
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **October 7, 2004** (October 4, 2004)

Baker Hughes Incorporated

(Exact name of registrant as specified in charter)

Delaware
(State of Incorporation)

1-9397
(Commission File No.)

76-0207995
(I.R.S. Employer Identification No.)

3900 Essex Lane, Houston, Texas
(Address of Principal Executive Offices)

77027
(Zip Code)

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

(former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-

Item 1.01 Entry into a Material Definitive Agreement.

On October 7, 2004, Baker Hughes Incorporated (the "Company") entered an Employment Agreement, an Indemnification Agreement and a Change in Control Agreement, each effective October 25, 2004, with Chad C. Deaton, the newly appointed Chairman of the Board and Chief Executive Officer of the Company. A brief description of the terms and conditions of these agreements are contained in Item 5.02 of this Form 8-K and incorporated into this Item 1.01 by reference.

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On October 4, 2004, the Company announced that the Board of Directors has elected Chad C. Deaton, 51, as Chairman of the Board and Chief Executive Officer of the Company effective as of October 25, 2004. Mr. Deaton will also serve as Chairman of the Executive Committee of the Board of Directors of the Company. Mr. Deaton has served as President and Chief Executive Officer and a director of Hanover Compressor Company since August 2002. Mr. Deaton was a Senior Advisor to Schlumberger Oilfield Services from September 1999 to September 2001. Mr. Deaton was Executive Vice President of Schlumberger Oilfield Services from 1998 to 1999. Mr. Deaton will serve as a director of Hanover Compressor Company until October 25, 2004. In addition, Mr. Deaton serves as a director of CARBO Ceramics, Inc.

Pursuant to the Employment Agreement between the Company and Chad C. Deaton dated as of October 25, 2004, Mr. Deaton will be entitled to a base salary of \$825,000 per annum with an expected value bonus level of 100% of base salary. Mr. Deaton's bonus is guaranteed to be \$600,000 for 2004 and contingent on predetermined performance goals approved by the Compensation Committee of the Board of Directors for 2005 and subsequent years. Mr. Deaton will receive a restricted stock award of 80,000 shares of the Company's common stock and a one-time stock option grant of 75,000 shares, each effective as of October 25, 2004 and subject to vesting requirements. The term of the Employment Agreement is for two years, with automatic one-year renewals unless either party provides a notice not to extend the Employment Agreement at least thirteen months prior to the then current expiration date. In addition, Mr. Deaton will be eligible to participate in other benefits plans and programs on similar terms as other senior executives of the Company.

The Company has entered into an Indemnification Agreement with Mr. Deaton dated as of October 25, 2004, which requires the Company to indemnify Mr. Deaton against certain liabilities that may arise by reason of his status or service as Chairman of the Board and Chief Executive Officer, to advance his expenses incurred as a result of a proceeding as to which he may be indemnified and to cover such person under any directors' and officers' liability insurance policy the Company chooses to maintain. The Indemnification Agreement is intended to provide indemnification rights to the fullest extent permitted under applicable indemnification rights statutes in the State of Delaware

and shall be in addition to any other rights Mr. Deaton may have under the Company's Restated Certificate of Incorporation, Bylaws and applicable law.

The Company and Chad C. Deaton have entered into a Change in Control Agreement effective as of October 25, 2004. The Change in Control Agreement defines the benefits Mr. Deaton would receive in connection with certain change in control, or a potential change in control, events coupled with his loss of employment. If eligible, Mr. Deaton would receive certain benefits, including a lump sum payment based on three times a salary and bonus formula, continuation of health and insurance benefits for 36 months, a payment for incentive and benefit plans participation and a gross-up payment in respect of excise taxes.

The foregoing descriptions of the Employment Agreement, the Indemnification Agreement and the Change in Control Agreement do not purport to be complete and is qualified in its entirety by reference to the applicable agreements which are furnished with this Form 8-K as Exhibits 10.1, 10.2 and 10.3 and incorporated into this Item 5.02 by reference.

Mr. Michael E. Wiley, the Company's Chairman of the Board and Chief Executive Officer, will retire from the Company and the Company's Board of Directors effective as of the opening of business on October 25, 2004. See Mr. Wiley's Restated Employment Agreement dated as of August 1, 2004 filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2004.

Item 7.01 Regulation FD Disclosure.

On October 4, 2004, the Company issued a news release announcing the appointment of Chad C. Deaton as its Chairman of the Board and Chief Executive Officer effective on October 25, 2004. Michael E. Wiley will retire as Chairman of the Board and Chief Executive Officer of the Company effective as of the opening of business of October 25, 2004. A copy of the news release is furnished with this Form 8-K as Exhibit 99.1 and incorporated into this Item 7.01 by reference.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits.

10.1	-	Indemnification Agreement by and between Baker Hughes Incorporated and Chad C. Deaton effective as of October 25, 2004.
10.2	-	Change in Control Agreement by and between Baker Hughes Incorporated and Chad C. Deaton effective as of October 25, 2004.
10.3	-	Employment Agreement by and between Baker Hughes Incorporated and Chad C. Deaton effective as of October 25, 2004.
99.1	-	News Release of Baker Hughes Incorporated dated October 4, 2004.

SIGNATURE

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 hereunto duly authorized.

BAKER HUGHES INCORPORATED

Dated: October 7, 2004

By: /s/ Sandra E. Alford
Sandra E. Alford
Corporate Secretary

Page 4

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.1	Indemnification Agreement dated October 25, 2004.
10.2	Change in Control Agreement dated October 25, 2004.
10.3	Employment Agreement dated October 25, 2004.
99.1	News Release dated October 4, 2004.

INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT, made and executed effective October 25, 2004 (this "Agreement"), by and between BAKER HUGHES INCORPORATED, a Delaware corporation (the "Company"), and Chad C. Deaton, an individual resident of the State of Texas (the "Indemnitee").

WHEREAS, the Company is aware that, in order to induce highly competent persons to serve the Company as directors or officers or in other capacities, the Company must provide such persons with adequate protection through insurance and indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the Company;

WHEREAS, the Company recognizes that the increasing difficulty in obtaining directors' and officers' liability insurance, the increasing cost of such insurance and the general reductions in coverage of such insurance have made attracting and retaining such persons more difficult;

WHEREAS, the Company recognizes the substantial increase in corporate litigation in general, subjecting directors and officers to expensive litigation risks at the same time as the availability and coverage of liability insurance has been severely limited;

WHEREAS, the Board of Directors of the Company has determined that it is in the best interests of the Company's stockholders that the Company act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company to contractually obligate itself to indemnify such persons to the fullest extent permitted by applicable law so that they will continue to serve the Company free from undue concern that they will not be so indemnified; and

WHEREAS, the Indemnitee is willing to serve, continue to serve and take on additional service for or on behalf of the Company or any of its direct or indirect wholly-owned subsidiaries on the condition that he/she be so indemnified.

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Indemnitee do hereby agree as follows:

1. **Definitions.** For purposes of this Agreement:

- (a) "Change in Control" shall mean a change in control of the Company occurring after the date hereof of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under
-

the Securities Exchange Act of 1934, as amended (the "Act"), whether or not the Company is then subject to such reporting requirement; *provided, however*, that, without limitation, a Change in Control shall include the following: (i) the acquisition (other than from the Company) by any person, entity or "group" within the meaning of Section 13(d)(3) or 14(d)(2) of the Act (excluding, for this purpose, the Company or its subsidiaries, any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company and any qualified institutional investor who meets the requirements of Rule 13d-1(b)(1) promulgated under the Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act), directly or indirectly, of 30% or more of the combined voting power of the Company's then outstanding securities, excluding any person, entity or group that becomes a beneficial owner in connection with a transaction described in clause (iii)(A) below; (ii) individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") ceasing for any reason to constitute at least a majority of the Board of Directors; *provided* that, any person becoming a director subsequent to the date hereof whose appointment or election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved or recommended by a vote of at least 2/3 of the directors then comprising the Incumbent Board or whose appointment, election or nomination for election was previously so approved or recommended (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; (iii) the consummation of a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, (A) with respect to which persons who were the stockholders of the Company immediately prior to such merger or consolidation, in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any "affiliate" (within the meaning of Rule 12b-2 of the General Rules and Regulations of the Act), do not, immediately thereafter, own at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding, or (B) which is effected to implement a recapitalization of the Company (or similar transaction) in which no person, entity or group becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by this person, entity or group any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing 30% or more of the combined voting power of the Company's then outstanding securities; (iv) the consummation of a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than a merger or consolidation immediately following which the individuals who comprise the Incumbent Board constitute at least a majority of the Board of Directors of the Company, the entity surviving such merger or any parent thereof (or a majority plus one member

where such board comprises an odd number of members); or (v) the stockholders of the Company approving a plan of complete liquidation or dissolution of the Company or the consummation of an agreement for the sale or disposition by the Company of all or substantially all of the assets of the Company, other than (A) a sale or disposition of all or substantially all of the assets of the Company to an entity, at least 50% of the combined voting power of the voting securities of which are owned by the stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale (B) or where the individuals who comprise the Incumbent Board constitute at least a majority of the board of directors of such entity or any parent thereof (or a majority plus one member where such board is comprised of an odd number of members). Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity that owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(b) "Disinterested Director" shall mean a director of the Company who is not or was not a party to the action, suit, investigation or proceeding in respect of which indemnification is being sought by the Indemnitee.

(c) "Expenses" shall include all attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating or being or preparing to be a witness in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative in nature.

(d) "Independent Counsel" shall mean a law firm or a member of a law firm that neither is presently nor in the past five years has been retained to represent (i) the Company or the Indemnitee in any matter material to either such party or (ii) any other party to the action, suit, investigation or proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's right to indemnification under this Agreement.

2. Service by the Indemnitee. The Indemnitee agrees to serve as a director or officer of the Company and will discharge his/her duties and responsibilities to the best of his/her ability so long as the Indemnitee is duly elected or qualified in accordance with the provisions of the Restated Certificate of Incorporation, as amended (the "Certificate"), and the Bylaws, as amended (the "Bylaws"), of the Company and the General Corporation Law of the State of

Delaware, as amended (the "DGCL"), or until his/her earlier death, retirement, resignation or removal. The Indemnitee may at any time and for any reason resign from such position (subject to any other obligation, whether contractual or imposed by operation of law), in which event this Agreement shall continue in full force and effect after such resignation. Nothing in this Agreement shall confer upon the Indemnitee the right to continue in the employ of the Company or as a director of the Company, or affect the right of the Company to terminate, in the Company's sole discretion (with or without cause) and at any time, the Indemnitee's employment, in each case, subject to any contractual rights of the Indemnitee created or existing otherwise than under this Agreement.

3. Indemnification. The Company shall indemnify the Indemnitee and advance Expenses to the Indemnitee as provided in this Agreement to the fullest extent permitted by the Certificate, the Bylaws in effect as of the date hereof and the DGCL or other applicable law in effect on the date hereof and to any greater extent that the DGCL or applicable law may in the future from time to time permit. Without diminishing the scope of the indemnification provided by this Section 3, the rights of indemnification of the Indemnitee provided hereunder shall include, but shall not be limited to, those rights hereinafter set forth, except that no indemnification shall be paid to the Indemnitee:

(a) on account of any action, suit or proceeding in which judgment is rendered against the Indemnitee for disgorgement of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Act or similar provisions of any federal, state or local statutory law;

(b) on account of conduct of the Indemnitee which is finally adjudged by a court of competent jurisdiction to have been knowingly fraudulent or to constitute willful misconduct;

(c) in any circumstance where such indemnification is expressly prohibited by applicable law;

(d) with respect to liability for which payment is actually made to the Indemnitee under a valid and collectible insurance policy or under a valid and enforceable indemnity clause, Bylaw or agreement (other than this Agreement), except in respect of any liability in excess of payment under such insurance, clause, Bylaw or agreement;

(e) if a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful (and, in this respect, both the Company and the Indemnitee have been advised that it is the position of the Securities and Exchange Commission that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable, and that claims for indemnification should be submitted to the appropriate court for adjudication); or

(f) in connection with any action, suit or proceeding by the Indemnitee against the Company or any of its direct or indirect wholly-owned subsidiaries or the directors, officers, employees or other Indemnitees of the Company or any of its direct or indirect wholly-owned subsidiaries, (i) unless such indemnification is expressly required to be made by law, (ii) unless the action, suit or proceeding was previously authorized by a majority of the Board of Directors of the Company, (iii) unless such indemnification is provided by the Company, in its sole discretion, pursuant to the powers vested in the Company under applicable law or (iv) except as provided in Sections 12 and 14 hereof.

