    | 30.3    |
| Deferred income taxes                      | 10.9   | 15.2    |
|  | 15.9   | 45.5    |
| <hr/>                                      |        |         |
| NET INCOME                                 | \$39.5 | \$108.1 |
| <hr/>                                      |        |         |
| EARNINGS PER SHARE                         |        |         |
| Basic                                      | \$ .29 | \$ .78  |
| Diluted                                    | .29    | .77     |
| <hr/>                                      |        |         |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING |        |         |
| Basic                                      | 135.0  | 138.4   |
| Diluted                                    | 135.8  | 139.7   |
| <hr/>                                      |        |         |
| CASH DIVIDENDS PER SHARE                   | \$ .05 | \$ .05  |

The accompanying notes are an integral part of these financial statements.

**ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(In millions, except par value amounts)

|                                 | <u>June 30,</u><br><u>2002</u><br>(Unaudited) | <u>December 31,</u><br><u>2001</u> |
|---------------------------------|---|------------------------------------|
| <b>ASSETS</b>                   |   |                                    |
| CURRENT ASSETS                  |   |                                    |
| Cash and cash equivalents       | \$ 306.8                                      | \$ 278.8                           |
| Short-term investments          | 30.4  | 31.6                               |
| Accounts receivable, net        | 116.5   | 116.5                              |
| Prepaid expenses and other      | 36.2  | 34.4                               |
|                                 | <hr/>   |                                    |
| Total current assets            | 489.9   | 461.3                              |
| <hr/>                           |   |                                    |
| PROPERTY AND EQUIPMENT, AT COST | 2,420.6                                       | 2,386.6                            |
| Less accumulated depreciation   | 720.8   | 671.3                              |
|                                 | <hr/>   |                                    |
| Property and equipment, net     | 1,699.8                                       | 1,715.3                            |
| <hr/>                           |   |                                    |
| GOODWILL                        | 103.8   | 103.8                              |
| <hr/>                           |   |                                    |
| OTHER ASSETS, NET               | 68.1  | 43.4                               |
|                                 | <hr/>   |                                    |
|                                 | \$2,361.6                                     | \$2,323.8                          |
| <hr/>                           |   |                                    |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|                                      |        |         |
|--------------------------------------|--------|---------|
| CURRENT LIABILITIES                  |        |         |
| Accounts payable                     | \$ 8.8 | \$ 10.1 |
| Accrued liabilities                  | 107.0  | 126.5   |
| Current maturities of long-term debt | 12.7   | 12.7    |

|   |           |           |
|---|-----------|-----------|
| Total current liabilities   | 128.5     | 149.3     |
| LONG-TERM DEBT  | 456.2     | 462.4     |
| DEFERRED INCOME TAXES   | 270.4     | 259.1     |
| OTHER LIABILITIES   | 14.7      | 12.8      |
| COMMITMENTS AND CONTINGENCIES   |           |           |
| STOCKHOLDERS' EQUITY  |           |           |
| Preferred stock, \$1 par value, 20.0 million shares authorized and none issued                                | --        | --        |
| Common stock, \$.10 par value, 250.0 million shares authorized, 159.0 million and 157.8 million shares issued | 15.9      | 15.8      |
| Additional paid-in capital  | 918.5     | 888.6     |
| Retained earnings   | 822.9     | 790.2     |
| Restricted stock (unearned compensation)  | (5.4)     | (5.4)     |
| Accumulated other comprehensive loss  | (9.1)     | (9.9)     |
| Treasury stock, at cost, 23.6 million and 23.2 million shares   | (251.0)   | (239.1)   |
| Total stockholders' equity  | 1,491.8   | 1,440.2   |
|   | \$2,361.6 | \$2,323.8 |

The accompanying notes are an integral part of these financial statements.

## ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)  
(Unaudited)

|   | Six Months Ended<br>June 30, |             |
|---|------------------------------|-------------|
|   | <u>2002</u>                  | <u>2001</u> |
| OPERATING ACTIVITIES  |                              |             |
| Net income  | \$39.5                       | \$108.1     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |             |
| Depreciation and amortization   | 57.9                         | 58.0        |
| Deferred income tax provision   | 10.9                         | 15.2        |
| Tax benefit from stock compensation   | 2.7                          | 2.6         |
| Amortization of other assets  | 5.9                          | 4.4         |
| Net gain on asset dispositions  | (6.1)                        | (1.3)       |
| Other   | (.7)                         | .5          |
| Changes in operating assets and liabilities:                                      |                              |             |
| Increase in accounts receivable   | (.1)                         | (.5)        |
| Increase in prepaid expenses and other assets                                     | (8.8)                        | (11.1)      |
| Decrease in accounts payable  | (1.3)                        | (4.3)       |
| Decrease in accrued liabilities   | (16.8)                       | (5.4)       |
| Net cash provided by operating activities   | 83.1                         | 166.2       |

|  |         |         |
|--|---------|---------|
| <b>INVESTING ACTIVITIES</b>                    |         |         |
| Additions to property and equipment            | (95.9)  | (59.3)  |
| Proceeds from disposition of assets            | 24.0    | 2.3     |
| Sale (purchase) of investments                 | 14.9    | (13.6)  |
| <hr/>  |         |         |
| Net cash used by investing activities          | (57.0)  | (70.6)  |
| <hr/>  |         |         |
| <b>FINANCING ACTIVITIES</b>                    |         |         |
| Proceeds from long-term borrowings             | --      | 52.7    |
| Reduction of long-term borrowings              | (6.3)   | (6.3)   |
| Cash dividends paid                            | (6.8)   | (6.9)   |
| Proceeds from exercise of stock options        | 16.0    | 6.6     |
| Deferred financing costs                       | --      | (3.3)   |
| Repurchase of common stock                     | --      | (2.4)   |
| Other  | (1.0)   | (.4)    |
| <hr/>  |         |         |
| Net cash provided by financing activities      | 1.9     | 40.0    |
| <hr/>  |         |         |
| INCREASE IN CASH AND CASH EQUIVALENTS          | 28.0    | 135.6   |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 278.8   | 106.6   |
| <hr/>  |         |         |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$306.8 | \$242.2 |
| <hr/>  |         |         |

The accompanying notes are an integral part of these financial statements.

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**ENSCO INTERNATIONAL INCORPORATED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 1 - Unaudited Financial Statements**

The accompanying consolidated financial statements of ENSCO International Incorporated (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States, pursuant to the rules and regulations of the Securities and Exchange Commission included in the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial information included herein is unaudited but, in the opinion of management, includes all adjustments (consisting of normal recurring adjustments) which are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The December 31, 2001 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

The financial data for the three and six month periods ended June 30, 2002 and 2001 included herein have been subjected to a limited review by KPMG LLP, the registrant's independent accountants. The accompanying review report of independent accountants is not a report within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the

independent accountant's liability under Section 11 does not extend to it.

Results of operations for the three and six month periods ended June 30, 2002 are not necessarily indicative of results of operations which will be realized for the year ending December 31, 2002. It is recommended that these statements be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2001 included in the Company's Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on June 28, 2002.

In the first quarter of 2002, the Company settled an insurance claim related to the ENSCO 51, which sustained damage from a natural gas well fire. In connection with this settlement, the Company recognized a \$5.8 million gain, which has been included in "Other, net" under Other Income (Expense) in the accompanying consolidated statement of income for the six month period ended June 30, 2002.

In June 2002, construction and commissioning were completed on the ENSCO 102, a harsh environment rig, in which the Company owned a 25% interest and has a purchase option on the remaining 75%. The Company and the owner of the remaining 75% interest have contributed their respective ownership interests in the ENSCO 102 to a newly formed joint venture. The joint venture will charter the ENSCO 102 to the Company under a two-year agreement. The Company will account for the joint venture using the equity method of accounting.

## Note 2 - Earnings Per Share

For the three and six month periods ended June 30, 2002 and 2001, there were no adjustments to net income for purposes of calculating basic and diluted earnings per share. The following is a reconciliation of the weighted average common shares used in the basic and diluted earnings per share computations for the three and six month periods ended June 30, 2002 and 2001 (in millions):

|  | <u>Three Months</u>   |             | <u>Six Months</u>     |             |
|--|-----------------------|-------------|-----------------------|-------------|
|  | <u>Ended June 30,</u> | <u>2001</u> | <u>Ended June 30,</u> | <u>2001</u> |
|  | <u>2002</u>           | <u>2001</u> | <u>2002</u>           | <u>2001</u> |
| Weighted average common shares - basic   | 135.3                 | 138.5       | 135.0                 | 138.4       |
| Potentially dilutive common shares:      |                       |             |                       |             |
| Restricted stock grants                  | .1                    | .1          | .1                    | .1          |
| Stock options                            | .8                    | 1.1         | .7                    | 1.2         |
| Weighted average common shares - diluted | 136.2                 | 139.7       | 135.8                 | 139.7       |

Options to purchase 2.4 million shares and 2.2 million shares of common stock in the second quarters of 2002 and 2001, respectively, were not included in the computation of diluted earnings per share because the exercise price of the options exceeded the average market price of the common stock. Options to purchase 2.3 million shares and 171,000 shares of common stock in the six month periods ended June 30, 2002 and 2001, respectively, were not included in the computation of diluted earnings per share because the exercise price of the options exceeded the average market price of the common stock.

## Note 3 - Long-term Debt

On January 25, 2001, the Company issued \$190.0 million of 15-year bonds to provide long-term financing for the ENSCO 7500. The bonds are guaranteed by MARAD and are being repaid in 30 equal semiannual principal installments of \$6.3 million, which commenced in June 2001 and will end in December 2015. Interest on the bonds is payable

semiannually, in June and December, at a fixed rate of 6.36%. Net proceeds from the bond issuance totaled \$49.5 million after settlement of interest rate lock contracts, underwriting fees and repayment of an interim construction loan.

#### Note 4 - Derivative Financial Instruments

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended. The adoption of SFAS 133 had no impact on the Company's net income. However, in accordance with the provisions of SFAS 133, the Company recorded a one-time, non-cash transition adjustment to comprehensive income and the accumulated other comprehensive loss section of stockholders' equity effective January 1, 2001, as follows (in millions):

|   |        |
|---|--------|
| Recognition of outstanding derivative instruments at fair value | \$ 3.8 |
| Reclassification of unrealized losses on derivative instruments | 7.4    |
| <hr/>   |        |
| Total transition adjustment                                     | \$11.2 |

The \$3.8 million transition adjustment resulted from the recognition of the fair value of the Company's outstanding treasury rate lock agreements to set the interest rate on \$150.0 million of its pending 15-year bonds. The \$7.4 million transition adjustment resulted from the reclassification of unrealized losses on derivatives previously reported as deferred finance costs and included in other assets on the consolidated balance sheet. These unrealized losses are being reclassified from accumulated other comprehensive loss to interest expense over the life of the associated debt.

At June 30, 2002, the net unrealized losses on derivative instruments included in other comprehensive loss totaled \$8.0 million, and the Company estimates that \$50,000 of this amount will be reclassified into earnings during the next twelve months, including \$800,000 of unrealized losses reclassified to interest expense and \$750,000 of unrealized gains reclassified to operating expenses.

#### Note 5 - Comprehensive Income

The components of the Company's comprehensive income for the three and six month periods ended June 30, 2002 and 2001, are as follows (in millions):

|   | <u>Three Months Ended</u> |             | <u>Six Months Ended</u> |             |
|---|---------------------------|-------------|-------------------------|-------------|
|   | <u>2002</u>               | <u>2001</u> | <u>2002</u>             | <u>2001</u> |
| Net income  | \$23.3                    | \$61.2      | \$39.5                  | \$108.1     |
| Other comprehensive income (loss):  |                           |             |                         |             |
| Transition adjustment for cumulative effect of adopting SFAS 133  | --                        | --          | --                      | (11.2)      |
| Net change in fair value of derivatives   | 0.7                       | 0.7         | 0.8                     | 1.8         |
| Reclassification of unrealized gains and losses on derivatives from other comprehensive income (loss) into net income | 0.2                       | 0.2         | --                      | 0.4         |
| <hr/>   |                           |             |                         |             |
| Net other comprehensive income (loss)   | 0.9                       | 0.9         | 0.8                     | (9.0)       |
| <hr/>   |                           |             |                         |             |
| Total comprehensive income  | \$24.2                    | \$62.1      | \$ 40.3                 | \$ 99.1     |

The components of the accumulated other comprehensive loss section of stockholders'

equity at June 30, 2002 and December 31, 2001, are as follows (in millions):

|  | <u>June 30,<br/>2002</u> | <u>December 31,<br/>2001</u> |
|--|--------------------------|------------------------------|
| Cumulative translation adjustment          | \$1.1                    | \$1.1                        |
| Net unrealized losses on derivatives       | 8.0                      | 8.8                          |
| <hr/>                                      |                          |                              |
| Total accumulated other comprehensive loss | \$9.1                    | \$9.9                        |

## Note 6 - Segment Information

The Company's operations are categorized into two operating segments which are differentiated based on the core services provided by the Company, (1) contract drilling services and (2) marine transportation services. At June 30, 2002, the Company's contract drilling segment operated a fleet of 51 offshore drilling rigs, including 38 jackup rigs, seven barge rigs, five platform rigs and one semisubmersible rig. The Company's marine transportation segment operates a fleet of 28 oilfield support vessels. Operating income (loss) for each segment includes an allocation of general and administrative expenses of the Company's corporate office. Depreciation expense of the Company's corporate office is not allocated to the operating segments. Segment information for the three and six month periods ended June 30, 2002 and 2001 is as follows (in millions):

|                                    | INDUSTRY SEGMENT |                |       |         |
|------------------------------------|------------------|----------------|-------|---------|
|                                    | Contract         | Marine         |       | Total   |
|                                    | Drilling         | Transportation | Other |         |
| <b>Three Months Ended June 30,</b> |                  |                |       |         |
| <b><u>2002</u></b>                 |                  |                |       |         |
| Revenues                           | \$146.1          | \$ 11.1        | \$ -- | \$157.2 |
| Operating income (loss)            | 40.8             | (1.1)          | (.8)  | 38.9    |
| <b><u>2001</u></b>                 |                  |                |       |         |
| Revenues                           | \$197.8          | \$ 17.7        | \$ -- | \$215.5 |
| Operating income (loss)            | 86.9             | 6.2            | (.6)  | 92.5    |
| <b>Six Months Ended June 30,</b>   |                  |                |       |         |
| <b><u>2002</u></b>                 |                  |                |       |         |
| Revenues                           | \$276.1          | \$ 23.4        | \$ -- | \$299.5 |
| Operating income (loss)            | 61.8             | (.2)           | (1.6) | 60.0    |
| <b><u>2001</u></b>                 |                  |                |       |         |
| Revenues                           | \$378.3          | \$ 32.5        | \$ -- | \$410.8 |
| Operating income (loss)            | 156.6            | 10.1           | (1.1) | 165.6   |

## Note 7 - New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 supersedes Accounting Principles Board Opinion No. 17, "Intangible Assets," eliminates the requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and requires impairment testing and recognition for goodwill and intangible assets. SFAS 142 became effective for the Company on January 1, 2002.

The impact of the adoption of SFAS No. 142 on the Company's net income, basic earnings per share, and diluted earnings per share for the three and six month periods ended June 30, 2002 and 2001, as if the adoption took place on January 1, 2001, is presented in the following table (in millions except per share amounts):

|  | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |                |
|--|---------------------------|----------------|-------------------------|----------------|
|  | <b>June 30,</b>           |                | <b>June 30,</b>         |                |
|  | <b>2002</b>               | <b>2001</b>    | <b>2002</b>             | <b>2001</b>    |
| Reported net income                        | \$23.3                    | \$61.2         | \$39.5                  | \$108.1        |
| Add back goodwill amortization             | --                        | 0.8            | --                      | 1.5            |
| <b>Adjusted net income</b>                 | <b>\$23.3</b>             | <b>\$62.0</b>  | <b>\$39.5</b>           | <b>\$109.6</b> |
| Reported basic earnings per share          | \$ 0.17                   | \$ 0.44        | \$ 0.29                 | \$ 0.78        |
| Goodwill amortization                      | --                        | 0.01           | --                      | 0.01           |
| <b>Adjusted basic earnings per share</b>   | <b>\$ 0.17</b>            | <b>\$ 0.45</b> | <b>\$ 0.29</b>          | <b>\$ 0.79</b> |
| Reported diluted earnings per share        | \$ 0.17                   | \$ 0.44        | \$ 0.29                 | \$ 0.77        |
| Goodwill amortization                      | --                        | 0.01           | --                      | 0.01           |
| <b>Adjusted diluted earnings per share</b> | <b>\$ 0.17</b>            | <b>\$ 0.44</b> | <b>\$ 0.29</b>          | <b>\$ 0.78</b> |

As of January 1, 2002, the Company completed a goodwill impairment test, which involved the use of estimates related to the fair market value of the Company's reporting units to which goodwill was allocated. The test indicated the Company's goodwill was not impaired. At June 30, 2002, the Company's goodwill totaled \$103.8 million.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). This statement supercedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30"). SFAS 144 retains the fundamental provisions of SFAS 121 and the basic requirements of APB 30; however, it establishes a single accounting model to be used for long-lived assets to be disposed of by sale and it expands the presentation of discontinued operations to include more disposal transactions. The provisions of SFAS 144 became effective January 1, 2002. The Company's adoption of SFAS 144 did not have an impact on its financial position or results of operations.

### **Note 8 - Merger Announcement**

On May 14, 2002 the Company and Chiles Offshore Inc. ("Chiles") entered into a Merger Agreement (the "Merger agreement"), pursuant to which Chiles would be merged into the Company. The merger was completed August 7, 2002. In connection with the merger, each outstanding share of Chiles common stock was converted into the right to receive 0.6575 of a share of ENSCO common stock and \$5.25 in cash. The merger is intended to qualify as a tax-free reorganization. The Company issued approximately 13.3 million shares of its common stock and paid \$106.6 million to the Chiles stockholders.

The merger will be accounted for as a purchase business combination with ENSCO treated as the acquirer. Accordingly, the assets and liabilities of ENSCO are recorded at historical amounts, without restatement to fair values. The assets and liabilities of Chiles

will be revalued to estimated fair value at the date of the merger, with the excess of the purchase price over the sum of such fair values recorded as goodwill. The Company estimates the purchase price will be \$567.9 million, which includes the ENSCO common shares issued in the merger, valued at a \$33.65 per share average trading price of ENSCO common stock for a period of time immediately before and after the merger was announced, plus the \$106.6 million cash consideration paid to the Chiles stockholders, estimated direct merger fees and expenses and the estimated fair value of Chiles employee stock options.

## **Note 9 - Subsequent Events**

In July 2002, the Company cancelled its existing Credit Agreement and replaced it with a new \$250.0 million unsecured revolving credit agreement (the "New Credit Agreement") with a syndicate of banks. Advances under the New Credit Agreement bear interest at the LIBOR rate plus an applicable margin rate (currently .525%) depending on the Company's credit rating. The Company pays a commitment fee (currently .225% per annum) on the total \$250.0 million commitment, which also is based on the Company's credit rating. Additionally, the Company is required to pay a utilization fee of .25% per annum on outstanding advances under the facility if such advances exceed 33% of the total \$250.0 million commitment. The Company is required to maintain certain financial covenants under the New Credit Agreement, including a specified level of interest coverage, debt ratio and tangible net worth. The Company has no advances outstanding under the New Credit Agreement. The New Credit Agreement matures in July 2007, at which time all amounts outstanding under the facility are due.

On August 8, 2002, the Company paid \$51.2 million to retire all amounts outstanding under Chiles' revolving credit facility.

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

### **BUSINESS ENVIRONMENT**

ENSCO International Incorporated ("ENSCO" or the "Company") is one of the leading international providers of offshore drilling and marine transportation services to the oil and gas industry. The Company's operations are concentrated in the geographic regions of North America, Europe, Asia Pacific and South America.

Demand for the Company's services is significantly affected by worldwide expenditures for oil and gas drilling. Expenditures for oil and gas drilling may fluctuate substantially from year to year and from region to region. Such fluctuations result from many factors, including demand for oil and gas, regional and global economic conditions and expected changes therein, the political and legislative environments in the U.S. and other major countries, production levels and other activities of OPEC and other oil and gas producers, and the impact that these and other events have on the current and expected future pricing of oil and natural gas.

The Company's domestic offshore drilling operations are conducted in the Gulf of Mexico and the U.S. natural gas market largely determines domestic offshore drilling industry conditions. U.S. natural gas prices increased significantly during 2000, which

resulted in improved demand for offshore drilling rigs and an increasing trend in day rates for jackup rigs in the Gulf of Mexico through the first half of 2001. U.S. natural gas prices declined during 2001 and oil and gas companies reduced Gulf of Mexico exploration and development spending during the second half of 2001. Current domestic industry day rates remain significantly lower than those experienced during the first half of 2001. However, since the beginning of 2002, the Company has experienced some increases in day rates on its domestic jackup rigs.

Industry conditions in most international offshore drilling markets strengthened during 2001 due to increases in exploration and development spending by international oil companies. Demand and day rates for international jackup rigs increased in Asia Pacific and Europe during 2001 and such increased day rates have generally been sustained during the first half of 2002. However, a softening of drilling demand in Europe is expected to result in lower day rates for Europe jackup rigs during the second half of 2002.

There is some uncertainty with respect to the Company's South America barge rig fleet, whose operations have historically been concentrated on Lake Maracaibo in Venezuela. Currently, six of the Company's seven barge rigs are idle and three of the six idle barge rigs have not operated since early 1999. Lake Maracaibo market conditions have been depressed as a result of reduced or deferred exploration and development spending by Venezuela's national oil company and there currently is little indication or expectation that such spending will be increased in the near-term. In addition, a certain level of instability currently exists with respect to the economic and political situation in Venezuela. While several of the Company's barge rigs are suited for other markets, both locally and globally, such markets are not nearly as extensive as the markets available to jackup or semisubmersible rigs. Recently, one of the Company's idle barge rigs secured a commitment for work in Indonesia. The barge rig is being mobilized to a shipyard in Singapore where it will undergo certain enhancements in preparation for a contract that is expected to commence in December 2002.

On August 7, 2002, the Company completed its merger with Chiles Offshore Inc. ("Chiles"). In connection with the merger, the Company issued approximately 13.3 million shares of its common stock and paid \$106.6 million to the Chiles stockholders. The Company now has a fleet of 56 offshore rigs and 28 oilfield support vessels. The Company's offshore rig fleet consists of 43 premium jackup rigs (including one rig under construction and one rig operated through a joint venture), seven barge rigs, five platform rigs and one semisubmersible rig.

## RESULTS OF OPERATIONS

The Company's results for the three and six month periods ended June 30, 2002 generally reflect a weakened demand for drilling rigs in the Gulf of Mexico and the resulting decrease in industry day rates, as compared to the corresponding prior year period. The reduced operating results in domestic drilling operations is somewhat offset by the continued strength of the Company's international operations in Europe and Asia Pacific, where demand and day rates have increased for the three and six month periods ended June 30, 2002, as compared to the corresponding prior year periods.

The following analysis highlights the Company's consolidated operating results, revenues and operating margin for the three and six month periods ended June 30, 2002 and 2001 (in millions):

| Three Months Ended |             | Six Months Ended |             |
|--------------------|-------------|------------------|-------------|
| June 30,           |             | June 30,         |             |
| <u>2002</u>        | <u>2001</u> | <u>2002</u>      | <u>2001</u> |

**Operating Results**

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Revenues   | \$157.2 | \$215.5 | \$299.5 | \$410.8 |
| Operating expenses, including general and administrative | 88.9    | 93.9    | 181.6   | 187.2   |
| Depreciation and amortization                            | 29.4    | 29.1    | 57.9    | 58.0    |
| Operating income   | 38.9    | 92.5    | 60.0    | 165.6   |
| Other expense, net                                       | 6.5     | 6.2     | 4.6     | 12.0    |
| Provision for income taxes                               | 9.1     | 25.1    | 15.9    | 45.5    |
| Net income   | \$ 23.3 | \$ 61.2 | \$39.5  | \$108.1 |

**Revenues**

|                                     |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|
| Contract drilling                   |         |         |         |         |
| Jackup rigs:                        |         |         |         |         |
| North America                       | \$ 37.4 | \$ 93.5 | \$69.1  | \$189.1 |
| Europe                              | 45.7    | 40.6    | 83.6    | 70.5    |
| Asia Pacific                        | 37.6    | 25.0    | 78.0    | 45.3    |
| Total jackup rigs                   | 120.7   | 159.1   | 230.7   | 304.9   |
| Semisubmersible rig - North America | 16.1    | 16.0    | 27.1    | 28.5    |
| Barge rigs - South America          | 4.4     | 12.9    | 8.7     | 25.3    |
| Platform rigs - North America       | 4.9     | 9.8     | 9.6     | 19.6    |
| Total contract drilling             | 146.1   | 197.8   | 276.1   | 378.3   |
| Marine transportation               |         |         |         |         |
| AHTS <sup>(1)</sup>                 | 2.8     | 3.8     | 7.1     | 6.8     |
| Supply                              | 8.3     | 13.9    | 16.3    | 25.7    |
| Total marine transportation         | 11.1    | 17.7    | 23.4    | 32.5    |
| Total                               | \$157.2 | \$215.5 | \$299.5 | \$410.8 |

**Operating Margin <sup>(2)</sup>**

|                                     |        |         |         |         |
|-------------------------------------|--------|---------|---------|---------|
| Contract drilling                   |        |         |         |         |
| Jackup rigs:                        |        |         |         |         |
| North America                       | \$ 7.8 | \$ 61.2 | \$ 9.9  | \$122.4 |
| Europe                              | 26.9   | 23.0    | 48.1    | 36.4    |
| Asia Pacific                        | 23.4   | 13.0    | 45.8    | 21.8    |
| Total jackup rigs                   | 58.1   | 97.2    | 103.8   | 180.6   |
| Semisubmersible rig - North America | 11.6   | 11.7    | 15.7    | 19.9    |
| Barge rigs - South America          | .7     | 5.3     | 1.1     | 10.2    |
| Platform rigs - North America       | 1.6    | 3.5     | 2.6     | 7.2     |
| Total contract drilling             | 72.0   | 117.7   | 123.2   | 217.9   |
| Marine transportation               |        |         |         |         |
| AHTS <sup>(1)</sup>                 | .1     | 1.4     | 1.4     | 2.3     |
| Supply                              | .8     | 6.7     | 2.3     | 11.3    |
| Total marine transportation         | .9     | 8.1     | 3.7     | 13.6    |
| Total                               | \$72.9 | \$125.8 | \$126.9 | \$231.5 |

(1) Anchor handling tug supply vessels.

(2) Defined as revenues less operating expenses, exclusive of depreciation and general and administrative expenses.

The following is an analysis of certain operating information of the Company for the three and six month periods ended June 30, 2002 and 2001:

|                                     | <b>Three Months Ended</b> |                    | <b>Six Months Ended</b> |                    |
|-------------------------------------|---------------------------|--------------------|-------------------------|--------------------|
|                                     | <b>June 30,</b>           |                    | <b>June 30,</b>         |                    |
|                                     | <b><u>2002</u></b>        | <b><u>2001</u></b> | <b><u>2002</u></b>      | <b><u>2001</u></b> |
| <b>Contract Drilling</b>            |                           |                    |                         |                    |
| Rig utilization:                    |                           |                    |                         |                    |
| Jackup rigs:                        |                           |                    |                         |                    |
| North America                       | 95%                       | 90%                | 90%                     | 94%                |
| Europe                              | 78%                       | 87%                | 74%                     | 84%                |
| Asia Pacific                        | 72%                       | 100%               | 77%                     | 93%                |
| <hr/>                               |                           |                    |                         |                    |
| Total jackup rigs                   | 85%                       | 91%                | 83%                     | 91%                |
| Semisubmersible rig - North America | 97%                       | 98%                | 83%                     | 89%                |
| Barge rigs - South America          | 16%                       | 33%                | 16%                     | 33%                |
| Platform rigs - North America       | 60%                       | 57%                | 54%                     | 57%                |
| <hr/>                               |                           |                    |                         |                    |
| Total                               | 73%                       | 77%                | 71%                     | 77%                |
| <hr/>                               |                           |                    |                         |                    |
| Average day rates:                  |                           |                    |                         |                    |
| Jackup rigs:                        |                           |                    |                         |                    |
| North America                       | \$ 22,864                 | \$ 53,061          | \$ 22,216               | \$ 51,004          |
| Europe                              | 79,406                    | 65,348             | 78,284                  | 58,270             |
| Asia Pacific                        | 56,802                    | 39,170             | 57,581                  | 38,574             |
| <hr/>                               |                           |                    |                         |                    |
| Total jackup rigs                   | 42,061                    | 52,611             | 41,804                  | 50,049             |
| Semisubmersible rig - North America | 182,305                   | 179,911            | 182,812                 | 179,760            |
| Barge rigs - South America          | 39,792                    | 44,286             | 41,174                  | 44,780             |
| Platform rigs - North America       | 24,608                    | 26,673             | 25,007                  | 26,632             |
| <hr/>                               |                           |                    |                         |                    |
| Total                               | \$ 44,844                 | \$ 52,507          | \$ 44,307               | \$ 50,116          |
| <hr/>                               |                           |                    |                         |                    |
| <b>Marine Transportation</b>        |                           |                    |                         |                    |
| Fleet utilization:                  |                           |                    |                         |                    |
| AHTS*                               | 55%                       | 67%                | 68%                     | 62%                |
| Supply                              | 77%                       | 87%                | 72%                     | 84%                |
| <hr/>                               |                           |                    |                         |                    |
| Total                               | 73%                       | 84%                | 71%                     | 80%                |
| <hr/>                               |                           |                    |                         |                    |
| Average day rates:                  |                           |                    |                         |                    |
| AHTS*                               | \$ 11,017                 | \$ 12,369          | \$ 11,405               | \$ 12,022          |
| Supply                              | 5,142                     | 7,608              | 5,460                   | 7,316              |
| <hr/>                               |                           |                    |                         |                    |
| Total                               | \$ 5,933                  | \$ 8,291           | \$ 6,478                | \$ 7,965           |
| <hr/>                               |                           |                    |                         |                    |

\* Anchor handling tug supply vessels.

Discussions relative to each of the Company's operating segments and significant changes in operating results for the three and six month periods ended June 30, 2002 compared with the results of the corresponding prior year periods are set forth below. See "Business Environment" and "Outlook and Forward-Looking Statements" for additional information about the Company's expectations regarding future operations, day rates and utilization.

## Contract Drilling

The following is an analysis of the Company's offshore drilling rigs at June 30, 2002 and 2001:

|  | <u>2002</u> | <u>2001</u> |
|--|-------------|-------------|
| Jackup rigs:                                 |             |             |
| North America <sup>(1)</sup>                 | 19          | 22          |
| Europe                                       | 8           | 8           |
| Asia Pacific <sup>(1)(2)</sup>               | 11          | 7           |
| <hr/>  |             |             |
| Total jackup rigs                            | 38          | 37          |
| Semisubmersible rig - North America          | 1           | 1           |
| Barge rigs - South America <sup>(3)</sup>    | 7           | 9           |
| Platform rigs - North America <sup>(4)</sup> | 5           | 7           |
| <hr/>  |             |             |
| Total  | 51          | 54          |
| <hr/>  |             |             |

(1) In December 2001, the Company mobilized a jackup rig from the Gulf of Mexico to perform a long-term contract offshore Qatar. The rig commenced drilling operations in February 2002. Additionally, during the first quarter of 2002, the Company mobilized two jackup rigs from the Gulf of Mexico to Singapore where they entered a shipyard for enhancement and repairs.

(2) In June 2002, construction and commissioning were completed in Singapore on the ENSCO 102, a harsh environment rig, in which the Company owned a 25% interest and has a purchase option on the remaining 75%. See "Liquidity and Capital Resources" for more information regarding the ENSCO 102.

(3) In December 2001, the Company removed the two oldest, least capable barge rigs in its fleet from service. The Company expects to sell the two rigs during 2002.

(4) In September 2001, the Company retired two platform rigs.

Second quarter 2002 revenues for the Company's contract drilling segment compared to the second quarter of 2001 decreased by \$51.7 million, or 26%, and operating margin decreased by \$45.7 million, or 39%. These decreases are primarily attributable to lower average day rates, which decreased 15% from the prior year quarter, and lower utilization, which decreased to 73% in the second quarter of 2002 from 77% in the second quarter of 2001. Operating expenses for the contract drilling segment decreased by \$6.0 million, or 7%, from the prior year quarter due primarily to lower personnel costs resulting from reduced utilization, partially offset by an increase in mobilization costs.

For the six months ended June 30, 2002, revenues for the Company's contract drilling segment decreased \$102.2 million, or 27%, and operating margin decreased \$94.7 million, or 43%, from the prior year period. These decreases are primarily due to lower average day rates, which decreased 12% from the prior year period, and lower utilization, which decreased to 71% in the current year period as compared to 77% in the year earlier period. Operating expenses for the contract drilling segment decreased by \$7.5 million, or 5%, from the prior year period due primarily to lower personnel costs resulting from reduced utilization, partially offset by higher mobilization costs.

#### *North America Jackup Rigs*

For the second quarter of 2002, revenues for the Company's North America jackup rigs decreased by \$56.1 million, or 60%, and the operating margin decreased by \$53.4 million, or 87%, from the prior year quarter. The decrease in revenues and operating margin is primarily attributable to a 57% decrease in average day rates and a reduction in the size of the jackup rig fleet from 22 rigs in the second quarter of 2001 to 19 rigs in the second quarter of 2002. Operating expenses decreased by \$2.7 million, or 8%, from the prior year

quarter primarily due to the reduced fleet size, as three rigs were mobilized from the Gulf of Mexico to the Asia Pacific region in the fourth quarter of 2001 and first quarter of 2002.

For the six months ended June 30, 2002, revenues for the Company's North America jackup rigs decreased by \$120.0 million, or 63%, and the operating margin decreased by \$112.5 million, or 92%, from the prior year period. These decreases are primarily due to a 56% decline in average day rates and a reduction in the size of the jackup rig fleet from 22 rigs in the prior year period to 19 rigs for the six months ended June 30, 2002. Operating expenses decreased by \$7.5 million, or 11%, from the prior year period due primarily to the reduced fleet size, as three rigs were mobilized from the Gulf of Mexico to the Asia Pacific region in the fourth quarter of 2001 and the first quarter of 2002.

### *Europe Jackup Rigs*

Second quarter 2002 revenues for the Europe jackup rigs increased \$5.1 million, or 13%, and the operating margin increased by \$3.9 million, or 17%, from the prior year quarter. These increases are primarily due to higher average day rates, which increased 22% from the prior year quarter, partially offset by lower utilization, which decreased to 78% in the current year quarter from 87% in the year earlier quarter. Operating expenses increased by \$1.2 million, or 7%, from the prior year quarter due primarily to higher repair and maintenance costs.

