

SMITH INTERNATIONAL INC

Form 424B3

June 12, 2006

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The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(3)
Reg. No. 333-127677

Subject to Completion
Preliminary Prospectus Supplement dated June 12, 2006

PROSPECTUS SUPPLEMENT
(To prospectus dated September 15, 2005)

\$275,000,000
Smith International, Inc.
% Senior Notes due 2016

We will pay interest on the notes on _____ and _____ of each year, beginning _____, 2006. The notes will mature on _____, 2016. We may redeem some or all of the notes at any time. We describe the redemption prices under Description of the Notes Optional Redemption beginning on page S-9 of this prospectus supplement. We will also pay accrued interest to the date of any redemption.

The notes will be unsecured and will rank equally with all of our other senior indebtedness. The notes will be effectively junior to all indebtedness and other liabilities of our subsidiaries and all future secured indebtedness, if any. The notes will not be entitled to the benefit of any sinking fund.

Investing in the notes involves risks which are described in the Risk Factors section beginning on page S-6 of this prospectus supplement.

| | Per Note | Total |
|--|-----------------|--------------|
| Public offering price(1) | % | \$ |
| Underwriting discount | % | \$ |
| Proceeds, before expenses, to Smith International, Inc. | % | \$ |
| (1) Plus accrued interest from _____, 2006, if settlement occurs after that date | | |

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about _____, 2006.

Merrill Lynch & Co.

Calyon Securities (USA)
JPMorgan

LaSalle Capital Markets
RBS Greenwich Capital

The date of this prospectus supplement is _____, 2006.

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of the respective dates on the front of those documents or earlier dates specified therein. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this prospectus supplement, references to Smith, Company, we, our and us refer to Smith International, and its consolidated subsidiaries, unless the context indicates otherwise or unless otherwise noted. The term you refers to a prospective investor.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement includes and incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements also relate to the Company's outlook, financial projections and business strategies, as well as various other matters.

These forward-looking statements are identified by their use of terms and phrases such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will and similar terms and phrases, including assumptions. These statements are contained in this prospectus and in the documents incorporated by reference in this prospectus. We may also provide oral or written forward-looking information in other materials we release to the public.

Forward-looking statements are not guarantees of future performance. Our forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. All of our forward-looking information is, therefore, subject to risks and uncertainties that could cause actual results to differ materially from the expected results implied by the forward-looking statements contained in this prospectus supplement and the accompanying prospectus and in the information incorporated in this prospectus, including, without limitation, risks associated with the level of oil and natural gas exploration activities and with worldwide operations. We caution you that these forward-looking statements are only predictions and that a number of important factors could cause actual results to be different from our expectations expressed in or implied by any forward-looking statement. While it is not possible to identify all factors, our forward-looking statements are subject to general economic and business conditions, industry conditions, changes in laws or regulations and other risk factors that include, but are not limited to, those discussed in the Risk Factors section on page S-6 of this prospectus supplement, as well as additional disclosures described in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, many of which are beyond our ability to control or predict.

Our management believes these forward-looking statements are reasonable. However, you should not place undue reliance on these forward-looking statements, which are based only on our current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update or revise any of them in light of new information or future events.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read and copy any materials we file with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain information about the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Web site that contains information we file electronically with the SEC, which you can access over the Internet at <http://www.sec.gov>. You can obtain information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, and the Pacific Stock Exchange, 115 Sansome Street, Suite 315, San Francisco, California 94104.

This prospectus supplement is part of a registration statement we have filed with the SEC relating to the securities we may offer. As permitted by SEC rules, this prospectus supplement and the accompanying prospectus do not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, the exhibits and schedules for more information about our securities and us. The registration statement, exhibits and schedules are available at the SEC's public reference room or through its Web site.

The SEC allows us to incorporate by reference the information that we file with them, which means that we can disclose important information to you by referring you to those documents. The

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information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus. The information filed by us with the SEC in the future will update and supersede all or some of the information that we have included in this prospectus supplement and the accompanying prospectus. We incorporate by reference the documents listed below and any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until our offering is completed (other than information in such documents that is deemed not to be filed).

Annual Report on Form 10-K for the year ended December 31, 2005.

Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.

Current Reports on Form 8-K filed on May 1, 2006 and June 12, 2006.

The description of our common stock contained in our Registration Statement on Form 8-B, as filed with the SEC on May 25, 1983, as amended by Form 8 filed on August 26, 1991, including any additional amendments that we may have filed in the past, or may file in the future, for the purpose of updating the description of our common stock.

We will provide you with a copy of these filings, other than exhibits to those documents that are not specifically incorporated by reference in this prospectus supplement and the accompanying prospectus, at no cost. You may request them by writing or telephoning us at:

Smith International, Inc.
P.O. Box 60068
Houston, Texas 77205
Attention: Investor Relations
(281) 443-3370
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PROSPECTUS SUPPLEMENT SUMMARY

The following information should be read together with the information contained in other parts of this prospectus supplement and in the accompanying prospectus. You should carefully read this prospectus supplement, the accompanying prospectus and the documents we incorporate by reference to fully understand the terms of the notes as well as other considerations that are important to you in making a decision about whether to invest in the notes. You should pay special attention to the Risk Factors section beginning on page S-6 of this prospectus supplement to determine whether an investment in the notes is appropriate for you.

Smith International, Inc.

We are a leading worldwide supplier of premium products and services to the oil and gas exploration and production industry, the petrochemical industry and other industrial markets. Our comprehensive line of technologically-advanced products and engineering services includes drilling and completion fluid systems, solids-control equipment, waste-management services, production chemicals, three-cone and diamond drill bits, turbines, fishing services, drilling tools, underreamers, casing exit and multilateral systems, packers and liner hangers. We also offer supply-chain management solutions through an extensive North American branch network providing pipe, valves, fittings, mill, safety and other maintenance products.

We aggregate our operations into two reportable segments. Our Oilfield Products and Services segment includes the following operations which provide products and services throughout the world:

M-I SWACO, a 60 percent-owned joint venture which provides drilling and completion fluid systems and services, solids-control and separation equipment, waste-management services and oilfield production chemicals;

Smith Technologies, which manufactures and sells three-cone drill bits, diamond drill bits and turbine products; and

Smith Services, which manufactures and markets products and services used for drilling, workover, well completion and well re-entry operations.

Our Distribution segment consists of one business unit, Wilson, which markets pipe, valves and fittings as well as mill, safety and other maintenance products to energy and industrial markets.

We were incorporated in the State of California in January 1937 and reincorporated under Delaware law in May 1983. Our executive offices are headquartered at 411 North Sam Houston Parkway, Suite 600, Houston, Texas 77060 and our telephone number is (281)443-3370.