4. Actions or Proceedings Other Than an Action by or in the Right of the Company. The Indemnitee shall be entitled to the indemnification rights provided in this Section 4 if the Indemnitee was or is a party or is threatened to be a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative in nature, other than an action by or in the right of the Company, by reason of the fact that the Indemnitee is or was a director, officer or employee, agent or fiduciary of the Company, or any of its direct or indirect wholly-owned subsidiaries, or is or was serving at the request of the Company, or any of its direct or indirect wholly-owned subsidiaries, as a director, officer or employee of any other entity, including, but not limited to, another corporation, partnership, limited liability company, employee benefit plan, joint venture, trust or other enterprise, or by reason of any act or omission by him/her in such capacity. Pursuant to this Section 4, the Indemnitee shall be indemnified against all Expenses, judgments, penalties (including excise and similar taxes), fines and amounts paid in settlement which were actually and reasonably incurred by the Indemnitee in connection with such action, suit or proceeding (including, but not limited to, the investigation, defense or appeal thereof), if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his/her conduct was unlawful.

5. Actions by or in the Right of the Company. The Indemnitee shall be entitled to the indemnification rights provided in this Section 5 if the Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding brought by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Indemnitee is or was a director, officer or employee, agent or fiduciary of the Company, or any of its direct or indirect wholly-owned subsidiaries, or is or was serving at the request of the Company, or any of its direct or indirect wholly-owned subsidiaries, as a director, officer or employee of another entity, including, but not limited to, another corporation, partnership, limited liability company, employee benefit plan, joint venture, trust or other enterprise, or by reason of any act or omission by him/her in any such capacity. Pursuant to this Section 5, the Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by him/her in connection with the defense or settlement of such action, suit or proceeding (including, but not limited to the investigation, defense or appeal thereof), if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; *provided, however*, that no such indemnification shall be made in respect of any claim, issue or matter as to which the Indemnitee shall have been adjudged to be liable to the Company, unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action, suit or proceeding was brought shall

determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnity for such Expenses which such court shall deem proper.

6. Good Faith Definition. For purposes of this Agreement, the Indemnitee shall be deemed to have acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe the Indemnitee's conduct was unlawful, if such action was based on any of the following: (a) the records or books of the account of the Company or other enterprise, including financial statements; (b) information supplied to the Indemnitee by the officers of the Company or other enterprise in the course of his/her duties; (c) the advice of legal counsel for the Company or other enterprise; or (d) information or records given in reports made to the Company or other enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company or other enterprise.

7. Indemnification for Expenses of Successful Party. Notwithstanding the other provisions of this Agreement, to the extent that the Indemnitee has served on behalf of the Company, or any of its direct or indirect wholly-owned subsidiaries, as a witness or other participant in any class action or proceeding, or has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in Sections 4 and 5 hereof, or in defense of any claim, issue or matter therein, including, but not limited to, the dismissal of any action without prejudice, the Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee in connection therewith.

8. Partial Indemnification. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnitee in connection with the investigation, defense, appeal or settlement of such suit, action, investigation or proceeding described in Sections 4 and 5 hereof, but is not entitled to indemnification for the total amount thereof, the Company shall nevertheless indemnify the Indemnitee for the portion of such Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by the Indemnitee to which the Indemnitee is entitled.

9. Procedure for Determination of Entitlement to Indemnification. (a) To obtain indemnification under this Agreement, the Indemnitee shall submit to the Company a written request, including documentation and information which is reasonably available to the Indemnitee and is reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of a request for indemnification, advise the Board of Directors in writing that the Indemnitee has requested indemnification. Any Expenses incurred by the Indemnitee in connection with the Indemnitee's request for indemnification hereunder shall be borne by the Company. The Company hereby indemnifies and agrees to hold the Indemnitee harmless for any Expenses incurred by the Indemnitee under the immediately preceding sentence irrespective of the outcome of the determination of the Indemnitee's entitlement to indemnification.

(b) Upon written request by the Indemnitee for indemnification pursuant to Sections 4 and 5 hereof, the entitlement of the Indemnitee to indemnification pursuant to the terms of this Agreement shall be determined by the following person or persons, who shall be empowered to make such determination: (i) if a Change in Control shall have occurred, by Independent Counsel (unless the Indemnitee shall request in writing that such determination be made by the Board of Directors (or a committee thereof) in the manner provided for in clause (b)(ii) of this Section 9) in a written opinion to the Board of Directors, a copy of which shall be delivered to the Indemnitee; (ii) if a Change in Control shall not have occurred, (A) by the Board of Directors of the Company, by a majority vote of a quorum consisting of Disinterested Directors, or (B) if a quorum consisting of Disinterested Directors is not obtainable, or if a majority vote of a quorum consisting of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the Indemnitee; or (iii) in any event, by the stockholders pursuant to the Bylaws of the Company. The Independent Counsel shall be selected by the Board of Directors and approved by the Indemnitee. Upon failure of the Board of Directors to so select, or upon failure of the Indemnitee to so approve, the Independent Counsel shall be selected by the Chancellor of the State of Delaware or such other person as the Chancellor shall designate to make such selection. Such determination of entitlement to indemnification shall be made not later than 45 days after receipt by the Company of a written request for indemnification. If the person making such determination shall determine that the Indemnitee is entitled to indemnification as to part (but not all) of the application for indemnification, such person shall reasonably prorate such part of indemnification among such claims, issues or matters. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within 10 days after such determination.

10. Presumptions and Effect of Certain Proceedings. (a) In making a determination with respect to entitlement to indemnification, the Indemnitee shall be presumed to be entitled to indemnification hereunder and the Company shall have the burden of proof in the making of any determination contrary to such presumption.

(b) If the Board of Directors, or such other person or persons empowered pursuant to Section 9 to make the determination of whether the Indemnitee is entitled to indemnification, shall have failed to make a determination as to entitlement to indemnification within 45 days after receipt by the Company of such request, the requisite determination of entitlement to indemnification shall be deemed to have been made and the Indemnitee shall be absolutely entitled to such indemnification, absent actual and material fraud in the request for indemnification or a prohibition of indemnification under applicable law. The termination of any action, suit, investigation or proceeding described in Sections 4 or 5 hereof by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself: (i) create a presumption that the Indemnitee did not act in good faith and in a manner which he/she reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, that the Indemnitee has reasonable cause to believe that the Indemnitee's conduct was unlawful; or (ii) otherwise adversely affect the rights of the Indemnitee to indemnification, except as may be provided herein.

11. Advancement of Expenses. Subject to applicable law, all reasonable Expenses actually incurred by the Indemnitee in connection with any threatened or pending action, suit or proceeding shall be paid by the Company in advance of the final disposition of such action, suit

or proceeding, if so requested by the Indemnitee, within 20 days after the receipt by the Company of a statement or statements from the Indemnitee requesting such advance or advances. The Indemnitee may submit such statements from time to time. The Indemnitee's entitlement to such Expenses shall include those incurred in connection with any proceeding by the Indemnitee seeking an adjudication or award in arbitration pursuant to this Agreement. Such statement or statements shall reasonably evidence the Expenses incurred by the Indemnitee in connection therewith and shall include or be accompanied by a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the Indemnitee has met the standard of conduct necessary for indemnification under this Agreement and an undertaking by or on behalf of the Indemnitee to repay such amount if it is ultimately determined that the Indemnitee is not entitled to be indemnified against such Expenses by the Company pursuant to this Agreement or otherwise. Each written undertaking to pay amounts advanced must be an unlimited general obligation but need not be secured, and shall be accepted without reference to financial ability to make repayment.

12. Remedies of the Indemnitee in Cases of Determination not to Indemnify or to Advance Expenses. In the event that a determination is made that the Indemnitee is not entitled to indemnification hereunder or if the payment has not been timely made following a determination of entitlement to indemnification pursuant to Sections 9 and 10, or if Expenses are not advanced pursuant to Section 11, the Indemnitee shall be entitled to a final adjudication in an appropriate court of the State of Delaware or any other court of competent jurisdiction of the Indemnitee's entitlement to such indemnification or advance. Alternatively, the Indemnitee may, at the Indemnitee's option, seek an award in arbitration to be conducted by a single arbitrator chosen by the Indemnitee and approved by the Company, which approval shall not be unreasonably withheld or delayed. If the Indemnitee and the Company do not agree upon an arbitrator within 30 days following notice to the Company by the Indemnitee that it seeks an award in arbitration, the arbitrator will be chosen pursuant to the rules of the American Arbitration Association (the "AAA"). The arbitration will be conducted pursuant to the rules of the AAA and an award shall be made within 60 days following the filing of the demand for arbitration. The arbitration shall be held in Houston, Harris County, Texas. The Company shall not oppose the Indemnitee's right to seek any such adjudication or award in arbitration or any other claim. Such judicial proceeding or arbitration shall be made *de novo*, and the Indemnitee shall not be prejudiced by reason of a determination (if so made) that the Indemnitee is not entitled to indemnification. If a determination is made or deemed to have been made pursuant to the terms of Section 9 or Section 10 hereof that the Indemnitee is entitled to indemnification, the Company shall be bound by such determination and shall be precluded from asserting that such determination has not been made or that the procedure by which such determination was made is not valid, binding and enforceable. The Company further agrees to stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement and is precluded from making any assertions to the contrary. If the court or arbitrator shall determine that the Indemnitee is entitled to any indemnification hereunder, the Company shall pay all reasonable Expenses actually incurred by the Indemnitee in connection with such adjudication or award in arbitration (including, but not limited to, any appellate proceedings).

13. Notification and Defense of Claim. Promptly after receipt by the Indemnitee of notice of the commencement of any action, suit or proceeding, the Indemnitee will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company in

writing of the commencement thereof. The omission by the Indemnitee to so notify the Company will not relieve the Company from any liability that it may have to the Indemnitee under this Agreement or otherwise, except to the extent that the Company may suffer material prejudice by reason of such failure. Notwithstanding any other provision of this Agreement, with respect to any such action, suit or proceeding as to which the Indemnitee gives notice to the Company of the commencement thereof:

(a) The Company will be entitled to participate therein at its own expense.

(b) Except as otherwise provided in this Section 13(b), to the extent that it may wish, the Company, jointly with any other indemnifying party similarly notified, shall be entitled to assume the defense thereof with counsel reasonably satisfactory to the Indemnitee. After notice from the Company to the Indemnitee of its election to so assume the defense thereof, the Company shall not be liable to the Indemnitee under this Agreement for any legal or other Expenses subsequently incurred by the Indemnitee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. The Indemnitee shall have the right to employ the Indemnitee's own counsel in such action, suit or proceeding, but the fees and Expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of the Indemnitee unless (i) the employment of counsel by the Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of such action and such determination by the Indemnitee shall be supported by an opinion of counsel, which opinion shall be reasonably acceptable to the Company, or (iii) the Company shall not in fact have employed counsel to assume the defense of the action, in each of which cases the fees and Expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which the Indemnitee shall have reached the conclusion provided for in clause (ii) above.

(c) The Company shall not be liable to indemnify the Indemnitee under this Agreement for any amounts paid in settlement of any action, suit or proceeding affected without its written consent, which consent shall not be unreasonably withheld. The Company shall not be required to obtain the consent of the Indemnitee to settle any action, suit or proceeding which the Company has undertaken to defend if the Company assumes full and sole responsibility for such settlement and such settlement grants the Indemnitee a complete and unqualified release in respect of any potential liability.

14. Other Right to Indemnification. The indemnification and advancement of Expenses provided by this Agreement are cumulative, and not exclusive, and are in addition to any other rights to which the Indemnitee may now or in the future be entitled under any provision of the Bylaws or Certificate of the Company, the Certificate or Bylaws or other

governing documents of any direct or indirect wholly-owned subsidiary of the Company, any vote of the stockholders or Disinterested Directors, any provision of law or otherwise. Except as required by applicable law, the Company shall not adopt any amendment to its Bylaws or Certificate the effect of which would be to deny, diminish or encumber the Indemnitee's right to indemnification under this Agreement.

15. Director and Officer Liability Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company, and any direct or indirect wholly-owned subsidiary of the Company, with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not necessary or is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit or if the Indemnitee is covered by similar insurance maintained by a direct or indirect wholly-owned subsidiary of the Company. However, the Company's decision whether or not to adopt and maintain such insurance shall not affect in any way its obligations to indemnify its officers and directors under this Agreement or otherwise. In all policies of director and officer liability insurance, the Indemnitee shall be named as an insured in such a manner as to provide the Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if the Indemnitee is a director; or of the Company's officers, if the Indemnitee is not a director of the Company, but is an officer. The Company agrees that the provisions of this Agreement shall remain in effect regardless of whether liability or other insurance coverage is at any time obtained or retained by the Company; except that any payments made to, or on behalf of, the Indemnitee under an insurance policy shall reduce the obligations of the Company hereunder.