For the six months ended June 30, 2002, revenues for the Europe jackup rigs increased by \$13.1 million, or 19%, and the operating margin increased by \$11.7 million, or 32%, from the prior year period. The increase in revenues and operating margin is primarily attributable to a 34% increase in average day rates, partially offset by lower utilization, which decreased to 74% in the current year period from 84% in the prior year period. Operating expenses increased by \$1.4 million, or 4%, from the prior year period due primarily to higher repair and maintenance costs.

### *Asia Pacific Jackup Rigs*

Second quarter 2002 revenues for the Asia Pacific jackup rigs increased by \$12.6 million, or 50%, and operating margin increased by \$10.4 million, or 80%, from the prior year quarter. The increase in revenues and operating margin is primarily due to higher average day rates, which increased 45% from the prior year quarter, and the addition of the ENSCO 94 to the Asia Pacific jackup rig fleet which commenced drilling operations in the first quarter of 2002 after mobilization from the Gulf of Mexico, partially offset by a decrease in utilization, to 72% in the current year quarter from 100% in the prior year quarter. Operating expenses increased by \$2.2 million, or 18%, in the current year quarter due primarily to the addition of the ENSCO 94 to the Asia Pacific fleet in the current year quarter.

For the six months ended June 30, 2002, revenues for the Asia Pacific jackup rigs increased by \$32.7 million, or 72%, and the operating margin increased by \$24.0 million, or 110%, from the prior year period. These increases are due primarily to higher average day rates, which increased 49% from the prior year period, and the addition of the ENSCO 94 to the Asia Pacific jackup rig fleet, which commenced drilling operations in the first quarter of 2002 after mobilization from the Gulf of Mexico. During the first quarter of 2002, the Company also mobilized the ENSCO 51 and ENSCO 54 from the Gulf of Mexico to a shipyard in Singapore. Both rigs remained in the shipyard through June 30, 2002 undergoing enhancement and repair work. Operating expenses increased by \$8.7 million, or 37%, in the current year period primarily due to rig mobilization and other operating costs associated with the ENSCO 54 and ENSCO 94 in the current year period.

### *North America Semisubmersible Rig*

Second quarter 2002 revenues from the ENSCO 7500 increased by \$100,000, or 1%, and operating margin decreased \$100,000, or 1%, as compared to the prior year quarter. Second quarter 2002 operating expenses related to the ENSCO 7500 increased \$200,000, or 5%, as compared to the prior year quarter. The increase in operating expenses, and decrease in operating margin, is due primarily to an increase in repair and maintenance expenses.

For the six months ended June 30, 2002 revenues for the ENSCO 7500 decreased by \$1.4 million, or 5%, and operating margin decreased by \$4.2, or 21%, from the prior year period. The decrease in revenue and operating margin is due to rig down time during the first quarter of 2002 to undergo rig hull repairs. Operating expenses increased \$2.8 million, or 33%, from the prior year period due primarily to costs related to the aforementioned repairs in the first quarter of 2002.

### *South America Barge Rigs*

Second quarter 2002 revenues for the South America barge rigs decreased by \$8.5 million, or 66%, and operating margin decreased by \$4.6 million, or 87%, from the prior year quarter. The decrease in revenues and operating margin as compared to the prior year quarter is due primarily to lower utilization, as only one barge rig was fully utilized in the current year quarter compared to three barge rigs fully utilized in the year earlier quarter. In September and November of 2001, a customer elected to terminate two long-term contracts after approximately half of the respective five-year contract terms had been completed. The terminations resulted from the customer's disappointing oil production rates from the reservoir and the ensuing reduction in their drilling plans, and were not due to any fault with the Company's drilling rigs. Operating expenses decreased \$3.9 million, or 51%, due primarily to the decrease in utilization.

For the six months ended June 30, 2002, revenues for the South America barge rigs decreased by \$16.6 million, or 66%, and operating margin decreased by \$9.1 million, or 89%, from the prior year period. The decrease in revenues and operating margin as compared to the prior year period is due primarily to lower utilization, as only one barge rig was fully utilized in the current year period compared to three barge rigs fully utilized in the prior year period. Operating expenses decreased \$7.5 million, or 50%, due primarily to the decrease in utilization.

### *Platform Rigs*

Second quarter 2002 revenues for the platform rigs decreased by \$4.9 million, or 50%, and operating margin decreased by \$1.9 million, or 54%, as compared to the prior year quarter. The decrease in revenues and operating margin is primarily due to two rigs, one of which was idle during the current year quarter compared to fully utilized during the year earlier quarter and the second of which earned a minor standby rate during the current year quarter compared to earning full day rate in the year earlier quarter. Operating expenses decreased by \$3.0 million, or 48%, from the prior year quarter primarily due to the two rigs discussed above.

For the six months ended June 30, 2002, revenues for the platform rigs decreased by \$10.0 million, or 51%, and operating margin decreased by \$4.6 million, or 64%, from the prior year period. These decreases are due primarily to two rigs, one of which was idle during the current year period compared to fully utilized during the prior year period and the second of which earned a minor standby rate during the current year period compared to earning full day rate in the prior year period. Operating expenses for platform rigs decreased by \$5.4 million, or 44%, from the prior period due primarily to the two rigs discussed above.

## Marine Transportation

The following is an analysis of the Company's marine transportation vessels as of June 30, 2002 and 2001:

|                      | <u>2002</u> | <u>2001</u> |
|----------------------|-------------|-------------|
| AHTS <sup>(1)</sup>  | 5           | 5           |
| Supply               | 23          | 23          |
| <hr/>                |             |             |
| Total <sup>(2)</sup> | 28          | 28          |
| <hr/>                |             |             |

Anchor handling tug supply vessels.

(1)

All of the Company's marine transportation vessels are located in the Gulf of Mexico.

(2)

Second quarter 2002 revenues for the Company's marine transportation segment decreased by \$6.6 million, or 37%, and operating margin decreased by \$7.2 million, or 89%, from the prior year quarter. The decrease in revenues and operating margin is primarily attributable to lower average day rates, which decreased 28% from the prior year quarter, and lower utilization, which decreased to 73% in the current year quarter from 84% in the year earlier quarter. Operating expenses increased by \$600,000, or 6%, from the prior year quarter due primarily to an increase in repair and maintenance expense.

For the six months ended June 30, 2002, revenues for the Company's marine transportation segment decreased by \$9.1 million, or 28%, and operating margin decreased by \$9.9 million, or 73%, from the prior year period. These decreases are primarily due to lower average day rates, which decreased 19% from the prior year period, and lower utilization, which decreased to 71% in the current year period from 80% in the year earlier period. Operating expenses increased by \$800,000, or 4%, from the prior year period due primarily to an increase in repair and maintenance expense.

## Depreciation and Amortization

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 became effective for the Company on January 1, 2002 and, among other things, eliminated the requirement to amortize goodwill. The Company recognized no goodwill amortization in the three and six month periods ended June 30, 2002, compared to \$750,000 and \$1.5 million of goodwill amortization in the three and six month periods ended June 30, 2001, respectively.

Depreciation and amortization expense for the second quarter of 2002 increased by \$300,000, or 1%, as compared to the prior year quarter. The increase is primarily attributable to an increase in depreciation expense due to capital enhancement projects completed subsequent to the second quarter of 2001, partially offset by the recognition of \$750,000 of goodwill amortization in the prior year quarter and \$300,000 of depreciation in the prior year quarter associated with two barge rigs that were taken out of service in December 2001.

Depreciation and amortization expense for the six month period ended June 30, 2002 decreased by \$100,000, or .2%, as compared to the prior year period. The decrease is primarily attributable to the recognition of \$1.5 million of goodwill amortization in the prior

year period and \$650,000 of depreciation in the prior year period associated with two barge rigs that were taken out of service in December 2001, partially offset by an increase in depreciation expense due to capital enhancement projects completed subsequent to the six month period ended June 30, 2001.

### General and Administrative

General and administrative expense for the second quarter and six months ended June 30, 2002 increased by \$400,000, or 10%, and by \$1.1 million, or 14%, respectively, as compared to the prior year periods. The increase is primarily due to increases in personnel costs and professional fees.

### Other Income (Expense)

Other income (expense) for the second quarter and six months ended June 30, 2002 and 2001 was as follows (in millions):

|                        | Three Months Ended |         | Six Months Ended |          |
|------------------------|--------------------|---------|------------------|----------|
|                        | June 30,           |         | June 30,         |          |
|                        | 2002               | 2001    | 2002             | 2001     |
| Interest income        | \$ 1.6             | \$ 2.3  | \$ 3.1           | \$ 4.6   |
| Interest expense, net: |                    |         |                  |          |
| Interest expense       | (8.6)              | (8.9)   | (17.3)           | (17.5)   |
| Capitalized interest   | .5                 | .4      | 1.4              | .7       |
|                        | (8.1)              | (8.5)   | (15.9)           | (16.8)   |
| Other, net             | --                 | --      | 8.2              | .2       |
|                        | \$(6.5)            | \$(6.2) | \$ (4.6)         | \$(12.0) |

Interest income decreased for the second quarter and six months ended June 30, 2002 as compared to the prior year periods due primarily to lower average interest rates, offset in part by higher invested cash balances. Interest expense for the second quarter and six months ended June 30, 2002 remained consistent with interest expense recognized in the corresponding prior year periods. Capitalized interest for the second quarter and six months ended June 30, 2002 increased as compared to the prior year periods due to an increase in the amount invested in construction projects, primarily the ENSCO 102 and the ENSCO 64.

In the first quarter of 2002, the Company recognized a \$5.8 million gain in connection with the settlement of an insurance claim related to the ENSCO 51, which sustained damage from a natural gas well fire. "Other, net" for the six month period ended June 30, 2002 consists primarily of the \$5.8 million insurance gain and net gains resulting from changes in foreign currency exchange rates in several of the Company's international locations.

### Provision for Income Taxes

The provision for income taxes for the second quarter and six months ended June 30, 2002 decreased by \$16.0 million and \$29.6 million, respectively, as compared to the prior year periods. The decrease in income taxes is attributable to the decreased profitability of the Company and a decrease in the effective tax rate, which decreased to 28.1% and 28.7%, respectively, for the current year three and six month periods from 29.1% and 29.6%, respectively, for the year earlier three and six month periods. The decrease in the effective tax rate results from projected changes in the relative portions of the Company's earnings

generated by foreign subsidiaries whose earnings are being permanently reinvested and taxed at lower rates and, to a lesser extent, to projected increases in certain tax credits and income not subject to tax.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow and Capital Expenditures

The Company's cash flow from operations and capital expenditures for the six months ended June 30, 2002 and 2001 were as follows (in millions):

|                                   | <u>2002</u>   | <u>2001</u>    |
|-----------------------------------|---------------|----------------|
| Cash flow from operations         | \$83.1        | \$166.2        |
| Capital expenditures              |               |                |
| New construction and acquisitions | \$18.1        | \$ 14.5        |
| Enhancements                      | 60.3          | 33.2           |
| Sustaining                        | 17.5          | 11.6           |
|                                   | <u>\$95.9</u> | <u>\$ 59.3</u> |

Cash flow from operations decreased by \$83.1 million for the six months ended June 30, 2002 as compared to the prior year period due primarily to declining operating margins.

During the fourth quarter of 2000, the Company entered into an agreement with a major international shipyard and, in connection therewith, acquired a 25% ownership interest in the ENSCO 102, a harsh environment jackup rig under construction. The Company contributed \$30.0 million and certain management and procurement services for its 25% interest and has an option to acquire the remaining 75% interest in the rig that expires in May 2004. In June 2002, construction and commissioning were completed on the ENSCO 102. The Company and the owner of the remaining 75% interest have contributed their respective ownership interests in the ENSCO 102 to a newly formed joint venture. The joint venture will charter the ENSCO 102 to the Company under a two-year agreement. The Company will account for the joint venture using the equity method of accounting.

Management anticipates that capital expenditures for the full year 2002 will be approximately \$270 million, including \$210 million for enhancements, \$40 million for sustaining operations and \$20 million for new construction projects and acquisitions. The Company may also elect to exercise its option to acquire the remaining 75% interest in the ENSCO 102 or make capital expenditures to construct or acquire additional rigs and vessels in 2002, depending on market conditions and opportunities.

### Financing and Capital Resources

The Company's long-term debt, total capital and debt to capital ratios at June 30, 2002 and December 31, 2001 are summarized below (in millions, except percentages):

|                                 | <u>June 30,</u><br><u>2002</u> | <u>December 31,</u><br><u>2001</u> |
|---------------------------------|--------------------------------|------------------------------------|
| Long-term debt                  | \$ 456.2                       | \$ 462.4                           |
| Total capital                   | 1,948.0                        | 1,902.6                            |
| Long-term debt to total capital | 23.4%                          | 24.3%                              |

On January 25, 2001 the Company issued \$190.0 million of 15-year bonds and used \$137.3 million of the proceeds to retire an interim construction loan. Interest on the bonds is payable semiannually at a fixed rate of 6.36%. The bonds, which are guaranteed by the United States Maritime Administration, are being repaid in 30 semiannual installments of \$6.3 million, which commenced in June 2001 and will end in December 2015.

At June 30, 2002, the Company maintained a \$185.0 million unsecured revolving line of credit (the "Credit Agreement") with a syndicate of banks to provide additional liquidity and resources for growth. As of June 30, 2002, the full \$185.0 million was undrawn and available for borrowings under the Credit Agreement. The Credit Agreement was scheduled to mature in May 2003.

In July 2002, the Company cancelled its existing Credit Agreement and replaced it with a new \$250.0 million unsecured revolving credit agreement (the "New Credit Agreement") with a syndicate of banks. Advances under the New Credit Agreement bear interest at the LIBOR rate plus an applicable margin rate (currently .525%) depending on the Company's credit rating. The Company pays a commitment fee (currently .225% per annum) on the total \$250.0 million commitment, which also is based on the Company's credit rating. Additionally, the Company is required to pay a utilization fee of .25% per annum on outstanding advances under the facility if such advances exceed 33% of the total \$250.0 million commitment. The Company is required to maintain certain financial covenants under the New Credit Agreement, including a specified level of interest coverage, debt ratio and tangible net worth. The Company has no advances outstanding under the New Credit Agreement. The New Credit Agreement matures in July 2007, at which time all amounts outstanding under the facility are due.

On August 8, 2002, the Company paid \$51.2 million to retire all amounts outstanding under Chiles' revolving credit facility.

## Liquidity

The Company's liquidity position at June 30, 2002 and December 31, 2001 is summarized in the table below (in millions, except ratios):

|                                 | <u>June 30,</u><br><u>2002</u> | <u>December 31,</u><br><u>2001</u> |
|---------------------------------|--------------------------------|------------------------------------|
| Cash and short-term investments | \$337.2                        | \$310.4                            |
| Working capital                 | 361.4                          | 312.0                              |
| Current ratio                   | 3.8                            | 3.1                                |

At June 30, 2002, the Company had \$306.8 million of cash and cash equivalents, \$30.4 million of short-term investments and \$9.3 million of long-term investments. On August 7, 2002, the Company paid \$106.6 million in connection with the Chiles merger. On August 8, 2002, the Company paid \$51.2 million to retire certain Chiles debt. The Company currently has \$250.0 million available for borrowing under its New Credit Agreement.

Management expects to fund the Company's short-term liquidity needs, including anticipated capital expenditures and any working capital requirements, from its cash and cash equivalents, short-term investments and operating cash flow.

Management expects to fund the Company's long-term liquidity needs, including all contractual obligations and anticipated capital expenditures, from its cash and cash equivalents, investments, operating cash flow and, if necessary, funds drawn under its New Credit Agreement or other future financing arrangements.

The Company has historically funded the majority of its liquidity from operating cash flow. While future operating cash flow cannot be accurately predicted, management believes its long-term liquidity will continue to be funded primarily by operating cash flow.

## **MARKET RISK**

The Company uses various derivative financial instruments to manage its exposure to interest rate risk. The Company occasionally uses interest rate swap agreements to effectively convert the variable interest rate on debt to a fixed rate, and interest rate lock agreements to hedge against increases in interest rates on pending financing. However, at June 30, 2002 the Company had no outstanding interest rate swap agreements or interest rate lock agreements and none of the Company's outstanding debt was subject to a variable interest rate.

The Company uses various methods to manage its exposure to foreign currency exchange risk. The Company predominantly structures its drilling rig contracts in U.S. dollars, which significantly reduces the portion of the Company's cash flows and assets denominated in foreign currencies. The Company also employs various strategies, including the use of derivative instruments, to match foreign currency denominated assets with equal or near equal amounts of foreign currency denominated liabilities, thereby minimizing exposure to earnings fluctuations caused by changes in foreign currency exchange rates. The Company occasionally utilizes derivative instruments to hedge forecasted foreign currency denominated transactions. At June 30, 2002, the Company had foreign currency exchange contracts outstanding to exchange \$15.4 million U.S. dollars for Australian dollars and Great Britain pounds. The fair value of the Company's outstanding foreign currency exchange contracts at June 30, 2002, a net unrealized gain of \$1.2 million, is included in Prepaid expenses and other.

The Company utilizes derivative instruments and undertakes hedging activities in accordance with its established policies for the management of market risk. The Company does not use derivative instruments for trading or other speculative purposes. Management believes that the Company's use of derivative instruments and related hedging activities do not expose the Company to any material interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk or any other market rate or price risk.

## **OUTLOOK AND FORWARD-LOOKING STATEMENTS**

Due to the short-term nature of many of the Company's contracts and the unpredictable nature of oil and natural gas prices, which impact expenditures for oil and gas drilling, changes in industry conditions and the corresponding impact on the Company's operations cannot be accurately predicted. Whether recent levels of regional and worldwide expenditures for oil and gas drilling will increase, decrease or remain unchanged, is not determinable at this time.

Higher oil prices during the first half of 2001 and higher U.S. natural gas prices during 2000 and the first half of 2001 resulted in strong demand for offshore drilling rigs in domestic markets and the Company's domestic day rates increased throughout the first half of 2001. However, U.S. natural gas prices declined significantly during the latter half of 2001 and as a result of this price decline, as well as high U.S. natural gas inventory levels and general concerns about the U.S. economy, the Company experienced substantial decreases in domestic day rates and reduced utilization. U.S. natural gas prices began to improve during the first half of 2002 and recently demand for offshore drilling rigs has improved in domestic markets and the Company has experienced increases in domestic day rates.

Demand for offshore drilling rigs in most international markets improved throughout 2001. International market day rates for jackup rigs increased significantly in the Europe and Asia Pacific regions during 2001 and such increased rates have generally been sustained during the first half of 2002. Provided oil prices do not decline materially from current levels, the Company expects day rates and utilization for Asia Pacific jackup rigs to remain relatively stable throughout the remainder of 2002. In the Europe region, demand for jackup rigs has softened from the levels experienced in 2001 and day rates are expected to decline during the second half of 2002.

The Company completed its merger with Chiles on August 7, 2002, and now has a fleet of 56 offshore rigs (including one jackup rig under construction that is scheduled to enter service in the fourth quarter of 2002) and 28 oilfield support vessels. The Company's offshore rig fleet consists of 43 premium jackup rigs, seven barge rigs, five platform rigs and one semisubmersible rig. Currently, two of the Company's 21 North America jackup rigs are in a shipyard undergoing enhancements and the remaining 19 are operating. In the Europe region, three of the Company's eight jackup rigs are idle and the remaining five are operating. One of the idle Europe rigs is in a shipyard undergoing preparation for a contract in Nigeria that is scheduled to commence in August 2002. A second idle Europe rig has secured a contract and is also scheduled to commence drilling operations in August 2002. The third idle Europe rig is in a shipyard undergoing regulatory work and a minor upgrade project and is scheduled to resume contract operations in October 2002. The Company currently operates a fleet of 12 jackup rigs in the Asia Pacific region. One of these rigs, which was mobilized from the Gulf of Mexico in the first quarter, is in a shipyard undergoing repairs and enhancements and is expected to return to service in December of 2002. The Company is actively marketing the newly constructed ENSCO 102, which completed commissioning procedures in June 2002. The remaining 10 rigs in the Asia Pacific region are currently under contract and the Company expects these rigs to remain at full or near full utilization for the remainder of 2002.

There is some uncertainty with respect to the Company's South America barge rig fleet, whose operations have historically been concentrated on Lake Maracaibo in Venezuela. Currently, six of the Company's seven barge rigs are idle and three of the six idle barge rigs have not operated since early 1999. Lake Maracaibo market conditions have been depressed as a result of reduced or deferred exploration and development spending by Venezuela's national oil company and there currently is little indication or expectation that such spending will be increased in the near-term. In addition, a certain level of instability currently exists with respect to the economic and political situation in Venezuela. While several of the Company's barge rigs are suited for other markets, both locally and globally, such markets are not nearly as extensive as the markets available to jackup or semisubmersible rigs. Recently, one of the Company's idle barge rigs secured a commitment for work in Indonesia. The barge rig is being mobilized to a shipyard in Singapore where it will undergo certain enhancements in preparation for a contract that is expected to commence in December 2002. The Company evaluates the carrying value of its rigs and vessels when events or changes in circumstances indicate that such carrying values may be impaired and the Company has performed several of such evaluations with respect to its South America barge rig fleet. If the market conditions on Lake Maracaibo remain depressed and the Company is unable to secure attractive contracts for additional barge rigs in other markets, the Company will continue evaluating the carrying value of its barge rigs and determine whether impairment and/or sale of some or all of its barge rigs is prudent. Evaluations of carrying value are subjective and involve expectations of future cash flows based on management's estimates, assumptions and judgements regarding future industry conditions and operations. Future adverse changes in industry conditions or similar events impacting management estimates, assumptions or judgements may cause the Company to reduce its expectations of future cash flows from the barge rigs and determine the carrying value of some or all of the barge rigs has been impaired. At June 30, 2002, the carrying value of the Company's seven barge rigs totaled \$149.3 million. Any future impairment

charges may have a material adverse effect on the Company's operating results.

After experiencing increased fleet utilization and day rates in the Company's marine transportation segment during 2001, utilization and day rates declined in the first half of 2002 as a result of the slowdown in Gulf of Mexico drilling activity. The Company expects the Gulf of Mexico marine transportation market to continue to remain soft in the near-term.

This report contains forward-looking statements by management and the Company that are subject to a number of risks and uncertainties. Generally, forward-looking statements include words or phrases such as "anticipates," "believes," "expects," "plans," "intends" and words and phrases of similar impact. The forward-looking statements include, but are not limited to, statements regarding future operations, industry conditions and business environment, as well as statements regarding future levels of, or trends in, day rates, utilization, revenues, operating expenses, capital expenditures and financing. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including the following: (i) industry conditions and competition, (ii) fluctuations in the price of oil and natural gas, (iii) regional and worldwide expenditures for oil and gas drilling, (iv) demand for oil and gas, (v) operational risks and insurance, (vi) risks associated with operating in foreign jurisdictions, (vii) environmental liabilities that may arise in the future that are not covered by insurance or indemnity, (viii) the impact of current and future laws and government regulation, as well as repeal or modification of same, affecting the oil and gas industry, the environment, taxes and the Company's operations in particular, (ix) changes in costs associated with rig construction or enhancement, as well as changes in dates rigs being constructed or undergoing enhancement will enter service, (x) renegotiations, nullification, or breaches of contracts with customers, vendors, subcontractors or other parties, (xi) unionization or similar collective actions by the Company's employees, (xii) consolidation among the Company's competitors or customers, and (xiii) the risks described elsewhere herein and from time to time in the Company's reports to the Securities and Exchange Commission.

## **CRITICAL ACCOUNTING POLICIES**

The Company's significant accounting policies are included in Note 1 to the consolidated financial statements for the year ended December 31, 2001 included in the Company's Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on June 28, 2002. These policies, along with the underlying assumptions and judgements made by the Company's management in their application, have a significant impact on the Company's consolidated financial statements. The Company identifies its most critical accounting policies as those that are the most pervasive and important to the portrayal of the Company's financial position and results of operations, and that require the most difficult, subjective and/or complex judgements by management regarding estimates about matters that are inherently uncertain. The Company's most critical accounting policies are those related to property and equipment and impairment of assets.

At June 30, 2002, the carrying value of the Company's property and equipment totaled \$1,699.8 million, which represents 72% of total assets. This carrying value reflects the application of the Company's property and equipment accounting policies, which incorporate estimates, assumptions and judgements by management relative to the capitalized costs, useful lives and salvage values of the Company's rigs and vessels. The Company evaluates the carrying value of its property and equipment and its \$103.8 million of goodwill when events or changes in circumstances indicate that the carrying value of such assets may be impaired. Asset impairment evaluations are, by nature, highly subjective.

The estimates, assumptions and judgements used by management in the application of the Company's property and equipment and asset impairment policies reflect both historical

experience and expectations regarding future industry conditions and operations. The use of different estimates, assumptions and judgements, especially those involving the useful lives of the Company's rigs and vessels and expectations regarding future industry conditions and operations, would likely result in materially different carrying values of assets and results of operations.

## **NEW ACCOUNTING PRONOUNCEMENTS**

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 supersedes Accounting Principles Board Opinion No. 17, "Intangible Assets," eliminates the requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and requires impairment testing and recognition for goodwill and intangible assets. SFAS 142 became effective for the Company on January 1, 2002. Other than the elimination of goodwill amortization, which would have totaled \$750,000 and \$1.5 million for the three and six month periods ended June 30, 2002, respectively, absent the issuance of SFAS 142, the adoption of SFAS 142 did not have an impact on the Company's consolidated financial statements. At June 30, 2002, the Company's goodwill totaled \$103.8 million.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). This statement supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30"). SFAS 144 retains the fundamental provisions of SFAS 121 and the basic requirements of APB 30; however, it establishes a single accounting model to be used for long-lived assets to be disposed of by sale and it expands the presentation of discontinued operations to include more disposal transactions. The provisions of SFAS 144 became effective January 1, 2002. The Company's adoption of SFAS 144 did not have an impact on its financial position or results of operations.

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

Information required under Item 3. has been incorporated into Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk.

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## **PART II - OTHER INFORMATION**

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

On May 14, 2002, the Company held an annual meeting of stockholders to consider a proposal to elect two Class II Directors. A description of the proposal is contained in the Company's proxy statement dated March 22, 2002 relating to the 2002 annual meeting of stockholders.

There were 134,742,057 shares of the Company's common stock entitled to vote at the annual meeting based on the March 22, 2002 record date, of which 114,312,809 shares, or approximately 85%, were present and voting in person or by proxy. The Company solicited proxies pursuant to Regulation 14 of the Securities Exchange Act of 1934, and there was no

solicitation in opposition to management's nominees for directors as listed in the proxy statement.

With respect to the proposal listed above, the voting was as follows:

|                    | <u>Votes for</u> | <u>Votes Withheld</u> |
|--------------------|------------------|-----------------------|
| Morton H. Meyerson | 113,950,375      | 362,434               |
| Joel V. Staff      | 114,050,178      | 262,631               |

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits Filed with this Report

Exhibit No.

- 10.1 Credit Agreement among ENSCO International Incorporated, Den Norske Bank ASA, New York Branch as Administrative Agent, Citibank, N.A. as Syndication Agent, Wells Fargo Bank Texas, N.A. as Co-Syndication Agent, and HSBC Bank USA as Documentation Agent concerning a \$250,000,000 Revolving Credit Loan, dated as of July 26, 2002.
- 10.2 Amended and Restated Employment Agreement, dated August 6, 2002, between Chiles Offshore Inc. and William E. Chiles.
- 15.1 Letter of Independent Accountants regarding Awareness of Incorporation by Reference.

(b) Reports on Form 8-K

During the quarter ended June 30, 2002, the Company filed Reports on Form 8-K on (i) April 10, 2002, with respect to a change in the Company's Certifying Accountant, (ii) April 17, 2002, with respect to the contractual status of the Company's offshore rig fleet as of April 16, 2002, (iii) May 16, 2002, with respect to the merger agreement between ENSCO International Incorporated, Chore Acquisition, Inc., a wholly-owned subsidiary of ENSCO International Incorporated, and Chiles Offshore Inc., (iv) May 17, 2002, with respect to the contractual status of the Company's offshore rig fleet as of May 15, 2002, (v) June 17, 2002, with respect to the contractual status of the Company's offshore rig fleet as of June 17, 2002, (vi) June 18, 2002, with respect to an amendment to the contractual status of the Company's offshore rig fleet as of June 17, 2002, and (vii) June 20, 2002, with respect to an amendment to the contractual status of the Company's offshore rig fleet as of June 17, 2002.

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**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.

ENSCO INTERNATIONAL INCORPORATED

Date: August 9, 2002

/s/ C. CHRISTOPHER GAUT  
C. Christopher Gaut  
Senior Vice President and  
Chief Financial Officer

/s/ H. E. MALONE, JR.  
H. E. Malone, Jr.  
Vice President

/s/ DAVID A. ARMOUR  
David A. Armour  
Controller

**EXECUTION COPY**

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**U.S. \$250,000,000**

**CREDIT AGREEMENT**

**DATED AS OF  
JULY 26, 2002**

**AMONG**

**ENSCO INTERNATIONAL INCORPORATED  
AS BORROWER,**

**THE BANKS NAMED HEREIN  
AS BANKS,**

**DEN NORSKE BANK ASA, NEW YORK BRANCH  
AS ADMINISTRATIVE AGENT AND CO-ARRANGER,**

**CITIBANK, N.A.,  
AS SYNDICATION AGENT,**

**WELLS FARGO BANK TEXAS, N.A.  
AS CO-SYNDICATION AGENT**

**AND**

**HSBC BANK USA  
AS DOCUMENTATION AGENT**

**LEAD ARRANGER AND BOOK MANAGER :**

**SALOMON SMITH BARNEY INC.**

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| Exhibit E - | Form of Assignment and Acceptance                                      |
| Exhibit F - | Form of Notice of Letter of Credit                                     |
| Exhibit G - | Compliance Certificate   |

**Dated as of July 26, 2002**

ENSCO International Incorporated, a Delaware corporation, the lenders party hereto, Den norske Bank ASA, New York Branch, as Administrative Agent, Citibank, N.A., as Syndication Agent, Wells Fargo Bank Texas, N.A., as Co-Syndication Agent, HSBC Bank USA, as Documentation Agent, and Den norske Bank ASA, New York Branch, as Issuing Bank, agree as follows:

**ARTICLE I**

**DEFINITIONS AND ACCOUNTING TERMS**

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and the plural forms of the terms defined):

"Administrative Agent" means Den norske Bank ASA, New York Branch, in its capacity as Administrative Agent pursuant to Article VIII, and such term shall include any successor to such entity in such capacity pursuant to Section 7.08.

"Advance" means an advance by a Bank to the Borrower pursuant to Section 2.01(a) (as divided or combined from time to time as contemplated in the definition herein of Borrowing) and refers to a Base Rate Advance or a LIBOR Advance (each of which shall be a "Type" of Advance).

"Affected Lender" has the meaning specified in Section 2.11.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person or any Subsidiary of such Person. The term "controls" (including the terms "controlled by" or "under common control with") includes the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of capital stock, securities, partnership interests or other ownership interests, by contract or otherwise.

"Agreement" means this Credit Agreement, as amended, supplemented or modified from time to time.

"Applicable Lending Office" means, with respect to each Bank, such Bank's Domestic Lending Office in the case of a Base Rate Advance and such Bank's Eurodollar Lending Office in the case of a LIBOR Advance.

"Applicable Letter of Credit Margin" means, for any day, the percentage per annum applicable to a LIBOR Advance on such day, set forth in Schedule II under the heading "Applicable Margin" for the relevant Rating Category applicable to the Borrower from time to time. The Applicable Letter of Credit Margin determined pursuant to this definition for any Letter of Credit shall change when and as the relevant Rating Category applicable to the Borrower changes.

"Applicable Margin" means, for any Interest Period for any LIBOR Advance, the percentage per annum applicable to such LIBOR Advance, set forth in Schedule II under the heading "Applicable Margin" for the relevant Rating Category applicable to the Borrower from time to time. The Applicable Margin determined pursuant to this definition for any LIBOR Advance shall change when and as the relevant Rating Category applicable to the Borrower changes.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Bank and an Eligible Assignee, and accepted by the Administrative Agent and the Issuing Bank, in substantially the form of Exhibit

"Bankruptcy Code" means Title 11 of the United States Code, as now or hereafter in effect, or any successor thereto.

"Banks" means the lenders listed on the signature pages hereof and each Eligible Assignee that becomes a Bank party hereto pursuant to Section 2.16 or Section 8.06(a), (b) and (d).

"Base Rate" means, for any period, a fluctuating interest rate per annum as shall be in effect from time to time which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by the Administrative Agent in New York, New York, from time to time, as its base rate; and

(b) the sum (adjusted to the nearest 1/4 of 1% or, if there is no nearest 1/4 of 1%, to the next higher 1/4 of 1%) of (i) 1/2 of 1% per annum plus (ii) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 360 days) being determined weekly on each Monday (or, if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by the Administrative Agent on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by the Administrative Agent from three New York certificate of deposit dealers of recognized standing selected by the Administrative Agent, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Federal Reserve Board for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for the Administrative Agent with respect to liabilities consisting of or including (among other liabilities) three-month Dollar non-personal time deposits in the United States, plus (iii) the average during such three-week period of the annual assessment rates estimated by the Administrative Agent for determining the then current annual assessment payable by it to the Federal Deposit Insurance Corporation (or any successor) for insuring Dollar deposits of the Administrative Agent in the United States; and

(c) the sum of 1/2 of one percent per annum plus the Federal Funds Rate in effect from time to time.

"Base Rate Advance" means an Advance which bears interest as provided in Section 2.05(a).

"Borrower" means ENSCO International Incorporated, a Delaware corporation.

"Borrowing" means a borrowing hereunder consisting of Advances of the same Type made on the same day by the Banks and, in the case of LIBOR Advances, having the same Interest Period; provided that (a) all Base Rate Advances outstanding at any time shall thereafter be deemed to be one Borrowing, and (b) subject to the limitations in Section 2.02(a) as to the number of permitted Interest Periods and subject to the provisions of Sections 2.07, 2.08 and 2.11, on the last day of an Interest Period for a Borrowing comprised of LIBOR Advances, such Borrowing may be divided ratably to form multiple Borrowings comprised of LIBOR Advances (with the result that each Bank's Advance as a part of each such multiple Borrowing is proportionately the same as its Advance as a part of such divided Borrowing) or combined with all or a ratable portion of the Base Rate Advances or all or a ratable portion of one or more other Borrowings, the Interest Period for which also ends on such day, to form a new Borrowing comprised of LIBOR Advances, such division or combination to be made by notice from the Borrower given to the Administrative Agent not later than noon on the third Business Day prior to the proposed division or combination specifying the date of such division or combination (which shall be a Business Day) and all other relevant information (such as the Borrowings (or portions thereof) to be divided or combined, the respective amounts of the Borrowings resulting from any such division, the relevant Interest Periods, the amount of the Base Rate Advances or other Borrowings (or portions thereof) to be so combined and such other information as the Administrative Agent may request), but in no event shall any Borrowing resulting from, or remaining after, any such division or combination be less than \$10,000,000, and in all cases each Bank's Advances as a part of each such combined, resultant or remaining Borrowing shall be proportionately the same as its Advances as a part of the relevant Borrowings prior to such division or combination. Each Borrowing comprised of a Type of Advance shall be that "Type" of Borrowing.