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The Offering

| | |
|------------------------|--|
| Issuer | Smith International, Inc. |
| Securities Offered | \$275 million principal amount of % Senior Notes due 2016 |
| Maturity | , 2016 |
| Interest Payment Dates | and of each year, commencing , 2006. |
| Ranking | <p>The notes will:</p> <ul style="list-style-type: none"> be senior unsecured indebtedness rank equally in right of payment with all our other senior indebtedness be senior in right of payment to all our subordinated indebtedness and be effectively junior in right of payment to all indebtedness and other liabilities of our subsidiaries and all future secured indebtedness, if any. |
| Optional Redemption | The notes will be redeemable in whole or in part, at our option at any time, at redemption prices as set forth in this prospectus supplement under Description of the Notes Optional Redemption. |
| Ratings | <p>The notes have been assigned ratings of:</p> <ul style="list-style-type: none"> BBB+ by Standard & Poor s Ratings Services and Baa1 by Moody s Investors Service, Inc. <p>These agencies will continue to monitor our debt ratings and will make future adjustments to the extent warranted. A rating reflects only the views of the agency and is not a recommendation to buy, sell or hold the notes. We cannot guarantee that these ratings will be retained for any given period of time, and they may be revised downward or withdrawn entirely by either of the agencies if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price or marketability of the notes.</p> |
| Certain Covenants | <p>We will issue the notes under an indenture containing two principal restrictive covenants for your benefit. These covenants restrict our ability to:</p> <ul style="list-style-type: none"> incur indebtedness secured by liens and engage in sale/leaseback transactions |
| Use of Proceeds | We intend to use the net proceeds of approximately \$ million to repay outstanding indebtedness under the Smith U.S. revolving credit facility and for general corporate purposes. |

Trustee

The trustee under the indenture governing the notes is The Bank of New York.

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No Public Market

There is no existing market for the notes. We cannot provide any assurance about:

the liquidity of any markets that may develop for the notes

your ability to sell the notes or

the prices at which you will be able to sell the notes

Future trading prices of the notes will depend on many factors, including prevailing interest rates, our operating results, ratings of the notes, and the market for similar securities. The underwriters have advised us that they presently intend to make a market in the notes after completion of the offering. The underwriters do not, however, have any obligation to do so, and they may discontinue any market-making activities at any time without any notice. In addition, we do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes in any automated dealer quotation system.

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Table of Contents**Summary Consolidated Financial Data**

The following table sets forth certain selected historical financial data of the Company. The selected operating and financial position data as of and for each of the five years for the period ended December 31, 2005 have been derived from the audited consolidated financial statements of the Company, some of which appear in the Company's Annual Report on Form 10-K. The selected operating and financial position data as of and for the three months ended March 31, 2006 and 2005 have been derived from the unaudited consolidated financial statements of the Company, some of which appear in the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2006 and March 31, 2005. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q for the periods ended March 31, 2006 and March 31, 2005, which are incorporated by reference herein.

| | Years Ended December 31, | | | | | Three Months Ended March 31, | |
|--|--------------------------|--------------|--------------|--------------|--------------|---------------------------------|--------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2005 | 2006 |
| (In thousands, except per share and ratio data) | | | | | | | |
| Statement of Operations Data: | | | | | | | |
| Revenues | \$ 3,551,209 | \$ 3,170,080 | \$ 3,594,828 | \$ 4,419,015 | \$ 5,579,003 | \$ 1,288,198 | \$ 1,682,121 |
| Cost of revenues | 2,505,405 | 2,251,778 | 2,518,897 | 3,067,076 | 3,893,865 | 902,786 | 1,155,518 |
| Gross profit | 1,045,804 | 918,302 | 1,075,931 | 1,351,939 | 1,685,138 | 385,412 | 526,603 |
| Operating expenses | 674,294 | 662,154 | 747,184 | 913,175 | 1,014,577 | 237,240 | 289,485 |
| Operating income | 371,510 | 256,148 | 328,747 | 438,764 | 670,561 | 148,172 | 237,118 |
| Interest expense, net | 42,464 | 38,349 | 38,991 | 37,462 | 42,754 | 9,972 | 12,239 |
| Income tax provision | 106,397 | 66,632 | 93,334 | 129,721 | 202,743 | 45,146 | 72,662 |
| Minority interests | 70,504 | 57,978 | 71,788 | 89,130 | 122,759 | 26,902 | 45,001 |
| Net income | \$ 152,145 | \$ 93,189 | \$ 123,480 | \$ 182,451 | \$ 302,305 | \$ 66,152 | \$ 107,216 |
| Earnings per share(1): | | | | | | | |
| Basic | \$ 0.76 | \$ 0.47 | \$ 0.62 | \$ 0.90 | \$ 1.50 | \$ 0.33 | \$ 0.53 |
| Diluted | 0.76 | 0.47 | 0.61 | 0.89 | 1.48 | 0.32 | 0.53 |
| Other Data: | | | | | | | |
| Depreciation and amortization | \$ 92,895 | \$ 89,327 | \$ 101,709 | \$ 106,493 | \$ 117,722 | \$ 28,362 | \$ 33,263 |
| Capital expenditures, net(2) | \$ 109,414 | \$ 78,804 | \$ 76,071 | \$ 90,770 | \$ 151,419 | \$ 31,282 | \$ 49,153 |

| | | | | | | | |
|--|------|------|------|------|-------|-------|-------|
| Ratio of earnings to fixed charges(3) | 7.50 | 5.58 | 7.02 | 9.50 | 12.76 | 11.96 | 15.75 |
| Ratio of earnings to fixed charges, as adjusted(4) | 6.23 | 4.25 | 5.49 | 7.80 | 10.84 | 10.17 | 13.46 |

December 31,

March 31,

2001

2002

2003

2004

2005

2005

2006

(In thousands)

Balance Sheet**Data:**

| | | | | | | | |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current assets | \$ 1,523,031 | \$ 1,426,914 | \$ 1,679,796 | \$ 2,019,632 | \$ 2,437,231 | \$ 2,187,254 | \$ 2,688,867 |
| Total assets | 2,735,828 | 2,749,545 | 3,097,047 | 3,506,778 | 4,059,914 | 3,692,905 | 4,392,727 |
| Current liabilities | 666,004 | 595,096 | 630,924 | 887,357 | 933,153 | 862,105 | 1,063,993 |
| Total debt | 687,535 | 601,659 | 578,295 | 599,173 | 744,507 | 652,766 | 887,141 |
| Stockholders equity | 949,159 | 1,063,535 | 1,235,776 | 1,400,811 | 1,578,505 | 1,457,592 | 1,646,624 |

footnotes included on the following page

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- (1) All fiscal years prior to 2005 and the three months ended March 31, 2005 have been restated for the impact of a two-for-one stock dividend distributed on August 24, 2005.
- (2) Capital expenditures are presented net of any proceeds arising from lost-in-hole sales and sales of fixed asset equipment replaced.
- (3) For purposes of computing the ratio of earnings to fixed charges: earnings consist of income before income taxes and minority interests, which includes earnings allocable to the minority interest ownership partners, plus fixed charges. Fixed charges consist of interest expensed and capitalized, amortized discounts and capitalized expenses related to indebtedness and the portion of rental expense estimated to represent a reasonable approximation of the interest component.
- (4) We derive a substantial portion of our earnings from M-I SWACO and other majority-owned joint venture operations, which are properly consolidated for financial reporting purposes. We have supplemented the required disclosure and adjusted the ratio of earnings to fixed charges calculation to eliminate our minority partners ownership interest in earnings and fixed charges in order to reflect coverage levels on a Company-only basis. Management believes disclosure of the ratio of earnings to fixed charges, as adjusted, provides useful information to investors when viewed with the non-adjusted ratio because it provides a more complete understanding of our ability to meet our fixed obligations than the non-adjusted ratio alone. The ratio of earnings to fixed charges, as adjusted, should be viewed in addition to, and not as an alternative for, our non-adjusted ratio presented in (3) above.

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RISK FACTORS

You should carefully consider, in addition to the other information contained in, or incorporated by reference into, this prospectus supplement, the risks described below before making a decision to invest in our notes.