16. Spousal Indemnification. The Company will indemnify the Indemnitee's spouse to whom the Indemnitee is legally married at any time the Indemnitee is covered under the indemnification provided in this Agreement (even if the Indemnitee did not remain married to him or her during the entire period of coverage) against any pending or threatened action, suit, proceeding or investigation for the same period, to the same extent and subject to the same standards, limitations, obligations and conditions under which the Indemnitee is provided indemnification herein, if the Indemnitee's spouse (or former spouse) becomes involved in a pending or threatened action, suit, proceeding or investigation solely by reason of his or her status as the Indemnitee's spouse, including, without limitation, any pending or threatened action, suit, proceeding or investigation that seeks damages recoverable from marital community property, jointly-owned property or property purported to have been transferred from the Indemnitee to his/her spouse (or former spouse). The Indemnitee's spouse or former spouse also may be entitled to advancement of Expenses to the same extent that the Indemnitee is entitled to advancement of Expenses herein. The Company may maintain insurance to cover its obligation hereunder with respect to the Indemnitee's spouse (or former spouse) or set aside assets in a trust or escrow funds for that purpose.

17. **Intent.** This Agreement is intended to be broader than any statutory indemnification rights applicable in the State of Delaware and shall be in addition to any other rights the Indemnitee may have under the Company's Certificate, Bylaws, applicable law or otherwise. To the extent that a change in applicable law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company's Certificate, Bylaws, applicable law or this Agreement, it is the intent of the parties that the Indemnitee enjoy by this Agreement the greater benefits so afforded by such change.

18. **Attorney's Fees and Other Expenses to Enforce Agreement.** In the event that the Indemnitee is subject to or intervenes in any proceeding in which the validity or enforceability of this Agreement is at issue or seeks an adjudication or award in arbitration to enforce the Indemnitee's rights under, or to recover damages for breach of, this Agreement the Indemnitee, if he/she prevails in whole or in part in such action, shall be entitled to recover from the Company and shall be indemnified by the Company against any actual expenses for attorneys' fees and disbursements reasonably incurred by the Indemnitee.

19. **Subrogation.** In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

20. **Effective Date.** The provisions of this Agreement shall cover claims, actions, suits or proceedings whether now pending or hereafter commenced and shall be retroactive to cover acts or omissions or alleged acts or omissions which heretofore have taken place. The Company shall be liable under this Agreement, pursuant to Sections 4 and 5 hereof, for all acts of the Indemnitee while serving as a director and/or officer, notwithstanding the termination of the Indemnitee's service, if such act was performed or omitted to be performed during the term of the Indemnitee's service to the Company.

21. **Duration of Agreement.** This Agreement shall continue until and terminate upon the later of: (a) ten years after the Indemnitee has ceased to occupy any of the positions or have any relationships described in Sections 4 and 5 of this Agreement and (b) the final termination of all pending or threatened actions, suits, proceedings or investigations to which the Indemnitee may be subject by reason of the fact that he/she is or was a director, officer, employee, agent or fiduciary of the Company, or any direct or indirect wholly-owned subsidiary of the Company, or is or was serving at the request of the Company as a director, officer, employee of any other entity, including, but not limited to, another corporation, partnership, limited liability company, employee benefit plan, joint venture, trust or other enterprise, or by reason of any act or omission by the Indemnitee in any such capacity. The indemnification provided under this Agreement shall continue as to the Indemnitee even though he/she may have ceased to be a director or officer of the Company, or any direct or indirect wholly-owned subsidiary of the Company. This Agreement shall be binding upon the Company and its successors and assigns, including, without limitation, any corporation or other entity which may have acquired all or substantially all of the Company's assets or business or into which the Company may be consolidated or merged, and shall inure to the benefit of the Indemnitee and his/her spouse, successors, assigns, heirs, devisees, executors, administrators or other legal representatives. The Company shall require any successor or assignee (whether direct or

indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by written agreement in form and substance reasonably satisfactory to the Company and the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession or assignment had taken place.

22. **Disclosure of Payments.** Except as expressly required by any federal securities laws or other federal or state law, neither party hereto shall disclose any payments under this Agreement unless prior approval of the other party is obtained.

23. **Severability.** If any provision or provisions of this Agreement shall be held invalid, illegal or unenforceable for any reason whatsoever, (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, but not limited to, all portions of any Sections of this Agreement containing any such provision held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and (b) to the fullest extent possible, the provisions of this Agreement (including, but not limited to, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifest by the provision held invalid, illegal or unenforceable.

24. **Counterparts.** This Agreement may be executed by one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same agreement. Only one such counterpart signed by the party against whom enforceability is sought shall be required to be produced to evidence the existence of this Agreement.

25. **Captions.** The captions and headings used in this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

26. **Entire Agreement, Modification and Waiver.** This Agreement constitutes the entire agreement and understanding of the parties hereto regarding the subject matter hereof, and no supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver. No supplement, modification or amendment to this Agreement shall limit or restrict any right of the Indemnitee under this Agreement in respect of any act or omission of the Indemnitee prior to the effective date of such supplement, modification or amendment unless expressly provided therein.

27. **Notices.** All notices, requests, demands or other communications hereunder shall be in writing and shall be deemed to have been duly given if (a) delivered by hand with receipt acknowledged by the party to whom said notice or other communication shall have been directed, (b) mailed by certified or registered mail, return receipt requested with postage prepaid, on the date shown on the return receipt or (c) delivered by facsimile transmission on the date shown on the facsimile machine report:

(a) If to the Indemnitee to:

13914 I.O. Court
Willis, Texas 77318

(b) If to the Company, to:

Baker Hughes Incorporated
Attn: General Counsel
3900 Essex Lane, Suite 1200
Houston, Texas 77027-5177
Facsimile: (713) 439-8472

or to such other address as may be furnished to the Indemnitee by the Company or to the Company by the Indemnitee, as the case may be.

28. **Governing Law.** The parties hereto agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, applied without giving effect to any conflicts of law principles.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

BAKER HUGHES INCORPORATED

By /s/ H. John Riley, Jr.
H. John Riley, Jr.
Lead Director and Chairman
of the Compensation Committee

INDEMNITEE:

By /s/ Chad C. Deaton

CHANGE IN CONTROL AGREEMENT

THIS AGREEMENT is entered into by and between BAKER HUGHES INCORPORATED, a Delaware corporation (the “*Company*”), and Chad C. Deaton (the “*Executive*”) effective as of October 25, 2004 (the “*Effective Date*”).

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continued employment of key management personnel; and

WHEREAS, the Company recognizes that, as is the case with many publicly-held corporations, the possibility of a change in control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Company has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Definitions and Interpretation Rules.

1.1 Defined Terms. For purposes of this Agreement, the following terms shall have the meanings indicated below:

“*Affiliate*” means any entity which is a member of (i) the same controlled group of corporations within the meaning of section 414(b) of the Code with Baker Hughes, (ii) a trade or business (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code) with Baker Hughes or (iii) an affiliated service group (within the meaning of section 414(m) of the Code) with Baker Hughes.

“*Annual Incentive Plan*” means the Baker Hughes Incorporated 1995 Employee Annual Incentive Compensation Plan, as amended and/or restated from time to time, any guidelines issued pursuant to such plan, and any other incentive compensation plans adopted by the Company from time to time which are in replacement of or in addition to such plan.

“*Assets*” means assets of any kind owned by Baker Hughes, including but not limited to securities of Baker Hughes’ direct and indirect subsidiaries and Affiliates.

“*Baker Hughes*” means Baker Hughes Incorporated, a Delaware corporation, and any successor by merger or otherwise.

“*Base Compensation*” means the Executive’s base salary or wages (as defined in section 3401(a) of the Code for purposes of federal income tax withholding) from the Company, modified by *including* any portion thereof that such Executive could have received in cash in lieu of any elective deferrals made by the Executive pursuant to the Supplemental Retirement Plan (other

than deferrals of bonuses) or pursuant to a qualified cash or deferred arrangement described in section 401(k) of the Code and any elective contributions under a cafeteria plan described in section 125 of the Code, and modified further by *excluding* any bonus, incentive compensation (including but not limited to equity-based compensation), commissions, expense reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation (other than elective deferrals by the Executive under a qualified cash or deferred arrangement described in section 401(k) of the Code or the Supplemental Retirement Plan that are expressly included in “*Base Compensation*” under the foregoing provisions of this definition), welfare benefits as defined in ERISA, overtime pay, special performance compensation amounts and severance compensation.

“*Beneficial Owner*” or “*Beneficial Ownership*” shall have the meaning ascribed to those terms in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

“*Board*” means the Board of Directors of Baker Hughes or other governing body of Baker Hughes or its direct or indirect parent.

“*Bonus*” means each annual incentive bonus, if any, paid in cash by the Company to or for the benefit of the Executive for services rendered or labor performed while an Employee. Annual bonuses are generally paid with respect to a completed fiscal year by the Company to its employees pursuant to the Annual Incentive Plan. An Executive’s Bonus shall be determined by including any portion thereof that such Executive could have received in cash in lieu of (i) any elective deferrals made by such Executive pursuant to the Supplemental Retirement Plan or (ii) elective contributions made on such Executive’s behalf by the Company pursuant to a qualified cash or deferred arrangement (as defined in section 401(k) of the Code) or pursuant to a plan maintained under section 125 of the Code.

“*Cause*” means (i) the willful and continued failure by the Executive to substantially perform the Executive’s duties with the Company (other than any such failure resulting from the Executive’s incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by the Board (or by a delegate appointed by the Board), which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive’s duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company or any of its Affiliates, monetarily or otherwise. For purposes of Sections (i) and (ii) of this definition, (A) no act, or failure to act, on the Executive’s part shall be deemed “willful” if done, or omitted to be done, by the Executive in good faith and with reasonable belief that the act, or failure to act, was in the best interest of the Company and (B) in the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists.

“*Change in Control*” means the occurrence of any of the following events:

(a) the individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Board;

(b) the consummation of a Merger of Baker Hughes or an Affiliate of Baker Hughes with another Entity, unless the individuals and Entities who were the Beneficial Owners of the Voting Securities of Baker Hughes outstanding immediately prior to such Merger own, directly or indirectly, at least 50 percent of the combined voting power of the Voting Securities of any of Baker Hughes, the surviving Entity or the parent of the surviving Entity outstanding immediately after such Merger;

(c) any Person, other than a Specified Owner, becomes a Beneficial Owner, directly or indirectly, of securities of Baker Hughes representing 30 percent or more of the combined voting power of Baker Hughes' then outstanding Voting Securities;

(d) a sale, transfer, lease or other disposition of all or substantially all of Baker Hughes' Assets is consummated (an "*Asset Sale*"), *unless*:

(1) the individuals and Entities who were the Beneficial Owners of the Voting Securities of Baker Hughes immediately prior to such Asset Sale own, directly or indirectly, 50 percent or more of the combined voting power of the Voting Securities of the Entity that acquires such Assets in such Asset Sale or its parent immediately after such Asset Sale in substantially the same proportions as their ownership of Baker Hughes' Voting Securities immediately prior to such Asset Sale; or

(2) the individuals who comprise the Board immediately prior to such Asset Sale constitute a majority of the board of directors or other governing body of either the Entity that acquired such Assets in such Asset Sale or its parent (or a majority plus one member where such board or other governing body is comprised of an odd number of directors); or

(e) The stockholders of Baker Hughes approve a plan of complete liquidation or dissolution of Baker Hughes.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any successor act.

"*Committee*" means, prior to a Change in Control or a Potential Change in Control, the Compensation Committee of the Board. After a Change in Control or a Potential Change in Control, "*Committee*" means (i) the individuals (not fewer than three (3) in number) who, on the date six months prior to the Change in Control constitute the Compensation Committee of the Board, plus, (ii) in the event that fewer than three (3) individuals are available from the group specified in clause (i) above for any reason, such individuals as may be appointed by the individual or individuals so available (including for this purpose any individual or individuals previously so appointed under this clause (ii)); *provided, however*, that the maximum number of individuals constituting the Committee after a Change in Control or Potential Change in Control shall not exceed six (6).

"*Company*" means Baker Hughes. In the event that the Executive's employer is a subsidiary of Baker Hughes, the term "*Company*" shall include the Executive's employer where appropriate and Baker Hughes will cause the Executive's employer to take any actions necessary to satisfy the obligations of the Company under this Agreement.

“*Disability*” means the Executive’s incapacity due to physical or mental illness that has caused the Executive to be absent from full-time performance of his duties with the Company for a period of six (6) consecutive months.

“*Effective Date*” means the date identified in the introduction of this Agreement.

“*Employee*” means an individual (i) who is employed in the services of the Company on the Company’s active payroll, and (ii) who is also a United States-based executive salary grade system employee (under the Company’s then current payroll system categories), or any comparable executive designations in any system that replaces the United States-based salary grade system.

“*Employment Termination Date*” means the date as of which the Executive incurs a Termination of Employment determined in accordance with the provisions of Section 5.2.

“*Entity*” means any corporation, partnership, association, joint-stock company, limited liability company, trust, unincorporated organization or other business entity.

“*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended, or any successor act.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor act.

“*Excise Tax*” means the excise tax imposed by section 4999 of the Code or any similar tax payable under any United States federal, state, or local statute.