"Business Day" means (a) any day of the year except Saturday, Sunday and any day on which banks are required or authorized to close in New York City or Dallas, Texas and (b) if the applicable Business Day relates to any LIBOR Advances, any day which is a "Business Day" described in clause (a) and which is also a day for trading by and between banks in the London interbank Eurodollar market.

"Change of Control" means (a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rules 13 d-3 and 13 d-5 of the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Borrower, or (b) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Borrower (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of the Borrower was approved by a vote of the majority of the Directors of the Borrower then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Borrower then in office.

"Citibank" means Citibank, N. A., a national banking association.

"Co-Syndication Agent" means Wells Fargo Bank Texas, N.A.

"Code" means the Internal Revenue Code of 1986 as amended from time to time, or any successor Federal tax code, and any reference to any statutory provision of the Code shall be deemed to be a reference to any successor provision or provisions.

"Commitment" has the meaning specified in Section 2.01(a).

"Consolidated" refers to the consolidation of the accounts of the Borrower and its Subsidiaries in accordance with GAAP.

"Consolidated Debt" means with respect to any Person, as of any date of determination thereof, without duplication, the aggregate principal amount of all then outstanding (a) indebtedness and other obligations of such Person and its Consolidated Subsidiaries for the repayment of money borrowed, including the unreimbursed amount of any drawings under letters of credit issued for the account of such Person or any of its consolidated subsidiaries, (b) obligations of such Person and its consolidated subsidiaries as lessee under capital leases, (c) letters of credit other than letters of credit issued in the ordinary course of business supporting non-Debt obligations (e.g., bid bonds and performance guaranties incurred under drilling contracts, vessel time charters, or other forms of service agreement in the ordinary course of business), (d) without duplication, guaranties by such Person and any of its consolidated subsidiaries of payment or collection of any obligations described in clauses (a) through (c) above of any other Person, and (e) without duplication, all Other Obligations of such Person and its Consolidated Subsidiaries, in each case determined on a consolidated basis in accordance with GAAP as of such date.

"Consolidated EBITDA" means, for any period, (a) Net Income for the Borrower and its consolidated Subsidiaries for such period determined on a consolidated basis in accordance with GAAP plus (b) to the extent deducted in determining Net Income, Interest Expense, taxes, and depreciation and amortization and other non-cash charges for the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

"Consolidated Interest Expense" means, for any period, Interest Expense for the Borrower and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

"Consolidated Shareholders' Equity" means, as of any date of determination for Borrower and its Subsidiaries, determined on a consolidated basis, shareholders' equity as of that date determined in accordance with GAAP.

"Consolidated Tangible Net Worth" means, as of any date of determination, for Borrower and its consolidated Subsidiaries, determined on a consolidated basis, Consolidated Shareholder's Equity on that date minus the Intangible Assets of Borrower and its consolidated Subsidiaries on such date, determined in accordance with GAAP.

"Convert", "Conversion" and "Converted" each refers to a conversion of Advances or a Borrowing of one Type into Advances or a Borrowing of another Type, as the case may be, pursuant to Section 2.07, Section 2.08, Section 2.10(b) or Section 2.11.

"Debt" means, in the case of any Person, (i) indebtedness of such Person for borrowed money, (ii) obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) obligations of such Person to pay the deferred purchase price of property or services (other than accounts payable arising in the ordinary course of business and payable on customary terms), (iv) obligations of such Person to deliver property or services for which prepayment has been made, to the extent reflected as a liability pursuant to GAAP, (v) monetary obligations of such Person as lessee under leases that are, in accordance with GAAP, recorded as capital leases, (vi) without duplication, all letters of credit issued for the account of such Person or as to which such Person has any reimbursement obligation, whether or not drawn, (vii) mark-to-market obligations of such Person under any interest rate, currency, commodity or other swap, cap or collar or under any other derivatives transaction, (viii) obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (ix) obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (i) through (ix) or clause (xi) of this definition, (x) indebtedness or obligations of others of the kinds referred to in clauses (i)

through (ix) or clause (xi) of this definition secured by any Lien on or in respect of any property of such Person, (xi) all liabilities of such Person in respect of unfunded vested benefits under any Plan or Multiemployer Plan, except to the extent an ERISA Affiliate has paid such liabilities within the time prescribed by law, and (xii) without duplication, all Other Obligations of such Person; provided, for clarity, that "Debt" shall not include trade payables and accrued expenses arising in the ordinary course of business, deferred taxes, obligations assumed or liabilities incurred under drilling contracts, vessel time charters or other forms of service agreement in the ordinary course of business (e.g., bid bonds and performance guaranties), or preferred stock with no mandatory redemption feature.

"Default" means an event which, with the giving of notice or lapse of time or both, would constitute an Event of Default.

"Demand Loan" has the meaning specified in Section 2.18(c).

"Documentation Agent" means HSBC Bank USA.

"Distribution" means any direct or indirect dividend, distribution or other payment of any kind or character (whether in cash, securities or other property) (i) in respect of any Equity Interest of the Borrower or any Subsidiary or to the holders, as such, of any Equity Interest of the Borrower or any Subsidiary (including pursuant to a merger or consolidation) or (ii) in consideration for or otherwise in connection with any retirement, purchase, redemption or other acquisition of any Equity Interest of the Borrower or any Subsidiary.

"Dollars" and "\$" means lawful money of the United States of America.

"Domestic Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Bank or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Administrative Agent.

"Eligible Assignee" means (a) any Bank, (b) any Affiliate of any Bank, and (c) with the consent of the Administrative Agent, the Issuing Bank and the Borrower (which consent will not be unreasonably withheld), any other commercial bank or financial institution not covered by clause (a) or clause (b) of this definition; provided that neither the Borrower nor any Subsidiary of the Borrower shall be an Eligible Assignee.

"Environment" shall have the meaning set forth in 42 U.S.C. ss. 9601(8) as defined on the date of this Agreement, and "Environmental" means pertaining or relating to the Environment.

"Environmental Law" means any law, statute, ordinance, rule, regulation, order, decision, decree, judgment, permit, license, authorization or other agreement or Governmental Requirement arising from, in connection with or relating to the pollution, protection or regulation of the Environment or the protection or regulation of health or safety, whether the foregoing are required or promulgated by any government or agency or other authority of or in the United States (whether local, state, or federal) or any foreign country or subdivision thereof, including those relating to the disposal, removal, remediation, production, storing, refining, handling, transferring, processing, recycling or transporting of or exposure to any material or substance, wherever located.

"EPA" means the United States Environmental Protection Agency or any successor thereto.

"Equity Interest" means as to any Person, any capital stock, partnership interest, membership interest or other equity interest in such Person, or any warrant, option or other right to acquire any Equity Interest in such Person.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute of similar import, together with the regulations thereunder, as in effect from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) which is a member of a group of which the Borrower is a member and which is under common control within the meaning of the regulations under Section 414 of the Code.

"ERISA Liabilities" means at any time the minimum liability with respect to Plans which

would be required to be reflected at such time as a liability on the consolidated balance sheet of the Borrower and its Subsidiaries under paragraphs 36 and 70 of Statement of Financial Accounting Standards No. 87, as such Statement may from time to time be amended, modified or supplemented, or under any successor statement issued in replacement thereof.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Federal Reserve Board, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Bank, the office of such Bank specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Bank (or, if no such office is specified, its Domestic Lending Office) or such other office of such Bank as such Bank may from time to time specify to the Borrower and the Administrative Agent.

"Events of Default" has the meaning specified in Section 6.01.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Expiration Date" means, for any Letter of Credit, the later of (i) the Stated Expiry Date of such Letter of Credit or such earlier date, if any, on which such Letter of Credit is permanently cancelled in writing by the Borrower, the beneficiary thereof and each transferee, if any, thereof, (ii) if any Extension Event referred to in clause (i) of the definition herein of Extension Event shall occur in respect of such Letter of Credit, the date on which the Issuing Bank shall receive an opinion from its counsel to the effect that a final and nonappealable judgment or order has been rendered or issued either terminating the order, injunction or other process or decree restraining the Issuing Bank from paying under such Letter of Credit or permanently enjoining the Issuing Bank from paying under such Letter of Credit, and (iii) if any Extension Event referred to in clause (ii) of the definition herein of Extension Event shall occur in respect of such Letter of Credit, the date on which the Issuing Bank shall receive an opinion from its counsel to the effect that the Issuing Bank has no further liability under such Letter of Credit.

"Extension Event" means, in respect of any Letter of Credit, that at any time either (i) the Issuing Bank shall have been served with or otherwise be subjected to a court order, injunction or other process or decree restraining or seeking to restrain the Issuing Bank from paying any amount under such Letter of Credit and either (a) there has been a drawing under such Letter of Credit which the Issuing Bank would otherwise be obligated to pay or (b) the Stated Expiry Date of such Letter of Credit has occurred but the right of the beneficiary or transferee to draw under such Letter of Credit has been extended past such date in connection with the pendency of the related court action or proceeding; or (ii) the beneficiary or transferee shall have made a demand, on or prior to the Stated Expiry Date of such Letter of Credit, to the effect that the Stated Expiry Date be extended or that the value of such Letter of Credit be held for the account of the beneficiary or transferee, in either case under circumstances in which the Issuing Bank may incur liability or loss if the Issuing Bank does not comply with such demand, and either (a) the Borrower shall have failed to authorize the Issuing Bank to so extend the Stated Expiry Date within three banking days after the Issuing Bank shall have notified the Borrower of such demand or (b) the Issuing Bank shall in its sole discretion decline to extend such Stated Expiry Date.

"FDIC" means the Federal Deposit Insurance Corporation, or any federal agency or authority of the United States from time to time succeeding to its function.

"Federal Funds Rate" means, for any day, a fluctuating interest rate per annum equal for such day to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System, or any federal agency or authority of the United States from time to time succeeding to its function.

"GAAP" means United States generally accepted accounting principles and policies consistent with those applied in the preparation of the financial statements referred to in Section 4.01(d)(ii).

"Governmental Requirements" means all judgments, orders, writs, injunctions, decrees, awards, laws, ordinances, statutes, regulations, rules, franchises, permits, certificates, licenses, authorizations and the like and any other requirements of any government or any commission, board, court, agency,

instrumentality or political subdivision thereof.

"Hazardous Materials" means (i) any substance or material identified as a hazardous substance pursuant to any Environmental Law, (ii) any substance or material regulated as a hazardous or solid waste pursuant to any Environmental Law, and (iii) any other material or substance regulated under any Environmental Law. "Hazardous Materials" shall include pollutants, contaminants, toxic substances, radioactive materials, refined products, natural gas liquids, crude oil, petroleum and petroleum products, polychlorinated biphenyls and asbestos.

"Illegality Event" has the meaning specified in Section 2.11.

"Indemnified Parties" has the meaning specified in Section 8.04(c).

"Insufficiency" means, with respect to any Plan, the amount, if any, by which the present value of the accrued benefits under such Plan exceeds the fair market value of the assets of such Plan allocable to such benefits.

"Intangible Assets" means, on any date of its determination for Borrower and its subsidiaries on a consolidated basis, assets that are considered to be intangible assets under GAAP.

"Interest Expense" means, for any Person for any period, such Person's total interest expense, whether paid or accrued (including that attributable to obligations which have been or should be, in accordance with GAAP, recorded as capital leases), as determined in accordance with GAAP.

"Interest Period" means, with respect to each LIBOR Advance, in each case comprising part of the same Borrowing, the period commencing on the date of such Advance or the date of the Conversion of any Advance into (or the division or combination of any Borrowing resulting in) such an Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months (or, as to any Interest Period, such other period as the Borrower and the Banks may agree to for such Interest Period), in each case as the Borrower may, upon notice received by the Administrative Agent not later than noon (Dallas, Texas time) on the third Business Day prior to the first day of such Interest Period (or, as to any Interest Period, at such other time as the Borrower and the Banks may agree to for such Interest Period), select; provided that:

(a) Interest Periods commencing on the same date for Advances comprising part of the same Borrowing shall be of the same duration;

(b) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the immediately preceding Business Day;

(c) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month in which such Interest Period would have ended if there were a numerically corresponding day in such calendar month;

(d) no Interest Period may end after the Termination Date; and

(e) the Borrower may not select any Interest Period if any Event of Default exists.

"Investment" means, as applied to any Person, any direct or indirect (i) purchase or other acquisition by such Person of any Equity Interest or Debt of any other Person, (ii) loan or advance made by such Person to any other Person, (iii) guaranty, assumption or other incurrence of liability by such Person of or for any Debt or other obligation of any other Person, (iv) creation of any Debt owed to such Person by any other Person, or (v) capital contribution or other investment by such Person in any other Person. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment or interest earned on such Investment.

"Issuing Bank" means Den norske Bank ASA, New York Branch.

"Lead Arranger" means Salomon Smith Barney Inc.

"Letter of Credit" means each letter of credit issued by any Issuing Bank pursuant to Section 2.18, as extended or otherwise modified by the Issuing Bank from time to time.

"Letter of Credit Liabilities" means the maximum aggregate amount of all undrawn portions of Letters of Credit (after giving effect to any step up provision or other mechanism for increases, if any) plus the aggregate amount of all drawings under Letters of Credit which are unpaid.

"L/C Related Documents" has the meaning specified in Section 2.18(d).

"LIBO Rate" means, for any Interest Period for each LIBOR Advance comprising part of the same Borrowing, (a) the rate per annum (rounded upward, if not an integral multiple of 1/100 of 1%, to the nearest 1/100 of 1% per annum) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days before the first day of the relevant Interest Period for a term comparable to such Interest Period; (b) if for any reason the rate specified in clause (a) of this definition does not so appear on Telerate Page 3750 (or any successor page), the rate per annum (rounded upward, if not an integral multiple of 1/100 of 1%, to the nearest 1/100 of 1% per annum) appearing on Reuters Screen LIBO page (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days before the first day of such Interest Period for a term comparable to such Interest Period; provided that if more than one rate is specified on Reuters Screen LIBO page (or any successor page), the applicable rate shall be the arithmetic mean of all such rates; and (c) if the rate specified in clause (a) of this definition does not so appear on Telerate Page 3750 (or any successor page) and if no rate specified in clause (b) of this definition so appears on Reuters Screen LIBO page (or any successor page), the interest rate per annum (rounded upward to the nearest whole multiple of 1/16 of 1% per annum if such rate is not such a multiple) equal to the rate per annum at which deposits in Dollars are offered by the principal office of the Administrative Agent in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the amount of the LIBOR Advance of the Administrative Agent comprising part of such Borrowing and for a period equal to such Interest Period.

"LIBOR Advance" means an Advance which bears interest as provided in Section 2.05(b).

"LIBOR Borrowing" means a Borrowing comprised of LIBOR Advances.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien, claim or charge of any kind (including any production payment, advance payment or similar arrangement with respect to minerals in place, any agreement to grant any Lien, any agreement to refrain from granting any Lien granted by or required to be granted by any Loan Document, any conditional sale or other title retention agreement and the interest of a lessor under a capital lease), whether or not filed, recorded or otherwise perfected under applicable law.

"Loan Document" means this Agreement, each Note (if any), each Notice of Borrowing and each other document or instrument executed and delivered in connection with this Agreement.

"Losses" has the meaning specified in Section 8.04(c).

"Majority Banks" means at any time Banks holding at least 51% of the sum of the then aggregate principal amount of outstanding Advances plus the then existing amount of Letter of Credit Liabilities, or, if no such principal amount and no Letter of Credit Liabilities are then outstanding, Banks having at least 51% of the Commitments. For purposes of this definition, Letter of Credit Liabilities shall be considered held by the respective Banks in accordance with the respective amounts of their participations therein pursuant to Section 2.18, with the Issuing Bank holding the balance thereof after taking into account such participations.

"Material Adverse Change" means any change in the business, property, financial condition or results of operations of the Borrower and its Subsidiaries has occurred which could reasonably be expected to have a Material Adverse Effect.

"Material Adverse Effect" means any material adverse effect on the business, property, financial conditions, or results of operations of the Borrower and its Subsidiaries taken as a whole or the ability

of the Borrower to perform its obligations under any of the Loan Documents; provided that any quantification of threshold amount in the representations, warranties, covenants, or Events of Default contained in this Agreement shall not be deemed to indicate the threshold at which a "Material Adverse Effect" would be caused.

"Material Subsidiary" means, on any date of its determination, any Subsidiary of the Borrower that owns assets having a book value equal to or greater than ten percent (10%) of the book value of all assets of the Borrower and its consolidated Subsidiaries on such date.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" means an employee benefit plan, other than a Multiemployer Plan, subject to Title IV of ERISA to which the Borrower or any ERISA Affiliate, and more than one employer other than the Borrower or an ERISA Affiliate, is making or accruing an obligation to make contributions or, in the event that any such plan has been terminated, to which the Borrower or any ERISA Affiliate made or accrued an obligation to make contributions during any of the five plan years preceding the date of termination of such plan.

"Net Income" means, for any Person for any period, such Person's net income (or loss) for such period, excluding (a) all extraordinary gains and losses, as determined in accordance with GAAP, and (b) all net gains and losses on the sale or other disposition, not in the ordinary course of business, of investments and other capital assets, provided that there shall also be excluded any related charges for taxes thereon, all as determined in accordance with GAAP.

"Note" means a promissory note of the Borrower requested by any Bank payable to the order of such Bank, in substantially the form of Exhibit A, evidencing the aggregate indebtedness of the Borrower to such Bank resulting from Advances owed to such Bank.

"Notice of Borrowing" has the meaning specified in Section 2.02.

"Notice of Letter of Credit" has the meaning specified in Section 2.18(a).

"Obligations" means all obligations (liquidated, contingent or otherwise) from time to time owed by the Borrower or any Subsidiary of the Borrower pursuant to, as a result of or in connection with any of the Loan Documents, including all principal of and interest on the Advances, all obligations to reimburse the Issuing Bank for any payment under any Letter of Credit and all obligations to pay fees, costs, expenses, indemnities and other amounts under any Loan Document.

"Other Obligations" means, for any Person, as of any date of determination thereof, the aggregate amount, determined in accordance with GAAP as of such date, without duplication of any clause within this definition, all (i) obligations of such Person under any lease which is treated as an operating lease for financial accounting purposes and a financing lease for tax purposes, in an amount equal to the base amount on which rental payments are measured minus the unpaid balance contributed, pledged, or otherwise provided by such Person or its Affiliates to collateralize the lessee's obligations in connection with such lease and minus the principal amount of any of the lessor's debt that such Person or its Affiliates have purchased; (ii) the net cash payment obligations of such Person with respect to any forward sale contract for a commodity with respect to which such Person has received a prepayment by a counterparty thereto, provided that in no event shall "Other Obligations" include forward sales contracts that are entered into in the ordinary course of such Person's trading business, if any, and not intended to function as a borrowing of funds; and (iii) all guaranties of collection or payment of any obligation described in clauses (i) and (ii) of any other Person; provided, however, that in no event shall "Other Obligations" include (a) any completion or performance guaranties (or similar guaranties that a project or a Subsidiary of such Person perform as planned) or (b) pure operating leases entered in the ordinary course of business, including but not limited to pure operating leases of business equipment.

"Other Taxes" has the meaning specified in Section 2.13(c).

"Payment Office" means the office of the Administrative Agent located at 200 Park Avenue, New York, New York 10166, or such other office as the Administrative Agent may designate by written notice

to the other parties hereto.

"PBG" means the Pension Benefit Guaranty Corporation, or any federal agency or authority of the United States from time to time succeeding to its function.

"Permitted Debt" means

- (i) Debt incurred pursuant to this Agreement and the other Loan Documents;
- (ii) Debt existing on the effective date of this Agreement, and subsequent extensions, refinancings or renewals thereof, so long as such extensions, refinancings or renewals do not cause the aggregate principal amount of such Debt to increase from that in effect on the date of this Agreement;
- (iii) Debt incurred under any interest rate agreements, foreign exchange agreements or derivative obligations entered into by any of the Borrower's Material Subsidiaries in the ordinary course of business, provided such undertakings are not for speculative purposes;
- (iv) Debt owing to the Borrower or any Restricted Subsidiary;
- (v) Debt of any of the Restricted Subsidiaries under any letters of credit supporting obligations which are not Debt, issued in the ordinary course of business and obtained outside the facility represented by this Agreement;
- (vi) Debt incurred by any Restricted Subsidiary (and guarantees given by any Restricted Subsidiary supporting such Debt) to acquire, construct, renovate or upgrade any drilling rig or marine transportation vessel, including without limitation the Rigs;
- (vii) Debt of any Person existing at the time such Person (a) becomes a Subsidiary of the Borrower or any of its Subsidiaries, or (b) is merged with or into the Borrower or any of its Subsidiaries; provided that no Default or Event of Default exists at the time of or would occur as a result of the incurrence of such Debt and that such Debt is not recourse to the Borrower or any Restricted Subsidiary prior to the date of such Person's acquisition by or merger into the Borrower or any of its Subsidiaries; and
- (viii) Any other Debt of the Restricted Subsidiaries that may be incurred, provided (a) Borrower is in proforma compliance with the financial covenants that are set forth in Section 5.02(a) (as of the last day of the most recently ended four fiscal quarter period) and Section 5.02(b) (immediately after giving effect thereto), (b) no Default or Event of Default exists at the time of the incurrence of such Debt, nor would such result therefrom, and (c) such Debt of the Restricted Subsidiaries (excluding all such Debt permitted under clauses (i) - (vii) above) shall not at any time exceed \$100,000,000 in aggregate principal amount outstanding at any one time, of which no more than \$50,000,000 shall constitute Debt which is recorded as capital leases in accordance with GAAP.

"Permitted Liens" means

- (i) Liens for taxes, assessments or governmental charges or levies on Property of the Borrower or a Restricted Subsidiary, if the same shall not at any time be delinquent or are being contested in good faith and by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or such Restricted Subsidiary;
- (ii) Liens that are imposed by law in the ordinary course of business, such as carriers', warehousemen's, materialmen's and mechanics' liens, statutory landlord liens, maritime liens and other similar Liens, if the same shall not at any time be delinquent or are being contested in good faith and by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or such Restricted Subsidiary;
- (iii) Liens arising in the ordinary course of business out of or in connection with pledges or deposits under workers' compensation laws, unemployment insurance, old age pensions, social security retirement benefits or other forms of governmental insurance;
- (iv) Liens created by any of the Loan Documents;
- (v) Minor defects, irregularities and deficiencies in title to, and easements, rights-of-way, zoning restrictions and other similar restrictions, charges or encumbrances, defects and irregularities in the

physical placement and location of pipelines within areas covered by easements, leases, licenses and other rights in real property in favor of the Borrower or any Restricted Subsidiary, in each case which do not interfere with the ordinary conduct of business, and which do not materially detract from the value of the property which they affect;

(vi) Any right of set-off arising under common law or by statute;

(vii) Liens arising from judgments, decrees, arbitration awards or attachments in existence not more than 30 days after the entry thereof or with respect to which execution has been stayed or the payment of which is covered by insurance;

(viii) Liens against real property with respect to which the Borrower or any Restricted Subsidiary has been granted easements, rights-of-way or other real estate interests, which have been created or incurred prior to the acquisition by the Borrower or such Restricted Subsidiary of such easements, rights-of-way or other real estate interests, or thereafter by the Persons from whom the Borrower or such Restricted Subsidiary obtains such real estate interests and their successors and assigns (other than the Borrower or any Subsidiary);

(ix) Liens incurred in the ordinary course of business to secure performance of tenders, bids or contracts entered into in the ordinary course of business;

(x) Liens existing on the effective date of this Agreement and listed on Schedule V and Liens incurred pursuant to subsequent extensions, refinancings, or renewals of the underlying obligations secured by such Liens, provided that no additional assets of the Borrower or any of its Material Subsidiaries are pledged in support thereof and that the underlying obligations do not increase;

(xi) Liens to secure Debt recorded as capital leases in accordance with GAAP;

(xii) Liens to secure supersedeas bonds in an aggregate outstanding amount not to exceed \$15,000,000 at any time;

(xiii) Liens to secure Debt incurred by the Borrower or any Restricted Subsidiary (and guarantees given by the Borrower or any Restricted Subsidiary supporting such Debt) (a) to acquire or construct any drilling rig or marine transportation vessel, including without limitation any Rigs not owned by the Borrower and any of its Subsidiaries as of the date of this Agreement, provided that any such Lien shall exist only against such drilling rig or marine transportation vessel acquired or constructed, or (b) to renovate or upgrade any drilling rig or marine transportation vessel, including without limitation the Rigs, which is not owned by the Borrower or any of its Subsidiaries on the date of this Agreement but which is hereafter acquired or constructed by the Borrower or such Restricted Subsidiary incurring such Debt, provided that any such Lien shall exist only against such drilling rig or marine transportation vessel renovated or upgraded; and

(xiv) Any Liens of the Borrower and the Restricted Subsidiaries not permitted above in clauses (i) through (xiii) above which secure Debt in an aggregate outstanding principal amount that does not exceed \$100,000,000 at any time.

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, firm or other entity, or a government or any political subdivision or agency, department or instrumentality thereof.

"Plan" means an employee benefit plan (other than a Multiemployer Plan) which is (or, in the event that any such plan has been terminated within five years after a transaction described in Section 4069 of ERISA, was) maintained for employees of the Borrower or any ERISA Affiliate and covered by Title IV of ERISA.

"Prescribed Forms" shall mean such forms or statements, and in such number of copies, which may, from time to time, be prescribed by law and which, pursuant to applicable provisions of (a) an income tax treaty between the United States and the country of residence of the Bank providing the forms or statements, (b) the Code, or (c) any applicable rule or regulation under the Code, permit the Borrower to make payments hereunder for the account of such Bank free of deduction or withholding of income or similar taxes (except for any deduction or withholding of income or similar taxes as a result of any change in or in the interpretation of any such treaty, the Code or any such rule or regulation).

"Property" or "asset" (in either case, whether or not capitalized) means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Ratable Portion" means as to any Bank at any date (i) the amount obtained by dividing (a) such Bank's Commitment at such date by (b) the aggregate amount at such date of all Commitments of all of the Banks, or (ii) if no Commitments exist on such date, the amount obtained by dividing (a) such Bank's Commitment on the day immediately prior to the termination of the Commitments by (b) the aggregate amount of all Commitments of all of the Banks on such day.

"Rating Category" means, as to the Borrower, the relevant category applicable to the Borrower from time to time as set forth on Schedule II, which is based on the highest ratings of the Borrower's senior unsecured long-term debt by S&P or Moody's. If there is a one-notch split between the two ratings, then the level corresponding to the higher rating shall apply. If there is a more than one notch split in the two ratings, then the rating that is one notch higher than the lowest rating shall apply.

"Register" has the meaning specified in Section 8.06(c).

"Reg U Limited Assets" means assets that are subject to any arrangement (as contemplated by Regulation U) with any Bank, the Administrative Agent or the Issuing Bank (i) that restricts the right or ability of the Borrower or its Subsidiaries to sell, pledge or otherwise dispose of (within the meaning of Regulation U) such assets or (ii) that provides that the exercise of such right is or may be cause for accelerating the maturity of all or any portion of the Advances or any other amount payable hereunder or under such arrangement.

"Regulation U" means Regulation U of the Federal Reserve Board, as the same is from time to time in effect.

"Regulation X" means Regulation X of the Federal Reserve Board, as the same is from time to time in effect.

"Restricted Subsidiary" means any subsidiary that is not an Unrestricted Subsidiary and shall include all Material Subsidiaries.

"Rig" means any and all mobile, offshore jack-up or semi-submersible drilling units owned or leased by Borrower or any Subsidiary and shall include those listed on Schedule IV, as same is supplemented and amended from time to time, but excluding all platform rigs and Lake Maracaibo type drilling barges.

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. on the date hereof.

"Stated Expiry Date" means the original expiration date stated on the face of any Letter of Credit, or such other date, if any, to which the Issuing Bank extends the expiration of such Letter of Credit at the request of the Borrower.

"Subsidiary" of any Person means any corporation, partnership, joint venture, or other entity of which more than 50% of the outstanding capital stock or other Equity Interests having ordinary voting power (irrespective of whether or not at the time capital stock or other Equity Interest of any other class or classes of such corporation, partnership, joint venture, or other entity shall or might have voting power upon the occurrence of any contingency) is at the time owned directly or indirectly by such Person. Unless otherwise provided or the context otherwise requires, the terms "Subsidiary" and "Subsidiaries" refer to a Subsidiary or Subsidiaries of the Borrower.

"Syndication Agent" means Citibank, N.A., a national banking association.

"Taxes" has the meaning specified in Section 2.13(a).

"Termination Date" means July 26, 2007 or the earlier date of termination in whole of the Commitments pursuant to this Agreement.

"Termination Event" means (a) a "reportable event", as such term is described in Section 4043 of ERISA (other than a "reportable event" not subject to the provision for 30-day notice to the PBGC), or an event described in Section 4062(e) of ERISA, or (b) the withdrawal of the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year in which it was a "substantial employer", as such term is defined in Section 4001(a)(2) of ERISA, or the incurrence of liability by the Borrower or any ERISA Affiliate under Section 4064 of ERISA upon the termination of a Multiple Employer Plan, or (c) the distribution of a notice of intent to terminate a Plan pursuant to Section 4041(a)(2) of ERISA or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, or (d) the institution of proceedings to terminate a

Plan by the PBGC under Section 4042 of ERISA, or (e) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"Type" has the meaning specified in the definition of the term "Advance" (with respect to a Advance) and in the definition of the term "Borrowing" (with respect to a Borrowing).

"Unrestricted Subsidiary" means any subsidiary designated as such on Schedule III hereto, as supplemented or amended from time to time, which designation, amendment and supplement must be approved by the Majority Lenders, such approval not to be unreasonably withheld.

"Voting Stock" means, with respect to any corporation, the outstanding stock of all classes (or equivalent interests) which ordinarily, in the absence of contingencies, entitles holders thereof to vote for the election of directors (or Persons performing similar functions) of such corporation, even though the right to so vote has been suspended by the happening of such a contingency.

"Withdrawal Liability" shall have the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding". Unless otherwise indicated, all references to a particular time are references to New York City time.

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with, and certificates of compliance with financial covenants shall be based on, GAAP; provided the financial statements and reports required pursuant to Sections 5.01(a)(i) shall be prepared in accordance with generally accepted accounting principles consistently applied except to the extent stated therein.

SECTION 1.04. Miscellaneous. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article, Section, Schedule and Exhibit references are to Articles and Sections of and Schedules and Exhibits to this Agreement, unless otherwise specified. The term "including" shall mean "including, without limitation," the term "include" shall mean "include, without limitation," and the term "includes" shall mean "includes, without limitation,".

## **ARTICLE II**

### **AMOUNT AND TERMS OF THE ADVANCES AND LETTERS OF CREDIT**

SECTION 2.01. The Advances. (a) Each Bank severally agrees, on the terms and conditions hereinafter set forth, to make one or more Advances to the Borrower from time to time on any Business Day during the period from the date hereof until the Termination Date in an aggregate amount not to exceed at any time outstanding the amount equal to (i) the amount set opposite such Bank's name on Schedule VI hereto as its Commitment or, if such Bank has entered into any Assignment and Acceptance, set forth for such Bank as its Commitment in the Register maintained by the Administrative Agent pursuant to Section 8.06 (c), as such amount may be adjusted pursuant to Section 2.15, Section 2.16 or Section 6.01 (such Bank's "Commitment") minus (ii) such Bank's Ratable Portion of outstanding Letter of Credit Liabilities; provided that no Advance shall be required to be made, except as part of a Borrowing that is in an aggregate amount not less than \$10,000,000 (and in integral multiples of \$1,000,000 in excess thereof), and each Borrowing shall consist of Advances of the same Type having (in the case of a Borrowing comprised of LIBOR Advances) the same Interest Period, made on the same day by the Banks ratably according to their respective Commitments. Within the limits of each Bank's Commitment, the Borrower may borrow, prepay pursuant to Section 2.09 and reborrow under this Section 2.01(a) until the Termination Date, but in no event will any Bank be obligated to make any Advance, if the amount of such Advance plus all other Advances owed to such Bank would exceed its Commitment.

SECTION 2.02. Making the Advances. (a) Each Borrowing shall be made on notice, given not later than noon (New York City time) (x) in the case of a proposed Borrowing comprised of LIBOR Advances, at least three Business Days prior to the date of the proposed Borrowing (or, as to any proposed Borrowing comprised of LIBOR Advances, at such other time as the Borrower and the Banks may agree to for such proposed Borrowing) and (y) in the case of a proposed Borrowing comprised of Base Rate Advances, on the day of the proposed Borrowing, by the Borrower to the Administrative Agent, which shall give to each

Bank prompt notice thereof by telex or telecopy. Each such notice of a Borrowing (a "Notice of Borrowing") shall be by telex or telecopy, in substantially the form of Exhibit B, identifying therein the requested Borrowing specifying therein the requested (i) date of such Borrowing, (ii) Type of Advances comprising such Borrowing, (iii) aggregate amount of such Borrowing, and (iv) in the case of a Borrowing comprised of LIBOR Advances, initial Interest Period for each such Advance, provided that the Borrower may not specify LIBOR Advances for any Borrowing if, after giving effect to such Borrowing, LIBOR Advances having more than eight different Interest Periods shall be outstanding. In the case of a proposed Borrowing comprised of LIBOR Advances, the Administrative Agent shall promptly notify each Bank of the applicable interest rate under Section 2.05(b). Each Bank shall, before noon (2:00 P.M. in the case of a Borrowing comprised of Base Rate Advances) on the date of such Borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at its Payment Office, in same day funds, such Bank's ratable portion of such Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Administrative Agent will make such funds available to the Borrower at the Administrative Agent's aforesaid address.

(b) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Borrowing which the related Notice of Borrowing specifies is to be comprised of LIBOR Advances, the Borrower shall indemnify each Bank against any loss, cost or expense incurred by such Bank as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund the Advance to be made by such Bank as part of such Borrowing when such Advance, as a result of such failure, is not made on such date. Any Bank requesting indemnification under this Section 2.02(b) shall provide to Borrower a reasonable explanation of any such loss, cost, or expense for which such Bank requests indemnification.