We are dependent on the level of oil and natural gas exploration and development activities.

Demand for our products and services is dependent upon the level of oil and natural gas exploration and development activities. The level of worldwide oil and natural gas development activities is primarily influenced by the price of oil and natural gas, as well as price expectations. In addition to oil and natural gas prices, the following factors impact exploration and development activity and may lead to significant changes in worldwide activity levels:

Overall level of global economic growth and activity;

Actual and perceived changes in the supply and demand for oil and natural gas;

Political stability and policies of oil-producing countries;

Finding and development costs of operators;

Decline and depletion rates for oil and natural gas wells; and

Seasonal weather conditions that temporarily curtail drilling operations.

Changes in any of these factors could adversely impact our financial condition or results of operations.

There are certain risks associated with conducting business in markets outside of North America.

We are a multinational oilfield service company and generate the majority of our Oilfield segment revenues in markets outside of North America. Changes in conditions within certain countries that have historically experienced a high degree of political and/or economic instability could adversely impact our financial condition or results of operations. Additional risks inherent in our non-North American business activities include:

Changes in political and economic conditions in the countries in which we operate, including civil uprisings, riots and terrorist acts;

Unexpected changes in regulatory requirements;

Fluctuations in currency exchange rates and the value of the U.S. dollar;

Restrictions on repatriation of earnings or expropriation of property without fair compensation;

Governmental actions that result in the deprivation of contract rights; and

Governmental sanctions.

Our industry is experiencing more litigation involving claims of infringement of intellectual property rights.

Over the past few years, our industry has experienced increased litigation related to the infringement of intellectual property rights. We, as well as certain of our competitors, have been named as defendants in various of these intellectual property matters, although we do not consider any pending or threatened claim to be material. These types of claims are typically costly to defend, involve monetary judgments that, in certain circumstances, are subject to being enhanced and are often brought in venues which have proved to be favorable to plaintiffs. If we are ultimately unsuccessful in defending alleged intellectual property claims, it could adversely impact our results of operations and cash flows.

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We operate in a highly technical and competitive environment.

We operate in a highly-competitive business environment. Accordingly, demand for our products and services is largely dependent on our ability to provide leading-edge, technology-based solutions that reduce the operator's overall cost of developing energy assets. If competitive or other market conditions impact our ability to continue providing superior-performing product offerings, our financial condition or results of operations could be adversely impacted.

Our businesses are subject to a variety of governmental regulations.

We are exposed to a variety of federal, state, local and international laws and regulations relating to environmental, health and safety, export control, currency exchange, labor and employment and taxation matters. These laws and regulations are complex, change frequently and have tended to become more stringent over time. In the event the scope of these laws and regulations expand in the future, the incremental cost of compliance could adversely impact our financial condition or results of operations.

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USE OF PROCEEDS

We expect the net proceeds from the offering to be approximately \$ million. We intend to use the net proceeds to repay outstanding indebtedness under the Smith U.S. revolving credit facility and for general corporate purposes.

The Smith U.S. revolving credit facility is a \$275.0 million facility provided by a syndicate of nine financial institutions. We also guarantee a \$125.0 million U.S. revolving credit facility utilized by our majority-owned subsidiary, M-I SWACO. Both credit facilities are unsecured and expire in May 2010. At March 31, 2006, total borrowings outstanding under the Smith U.S. revolving credit facility equaled \$248.6 million and had a weighted average interest rate of 5.19% for the three months ended March 31, 2006.

We have primarily used borrowings under the Smith U.S. revolving credit facility to finance working capital needs. To a lesser extent, the facility has been used to fund other corporate activities, including share repurchases, capital expenditures and acquisitions.

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DESCRIPTION OF THE NOTES

The following description of the notes is only a summary and is not intended to be comprehensive. The description should be read together with the description of the general terms and provisions of debt securities provided under the caption "Description of Debt Securities" in the accompanying prospectus.

General

We will issue the notes as a separate series of debt securities under an indenture dated as of September 8, 1997 that we have entered into with The Bank of New York, as trustee.

The notes will mature on _____, 2016. We:

_____ will pay interest on _____ and _____ of each year, commencing _____, 2006

_____ will pay interest to the person in whose name the note is registered at the close of business on the 15th calendar day preceding the interest payment date, whether or not a business day and

_____ may make payments by wire transfer for notes held in book-entry form or by check mailed to the address of the person entitled to the payment as it appears in the note register

The notes are limited initially to \$275 million in aggregate principal amount. We may, however, reopen this series of notes and issue an unlimited principal amount of additional notes in the future.

We will issue the notes only in fully registered form, without coupons, in denominations of \$1,000 and any integral multiple thereof. The notes will not be subject to any sinking fund or mandatory redemption provisions.

Interest

The notes will bear interest from _____, 2006 at the annual rate stated on the cover page of this prospectus supplement. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable is not a business day, we will pay that interest on the next business day without any interest or other payment due to the delay.

Ranking

The notes will be senior unsecured obligations. The notes will rank equally with all of our existing and future senior unsecured indebtedness. The notes will be effectively subordinated in right of payment to the liabilities of our subsidiaries, including claims of trade creditors and tort claimants. We conduct a substantial portion of our operations through subsidiaries. Accordingly, we rely on dividends and cash advances from subsidiaries to provide funds necessary to meet our obligations, including the payment of principal and interest on the notes. The ability of any subsidiary to pay dividends or make cash advances is subject to applicable laws and the financial condition and operating requirements of such subsidiary.

As of March 31, 2006, as adjusted to give effect to the issuance of the notes and the expected use of proceeds received, we would have had \$913.5 million of consolidated debt. After excluding \$48.4 million of debt owed by a majority owned publicly traded company which we consolidate for financial reporting purposes, approximately \$662.6 million of the consolidated debt would have ranked equally with the notes. Approximately \$202.5 million of the consolidated debt would have been owed by subsidiaries and therefore effectively senior to the notes. In any liquidation, reorganization or insolvency proceeding involving us, your claim as a holder of notes will be effectively junior to the claims of holders of any debt or preferred stock of our subsidiaries.

Optional Redemption

We will have the right to redeem the notes, as a whole or in part at any time, at a redemption price equal to accrued interest thereon to the date of redemption plus the greater of (i) 100% of the principal amount of such notes or (ii) the sum of the present values of the remaining scheduled payments

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of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus basis points.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated yield (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

Independent Investment Banker means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company.

Comparable Treasury Price means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

Reference Treasury Dealer means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Calyon Securities (USA) Inc., Greenwich Capital Markets, Inc., J.P. Morgan Securities Inc. and LaSalle Financial Services, Inc. or their affiliates which are primary U.S. Government securities dealers, and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a **Primary Treasury Dealer**), the Company shall substitute therefor another Primary Treasury Dealer.

Redemption Procedures

We will mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each holder of notes to be redeemed. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the notes or portions thereof called for redemption. In the event that any redemption date is not a business day, we will pay the redemption price on the next business day without any interest or other payment due to the delay.

Restrictive Covenants

We have agreed to two principal restrictions on our activities for the benefit of holders of the notes. Unless waived or amended, the restrictive covenants described in the accompanying prospectus under **Description of Debt Securities** **Certain Covenants** **Limitation on Indebtedness Secured by a Lien** and **Limitation on Sale and Lease-Back Transactions** will apply as long as any of the notes are outstanding.