“*Executive*” means the Employee identified in the introduction of this Agreement.

“*Expiration Date*” shall have the meaning specified in Section 2.

“*Good Reason*” for termination by the Executive of his employment means the occurrence (without the Executive’s express written consent) after any Change in Control, or prior to a Change in Control under the circumstances described in clauses (ii) and (iii) of the second paragraph of the definition of Termination of Employment (treating all references to “*Change in Control*” in paragraphs (a) through (f) below as references to a “*Potential Change in Control*”), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in paragraph (a), (e), (f) or (g) below, such act or failure to act is corrected prior to the effective date of the Executive’s termination for Good Reason:

(a) the assignment to the Executive of any duties or responsibilities which are substantially diminished as compared to the Executive’s duties and responsibilities immediately prior to a Change in Control or a material change in the Executive’s reporting responsibilities, titles or offices as an Employee and as in effect immediately prior to the Change in Control;

(b) a reduction by the Company in the Executive’s annual Base Compensation as in effect on the date hereof or as the same may be increased from time to time, except for across-the-board salary reductions similarly affecting all individuals having a similar level of authority

and responsibility with the Company and all individuals having a similar level of authority and responsibility with any Person in control of the Company;

(c) the relocation of the Executive's principal place of employment to a location outside of a 50-mile radius from the Executive's principal place of employment immediately prior to the Change in Control or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's business travel obligations immediately prior to a Change in Control;

(d) the failure by the Company to pay to the Executive any portion of the Executive's current compensation except pursuant to an across-the-board compensation deferral similarly affecting all individuals having a similar level of authority and responsibility with the Company and all individuals having a similar level of authority and responsibility with any Person in control of the Company, or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;

(e) the failure by the Company to continue in effect any compensation plan in which the Executive participates immediately prior to the Change in Control which is material to the Executive's total compensation, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other Baker Hughes executives, as existed immediately prior to the Change in Control;

(f) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, health and accident, or disability plans in which the Executive was participating immediately prior to the Change in Control (except for across the board changes similarly affecting all individuals having a similar level of authority and responsibility with the Company and all individuals having a similar level of authority and responsibility with any Person in control of the Company), the taking of any other action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit or Perquisite enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect immediately prior to the time of the Change in Control; or

(g) any purported termination of the Executive's employment which is not effected pursuant to a notice of termination satisfying the requirements of Section 5.1.

The Executive shall have the right to terminate his employment for Good Reason even if he becomes incapacitated due to physical or mental illness. The Executive's continued

employment shall not constitute consent to, or a waiver of any rights with respect to, any act or failure to act constituting Good Reason hereunder.

For purposes of any determination regarding the existence of Good Reason, any claim by the Executive that Good Reason exists shall be presumed to be correct unless the Company establishes to the Committee by clear and convincing evidence that Good Reason does not exist. The Committee's determination regarding the existence of Good Reason shall be conclusive and binding upon all parties unless the Committee's determination is arbitrary and capricious.

"Gross-Up Payment" means the additional amount paid to the Executive pursuant to Section 3.4.

"Highest Base Compensation" means the Executive's annualized Base Compensation in effect immediately prior to (a) a Change in Control, (b) the first event or circumstance constituting Good Reason, or (c) the Executive's Termination of Employment, whichever is greatest.

"Incumbent Director" means –

(a) a member of the Board on the Effective Date; or

(b) an individual -

(1) who becomes a member of the Board after the Effective Date;

(2) whose appointment or election by the Board or nomination for election by Baker Hughes' stockholders is approved or recommended by a vote of at least two-thirds of the then serving *Incumbent Directors* (as defined herein); and

(3) whose initial assumption of service on the Board is not in connection with an actual or threatened election contest.

"Merger" means a merger, consolidation or similar transaction.

"Pension Plan" means the Baker Hughes Incorporated Pension Plan, as amended from time to time.

"Perquisites" means benefits such as any airline VIP club memberships; country club and/or health club membership dues and expenses related to the use of the country club and/or health club; supplemental life insurance; financial consulting; and office equipment for use in the home (e.g., cellular telephones, personal digital assistance, home computers and office accessories similar to the office accessories available to the Executive in his employment office and monthly Internet connection fees) that may be provided by the Company from time to time.

"Person" shall have the meaning ascribed to the term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof, except that the term shall not include (a) the Company or any of its Affiliates, (b) a trustee or other fiduciary holding Company securities under an employee benefit plan of the Company or

any of its Affiliates, (c) an underwriter temporarily holding securities pursuant to an offering of those securities or (d) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

“Potential Change in Control” shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

- (a) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;
- (b) the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;
- (c) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 15 percent or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company’s then outstanding securities (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates); or
- (d) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

“Renewal Date” shall have the meaning specified in Section 2.

“Specified Owner” means any of the following:

- (a) Baker Hughes;
- (b) an Affiliate of Baker Hughes;
- (c) an employee benefit plan (or related trust) sponsored or maintained by Baker Hughes or any Affiliate of Baker Hughes;
- (d) a Person that becomes a Beneficial Owner of Baker Hughes’ outstanding Voting Securities representing 30 percent or more of the combined voting power of Baker Hughes’ then outstanding Voting Securities as a result of the acquisition of securities directly from Baker Hughes and/or its Affiliates; or
- (e) a Person that becomes a Beneficial Owner of Baker Hughes’ outstanding Voting Securities representing 30 percent or more of the combined voting power of Baker Hughes’ then outstanding Voting Securities as a result of a Merger if the individuals and Entities who were the Beneficial Owners of the Voting Securities of Baker Hughes outstanding immediately prior to such Merger own, directly or indirectly, at least 50 percent of the combined voting power of the Voting Securities of any of Baker Hughes, the surviving Entity or the parent of the surviving Entity outstanding immediately after such Merger in substantially the same proportions as their ownership of the Voting Securities of Baker Hughes outstanding immediately prior to such Merger.

“*Supplemental Retirement Plan*” means the Baker Hughes Incorporated Supplemental Retirement Plan, as amended from time to time.

“*Termination of Employment*” means the termination of the Executive’s employment relationship with the Company (a) by the Company without Cause after a Change in Control occurs, or (b) by the Executive for Good Reason after a Change in Control occurs.

For purposes of this definition, the Executive’s employment shall be deemed to have been terminated after a Change in Control, if (a) the Executive’s employment is terminated by the Company without Cause prior to a Change in Control (whether or not a Change in Control ever occurs) and such termination was at the request or direction of a Person who has entered into an agreement with the Company, the consummation of which would constitute a Change in Control; (b) the Executive terminates his employment for Good Reason prior to a Change in Control (whether or not a Change in Control ever occurs) and the circumstance or event which constitutes Good Reason occurs at the request or direction of a Person who has entered into an agreement with the Company, the consummation of which would constitute a Change in Control; or (c) the Executive’s employment is terminated by the Company without Cause or by the Executive for Good Reason and such termination or the circumstance or event which constitutes Good Reason is otherwise in connection with or in anticipation of a Change in Control (whether or not a Change in Control ever occurs). For purposes of any determination regarding the applicability of the immediately preceding sentence, any position taken by the Executive shall be presumed to be correct unless the Company establishes to the Committee by clear and convincing evidence that such position is not correct.

“Termination of Employment” does not include (a) a termination of employment due to the Executive’s death or Disability, or (b) a termination of employment by the Executive without Good Reason.

“*Thrift Plan*” means the Baker Hughes Incorporated Thrift Plan, as amended from time to time.

“*Voting Securities*” means the outstanding securities entitled to vote generally in the election of directors or other governing body.

1.2 Number and Gender. As used in this Agreement, unless the context otherwise expressly requires to the contrary, references to the singular include the plural, and vice versa; references to the masculine include the feminine and neuter; references to “including” mean “including (without limitation)”; and references to Sections and clauses mean the sections and clauses of this Agreement.

2. Term of Agreement.

2.1 The “*Term*” of this Agreement shall commence on the Effective Date and end on (a) the last day of the three-year period beginning on the Effective Date if no Change in Control shall have occurred during that three-year period (such last day being the “*Expiration Date*”); or (b) if a Change in Control shall have occurred during (i) the three-year period beginning on the Effective Date or (ii) any period for which the Term of this Agreement shall have been

automatically extended pursuant Section 2.2, the last day of the two-year period beginning on the date on which the Change in Control occurred.

2.2 After the expiration of the time period described in subsection (a) of Section 2.1, and in the absence of a Change in Control (as described in subsection (b) of Section 2.1) the "Term" of this Agreement shall be automatically extended for successive two-year periods beginning on the day immediately following the Expiration Date (the beginning date of each successive two-year period being a "*Renewal Date*"), unless, not later than 18 months prior to the Expiration Date or applicable Renewal Date, the Company shall give notice to Executive that the Term of this Agreement will not be extended.

3. Compensation Other Than Severance Payments.

3.1 Equity Based Compensation. Upon the occurrence of a Change in Control, all options to acquire Baker Hughes stock, all shares of restricted Baker Hughes stock, all other equity or phantom equity incentives and any awards the value of which is determined by reference to or based upon the value of Baker Hughes stock, held by the Executive under any plan of the Company shall become immediately vested, exercisable and nonforfeitable and all conditions thereof (including, but not limited to, any required holding periods) shall be deemed to have been satisfied.

3.2 Compensation and Benefits During Incapacity and Prior to Termination of Employment. Following a Change in Control and during the Term of this Agreement, during any period in which the Executive fails to perform the Executive's full-time duties with the Company as a result of incapacity due to physical or mental illness, the Company shall pay the Executive's full salary to the Executive at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period, until the Executive's employment is terminated by the Company for Disability.

3.3 Benefits Following Termination of Employment. If the Executive incurs a Termination of Employment during the Term of this Agreement, the Company shall provide the Executive the benefits described below.

(a) Severance Payment Based Upon Base Compensation. The Company will pay the Executive a cash severance benefit equal to three times the Executive's Highest Base Compensation. An Executive's severance payment under this paragraph (a) will be paid in accordance with the provisions of Section 4.

(b) Severance Payment Based Upon Bonuses. The Company will pay the Executive a cash severance benefit in an amount equal to the sum of (1) and (2) where (1) is an amount equal to the product of (A) the expected value target percentage under the Executive's Bonus for Baker Hughes' fiscal year in which the Executive's Termination of Employment occurs, (B) the Executive's Highest Base Compensation and (C) a fraction, the numerator of which is the number of full months and any fractional portion of a month during the performance period through the Executive's Employment Termination Date and the denominator of which is the total number of months during such performance period; and (2) is an amount equal to the

product of (A) the expected value target percentage under the Executive's Bonus for Baker Hughes' fiscal year in which the Executive's Termination of Employment occurs, and (B) three times the Executive's Highest Base Compensation. However, if the Executive's Employment Termination Date occurs during the same calendar year in which a Change in Control occurs, the pro-rata bonus payment described in clause (1) of the preceding sentence shall be offset by any payments received by the Executive under the Baker Hughes Incorporated 1995 Employee Annual Incentive Compensation Plan (as amended and/or restated) in connection with the Change in Control. An Executive's severance payment under this paragraph (b) will be paid in accordance with the provisions of Section 4.

(c) **Outplacement.** The Company will provide the Executive outplacement services suitable to the Executive's position for the period of three years. In lieu of such outplacement services, if the Executive so elects, the Company shall pay the Executive \$30,000.00 in cash. Any such cash payment in lieu of outplacement services will be paid in accordance with the provisions of Section 4.

(d) **Pension, Thrift and Supplemental Retirement Plans.** In addition to the retirement benefits to which the Executive is entitled under the Thrift Plan, the Pension Plan and the Supplemental Retirement Plan, the Company shall pay the Executive a single sum cash payment in an amount equal to the undiscounted value of (A) the employer-provided accruals under the Pension Plan that the Executive would have earned and (B) the employer contributions the Company would have made to the Thrift Plan and the Supplemental Retirement Plan (including but not limited to matching and base contributions) on behalf of the Executive had the Executive continued in the employ of the Company for a period of three years after the Employment Termination Date, assuming for this purpose that (i) the Executive's earned compensation per year during that three year period of time is the sum of (1) the Executive's Highest Base Compensation and (2) the product of (A) the expected value target percentage under the Executive's Bonus for Baker Hughes' fiscal year in which the Executive's Termination of Employment occurs, and (B) the Executive's Highest Base Compensation; and (ii) contribution, deferral, credit and accrual percentages made under the Pension Plan, the Thrift Plan and the Supplemental Retirement Plan, by and on behalf of the Executive during the three year period, are the same percentages in effect on the date of the Change in Control or the Executive's Employment Termination Date, whichever is more favorable for the Executive. The payment required under this paragraph (d) will be made in accordance with the provisions of Section 4.