(c) Unless the Administrative Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's ratable portion of such Borrowing, the Administrative Agent may assume that such Bank has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with subsection (a) of this Section 2.02 and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such ratable portion available to the Administrative Agent, such Bank and the Borrower severally agree to repay to the Administrative Agent such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, (i) in the case of the Borrower, one Business Day after the Administrative Agent requests such payment from the Borrower, which request shall not be sooner than one Business Day after such Bank's ratable portion was due, with interest at the interest rate applicable at the time to Advances comprising such Borrowing, and (ii) in the case of such Bank, forthwith upon demand, with interest at the Federal Funds Rate. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Advance as part of such Borrowing for purposes of this Agreement.

(d) The failure of any Bank to make the Advance to be made by it as part of any Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Bank shall be responsible for the failure of any other Bank to make the Advance to be made by such other Bank on the date of any Borrowing.

(e) Each Bank, at its option, may request a Note of the Borrower payable to the order of such Bank, evidencing the indebtedness of the Borrower to such Bank resulting from Advances owing to such Bank, in substantially the form of Exhibit A hereto.

**SECTION 2.03. Fees.** (a) The Borrower agrees to pay to the Administrative Agent for the account of each Bank a facility fee on the average daily amount of such Bank's Commitment, regardless of usage, from the date hereof in the case of each Bank listed on the signature pages hereof and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Bank in the case of each other Bank until the Termination Date at the rate per annum set forth in Schedule II hereto. The facility fee is payable quarterly in arrears on the last day of each March, June, September and December, commencing September 30, 2002, and on the Termination Date.

(b) The Borrower agrees to pay to the Administrative Agent for the account of each Bank a utilization fee for each day on which 33% or more of the Commitment of such Bank is funded, from the date hereof in the case of each Bank listed on the signature pages hereof and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Bank in the case of each other Bank until the Termination Date, at the rate per annum equal to 0.25% of the aggregate principal amount of outstanding Advances on such day. The utilization fee is payable quarterly in arrears on the last day of each March, June, September and December, commencing September 30, 2002, and on the Termination Date.

(c) The Borrower shall pay to the Administrative Agent such fees as may be separately agreed to by the Borrower and the Administrative Agent, as the case may be.

SECTION 2.04. Repayment. The Borrower shall repay to the Banks the principal of all of the Advances on the Termination Date. Additionally, if at any time the aggregate principal amount of all Advances owed to any Bank exceeds its Commitment, the Borrower shall ratably repay to the Banks the Advances in an amount necessary so that no Bank is owed a principal amount of Advances that exceeds its Commitment.

SECTION 2.05. Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance owed to each Bank from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(a) Base Rate Advances. During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of the Base Rate in effect from time to time, payable quarterly on the last day of each March, June, September and December during such periods, on each other date provided herein and on the date such Base Rate Advance shall be changed (in whole or in part) as a result of any division or combination of any Borrowing or shall be Converted (in whole or in part); provided that any amount of principal (other than principal of LIBOR Advances bearing interest pursuant to the proviso to Section 2.05(b)) which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the sum of 2% per annum plus the Applicable Base Rate Margin in effect from time to time.

(b) LIBOR Advances. During such periods as such Advance is a LIBOR Advance, a rate per annum equal at all times during each Interest Period for such Advance to the sum of the LIBO Rate for such Interest Period for such Advance plus the Applicable Margin for such Interest Period, payable on the last day of such Interest Period, on each other date provided herein and, if such Interest Period has a duration of more than three months, on the day which occurs during such Interest Period three months from the first day of such Interest Period; provided that any amount of principal of any LIBOR Advance which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the greater of (x) the sum of 2% per annum plus the Base Rate in effect from time to time, and (y) the sum of 2% per annum plus the rate per annum required to be paid on such Advance immediately prior to the date on which such amount became due.

SECTION 2.06. Additional Interest on LIBOR Advances. If any Bank is required under regulations of the Federal Reserve Board to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, and if as a result thereof there is an increase in the cost to such Bank of agreeing to make or making, funding or maintaining LIBOR Advances, then the Borrower shall from time to time, upon demand by such Bank (with a copy of such demand to the Administrative Agent), unless such Bank withdraws its demand for such additional amounts pursuant to Section 2.16(b) or the Borrower is not obligated to pay such amounts pursuant to Section 2.16(a), pay to the Administrative Agent for the account of such Bank additional amounts, as additional interest hereunder, sufficient to compensate such Bank for such increased cost. Such Bank shall provide to Borrower a reasonable explanation of such amounts to be paid by Borrower.

SECTION 2.07. Interest Rate Determination and Protection. (a) The Administrative Agent shall give prompt notice to the Borrower and the Banks of the applicable interest rate determined by the Administrative Agent for purposes of Section 2.05(b).

(b) If the Administrative Agent is unable to obtain timely information for determining the LIBO Rate for any LIBOR Advance,

(i) the Administrative Agent shall forthwith notify the Borrower and the Banks that the interest rate cannot be determined for such LIBOR Advances,

(ii) each such Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(iii) the obligation of the Banks to make, or to Convert Advances or Borrowings into, or make divisions or combinations of Borrowings resulting in, LIBOR Advances or LIBOR Borrowings shall be suspended until the Administrative Agent shall notify the Borrower and the Banks that the circumstances causing such suspension no longer exist.

(c) If the Majority Banks notify the Administrative Agent that either (A) the applicable interest rate for any Interest Period for any LIBOR Advance will not adequately reflect the cost to such Majority Banks of making, funding or maintaining their respective LIBOR Advances for such Interest Period, or (B) Dollar deposits in the amounts of their respective Advances for such Interest Period are not available to them in the London interbank market, the Administrative Agent shall forthwith so notify the Borrower and the Banks, whereupon

(i) each such Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or, if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(ii) the obligation of the Banks to make, or to Convert Advances or Borrowings into, or to make divisions or combinations of Borrowings resulting in, LIBOR Advances or LIBOR Borrowings shall be suspended until the Administrative Agent shall notify the Borrower and the Banks that the circumstances causing such suspension no longer exist.

(d) If the Borrower shall fail to select the duration of any Interest Period for any LIBOR Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Administrative Agent will forthwith so notify the Borrower and the Banks and such Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into LIBOR Advances with an Interest Period of one month.

(e) At the end of the relevant Interest Period following the date on which the aggregate unpaid principal amount of Advances comprising any LIBOR Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$1,000,000, such Advances shall automatically Convert into Base Rate Advances, and on and after such date the right of the Borrower to Convert such Advances into LIBOR Advances shall terminate; provided that if and so long as each such Advance shall be of the same Type and have an Interest Period ending on the same date as Advances comprising another Borrowing or other Borrowings, and the aggregate unpaid principal amount of all such Advances of all such Borrowings shall equal or exceed \$1,000,000, the Borrower shall have the right to continue all such Advances as, or to Convert all such Advances into, Advances of such Type having an Interest Period ending on such date.

(f) Upon the occurrence and during the continuance of an Event of Default, each LIBOR Advance shall automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance.

**SECTION 2.08. Voluntary Conversion of Borrowings; Continuation of LIBOR Borrowings.** (a) The Borrower may on any Business Day, upon notice given to the Administrative Agent not later than noon (x) in the case of a proposed Conversion into a LIBOR Borrowing, on the third Business Day prior to the date of the proposed Conversion and (y) in the case of a proposed Conversion into a Base Rate Borrowing, on the date of the proposed Conversion and subject to the limitations in Section 2.02(a) as to the number of permitted Interest Periods and subject to the provisions of Sections 2.07, 2.08(c) and 2.11, Convert all or any portion of a Borrowing of one Type into a Borrowing of another Type; provided that any Conversion of any LIBOR Borrowing shall be made on, and only on, the last day of an Interest Period for such LIBOR Borrowing. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Borrowing (or identified portion thereof) to be Converted and the Type into which it is to be Converted, and (iii) if such Conversion is into a LIBOR Borrowing, the duration of the Interest Period for each LIBOR Advance comprising such LIBOR Borrowing.

(b) The Borrower may continue all or any portion of any LIBOR Borrowing as a LIBOR Borrowing for an additional Interest Period that complies with the requirements set forth in the definition herein of "Interest Period," by giving notice of such Interest Period as set forth in such definition, subject to the limitations in Section 2.02(a) as to the number of permitted Interest Periods and subject to the provisions of Sections 2.07, 2.08(c) and 2.11.

(c) All Borrowings, divisions and combinations of Borrowings, Conversions and continuations under this Agreement shall be effected in a manner that (i) treats all Banks ratably (including, for example, effecting Conversions of any portion of a Borrowing in a manner that results in each Bank retaining its same ratable percentage of both the Converted portion and the remaining portion not Converted), and (ii) in the case of LIBOR Borrowings, results in each LIBOR Borrowing (including, in the case of any Conversion of a portion of a LIBOR Borrowing, both the Converted portion and the remaining portion not Converted) being in an amount not less than \$1,000,000; provided that clause (ii) immediately above shall not limit the Borrower's rights under the proviso of Section 2.07(f). Upon Conversion of any Borrowing, or portion thereof, into a particular Type, all Advances comprising such Borrowing or portion thereof, as the case may be, will be deemed Converted into Advances of such Type. Notwithstanding any other provision hereof, during the

continuance of any Event of Default the Borrower may not divide or combine Borrowings, continue all or any portion of any LIBOR Borrowing for an additional Interest Period or Convert all or any portion of a Borrowing into a LIBOR Borrowing.

SECTION 2.09. Optional Prepayments. The Borrower may (i) in respect of LIBOR Advances, upon at least two Business Days' notice, and (ii) in respect of Base Rate Advances, upon notice by noon on the day of the proposed prepayment, to the Administrative Agent stating the proposed date and aggregate principal amount of the prepayment and the Types of Advances to be prepaid, and the specific Borrowing or Borrowings to be prepaid in whole or in part, and if such notice is given the Borrower shall, prepay the outstanding principal amounts of the Advances comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid without premium or penalty; provided that each partial prepayment shall be in an aggregate principal amount not less than \$10,000,000 (and in increments of \$1,000,000 in excess thereof), and provided further that if the Borrower prepays any LIBOR Advance on any day other than the last day of an Interest Period therefor, the Borrower shall compensate the Banks pursuant to Section 8.04(b).

SECTION 2.10. Increased Costs; Capital Adequacy, Etc. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof or (ii) the compliance with any guideline or request from any governmental authority, central bank or comparable agency (whether or not having the force of law), there shall be any increase in the cost to any Bank of agreeing to make or making, funding or maintaining LIBOR Advances (other than increased costs described in Section 2.06 or in Section 2.10(c) below), then the Borrower shall from time to time, upon demand by such Bank (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Bank additional amounts sufficient to compensate such Bank for such increased cost unless such Bank shall have withdrawn its demand for additional compensation for such increased cost pursuant to Section 2.16(b) or the Borrower is not obligated to pay such amounts pursuant to Section 2.16(a). Such Bank shall provide to Borrower a reasonable explanation of such amounts to be paid by Borrower.

(b) If the Borrower so notifies the Administrative Agent within five Business Days after any Bank notifies the Borrower of any increased cost pursuant to the provisions of Section 2.10(a), the Borrower shall Convert all Advances of the Type affected by such increased cost of all Banks then outstanding into Advances of another Type in accordance with Section 2.08 and, additionally, reimburse such Bank for such increased cost in accordance with Section 2.10(a).

(c) If any Bank shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its lending office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency (except to the extent such request or directive arises as a result of the individual creditworthiness of such Bank), has the effect of increasing the amount of capital required or expected to be maintained as a result of its Commitment hereunder or the existence of any Letter of Credit, such Bank shall have the right to give prompt written notice and demand for payment thereof to the Borrower with a copy to the Administrative Agent (which notice and demand shall show in reasonable detail the calculation of such additional amounts as shall be required to compensate such Bank for the increased cost to such Bank as a result of such increase in capital and shall certify that such costs are generally being charged by such Bank to other similarly situated borrowers under similar credit facilities), although the failure to give any such notice shall not, unless such notice fails to set forth the information required above, release or diminish any of the Borrower's obligations to pay additional amounts pursuant to this Section 2.10(c), and subject to Section 2.16, the Borrower shall pay such additional amounts.

(d) Each Bank shall use its best efforts (consistent with its internal policies and legal and regulatory restrictions) to select a jurisdiction for its Applicable Lending Office or change the jurisdiction of its Applicable Lending Office, as the case may be, so as to avoid the imposition of any increased costs under this Section 2.10 or to eliminate the amount of any such increased cost which may thereafter accrue; provided that no such selection or change of the jurisdiction for its Applicable Lending Office shall be made if, in the reasonable judgment of such Bank, such selection or change would be disadvantageous to such Bank.

(e) No Bank shall be entitled to recover increased costs pursuant to this Section 2.10, (a) incurred or accruing more than 90 days prior to the date on which such Bank sent to the Borrower a written notice and demand for payment as specified in this Section 2.10, or (b) to the extent that such increased costs have resulted from the failure of such Bank to have complied with Section 2.10(d).

SECTION 2.11. Illegality. Notwithstanding any other provision of this Agreement, if the

introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or any governmental authority, central bank or comparable agency shall assert that it is unlawful (such unlawfulness or such assertion of unlawfulness being an "Illegality Event"), for any Bank or its Eurodollar Lending Office (such a Bank being an "Affected Lender") to perform its obligations hereunder to make LIBOR Advances or to continue to fund or maintain LIBOR Advances hereunder, then, on notice thereof and demand therefor by such Bank to the Borrower through the Administrative Agent, (a) the obligation of the Banks to make, or to Convert Advances or Borrowings into, or to make divisions or combinations of Borrowings resulting in, LIBOR Advances or LIBOR Borrowings shall be suspended until the time set forth in the next succeeding sentence, and (b) the Borrower shall forthwith Convert all LIBOR Advances of all Banks then outstanding into Advances of another Type in accordance with Section 2.08. The suspension of the obligation of the Banks to make LIBOR Advances or to continue to fund or maintain LIBOR Advances, as set forth in the preceding sentence, shall terminate upon the earliest to occur of the following: (i) the withdrawal by each Affected Lender of its notice and demand with respect to the Illegality Event referenced in this Section 2.11, (ii) the replacement by the Borrower of each Affected Lender pursuant to Section 2.16(a) hereof with an Eligible Assignee that is not an Affected Lender, and (iii) the termination by the Borrower of each Affected Lender pursuant to Section 2.16(b) hereof. If an Illegality Event has ceased to exist with respect to a Bank that has given notice and demand with respect to such Illegality Event pursuant to this Section 2.11, such Bank shall promptly withdraw such notice and demand by giving written notice of withdrawal to the Administrative Agent and the Borrower. Upon termination of such suspension pursuant to clause (i), (ii) or (iii) above, as applicable, the Administrative Agent shall notify each Bank of such termination, and the Banks shall thereupon again be obligated to make LIBOR Advances and LIBOR Borrowings and to continue to fund, maintain, and Convert LIBOR Advances and LIBOR Borrowings in each case in accordance with and to the extent provided in this Agreement.

SECTION 2.12. Payments and Computations. (a) The Borrower shall make each payment under any Loan Document not later than noon on the day when due in Dollars to the Administrative Agent at its Payment Office (or to the Issuing Bank, in the case of payments to the Issuing Bank under Section 2.18) in same day funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, fees or commissions on Letters of Credit as contemplated by Section 2.18 (b) ratably (other than amounts payable pursuant to Section 2.06, 2.10, 2.13, 2.16 or 8.04) to the Banks (decreased, as to any Bank, for any taxes withheld in respect of such Bank as contemplated by Section 2.13(b)) for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Bank to such Bank for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.06(c), from and after the effective date specified in such Assignment and Acceptance, the Administrative Agent shall make all payments hereunder and under the Notes (if any) in respect of the interest assigned thereby to the Bank assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves. At the time of each payment of any principal of or interest on any Borrowing to the Administrative Agent, the Borrower shall notify the Administrative Agent of the Borrowing to which such payment shall apply. In the absence of such notice, the Administrative Agent may specify the Borrowing to which such payment shall apply.

(b) All computations of interest based on the Base Rate (except during such times as the Base Rate is determined pursuant to clause (c) of the definition thereof) shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the LIBO Rate, the Federal Funds Rate, of any fee payable under Section 2.03 or, during such times as the Base Rate is determined pursuant to clause (c) of the definition thereof, the Base Rate shall be made by the Administrative Agent, and all computations of interest pursuant to Section 2.06 shall be made by a Bank, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or fees are payable. Each determination by the Administrative Agent (or, in the case of Section 2.06, by a Bank) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes (if any) shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be; provided that if such extension would cause payment of interest on or principal of LIBOR Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If

and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Rate.

SECTION 2.13. Taxes. (a) Any and all payments by the Borrower hereunder or under the Notes (if any) shall be made, in accordance with Section 2.12, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges, fees, duties or withholdings, and all liabilities with respect thereto, excluding, in the case of each Bank and the Administrative Agent, (1) taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which (or by a jurisdiction under the laws of a political subdivision of which) such Bank or Administrative Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Bank's Applicable Lending Office or any political subdivision thereof and (2) any taxes imposed by the United States of America by means of withholding at the source if and to the extent that such taxes shall be in effect and shall be applicable, on the date hereof (or, with respect to any entity that becomes a Bank after the date hereof, on the date such entity becomes a Bank), to payments to be made to such Bank or the Administrative Agent (all such non-excluded taxes, levies, imposts, deductions, charges, fees, duties, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note (if any) to any Bank or the Administrative Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.13) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) Notwithstanding anything to the contrary contained in this Agreement, each of the Borrower and the Administrative Agent shall be entitled, to the extent it is required to do so by law, to deduct or withhold income or other similar taxes imposed by the United States of America from interest, fees or other amounts payable hereunder for the account of any Bank (without the payment by the Borrower of increased amounts to such Bank pursuant to clause (a) above) other than a Bank (i) which is a domestic corporation (as such term is defined in Section 7701 of the Code) for federal income tax purposes or (ii) which has the duly executed Prescribed Forms on file with the Borrower and the Administrative Agent for the applicable year to the extent deduction or withholding of such taxes is not required as a result of the filing of such duly executed Prescribed Forms, provided that if the Borrower shall so deduct or withhold any such taxes, it shall provide a statement to the Administrative Agent and such Bank, setting forth the amount of such taxes so deducted or withheld, the applicable rate and any other information or documentation which such Bank or the Administrative Agent may reasonably request for assisting such Bank or the Administrative Agent to obtain any allowable credits or deductions for the taxes so deducted or withheld in the jurisdiction or jurisdictions in which such Bank is subject to tax.

(c) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Notes (if any) or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or the Notes (hereinafter referred to as "Other Taxes").

(d) The Borrower, to the fullest extent permitted by law, will indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.13) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted, except (i) if such Taxes, Other Taxes, or other liability arise as a result of the gross negligence or willful misconduct of such Bank or Administrative Agent or (ii) if such Taxes, Other Taxes, or other liability arise as a result of such Bank's failure to file any Prescribed Forms which are available to it and for which it qualifies. This indemnification shall be made within 30 days from the date such Bank or the Administrative Agent (as the case may be) makes written demand therefor. No Bank nor the Administrative Agent shall be indemnified for Taxes incurred or accrued more than 90 days prior to the date that such Bank or the Administrative Agent notifies the Borrower thereof.

(e) Within 30 days after the date of any payment of Taxes by or at the direction of the Borrower, the Borrower will furnish to the Administrative Agent, at its address referred to in Section 8.02, (i) the original or a certified copy of a receipt evidencing payment thereof, if the relevant taxing authority provides a receipt, or (ii) if the relevant taxing authority does not provide a receipt, other reasonable evidence of the payment thereof. Should any Bank or the Administrative Agent ever receive any refund, credit or deduction from any taxing authority to which such Bank or the Administrative Agent would not be entitled but for the payment by the Borrower of Taxes as required by this Section 2.13 (it being understood that the

decision as to whether or not to claim, and if claimed, as to the amount of any such refund, credit or deduction shall be made by such Bank or the Administrative Agent in its sole discretion), such Bank or the Administrative Agent, as the case may be, thereupon shall repay to the Borrower an amount with respect to such refund, credit or deduction equal to any net reduction in taxes actually obtained by such Bank or the Administrative Agent, as the case may be, and determined by such Bank or the Administrative Agent, as the case may be, to be attributable to such refund, credit or deduction.

(f) Each Bank shall use its best efforts (consistent with its internal policies and legal and regulatory restrictions) to select a jurisdiction for its Applicable Lending Office or change the jurisdiction of its Applicable Lending Office, as the case may be, so as to avoid the imposition of any Taxes or Other Taxes or to eliminate the amount of any such additional amounts which may thereafter accrue; provided that no such selection or change of the jurisdiction for its Applicable Lending Office shall be made if, in the reasonable judgment of such Bank, such selection or change would be disadvantageous to such Bank.

(g) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 2.13 shall survive the payment in full of principal and interest hereunder and under the Notes.

SECTION 2.14. Sharing of Payments, Etc. (a) If any Bank shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances made by it (other than pursuant to Section 2.06, 2.10, 2.13, 2.16 or 8.04) in excess of its ratable share of payments on account of the Advances obtained by all the Banks, such Bank shall forthwith purchase from the other Banks such participations in the Advances made by them as shall be necessary to cause such purchasing Bank to share the excess payment ratably with each of them, provided that if all or any portion of such excess payment is thereafter recovered from such purchasing Bank, such purchase from each Bank shall be rescinded and such Bank shall repay to the purchasing Bank the purchase price to the extent of its ratable share (according to the proportion of (i) the amount of the participation purchased from such Bank as a result of such excess payment to (ii) the total amount of such excess payment) of such recovery together with an amount equal to such Bank's ratable share (according to the proportion of (i) the amount of such Bank's required repayment to (ii) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered.

(b) The Borrower agrees that any Bank so purchasing a participation from another Bank pursuant to this Section 2.14 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Bank were the direct creditor of the Borrower in the amount of such participation.

SECTION 2.15. Ratable Reduction or Termination of the Commitments; Effect of Termination. (a) The Borrower shall have the right, upon at least three Business Days' notice to the Administrative Agent, to terminate in whole or reduce ratably in part the unused portions of the respective Commitments of the Banks, provided that each partial reduction shall be in the aggregate amount of at least \$10,000,000 or any whole multiple of \$1,000,000 in excess thereof.

(b) Upon and at all times after any Commitment of any Bank is terminated pursuant to any provision of this Agreement, such Commitment shall be zero and such Bank shall have no further obligation to make any Advances.

SECTION 2.16. Replacement of Bank; Additional Right to Terminate Commitments. In the event that any Bank demands payment pursuant to Section 2.06, 2.10 or 2.13, or any Bank becomes an Affected Lender as set forth in Section 2.11, the Borrower shall have the right, within 45 days after the date of the giving by such Bank of any notice or demand required or otherwise permitted to be given pursuant to Section 2.06, 2.10, 2.11 or 2.13 and if no Event of Default or Default then exists, to either replace such Bank in accordance with the procedure set forth in Section 2.16(a) or terminate all of such Bank's Commitments in accordance with the procedure set forth in Section 2.16(b); provided that no such replacement or termination shall be effected without (i) the prior written consent of the Issuing Bank (such consent not to be unreasonably withheld, but any withholding of consent by the Issuing Bank based on any good faith concern of the Issuing Bank regarding the creditworthiness of the replacement Bank shall be deemed a reasonable withholding of consent), (ii) in the case of a termination pursuant to section 2.16(b), a simultaneous reduction of the Letters of Credit in amounts such that there is no increase in the potential exposure of the Issuing Bank that is not participated to other Banks hereunder, and (iii) in the case of the replacement or termination of the Bank that is the Issuing Bank, termination of all Letters of Credit issued by such Issuing Bank.

(a) If the Borrower determines to replace a Bank pursuant to this Section 2.16, then the Borrower will have the right to replace such Bank with an Eligible Assignee in accordance with Section 8.06 (a), (b) and (d) (including execution of an appropriate Assignment and Acceptance), provided that such

Eligible Assignee (i) shall unconditionally offer in writing (with a copy to the Administrative Agent) to purchase all of such Bank's rights hereunder and interest in the Advances owing to such Bank and the Note (if any) held by such Bank without recourse at the principal amount of such Note plus interest and accrued fees to the date of such purchase on a date therein specified, and (ii) shall execute and deliver to the Administrative Agent an Assignment and Acceptance, as assignee, pursuant to which such Eligible Assignee becomes a party hereto with a Commitment equal to that of the Bank being replaced (plus, if such Eligible Assignee is already a Bank, the amount of its Commitment, respectively, prior to such replacement); provided, further, that no Bank or other Person shall have any obligation to increase any of its Commitments or otherwise to replace, in whole or in part, any Bank. Upon satisfaction of the requirements set forth in the first sentence of this Section 2.16(a), acceptance of such offer to purchase by the Bank to be replaced, payment to such Bank of the purchase price in immediately available funds, and the payment by the Borrower of all requested costs accruing to the date of purchase which the Borrower is obligated to pay under Section 8.04 and all other amounts owed by the Borrower to such Bank (other than the principal of and interest on the Advances of such Bank and accrued fees to the date of such purchase that are purchased by such Eligible Assignee), such Eligible Assignee shall constitute a "Bank" hereunder with Commitments as so specified and the Bank being so replaced shall no longer constitute a "Bank" hereunder and all of its Commitments shall be deemed terminated, except that the rights under Sections 2.06, 2.10, 2.13 and 8.04 of the Bank being so replaced shall continue with respect to events and occurrences occurring before or concurrently with its ceasing to be a "Bank" hereunder. If, however, (x) a Bank accepts such an offer and such Eligible Assignee fails to purchase such rights and interest on such specified date in accordance with the terms of such offer, the Borrower shall continue to be obligated to pay the increased costs and additional amounts due to such Bank pursuant to Sections 2.06, 2.10 and 2.13 (if a demand or notice for payment of increased costs or additional amounts pursuant to any of such Sections is the basis of the proposed replacement), or (y) the Bank proposed to be replaced fails to accept such purchase offer, the Borrower (if a demand or notice for payment of increased costs or additional amounts pursuant to any of such Sections is the basis of the proposed replacement) shall not be obligated to pay to such Bank such increased costs or additional amounts incurred or accrued from and after the date of such purchase offer, and neither the failure to purchase as set forth in clause (x) of this sentence nor the failure to accept a purchase offer as set forth in clause (y) of this sentence, shall affect any rights the Borrower may have to terminate such Bank's Commitments in accordance with Section 2.16(b).

(b) In the event that the Borrower determines to terminate a Bank's Commitments pursuant to this Section 2.16, the Borrower shall have the right to terminate such Bank's Commitments and shall give notice to such Bank of the Borrower's election to terminate (a copy of such notice to be sent to the Administrative Agent), and such termination shall become effective on the date specified in such notice (which shall be 15 days after the date of such notice, provided that if the 15th day after the date of such notice is not a Business Day, the date specified in such notice shall be the first Business Day next succeeding such 15th day) unless such Bank withdraws its demand or notice for increased costs or additional amounts (if such a demand or notice is the basis for the proposed termination). On the date of the termination of the Commitments of any Bank pursuant to this Section 2.16(b), the Borrower shall pay all amounts owed by the Borrower to such Bank under this Agreement and under the Note payable to such Bank (including principal of and interest on the Advances owed to such Bank, accrued fees and amounts specified in such Bank's notice and demand (if any) delivered pursuant to Sections 2.06, 2.10 or 2.13, as the case may be, with respect to the period prior to such termination) and such Bank shall thereupon cease to be a "Bank" hereunder for all purposes and its Commitments shall be deemed terminated, except that such Bank's rights under Sections 2.06, 2.10, 2.13 and 8.04 shall continue with respect to events and occurrences occurring before or concurrently with its ceasing to be a "Bank" hereunder.

SECTION 2.17. Certificates of Banks. Without limitation to the requirements of Section 2.10(c), any Bank demanding or giving notice of amounts due to such Bank under this Article II shall, as part of each demand or notice for payment required under this Article II, deliver to the Borrower (with a copy to the Administrative Agent) a certificate setting forth in reasonable detail the amount and basis of the increased costs or additional amounts payable to such Bank hereunder and such certificate shall be conclusive and binding on the Borrower in the absence of manifest error.

SECTION 2.18. Letters of Credit. (a) The Issuing Bank agrees, on the terms and conditions herein set forth, to issue Letters of Credit for the account of the Borrower from time to time on any business Day during the period from the date hereof until one calendar week before the Termination Date; provided that (i) at no time shall the Letter of Credit Liabilities exceed \$75,000,000, (ii) no Letter of Credit shall have a Stated Expiry Date later than the earlier of (A) one year from the date of its issuance unless otherwise extended by the Issuing Bank or, subject to the consent of the Issuing Bank, such Letters of Credit contain language providing for their automatic renewal or (B) the Termination Date, and (iii) at no time shall a Letter of Credit be issued if, after giving effect thereto, any Bank's Ratable Portion of the Letter of Credit Liabilities plus the aggregate amount of Advances owed to such Bank exceed such Bank's Commitment. In the case of a Letter of Credit containing language providing for its automatic renewal, the Borrower acknowledges and agrees that, if any such automatic renewal would cause the Stated Expiry Date of such Letter of Credit to be later than the Termination Date, the Issuing Bank may give notice to the beneficiary of such Letter of Credit

that such automatic renewal shall not take place. Each Letter of Credit shall be issued on notice given by the Borrower to the Issuing Bank and the Administrative Agent (which shall give to each Bank prompt notice thereof) not later than noon on the third Business Day prior to the date of the issuance of the proposed Letter of Credit. Each such notice of a Letter of Credit (a "Notice of Letter of Credit") shall be by telecopier or telex, in substantially the form of Exhibit J, specifying therein the requested (A) date of issuance of such Letter of Credit (which shall be a Business Day), (B) amount of such Letter of Credit (which must be in Dollars), (C) expiration date of such Letter of Credit, and (D) purpose and terms of such Letter of Credit (which shall not be to secure Debt). Additionally, if requested by the Issuing Bank, the Borrower shall execute and deliver to the Issuing Bank, an application for letter of credit on the Issuing Bank's standard form or on another form agreed upon by the Borrower and the Issuing Bank.

(b) With respect to each Letter of Credit, the Borrower agrees to pay to the Issuing Bank an issuance fee equal to 1/8th of 1% per annum of the maximum face amount of such Letter of Credit and to the Administrative Agent a commission, computed (on the basis of a year of 360 days for the actual number of days elapsed) at a rate per annum equal to the Applicable Letter of Credit Margin in effect from time to time, on the maximum face amount of such Letter of Credit from the date of issuance of such Letter of Credit until the Expiration Date for such Letter of Credit payable monthly in arrears on the last Business Day of each month and on such Expiration Date (which commission shall be shared ratably by all Banks (including the Issuing Bank) based on their respective Ratable Portions). Additionally, the Borrower agrees to pay all standard costs, fees, and expenses of the Issuing Bank in connection with each Letter of Credit (including mailing charges and out-of-pocket expenditures).

(d) The obligations of the Borrower under this Agreement and any other agreement or instrument relating to any Letter of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and such other agreement or instrument under all circumstances, including the following circumstances:

(i) any lack of validity or enforceability of this Agreement, any Letter of Credit or any other agreement or instrument relating thereto (collectively, the "L/C Related Documents");

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations of the Borrower in respect of any Letter of Credit or any other amendment or waiver of or any consent to departure from all or any of the L/C Related Documents;

(iii) the existence of any claim, set-off, defense or other right that the Borrower may have at any time against any beneficiary or transferee of any Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Issuing Bank or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by the L/C Related Documents or any other transaction;

(iv) any statement or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by the Issuing Bank under any Letter of Credit against presentation of a draft or document that does not comply with the terms of such Letter of Credit; or

(vi) any exchange, release or non-perfection of any collateral for, or any release or amendment or waiver of or consent to departure from any guarantee of, all or any of the obligations of the Borrower in respect of any Letter of Credit.

However, this Section 2.18(d) shall not limit any right of the Borrower to make a claim against the Issuing Bank to the extent provided in Section 2.18(e).

(e) The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee of any Letter of Credit with respect to the use of such Letter of Credit. Neither the Issuing Bank nor any branch, affiliate or correspondent bank of the Issuing Bank nor any of their respective employees, agents, officers or directors shall be liable or responsible for: (i) the use that may be made of any Letter of Credit or any acts or omissions of any beneficiary or transferee of any Letter of Credit in connection therewith; (ii) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be invalid, insufficient, fraudulent or forged; (iii) payment by the Issuing Bank against presentation of documents that do not strictly comply with the terms of the relevant Letter of Credit, including failure of any documents to bear any reference or adequate reference to the relevant Letter of Credit; or (iv) any other circumstances whatsoever in making or failing to make payment under any Letter of Credit;

provided that, notwithstanding clauses (i) through (iv) of this sentence, the Borrower shall have a claim against the Issuing Bank, and the Issuing Bank shall be liable to the Borrower, to the extent of any direct, but not consequential or other, damages suffered by the Borrower that the Borrower proves were caused by (A) the Issuing Bank's willful misconduct or gross negligence in determining whether documents presented under a Letter of Credit comply with the terms of such Letter of Credit, (B) the Issuing Bank's willful failure to make lawful payment under a Letter of Credit after the presentation to it of a draft and documents strictly complying with the terms and conditions of such Letter of Credit, or (C) the Issuing Bank's failure to comply with the ICC Uniform Customs and Practice for Documentary Credits (UCP 500), International Chamber of Commerce Publication No. 500, 1993. In furtherance and not in limitation of the foregoing, the Issuing Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

(f) Upon the date of the issuance of a Letter of Credit, the Issuing Bank shall be deemed to have sold to each other Bank and each other Bank shall have been deemed to have purchased from the Issuing Bank a ratable participation in the related Letter of Credit Liabilities and all related Demand Loans equal to such Bank's Ratable Portion at such date and such sale and purchase shall otherwise be in accordance with the terms of this Agreement. The Issuing Bank shall promptly notify each such participant Bank by telex or telecopy of each Letter of Credit issued or increased, the amount of such Bank's participation in such Letter of Credit and each payment thereunder. Upon the making of any payment under any Letter of Credit, each Bank (other than the Issuing Bank) shall pay for the purchase of its participation therein by immediate payment to the Issuing Bank of same day funds in the amount of its participation in such payment.

### **ARTICLE III**

### **CONDITIONS**

SECTION 3.01. Initial Conditions Precedent. The obligation of the Issuing Bank to issue any Letter of Credit and the obligation of each Bank to make Advances pursuant to the terms and conditions of this Agreement is subject to the condition precedent that the Administrative Agent shall have received on or before the day of the initial Advance (or, if earlier, the day of issuance of the initial Letter of Credit) the following, each dated on or before such day, in form and substance satisfactory to the Administrative Agent:

(a) This Agreement executed by the Borrower, the Banks, and the Administrative Agent and the Notes (if any) payable to the order of the Banks, respectively.