Book-Entry Delivery and Settlement

We will issue the notes in the form of one or more permanent global notes in definitive, fully registered, book-entry form. The global notes will be deposited with or on behalf of The Depository Trust Company and registered in the name of Cede & Co., as nominee of DTC, or will remain in the custody of the trustee in accordance with the FAST Balance Certificate Agreement between DTC and the trustee.

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Beneficial interests in the global notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the global notes through DTC either directly if they are participants in DTC or indirectly through organizations that are participants in DTC.

DTC has advised us as follows:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under Section 17A of the Securities Exchange Act of 1934

DTC holds securities that its participants deposit with DTC and facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates

direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations

access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly and

the rules applicable to DTC and its participants are on file with the SEC

We have provided the following descriptions of the operations and procedures of DTC solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to change by DTC from time to time. None of us, the underwriters nor the trustee takes any responsibility for these operations or procedures, and you are urged to contact DTC or its participants directly to discuss these matters.

We expect that under procedures established by DTC:

upon deposit of the global notes with DTC or its custodian, DTC will credit on its internal system the accounts of direct participants designated by the underwriters with portions of the principal amounts of the global notes and

ownership of the notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC or its nominee, with respect to interests of direct participants, and the records of direct and indirect participants, with respect to interests of persons other than participants

The laws of some jurisdictions may require that purchasers of securities take physical delivery of those securities in definitive form. Accordingly, the ability to transfer interests in the notes represented by a global note to those persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in notes represented by a global note to pledge or transfer those interests to persons or entities that do not participate in DTC's system, or otherwise to take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global note, DTC or that nominee will be considered the sole owner or holder of the notes represented by that global note for all purposes under the indenture and under the notes. Except as provided below, owners of beneficial interests in a global note will not:

be entitled to have notes represented by that global note registered in their names

receive or be entitled to receive physical delivery of definitive notes or
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be considered the owners or holders thereof under the indenture or under the notes for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee. Accordingly, each holder owning a beneficial interest in a global note must rely on the procedures of DTC and, if that holder is not a direct or indirect participant, on the procedures of the participant through which that holder owns its interest, to exercise any rights of a holder of notes under the indenture or the global note.

Neither we nor the trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to the notes.

Payments on the notes represented by a global note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. We expect that DTC or its nominee, upon receipt of any payment on the notes represented by a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the global note as shown in the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the global note held through such participants will be governed by standing instructions and customary practice as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be responsible for those payments.

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds.

Definitive Notes

We will issue notes in definitive form to each person that DTC identifies as the beneficial owner of the notes represented by a global note upon surrender by DTC of the global note if:

DTC notifies us that it is no longer willing or able to act as a depository for the global note, and we have not appointed a successor depository within 90 days of that notice

an event of default has occurred and is continuing, and DTC requests the issuance of notes in definitive form or

we determine not to have the notes represented by a global note

The trustee and us will not be liable for any delay by DTC, its nominee or any direct or indirect participant in identifying the beneficial owners of the notes. We and the trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes, including with respect to the registration and delivery, and the respective principal amounts, of the notes to be issued.

Table of Contents**UNDERWRITING**

We intend to offer the notes through the underwriters named below. Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative for the underwriters named below. Subject to the terms and conditions contained in a purchase agreement between us and the underwriters, we have agreed to sell to the underwriters and the underwriters severally have agreed to purchase from us, the principal amount of the notes listed opposite their names below.

| Underwriter | Principal Amount |
|--|------------------|
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | \$ |
| Calyon Securities (USA) Inc. | |
| Greenwich Capital Markets, Inc. | |
| J.P. Morgan Securities Inc. | |
| LaSalle Financial Services, Inc. | |
| Total | \$ 275,000,000 |

The underwriters have agreed to purchase all of the notes sold pursuant to the purchase agreement if any of these notes are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The underwriters have advised us that they propose initially to offer the notes to the public at the public offering price on the cover page of this prospectus supplement, and to dealers at that price less a concession not in excess of

% of the principal amount of the notes. The underwriters may allow, and the dealers may realow, a discount not in excess of % of the principal amount of the notes to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The expenses of the offering, not including the underwriting discount, are estimated to be \$275,000 and are payable by us.

New Issue of Notes

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any national securities exchange or for quotation of the notes on any automated dealer quotation system. We have been advised by the underwriters that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

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NASD Regulations

Because more than ten percent of the net proceeds of the offering may be used to repay a loan provided by affiliates of members of the National Association of Securities Dealers, Inc. participating in the offering, the offering will be conducted in accordance with NASD Conduct Rule 2710(h)(i).

Price Stabilization and Short Positions

In connection with the offering, the underwriters are permitted to engage in transactions that stabilize the market price of the notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the notes. If the underwriters create a short position in the notes in connection with the offering, i.e., if they sell more notes than are on the cover page of this prospectus supplement, the underwriters may reduce that short position by purchasing notes in the open market. Purchases of a security to stabilize the price or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have been on the price of the notes. In addition, neither we nor any of the underwriters makes any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions. In particular, affiliates of each of the underwriters are lenders with respect to the Smith U.S. revolving credit facility. We intend to use a portion of the net proceeds of this offering to repay all of the indebtedness outstanding under the Smith U.S. revolving credit facility.

LEGAL MATTERS

The validity of the notes will be passed upon for us by Richard E. Chandler, Jr., Senior Vice President, General Counsel and Secretary of our company, and by Gardere Wynne Sewell LLP, our counsel. Vinson & Elkins L.L.P., the underwriters' counsel, will issue opinions in connection with various legal matters on behalf of the underwriters. Vinson & Elkins L.L.P. represents us from time to time in matters unrelated to the offering.

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PROSPECTUS

**Smith International, Inc.
\$500,000,000**

By this prospectus, we may offer:

**Common Stock
Debt Securities**

Units Consisting of Any Combination of These Securities

These securities will have an aggregate initial offering price of up to \$500,000,000 or an equivalent amount in U.S. dollars if any securities are denominated in a currency other than U.S. dollars. We may offer these securities separately or together in units and as separate series.

We will provide the specific terms of these securities in supplements to this prospectus. The prospectus supplement may add, update or change information contained in this prospectus. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement. You should read this prospectus and any prospectus supplement carefully before you invest.

You should carefully consider the Risk Factors set forth on page 3 of this prospectus.

Our common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the trading symbol SII.

Neither the Securities and Exchange Commission nor any State Securities Commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 15, 2005

You should rely only on the information contained or incorporated by reference in this prospectus or in any prospectus supplement. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

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ABOUT THE PROSPECTUS

This prospectus is part of a shelf registration statement that we have filed with the Securities and Exchange Commission (SEC). Using the shelf process, we may offer:

Common Stock;

Debt Securities; or

Units consisting of any combination of these securities.

We may offer these securities in one or more offerings with a total initial offering price of up to \$500,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement and, if applicable, a pricing supplement that will describe the specific terms of that offering. The prospectus supplement and any pricing supplement may also add, update or change the information in this prospectus. Please carefully read this prospectus, the prospectus supplement, any pricing supplement, and the documents we incorporate by reference that are listed under the heading Where You Can Find More Information.

In this prospectus, references to Smith, Company, we, us, and our mean Smith International, Inc. and its subsidiaries, taken as a whole, unless the context requires otherwise.

FORWARD-LOOKING STATEMENTS

This prospectus includes and incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements also relate to the Company s outlook, financial projections and business strategies, as well as various other matters.