(e) **Accident and Health Insurance Benefits.** For three years following the Executive's Employment Termination Date (the "*Continuation Period*"), the Company shall arrange to provide the Executive and his dependents accident and health insurance benefits, in each case, substantially similar to those provided to the Executive and his dependents immediately prior to the Employment Termination Date or, if more favorable to the Executive, those provided to the Executive and his dependents immediately prior to the first occurrence of an event or circumstance constituting Good Reason, at no greater cost to the Executive than the cost to the Executive immediately prior to such date or occurrence. Benefits otherwise receivable by the Executive pursuant to this Section 3.3(e) shall be reduced to the extent benefits of the same type are received by or made available to the Executive during the Continuation Period (and any such benefits received by or made available to the Executive shall be reported to

the Company by the Executive); *provided, however*, that the Company shall reimburse the Executive for the excess, if any, of the cost of such benefits to the Executive over such cost immediately prior to the Employment Termination Date or, if more favorable to the Executive, the first occurrence of an event or circumstance constituting Good Reason.

(f) Life Insurance. The Executive shall be entitled to a single sum cash payment in an amount equivalent to thirty-six (36) monthly basic life insurance premiums applicable to the Executive's basic life insurance coverage on his Employment Termination Date. The single sum cash payment will be made in accordance with the provisions of Section 4. The Executive may, at his option, convert his basic life insurance coverage to an individual policy after his Employment Termination Date by completing the forms required by the Company.

(g) Perquisites. The Executive shall be entitled to a single sum cash payment which shall be an amount equal to the sum of (1) the cost of the Executive's Perquisites in effect prior to his Termination of Employment for the remainder of the calendar year in which the Employment Termination Date occurs; plus (2) the cost of the Executive's Perquisites in effect prior to his Termination of Employment for an additional three years. The payment required under this paragraph (g) will be made in accordance with the provisions of Section 4. The Executive may, at his option, purchase any of his club memberships held in the Company's name for fair market value and on the terms mutually agreed by the Executive and the Committee.

(h) Retiree Medical. If the Executive would have become entitled to benefits under the Company's post-retirement health care insurance plans, as in effect immediately prior to the Employment Termination Date or, if more favorable to the Executive as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, had the Executive's employment terminated at any time during the period of thirty-six (36) months after the Employment Termination Date, the Company shall provide such post-retirement health care insurance benefits to the Executive and the Executive's dependents commencing on the later of (i) the date on which such coverage would have first become available and (ii) the date on which the applicable benefits described in paragraph (e) of this Section 3.3 terminate.

3.4 Gross-Up Payments. If any payments or benefits received or to be received by the Executive (whether pursuant to the terms of this Agreement, or any other plan or agreement with the Company, any Person whose actions result in a Change in Control or any Person affiliated with the Company or such Person) (such payments or benefits, excluding the Gross-Up Payment, being hereinafter referred to as the "*Total Payments*") will be subject to the Excise Tax, the Company shall pay the Executive an additional amount (the "*Gross-Up Payment*") such that the net amount retained by the Executive after the deduction of any Excise Tax on the Total Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment shall be equal to the Total Payments. The purpose of this Section is to place the Executive in the same economic position such Executive would have been in had no Excise Tax been imposed with respect to the Total Payments.

(a) For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all of the Total Payments shall be treated as "parachute payments" (within the meaning of section 280G(b)(2) of the Code) unless, in the opinion of tax counsel (the "*Tax Counsel*") reasonably acceptable to the Executive

and selected by the accounting firm which was, immediately prior to the Change in Control, the Company's independent auditor (the "Auditor"), such payments or benefits (in whole or in part) do not constitute parachute payments, including by reason of section 280G(b)(4)(A) of the Code, (ii) all "excess parachute payments" within the meaning of section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax unless, in the opinion of the Tax Counsel, such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered (within the meaning of section 280G(b)(4)(B) of the Code) in excess of the "base amount" (within the meaning of section 280G(b)(3) of the Code) allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax, and (iii) the value of any noncash benefits or any deferred payment or benefit shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(b) For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income tax at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the Employment Termination Date (or if there is no Employment Termination Date, then the date on which the Gross-Up Payment is calculated for purposes of this Section), net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(c) In the event that the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, the Executive shall repay to the Company, within ten (10) business days following the time that the amount of such reduction in the Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income and employment taxes imposed on the Gross-Up Payment benefit being repaid by the Executive, to the extent that such repayment results in a reduction in the Excise Tax and a dollar-for-dollar reduction in the Executive's taxable income and wages for purposes of federal, state and local income and employment taxes), plus interest on the amount of such repayment at 120 percent of the rate provided in section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder in calculating the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the payment of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess (plus any interest, penalties or additions payable by the Executive with respect to such excess) within five (5) business days following the time that the amount of such excess is finally determined. The Executive and the Company shall each reasonably cooperate with the other relative to any administrative or judicial proceedings concerning the existence or amount of liability for the Excise Tax.

3.5 Legal Fees. The Company shall pay, on a fully grossed up, after tax basis, all legal fees and expenses incurred by the Executive (i) in disputing in good faith any issue relating to the Executive's termination of employment, (ii) in seeking in good faith to obtain or enforce any benefit or right provided under this Agreement in accordance with Section 9.5, or (iii) in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit under this Agreement. Such payments shall

be made within ten (10) business days after delivery of the Executive's written request for payment accompanied with such evidence of fees and expenses incurred as the Company may reasonably require.

4. Time of Benefits Payments. The Company shall pay the Executive any cash benefits described in paragraphs (a), (b), (c) (if the Executive elects to receive a cash payment in lieu of outplacement services), (d), (f) and (g) of Section 3.3 in a single sum cash payment within thirty (30) days after the Executive's Employment Termination Date. If it is subsequently determined that additional monies are due and payable to the Executive as benefits described in paragraphs (a), (b), (c) (if the Executive elects to receive a cash payment in lieu of outplacement services), (d), (f) and (g) of Section 3.3, the Company will pay any such unpaid benefits to the Executive, together with interest on the unpaid benefits from the date the single sum cash payment was made at the annual rate of 120 percent of the rate provided in section 1274(b)(2)(B) of the Code, within ten (10) business days of discovering that the additional monies are due and payable. If the benefits paid to the Executive are subsequently determined to exceed the amount of benefits the Executive should have received, such excess shall constitute a loan by the Company to the Executive, payable within ten (10) business days after demand by the Company, together with interest from the date the single sum cash payment was made at the annual rate of 120 percent of the rate provided in section 1274(b)(2)(B) of the Code, but only to the extent such amount has not been previously paid by the Executive.

5. Termination Procedures And Compensation During Dispute.

5.1 Notice of Termination. After a Change in Control and during the Term of this Agreement, any purported termination of the Executive's employment by the Company shall be communicated by the Company by a written Notice of Termination to the Executive in accordance with Section 9.8. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail. No purported termination of the Executive's employment by the Company after a Change in Control and during the Term of this Agreement shall be effective unless the Company complies with the procedures set forth in this Section.

5.2 Employment Termination Date. "Employment Termination Date," with respect to any purported termination of the Executive's employment after a Change in Control and during the Term of this Agreement, shall mean (i) if the Executive's employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the full-time performance of the Executive's duties during such thirty (30) day period), and (ii) if the Executive's employment is terminated for any other reason, the

date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days (except in the case of a termination for Cause) and, in the case of a termination by the Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

5.3 **Dispute Concerning Termination.** If within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Employment Termination Date (as determined without regard to this Section), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Employment Termination Date shall be extended until the earlier of (i) the date on which the Term of this Agreement ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Employment Termination Date shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence.

5.4 **Compensation During Dispute.** If a purported termination occurs following a Change in Control and during the Term of this Agreement and the Employment Termination Date is extended in accordance with Section 5.3, the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given or those plans in which the Executive was participating immediately prior to the first occurrence of an event or circumstance giving rise to the Notice of Termination, if more favorable to the Executive, until the Employment Termination Date, as determined in accordance with Section 5.3. Amounts paid under this Section are in addition to all other amounts due under this Agreement (other than those due under Section 3.2) and shall not be offset against or reduce any other amounts due under this Agreement.

6. **Withholding.** Subject to the provisions of Section 3.4, the Company may withhold from any benefits paid under this Agreement all income, employment, and other taxes required to be withheld under applicable law.

7. **Death of the Executive.** If the Executive dies after his Employment Termination Date but before the Executive receives full payment of the benefits to which he is entitled, any unpaid benefits will be paid to the Executive's surviving spouse, or if the Executive does not have a surviving spouse, to the Executive's estate.

8. **Amendment.** This Agreement may not be amended except pursuant to a written instrument that is authorized by the Committee and agreed to in writing and signed by the Executive.

9. Miscellaneous.

9.1 Agreement Not an Employment Contract. This Agreement is not an employment contract between the Company and Executive and gives Executive no right to retain his employment. This Agreement is not intended to interfere with the rights of the Company to terminate the Executive's employment at any time with or without notice and with or without cause or to interfere with the Executive's right to terminate his employment at any time.

9.2 Alienation Prohibited. No benefits hereunder shall be subject to anticipation or assignment by the Executive, to attachment by, interference with, or control of any creditor of the Executive, or to being taken or reached by any legal or equitable process in satisfaction of any debt or liability of the Executive prior to its actual receipt by the Executive. Any attempted conveyance, transfer, assignment, mortgage, pledge, or encumbrance of the benefits hereunder prior to payment thereof shall be void.

9.3 Severability. Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

9.4 Binding Effect. This Agreement shall be binding upon any successor of the Company. Further, the Board shall not authorize a Change in Control that is a merger or a sale transaction unless the purchaser or the Company's successor agrees to take such actions as are necessary to cause the Executive to be paid or provided all benefits due under the terms of this Agreement as in effect immediately prior to the Change in Control.

9.5 Settlement of Disputes Concerning Benefits Under this Agreement; Arbitration. All claims by Executive for benefits under this Agreement shall be directed to and determined by the Committee and shall be in writing. Any denial by the Committee of a claim for benefits under this Agreement shall be delivered to the Executive in writing within thirty (30) days after written notice of the claim is provided to the Company in accordance with Section 9.8 and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Committee shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Committee a decision of the Committee within sixty (60) days after notification by the Committee that the Executive's claim has been denied. Any further dispute or controversy arising out of or relating to this Agreement, including without limitation, any and all disputes, claims (whether in tort, contract, statutory or otherwise) or disagreements concerning the interpretation or application of the provisions of this Agreement shall be resolved by arbitration in accordance with the rules of the American Arbitration Association (the "AAA") then in effect. No arbitration proceeding relating to this Agreement may be initiated by either the Company or the Executive unless the claims review and appeals procedures specified in Section 5.3 have been exhausted. Within ten (10) business days of the initiation of an arbitration hereunder, the Company and the Executive will each separately designate an arbitrator, and within twenty (20) business days of selection, the appointed arbitrators will appoint a neutral arbitrator from the AAA Panel of Commercial Arbitrators. The arbitrators shall issue their written decision (including a statement of finding of facts) within thirty (30) days from the date of the close of the arbitration hearing. The decision of the arbitrators selected hereunder will be final and binding on both parties. This arbitration

provision is expressly made pursuant to and shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1-16 (or replacement or successor statute). Pursuant to Section 9 of the Federal Arbitration Act, the Company and the Executive agree that a judgment of the United States District Court for the District in which the headquarters of Baker Hughes is located at the time of initiation of an arbitration hereunder may be entered upon the award made pursuant to the arbitration.

9.6 No Mitigation. The Company agrees that if the Executive's employment with the Company terminates during the Term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to this Agreement. Further, except as expressly provided otherwise herein, the amount of any payment or benefit provided for in this Agreement (other than Section 3.3(f)) shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

9.7 Other Amounts Due. Except as expressly provided otherwise herein, the payments and benefits provided for in this Agreement are in addition to and not in lieu of amounts and benefits that are earned by the Executive prior to his Termination of Employment. The Company shall pay the Executive any compensation earned through the Employment Termination Date but not previously paid the Executive. Further the Executive shall be entitled to any other amounts or benefits due the Executive in accordance with any contract, plan, program or policy of the Company or any of its Affiliates. Amounts that the Executive is entitled to receive under any plan, program, contract or policy of the Company or any of its Affiliates at or subsequent to the Executive's Termination of Employment shall be payable or otherwise provided in accordance with such plan, program, contract or policy, except as expressly modified herein.

9.8 Notices. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be given in person or by United States registered mail, return receipt requested (with evidence of receipt by the party to whom the notice is given), postage prepaid, addressed, if to the Executive, to the address listed on the signature page of this Agreement and, if to the Company, to 3900 Essex Lane; Houston, Texas 77027; Attention: General Counsel, or to such other address as either party may have furnished to the other in writing in accordance herewith. For purposes of this agreement notice to a party shall be effective only upon actual receipt of the notice by the party with written evidence of receipt by the party to whom the notice is given.