(b) Certified copies of the resolutions of the Board of Directors of the Borrower approving this Agreement, each Note and each Notice of Borrowing, and of all other documents, in each case evidencing any necessary company action and governmental approvals, if any, with respect to each such Loan Document.

(c) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the name and true signature of an agent of the Borrower authorized to sign each Loan Document to which it is a party and the other documents to be delivered hereunder and certifying that attached thereto are true and correct copies of the Bylaws and Articles of Incorporation of the Borrower.

(d) An opinion of Robert O. Isaac, counsel for the Borrower, substantially in the form of Exhibit C hereto.

(e) An opinion of Bracewell & Patterson, L.L.P., counsel for the Lead Arranger, substantially in the form of Exhibit E hereto.

(f) Certificates of existence, good standing and qualification from appropriate state officials with respect to the Borrower.

(g) A certificate of an officer of the Borrower certifying that insurance complying with Section 5.01(d) is in full force and effect.

(h) Evidence of payment by the Borrower of all fees and disbursements required to be paid by the Borrower on the date hereof, including the fees and expenses of counsel to the Administrative Agent and the Lead Arranger.

(i) Termination of the \$185,000,000 Credit Agreement dated as of May 21, 1998 among the Borrower, certain of its Subsidiaries, the financial institutions party thereto as Banks, Bankers Trust Company as administrative agent, Den norske Bank ASA, New York Branch as syndication agent, and ABN AMRO Bank N.V. as documentation agent.

SECTION 3.02. Additional Conditions Precedent to Each Advance. The obligation of each Bank to make any Advance shall be subject to the additional conditions precedent that on the date of such Advance the following statements shall be true (and each of the giving of the applicable Notice of Borrowing and the acceptance by the Borrower of the proceeds of such Advance shall constitute a representation and warranty by the Borrower that on the date of such Advance such statements are true):

(i) The representations and warranties contained in Section 4.01 are correct on and as of the date of such Advance (other than those representations and warranties that expressly relate solely to a specific earlier date, which shall remain correct in all material respects as of such earlier date), before and after giving effect to such Advance and the Borrowing of which such Advance is a part and to the application of the proceeds therefrom, as though made on and as of such date, and

(ii) No event has occurred and is continuing, or would result from such Advance or the Borrowing of which such Advance is a part or from the application of the proceeds therefrom, which constitutes a Default, an Event of Default or both, and

(iii) There shall exist no request, directive, injunction, stay, order, litigation, or proceeding purporting to affect or call into question the legality, validity, or enforceability of this Agreement or the Notes or the consummation of the transactions contemplated thereby.

SECTION 3.03. Conditions Precedent to Each Letter of Credit. The obligation of the Issuing Bank to issue each Letter of Credit shall be subject to the additional conditions precedent that on the date of issuance of such Letter of Credit the following statements shall be true (and each of the giving of the applicable Notice of Letter of Credit and the acceptance by the Borrower of the issuance of such Letter of Credit shall constitute a representation and warranty by the Borrower that on the date of issuance of such Letter of Credit such statements are true):

(i) The representations and warranties contained in Section 4.01 are correct in all material respects on and as of the date of issuance of such Letter of Credit (other than those representations and warranties that expressly relate solely to a specific earlier date, which shall remain correct as of such earlier date), before and after giving effect to such issuance, as though made on and as of such date, and

(ii) No event has occurred and is continuing, or would result from such Letter of Credit, which constitutes a Default, an Event of Default or both, and

(iii) There shall exist no request, directive, injunction, stay, order, litigation, or proceeding purporting to affect or call into question the legality, validity, or enforceability of this Agreement or the Notes or the consummation of the transactions contemplated thereby.

SECTION 3.04. Determinations Under Sections 3.01, 3.02 and 3.03. For purposes of determining compliance with the conditions specified in Sections 3.01, 3.02 and 3.03 with respect to any Advance or Letter of Credit, each Bank shall be deemed to have consented to, approved and accepted and to be satisfied with each document or other matter required under Section 3.01, 3.02 or 3.03 to be consented to or approved by or acceptable or satisfactory to the Banks or the Administrative Agent, unless both (i) an officer of the Administrative Agent responsible for the transactions contemplated by this Agreement (and, in the case of a Letter of Credit, an officer of the Issuing Bank issuing such Letter of Credit responsible for the transactions contemplated by this Agreement) shall have received written notice from such Bank prior to such Advance or issuance of such Letter of Credit specifying its objection thereto and (ii) in the case of an Advance, such Bank shall not have made available to the Administrative Agent any portion of such Advance.

## **ARTICLE IV**

### **REPRESENTATIONS AND WARRANTIES**

SECTION 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) The Borrower is a corporation validly formed and validly existing under the laws of the State of Delaware. Each Material Subsidiary is duly organized or validly formed, validly existing and (if applicable) in good standing in each case under the laws of its jurisdiction of incorporation or formation. The Borrower and each Material Subsidiary have all requisite powers and all material governmental licenses, authorizations, consents and approvals required in each case to carry on its business as now conducted.

(b) The execution, delivery and performance by the Borrower of this Agreement, the Notes and each other Loan Document to which it is or will be a party are within the Borrower's powers, have been duly authorized by all necessary action of the Borrower, require, in respect of the Borrower, no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, (i) any provision of law or regulation (including Regulation X issued by the Federal Reserve Board) applicable to the Borrower, (ii) Regulation U issued by the Federal Reserve Board, (iii) its Bylaws or Articles of Incorporation or (iv) any judgment, injunction, order, decree or agreement binding upon the Borrower, or result in the creation or imposition of any Lien (other than a Lien created in connection with this Agreement) on any asset of the Borrower or any of its Restricted Subsidiaries.

(c) This Agreement and each Note are, and each other Loan Document to which the Borrower is or will be a party, when executed and delivered in accordance with this Agreement will be, legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms, except as the enforceability thereof may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity.

(d) (i) The balance sheet of the Borrower as at December 31, 2001, duly certified by a financial officer of the Borrower, copies of which have been furnished to each bank listed on the signature pages hereof, fairly presents in all material respects the financial condition of the Borrower as at such date and such balance sheet was prepared in accordance with GAAP except as specifically noted therein.

(ii) The unaudited balance sheet of the Borrower as of June 30, 2002 and the related unaudited statements of income, cash flows and changes in stockholders' equity accounts for the period from the creation of the Borrower through June 30, 2002, certified by a financial or accounting officer of the Borrower, copies of which have been delivered to each of the Banks, fairly present in all material respects, in conformity with GAAP except as otherwise expressly noted therein, the financial position of the Borrower as of such date and its results of operations and changes in financial position for such period, subject to changes resulting from audit and normal year-end adjustments.

(iii) Since December 31, 2001 through the date of this Agreement, there has been no material adverse change in the business, assets, prospects, consolidated financial position or consolidated results of operations of the Borrower and its Subsidiaries, considered as a whole.

(e) There is no action, suit or proceeding pending against the Borrower or any of its Subsidiaries, or to the knowledge of the Borrower threatened against the Borrower or any of its Subsidiaries, before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could materially adversely affect the business, consolidated financial position or consolidated results of operations of the Borrower and its Subsidiaries taken as a whole or which in any manner draws into question the validity of this Agreement or any other Loan Document to which the Borrower is or will be a party.

(f) No Termination Event has occurred or is reasonably expected to occur with respect to any Plan for which an Insufficiency exists that could reasonably be expected to cause a Material Adverse Effect. Neither the Borrower nor any ERISA Affiliate has received any notification (or has knowledge of any reason to expect) that any Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, for which a Withdrawal Liability exists that could reasonably be expected to cause a Material Adverse Effect.

(g) The Borrower and the Material Subsidiaries have filed or caused to be filed all United States federal income tax returns and all other material domestic tax returns which to the knowledge of the Borrower are required to be filed by them and have paid or provided for the payment, before the same become delinquent, of all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any Material Subsidiary, other than those taxes contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of the Borrower and its Material Subsidiaries in respect of taxes are, in the opinion of the Borrower, adequate to the extent required by GAAP.

(h) Neither the Borrower nor any of the Subsidiaries is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(i) Neither the Borrower nor any of the Subsidiaries is subject to regulation as a "holding company" or a "subsidiary company" of a "holding company", in each case as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

(j) Following application of the proceeds of each Advance, no more than 25% of the value of the Reg U Limited Assets of the Borrower will consist of margin stock (as defined in Regulation U), and no more than 25% of the value of the Reg U Limited Assets of the Borrower and its Subsidiaries on a consolidated basis will consist of margin stock (as defined in Regulation U).

(k) Neither the Borrower nor any Subsidiary is in default under or with respect to, nor has any event or circumstance occurred which, but for the passage of time or the giving of notice or both, would constitute a default by the Borrower or any Subsidiary under or with respect to, any contract, agreement, lease or other instrument to which the Borrower or such Subsidiary is a party and which could reasonably be expected to cause a Material Adverse Effect, and no Default or Event of Default exists.

(l) The Borrower and each of the Material Subsidiaries have been and are in compliance in all respects with all applicable Environmental Laws, except to the extent that failure to comply with such Environmental Laws could not reasonably be expected to have a Material Adverse Effect. There is (1) no outstanding allegation by government officials or other third parties that the Borrower or any of the Subsidiaries or any of their respective Properties is now, or at any time prior to the date hereof was, in violation of any applicable Environmental Law, (2) no administrative or judicial proceeding pending against the Borrower or any of the Subsidiaries or against any of their respective Properties pursuant to any Environmental Law, (3) no claim outstanding against the Borrower or any of the Subsidiaries or against any of their respective Properties, businesses or operations which was asserted pursuant to any Environmental Law, that, in the case of all matters described in clauses (1), (2), or (3) above in the aggregate, could reasonably be expected to have a Material Adverse Effect. There are no facts or conditions or circumstances known to the Borrower that the Borrower reasonably believes could form the basis for any action, lawsuit, claim or proceeding involving the Borrower or any of the Subsidiaries or their respective past or present Properties, businesses or operations relating to the Environment or Environmental matters, including any action, lawsuit, claim or proceeding arising from past or present practices or operations asserted under any Environmental Law, that in the aggregate could reasonably be expected to have a Material Adverse Effect.

(m) The Borrower and its Material Subsidiaries have good, valid and indefeasible title to their respective property and to all property reflected by the balance sheet referred to in Section 4.01(d)(i) as being owned by the Borrower, in each case free and clear of all Liens except Permitted Liens.

(n) Neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any restriction or any court order, writ, injunction or decree which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(o) No statement, information, exhibit, representation, warranty or report contained in any Loan Document or furnished to either the Administrative Agent, the Syndication Agent, the Issuing Bank or any Bank in connection with or pursuant to any Loan Document or the preparation or negotiation of any Loan Document contains any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not materially misleading when taken as a whole in light of the time and the circumstances under which such statements were made.

(p) Neither the Borrower nor any Material Subsidiary (i) is in violation of any Governmental Requirement or (ii) has failed to obtain any license, permit, franchise or other governmental authorization necessary to the ownership of any of their respective properties or the conduct of their respective businesses, except such violations and failures which could not reasonably be expected to have in the aggregate (in the event that such violation or failure were asserted by any Person through appropriate action) a Material Adverse Effect.

(q) The Borrower and/or each of its Material Subsidiaries is qualified to own and operate the Rigs under the laws of the United States, the Bahamas and Liberia, as may be applicable.

(r) Each Rig is classified in the highest class available for rigs or vessels of its age and type with the American Bureau of Shipping, Inc. or another internationally recognized classification society reasonably acceptable to the Administrative Agent free of any material outstanding requirements or recommendations.

## ARTICLE V

### COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. The Borrower covenants and agrees that so long as any Note shall remain unpaid, any Letter of Credit or Obligation shall remain outstanding or any Bank shall have any Commitment hereunder, the Borrower will, unless the Majority Banks shall otherwise consent in writing:

(a) Reporting Requirements. Furnish to each Bank:

(i) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, the Consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such quarter and the Consolidated statements of earnings and cash flows of the Borrower and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth, in comparative form, the corresponding figures for the corresponding period of the preceding fiscal year (to the extent the Borrower was then in existence), all in reasonable detail and duly certified by a financial officer of the Borrower as having been prepared in accordance with GAAP subject, however, to year-end audit adjustments, together with a compliance certificate of such officer, in substantially the form of Exhibit G hereto, showing in detail the calculations of the financial covenants set forth in Sections 5.02(a), 5.02(b) and 5.02(c) for the four quarter period ending at the end of such quarter and as at the end of such quarter, respectively;

(ii) as soon as available and in any event not later than 90 days after the end of each fiscal year of the Borrower, copies of the audited Consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year and audited Consolidated statements of earnings and cash flows of the Borrower and its Subsidiaries for such fiscal year, all certified by independent certified public accountants of recognized national standing, together with a compliance certificate of a financial officer of the Borrower, in substantially the form of Exhibit G hereto, showing in detail the calculations of the financial covenants set forth in Sections 5.02(a), 5.02(b) and 5.02(c) for the four quarter period ending at the end of such year and as at the end of such year, respectively;

(iii) promptly after the sending or filing thereof, copies of all reports which the Borrower sends to its shareholders as such, and copies of all reports and registration statements which the Borrower or any of its Restricted Subsidiaries files with the Securities and Exchange Commission, or any governmental authority succeeding to the functions of said Commission, or with any national securities exchange;

(iv) promptly upon the receipt thereof by the Borrower or any Restricted Subsidiary of the Borrower, a copy of any written form of notice, complaint, request for information under any Environmental Law, summons or citation received from the EPA, or any other domestic or foreign governmental agency or instrumentality, federal, state or local, in any way concerning any action or omission on the part of the Borrower or any of its present or former Subsidiaries in connection with Hazardous Materials or the Environment if the amount involved could reasonably be expected to result in a liability of the Borrower or any Restricted Subsidiary in excess of \$30,000,000 in the aggregate, or concerning the filing of a Lien upon, against or in connection with the Borrower, its present or former Subsidiaries, or any of their leased or owned Property, wherever located;

(A) any material violation of, noncompliance with, or remedial obligations under, any Environmental Law,

(B) any material release or threatened material release of Hazardous Materials affecting any property owned, leased or operated by the Borrower or its Subsidiaries that the Borrower or any of its Subsidiaries is compelled by the requirements of any Environmental Law to report to any governmental agency, department, board or other instrumentality,

(C) the institution of any litigation which could reasonably be expected to cause a Material Adverse Effect,

(D) any change in the Rating Category applicable to the Borrower from time to time, and

(E) any condition or event which, in the opinion of the Borrower, could reasonably be expected to have a Material Adverse Effect, which notice shall specify the nature and period of existence

thereof and specify the notice given or action taken by such Person and the nature of any such claimed default, event or condition.

(vi) as soon as possible and in any event within five Business Days after an officer of the Borrower having obtained knowledge thereof, notice of the occurrence of any Event of Default or any Default, in each case continuing on the date of such notice, and a statement of the chief financial officer of the Borrower setting forth details of such Event of Default or Default and the action which the Borrower has taken and proposes to take with respect thereto;

(vii) as soon as possible and in any event (A) within 30 Business Days after the Borrower or any ERISA Affiliate knows or has reason to know that any Termination Event described in clause (A) of the definition of Termination Event with respect to any Plan for which an Insufficiency in excess of \$15,000,000 exists, has occurred and (B) within 10 Business Days after the Borrower or any ERISA Affiliate knows or has reason to know that any other Termination Event with respect to any Plan for which an Insufficiency in excess of \$15,000,000 exists, has occurred or is reasonably expected to occur, a statement of the chief financial officer or chief accounting officer of the Borrower describing such Termination Event and the action, if any, which the Borrower or such ERISA Affiliate proposes to take with respect thereto;

(viii) promptly and in any event within five Business Days after receipt thereof by the Borrower or any ERISA Affiliate, copies of each notice received by the Borrower or any ERISA Affiliate from the PBGC stating its intention to terminate any Plan for which an Insufficiency in excess of \$15,000,000 exists or to have a trustee appointed to administer any Plan for which an Insufficiency in excess of \$15,000,000 exists;

(ix) promptly and in any event within five Business Days after receipt thereof by the Borrower or any ERISA Affiliate from the sponsor of a Multiemployer Plan, a copy of each notice received by the Borrower or any ERISA Affiliate indicating liability in excess of \$15,000,000 incurred or expected to be incurred by the Borrower or any ERISA Affiliate in connection with (A) the imposition of a Withdrawal Liability by a Multiemployer Plan, (B) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, or (C) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA;

(x) promptly after the occurrence of any event which would cause an ERISA Affiliate to create or suffer any ERISA Liabilities which could reasonably be expected to have a Material Adverse Effect, notice thereof; and

(xi) such other information respecting the condition or operations, financial or otherwise, of the Borrower or any of its Subsidiaries as any Bank through the Administrative Agent may from time to time reasonably request.

(b) Compliance with Laws, Payment of Taxes, Etc. Comply and cause all Restricted Subsidiaries to comply with all applicable laws, rules, regulations and orders to the extent noncompliance therewith would have a Material Adverse Effect, such compliance to include the paying before the same become delinquent of all taxes, assessments and governmental charges imposed upon it or upon its property except to the extent contested in good faith or to the extent adequate reserves are maintained by the Borrower in respect thereof in accordance with GAAP.

(c) Use of Proceeds. Use the proceeds of the Advances only for purposes not in violation of Section 5.02(l).

(d) Maintenance of Insurance. Maintain and cause the Restricted Subsidiaries to maintain insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties as the Borrower or such Restricted Subsidiary, provided that self-insurance by the Borrower or any Restricted Subsidiary shall not be deemed a violation of this Section 5.01(d) so long as such self-insurance is reasonable and prudent considering the Borrower's business and properties. The Borrower may maintain its Restricted Subsidiaries' insurance on behalf of them.

(e) Preservation of Corporate Existence, Etc. Except as permitted in Section 5.02(f), preserve and maintain its and cause the Restricted Subsidiaries to preserve and maintain their legal existence, rights (charter, if applicable, and statutory) and franchises and qualify and remain qualified as a foreign corporation or other entity in each jurisdiction in which qualification is legally required; provided, that this Section 5.01(e) shall not require the Borrower or any Restricted Subsidiary to preserve any right or franchise if the Borrower or such Restricted Subsidiary shall determine that the preservation thereof is no longer desirable

in the conduct of the business of the Borrower or such Restricted Subsidiary, and that the loss thereof is not disadvantageous in any material respect to the Banks.

(f) Visitation Rights. At any reasonable time and from time to time, after 5 Business Days' notice or, in the case of a visit to a Rig, 10 Business Days' notice, permit the Administrative Agent or any of the Banks or any agents or representatives thereof, (i) to examine the records and books of account of the Borrower and any of the Restricted Subsidiaries, at the principal office of the Borrower during normal business hours, (ii) to visit and inspect the properties of the Borrower and any of the Restricted Subsidiaries, (iii) to make copies of such records and books, and (iv) to discuss the affairs, finances, and accounts of the Borrower and any of the Restricted Subsidiaries with, and be advised as to the same by, any of their respective accountants, advisers, officers or directors; provided that any party visiting a Rig shall execute a Mutual Hold Harmless Agreement in a form acceptable to the Borrower and the Administrative Agent prior to such visit. Such examinations, visits, inspections, copies, and discussions shall be made or held at the expense of (A) the Banks if no Default or Event of Default has occurred and is continuing and (B) the Borrower if a Default or Event of Default has occurred and is continuing.

(g) Maintenance of Properties. Maintain or cause to be maintained in good repair, working order and condition, but subject to reasonable wear and tear in the ordinary course of business, all properties necessary to the business of the Borrower and the Material Subsidiaries and from time to time make or cause to be made all appropriate repairs, renewals, and replacements thereof to the extent and in the manner useful and customary for companies in similar businesses, in each case except to the extent that failure to do so would not materially impair the operation of the Borrower's business.

(h) Operation of Business. Operate, and cause each Material Subsidiary to operate, its business and properties prudently in all material respects, and (without limiting the generality of the foregoing) maintain at all times cash reserves that are prudent in light of the business and financial position of the Borrower and the Material Subsidiaries.

(i) Books and Records. Maintain, and cause each of the Material Subsidiaries to maintain, adequate books and records in accordance with sound business practices and GAAP.

SECTION 5.02. Negative Covenants. So long as any Note shall remain unpaid, any Letter of Credit or Obligation shall remain outstanding or any Bank shall have any Commitment hereunder, the Borrower will not at any time, without the written consent of the Majority Banks:

(a) Consolidated EBITDA to Consolidated Interest Expense. Permit for any period of four consecutive quarters, the ratio of (i) Consolidated EBITDA to (ii) Consolidated Interest Expense to be less than 3.00 to 1.00.

(b) Consolidated Debt Ratio. Permit at any time the ratio of (i) Consolidated Debt to (ii) the sum of Consolidated Debt plus Consolidated Shareholders' Equity, to be greater than 40%.

(c) Consolidated Tangible Net Worth. Permit Consolidated Tangible Net Worth to be less than \$1,100,000,000.

(d) Liens. Create, assume, incur or suffer to exist, or allow any Restricted Subsidiary to create, assume, incur or suffer to exist, any Lien on or in respect of any Property of the Borrower or any Restricted Subsidiary, or assign or otherwise convey, or allow any Restricted Subsidiary to assign or otherwise convey, any right to receive income, other than Permitted Liens.

(e) Debt. Permit any Restricted Subsidiary to create, incur, assume, guarantee, otherwise become liable for or suffer to exist, any Debt other than Permitted Debt.

(f) Mergers, Sales of Assets, Etc. (i) Merge or consolidate with or into any Person, or permit any Restricted Subsidiary to merge or consolidate with or into any Person, unless the Borrower or a Restricted Subsidiary is the surviving entity in any such merger or consolidation, or (ii) convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions), or permit any Restricted Subsidiary to convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions), all or substantially all of its assets; provided that the merger or consolidation of any of ENSCO Marine Company, ENSCO Platform Company, ENSCO Drilling (Caribbean), Inc., and ENSCO de Venezuela, Inc. (collectively, the "Excepted Entities") into an entity which is not the Borrower or a Restricted Subsidiary, or the sale by the Borrower or any Restricted Subsidiary of any of the Excepted Entities, shall be permitted hereunder, so long as no Rigs which are owned by the Borrower or any of its Subsidiaries on the date of this Agreement are owned directly or indirectly by such Excepted Entity at the time of such merger, consolidation,

or sale, and so long as no Debt incurred in connection with the acquisition, construction, renovation, or upgrade of any Rig that is owned by such Excepted Entity on the date of such merger, consolidation, or sale is recourse to or guaranteed by the Borrower or any of its Subsidiaries.

(g) Multiemployer Plans or Multiple Employer Plans. Except as already existing as of the date of this Agreement, create or otherwise cause or permit to exist or become effective, or permit any Restricted Subsidiary to create or otherwise cause or permit to exist or become effective, any Multiemployer Plan or Multiple Employer Plan to which the Borrower or any Restricted Subsidiary makes or accrues an obligation to make any contribution.

(h) Compliance with ERISA. (i) Terminate any Plan, or permit any Restricted Subsidiary to terminate any Plan, so as to result in any liability of the Borrower and the Restricted Subsidiaries to the PBGC in excess of \$15,000,000, or (ii) permit to exist any occurrence of a Termination Event with respect to any Plan of the Borrower or any Restricted Subsidiary for which there is an Insufficiency in excess of \$15,000,000.

(i) ERISA Liabilities. Create or suffer to exist, or permit any Restricted Subsidiary to create or suffer to exist, any ERISA Liabilities if immediately after giving effect to such ERISA Liabilities, the aggregate amount of ERISA Liabilities of the Borrower and its Restricted Subsidiaries would exceed \$15,000,000.

(j) Affiliate Transactions. Make or permit any Restricted Subsidiary to make, directly or indirectly, any Investment in any Affiliate, any transfer, sale, lease or other disposition of any Property to any Affiliate, any purchase or acquisition of any Property from an Affiliate or any other arrangement or transaction directly or indirectly with or for the benefit of an Affiliate (including guaranties and assumptions of obligations of an Affiliate); provided that the Borrower and any Restricted Subsidiary may enter into (i) any arrangement or other transaction with an Affiliate which are on terms and conditions as favorable to the Borrower or such Restricted Subsidiary as those which would be obtained in a comparable arm's length transaction with a Person not an Affiliate, (ii) arrangements entered in the ordinary course of business with officers of the Borrower, (iii) customary fees paid to members of the Board of Directors of Borrower, and (iv) any and all transactions to be undertaken between the Borrower and any of its Restricted Subsidiaries.

(k) Business. Engage, or permit any of its Restricted Subsidiaries to engage, in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be engaged in by the Company and its Subsidiaries would be substantially changed from the general nature of the business engaged in by the Company and its Subsidiaries on the date of this Agreement.

(l) Use of Proceeds. Use the proceeds of any Advance for any purpose other than for general corporate purposes of the Borrower; or use any such proceeds (i) in a manner which violates or results in a violation of any law or regulation or this Agreement, (ii) to purchase or carry any margin stock (as defined in Regulation U) or to extend credit to others for that purpose or (iii) to make any Investment in any Person if such Investment is opposed by the board of directors, general partner or other governing body of such Person.

## **ARTICLE VI**

### **EVENTS OF DEFAULT**

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) The Borrower shall fail to pay (i) any principal on any Note when due, (ii) any amount payable pursuant to Section 2.18(c) when due or (iii) any interest, fee or other amount due hereunder or under any other Loan Document to which it is a party for more than three days after such interest, fee or other amount becomes due and payable; or

(b) Any representation or warranty made by the Borrower (or any of its respective officers, agents or representatives) (including representations and warranties deemed made pursuant to Section 3.02 or Section 3.03) under or in connection with any Loan Document shall prove to have been incorrect in any material respect when made or deemed made; or

(c) The Borrower (i) shall fail to perform or observe any term, covenant or agreement

contained in Section 5.01(a), (b), (c), (e), (f), (g), or (i) and such failure shall remain unremedied for 30 days after the earlier of (x) the date an officer of the Borrower has actual knowledge of such failure and (y) the date written notice thereof shall have been given to the Borrower by the Administrative Agent at the request of any Bank; or (ii) shall fail to perform or observe any term, covenant or agreement contained herein or in any other Loan Document on its part to be performed or observed that is not covered by Section 6.01(a) or clause (i) of this Section 6.01(c); or

(d) The Borrower or any of its Subsidiaries shall (i) fail to pay any principal or interest on any Debt which is outstanding in the principal amount of at least \$15,000,000 in the aggregate, of the Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or (ii) default in the observance or performance of any covenant or obligation contained in any agreement or instrument relating to any Debt which is outstanding in the principal amount of at least \$15,000,000 or permit or suffer any other event to occur or condition to exist under any agreement or instrument relating to any such Debt, and such default or other event or condition shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect thereof is to accelerate, or to permit the acceleration of, the maturity of such Debt or require such Debt to be prepaid prior to the stated maturity thereof; or

(e) The Borrower or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Material Subsidiaries seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), shall remain undismissed or unstayed for a period of 60 days; or the Borrower or any of its Material Subsidiaries shall take any action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment, decree or order for the payment of money in excess of \$15,000,000 shall be rendered against the Borrower or any of its Material Subsidiaries and remains unsatisfied and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment, decree or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment, decree or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Any Termination Event as defined in clause (b), (d) or (e) of the definition thereof with respect to a Plan shall have occurred and, 30 days after notice thereof shall have been given to the Borrower by the Administrative Agent, (i) such Termination Event shall still exist and (ii) the sum (determined as of the date of occurrence of such Termination Event) of the liabilities to the PBGC resulting from all such Termination Events is equal to or greater than \$15,000,000; or

(h) The Borrower shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be paid to Multiemployer Plans in connection with Withdrawal Liabilities (determined as of the date of such notification), exceeds \$15,000,000 or requires payments exceeding \$5,000,000 in any year; or

(i) The Borrower shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrower to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan years which include the date hereof by an amount exceeding \$15,000,000 in the aggregate; or

(j) A Change of Control occurs; or

(k) Any event occurs creating any ERISA Liabilities which could reasonably be expected to have a Material Adverse Effect and such event is not cured within 30 days from the occurrence of such event; then, and in any such event, the Administrative Agent (i) shall at the request, or may with the consent, of the Majority Banks, by notice to the Borrower, declare the obligation of the Issuing Bank to issue Letters of Credit to be terminated and the obligation of each Bank to make Advances to be terminated, whereupon each such obligation and all of the Commitments shall forthwith terminate, (ii) shall at the request, or may with the consent, of the Majority Banks, by notice to the Borrower, declare the Notes, all interest thereon and all other

amounts payable under this Agreement to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest, notice of intent to accelerate or further notice of any kind, all of which are hereby expressly waived by the Borrower, and (iii) by notice to the Borrower, and in addition to the Issuing Bank's continuing right to demand payment of all Demand Loans, demand payment of the maximum amount remaining available to be drawn under then outstanding Letters of Credit (assuming compliance with all conditions for drawing thereunder), and immediately upon the making of such demand by the Administrative Agent, the Borrower shall pay to the Administrative Agent such amount so demanded; provided that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code, (a) the obligation of the Issuing Bank to issue Letters of Credit, the obligation of each Bank to make its Advances and all of the Commitments shall automatically be terminated and (b) the Notes, all such interest, all such amounts and the maximum amount remaining available to be drawn under then outstanding Letters of Credit (assuming compliance with all conditions for drawing thereunder) shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

## **ARTICLE VII**

### **THE ADMINISTRATIVE AGENT AND THE ISSUING BANK**

SECTION 7.01. Authorization and Action. Each Bank hereby appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent, by the terms hereof and thereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by the Loan Documents (including enforcement or collection of the Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Banks, and such instructions shall be binding upon all Banks and all holders of Notes; provided that the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to any Loan Document or applicable law and shall not be required to initiate or conduct any litigation or other proceedings. The Administrative Agent agrees to give to each Bank prompt notice of each notice given to it by the Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Administrative Agent's Reliance, Etc. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with any Loan Document, except for its or their own gross negligence or willful misconduct. The duties of the Administrative Agent shall be mechanical and administrative in nature; the Administrative Agent shall not have, by reason of this Agreement or any other Loan Document a fiduciary relationship in respect of any Bank or the holder of any Note; and nothing in this Agreement or any other Loan Document, expressed or implied, is intended or shall be so construed as to impose upon the Administrative Agent any obligations in respect of this Agreement or any other Loan Document except as expressly set forth herein. Without limitation of the generality of the foregoing, the Administrative Agent: (i) may treat the payee of any Note as the holder thereof until the Administrative Agent receives and accepts an Assignment and Acceptance entered into by the Bank that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in 8.06; (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations (whether written or oral) made in or in connection with any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith on the part of the Borrower or any other Person or to inspect the property (including the books and records) of the Borrower or any other Person; (v) shall not be responsible for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith; and (vi) shall incur no liability under or in respect of any Loan Document, except for its own gross negligence or willful misconduct, by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, cable or telex) believed by it to be genuine and signed, given or sent by the proper party or parties.

SECTION 7.03. Administrative Agent and Its Affiliates. With respect to its Commitment, the Advances made by it and the Notes issued to it, each Bank which is also the Administrative Agent shall have the same rights and powers under the Loan Documents as any other Bank and may exercise the same as though it were not the Administrative Agent; and the term "Bank" or "Banks" shall, unless otherwise expressly

indicated, include any Bank serving as the Administrative Agent in its individual capacity. Any Bank serving as the Administrative Agent and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of the Subsidiaries and any Person who may do business with or own securities of the Borrower or any Subsidiary, all as if such Bank were not the Administrative Agent and without any duty to account therefor to the Banks.

**SECTION 7.04. Bank Credit Decision.** Each Bank acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Bank and based on the financial statements referred to in Section 4.01(d) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents. The Administrative Agent shall not have any duty or responsibility, either initially or on a continuing basis, to provide any Bank or the holder of any Note with any credit or other information with respect thereto, whether coming into its possession before the making of the Advances or at any time or times thereafter.

**SECTION 7.05. Certain Rights of the Administrative Agent.** If the Administrative Agent shall request instructions from the Majority Banks with respect to any act or action (including failure to act) in connection with this Agreement or any other Loan Document, the Administrative Agent shall be entitled to refrain from such act or taking such action unless and until the Administrative Agent shall have received instructions from the Majority Banks; and it shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, no Bank nor the holder of any Note shall have any right of action whatsoever against the Administrative Agent as a result of its acting or refraining from acting hereunder or under any other Loan Document in accordance with the instructions of the Majority Banks or all of the Banks, as the case may be. Furthermore, except for action expressly required of the Administrative Agent hereunder, the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall be specifically indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

**SECTION 7.06. Holders.** Any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee, assignee or endorsee, as the case may be, of such Note or of any Note or Notes issued in exchange therefor.

**SECTION 7.07. Indemnification.** The Banks agree to indemnify the Administrative Agent (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Notes then held by each of them (or if no principal of the Notes is at the time outstanding or if any principal of the Notes is held by any Person which is not a Bank, ratably according to the respective amounts of their Commitments then existing, or, if no such principal amounts are then outstanding (or if any principal of the Notes is held by any Person which is not a Bank) and no Commitments are then existing, ratably according to the respective amounts of the Commitments existing immediately prior to the termination thereof), from and against any and all claims, damages, losses, liabilities and expenses (including reasonable fees and disbursements of counsel) of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent in any way relating to or arising out of any of the Loan Documents or any action taken or omitted by the Administrative Agent under the Loan Documents (EXPRESSLY INCLUDING ANY SUCH CLAIM, DAMAGE, LOSS, LIABILITY OR EXPENSE ATTRIBUTABLE TO THE ORDINARY, SOLE OR CONTRIBUTORY NEGLIGENCE OF SUCH INDEMNIFIED PARTY, BUT EXCLUDING ANY SUCH CLAIM, DAMAGE, LOSS, LIABILITY OR EXPENSE ATTRIBUTABLE TO THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE ADMINISTRATIVE AGENT). IT IS THE INTENT OF THE PARTIES HERETO THAT THE ADMINISTRATIVE AGENT SHALL, TO THE EXTENT PROVIDED IN THIS SECTION 7.07, BE INDEMNIFIED FOR ITS OWN ORDINARY, SOLE OR CONTRIBUTORY NEGLIGENCE. Without limitation of the foregoing, each Bank agrees to reimburse the Administrative Agent promptly upon demand for such Bank's ratable share of any reasonable out-of-pocket expenses (including reasonable counsel fees) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, the Loan Documents, or any of them, to the extent that the Administrative Agent is not reimbursed for such expenses by the Borrower.