These forward-looking statements are identified by their use of terms and phrases such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, will and similar terms and phrases, including assumptions. These statements are contained in this prospectus and in the documents incorporated by reference in this prospectus. We may also provide oral or written forward-looking information in other materials we release to the public.

Forward-looking statements are not guarantees of future performance. Our forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. All of our forward-looking information is, therefore, subject to risks and uncertainties that could cause actual results to differ materially from the expected results implied by the forward-looking statements contained in this prospectus and in the information incorporated in this prospectus, including, without limitation, risks associated with the level of oil and natural gas exploration activities and with worldwide operations. We caution you that these forward-looking statements are only predictions and that a number of important factors could cause actual results to be different from our expectations expressed in or implied by any forward-looking statement. While it is not possible to identify all factors, our forward-looking statements are subject to general economic and business conditions, industry conditions, changes in laws or regulations and other risk factors that include, but are not limited to, those discussed in the Risk Factors section of this prospectus and any prospectus supplement, as well as additional disclosures described in the documents incorporated by reference into this prospectus, many of which are beyond our ability to control or predict.

Our management believes these forward-looking statements are reasonable. However, you should not place undue reliance on these forward-looking statements, which are based only on our current expectations. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to publicly update or revise any of them in light of new information or future events.

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THE COMPANY

Smith International, Inc. is a leading worldwide supplier of premium products and services to the oil and gas exploration and production industry, the petrochemical industry and other industrial markets. We provide a comprehensive line of technologically-advanced products and engineering services, including drilling and completion fluid systems, solids-control and separation equipment, waste-management services, oilfield production chemicals, three-cone and diamond drill bits, turbine products, fishing services, drilling tools, underreamers, casing exit and multilateral systems, packers and liner hangers. We also offer supply-chain management solutions through an extensive North American branch network providing pipe, valves and fittings as well as mill, safety and other maintenance products.

Our operations are aggregated into two reportable segments: Oilfield Products and Services and Distribution. The Oilfield Products and Services segment consists of: M-I SWACO, which provides drilling and completion fluid systems and services, solids-control and separation equipment, waste-management services and oilfield production chemicals; Smith Technologies, which manufactures and sells three-cone drill bits, diamond drill bits and turbine products; and Smith Services, which manufactures and markets products and services used for drilling, workover, well completion and well re-entry operations. The Distribution segment consists of one business unit, Wilson, which markets pipe, valves and fittings as well as mill, safety and other maintenance products to energy and industrial markets.

Smith International, Inc. was incorporated in the state of California in January 1937 and reincorporated under Delaware law in May 1983. Our executive offices are headquartered at 411 North Sam Houston Parkway, Suite 600, Houston, Texas 77060 and our telephone number is (281) 443-3370. Our reports on Form 10-K, Form 10-Q, Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 are made available free of charge on our Internet website at www.smith.com as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the Securities and Exchange Commission. Our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the Audit Committee, Compensation and Benefits Committee and Nominating and Corporate Governance Committee are also available on the Investor Relations section of our Internet website.

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RISK FACTORS

You should carefully consider, in addition to the other information contained in, or incorporated by reference into, this prospectus and any accompanying prospectus supplement, the risks described below before making an investment decision.

We are dependent on the level of oil and natural gas exploration and development activities.

Demand for our products and services is dependent upon the level of oil and natural gas exploration and development activities. The level of worldwide oil and natural gas development activities is primarily influenced by the price of oil and natural gas and price expectations. In addition to oil and natural gas prices, the following factors impact exploration and development activity and may lead to significant changes in worldwide activity levels:

Overall level of global economic growth and activity;

Actual and perceived changes in the supply and demand for oil and natural gas;

Political stability and policies of oil-producing countries;

Finding and development costs of operators;

Decline and depletion rates for oil and natural gas wells; and

Seasonal weather conditions that temporarily curtail drilling operations.

Changes in any of these factors could adversely impact our financial condition or results of operations.

There are certain risks associated with conducting business in markets outside of North America.

We are a multinational oilfield service company and generate the majority of our Oilfield segment revenues in markets outside of North America. Changes in local conditions in certain countries that have historically experienced a high degree of political and/or economic instability, could adversely impact our financial condition or results of operations. Additional risks inherent in our non-North American business activities include:

Changes in political and economic conditions in the countries in which we operate, including civil uprisings, riots and terrorist acts;

Unexpected changes in regulatory requirements;

Fluctuations in currency exchange rates and the value of the U.S. dollar;

Restrictions on repatriation of earnings or expropriation of property without fair compensation;

Governmental actions that result in the deprivation of contract rights; and

Governmental sanctions.

We operate in a highly technical and competitive environment.

We operate in a highly-competitive business environment. Accordingly, demand for our products and services is largely dependent on our ability to provide leading-edge, technology-based solutions that reduce the operator's overall cost of developing energy assets. If competitive or other market conditions impact our ability to continue providing superior-performing product offerings, our financial condition or results of operations could be adversely impacted.

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Our businesses are subject to a variety of governmental regulations.

We are exposed to a variety of federal, state, local and international laws and regulations relating to the environmental, health and safety, export control, currency exchange, labor and employment and taxation matters. These laws and regulations are complex, change frequently and have tended to become more stringent over time. In the event the scope of these laws and regulations expand in the future, the incremental cost of compliance could adversely impact our financial condition or results of operations.

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Table of Contents**USE OF PROCEEDS**

Unless we specify otherwise in the applicable prospectus supplement, we will use the net proceeds from the sale of the offered securities for general corporate purposes, including working capital, the repayment or refinancing of our indebtedness, future acquisitions and capital expenditures. A description of any indebtedness to be refinanced with the proceeds from the sale of the securities will be set forth in the applicable prospectus supplement. Until we apply the net proceeds for specific purposes, we may invest the net proceeds in short-term or marketable securities.

RATIO OF EARNINGS TO FIXED CHARGES

Our unaudited ratio of earnings to fixed charges for the periods indicated are set forth below.

| | Six Months Ended June 30, | | Years Ended December 31, | | | | |
|--|--|-------------|---------------------------------|-------------|-------------|-------------|-------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Ratio of earnings to fixed charges(1) | 12.04 | 8.47 | 9.50 | 7.02 | 5.58 | 7.50 | 5.03 |
| Ratio of earnings to fixed charges, as adjusted(2) | 10.21 | 6.64 | 7.80 | 5.49 | 4.25 | 6.23 | 4.25 |

- (1) For purposes of computing the ratio of earnings to fixed charges: earnings consist of income before income taxes and minority interests, which includes earnings allocable to the minority interest ownership partners, plus fixed charges. Fixed charges consist of interest expensed and capitalized, amortized discounts and capitalized expenses related to indebtedness and the portion of rental expense estimated to represent a reasonable approximation of the interest component.
- (2) We derive a substantial portion of our earnings from M-I SWACO and other majority-owned joint venture operations, which are properly consolidated for financial reporting purposes. We have supplemented the required disclosure and adjusted the Ratio of Earnings to Fixed Charges calculation to eliminate our minority partners ownership interest in earnings and fixed charges in order to reflect coverage levels on a Company-only basis. The Ratio of Earnings to Fixed Charges, as adjusted, should be viewed in addition to, and not as an alternative for, our consolidated ratio as presented in (1) above.