9.9 Governing Law. All provisions of this Agreement shall be construed in accordance with the laws of Texas, except to the extent preempted by federal law and except to the extent that the conflicts of laws provisions of the State of Texas would require the application of the relevant law of another jurisdiction, in which event the relevant law of the State of Texas will nonetheless apply, with venue for litigation being in Houston, Texas.

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

BAKER HUGHES INCORPORATED

By: /s/H. John Riley, Jr. _____
H. John Riley, Jr.
Lead Director and Chairman of
the Compensation Committee

EXECUTIVE

By: /s/Chad C. Deaton _____
Address: 13914 I.O. Court
Willis, Texas 77318

EMPLOYMENT AGREEMENT
by and between
BAKER HUGHES INCORPORATED
and
CHAD C. DEATON

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT dated as of October 25, 2005 (this "*Agreement*"), by and between Chad C. Deaton (the "*Executive*") and Baker Hughes Incorporated, a Delaware corporation (the "*Company*").

WHEREAS, the Board of Directors of the Company (the "*Board*") desires to retain the Executive as the Chief Executive Officer of the Company and to encourage the attention and dedication to the Company of the Executive as a member of the Company's management, in the best interests of the Company and its shareholders;

WHEREAS, the Executive is willing to commit himself to serve the Company, on the terms and conditions herein provided; and

WHEREAS, the Company and the Executive desire to set forth in this Agreement the terms and conditions of the Executive's employment; and

WHEREAS, the Company and the Executive have simultaneously herewith executed a Change in Control Agreement effective as of October 25, 2005 (the "*Change in Control Agreement*");

NOW, THEREFORE, in consideration of the premises and the respective covenants and agreements of the parties herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Employment and Term.** The Company hereby agrees to employ the Executive, and the Executive hereby accepts such employment, on the terms and conditions hereinafter set forth. The period of employment of the Executive by the Company hereunder (the "*Employment Period*") shall commence on October 25, 2004 (the "*Effective Date*") and shall end on the Executive's Date of Termination (as defined in Section 7(b) hereof). The term of this Agreement (the "*Term*") shall begin on the Effective Date and shall end on the second anniversary thereof; provided, that, on October 25, 2005, and each anniversary of October 25 thereafter, the Term shall be extended for one additional year unless, prior to September 25, 2005 with respect to the extension on October 25, 2005, and each anniversary of September 25, thereafter with respect to each subsequent annual extension, the Company or the Executive shall have given notice not to extend the Term or the Executive shall have incurred a termination of employment with the Company.

2. **Position and Duties.**

(a) As of the Effective Date, the Executive shall serve as Chief Executive Officer of the Company, in which capacity the Executive shall perform the usual and customary duties of such office, which shall be those normally inherent in such capacity in U.S. publicly held corporations of similar size and character. The Executive agrees and acknowledges that, in connection with his employment relationship with the Company, the Executive owes fiduciary duties to the Company and will act accordingly.

(b) During the Employment Period, the Executive agrees to devote substantially his full time, attention and energies to the Company's business and agrees to faithfully and diligently endeavor to the best of his ability to further the best interests of the Company. The Executive shall not engage in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage. Subject to the covenants of Section 9 herein, this shall not be construed as preventing the Executive from investing his own assets in such form or manner as will not require his services in the daily operations of the affairs of the companies in which such investments are made. Further, subject to Section 9 herein, the Executive may serve as a director of other companies, if such service is approved by the Compensation Committee of the Board (the "*Compensation Committee*"), so long as such service is not detrimental to the Company, does not interfere with the Executive's service to the Company and does not present the Executive with a conflict of interest.

(c) In keeping with the Executive's fiduciary duties to the Company, the Executive agrees that he shall not, directly or indirectly, become involved in any conflict of interest, or upon discovery thereof, allow such a conflict to continue. Moreover, the Executive agrees that he shall promptly disclose to the Board any facts which might involve any reasonable possibility of a conflict of interest, or be perceived as such.

(d) Circumstances in which a conflict of interest on the part of the Executive would or might arise, and which should be reported immediately by the Executive to the Board, include the following: (i) ownership of a material interest in, acting in any capacity for, or accepting directly or indirectly any payments, services or loans from a supplier, contractor, subcontractor, customer or other entity with which the Company does business; (ii) misuse of information or facilities to which the Executive has access in a manner which will be detrimental to the Company's interest; (iii) disclosure or other misuse of Confidential Information (as defined in Section 9); (iv) acquiring or trading in, directly or indirectly, other properties or interests connected with the design, manufacture or marketing of products designed, manufactured or marketed by the Company; (v) the appropriation to the Executive or the diversion to others, directly or indirectly, of any opportunity in which it is known or could reasonably be anticipated that the Company would be interested; and (vi) the ownership, directly or indirectly, of a material interest in an enterprise in competition with the Company or its dealers and distributors or acting as a director, officer, partner, consultant, employee or agent of any enterprise which is in competition with the Company or its dealers or distributors.

(e) Further, the Executive covenants, warrants and represents that he shall:

- (i) devote his full and best efforts to the fulfillment of his employment obligations;
- (ii) exercise the highest degree of fiduciary loyalty and care and the highest standards and conduct in the performance of his duties; and
- (iii) endeavor to prevent any harm, in any way, to the business or reputation of the Company.

(f) As Chief Executive Officer of the Company, the Executive is required to own common stock in the Company equal to five times Base Salary within five years from the Effective Date.

3. Place of Performance. In connection with the Executive's employment by the Company, the Executive's principal business address shall be at the Company's current principal executive offices in Houston, Texas (the "*Principal Place of Employment*") or in such other place as the Executive and the Company may agree.

4. Compensation and Related Matters.

(a) *Base Salary*. During the Employment Period, the Company shall pay the Executive an annual base salary ("*Base Salary*") in an amount that shall be established from time to time by the Compensation Committee, payable in approximately equal installments in accordance with the Company's customary payroll practices. The Base Salary shall be set initially at \$825,000. The Compensation Committee shall review the Executive's Base Salary during the Spring of 2005 and at least annually thereafter during the Employment Period. The Executive's Base Salary may be increased but not decreased during the Employment Period.

(b) *Bonuses*. During the Employment Period, the Executive shall be eligible to participate in the Baker Hughes Incorporated 1995 Employee Annual Incentive Compensation Plan or any successor plan thereto (the "*Annual Incentive Plan*"). The bonus opportunity afforded the Executive pursuant to this Section 4(b) may vary from year to year and any bonus earned thereunder (the "*Annual Bonus*") shall be paid at a time and in a manner consistent with the Company's customary practices. For the year 2004, the Executive's bonus is guaranteed to be equal to \$600,000. The expected value bonus level for the Executive for the year 2005 will be 100 percent of the Executive's Base Salary. In 2005 and subsequent years, the Executive's bonus levels will be contingent upon the Company achieving predetermined performance goals and approval by the Compensation Committee.

(c) *Equity-Based Compensation and Performance Awards*. During the Employment Period, the Executive shall be entitled to receive equity-based compensation awards and performance awards on substantially similar terms and conditions no less favorable than awards made to the other senior executive officers of the Company.

Upon employment the Executive will receive an award of 80,000 shares of restricted stock, under the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan Company's Long Term Incentive Plan or successor plan thereto (the "*Long Term Incentive Plan*"), one-quarter of which will vest on October 25 of each of 2006, 2007, 2008 and 2009, in each case subject to the Executive's continued employment with the Company. The Executive shall have a fully nonforfeitable interest in 40,000 of these restricted shares in the event of (i) the termination of the Executive's employment by the Company without Cause (as defined in Section 6(c)), or (ii) the termination of the Executive's employment by the Executive for Good Reason (as defined in Section 6(d)), in both cases, prior to October 25, 2006. The Executive shall have a fully nonforfeitable interest in 80,000 of these restricted shares in the event of (i) the death of the Executive while in the employ of the Company or (ii) the termination of the Executive's employment with the Company due to Disability (as defined in Section 6(b)).

The Executive will also be eligible to receive a one-time grant of a nonqualified stock option to purchase 75,000 shares of the Company's common stock under the Long-Term Incentive Plan. One-third of the shares subject to this option will become exercisable on October 25 of each of 2005, 2006 and 2007, in each case subject to the terms and conditions of the Company's Long Term Incentive Plan. This option shall be fully exercisable in the event of (i) the death of the Executive while in the employ of the Company or (ii) the termination of the Executive's employment due to Disability (as defined in Section 6(b)), in both cases, prior to October 25, 2014. In accordance with the Long Term Incentive Plan, the per share exercise price under this option will be the last per share sale price of the Company's common stock on the day preceding the date of grant as reported by The Wall Street Journal in the composite transactions report section for the New York Stock Exchange.

During the Employment Period the Executive will participate on a pro-rated basis in the executive performance program established under the Long Term Incentive Plan for the performance period commencing on January 1, 2004 and ending on December 31, 2006. The Executive will be eligible to earn 17,000 shares of the Company's common stock under this performance program if the "100%" target level of performance is achieved. The Executive will be granted a performance award agreement evidencing his participation in this performance program.

During the Employment Period the Executive will participate in the executive performance program established under the Long Term Incentive Plan for the performance period commencing on January 1, 2005 and ending on December 31, 2007.

The Executive will be eligible to receive a grant of a stock option in 2005, as determined by the Compensation Committee, at the same time the Compensation Committee considers similar awards for other senior executive officers of the Company.

Each award agreement evidencing an award of restricted stock granted to the Executive under the Long Term Incentive Plan or any other Company program or arrangement shall specify that the Executive shall have a fully nonforfeitable interest in the shares of restricted stock in the event of (i) the death of the Executive while in the employ of the Company or (ii) the termination of the Executive's employment due to Disability (as defined in Section 6(b)). Each award agreement evidencing an award of a stock option to the Executive under the Long Term Incentive Plan or any other Company program or arrangement shall specify that the option shall be fully exercisable in the event of (i) the death of the Executive while in the employ of the Company or (ii) the termination of the Executive's employment due to Disability (as defined in Section 6(b)), in both cases, prior to the expiration of the term of the stock option.

(d) *Expenses.* The Company shall promptly reimburse the Executive for all reasonable legal expenses that the Executive has incurred in connection with entering into the employ of the Company and all reasonable business expenses incurred during the Employment Period by the Executive in performing services hereunder, including all expenses of travel and living expenses while away from home on business or at the request of and in the service of the Company; provided, in each case, that such expenses are incurred and accounted for in accordance with the policies and procedures established by the Company.

(e) *Other Benefits.* During the Employment Period, the Executive shall be entitled to participate in all of the employee benefit plans and arrangements made available by the Company to its other senior executive officers, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements, and shall be entitled to perquisites, including executive life insurance, club memberships, financial planning (including tax return preparation), an annual physical examination, security monitoring at the Executive's residences, phone/internet access at the Executive's residences and other perquisites that may be added with the approval of the Compensation Committee, each within the limitations of the Company's Executive Perquisite Program. The pool of perquisite dollars that will be available to the Executive under the Company's Executive Perquisite Program for years during the Employment Period other than 2004 is \$25,000. For 2004, the pool of perquisite dollars that will be available to the Executive is \$5,000. Notwithstanding the foregoing, the Company shall have the right to change, amend or discontinue any benefit plan, program, or perquisite, so long as such changes are similarly applicable to senior executive officers of the Company generally.

(f) *Vacation.* During the Employment Period, the Executive shall be entitled to 25 days of vacation per year other than for 2004. For 2004, the Executive shall be entitled to ten days of vacation.

(g) *Services Furnished.* During the Employment Period, the Executive shall at all times be provided with office space, stenographic assistance and such other facilities and services as are suitable to his position and no less favorable than those being provided to the Executive by the Company as of the date hereof.

5. *Offices.* Subject to Sections 2, 3 and 4 hereof, the Executive agrees to serve without additional compensation, if elected or appointed thereto, as a director of any of the Company's subsidiaries and as a member of any committees of the board of directors of any such corporations, and in one or more executive positions of any of the Company's subsidiaries; provided, that the Executive is indemnified for serving in any and all such capacities on a basis no less favorable than is currently or may be provided to any other director of the Company, any of its subsidiaries, or in connection with any such executive position, as the case may be. This indemnity is in addition to and not in replacement of the Company's obligations to provide indemnity pursuant to Section 10 hereof.

6. *Termination.* The Employment Period shall end in the event of a termination of the Executive's employment in accordance with any of the provisions of Section 6 or 7, and the Term shall expire in the event of a termination of Executive's employment by the Company for Cause or by the Executive without Good Reason, in each case, on the Executive's Date of Termination. Otherwise the Term shall expire as set forth in Section 1.

(a) *Death.* The Executive's employment hereunder shall terminate upon his death.

(b) *Disability.* If, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of his duties hereunder for the entire period of ninety (90) days in the aggregate during any period of twelve (12) consecutive months or it is reasonably expected that such disability will exist for more than such period of time, and within thirty (30) days after written Notice of Termination (as defined in

Section 7) is given (which notice may be given during such ninety (90) day period) shall not have returned to the performance of his duties hereunder on a full-time basis, the Company may terminate the Executive's employment hereunder for "Disability."