**SECTION 7.08. Resignation by the Administrative Agent.** (a) The Administrative Agent may resign from the performance of all its functions and duties hereunder and under the other Loan Documents at any time by giving 15 Business Days' prior written notice to the Borrower and the Banks. Such resignation shall take effect upon the appointment of a successor Administrative Agent pursuant to clauses (b) and (c) below or as otherwise provided below.

(b) Upon any such notice of resignation, the Majority Banks shall have the right to appoint a successor Administrative Agent which shall be a commercial bank or trust company reasonably acceptable to the Borrower.

(c) If a successor to a resigning Administrative Agent shall not have been so appointed within such 15 Business Day period, the resigning Administrative Agent, with the consent of the Borrower (which consent will not be unreasonably withheld), shall have the right to then appoint a successor Administrative Agent who shall serve as Administrative Agent until such time, if any, as the Majority Banks appoint a successor Administrative Agent as provided above.

(d) If no successor Administrative Agent has been appointed pursuant to clause (b) or (c) above and shall have accepted such appointment by the 20th Business Day after the date such notice of resignation was given by the resigning Administrative Agent, the resigning Administrative Agent's resignation shall become effective and the Banks shall thereafter perform all the duties of the resigning Administrative Agent hereunder and under any other Loan Document until such time, if any, as the Majority Banks appoint a successor Administrative Agent as provided above.

(e) After any Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

**SECTION 7.09. Issuing Bank's Reliance, Etc.** Neither the Issuing Bank nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with any Loan Document, except for its or their own gross negligence or willful misconduct. The Issuing Bank shall not have, by reason of this Agreement or any other Loan Document a fiduciary relationship in respect of any Bank or the holder of any Note; and nothing in this Agreement or any other Loan Document, expressed or implied, is intended or shall be so construed as to impose upon the Issuing Bank any obligations in respect of this Agreement or any other Loan Document except as expressly set forth herein. Without limitation of the generality of the foregoing, the Issuing Bank: (i) may treat the payee of any Note as the holder thereof until the Issuing Bank receives and executes an Assignment and Acceptance entered into by the Bank that is payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.06, (ii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Bank and shall not be responsible to any Bank for any statements, warranties or representations (whether written or oral) made in or in connection with any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith; (iv) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith on the part of the Borrower or any other Person or to inspect the property (including the books and records) of the Borrower or any other Person; (v) shall not be responsible for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Loan Document or any other instrument or document furnished pursuant hereto or in connection herewith; and (vi) shall incur no liability under or in respect of any Loan Document, except for its own gross negligence or willful misconduct, by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, cable or telex) believed by it to be genuine and signed, given or sent by the proper party or parties.

**SECTION 7.10. Issuing Bank and Its Affiliates.** With respect to its Commitment, the Advances made by it and the Notes issued to it, each Bank which is also the Issuing Bank shall have the same rights and powers under the Loan Documents as any other Bank and may exercise the same as though it were not the Issuing Bank; and the term "Bank" or "Banks" shall, unless otherwise expressly indicated, include any Bank serving as the Issuing Bank in its individual capacity. Any Bank serving as the Issuing Bank and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Borrower, any of the Subsidiaries and any Person who may do business with or own securities of the Borrower or any Subsidiary, all as if such Bank were not the Issuing Bank and without any duty to account therefor to the Banks.

**SECTION 7.11. Bank Credit Decision.** Each Bank acknowledges that it has, independently and without reliance upon the Issuing Bank or any other Bank and based on the financial statements referred to in Section 4.01(d) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Issuing Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents. The Issuing Bank shall not have any duty or responsibility, either initially or on a continuing basis, to provide any Bank or the holder of any Note with any credit or other information with respect thereto, whether coming into

its possession before the making of the Advances or at any time or times thereafter.

SECTION 7.12. Indemnification. The Banks agree to indemnify the Issuing Bank (to the extent not reimbursed by the Borrower), ratably according to the respective principal amounts of the Notes then held by each of them (or if no principal of the Notes is at the time outstanding or if any principal of the Notes is held by any Person which is not a Bank, ratably according to the respective amounts of their Commitments then existing, or, if no such principal amounts are then outstanding (or if any principal of the Notes is held by any Person which is not a Bank) and no Commitments are then existing, ratably according to the respective amounts of the Commitments existing immediately prior to the termination thereof), from and against any and all claims, damages, losses, liabilities and expenses (including reasonable fees and disbursements of counsel) of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Issuing Bank in any way relating to or arising out of any of the Loan Documents or any action taken or omitted by the Issuing Bank under the Loan Documents (EXPRESSLY INCLUDING ANY SUCH CLAIM, DAMAGE, LOSS, LIABILITY OR EXPENSE ATTRIBUTABLE TO THE ORDINARY, SOLE OR CONTRIBUTORY NEGLIGENCE OF SUCH INDEMNIFIED PARTY, BUT EXCLUDING ANY SUCH CLAIM, DAMAGE, LOSS, LIABILITY OR EXPENSE ATTRIBUTABLE TO THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE ISSUING BANK). IT IS THE INTENT OF THE PARTIES HERETO THAT THE ISSUING BANK SHALL, TO THE EXTENT PROVIDED IN THIS SECTION 7.12, BE INDEMNIFIED FOR ITS OWN ORDINARY, SOLE OR CONTRIBUTORY NEGLIGENCE. Without limitation of the foregoing, each Bank agrees to reimburse the Issuing Bank promptly upon demand for such Bank's ratable share of any reasonable out-of-pocket expenses (including reasonable counsel fees) incurred by the Issuing Bank in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, the Loan Documents, or any of them, to the extent that the Issuing Bank is not reimbursed for such expenses by the Borrower.

SECTION 7.13. Resignation by the Issuing Bank. (a) The Issuing Bank may resign from the performance of all its functions and duties hereunder and under the other Loan Documents at any time by giving 15 Business Days' prior written notice to the Borrower and the Banks. Such resignation shall take effect upon the appointment of a successor Issuing Bank pursuant to clauses (b) and (c) below or as otherwise provided below.

(b) Upon any such notice of resignation, the Majority Banks shall have the right to appoint a successor Issuing Bank which shall be a commercial bank or trust company reasonably acceptable to the Borrower.

(c) If a successor to a resigning Issuing Bank shall not have been so appointed within such 15 Business Day period, the resigning Issuing Bank, with the consent of the Borrower (which consent will not be unreasonably withheld), shall have the right to then appoint a successor Issuing Bank who shall serve as Issuing Bank until such time, if any, as the Majority Banks appoint a successor Issuing Bank as provided above.

(d) If no successor Issuing Bank has been appointed pursuant to clause (b) or (c) above and shall have accepted such appointment by the 20th Business Day after the date such notice of resignation was given by the resigning Issuing Bank, the resigning Issuing Bank's resignation shall become effective and no further Letters of Credit shall be issued hereunder until such time, if any, as the Majority Banks appoint a successor Issuing Bank as provided above.

(e) After any Issuing Bank's resignation hereunder as Issuing Bank, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Issuing Bank under this Agreement

SECTION 7.14. Syndication Agent, Co-Syndication Agent, Documentation Agent, Lead Arranger, Etc. The Syndication Agent, Co-Syndication Agent, Documentation Agent, and Lead Arranger have no duties or obligations under this Agreement. None of the Syndication Agent, Co-Syndication Agent, Documentation Agent, or Lead Arranger shall have, by reason of this Agreement or the Notes, a fiduciary relationship in respect of any Bank or the holder of any Note, and nothing in this Agreement or the Notes, express or implied, is intended or shall be construed to impose on any such agent or arranger any obligation in respect of this Agreement or the Notes.

## ARTICLE VIII

## MISCELLANEOUS

SECTION 8.01. Amendments, Etc. No amendment or waiver of any provision of any Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Banks, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided that no amendment, waiver or consent shall, unless in writing and signed by all the Banks, do any of the following: (a) waive any of the conditions specified in Article III, (b) increase any Commitment of any Bank or subject any Bank to any additional obligation, (c) forgive or reduce the pricing of, principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, (e) take any action which requires the signing of all the Banks pursuant to the terms of any Loan Document, (f) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes which shall be required for the Banks or any of them to take any action under any Loan Document, and (g) amend this Section 8.01; and provided further that (w) no amendment, waiver or consent shall, unless in writing and signed by the Issuing Bank in addition to the Banks required above to take such action, affect the rights or duties of the Issuing Bank under any Loan Document, and (x) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Banks required above to take such action, affect the rights or duties of the Administrative Agent under any Loan Document.

SECTION 8.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopier communication) and mailed, telecopied, or delivered, if to the Borrower, at its address or telecopier number set forth below:

ENSCO International Incorporated  
2700 Fountain Place  
1445 Ross Avenue  
Dallas, Texas 75202-2792  
Attention: Vice President and Treasurer

Telephone: (214) 922-1500  
Facsimile: (214) 855-0300

if to any Bank, at its address for notices indicated on Schedule I; if to the Administrative Agent, at its address or telecopier number set forth below:

Den norske Bank ASA, New York Branch  
200 Park Avenue  
New York, New York 10166  
Attention: Ms. Barbara Gronquist

Telephone: (212) 681-3859  
Facsimile: (212) 681-3900

With a copy to:

Den norske Bank ASA, New York Branch  
200 Park Avenue  
New York, New York 10166  
Attention: Mr. Bill Trivedi, Credit Administration

Telephone: (212) 681-3824  
Facsimile: (212) 681-4119

if to the Issuing Bank, at its address or telecopier number set forth below:

Den norske Bank ASA, New York Branch  
200 Park Avenue  
New York, New York 10166  
Attention: Mr. Bill Trivedi, Credit Administration

Telephone: (212) 681-3824  
Facsimile: (212) 681-4119

or, as to the Borrower, the Administrative Agent, or the Issuing Bank, at such other address as shall be

designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower, the Administrative Agent, and the Issuing Bank. All such notices and communications shall be effective, if mailed, three Business Days after deposit in the mails; if sent by overnight courier, one Business Day after delivery to the courier company; and if sent by telecopier, when received by the receiving telecopier equipment, respectively; provided that (i) notices and communications to the Administrative Agent or the Issuing Bank shall not be effective until received by the Administrative Agent or the Issuing Bank, as the case may be, and (ii) telexed or telecopied notices received by any party after its normal business hours (or on a day other than a Business Day) shall be effective on the next Business Day. The notices contemplated by the definitions herein of "Borrowing" and "Interest Period" and by Section 2.08 may be combined in one notice, if all required information is provided in the combined notice and the combined notice meets the requirements as to timeliness set forth in each definition and Section to which the combined notice pertains.

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Bank, the Issuing Bank or the Administrative Agent to exercise, and no delay in exercising, any right under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies provided in the Loan Documents are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs, Expenses and Indemnity. (a) The Borrower agrees to pay on demand, (i) all reasonable costs and expenses in connection with the preparation, execution, delivery, administration, modification and amendment of the Loan Documents and the other documents to be delivered under the Loan Documents, including the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent with respect to preparation, execution and delivery of the Loan Documents and the satisfaction of the matters referred to in Section 3.01, the reasonable costs and expenses of the Issuing Bank in connection with any Letter of Credit, and (ii) all reasonable legal and other costs and expenses, if any, of the Administrative Agent, the Issuing Bank and each Bank in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of the Loan Documents and the other documents to be delivered under the Loan Documents or incurred in connection with any workout, restructuring or bankruptcy.

(b) If any payment or purchase of principal of, or Conversion of, any LIBOR Advance or LIBOR Borrowing is made other than on the last day of an Interest Period relating to such Advance, as a result of a payment, purchase or Conversion pursuant to Section 2.07(f), 2.08, 2.09, 2.10, 2.11, 2.13 or 2.16 or acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, the Borrower shall, upon demand by any Bank (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Bank any amounts required to compensate such Bank for any additional losses, costs or expenses (other than taxes, which are dealt with in Section 2.13) which it may reasonably incur as a result of such payment, purchase or Conversion, including any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Bank to fund or maintain such Advance.

(c) The Borrower agrees, to the fullest extent permitted by law, to indemnify and hold harmless the Administrative Agent, the Issuing Bank, the Lead Arranger, the Syndication Agent, the Co-Syndication Agent, the Documentation Agent, each Bank and each other agent, arranger and manager and each of their respective directors, officers, employees and agents (collectively, "Indemnified Parties") from and against any and all claims, damages, losses, liabilities and expenses (including reasonable fees and disbursements of counsel and claims, damages, losses, liabilities and expenses relating to environmental matters, but excluding taxes, which are dealt with in Section 2.13) (collectively, "Losses") for which any of them may become liable or which may be incurred by or asserted against an Indemnified Party, in each case arising out of, related to or in connection with (i) any transaction in which any proceeds of all or any part of the Advances are applied, (ii) breach by the Borrower of any Loan Document, (iii) violation by the Borrower or any Subsidiary of any Environmental Law or any other law, rule, regulation or order, (iv) any Lien granted pursuant to any Loan Document, (v) ownership by any Indemnified Party of any property following foreclosure (or similar action) under any of the Loan Documents, to the extent such Losses arise out of or result from (x) any Hazardous Materials located in, on or under the property of the Borrower or any Subsidiary on the date of such foreclosure (or similar action) or (y) operation of any such property on or before the date of such foreclosure (or similar action), including Losses which are imposed upon Persons under any Environmental Law solely by virtue of ownership, (vi) any Indemnified Party's being deemed an operator of any property of the Borrower or any Subsidiary by a court or other Person, to the extent such Losses arise out of or result from any Hazardous Materials located in, on or under any such property, or (vii) any investigation, litigation, or proceeding, whether or not any Indemnified Party is a party thereto, related to or in connection with any of the foregoing or any Loan Document (EXPRESSLY INCLUDING ANY SUCH LOSSES ATTRIBUTABLE TO THE ORDINARY, SOLE OR CONTRIBUTORY NEGLIGENCE OR STRICT LIABILITY OF SUCH INDEMNIFIED PARTY, BUT EXCLUDING ANY SUCH LOSSES ATTRIBUTABLE TO THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNIFIED PARTY). IT IS THE INTENT OF THE PARTIES HERETO THAT EACH INDEMNIFIED

PARTY SHALL, TO THE EXTENT PROVIDED IN THIS SECTION 8.04(C), BE INDEMNIFIED FOR THEIR OWN ORDINARY, SOLE OR CONTRIBUTORY NEGLIGENCE AND THEIR OWN STRICT LIABILITIES.

(d) None of the Indemnified Parties shall be liable to the Borrower for amounts constituting punitive, treble or exemplary damages arising out of or in connection with any breach by any Indemnified Party of any of its obligations hereunder. The Borrower shall not be liable to the Administrative Agent or the Banks for amounts constituting punitive, treble or exemplary damages arising out of or in connection with any breach by the Borrower of any of its obligations hereunder.

SECTION 8.05. Right of Set-Off. Upon (a) the occurrence and during the continuance of any Event of Default and (b) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Administrative Agent to declare the Notes due and payable pursuant to the provisions of Section 6.01, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Note held by such Bank, irrespective of whether or not such Bank shall have made any demand under this Agreement or such Note and although such obligations may be unmatured. Each Bank agrees promptly to notify the Borrower after any such set-off and application made by such Bank, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of set-off) which such Bank may have.

SECTION 8.06. Assignments and Participations. (a) Each Bank may, in accordance with applicable law, assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment, the Advances owing to it and the Notes held by it); provided, however, that (i) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement (including the Letter of Credit Liabilities held by the assigning Bank pursuant to Section 2.18), (ii) except in the case of an assignment of all of a Bank's rights and obligations under this Agreement, the sum of the Commitment of the assigning Bank being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$10,000,000 (and in increments of \$1,000,000 in excess thereof), (iii) each such assignment shall be to an Eligible Assignee, (iv) the Administrative Agent and the Borrower consent to such assignment (which consent shall not be unreasonably withheld), and (v) the parties to each such assignment shall execute and deliver to the Administrative Agent, for recording by the Administrative Agent in the Register, an Assignment and Acceptance, together with any Notes then held by such assigning Bank and any Notes then held by such assignee and a processing and recordation fee of \$3,500. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Bank hereunder, (y) the Bank assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto except that the rights under Sections 2.06, 2.10, 2.13 and 8.04 of such Bank shall continue with respect to events and occurrences occurring before or concurrently with its ceasing to be a party hereto), and (z) unless the Borrower in its sole discretion otherwise consents, no such assignee shall be entitled to receive any greater payment pursuant to Sections 2.06, 2.10 and 2.13 than the assigning Bank would have been entitled to receive with respect to the rights assigned to such assignee, except as a result of circumstances arising after the date of such assignment.

(c) The Administrative Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Banks and the Commitment of and the principal amount of the Advances owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Administrative Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and an assignee representing that it is an Eligible Assignee, together with any Notes then held by such assigning Bank and any Notes then held by such assignee, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit E, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice

thereof to the Borrower. Within five Business Days after its receipt of such notice, an authorized officer of the Borrower shall execute and deliver to the Administrative Agent (i) in exchange for any surrendered Notes a new Note payable to the order of such Eligible Assignee (if a new Note is requested by such Eligible Assignee) in an amount equal to its Commitment after giving effect to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment hereunder, a new Note payable to the order of the assigning Bank (if a new Note is requested by the assigning Bank) in an amount equal to the Commitment retained by it hereunder (such new Notes, if any, shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Notes, if any, shall be dated the effective date of such Assignment and Acceptance, shall be properly completed and shall otherwise be in substantially the form of Exhibit A).

(e) Each Bank, in accordance with applicable law, may sell participations to one or more banks or other entities (other than the Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including all or a portion of any of its Commitments, the Advances owing to it and the Note held by it); provided that (i) such Bank's obligations under this Agreement (including its Commitments to the Borrower hereunder) shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Notes for all purposes of this Agreement, (iv) the Borrower, the Administrative Agent, the Issuing Bank and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) the terms of any such participation shall not restrict such Bank's ability to make any amendment or waiver of this Agreement or any Note or such Bank's ability to consent to any departure by the Borrower therefrom without the approval of the participant, except that the approval of the participant may be required to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, and (vi) unless the Borrower in its sole discretion otherwise consents, no such participant shall be entitled to receive any greater payment pursuant to Sections 2.06, 2.10 and 2.13 than such Bank would have been entitled to receive with respect to the rights assigned to such participant by such Bank except as a result of circumstances arising after the date of such participation to the extent that such circumstances affect other Banks and participants generally, and (vii) each participant that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) shall provide to the Administrative Agent and the Borrower a U.S. Internal Revenue Service Form W-8BEN or W-8ECI, as appropriate, or any successor form prescribed by the U.S. Internal Revenue Service, duly completed and certifying that such participant is fully exempt from United States withholding taxes with respect to all payments to be made to such participant under such participation agreement, or other documents satisfactory to the Borrower and the Administrative Agent indicating that all payments to be made to such participant under such participation agreement are fully exempt from such withholding taxes, and neither the Borrower nor the Administrative Agent shall have any obligation to pay to any participant any taxes, penalties, interest or other expenses, costs and losses incurred or payable by the Borrower or the Administrative Agent as a result of the failure of such participant to obtain such additional duly completed and signed copies of one or the other of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may be required under then-current United States law or regulations to avoid United States withholding taxes on payments in respect of all amounts to be received by such participant.

(f) Any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.06, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower or any of its Affiliates furnished to such Bank by or on behalf of the Borrower or any of its Affiliates; provided, that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to comply with Section 8.09.

(g) Notwithstanding any other provision set forth in this Agreement, any Bank may at any time (i) create a security interest in all or any portion of its rights under the Loan Documents (including the Advances owing to it and the Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Board and (ii) upon notice to the Borrower and the Administrative Agent, assign all or any portion of its rights and obligations under the Loan Documents to any of its Affiliates.

(g) Notwithstanding any other provision set forth in this Agreement, any Bank may at any time (i) create a security interest in all or any portion of its rights under the Loan Documents (including the Advances owing to it and the Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Board and (ii) upon notice to the Borrower and the Administrative Agent, assign all or any portion of its rights and obligations under the Loan Documents to any of its Affiliates.

**SECTION 8.07. Governing Law; Entire Agreement.** This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York. This Agreement, the Notes, the other Loan Documents and any fee letter pertaining hereto accepted by the Borrower constitute the entire understanding among the parties hereto with respect to the subject matter hereof and supersede any prior

agreements, written or oral, with respect thereto.

SECTION 8.08. Interest. It is the intention of the parties hereto that the Administrative Agent, the Issuing Bank and each Bank shall conform strictly to usury laws applicable to it, if any. Accordingly, if the transactions with the Administrative Agent, the Issuing Bank or any Bank contemplated hereby would be usurious under applicable law, if any, then, in that event, notwithstanding anything to the contrary in the Notes, this Agreement or any other agreement entered into in connection with this Agreement or the Notes, it is agreed as follows: (a) the aggregate of all consideration which constitutes interest under applicable law that is contracted for, taken, reserved, charged or received by the Administrative Agent, the Issuing Bank or such Bank, as the case may be, under the Notes, this Agreement or under any other agreement entered into in connection with this Agreement or the Notes shall under no circumstances exceed the maximum amount allowed by such applicable law and any excess shall be cancelled automatically and, if theretofore paid, shall at the option of the Administrative Agent, the Issuing Bank or such Bank, as the case may be, be applied on the principal amount of the obligations owed to the Administrative Agent, the Issuing Bank or such Bank, as the case may be, by the Borrower or refunded by the Administrative Agent, the Issuing Bank or such Bank, as the case may be, to the Borrower, and (b) in the event that the maturity of any Note or other obligation payable to the Administrative Agent, the Issuing Bank or such Bank, as the case may be, is accelerated or in the event of any permitted prepayment, then such consideration that constitutes interest under law applicable to the Administrative Agent, the Issuing Bank or such Bank, as the case may be, may never include more than the maximum amount allowed by such applicable law and excess interest, if any, to the Administrative Agent, the Issuing Bank or such Bank, as the case may be, provided for in this Agreement or otherwise shall be cancelled automatically as of the date of such acceleration or prepayment and, if theretofore paid, shall, at the option of the Administrative Agent, the Issuing Bank or such Bank, as the case may be, be credited by the Administrative Agent, the Issuing Bank or such Bank, as the case may be, on the principal amount of the obligations owed to the Administrative Agent, the Issuing Bank or such Bank, as the case may be, by the Borrower or refunded by the Administrative Agent, the Issuing Bank or such Bank, as the case may be, to the Borrower.

SECTION 8.09. Confidentiality. Each Bank agrees that it will use reasonable efforts not to disclose without the prior consent of the Borrower (other than to such Bank's Affiliates in the ordinary course of business in connection with any Loan Document, the administration thereof or any transaction contemplated hereby, employees, auditors or counsel or to another Bank if the disclosing Bank or the disclosing Bank's holding or parent company in its sole discretion determines that any such party should have access to such information) any information with respect to the Borrower or its Subsidiaries which is furnished pursuant to this Agreement or any other Loan Document and which is designated by the Borrower to the Banks in writing as confidential, provided that any Bank may disclose any such information (a) as has become generally available to the public, (b) as may be required or appropriate in any report, statement or testimony submitted to any municipal, state or federal regulatory body having or claiming to have jurisdiction over such Bank or to the Federal Reserve Board or the FDIC or similar organizations (whether in the United States or elsewhere), (c) as may be required or appropriate in response to any summons or subpoena or in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to such Bank, (e) to the prospective transferee in connection with any contemplated transfer of any of the Notes or any interest therein by such Bank, provided that such prospective transferee executes an agreement with the Borrower containing provisions substantially identical to those contained in this Section, and (f) to any Bank, the Administrative Agent or the Issuing Bank.

SECTION 8.10. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

SECTION 8.11. Domicile of Loans. Each Bank may transfer and carry its loans at, to or for the account of any office, Subsidiary or Affiliate of such Bank provided that no Bank shall be relieved of its Commitment as a result thereof.

SECTION 8.12. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower, the Issuing Bank and the Administrative Agent and when the Administrative Agent shall have, as to each Bank, either received a copy of a signature page hereof executed by such Bank or been notified by such Bank that such Bank has executed it and thereafter shall be binding upon and inure to the benefit of and be enforceable by the Borrower, the Administrative Agent, the Issuing Bank and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Banks.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

**BORROWER :**

ENSCO INTERNATIONAL INCORPORATED

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**ADMINISTRATIVE AGENT :**

DEN NORSKE BANK ASA, NEW YORK

BRANCH, as Administrative Agent

By: \_\_\_\_\_

Authorized Officer

By: \_\_\_\_\_

Authorized Officer

**ISSUING BANK :**

DEN NORSKE BANK ASA, NEW YORK

BRANCH, as Issuing Bank

By: \_\_\_\_\_

Authorized Officer

By: \_\_\_\_\_

Authorized Officer

**BANKS :**

CITIBANK, N.A.

By: \_\_\_\_\_

Authorized Officer

DEN NORSKE BANK ASA, NEW YORK

BRANCH

By: \_\_\_\_\_

Authorized Officer

By: \_\_\_\_\_

Authorized Officer

HSBC BANK USA

By: \_\_\_\_\_

Authorized Officer

WELLS FARGO BANK TEXAS, N.A.

By: \_\_\_\_\_

Authorized Officer

BANK ONE, NA (MAIN OFFICE CHICAGO)

By: \_\_\_\_\_

Authorized Officer

BANK OF TOKYO-MITSUBISHI, LTD.

By: \_\_\_\_\_

Authorized Officer

MERRILL LYNCH BUSINESS FINANCIAL  
SERVICES, INC.

By: \_\_\_\_\_

Authorized Officer

SOUTHWEST BANK OF TEXAS

By: \_\_\_\_\_

Authorized Officer

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## SCHEDULE I

### Applicable Lending Offices; Addresses for Notice

| <b>Bank</b>                             | <b>Domestic Lending Office</b>                                | <b>Eurodollar Lending Office</b>                              | <b>Addresses for Notice</b>  |
|---|---|---|--|
| Citibank, N.A                           | 2 Penns Way, Suite 200<br>New Castle, Delaware<br>19720       | 2 Penns Way, Suite 200<br>New Castle, Delaware<br>19720       | Credit Contact:<br>Mark Johnson<br>388 Greenwich St.<br>23rd Floor<br>New York, NY 10015<br>Tel: 212-816-5435<br>Fax: 212-816-5429<br><br>Administrative Contact:<br>Laura Quashne<br>Loan Specialist<br>2 Penns Way, Ste. 200<br>New Castle, DE 19720<br>Tel: 302-894-6058<br>Fax: 302-894-6120 |
| Den norske Bank<br>ASA, New York Branch | 200 Park Avenue<br>New York, New York<br>10166                | 200 Park Avenue<br>New York, New York<br>10166                | Credit Contact:<br>Barbara Gronquist<br>200 Park Avenue<br>New York, NY 10166<br>Tel: 212-681-3859<br>Fax: 212-681-3900<br><br>Administrative Contact:<br>Bill Trivedi<br>Credit Administration<br>200 Park Avenue<br>New York, NY 10166<br>Tel: 212-681-3824<br>Fax: 212-681-3900               |
| HSBC Bank USA                           | 452 Fifth Avenue, 5th<br>Floor<br>New York, New York<br>10018 | 452 Fifth Avenue, 5th<br>Floor<br>New York, New York<br>10018 | Credit Contact: George<br>Linhart<br>First VP<br>452 Fifth Ave., 5th Fl.<br>New York, NY 10018<br>Tel: 212-525-3326<br>Fax: 212-525-2479   |

|  |   |   |   |
|--|---|---|---|
| Wells Fargo Bank<br>Texas, N.A.                      | 1000 Louisiana, 3rd Floor<br>Houston, Texas 77002                     | 1000 Louisiana, 3rd Floor<br>Houston, Texas 77002                 | <p>Administrative Contact:<br/>Marie Bax<br/>Loan Administrator<br/>One HSBC Center<br/>26th Floor<br/>Buffalo, NY 14203<br/>Tel: 716-841-5668<br/>Fax: 716-841-0269</p> <p>Credit Contact:<br/>Lance Reynolds<br/>Relationship Manager<br/>1000 Louisiana<br/>3rd Floor<br/>Houston, Texas 77002<br/>Tel: 713-319-1362<br/>Fax: 713-739-1087</p> |
| Bank One, NA<br>(Main Office Chicago)                | 1717 Main Street, 4th<br>Floor<br>TX1-2454<br><br>Dallas, Texas 75201 | 1717 Main Street, 4th<br>Floor<br>TX1-2454<br>Dallas, Texas 75201 | <p>Administrative Contact:<br/>Tanya Ivie<br/>Loan Production Mgr.<br/>1700 Lincoln<br/>Denver, CO 80203<br/>Tel: 303-863-6102<br/>Fax: 303-863-2729</p> <p>Credit Contact:<br/>Charlie Freel<br/>Bank One Center<br/>201 St. Charles Ave.<br/>New Orleans, LA 70170<br/>Tel: 504-623-1638<br/>Fax: 504-623-6555</p>                              |
| Bank of Tokyo-<br>Mitsubishi, Ltd.                   | 1100 Louisiana Street<br>Suite 2800<br>Houston, Texas 77002           | 1100 Louisiana Street<br>Suite 2800<br>Houston, Texas 77002       | <p>Administrative Contact:<br/>Kim Wright<br/>1717 Main, 4th Floor<br/>TX1-2454<br/>Dallas, Texas 75201<br/>Tel: 214-290-2922<br/>Fax: 214-290-2930</p> <p>Credit Contact:<br/>Jay Fort<br/>Vice President<br/>1100 Louisiana Street<br/>Suite 2800<br/>Houston, TX 77002<br/>Tel: 713-655-3807<br/>Fax: 713-658-0116</p>                         |
| Merrill Lynch<br>Business Financial<br>Services Inc. | 222 N. LaSalle, 17th Floor<br>Chicago, Illinois 60601                 | 222 N. LaSalle, 17th Floor<br>Chicago, Illinois 60601             | <p>Administrative Contact:<br/>Barrie Hogue<br/>1100 Louisiana Street<br/>Suite 2800<br/>Houston, TX 77002<br/>Tel: 713-655-3835<br/>Fax: 713-658-0116</p> <p>Credit Contact:<br/>Daniel McHugh<br/>Vice President<br/>222 N. LaSalle<br/>17th Floor<br/>Chicago, IL 60601<br/>Tel: 312-269-4425<br/>Fax: 312-368-1387</p>                        |
|  |   |   | <p>Administrative Contact:<br/>Daniel McHugh<br/>Vice President<br/>222 N. LaSalle</p>  |

Southwest Bank of  
Texas

4400 Post Oak Parkway  
Galleria Commercial  
Houston, Texas 77027

4400 Post Oak Parkway  
Galleria Commercial  
Houston, Texas 77027

17th Floor  
Chicago, IL 60601  
Tel: 312-269-4425  
Fax: 312-368-1387  
Credit Contact:  
Melinda Nelson Jackson  
4400 Post Oak Pkwy.  
Galleria Commercial  
Houston, TX 77027  
Tel: 214-793-0940  
Fax: 713-232-5925

Administrative Contact:  
Ann Greer  
4400 Post Oak Pkwy.  
Galleria Commercial  
Houston, TX 77027  
or  
P.O. Box 27459  
Houston, TX 77227  
Tel: 713-232-1792  
Fax: 713-693-7467

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## **SCHEDULE II**

### **PRICING GRID**

|                          | <b>Level I</b>             | <b>Level II</b>       | <b>Level III</b>     | <b>Level IV</b>       | <b>Level V</b>              |
|--------------------------|----------------------------|-----------------------|----------------------|-----------------------|-----------------------------|
|                          | <b>A-/A3 or<br/>Better</b> | <b>BBB+/<br/>Baa1</b> | <b>BBB/<br/>Baa2</b> | <b>BBB-/<br/>Baa3</b> | <b>BB+/Ba1<br/>or Lower</b> |
| Applicable Facility Fee: | 20.0                       | 22.5                  | 25.0                 | 27.5                  | 32.5                        |
| Applicable Margin:       | 42.5                       | 52.5                  | 62.5                 | 72.5                  | 92.5                        |
| Drawn Cost:              | 62.5                       | 75.0                  | 87.5                 | 100.0                 | 125.0                       |
| Utilization Fee ( 33%):  | 25.0                       | 25.0                  | 25.0                 | 25.0                  | 25.0                        |
| Fully Drawn Cost:        | 87.5                       | 100.0                 | 112.5                | 125.0                 | 150.0                       |

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## **SCHEDULE III**

### **Unrestricted Subsidiaries and Corporate Structure**

(see attached)

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## **SCHEDULE III**

**ENSCO INTERNATIONAL INCORPORATED CORPORATE STRUCTURE**

**(INCLUDING RESTRICTED SUBSIDIARIES) <sup>1</sup>**  
**AS OF JULY 25, 2002**

|       | Active Subsidiaries or Affiliates<br>(Jurisdiction of Incorporation) | % of<br>Voting<br>Securities<br><br>Owned<br>by<br>Borrower | % of Voting<br>Securities<br>Owned by<br>Immediate<br>Parent (other<br>than Borrower) | Jurisdiction(s)<br>Qualified to do<br>Business                            |
|-------|--|---|---|---|
| (I)   | ENSCO Drilling Company (Delaware)                                    | 100%  | 100%  | Delaware<br>Syria   |
| (A)   | ENSCO Drilling (Caribbean), Inc.<br>(Cayman Islands)                 |   | 100%  | Cayman Islands<br>Venezuela   |
| (1)   | ENSCO Drilling Venezuela, Inc.<br>(Cayman Islands)                   |   | 100%  | Cayman Islands<br>Venezuela   |
| (B)   | ENSCO de Venezuela, C.A. (Venezuela)                                 |   | 100%  | Venezuela   |
| (II)  | ENSCO Holding Company (Delaware)                                     | 100%  |   | Delaware  |
| (A)   | ENSCO Offshore Company (Delaware)                                    |   | 100%  | Delaware<br>Texas<br>Louisiana<br>Alabama<br>Mississippi                  |
| (1)   | ENSCO Australia Corporation I (Delaware)                             |   | 100%  | Delaware<br>Australia   |
| (a)   | ENSCO Offshore Partnership (Australia)                               |   | 1%  | Australia   |
| (2)   | ENSCO Australia Corporation II (Delaware)                            |   | 100%  | Delaware<br>Australia   |
| (a)   | ENSCO Offshore Partnership (Australia)                               |   | 99%   | Australia   |
| (3)   | ENSCO Platform Company (Delaware)                                    |   | 100%  | Delaware<br>Louisiana<br>Texas<br>California<br>Mexico                    |
| (a)   | Dual Drilling Nigeria Ltd.(Nigeria)                                  |   | 100%  | Nigeria   |
| (b)   | Dual Drilling de Venezuela C.A.<br>(Venezuela)                       |   | 100%  | Venezuela   |
| (4)   | ENSCO Qatar Company (Delaware)                                       |   | 100%  | Delaware<br>Qatar   |
| (III) | ENSCO Incorporated (Texas)   | 100%  |   | Texas   |
| (IV)  | ENSCO Marine Company (Delaware)                                      | 100%  |   | Delaware<br>Texas<br>Louisiana<br>Mississippi                             |
| (V)   | ENSCO Oceanics Company (Delaware)                                    | 100%  |   | Delaware<br>Abu Dhabi<br>Thailand<br>New Zealand<br>Trinidad<br>Singapore |
| (A)   | ENSCO Asia Pacific Pte. Limited (Singapore)                          |   | 100%  | Singapore   |
| (B)   | Petroleum Finance Corporation (Cayman<br>Islands)                    |   | 100%  | Cayman Islands  |
| (C)   | ENSCO Brazil Servicos de Petroleo Limitada<br>(Brazil)               |   | 99%   | Brazil  |
| (D)   | ENSCO Gerudi (M) Sdn. Bhd. (Malaysia)                                |   | 49%   | Malaysia  |
| (E)   | ENSCO Maritime Limited (Bermuda)                                     |   | 100%  | Bermuda   |
| (1)   | ENSCO Arabia Ltd. (Saudi Arabia)                                     |   | 50%   | Saudi Arabia  |
| (F)   | ENSCO Asia Company (Texas)   |   | 100%  | Texas<br>Indonesia  |
| (1)   | P.T. ENSCO Sarida Offshore (Indonesia)                               |   | 80%   | Indonesia   |
| (2)   | Sociedade Brasileira de Perfuacoes Ltda.<br>(Brazil)                 |   | 99%   | Brazil  |
| (VI)  | ENSCO Offshore International Company<br>(Cayman Islands)             | 100%  |   | Cayman Islands<br>Qatar   |
| (A)   | ENSCO Offshore U.K. Limited  |   | 100%  | United Kingdom  |

|  |      |  |  |
|--|------|--|--|
| (United Kingdom)   |      |  |  |
| (B) ENSCO Limited (Cayman Islands)                           | 100% |  | Cayman Islands   |
| (C) ENSCO Netherlands Ltd. (Cayman Islands)                  | 100% |  | Cayman Islands<br>The Netherlands<br>Denmark<br>Cayman Islands |
| (D) ENSCO Oceanics International Company<br>(Cayman Islands) | 100% |  |  |
| (1) ENSCO Drilling Company (Nigeria) Ltd.<br>(Nigeria)       | 99%  |  | Nigeria  |
| (2) ENSCO Australia Pty. Limited (Australia)                 | 100% |  | Australia  |
| (VII) Chore Acquisition, Inc.                                | 100% |  | Delaware   |

**<sup>1</sup> Borrower currently has designated no Unrestricted Subsidiaries.**

- Explanatory Notes : (1) All companies listed on this Schedule III are to be deemed "Subsidiaries" and "Restricted Subsidiaries" for purposes of the Credit Agreement.
- (2) ENSCO Enterprises Ltd., a Cayman Islands, B.W.I. corporation is not listed as a Subsidiary, since ENSCO Offshore International Company owns only twenty-five percent (25%) of this company and does not maintain any means of control.
- (3) As provided in Section 5.02(f) of the Credit Agreement, ENSCO Marine Company, ENSCO Platform Company, ENSCO Drilling (Caribbean), Inc. and ENSCO de Venezuela, C.A. are "Excepted Entities."