PROSPECTUS SUPPLEMENT

This prospectus provides you with a general description of the common stock, debt securities and units consisting of common stock and debt securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to, update or change information contained in this prospectus and, accordingly, to the extent inconsistent, such information will be superseded by the information in the prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

The prospectus supplement to be attached to the front of this prospectus will describe:

the terms of any debt securities that we offer, including their title, ranking, aggregate principal amount, maturity, rate of any interest (or manner of calculation) and time of payment of principal and/or interest, any redemption or repayment terms, the currency or currencies in which such debt securities will be denominated or payable, any index, formula, or other method pursuant to which principal, premium, or interest may be determined, any terms of conversion or exchange and the form of such debt securities (registered, bearer, global and/or certificate);

the terms of any common shares that we offer; and

any initial public offering price, the purchase price and net proceeds to our company and the other specific terms related to our offering of such securities.

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DESCRIPTION OF CAPITAL STOCK

The following is a summary of certain matters with respect to our capital stock. Because it is only a summary, it does not contain all of the information that may be important to you. Therefore, you should carefully read the more detailed provisions of our restated certificate of incorporation, our restated bylaws, our stockholder rights plan and the documents we have incorporated by reference.

General

We may offer from time-to-time shares of common stock. As of the date of this prospectus, we have authorized 250,000,000 shares of common stock, \$1.00 par value, and 5,000,000 shares of preferred stock, \$1.00 par value. The following description of our capital stock is subject to the applicable provisions of our restated certificate of incorporation and our restated bylaws, which are incorporated by reference in this prospectus.

On July 21, 2005, we announced that our Board of Directors declared a two-for-one stock split, to be effected in the form of a stock dividend. Stockholders of record on August 5, 2005 are entitled to one additional share of common stock for each share held on that date, with fractional shares paid in cash. The Company's transfer agent, EquiServe Trust N.A., will distribute the stock dividend on or about August 24, 2005. As applicable, reference to shares in the forthcoming discussion will be subject to adjustment to reflect the impact of the stock dividend.

Common Stock

We are authorized by our restated certificate of incorporation to issue 250,000,000 shares of common stock, of which approximately 100,576,948 shares were issued and outstanding as of August 15, 2005 (which does not reflect the stock dividend to be distributed on or about August 24, 2005).

The holders of shares of common stock are entitled to one vote for each share held on all matters submitted to a vote of holders of common stock. Our common stock does not have cumulative voting rights, which means that the holders of a majority of the shares of our common stock outstanding can elect all our directors if they choose to do so. In such event, the holders of the remaining shares will not be able to elect any directors.

Each share of our common stock is entitled to participate equally in dividends, as and when declared by our Board of Directors, and in the distribution of assets in the event of liquidation, subject in all cases to any prior rights of outstanding shares of preferred stock. The shares of our common stock have no preemptive or conversion rights, redemption provisions or sinking fund provisions. All outstanding shares of our common stock are duly and validly issued, fully paid and nonassessable.

Our shares of common stock are listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol SII. Any additional shares of common stock will also be listed on the New York Stock Exchange and the Pacific Stock Exchange.

Preferred Stock

We are authorized by our restated certificate of incorporation to issue 5,000,000 shares of preferred stock, of which no shares were issued and outstanding as of August 15, 2005. Our Board of Directors has the authority to issue, without any further action by the stockholders, except as may be required by applicable law or stock exchange regulations, the preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designations, powers, preferences and rights of the shares of each series and the qualifications, limitations and restrictions of each series. The preferred stock could include dividend, liquidation or voting rights that would limit or qualify the rights of the holders of the common stock or be used to discourage an unsolicited acquisition proposal.

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In connection with the stockholder rights plan described below, our Board of Directors has authorized the issuance of up to 650,000 shares of non-redeemable junior participating preferred stock. The junior participating preferred stock ranks junior to all other series of our preferred stock and senior to the common stock as to the payment of dividends and the distribution of assets, unless the terms of any series provides otherwise. Each share of junior participating preferred stock is entitled to 200 (400 as adjusted for the August 2005 stock dividend) votes, subject to antidilution adjustments, on all matters submitted to a vote of our stockholders, voting together as one class with the common stock. Except as required by applicable law, holders of our junior participating preferred stock have no other special voting rights.

Stockholder Rights Plan

On June 8, 2000, we adopted a Stockholder Rights Plan (the Rights Plan) to replace a similar plan which would have expired on June 19, 2000. As part of the Rights Plan, our Board of Directors declared a dividend of one junior participating preferred stock purchase right (Right) for each share of our common stock outstanding on June 20, 2000. The Board also authorized the issuance of one such Right for each share of our common stock issued after June 20, 2000 until the occurrence of certain events.

The Rights are exercisable upon the occurrence of certain events related to a person (an Acquiring Person) acquiring or announcing the intention to acquire beneficial ownership of 20 percent or more of our common stock. In the event any person becomes an Acquiring Person, each holder (except an Acquiring Person) will be entitled to purchase, at an effective exercise price of \$175 (\$87.50 as adjusted for the August 2005 stock dividend), subject to adjustment, shares of our common stock having a market value of twice the Right s exercise price. The Acquiring Person will not be entitled to exercise these Rights. In addition, if at any time after a person has become an Acquiring Person, we are involved in a merger or other business combination transaction, or sell 50 percent or more of its assets or earning power to another entity, each Right will entitle its holder to purchase, at an effective exercise price of \$175 (\$87.50 as adjusted for the August 2005 stock dividend), subject to adjustment, shares of common stock of such other entity having a value of twice the Right s exercise price. After a person or group becomes an Acquiring Person, but before an Acquiring Person owns 50% or more of our common stock, the Board may extinguish the Rights by exchanging one share of common stock, or an equivalent security, for each Right, other than Rights held by the Acquiring Person.

In the event the Rights become exercisable and sufficient shares of our common stock are not authorized to permit the exercise of all outstanding Rights, we are required under the Rights Plan to take all necessary action including, if necessary, seeking stockholder approval to obtain additional authorized shares.

The Rights are subject to redemption at the option of the Board of Directors at a price of one-half of a cent (one-quarter of a cent as adjusted for the August 2005 stock dividend) per Right until the occurrence of certain events. The Rights currently trade with our common stock, have no voting or dividend rights and expire on June 8, 2010.

Certain Other Anti-Takeover Provisions

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is, or the transaction by which such stockholder became an interested stockholder was, approved in a prescribed manner. A business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to specified exceptions, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation s voting stock.

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Our restated certificate of incorporation contains a provision similar to Section 203 of the Delaware General Corporation Law, except that it requires a higher percentage of all stockholders voting as a class to approve a business combination (as defined therein), it prohibits business combinations with interested stockholders (as defined therein) for only two years and it contains what is generally referred to as a fair price provision . Our restated certificate of incorporation provides that any proposal by the interested stockholder or affiliate thereof to amend or repeal this provision shall generally require the affirmative vote of the holders of not less than 75% of the outstanding shares of capital stock, excluding the voting stock held by the interested stockholder or affiliate thereof.

Our restated certificate of incorporation also contains certain other provisions that may delay, defer or prevent a tender offer or takeover attempt. Our restated certificate of incorporation provides that our Board of Directors is divided into three classes that are elected for staggered three-year terms and that our stockholders may only remove a director for cause. Our restated certificate of incorporation further provides that our stockholders may not take any action by written consent.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EquiServe Trust Company, N.A.