During any period that the Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness ("Disability Period"), the Executive shall continue to receive his Base Salary at the rate in effect at the beginning of such period as well as all other payments and benefits set forth in Section 4 hereof, reduced by any payments made to the Executive during the Disability Period under the disability benefit plans of the Company then in effect or under the Social Security disability insurance program.

(c) *Cause*. The Company may terminate the Executive's employment hereunder for Cause. For purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder upon the occurrence of any of the following events:

- (i) the Executive is convicted of an act of fraud, embezzlement, theft or other criminal act constituting a felony;
- (ii) a material breach by the Executive of any provision of this Agreement;
- (iii) the failure by the Executive to perform any and all covenants contained in Sections 2(c), 2(d), 2(e) and 9 of this Agreement for any reason other than the Executive's death, Disability or following the Executive's delivery of a Notice of Termination for Good Reason; or
- (iv) a material breach by the Executive of the Company's Standards of Ethical Conduct;

provided, that, the Executive shall have thirty (30) business days from the date on which the Executive receives the Company's Notice of Termination for Cause under clause (ii), (iii) or (iv) above to remedy any such occurrence otherwise constituting Cause under such clause (ii), (iii) or (iv).

Cause shall not exist unless and until the Company has delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than two-thirds (2/3) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board, the Executive was guilty of the conduct set forth in this Section 6(c) and specifying the particulars thereof in detail.

(d) *Good Reason*. The Executive may terminate his employment hereunder for "Good Reason". Good Reason for the Executive's termination of employment shall mean the occurrence, without the Executive's prior written consent, of any one or more of the following:

- (i) the assignment to the Executive of any duties inconsistent with the Executive's position (including status, office, title and reporting requirements),

authorities, duties or other responsibilities as contemplated by Section 2 of this Agreement;

(ii) the relocation of the Principal Place of Employment to a location more than fifty (50) miles from the Principal Place of Employment; or

(iii) a material breach by the Company of any provision of this Agreement;

provided, in any case, that the Company shall have thirty (30) business days from the date on which the Company receives the Executive's Notice of Termination for Good Reason to remedy any such occurrence otherwise constituting Good Reason.

(e) *Termination of Agreement.* Either party hereto may terminate this Agreement at any time by giving the Board or the Executive, as the case may be, no more than thirty (30) days' prior written notice, in accordance with Section 7 hereof, of such party's intent to so terminate this Agreement.

7. Termination Procedure.

(a) *Notice of Termination.* Any termination of the Executive's employment by the Company or by the Executive (other than termination pursuant to Section 6(a) hereof) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 12 hereof. For purposes of this Agreement, a "*Notice of Termination*" shall mean a notice that shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

(b) *Date of Termination.* "*Date of Termination*" shall mean (i) if the Executive's employment is terminated pursuant to Section 6(a) above, the date of the Executive's death, (ii) if the Executive's employment is terminated pursuant to Section 6(b) above, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the performance of his duties on a full-time basis during such thirty (30) day period), (iii) if the Executive's employment is terminated pursuant to Section 6(c) above, the date specified in the Notice of Termination, which date may be no earlier than the date the Executive is given notice in accordance with Section 12 hereof, (iv) if the Executive's employment is terminated pursuant to Section 6(d) above, the date on which a Notice of Termination is given or any later date (within thirty (30) days of the date of such Notice of Termination) set forth in such Notice of Termination and (v) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination, which date shall be not later than thirty (30) days following the date on which Notice of Termination is given; provided, that, if within ten (10) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning such termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties or by a binding and final arbitration award.

(c) *Compensation During Dispute.* If a purported termination occurs during the Term, and such termination is disputed in accordance with subsection (b) of this Section 7, the Company shall continue to pay the Executive the full compensation in effect when the notice

giving rise to the dispute was given (including, but not limited to, Base Salary) and continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the Date of Termination, determined in accordance with subsection (b) of this Section 7. Amounts paid under this Section 7(c) are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

8. Compensation upon Termination or During Disability.

(a) *Accrued Obligation Defined.* For purposes of this Agreement, payment of the “*Accrued Obligation*” shall mean payment by the Company to the Executive (or his designated beneficiary or legal representative, as applicable), when due, of all vested benefits to which the Executive is entitled under the terms of the employee benefit plans in which the Executive is a participant as of the Date of Termination and a lump sum amount in cash equal to the sum of (i) the Executive’s Base Salary through the Date of Termination, (ii) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay and (iii) any other amounts due the Executive as of the Date of Termination, in each case to the extent not theretofore paid.

(b) *Disability; Death.* Following the termination of the Executive’s employment pursuant to Sections 6(a) or (b) hereof, the Company shall pay to the Executive (or his designated beneficiary or legal representative, if applicable):

(i) the Accrued Obligation,

(ii) a lump sum in cash equal to one-half of the Executive’s Base Salary as in effect on the Date of Termination (for each year and prorated for any partial years) for the remainder of the Term, and

(iii) a lump sum in cash equal to the Executive’s expected value of the Executive’s bonus opportunity under the Annual Incentive Plan for the fiscal year of the Company in which the Date of Termination occurs. Such payment is an accelerated payment of the full year expected value bonus for the fiscal year in which the Date of Termination occurs and is in lieu of all other bonus payments that would have otherwise been due to the Executive under the Annual Incentive Plan after the completion of the fiscal year.

The Company shall pay the Executive the amounts required pursuant to this Section 8(b) no later than 60 days after the termination of the Executive’s employment pursuant to Sections 6(a) or (b) hereof.

(c) *By the Company for Cause.* If during the Term the Executive’s employment is terminated by the Company pursuant to Section 6(c) hereof, the Company shall pay to the Executive the Accrued Obligation within thirty (30) days following the Date of Termination. Following such payment, the Company shall have no further obligations to the Executive other than as may be required by law or the terms of an employee benefit plan of the Company.

(d) *By the Executive Without Good Reason.* If during the Term the Executive terminates his employment for any reason other than Good Reason, the Company shall pay to the Executive the Accrued Obligation within thirty (30) days following the Date of Termination. Following such payment, the Company shall have no further obligations to the Executive other than as may be required by law or the terms of an employee benefit plan of the Company. The Executive shall not have breached this Agreement if he terminates his employment for any reason.

(e) *By the Company Without Cause or by the Executive for Good Reason.* If during the Term the Executive's employment is terminated by the Company other than for Cause, death or Disability or if the Executive terminates his employment for Good Reason, then :

(i) Within thirty (30) days after the Date of Termination the Company shall pay the Executive the Accrued Obligation.

(ii) Within sixty (60) days after the Date of Termination the Company shall also pay to the Executive a lump sum cash severance payment in an amount equal to two times his Base Salary (at the rate in effect as of the Date of Termination).

(iii) Within sixty (60) days after the Date of Termination the Company shall also pay to the Executive a lump sum in cash equal to the expected value of the Executive's bonus opportunity under the Annual Incentive Plan for the fiscal year of the Company in which the Date of Termination occurs prorated to the Date of Termination. Such payment is an accelerated payment of the bonus for the fiscal year in which the Date of Termination occurs and is in lieu of all other bonus payments that would have otherwise been due to the Executive under the Annual Incentive Plan after the completion of the fiscal year.

(iv) Subject to clause (viii), for the remainder of the Term the Company shall arrange to provide the Executive and his dependents medical insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the Date of Termination (at no greater cost to the Executive than such cost to the Executive in effect immediately prior to the Date of Termination, or, if greater, the cost to similarly situated active employees of the Company under the applicable group health plan of the Company).

(v) No later than 60 days after the Date of Termination the Company shall pay the Executive an amount equivalent to the product of (1) the monthly basic life insurance premium applicable to the Executive's basic life insurance coverage immediately prior to the Date of Termination and (2) the number of full and fractional months remaining in the Term. The Executive may, at his option, convert his basic life insurance coverage to an individual policy after the Date of Termination by completing the forms required by the Company for this purpose.

(vi) In addition to the benefits to which the Executive is entitled under the Baker Hughes Incorporated Supplemental Retirement Plan (the "*Supplemental Retirement Plan*"), the Company shall, as soon as practicable after each December 31 for

the remainder of the Term pay the Executive an amount equal to the employer contributions the Company would have credited to the Executive's Supplemental Retirement Plan account had he continued to remain employed by the Company for the remainder of the Term, assuming for this purpose that (1) the Executive's earned compensation for a year is the sum of the amount of the expected value of his bonus under the Annual Incentive Plan for the fiscal year of the Company in which the Date of Termination occurs and the amount of Executive's annualized Base Salary for the calendar year in which the Date of Termination occurs, and (2) the applicable legal limitations and the contribution, deferral, credit and accrual percentages under the Supplemental Retirement Plan by and on behalf of the Executive under the Supplemental Retirement Plan for the remainder of the Term, are the same percentages and limitations in effect immediately prior to the Date of Termination.

(vii) For the remainder of the Term the Company shall continue to provide the Executive perquisites, other than executive life insurance, in the manner specified in Section 4(e).

(viii) Subject to the Executive's group health plan coverage continuation rights under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, the benefits and perquisites listed in clauses (iv), (vi) and (vii) of this Section 8(e) shall be reduced to the extent benefits and perquisites of the same type are received by or made available to the Executive during such period, and provided, further, that the Executive shall have the obligation to notify the Company that he is entitled to or receiving such benefits and perquisites. The Company agrees that, if the Executive's employment with the Company terminates for any reason during the Term, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to this Section 8. Further, except with respect to the benefits provided pursuant to clause (iv), (vi) and (vii) above, the amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, or by offset against any amount claimed to be owed by the Executive to the Company. Payments to the Executive under this Section 8 (other than Accrued Obligations) are contingent upon the Executive's execution of a release substantially in the form of Exhibit A hereto.

9. Confidential Information; Non-Competition; Non-Solicitation.

(a) *Confidential Information.* The Executive shall hold in a fiduciary capacity for the benefit of the Company all trade secrets, confidential information, and knowledge or data relating to the Company and its businesses, which shall have been obtained by the Executive during the Executive's employment by the Company and which shall not have been or hereafter become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement) (hereinafter being collectively referred to as "*Confidential Information*"). For the avoidance of doubt, Confidential Information shall not include information that:

(i) is already in Executive's possession; provided that the information is not known by the Executive to be subject to another confidentiality agreement with, or other obligation of secrecy to, the Company or any of its subsidiaries,

(ii) becomes generally available to the public other than as a result of a disclosure by the Executive, or

(iii) becomes available to the Executive on a non-confidential basis from a source other than the Company or any of its subsidiaries or any of their respective directors, officers, employees, agents or advisors; provided, that such source is not known by the Executive to be bound by a confidentiality agreement with or other obligation of secrecy to the Company or any of its subsidiaries.

The Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such trade secrets, information, knowledge or data to anyone other than the Company and those designated by the Company. Any termination of the Executive's employment or of this Agreement shall have no effect on the continuing operation of this Section 9(a). The Executive agrees to return all Confidential Information, including all photocopies, extracts and summaries thereof, and any such information stored electronically on tapes, computer disks or in any other manner to the Company at any time upon request by the Company and upon the termination of his employment hereunder for any reason.

(b) *Non-Competition*. During the Employment Period and for a period of two (2) years following the Date of Termination (such period following the Employment Period, the "*Restricted Period*"), the Executive shall not engage in Competition, as defined below, with the Company; provided, that it shall not be a violation of this Section 9(b) for the Executive to become the registered or beneficial owner of up to five percent (5%) of any class of the capital stock of a corporation registered under the Securities Exchange Act of 1934, as amended, provided that the Executive does not actively participate in the business of such corporation until such time as this covenant expires.

For purposes of this Agreement, "*Competition*" by the Executive means the Executive's engaging in, or otherwise directly or indirectly being employed by or acting as a consultant or lender to, or being a director, officer, employee, principal, agent, stockholder, member, owner or partner of, or permitting his name to be used in connection with the activities of any other business or organization which competes, directly or indirectly, with the business of the Company as the same shall be constituted at any time during the Term.

(c) *Non-Solicitation*. During the Restricted Period, the Executive agrees that he will not, directly or indirectly, for his benefit or for the benefit of any other person, firm or entity, do any of the following:

(i) solicit from any customer doing business with the Company as of the Date of Termination that is known to Executive, business of the same or of a similar nature to the business of the Company with such customer;

(ii) solicit from any potential customer of the Company that is known to the Executive business of the same or of a similar nature to that which has been the subject of a known written or oral bid, offer or proposal by the Company, or of substantial preparation with a view to making such a bid, proposal or offer, within six (6) months prior to such Date of Termination;

(iii) solicit the employment or services of any person who was known to be employed by or was a known consultant to the Company upon the Date of Termination, or within six (6) months prior thereto; or

(iv) otherwise knowingly interfere with the business or accounts of the Company.