**SCHEDULE IV**

**Rigs**

**(see attached)**

**SCHEDULE V**  
**Existing Liens**

| DEBTOR                           | SECURED PARTY  | STATE OF FILING | DATE OF FILING      | TYPE OF LIEN OR REFERENCE NO. (IF ANY) |
|----------------------------------|--|-----------------|---------------------|--|
| ENSCO Offshore Company           | United States of America,<br>Secretary of Transportation | Delaware        | 12/14/99            | UCC Ref No. 991536450                  |
| ENSCO International Incorporated | Wells Fargo Equipment Finance, Inc.                      | Louisiana       | 5/11/00             | UCC Ref No. 9987768                    |
| ENSCO Drilling Company           | NationsBank of Texas, NA                                 | Louisiana       | 4/1/92<br>expired   | UCC Ref No. 3634845*                   |
| ENSCO Marine Company             | Graham Energy Ltd.                                       | Louisiana       | 12/31/91<br>expired | UCC Ref No. 28347333*                  |
| ENSCO                            | Hunting Interlock Inc.                                   | Texas           | 3/26/98             | UCC Ref No.                            |

|                                  |                                   |       |          |   |
|----------------------------------|-----------------------------------|-------|----------|---|
| ENSCO Marine Company             | Wilmington Trust Company          | Texas | 12/22/98 | 9300101616<br>UCC Ref No.<br>9400034338** |
| ENSCO Marine Company             | Wilmington Trust Company          | Texas | 3/8/99   | UCC Ref No.<br>9800251883**               |
| ENSCO International Incorporated | Abrams Centre National Bank       | Texas | 12/28/98 | UCC Ref No.<br>9800256242                 |
| ENSCO International Incorporated | Abrams Centre National Bank       | Texas | 2/5/99   | UCC Ref No.<br>9900024989                 |
| ENSCO International Incorporated | Abrams Centre National Bank       | Texas | 9/27/99  | UCC Ref No.<br>9900196178                 |
| ENSCO Offshore Company           | United States of America          | Texas | 12/14/99 | UCC Ref No.<br>9900245886                 |
| ENSCO International Incorporated | Oliver Allen Corporation          | Texas | 2/28/00  | UCC Ref No.<br>0000440966                 |
| ENSCO International Incorporated | MCI Worldcom Communications, Inc. | Texas | 7/7/00   | UCC Ref No.<br>0000537921                 |

\* These financing statements have expired. Furthermore, it is Borrower's belief that the obligations for which these liens were filed have been satisfied and that there is no basis for the lien to remain outstanding. However, Borrower could not verify or obtain the lien release prior to the date of this Agreement. Borrower will use best efforts to terminate these financing statements within 30 days after the date of this Agreement.

\*\* These financing statements represent liens that have been terminated. The obligations underlying the liens represented by these financing statements were satisfied in October, 2000. Wilmington Trust Company acted as trustee for the CIT Group/Equipment Financing, Inc. Although a Satisfaction of Preferred Fleet Mortgage was executed by Wilmington Trust Company and filed with the U.S. Coast Guard, apparently these liens were overlooked and not released. Borrower will use best efforts to terminate these financing statements within 30 days after the date of this Agreement.

## SCHEDULE VI

### Commitments

| Bank  | Commitment              |
|---|-------------------------|
| Citibank, N.A.                                  | \$50,000,000.00         |
| Den norske Bank ASA, New York Branch            | \$50,000,000.00         |
| HSBC Bank USA                                   | \$40,000,000.00         |
| Wells Fargo Bank Texas, N.A.                    | \$40,000,000.00         |
| Bank One, NA (Main Office Chicago)              | \$25,000,000.00         |
| Bank of Tokyo-Mitsubishi, Ltd.                  | \$25,000,000.00         |
| Merrill Lynch Business Financial Services, Inc. | \$10,000,000.00         |
| Southwest Bank of Texas                         | \$10,000,000.00         |
| <b>Total:</b>                                   | <b>\$250,000,000.00</b> |

EXHIBIT A

PROMISSORY NOTE

Dated: \_\_\_\_\_

U.S. \$ \_\_\_\_

For value received, the undersigned, ENSCO International Incorporated, a Delaware corporation (the "Borrower"), hereby promises to pay to the order of \_\_\_\_\_ (the "Bank") for the account of its Applicable Lending Office (as defined in the Credit Agreement referred to below) the principal sum of \_\_\_\_\_ U.S. dollars (U.S. \$\_\_\_\_\_) or, if less, the aggregate unpaid principal amount of the Advances (as defined in the Credit Agreement dated as of July 26, 2002 among the Borrower, Den norske Bank ASA, New York Branch, as the Administrative Agent, Citibank, N.A., as the Syndication Agent, Wells Fargo Bank Texas, N.A., as the Co-Syndication Agent, HSBC Bank USA, as the Documentation Agent, Den norske Bank ASA, New York Branch, as the Issuing Bank and the lenders parties thereto, as amended from time to time, being herein referred to as the "Credit Agreement") owing to the Bank.

The Borrower promises to pay the principal of this Promissory Note (or, if less, the aggregate unpaid principal amount of the Advances (as defined in the Credit Agreement)) on the dates and in the amounts set forth in the Credit Agreement. Additionally, the Borrower promises to pay interest on the unpaid principal amount of each Advance owing to the Bank from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to Den norske Bank ASA, New York Branch, as Administrative Agent, at 200 Park Avenue, New York, New York 10166, in same day funds. Each Advance owed to the Bank by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Bank and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note; provided that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This Promissory Note is one of the Notes referred to in, and is subject to and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Advances by the Bank to the Borrower from time to time in an aggregate amount not to exceed the amount first above mentioned, the indebtedness of the Borrower resulting from each Advance owing to the Bank being evidenced by this Promissory Note, and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

This Promissory Note shall be governed by, and construed in accordance with, the laws of the State of New York.

ENSCO INTERNATIONAL INCORPORATED

By:  
Name:  
Title:

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**ADVANCES AND PAYMENTS OF PRINCIPAL**

| Date | Amount of Advance | Amount of Principal Paid or Prepaid | Unpaid Principal Balance | Notation Made By |
|------|-------------------|-------------------------------------|--------------------------|------------------|
|      |                   |                                     |                          |                  |

EXHIBIT B

NOTICE OF BORROWING  
[Date]

Den norske Bank ASA, New York Branch,  
as Administrative Agent  
200 Park Avenue  
New York, New York 10166  
Attention: Mr. Bill Trivedi, Credit Administration

Ladies and Gentlemen:

The undersigned, ENSCO International Incorporated, refers to the Credit Agreement, dated as of July 26, 2002 (such Credit Agreement, as amended from time to time, being herein referred to as the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Banks parties thereto, Den norske Bank ASA, New York Branch, as the Administrative Agent, Citibank, N.A., as the Syndication Agent, Wells Fargo Bank Texas, N.A., as the Co-Syndication Agent, HSBC Bank USA, as the Documentation Agent, Den norske Bank ASA, New York Branch, as the Issuing Bank, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the "Proposed Borrowing") as required by Section 2.02(a) of the Credit Agreement:

- (i) The Business Day of the Proposed Borrowing is \_\_\_\_, \_\_.
- (ii) The Type of Advances comprising the Proposed Borrowing is [Base Rate Advances] [LIBOR Advances].
- (iii) The aggregate amount of the Proposed Borrowing is \$\_\_\_\_\_.
- \* [(iv) The initial Interest Period for each Advance made as part of the Proposed Borrowing is \_\_\_\_ (months).]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

(A) the representations and warranties contained in Section 4.01 of the Credit

Agreement are correct (other than those representations and warranties that expressly relate solely to a specific earlier date, which shall remain correct as of such earlier date), before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Borrowing or from the application of the proceeds therefrom, which constitutes a Default, an Event of Default or both.

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\* To be included for a Proposed Borrowing comprised of LIBOR Advances.

Very truly yours,

ENSCO INTERNATIONAL INCORPORATED

By:  
Name:  
Title:

cc:

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EXHIBIT C

FORM OF OPINION OF COUNSEL  
TO THE BORROWER

July 26, 2002

To Each of the Banks Party to the Credit Agreement  
hereinafter referred to and  
Den norske Bank ASA, New York Branch, as Administrative Agent  
c/o Den norske Bank ASA, New York Branch,  
200 Park Avenue  
New York, New York 10166

Gentlemen:

I have acted as counsel to ENSCO International Incorporated, a Delaware corporation ("Borrower") in connection with the Credit Agreement dated as of July 26, 2002 (the "Credit Agreement") among the Borrower, the Banks party thereto, Den norske Bank ASA, New York Branch, as administrative agent (in such capacity the "Administrative Agent"), Citibank, N.A., as syndication agent (in such capacity the "Syndication Agent"), Wells Fargo Bank, as co-syndication agent (in such capacity the "Co-Syndication Agent") and HSBC Securities (USA) Inc., as documentation agent (in such capacity the "Documentation Agent").

This opinion is being furnished to you pursuant to Section 3.01(d) of the Credit Agreement. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

In this connection and as a basis for the opinions hereinafter expressed, I have made the investigations described below, but have not independently verified information obtained from third parties, except as otherwise set forth herein. As to matters of fact and in making the investigations referred to in my opinions expressed herein, I have examined and relied upon originals or copies, certified or otherwise identified to my satisfaction, of the following documents:

- a. the Credit Agreement; and
- b. the Notes

(collectively referred to as the "Documents").

As counsel to the Borrower, I am familiar with the relevant corporate proceedings and have examined such resolutions, documents and records of the Borrower and have obtained such other information as I have deemed necessary to form a basis for the opinions expressed below.

In rendering the opinions set forth below, I have relied, to the extent I deemed appropriate, upon certificates or other written advice of an officer or other authorized representative of a particular governmental authority, corporation, or other person or entity concerned.

Furthermore, the opinions rendered herein are subject to the following additional qualifications, limitations and assumptions:

(i) the effect of applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or conveyance or other laws affecting creditors' rights generally, and the general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and future court decisions affecting or interpreting any of the foregoing;

(ii) all documents submitted to me as originals are accurate and complete;

(iii) all documents submitted to me as copies are true, correct and complete copies of the originals thereof;

(iv) the due organization and existence of all parties to the Documents (other than the Borrower);

(v) the legal right and the corporate power and authority of all parties to the Documents (other than the Borrower) to execute and deliver, and to consummate the transactions contemplated by, the Documents to which they are parties;

(vi) the due authorization, execution and delivery of the Documents by all parties to the Documents (other than the Borrower);

(vii) that the Documents constitute the legal, valid, binding and enforceable obligations of all of the parties thereto (other than the Borrower);

(viii) all of the signatures, other than the signatures of the officers of the Borrower, on all documents submitted to me are genuine;

(ix) you will comply with usury savings provisions in the Documents which may apply to the provisions of the Documents and/or the transactions undertaken in accordance therewith;

(x) the opinions rendered herein are specifically limited to the current applicable United States federal law (including maritime laws), the Delaware General Corporation Law and the laws of the State of Texas. I am a member of the State Bar of Texas and have neither been admitted to nor purport to be an expert on the laws of any other state or jurisdiction, although I am generally familiar with the General Corporation Law of the State of Delaware;

(xi) no opinion is expressed as to the enforceability of choice of law, choice of jurisdiction and forum selection clauses contained in the Documents;

(xii) the enforceability of the Documents (a) may be limited by the application of the standard "good faith", such as that defined in Section 1.203 of the Texas Uniform Commercial Code, as the same may be amended from time to time, to the extent the Texas Uniform Commercial Code applies, and (b) is subject to the discretion of the courts of the State of Texas in granting equitable remedies such as specific performance or injunctive relief and their power to stay proceedings before them and to stay the execution of judgments. The enforceability of some of the remedial provisions of the Documents may be limited by, and some provisions of the Documents may be rendered unenforceable under, applicable federal and state laws, rules, regulations, court decisions, and constitutional requirements in and of the State of Texas or the United States, but such laws, rules, regulations, court decisions and constitutional requirements should not, in my opinion, substantially interfere with the practical realization of the rights and benefits afforded by the Documents, although such laws, rules, regulations, court decisions and constitutional requirements may delay the ability of the Administrative Agent or the Banks to enforce their respective rights and remedies provided thereunder.

The opinions expressed below are made as of the date hereof. I assume no, and expressly disclaim any obligation to update or supplement such opinions to reflect any facts or circumstances which may hereafter come to my attention or any changes in laws which may hereafter occur.

Based upon the foregoing and having regard to the legal considerations I deem relevant, and subject to the assumptions, limitations, qualifications and exceptions set forth herein, it is my opinion that:

1. The Borrower is a corporation, duly organized and validly existing and in good standing under the laws of the state of its incorporation and is qualified to do business and in good standing in each jurisdiction in which the conduct of its business or the ownership or operation of its properties requires it to be so qualified, and has the corporate power and authority (i) to own or lease and operate its properties and carry on its business as carried on at the date hereof and (ii) to execute and deliver, and to consummate the transactions

contemplated by, the Documents to which it is a party.

2. The Borrower has taken all necessary corporate action to authorize the execution and delivery of, and the consummation of the transactions contemplated by, each of the Documents to which it is a party. Such execution and delivery, and consummation of the transactions contemplated by the Documents, will not (i) result in a violation of Borrower's certificate of incorporation or bylaws, (ii) to my knowledge, result in a violation of any law or governmental regulation to which Borrower or any of its Subsidiaries is subject, or (iii) to my knowledge, after due inquiry, result in a violation of or constitute a breach of or default under any agreement or order. Each of the Documents to which Borrower is a party has been duly authorized, executed and delivered by Borrower.

3. Each of the Documents constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms. I have assumed, with your permission, that each of the Documents stated by its terms to be governed by New York law constitutes a legal, valid and binding obligation under New York law, enforceable against each of the parties thereto in accordance with its respective terms.

4. If, notwithstanding the choice of New York law contained therein, Texas law were applied to the Documents, each of the Documents would constitute the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

5. The execution and delivery of, and the consummation of the transactions by the Borrower of the Documents to which it is a party do not require the consent, approval, waiver, license or authorization or other action or filing with any Texas or Delaware corporate or federal governmental authority.

6. The Borrower and/or its Subsidiaries have title to all material property owned by them (including the Rigs referred to in the Credit Agreement) and the same is free and clear of all liens (other than those which may be identified in Borrower's consolidated balance sheet or Permitted Liens).

7. To my knowledge, after due inquiry, there is no action, suit or proceeding pending or threatened against the Borrower or its Subsidiaries before or by any court, arbitration panel or administrative agency which, if adversely determined, could reasonably be expected to result in or have a Material Adverse Effect on the consolidated financial position of the Borrower and its Subsidiaries taken as a whole, or that would prevent the Borrower from performing any of its obligations under the Documents.

8. The Borrower is not an "investment company" or an entity "controlled" by an "investment company" under the Investment Company Act of 1940, as amended, or the rules and regulations promulgated by the Securities and Exchange Commission (the "Commission") thereunder.

9. The Borrower is not subject to regulation as a "holding company" or "subsidiary company" of a "holding company" under the Public Utility Holding Company Act of 1935, as amended.

The scope of the foregoing opinion is limited to those issues specifically considered herein, and no further or more expansive opinion is to be implied from any of the opinions expressed above. Any variation or difference in the assumptions upon which this opinion is

based might affect my conclusions in an adverse manner and make them inaccurate.

Furthermore, the opinions expressed herein are rendered solely for your benefit and for the benefit of your successors and assigns under the Credit Agreement, and may not be relied upon or used by any other person (it being understood that you may be required to show this opinion to bank regulators and auditors) without my prior written consent.

Very truly yours,

Robert O. Isaac  
Associate General Counsel

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EXHIBIT D

FORMS OF OPINIONS OF SPECIAL COUNSEL  
TO THE ADMINISTRATIVE AGENT  
AND LEAD ARRANGER

D-1: Opinion re: Closing Conditions  
D-2: Opinion re: Enforceability and Choice of Law

(see attached)

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EXHIBIT D-1

July 26, 2002

To Den norske Bank ASA, New York Branch,  
as Administrative Agent, Citibank, N.A., as  
Syndication Agent to, Den norske Bank, ASA,  
New York Branch, as Issuing Bank, and to each  
of the Banks party to the Credit Agreement  
described below

Ladies and Gentlemen:

We have acted as special counsel to Citibank, N. A. in connection with the preparation, execution and delivery of the Credit Agreement, dated as of July 26, 2002 (the "Credit Agreement"), among ENSCO International Incorporated, a Delaware corporation (the "Borrower"), and each of you. Capitalized terms defined in the Credit Agreement are used herein as therein defined.

In that connection, we have examined the following documents:

(1) Counterparts of the Credit Agreement, executed by the Administrative Agent, the Banks, and the Borrower, respectively.

(2) The documents furnished by the Borrower pursuant to Section 3.01 of the Credit Agreement and listed on Annex A hereto, including the opinion of Robert O. Isaac, counsel to the Borrower (the "Opinion of Borrower's Counsel").

In our examination of the documents referred to above, we have assumed the authenticity of all such documents submitted to us as originals, the genuineness of all signatures and the conformity to the originals of all such documents submitted to us as copies. We have also assumed the accuracy of all matters set forth in the certificates referred to on Annex A hereto and assumed that each of the Borrower, the Banks, and the Administrative Agent has duly executed and delivered, with all necessary power and authority (corporate and otherwise), the Credit Agreement, and that the Borrower has duly executed and delivered, with all necessary power and authority (corporate and otherwise), the respective Notes and other Loan Documents contemplated to be executed by it.

Based upon the foregoing examination of documents and assumptions and upon such other investigation as we have deemed necessary, we are of the opinion that the Opinion of Borrower's Counsel and the other documents referred to in item (2) above, are substantially responsive to the requirements of the Credit Agreement.

This opinion is solely for the benefit of the Banks, the Administrative Agent, the Issuing Bank, and their respective successors, assigns, participants and other transferees and may be relied upon only by such Persons in connection with the transactions contemplated by the Credit Agreement.

Very truly yours,

Bracewell & Patterson, L.L.P.

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ANNEX A  
to Opinion

- (a) The opinion of Robert O. Isaac, counsel to the Borrower, substantially in the form of Exhibit C to the Credit Agreement.
  - (b) A certificate of an officer of the Borrower certifying (i) a copy of a unanimous consent of directors of the Borrower, (ii) the certificate of incorporation and bylaws of the Borrower, and (iii) the name and signature of an authorized agent of the Borrower.
  - (c) A certificate of an officer of the Borrower certifying as to insurance requirements.
-

July 26, 2002

To the Administrative Agent and the  
Banks listed on the attached Schedule I  
c/o Den norske Bank ASA, New York  
Branch as Administrative Agent for the Banks

Ladies and Gentlemen:

We have acted as special counsel to Den norske Bank ASA, New York Branch, acting for itself and as administrative agent ("Administrative Agent"), in connection with the preparation, execution, and delivery of the Credit Agreement dated as of July 26, 2002 ("Credit Agreement"), among ENSCO International Incorporated, a Delaware corporation ("Borrower"), the financial institutions party thereto ("Banks"), and the Administrative Agent. Capitalized terms used herein but not defined herein shall have the meanings specified by the Credit Agreement.

In connection with our representation of the Administrative Agent, we have examined executed counterparts of the Credit Agreement and the Notes dated as of July 26, 2002, made by the Borrower in favor of the Banks (collectively, the "Credit Documents"). We have also examined the opinion of legal counsel of the Borrower ("Borrower Opinion").

For purposes of this opinion, we have assumed (a) the authenticity of all documents submitted to us as originals, (b) the genuineness of all signatures, (c) the conformity to the originals of all documents submitted to us as copies and the truthfulness of all statements of fact contained therein, and (d) the due authorization, execution, and delivery of all documents by the parties thereto. Insofar as the opinion set forth below involves conclusions set forth in the Borrower Opinion or the correctness of the matters set forth herein, our opinion expressed below is subject to the assumptions, qualifications, and limitations set forth in the Borrower Opinion. Further, we have relied (i) as to factual matters, on the representations and warranties and other statements of fact contained in the Credit Documents and (ii) as to the matters of law covered by the Borrower Opinion, on such Borrower Opinion.

Based upon the foregoing examination of documents and assumptions and upon such other investigations as we have deemed necessary, we are of the opinion that:

- (1) The Credit Documents governed by New York law and executed by the Borrower constitute the legal, valid, and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).
- (2) If the issue is properly presented before such court, a Texas or federal court applying

Texas choice of law rules should hold that the choice of law provisions contained in the Credit Documents are valid, except to the extent any such choice of law provision purports to apply the laws of any state other than Texas to any determination pertaining to (i) whether a transaction transfers or creates an interest in Texas real property for security purposes or otherwise, (ii) the nature of an interest in Texas real property that is transferred or created, (iii) the method for foreclosure of a lien on real property located in Texas, (iv) the nature of an interest in Texas real property that results from foreclosure, or (v) the manner and effect of recording or failing to record evidence of a transaction that transfers or creates an interest in Texas real property.

The foregoing opinions are, with your concurrence, predicated upon and qualified in their entirety by the following:

a. The foregoing opinion is based upon and is limited to the laws of the State of New York and the State of Texas and applicable laws of the United States of America. We render no opinion with respect to the law of any other jurisdiction.

b. Our opinion with respect to the enforceability of the Credit Documents is subject to the further qualification that certain indemnifications, waivers, and other provisions thereof may be limited by the laws of the State of New York and applicable laws of the United States of America, but such laws do not, in our opinion, make such agreements inadequate for the practical realization of the benefits intended to be provided thereby.

This opinion is solely for the benefit of the Administrative Agent, the Banks, and their respective permitted successors, assigns, participants, and other transferees and may be relied upon only by such persons in connection with the transactions contemplated by the Credit Agreement.

Very truly yours,

Bracewell & Patterson, L.L.P.

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SCHEDULE 1  
to Opinion

BANKS :

Citibank, N.A.  
Den norske Bank ASA, New York Branch  
HSBC Bank USA  
Wells Fargo Bank Texas, N.A.  
Bank One, NA  
Bank of Tokyo-Mitsubishi, Ltd.  
Merrill Lynch Business Financial Services Inc.  
Southwest Bank of Texas

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ASSIGNMENT AND ACCEPTANCE

Dated \_\_\_\_\_, \_\_\_\_\_

Reference is made to the Credit Agreement, dated as of July 26, 2002 (such Credit Agreement, as amended or otherwise modified from time to time, being herein referred to as the "Credit Agreement"), among ENSCO International Incorporated, a Delaware corporation, as the Borrower, Den norske Bank ASA, New York Branch, as the Administrative Agent, Citibank, N.A., as the Syndication Agent, Wells Fargo Bank Texas, N.A., as the Co-Syndication Agent, HSBC Bank USA, as the Documentation Agent, Den norske Bank ASA, New York Branch, as the Issuing Bank and the lenders parties thereto. Terms defined in the Credit Agreement are used herein with the same meaning.

\_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, without recourse, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to all of the Assignor's rights and obligations under the Credit Agreement and the other Loan Documents as of the date hereof equal to the percentage interest specified on Schedule 1 hereto of all outstanding rights and obligations under the Credit Agreement. After giving effect to such sale and assignment, the Assignee's and Assignor's respective Commitments and the respective amounts of the Advances owing to the Assignee and Assignor will be as set forth in Section 2 of Schedule 1.
2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement, the other Loan Documents or any other instrument or document furnished pursuant thereto or in connection therewith, the perfection, existence, sufficiency or value of any Collateral, guaranty or insurance or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, any of the other Loan Documents or any other instrument or document furnished pursuant thereto or in connection therewith; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any other Person or the performance or observance by the Borrower or any other Person of any of its respective obligations under the Credit Agreement, any of the other Loan Documents or any other instrument or document furnished pursuant thereto or in connection therewith; and (iv) attaches the Note held by the Assignor and requests that the Administrative Agent exchange such Note for a new Note payable to the order of the Assignee in an amount equal to the Commitment of the Assignee after giving effect to this Assignment and Acceptance or new Notes payable to the order of the Assignee in an amount equal to the Commitment of the Assignee after giving effect to this Assignment and Acceptance and the Assignor in an amount equal to the Commitment retained by the Assignor under the Credit Agreement, respectively, as specified on Schedule 1 hereto.
3. The Assignee attaches the Note (if any) held by it and (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01(d) of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Administrative Agent, the Issuing Bank, the Assignor or any other

Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement, any of the other Loan Documents or any other instrument or document; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; and (vi) specifies as its Domestic Lending Office (and address for notices) and Eurodollar Lending Office the offices set forth beneath its name on Schedule I hereto.

4. Following the execution of this Assignment and Acceptance by the Assignor and the Assignee, this Assignment and Acceptance will be delivered to the Administrative Agent for acceptance and recording by the Administrative Agent. The effective date of this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance thereof by the Administrative Agent, unless otherwise specified on Schedule 1 hereto.

5. Upon such acceptance and recording by the Administrative Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the other Loan Documents and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement and under the other Loan Documents.

6. Upon such acceptance and recording by the Administrative Agent, from and after the Effective Date, the Administrative Agent shall make all payments under the Credit Agreement and the other Loan Documents in respect of the interest assigned hereby (including all payments of principal, interest and fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the other Loan Documents for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be as effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed by their respective officers thereunto duly authorized, as of the date first above written, such execution being made on Schedule 1 hereto.

## Assignment and Acceptance

### Section 1.

Percentage interest assigned: %

### Section 2.

Assignee's Commitment before giving effect to this Assignment and Acceptance: \$

Assignee's outstanding principal of Advances before giving effect to this Assignment and Acceptance \$

Aggregate outstanding principal of Advances assigned to the Assignee under this Assignment and Acceptance: \$

Assignee's Commitment after giving effect to this Assignment and Acceptance: \$

Assignee's outstanding principal of Advances after giving effect to this Assignment and Acceptance: \$

Assignor's remaining Commitment after giving effect to this Assignment and Acceptance: \$

Assignor's remaining outstanding principal of Advances after giving effect to this Assignment and Acceptance: \$

Principal amount of Note payable to the Assignee: \$

Principal amount of Note payable to the Assignor: \$

### Section 3.

Effective Date\*\*: ,20

[NAME OF ASSIGNOR], as Assignor

By:

Name:

Title

Dated:

[NAME OF ASSIGNEE], as Assignee

By:

Name:

\_\_\_\_\_  
\*\*This date should be no earlier than the date five Business Days after the delivery of this Assignment and Acceptance to the Administrative Agent.

Title:

Dated:

Domestic Lending Office (and  
address for notices):

[Address]

Eurodollar Lending Office:

[Address]

[Approved this \_\_\_\_ day of \_\_\_\_\_.]

ENSCO INTERNATIONAL INCORPORATED

By:

Name:

Title:]\*\*\*

[Approved this \_\_\_\_ day of \_\_\_\_\_.]

DEN NORSKE BANK ASA, NEW YORK BRANCH, as Issuing Bank

By:  
Name:  
Title:]\*\*\*

[Approved this \_\_\_\_ day of \_\_\_\_\_.

DEN NORSE BANK ASA, NEW YORK BRANCH, as Administrative Agent

By:  
Name:  
Title:]\*\*\*

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EXHIBIT F

NOTICE OF LETTER OF CREDIT  
[Date]

Den norske Bank ASA, New York Branch,  
as Administrative Agent and as Issuing Bank  
200 Park Avenue  
New York, New York 10166  
Attention: Mr. Bill Trivedi, Credit Administration  
Facsimile: 212-681-4119

Ladies and Gentlemen:

The undersigned, ENSCO International Incorporated, refers to the U.S. Credit Agreement, dated as of July 26, 2002 (such Credit Agreement, as amended from time to time, being herein referred to as the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Banks parties thereto, Den norske Bank ASA, New York Branch, as the Administrative Agent, Citibank, N.A., as the Syndication Agent, Wells Fargo Bank Texas, N.A., as the Co-Syndication Agent, HSBC Bank USA, as the Documentation Agent, Den norske Bank ASA, New York Branch, as the Issuing Bank, and hereby gives you notice, irrevocably, pursuant to Section 2.18 of the Credit Agreement that the undersigned hereby requests a Letter of Credit under the Credit Agreement, and in that connection sets forth below the information relating to such Letter of Credit (the "Proposed Letter of Credit") as required by Section 2.18(a) of the Credit Agreement:

- (i) The date of issuance of the Proposed Letter of Credit is \_\_\_\_\_.
- (ii) The amount of the Proposed Letter of Credit is \$ \_\_\_\_\_
- (iii) The expiration date of the Proposed Letter of Credit is \_\_\_\_\_.
- (iv) The purpose and terms of the Proposed Letter of Credit are as follows:

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of issuance of the Proposed Letter of Credit:

- (A) the representations and warranties contained in Section 4.01 of the Credit

Agreement are correct (other than those representations and warranties that expressly relate solely to a specific earlier date, which shall remain correct as of such earlier date), before and after giving effect to the issuance of the Proposed Letter of Credit, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Letter of Credit, which constitutes a Default, an Event of Default or both.

Very truly yours,

ENSCO INTERNATIONAL INCORPORATED

By:  
Name:  
Title:

cc:

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EXHIBIT G

COMPLIANCE CERTIFICATE  
[Date]

To Den norske Bank ASA, New York Branch,  
as Administrative Agent, Citibank, N.A., as Syndication  
Agent, to Den norske Bank ASA, New York Branch,  
as Issuing Bank, and to each of the Banks party to the  
Credit Agreement described below

Ladies and Gentlemen:

I refer to the Credit Agreement, dated as of July 26, 2002 (such Credit Agreement, as amended or otherwise modified from time to time, being herein referred to as the "Credit Agreement"), among ENSCO International Incorporated, a Delaware corporation, as the Borrower, Den norske Bank ASA, New York Branch, as the Administrative Agent, Citibank, N.A., as the Syndication Agent, Wells Fargo Bank Texas, N.A., as the Co-Syndication Agent, HSBC Bank USA, as the Documentation Agent, Den norske Bank ASA, New York Branch, as the Issuing Bank and the lenders parties thereto. Terms defined in the Credit Agreement are used herein with the same meaning.

I hereby certify that I have no knowledge of any Defaults by the Borrower in the observance of any of the provisions in the Credit Agreement which existed as of \_\_\_\_\_ or which exist as of the date of this certificate, and that all of the representations and warranties made by the Borrower in Article IV of the Credit Agreement are true and correct in all material respects on the date of this certificate as if made on this date.

I also certify that the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial condition of the Borrower as of \_\_\_\_\_, and the

related results of operations for the \_\_\_\_\_ then ended, in conformity with generally accepted accounting principles.