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DESCRIPTION OF DEBT SECURITIES

We may offer debt securities that will be issued pursuant to an indenture, dated as of September 8, 1997, between us and The Bank of New York, as trustee. We may supplement the indenture by supplemental indentures in order to issue new debt securities, change the provisions of the indenture or alter previously issued debt securities. The following is a summary of certain provisions of the indenture and does not contain all of the information that may be important to you. You should read all provisions of the indenture carefully, including the definitions of terms, before you decide to invest in the debt securities. If we refer to particular sections or defined terms of the indenture, we mean to incorporate by reference those sections or defined terms of the indenture. We filed a copy of the indenture as Exhibit 4.1 to our Registration Statement on Form S-3 dated August 22, 1997 (Registration No. 333-34249). See

Where You Can Find More Information.

General

The debt securities will rank equally with all of our other existing and future unsecured and unsubordinated indebtedness. We have issued the following securities under the indenture:

\$250,000,000 in aggregate principal amount of 6³/₄ % senior notes of which \$220,000,000 is outstanding and due February 2011; and

\$150,000,000 in aggregate principal amount of 7% senior notes due September 2007.

The indenture does not limit the amount of debt securities that we may issue. We may issue the debt securities in one or more series with the same or various maturities, at par, at a premium, or with an original issue discount. The prospectus supplement will set forth the initial offering price, the aggregate principal amount and the following terms of the debt securities:

the title;

any limit on the aggregate principal amount of a particular series;

the date or dates that principal is payable;

the rate or rates of interest and, if applicable, the method used to determine the rate or rates of interest, if any, the date or dates from which interest will accrue, the dates that interest will be payable and the record date for the payment of interest;

the place or places where principal and interest will be payable;

the period or periods within which, the price or prices at which and the terms and conditions upon which the debt securities may be redeemed, in whole or in part, at our option;

our obligation, if any, to redeem, repurchase or repay the debt securities pursuant to any sinking fund or similar provisions or at the option of a holder thereof and the period, price and terms and conditions for redemption, repurchase or repayment;

the provisions, if any, for the defeasance of the debt securities;

the denominations, if other than denominations of \$1,000 and any integral multiple thereof;

the amount of principal that will be payable upon acceleration, if other than the entire principal amount;

the currency of denomination;

the designation of the currency or currencies in which payment of principal and interest will be made;

if payments of principal or interest are to be made in a currency other than the denominated currency, how the exchange rate will be determined;

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how the payments of principal or interest will be determined if by reference to an index based on a currency or currencies other than originally denominated or by reference to a commodity, commodity index, stock exchange index or financial index;

any addition to or change in the events of default or covenants with respect to the debt securities; and

any other terms that will not be inconsistent with the provisions of the indenture.

Form, Exchange, Registration and Transfer; Payment; Book-Entry

We will issue the debt securities in registered form. We will not charge a service charge for any registration of transfer or exchange of the debt securities. We may, however, require the payment of any tax or other governmental charge payable for that registration.

Debt securities of any series will be exchangeable for other debt securities of the same series with the same total principal amount and the same terms but in different authorized denominations in accordance with the applicable indenture. Holders may present debt securities for registration of transfer at the office of the registrar. The registrar will effect the transfer or exchange when it is satisfied with the documents of title and identity of the person making the request.

We will appoint the trustee under the indenture as registrar for our debt securities issued under that indenture. We are required to maintain an office or agency for transfers and exchanges in each place of payment. We may at any time designate additional registrars for any series of debt securities.

Unless we inform you otherwise in a prospectus supplement, payments on the debt securities will be made in U.S. dollars at the office of the trustee or any paying agent we designate. At our option, we may make payments by check mailed to the holder's registered address or by wire transfer for global debt securities. Unless we inform you otherwise in a prospectus supplement, we will make interest payments to the person in whose name the debt security is registered at the close of business on the record date for the interest payment.

Unless we inform you otherwise in a prospectus supplement, the trustee under the indenture will be designated as our paying agent for payments on debt securities issued under the indenture. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts.

In most cases, the trustee and paying agent will repay to us upon written request any funds held by them for payments on the debt securities that remain unclaimed for two years after the date upon which that payment has become due. After payment to us, holders entitled to the money must look to us for payment.

We may issue debt securities of a series in the form of one or more global debt securities that would be deposited with a depository or its nominee identified in the prospectus supplement. We may issue global debt securities in either temporary or permanent form. We will describe in the prospectus supplement the terms of any depository arrangement and the rights and limitations of owners of beneficial interests in any global debt security.

No Protection in the Event of a Change of Control

Unless otherwise set forth in the prospectus supplement, the debt securities will not contain any provisions that protect the holders of the debt securities in the event of a change of control of us or in the event of a highly leveraged transaction, whether or not such transaction results in a change of control of us.

Certain Covenants

The indenture does not contain any restrictions on our payment of dividends or any financial covenants. The indenture does not contain provisions that would afford holders of the debt securities

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protection in the event of a transfer of assets to a Subsidiary and incurrence of unsecured debt by that Subsidiary, or in the event of a decline in our credit quality resulting from highly leveraged or other similar transactions involving us.

Limitation on Indebtedness Secured by a Lien. The indenture provides that neither we nor any Subsidiary will create, assume, guarantee or suffer to exist any Indebtedness secured by any lien, pledge, mortgage, security interest, conditional sale or other title retention agreement or other similar encumbrance (Lien) on any Principal Property unless we secure or cause our Subsidiary to secure the debt securities equally and ratably with, or prior to, the secured Indebtedness. This restriction will not apply to Indebtedness secured by:

Liens on any Principal Property of any Person that exists prior to the time (A) that Person becomes a Subsidiary, (B) that Person merges into or consolidates with a Subsidiary or (C) a Subsidiary merges into or consolidates with that Person in a transaction in which that Person becomes a Subsidiary, provided that the Liens were not created in anticipation of or in connection with any transaction described in clauses (A), (B) or (C);

Liens in favor of us or a Subsidiary;

Liens on any Principal Property in favor of the United States of America or any state or political subdivision of the United States, or in favor of any other country or any political subdivision of any other country, to secure payment under any contract or statute or to secure any Indebtedness incurred for the purpose of financing all or part of the purchase price or the cost of construction or improvement of the Principal Property subject to those Liens;

Liens on any Principal Property subsequently acquired by us or any Subsidiary, contemporaneously with the acquisition of the Principal Property or within 180 days after that acquisition, to secure or provide for the payment of any part of the purchase price, construction or improvement of the Principal Property, or Liens assumed by us or any Subsidiary upon any Principal Property subsequently acquired by us or any Subsidiary that existed at the time of the acquisition of the Principal Property, provided that the amount of any Indebtedness secured by any Lien created or assumed does not exceed the cost to us or our Subsidiary, as the case may be, of the Principal Property covered by that Lien;

Liens existing on the date of issuance of the debt securities;

Liens representing the extension, renewal or refunding of any Lien referred to in the preceding clauses and the Indebtedness secured by those Liens;

Liens for taxes and governmental charges not yet due or that are being contested in good faith;

pledges or deposits in connection with workers compensation, unemployment insurance and other social security legislation and deposits securing liability to insurance carriers under insurance or self-insurance arrangements; and

any other Lien, so long as the aggregate of all Indebtedness secured by such Liens and the aggregate Value of the Sale and Lease-Back Transactions in existence at that time, not including those in connection with which we have voluntarily retired funded Indebtedness as provided in the indenture, does not exceed 10% of the Consolidated Net Tangible Assets of us and our Subsidiaries. (Indenture Section 10.7).