The Executive and the Company agree and acknowledge that the Company has a substantial and legitimate interest in protecting the Company's Confidential Information and goodwill. The Executive and the Company further agree and acknowledge that the provisions of this Section 9 are reasonably necessary to protect the Company's legitimate business interests and are designed to protect the Company's Confidential Information and goodwill.

The Executive agrees that the scope of the restrictions as to time, geographic area, and scope of activity in this Section 9 are reasonably necessary for the protection of the Company's legitimate business interests and are not oppressive or injurious to the public interest. The Executive agrees that in the event of a breach or threatened breach of any of the provisions of this Section 9 the Company shall be entitled to injunctive relief against the Executive's activities to the extent allowed by law, and the Executive waives any requirement for the posting of any bond by the Company in connection with such action. The Executive further agrees that any breach or threatened breach of any of the provisions of Section 9(a) would cause injury to the Company for which monetary damages alone would not be a sufficient remedy.

(d) *Publicity*. The Executive agrees that the Company may use, and hereby grants the Company the nonexclusive and worldwide right to use, the Executive's name, picture, likeness, photograph, signature or any other attribute of the Executive's persona (all of such attributes are hereafter collectively referred to as "*Persona*") in any media for any advertising, publicity or other purpose at any time, either during or subsequent to his employment by the Company. The Executive agrees that such use of his *Persona* will not result in any invasion or violation of any privacy or property rights the Executive may have; and the Executive agrees that he will receive no additional compensation for the use of his *Persona*. The Executive further agrees that any negatives, prints or other material for printing or reproduction purposes prepared in connection with the use of his *Persona* by the Company shall be and are the sole property of the Company.

10. *Indemnification; Insurance*. The Company shall indemnify the Executive to the fullest extent permitted by the laws of the Company's state of incorporation in effect at that time, or certificate of incorporation and by-laws of the Company, whichever affords the greater protection to the Executive. The Executive will be entitled to any insurance policies the Company may elect to maintain generally for the benefit of its officers and directors against all costs, charges and expenses incurred in connection with any action, suit or proceeding to which he may be made a party by reason of being a director or officer of the Company.

11. Successors; Binding Agreement.

(a) *Company's Successors.* The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as he would be entitled to hereunder if he terminated his employment for Good Reason, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 11 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) *Executive's Successors.* This Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts unless otherwise provided herein shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee or other designee or, if there is no such designee, to the Executive's estate.

12. Notice. For the purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or (unless otherwise specified) mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Mr. Chad C. Deaton
13914 I. O. Court
Willis, Texas 77318

If to the Company:

Baker Hughes Incorporated
3900 Essex Lane, Suite 1200
Houston, Texas 70027
Attention: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

13. Amendment or Modification; Waiver. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer of the Company as may be specifically designated by the Board or its Compensation Committee. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in Agreement.

14. Dispute Resolution. Any dispute or controversy arising under or in connection with this Agreement, the Executive's employment by the Company or the Executive's compensation or benefits (a "*Dispute*") shall be settled in accordance with the procedures described in this Section 14.

(a) First, the parties shall attempt in good faith to resolve any Dispute promptly by negotiations between the Executive and executives or directors of the Company who have authority to settle the Dispute. Either party may give the other disputing party written notice of any Dispute not resolved in the normal course of business. Within five days after the effective date of that notice, the Executive and such executives or directors of the Company shall agree upon a mutually acceptable time and place to meet and shall meet at that time and place, and thereafter as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the Dispute. The first of those meetings shall take place within 30 days of the effective date of the disputing party's notice. If the Dispute has not been resolved within 60 days of the disputing party's notice, or if the parties fail to agree on a time and place for an initial meeting within five days of that notice, either party may initiate mediation and arbitration of the Dispute as provided hereinafter. If a negotiator intends to be accompanied at a meeting by an attorney, the other negotiators shall be given at least three business days' notice of that intention and may also be accompanied by an attorney. All negotiations pursuant to this Section 14 shall be treated as compromise and settlement negotiations for the purposes of applicable rules of evidence and procedure.

(b) Second, if the Dispute is not resolved through negotiation as provided in Section 14(a), either disputing party may require the other to submit to non-binding mediation with the assistance of a neutral, unaffiliated mediator. If the parties encounter difficulty in agreeing upon a neutral, they shall seek the assistance of the American Arbitration Association in the selection process.

(c) Any Dispute that has not been resolved by the non-binding procedures provided in Sections 14(a) and 14(b) within 90 days of the initiation of the first of the procedures shall be finally settled by arbitration conducted expeditiously in accordance with the Commercial Arbitration Rules of the American Arbitration Association or of such similar organization as the parties hereto may mutually agree; provided, that if one party has requested the other to participate in a non-binding procedure and the other has failed to participate within 30 days of the written request, the requesting party may initiate arbitration before the expiration of the period. The arbitration shall be conducted by three independent and impartial arbitrators. Executive shall appoint one arbitrator, the Company shall appoint a second arbitrator, and a third

arbitrator not appointed by the parties shall be appointed by the first two arbitrators selected. The arbitration shall be held in Houston, Harris County, Texas. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The arbitrators shall award the prevailing party in the arbitration its costs and expenses, including reasonable attorney's fees, incurred in connection with the Dispute. The arbitrators shall not award any amount to either the Executive or the Company in excess of the compensation, employee benefits and indemnification amounts that the Company paid or should have paid to the Executive pursuant to this Agreement.

(d) Notwithstanding the Dispute resolution provisions of this Section 14, either party may bring an action in a court of competent jurisdiction in an effort to enforce the provisions of this Section 14 and to seek injunctive relief to protect the party's rights pending resolution of a Dispute pursuant to this Section 14, including, without limitation, the Company's rights pursuant to Section 9 of this Agreement.

15. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Texas without regard to its conflicts of law principles.

16. Miscellaneous. All references to sections of any statute shall be deemed also to refer to any successor provisions to such sections. The obligations of the parties under Sections 8, 9, 10 and 14 hereof shall survive the expiration of the Term. The compensation and benefits payable to the Executive or his beneficiary under Section 8 of this Agreement shall be in lieu of any other severance benefits to which the Executive may otherwise be entitled upon his termination of employment under any severance plan, program, policy or arrangement of the Company other than the Change in Control Agreement, and the Executive shall not be entitled to receive any benefits under Section 8 hereof if he has become eligible to receive benefits under the Change in Control Agreement.

17. Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect throughout the Term. Should any one or more of the provisions of this Agreement be held to be excessive or unreasonable as to duration, geographical scope or activity, then that provision shall be construed by limiting and reducing it so as to be reasonable and enforceable to the extent compatible with the applicable law.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

19. Release. In consideration of the benefits and compensation which may be awarded to the Executive pursuant to Section 8 of this Agreement, the Executive hereby agrees to execute and be bound by, as a condition precedent to receiving said benefits and compensation, the Release attached hereto as Exhibit A, such Release being incorporated herein by reference.

20. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and, as of the Effective Date, supersedes

all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; provided, that the Change in Control Agreement shall not be superseded hereby.

21. Effectiveness. This Agreement shall become effective upon approval of the Board of Directors. The Company shall provide a certified copy of the resolution evidencing such approval as soon as practical after such approval.

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

BAKER HUGHES INCORPORATED

By: /s/H. John Riley, Jr.
H. John Riley, Jr.
Lead Director and Chairman of
the Compensation Committee

CHAD C. DEATON

/s/Chad C. Deaton

EXHIBIT A

RELEASE

The Executive hereby irrevocably and unconditionally releases, acquits and forever discharges the Company (as defined in the Executive's Employment Agreement) and its affiliated companies and their directors, officers, employees and representatives, (collectively "Releasees"), from any and all claims, liabilities, obligations, damages, causes of action, demands, costs, losses and/or expenses (including attorneys' fees) of any nature whatsoever, whether known or unknown, including, but not limited to, rights arising out of alleged violations of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, or any tort, or any legal restrictions on the Company's right to terminate employees, or any federal, state or other governmental statute, regulation, or ordinance, including, without limitation, Title VII of the Civil Rights Act of 1964, as amended and the Age Discrimination in Employment Act of 1967, as amended, which the Executive claims to have against any of the Releasees (in each case, except as to indemnification provided by (a) the Executive's Employment Agreement with the Company (as amended or superceded from time to time) and/or (b) by the Company's bylaws and any indemnification agreement or arrangement permitted by Section 145 of the Delaware General Corporation Law and by directors, officers and other liability insurance coverages to the extent you would have enjoyed such coverages had you remained a director or officer of the Company). In addition, the Executive waives all rights and benefits afforded by any state laws which provide in substance that a general release does not extend to claims which a person does not know or suspect to exist in his favor at the time of executing the release which, if known by him, must have materially affected the Executive's settlement with the other person. The only exception to the foregoing are claims and rights that may arise after the date of execution of this Release, claims and rights arising under any employee benefit plan (including, but not limited to the Long Term Incentive Plan and the Annual Incentive Plan) and claims and rights arising under Section 8 of the Executive's Employment Agreement.

The Executive understands and agrees that:

- A. He has a period of 21 days within which to consider whether he desires to execute this Agreement, that no one hurried him into executing this Agreement during that 21-day period, and that no one coerced him into executing this Agreement.
 - B. He has carefully read and fully understands all of the provisions of this Agreement, and declares that the Agreement is written in a manner that he fully understands.
 - C. He is, through this Agreement, releasing the Releasees from any and all claims he may have against the Releasees, and that this Agreement constitutes a release and discharge of claims arising under the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. §§ 621-634, including the Older Workers' Benefit Protection Act, 29 U.S.C. § 626(f).
-

- D. He declares that his agreement to all of the terms set forth in this Release is knowing and is voluntary.
- E. He knowingly and voluntarily intends to be legally bound by the terms of this Release.
- F. He was advised and hereby is advised in writing to consult with an attorney of his choice concerning the legal effect of this Release prior to executing this Release.
- G. He understands that rights or claims that may arise after the date this Agreement is executed are not waived.
- H. He understands that, in connection with the release of any claim of age discrimination, he has a period of seven days to revoke his acceptance of this Release, and that he may deliver notification of revocation by letter or facsimile addressed to the Vice President & General Counsel of the Company, at 3900 Essex Lane, Suite 1200, Houston, TX 77027, or (713) 439.8718. Executive understands that this Agreement will not become effective and binding with respect to a claim of age discrimination until after the expiration of the revocation period. The revocation period commences when Executive executes this Agreement and ends at 11:59 p.m. on the seventh calendar day after execution, not counting the date on which Executive executes this Agreement. Executive understands that if he does not deliver a notice of revocation before the end of the seven-day period described above, that this Agreement will become a final, binding and enforceable release of any claim of age discrimination. This right of revocation shall not affect the release of any claim other than a claim of age discrimination arising under federal law.
- I. He understands that nothing in this Agreement shall be construed to prohibit Executive from filing a charge or complaint, including a challenge to the validity of this Agreement, with the Equal Employment Opportunity Commission or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission.

AGREED AND ACCEPTED, on this _____ day of _____.

CHAD C. DEATON



News Release

Contacts:

Gary R. Flaharty (713) 439-8039
H. Gene Shiels (713) 439-8822

Baker Hughes Incorporated
P.O. Box 4740
Houston, Texas 77210-4740

Baker Hughes Names Chad Deaton New CEO

HOUSTON, Texas. October 4, 2004 Baker Hughes Incorporated (BHI — NYSE) announced today that Chad C. Deaton, 51, will become its chairman of the board and chief executive officer on October 25, 2004. The appointment concludes the company's search for a new chief executive, which began in April of this year after the current CEO, Mike Wiley announced his intention to retire. Mr. Wiley will retire as CEO and a member of the board effective October 25, 2004.

Mr. Deaton has been CEO and president of Hanover Compressor in Houston, Texas since 2002. Previously, he served as the executive vice president of Schlumberger Oilfield Services. Mr. Deaton has been in the oilfield services for over 27 years with the Dowell Division of Dow Chemical, Schlumberger Ltd. and Hanover. Mr. Deaton earned a Bachelor of Science degree in geology from the University of Wyoming in 1976.

Anthony Fernandes, chairman of the search committee of the Baker Hughes board, commented, "Chad Deaton is a strong leader of the highest integrity. He is a sophisticated international businessman, with outstanding managerial and operating knowledge of the global service industry. At Hanover, he has demonstrated that he can successfully resolve difficult issues while effectively mobilizing people and technology to achieve change and solid growth. Chad clearly has the qualities needed to continue building the high performance culture and Best-in-Class performance at Baker Hughes."

"I have great respect for the products, technology, services and especially the personnel of Baker Hughes," Mr. Deaton said. "I look forward to working closely with our employees and customers as we build on Baker Hughes' outstanding performance in our industry."

Baker Hughes is a leading provider of drilling, formation evaluation, completion and production products and services to the worldwide oil and gas industry.

NOT INTENDED FOR BENEFICIAL HOLDERS