The following sets forth the information and computations to demonstrate compliance with the requirements of Section 5.02 of the Credit Agreement as of \_\_\_\_\_:

(a) Section 5.02(a) Consolidated EBITDA to Interest Expense Ratio

|  |                 |
|--|-----------------|
| 1. Net Income for preceding four quarters  | \$ _____        |
| 2. Interest Expense, taxes, depreciation and amortization, and other non-cash charges (to the extent each is deducted in determining Net Income) for preceding four quarters | \$ _____        |
| 3. Consolidated EBITDA for preceding four quarters (A.1 + A.2) =   | \$ _____        |
| 4. Consolidated Interest Expense for preceding four quarters   | \$ _____        |
| 5. ratio A.3 divided by A.2  | \$ ____ to 1.00 |
| 6. minimum:  | 3.00 to 1.00    |

(b) Section 5.02(b) Consolidated Debt Ratio

|                                      |          |
|--------------------------------------|----------|
| 1. Consolidated Debt                 | \$ _____ |
| 2. Consolidated Shareholder's Equity | \$ _____ |
| 3. B.1 divided by (B.1 + B.2)        | _____ %  |
| 4. maximum ratio                     | 40%      |

(c) Section 5.02(c) Consolidated Tangible Net Worth

|  |                 |
|--|-----------------|
| 1. Consolidated Shareholders' Equity                               | \$ _____        |
| 2. Intangible Assets of Borrower and its consolidated Subsidiaries | \$ _____        |
| 3. Consolidated Tangible Net Worth (C.1 - C.2) =                   | \$ _____        |
| 4. minimum:  | \$1,100,000,000 |

Very truly yours,

Name:

Title:

**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is entered into and effective this 6th day of August, 2002, by and between CHILES OFFSHORE INC., a Delaware corporation, (the "Company"), and WILLIAM E. CHILES (the "Executive").

**RECITALS**

The Executive and Chiles Offshore LLC, the predecessor-in-interest to the Company, entered into that certain Employment Agreement dated November 1, 1997, as extended by that certain letter agreement executed on June 13, 2000 between the Company and the Executive (the "Original Agreement"), setting out the terms and conditions for the Company's employment of the Executive.

ENSCO International Incorporated, a Delaware corporation ("ENSCO"), and the Company have entered into that certain Merger Agreement dated May 14, 2002 (the "Merger Agreement") by and among ENSCO, Chore Acquisition, Inc. (the "Merger Sub"), a wholly-owned subsidiary of ENSCO, and the Company.

If the merger of the Company with and into the Merger Sub pursuant to the Merger Agreement becomes effective (the "Merger"), the Company and the Executive desire to amend and restate the Original Agreement and provide for the employment of the Executive by the Company, on the terms and conditions of this Agreement, and from and after the effective date of the Merger (the "Effective Date") all references in this Agreement to "the Company" shall mean ENSCO.

**AGREEMENT**

Accordingly, the parties agree as follows:

1. Employment, Duties and Acceptance.

1.1 Employment by the Company and Duties. The Company hereby agrees to employ the Executive for a term commencing on the Effective Date and expiring at the end of the day on the second anniversary of the Effective Date (such date, or later date to which this Agreement is extended in accordance with the terms hereof, the "Termination Date"), unless earlier terminated as provided in Section 4 or unless extended as provided herein (the "Term"). Notwithstanding the foregoing, this Agreement shall be effective upon execution by the Executive and the Company. During the Term, the Executive initially shall serve in the capacity of a Vice President of the Company responsible for worldwide marketing and sales and new business development, and shall assist the Company in the integration of Chiles Offshore Inc. into ENSCO after the Merger, and thereafter shall serve in such capacities of equal or greater ranking, level, dignity, responsibility, importance and scope as requested from time to time by the Company. The Executive also shall serve in those offices and directorships of subsidiaries of the Company, or their subsidiaries, to which he may from time to time be appointed or elected. During the Term, the Executive shall devote all reasonable efforts and substantially all of his business time and services to the Company, subject to the direction of the executive to whom he has reporting responsibilities as determined by the Chief Executive Officer of the Company. The Executive shall not engage in any other business activities except for passive investments in corporations or partnerships not engaged in the Company Business (as hereinafter defined) to the extent

permitted by Section 3.1.1.

1.2 Acceptance of Employment by the Executive . The Executive hereby accepts such employment and shall render the services and perform the duties described above.

## 2. Compensation and Other Benefits .

2.1 Annual Salary . The Company shall pay to the Executive an annual salary at a rate of not less than Two Hundred Eighty Thousand Dollars (\$280,000) per year (the "Annual Salary"), subject to review and adjustment by the Board annually in accordance with industry standards, taking into account the Executive's performance, the Company's scope of operations, industry conditions and the overall performance of the Company within the industry. In no event shall the Executive's Annual Salary be reduced to less than \$280,000 per year without his prior written consent. The Executive hereby expressly acknowledges that the preceding two sentences shall not be construed as requiring the Company or the Board to make any annual increases in the Annual Salary. The Annual Salary shall be payable in accordance with the payroll policies of the Company as from time to time in effect, but in no event less frequently than once each month, less such deductions as shall be required to be withheld by applicable law and regulations.

2.2 Performance and Stay Bonuses . On the Effective Date, the Company shall pay to the Executive a performance bonus in the amount of Seven Hundred Ninety Thousand Dollars (\$790,000) (the "Performance Bonus"). In addition, the Company recognizes that the Executive, as the CEO, President and founder of Chiles Offshore Inc., is in a unique position to assist the Company in, and is critical to, the successful integration of Chiles Offshore Inc. into ENSCO after the Merger, and in recognition of the services the Executive will be providing in assisting with such successful integration, the Company shall pay to the Executive a stay bonus in the amount of Six Hundred Five Thousand Dollars (\$605,000) for each of the first two years following the Effective Date (such \$1,210,000 in stay bonuses is hereinafter collectively referred to as the "Stay Bonus") to the extent the Executive remains employed by the Company or any of its subsidiaries. The Stay Bonus shall vest pro rata on a monthly basis (\$50,416.67 per month) and the vested portion shall be payable on the first and second anniversary of the Effective Date. Notwithstanding the foregoing, the balance of any unpaid Stay Bonus (whether or not vested) shall be payable by the Company to the Executive pursuant to Section 4.3 hereof if the Executive is terminated without Cause (as defined in Section 4.2 hereof), including any termination which is deemed to be a constructive termination without Cause under Section 4.6 hereof.

2.3 Bonuses . All deferred bonuses and interest thereon payable by the Company to the Executive, which are listed on the attached Schedule 2.3 (the "Deferred Bonuses"), shall vest immediately and be paid by the Company to the Executive on the Effective Date. The Executive also shall be entitled to participate in the Company's Key Employee Incentive Plan, commensurate with his position as a Vice President of the Company and as determined by the Compensation Committee of the Board of Directors of the Company (the "Committee").

2.4 Vacation Policy . The Executive shall be entitled to a paid vacation of four weeks during each year of the Term.

2.5 Participation in Employee Benefit Plans . The Company agrees to permit the Executive during the Term, if and to the extent eligible, to participate in the group life, hospitalization and disability insurance plans, health program, pension plan, profit sharing programs, stock and option grants as determined by the Board, and any similar benefit plan or other so called "fringe benefits" of the Company (collectively, "Benefits") which may be available to other Vice Presidents and employees of the Company, to the extent such Benefits are offered by the Company. Provided the Executive is insurable at standard rates

(i) the Company agrees to use its best efforts to obtain immediate coverage for the Executive upon the commencement of the Term under its existing or newly adopted medical expense and hospitalization plan (to the extent offered by the Company) for employees without premium surcharge and without exclusions for disclosed preexisting conditions, and (ii) the Company shall maintain the coverage under the Executive's existing life insurance policy (or policies), insuring the life of the Executive and with beneficiaries designated pursuant to the Executive's instructions, at the amount of one million dollars, and shall pay all premiums under such policy (or policies) during the Term. During the Term, the Company also shall provide disability insurance for the Executive, which shall provide for payments based on 60% of the Annual Salary paid to the Executive for the prior fiscal year upon his disability; provided, however, that maximum amount the Company shall pay for such disability insurance shall be five thousand dollars per year. If such disability insurance premium exceeds five thousand dollars per year, the Executive may elect to pay the amount in excess of five thousand dollars per year in order to obtain such disability insurance. If the Executive does not elect to pay any such excess, the Company's obligation shall be limited to providing the maximum amount of disability insurance that may be obtained for five thousand dollars per year in payments. The Executive shall cooperate with the Company in applying for such coverage, including submitting to a physical exam and providing all relevant health and personal data.

2.6 General Business Expenses. The Company shall pay or reimburse the Executive for all expenses reasonably and necessarily incurred by the Executive during the Term in the performance of the Executive's services under this Agreement. Such payment shall be made upon presentation of such documentation as the Company customarily requires of its senior executive employees prior to making such payments or reimbursements.

2.7 Club Dues. During the Term, the Company shall pay the Executive an allowance of eight hundred dollars (\$800.00) per month, which the Executive shall apply to the cost associated with country club dues and expenses at the Houston Country Club and the Houstonian, or any comparable clubs or organizations, so long as the Executive is a member of such club or clubs.

### 3. Non-Competition, Confidentiality and Company Property.

3.1 Covenant Against Competition. The Executive acknowledges that (i) the Company is currently engaged in the business of constructing, owning, managing and operating offshore drilling rigs and hiring and managing crews to operate such rigs, which equipment and crews are contracted or hired by third parties for the purpose of drilling oil and gas wells offshore (the "Company Business") and (ii) the agreements and covenants contained in this Section 3 are essential to protect the business and goodwill of the Company. Accordingly, the Executive covenants and agrees as follows:

3.1.1 Non-Compete. As an independent covenant, and in order to enforce the provision of Section 3.1.2 hereof and the other provisions of this Agreement, the Executive agrees that he shall not during the Restricted Period (as hereinafter defined), directly or indirectly (except in the Executive's capacity as an officer of the Company or any of its subsidiaries), (i) engage or participate in the Company Business; (ii) divert, take or solicit any offshore drilling business of any customer of the Company or its subsidiaries; (iii) enter the employ of, or render any other services to, any person engaged in the Company Business except as permitted hereunder; or (iii) become interested in any such person in any capacity, including, without limitation, as an individual, partner, shareholder, lender, officer, member, manager, director, principal, agent or trustee except as permitted hereunder; provided, however, that the Executive may own, directly or indirectly, solely as an investment, securities of any person traded on any national securities exchange or listed on the National Association of Securities Dealers Automated Quotation System if the

Executive is not a controlling person of, or a member of a group which controls, such person and the Executive does not, directly or indirectly, own 5% or more of any class of equity securities, or securities convertible into or exercisable or exchangeable for 5% or more of any class of equity securities, of such person. As used in this Agreement, the "Restricted Period" shall mean a period commencing on the date hereof and continuing until the end of the Term and thereafter for the Severance Period (as hereinafter defined), if any, to the extent the Company is making the Severance Payments (as hereinafter defined) to the Executive as provided in this Agreement.

3.1.2 Property of the Company. All memoranda, notes, lists, records, engineering drawings, technical specifications and related documents and other documents or papers (and all copies thereof) relating to the Company or its subsidiaries, including such items stored in computer memories, computer disks, microfiche or by any other means, made or compiled by or on behalf of the Executive during the Restricted Period, or made available to the Executive during the Restricted Period relating to the Company, its affiliates or its subsidiaries or any entity which may hereafter become an affiliate or subsidiary thereof, shall be the property of the Company, and shall be delivered, along with any copies thereof, to the Company promptly upon the termination of the Executive's employment with the Company for any reason whatsoever or at any other time upon request; provided, however, that the Executive's address books, diaries, chronological correspondence files, rolodex files and information regarding the Executive's ownership interest in the Company shall be deemed to be property of the Executive.

3.1.3 Employees of the Company. During the Restricted Period, the Executive shall not induce or attempt to influence any employee of the Company or any of its affiliates or subsidiaries to terminate such employee's employment.

3.1.4 Confidential Information. The Executive acknowledges that the Company and its subsidiaries have a legitimate and continuing proprietary interest in the protection of their confidential information. In exchange for the Company and its subsidiaries providing the Executive access to such confidential information, the Executive agrees not to make any unauthorized use, publication, or disclosure, during or subsequent to his employment by the Company, of any confidential information, generated or acquired by the Executive during the course of his employment by the Company, except to the extent that the disclosure of such confidential information is necessary to fulfill his responsibilities as an employee of the Company. As used herein, "confidential information" shall mean information that was not known by the Executive prior to his employment by the Company and that is not generally known by or available to persons engaged in the Company Business or to the public, which information consists of financial information, financial figures, trade secrets, details of client or consulting contracts, pricing policies, operational methods, marketing plans or strategies, business acquisition plans, technical processes, designs and design projects, inventions and research projects, ideas, discoveries, inventions, improvements, trade secrets and other proprietary information of the Company or its subsidiaries. This Section 3.1.4 shall survive indefinitely the termination of this Agreement.

#### 3.1.5 Company's Interest.

The Executive agrees that these covenants are made to protect the legitimate business interests of the Company, including interests in the Company's property described in and pursuant to Section 3.1.2, and not to restrict his mobility or to prevent him from utilizing his general technical skills. The Executive understands as a part of these covenants that the Company intends to exercise whatever legal recourse against him for any breach of this Agreement and, in particular, for any breach of these covenants.

3.2. Rights and Remedies Upon Breach. If the Executive breaches any of the provisions contained in Section 3.1 of this Agreement (the "Restrictive Covenants"), the

Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the others and severally enforceable, and each of which is in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity:

3.2.1 Specific Performance. The right and remedy to have the Restrictive Covenants specifically enforced by any court of competent jurisdiction, it being agreed that any breach of the Restrictive Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy to the Company.

3.2.2 Accounting. The right and remedy to require the Executive to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits derived or received by the Executive as the result of any action constituting a breach of the Restrictive Covenants.

3.3 Severability of Covenants. The Executive acknowledges and agrees that the Restrictive Covenants are reasonable and valid in duration and geographical scope and in all other respects. If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect without regard to the invalid portions.

3.4 Court Review. If any court determines that any of the Restrictive Covenants, or any part thereof, is unenforceable because of the duration or geographical scope of, or scope of activities restrained by, such provision, such court shall have the power to reduce the duration or scope of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

3.5 Enforceability in Jurisdictions. The Company and the Executive intend to and hereby confer jurisdiction to enforce the Restrictive Covenants upon the courts of any jurisdiction within the geographical scope of such Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the Company that such determination not bar or in any way affect the right of the Company to the relief provided above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

#### 4. Termination.

4.1 Termination Upon Death. If the Executive dies prior to or during the Term, the Executive's employment pursuant to this Agreement shall terminate; provided, however, that in any such event, but subject to the Merger becoming effective, the Company shall pay to the Executive's estate within thirty (30) days after such termination (i) the Performance Bonus and the Deferred Bonuses to the extent not already paid to the Executive, any portion of the Annual Salary and any incentive bonuses that shall have been earned by the Executive and vested prior to the termination but not yet paid, and thirty percent (30%) of the entire Stay Bonus of \$1,210,000 (less any amount of the Stay Bonus previously paid to the Executive), (ii) any Benefits that have vested in the Executive at the time of such termination as a result of his participation in any of the Company's benefit plans (which shall be paid in accordance with the provisions of such plan), and (iii) reimbursement for any expenses with respect to which the Executive is entitled to reimbursement pursuant to Section 2.5 of this Agreement. The Executive's right to indemnification, payment or reimbursement pursuant to Section 6 of this Agreement shall not be affected by such termination and shall continue in full force and effect, both with respect to proceedings that are threatened, pending or completed at the date of such termination and with respect to

proceedings that are threatened, pending or completed after that date.

4.2 Termination Covenant Against Competition. The Company has the right, at any time during the Term, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive with Cause. If such right is exercised, the Company's obligation to the Executive shall be limited solely to the payment of the Performance Bonus and the Deferred Bonuses (if not already paid to the Executive), all accrued but unpaid Annual Salary, all vested but unpaid Stay Bonus, and any incentive bonuses and Benefits that shall have been earned by the Executive and vested prior to the termination date specified in the Company's notice of termination but not yet paid. As used in this Agreement, the term "Cause" shall mean and include (i) chronic alcoholism or controlled substance abuse as determined by a doctor of medicine selected by the Company that is authorized to practice medicine by the State of Texas and whose practice is located in Houston, Texas, (ii) an act of proven fraud or dishonesty on the part of the Executive, (iii) knowing and material failure by the Executive to comply with material applicable laws and regulations relating to the business of the Company or its subsidiaries; (iv) the Executive's material and continuing failure to perform (as opposed to unsatisfactory performance) his duties hereunder or a material breach by the Executive of this Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of the Executive; or (v) conviction of a crime involving moral turpitude or a felony. Prior to the effectiveness of termination for Cause under subclause (i), (ii), (iii) or (iv) above, the Executive shall be given 30 days' prior written notice from the Committee specifically identifying the reasons which are alleged to constitute Cause for any termination hereunder and an opportunity to be heard by the Committee in the event the Executive disputes such allegations. This Agreement shall not be terminated for Cause under subclause (i), (iii) or (iv) above if the reasons which are alleged to constitute Cause under such subclauses shall no longer exist and shall not be continuing within thirty (30) days of the receipt of such notice by the Executive; provided, however, that the Executive shall not have such right to cure pursuant to the foregoing sentence and prevent termination for Cause if (i) substantially the same reasons constituting Cause previously occurred and were the basis for a previous termination notice to the Executive from the Committee, and (ii) this Agreement was not terminated based on such previous occurrence because the reasons which were alleged to constitute Cause no longer existed and were not continuing within thirty (30) days of the Executive's receipt of such notice.

4.3 Termination Without Cause. The Company has the right, at any time during the Term, subject to all of the provisions hereof, exercisable by serving notice, effective on or after the date of service of such notice as specified therein, to terminate the Executive's employment under this Agreement and discharge the Executive without Cause. If the Executive is terminated during the Term without Cause (including any termination which is deemed to be a constructive termination without Cause under Section 4.6 hereof), the Company's obligation to the Executive shall be limited solely to the payment, at the times and upon the terms provided for herein, of (i) the Average Monthly Compensation (as hereinafter defined) for the Severance Period (collectively, the "Severance Payments") and (ii) the Performance Bonus and the Deferred Bonuses (if not already paid to the Executive), the entire Stay Bonus of \$1,210,000 (whether vested or unvested) to the extent not already paid to the Executive, and any incentive bonuses and Benefits that shall have been earned by the Executive and vested prior to the termination but not yet paid. Any amounts due to the Executive pursuant to clause (ii) of the second sentence of this Section 4.3 shall be due and payable within thirty (30) days after the date of termination. The Severance Payments shall be due and payable for the Severance Period in monthly payments equal to the Average Monthly Compensation beginning thirty (30) days after the date of termination. Notwithstanding anything herein to the contrary, the Restricted Period, and the Company's obligations to pay additional Severance Payments to the Executive, shall be subject to early termination, and shall terminate immediately, at any time after the Executive is terminated

without Cause upon the earlier to occur of (a) the Executive giving written notice to the Company that he is terminating the Restricted Period effective upon receipt of such notice by the Company, or effective at any designated time thereafter (not to exceed thirty (30) days after the Company's receipt of such notice), (b) the Executive's violation of any of the provisions of Section 3, or (c) the end of the period for payment of the Severance Payments pursuant to the terms hereof. Upon any termination pursuant to the preceding clauses (a) or (b) (in either case, an "Early Termination"), no further Severance Payments shall be payable for periods after the effective date of such Early Termination, except for amounts payable by the Company to the Executive for periods prior to the effective date of such Early Termination. The Executive and the Company agree that the foregoing right of the Company to terminate the Severance Payments shall be enforceable by the Company notwithstanding any ruling by any court or any arbitrator that one or more of the provisions of Section 3 are unenforceable for any reason whatsoever. For purposes of this Agreement, (x) "Average Monthly Compensation" shall mean the average of the Annual Salary earned by the Executive during the two years preceding the date of termination, divided by twelve (12), and (y) subject to Section 4.4 hereof, "Severance Period" shall mean (A) the thirty-six (36) month period beginning on the date of termination, if the date of termination is on or before the first anniversary of the Effective Date, and (B) the portion, if any, of the thirty-six (36) month period beginning on the Effective Date remaining after the date of termination, if the date of termination is after the first anniversary of the Effective Date.

4.4 Termination by the Executive. Any termination of the Executive's employment pursuant to this Agreement by the Executive during the Term, except such termination as is deemed to be a constructive termination without Cause by the Company under Section 4.6 of this Agreement, shall entitle the Company to discontinue payment of all Annual Salary, unvested Stay Bonus, incentive bonuses and Benefits not earned and payable prior to the date of such termination. Notwithstanding the foregoing or anything herein to the contrary, upon any such termination of the Executive's employment pursuant to this Agreement by the Executive, the Company shall pay to the Executive the Performance Bonus and the Deferred Bonuses (if not already paid to the Executive) and all Stay Bonus that vests through the date of such termination, in each case within thirty (30) days following such termination by the Executive. In addition, if such termination occurs on or before the first anniversary of the Effective Date, the Company shall pay to the Executive the Severance Payments for the Severance Period in monthly payments equal to the Average Monthly Compensation beginning thirty (30) days after the date of such termination by the Executive, and (notwithstanding Section 4.3 hereof) for such purposes the "Severance Period" shall mean the portion of the thirty-six (36) month period beginning on the Effective Date remaining after the date of termination.

4.5 Termination upon Disability. If prior to or during the Term the Executive becomes physically or mentally disabled, whether totally or partially, as evidenced by the written statement of a competent physician licensed to practice medicine in the United States who is mutually acceptable to the Company and the Executive or his closest relative if he is not then able to make such a choice, so that the Executive is unable substantially to perform his services hereunder for (i) a period of four consecutive months, or (ii) for shorter periods aggregating 120 days during any twelve-month period, the Company may at any time after the last day of the four consecutive months of disability or the day on which the shorter periods of disability equal an aggregate of 120 days, by written notice to the Executive, terminate the Executive's employment hereunder. Upon any such termination of the Executive's employment, the Company shall pay to the Executive within thirty (30) days after such termination (i) the Performance Bonus and the Deferred Bonuses to the extent not already paid to the Executive, any portion of the Annual Salary and any incentive bonuses that shall have been earned by the Executive prior to the termination but not yet paid, and thirty percent (30%) of the entire Stay Bonus of \$1,210,000 (less any amount of the Stay Bonus previously paid to the Executive), (ii) any Benefits that have vested in the Executive at the time of such termination as a result of his participation in any of the Company's

benefit plans (which shall be paid in accordance with the provisions of such plan), and (iii) reimbursement for any expenses with respect to which the Executive is entitled to reimbursement pursuant to Section 2.5 of this Agreement. The Executive shall be entitled to the full compensation payable to him hereunder for periods of disability shorter than the periods specified in clauses (i) and (ii) of the previous sentence.

4.6 Constructive Termination Without Cause . Notwithstanding any other provision of this Agreement, the Executive's employment under this Agreement may be terminated during the Term by the Executive, which shall be deemed to be constructive termination by the Company without Cause, if one of the following events shall occur without the consent of the Executive: (i) a failure to elect or reelect or to appoint or reappoint the Executive to the office of Vice President of the Company or other material change by the Company of the Executive's functions, duties or responsibilities which change would reduce the ranking or level, dignity, responsibility, importance or scope of the Executive's position with the Company from the position and attributes thereof described in Section 1 above; (ii) the assignment or reassignment by the Company of the Executive to a location not within 30 miles of downtown Houston; (iii) the liquidation, dissolution, consolidation or merger of the Company, or transfer of all or substantially all of its assets, other than (a) a consolidation or merger in which the Company is the sole surviving entity or (b) a transaction in which a successor corporation with a net worth substantially the same as or greater than that of the Company assumes this Agreement and all obligations and undertakings of the Company hereunder; (iv) a reduction in the Executive's fixed salary below \$280,000 per year or change by the Company without the consent of the Executive in the method of determining the Executive's annual bonus that results in a reduction of such annual bonus; (v) the failure of the Company to continue to provide the Executive with office space, related facilities, staff and secretarial assistance that are commensurate with the Executive's responsibilities to and position with the Company; (vi) the notification by the Company of the Company's intention not to observe or perform one or more of the material obligations of the Company under this Agreement; (vii) the failure by the Company to indemnify, pay or reimburse the Executive at the time and under the circumstances required by Section 6 of this Agreement; (viii) failure of the Company to pay the Performance Bonus, the Deferred Bonuses, the Annual Salary, the Stay Bonus, the incentive bonus or any other compensation or amounts payable hereunder when due; or (ix) the occurrence of any other material breach of this Agreement by the Company or any of its subsidiaries. Any such termination shall be made by written notice to the Committee, specifying the event relied upon for such termination and given within 90 days after such event. Any constructive termination shall be effective 30 days after the date the Committee has been given such written notice setting forth the grounds for such termination with specificity; provided, however, that the Executive shall not be entitled to terminate this Agreement in respect of any of the grounds set forth above if within 30 days after such notice the action constituting such ground for termination has been cured and is no longer continuing.

4.7 Conversion and Exercise of Stock Options; Restricted Stock . Upon the Effective Date, all stock options of the Executive granted under the Company Stock Option Plan (as defined in the Merger Agreement) (the "Chiles Options") shall be treated in the manner provided in Section 1.8 of the Merger Agreement except as provided in this Section 4.7. If the Executive is terminated without Cause (including any termination which is deemed to be a constructive termination without Cause under Section 4.6 hereof), then the Executive shall have the lesser of (i) two years from the date of termination or (ii) the remaining term of the Chiles Options, in which to exercise the Chiles Options. If the Executive's employment under this Agreement is terminated during the Term for any other reason, then the Executive shall have a period of one year from the Effective Date if such termination occurs within nine (9) months after the Effective Date, and a period of three (3) months after such termination if such termination occurs more than nine (9) months after the Effective Date, in which to exercise the Chiles Options; provided, however, that if such termination occurs due to the death or disability of the Executive, the exercise period for his

Chiles Options shall be the applicable period specified in the Company Stock Option Plan.

4.8 No Tax Gross-Up. Under no circumstances will the Company have any obligation or liability to the Executive for the reimbursement of gross-up of income, excise or other taxes resulting from any payments, stock options or other benefits under this Agreement.

5. Insurance. The Company may, from time to time, apply for and take out, in its own name and at its own expense, naming itself or one or more of its affiliates as the designated beneficiary (which it may change from time to time), policies for life, health, accident, disability or other insurance upon the Executive in any amount or amounts that it may deem necessary or appropriate to protect its interest. The Executive agrees to aid the Company in procuring such insurance by submitting to medical examinations and by filling out, executing and delivering such applications and other instruments in writing as may reasonably be required by an insurance company or companies to which any application or applications for insurance may be made by or for the Company.

6. Indemnification.

6.1 The Company shall indemnify and hold harmless the Executive from and against any and all losses, claims, demands, costs, damages, liabilities, expenses of any nature (including, without limitation, reasonable attorneys' fees and disbursements), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which the Executive may be involved, or threatened to be involved, as a party or otherwise, arising out of or incidental to the business of the Company or its affiliates or subsidiaries, including, without limitation, liabilities under the federal and state securities laws, regardless of whether the Executive continues to be employed by the Company or such affiliate or subsidiary at the time any such liability or expense is paid or incurred, if (i) the Executive acted in good faith and in a manner he reasonable believed to be in, or not opposed to, the interests of the Company and, with respect to any criminal proceeding, had no reason to believe his conduct was unlawful, and (ii) the Executive's conduct did not constitute actual fraud, gross negligence or willful or wanton misconduct. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere, or its equivalent, shall not, in and of itself, create a presumption or otherwise constitute evidence that the Executive acted in a manner contrary to that specified in (i) or (ii) above.

6.2 Expenses (including, without limitation, reasonable legal fees and expenses) incurred in defending any proceeding subject to Section 6.1 shall be paid by the Company in advance of the final disposition of such proceeding upon receipt of a written affirmation by the Executive of his good faith belief that he has met the standard of conduct necessary for indemnification under this Section 6 and a written undertaking (which need not be secured) by or on behalf of the Executive to repay such amount if it shall be ultimately determined, by a court of competent jurisdiction or otherwise, that the Executive is not entitled to be indemnified by the Company as authorized hereunder.

6.3 The indemnification provided by this Section 6 shall be in addition to any other rights to which the Executive may be entitled under any agreement or vote of the Board by the vote of directors that are disinterested and unaffiliated with the Executive, as a matter of law or otherwise, both as to action in the Executive's capacity as an officer and employee of the Company or as a person serving at the request of the Company and shall continue after the Executive has ceased to serve in such capacity and shall inure to the benefit of the heirs, administrators and personal representatives of the Executive

6.4 The Company may purchase and maintain directors and officers insurance or

similar coverage for its directors and officers, including the Executive, in such amounts and with such deductibles or self-insured retentions as are customary for persons engaged in businesses similar in size and type to those engaged in by the Company.

6.5 The Executive shall not be denied indemnification in whole or in part under this Section 6 because the Executive had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement and all material facts relating to the executive's interest were adequately disclosed to the Board at the time the transaction was consummated.

6.6 The provisions of this Section 6 are for the benefit of the Executive and his heirs, administrators and personal representatives and shall not be deemed to create any rights for the benefit of any other persons. The provisions of this Section 6 shall survive termination of this Agreement for any reason or cause.

## 7. Other Provisions .

7.1 Certain Definitions . As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to the Company means any other person controlled by or under common control with the Company but shall not include any stockholder or director of the Company, as such.

(ii) "person" means any individual, corporation, limited liability company, partnership, firm, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

(iii) "subsidiary" means any corporation or other entity 50% or more of the voting securities of which are owned directly or indirectly by the Company.

## 7.2 Notices .

Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed or sent by facsimile transmission or, if mailed, on the date of actual receipt thereof, as follows:

(i) if to the Company:

Chiles Offshore Inc.  
11200 Richmond Avenue, Suite 490  
Houston, Texas 77082-2618  
Attn: Dick Fagerstal  
Fax No. (713) 339-3888

With a copy to:

2001 Ross Avenue, Suite 2400  
Dallas, Texas 75201  
Attn: Daniel W. Rabun  
Fax No. (214) 978-3099

(ii) If to the Executive, to:

William E. Chiles  
5096 Fieldwood Drive  
Houston, Texas 77056  
Fax No. (713) 850-1207

Gardere Wynne Sewell LLP  
1000 Louisiana, Suite 3400  
Houston, Texas 77002  
Attn: Mr. N. L. Stevens III  
Fax No. (713) 276-5807

Any party may change its address for notice hereunder by notice to the other party hereto.

7.3 Entire Agreement; Original Agreement . Subject to the Merger becoming effective, on the Effective Date this Agreement shall constitute the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto, including, without limitation, the Original Agreement. Notwithstanding the foregoing, the Executive shall remain a third party beneficiary of the applicable provisions of the Merger Agreement. In the event of a conflict between the terms of this Agreement and the Merger Agreement, the terms of this Agreement shall control. On the Effective Date, the Original Agreement shall terminate, and the Executive acknowledges and agrees that his acceptance of employment with the Company pursuant to this Agreement shall not be considered a constructive termination under the Original Agreement. If the Merger does not become effective, the Original Agreement shall remain in effect and this Agreement shall be of no force or effect.

7.4 Waivers and Amendments . This Agreement may be amended, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof Nor shall any waiver on the part of any party of any such right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

7.5 Governing Law . This Agreement shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the choice of law provisions thereof) where the employment of the Executive shall be deemed, in part, to be performed and, subject to Section 7.11 hereof, enforcement of this Agreement or any action taken or held with respect to this Agreement shall be taken in the courts of appropriate jurisdiction in Houston, Texas.

7.6 Assignment . This Agreement, and any rights and obligations hereunder, may not be assigned by the Executive and may be assigned by the Company (subject to Section 4.6 (iii) hereof) only to a successor by merger or purchaser of substantially all of the assets of the Company.

7.7 Counterparts . This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.8 Headings . The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

7.9 No Presumption Against Interest .

This Agreement has been negotiated, drafted, edited and reviewed by the respective parties, and therefore, no provision arising directly or indirectly herefrom shall be construed against any party as being drafted by said party.

7.10 Validity Contest . The Company shall promptly pay any and all legal fees and expenses incurred by the Executive from time to time as a direct result of the Company's contesting the due execution, authorization, validity or enforceability of this Agreement.

7.11 Dispute Resolution . If any dispute arises out of or relates to this Agreement, or the breach thereof, Executive and the Company agree to promptly negotiate in good faith to resolve such dispute. If the dispute cannot be settled by the parties through negotiation, Executive and the Company agree to try in good faith to settle the dispute by mediation under the Commercial Mediation Rules of the American Arbitration Association before resorting to arbitration, litigation or any other dispute resolution procedure. If the parties are unable to settle the dispute by mediation as provided in the preceding sentence, any claim, controversy or dispute arising out of or relating to this Agreement, or the breach thereof, shall be settled by binding arbitration before a panel of three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be conducted in Houston, Harris County, Texas, or such other location to which the parties mutually agree. The decision of the arbitrator(s) shall be final and binding and judgment upon the award rendered may be entered in any court having jurisdiction thereof. The costs of mediation and arbitration may be awarded to either party by the mediator or the arbitrators and absent such award shall be borne equally by the parties.

7.12 Binding Agreement . This Agreement shall inure to the benefit of and be binding upon the Company and its respective successors and assigns and the Executive and his legal representatives.

7.13 No Third Party Beneficiaries . Notwithstanding anything in this Agreement to the contrary, express or implied, any right, benefit, or agreement contained, expressed or implied in this Agreement shall be only for the benefit of the parties hereto and their respective legal representatives, successors, heirs, and assigns, and such rights, benefits and other agreements shall not enure to the benefit of any other person or entitle any such person to any claim, cause of action, remedy or other rights of any kind, it being the intention of the parties hereto that no person shall be deemed a third party beneficiary of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

EXECUTIVE

/s/ WILLIAM E. CHILES  
William E. Chiles

COMPANY

CHILES OFFSHORE INC.

By: /s/ DICK FAGERSTAL  
Name: Dick Fagerstal  
Title: Senior Vice President and

Chief Financial Officer

ENSCO hereby adopts this Agreement for purposes of acknowledging and agreeing to assume the obligations of the Company pursuant to the terms of this Agreement on the Effective Date if the Merger becomes effective.

ENSCO INTERNATIONAL INCORPORATED.

By: /s/ C. CHRISTOPHER GAUT  
Name: C. Christopher Gaut  
Title: Senior Vice President

Schedule 2.3  
DEFERRED BONUSES

1. \$20,000 plus interest at 10% from and after January 15, 2001.
2. \$80,000 plus interest at 5.375% from and after February 15, 2002.  
August 8, 2002

ENSCO International Incorporated  
2700 Fountain Place  
1445 Ross Avenue  
Dallas, Texas 75202

Re: Registration Statement on Form S-3, (No. 33-42965, 33-46500, 33-49590, 33-43756, 33-64642, 333-03575, and 333-3789), Form S-8 (No. 333-58625, 33-14714, 33-32447, 33-35862, 33-40282, and 33-41294).

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated July 17, 2002 related to our review of interim financial information for the three and six month periods ended June 30, 2002.

Pursuant to Rule 436 under the Securities Act of 1933 (the "Act"), such report is not considered part of a registration statement prepared or certified by an accountant, or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act. It should be noted, we have not performed any procedures subsequent to July 17, 2002.

/s/ KPMG LLP

Dallas, Texas