Limitation on Sale and Lease-Back Transactions. The indenture provides that neither we nor any Subsidiary will enter into any Sale and Lease-Back Transaction with respect to any Principal Property unless either:

we or any Subsidiary would be entitled, under our covenant relating to Limitation on Indebtedness Secured by a Lien, to create, assume, guarantee or suffer Indebtedness

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secured by a Lien under any provision of the first five clauses in the preceding paragraph or to incur Indebtedness in a principal amount equal to or exceeding the Value of the Sale and Lease-Back Transaction secured by a Lien on the property to be leased without equally and ratably securing the securities; or

we or any Subsidiary, within 120 days after the effective date of the transaction, apply an amount equal to the greater of (x) the net proceeds of the sale of the property subject to the Sale and Lease-Back Transaction and (y) the Value of the Sale and Lease-Back Transaction, to the voluntary retirement of our Indebtedness, which may include the debt securities. (Indenture Section 10.8).

Certain Definitions

Capital Stock is defined in the indenture to mean any and all shares, interests, participations or other equivalents in the equity interest in any Person and any rights (other than debt securities convertible into an equity interest), warrants or options to subscribe for or to acquire an equity interest in such Person.

Consolidated Net Tangible Assets is defined in the indenture to mean total consolidated assets of us and our Subsidiaries, less (i) current liabilities of us and our Subsidiaries, and (ii) the net book amount of all intangible assets of us and our Subsidiaries.

Consolidated Subsidiary is defined in the indenture to mean at any date any Subsidiary the accounts of which are consolidated with ours for financial reporting purposes.

Indebtedness is defined in the indenture to mean (i) long-term liabilities representing borrowed money or purchase money obligations as shown on the liability side of a balance sheet, other than liabilities evidenced by obligations under leases, (ii) indebtedness secured by any Lien existing on property owned subject to that Lien, whether or not the secured indebtedness has been assumed and (iii) contingent obligations in respect of, or to purchase or otherwise acquire, any indebtedness of others described in the foregoing clauses (i) or (ii) above, including guarantees and endorsements, other than for purposes of collection in the ordinary course of business of any indebtedness.

Person is defined in the indenture to mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization or any other entity.

Principal Property is defined in the indenture to mean any manufacturing plant, processing plant or any mining facility or property owned or leased by us or any Subsidiary, any Capital Stock or Indebtedness of a Subsidiary or any other property or right owned by or granted to us or any Subsidiary and used or held for use in any of the principal businesses conducted by us or any Subsidiary, except for any such property or right which, in the opinion of our Board of Directors as set forth in a Board resolution adopted in good faith, is not material to the total business conducted by us and our Subsidiaries considered as one enterprise.

Sale and Lease-Back Transaction is defined in the indenture to mean the leasing by us or a Subsidiary for a period of more than three years of any Principal Property that has been sold or is to be sold or transferred by us or any Subsidiary to any party, other than us or a Subsidiary.

Significant Subsidiary is defined in the indenture to mean any Subsidiary (i) which, as of the close of our fiscal year immediately preceding the date of determination, contributed more than 10% of the consolidated net operating revenues of us and our consolidated Subsidiaries for such year or (ii) the total net tangible assets of which as of the close of such immediately preceding fiscal year exceeded 10% of the Consolidated Net Tangible Assets.

Subsidiary of a Person is defined in the indenture to mean (i) a corporation, a majority of whose Voting Stock is at the time, directly or indirectly, owned by that Person, by one or more subsidiaries of that Person or by that Person and one or more subsidiaries of that Person, (ii) a partnership in which that Person or a subsidiary of that Person is, at the date of determination, a general

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or limited partner of that partnership, but only if that Person or its subsidiary is entitled to receive more than 50% of the assets of that partnership upon its dissolution, or (iii) any other Person, other than a corporation or partnership, in which that Person, directly or indirectly, at the date of determination, has (a) at least a majority ownership interest or (b) the power to elect or direct the election of a majority of the directors or other governing body of that Person.

Value is defined in the indenture to mean, with respect to any Sale and Lease-Back Transaction, as of any particular time, the amount equal to the greater of (i) the net proceeds of the sale or transfer of the property leased pursuant to the Sale and Lease-Back Transaction and (ii) the fair value in the opinion of the Board of Directors of the property at the time of entering into the Sale and Lease-Back Transaction, subject to adjustment at any particular time for the length of the remaining initial lease term.

Voting Stock is defined in the indenture to mean all classes of Capital Stock of a Person then outstanding normally entitled to vote in elections of directors or Persons performing similar functions, whether at all times or only so long as no senior class of stock has voting power by reason of any contingency.

Consolidation, Merger and Sale of Assets

The indenture provides that we may not consolidate with or merge into any other corporation, or convey, transfer or lease our properties and assets substantially as an entirety to any other party, unless, among other things:

the corporation formed by consolidation or into which we merge or the party that acquires by conveyance or transfer, or that leases our properties and assets substantially as an entirety, is organized and existing under the laws of the United States, any State of the United States or the District of Columbia and expressly assumes our obligations on the debt securities and under the indenture by means of an indenture supplemental to the indenture; and

immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time, or both, would become an event of default, shall have occurred and be continuing. (Indenture Section 8.1).

Events of Default

The following are events of default under the indenture with respect to debt securities of any series:

default for 30 days in the payment of any interest on the debt securities;

default in the payment of the principal of or premium, if any, on the debt securities when due either at maturity or upon acceleration, redemption or otherwise;

default in the deposit of any sinking fund payment, when and as due by the terms of a debt security of that series;

default in the performance of any other of the covenants or warranties in the indenture applicable to us that shall not have been remedied for a period of 60 days after notice of default; and

the bankruptcy, insolvency or reorganization of us or any Significant Subsidiary (Indenture Section 5.1).

Within 90 days after the occurrence of any default under the indenture, the trustee is required to notify the holders of the debt securities of the default unless, in the case of any default other than a default in the payment of principal of or premium, if any, or interest on any debt securities, a trust

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committee of the Board of Directors or responsible officers of the trustee in good faith considers it in the interest of the holders of the debt securities not to do so.

The indenture provides that if an event of default, other than an event of bankruptcy, insolvency or reorganization of us or any Significant Subsidiary, shall have occurred and be continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the debt securities of any series then outstanding may declare the entire principal and accrued interest of the debt securities of such series to be due and payable immediately. If an event of bankruptcy, insolvency or reorganization of us or any Significant Subsidiary occurs, the principal amount shall automatically, and without any declaration or other action on the part of the trustee or any holder, become immediately due and payable. Any time after acceleration of the debt securities of any series has been made, but before a judgment or decree for the payment of money based on such acceleration has been obtained by the trustee, the holders of a majority in principal amount of the outstanding debt securities of such series, may, under certain circumstances, rescind and annul the acceleration. The holders of a majority in principal amount of the outstanding debt securities of any series may waive any past defaults under the indenture with respect to such series of debt securities, except defaults in payment of principal of or premium, if any, other than by a declaration of acceleration, or interest on the debt securities of such series or provisions that may not be modified or amended without the consent of the holders of all outstanding debt securities of such series.

We are required to furnish to the trustee annually a statement as to our performance of our covenants and agreements under the indenture.

Subject to certain conditions set forth in the indenture, the holders of a majority in principal amount of the then outstanding debt securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee under the indenture in respect of the debt securities. No holder of any debt securities of any series shall have any right to cause the trustee to institute any proceedings, judicial or otherwise, with respect to the indenture or any remedy thereunder unless, among other things, the holder or holders of debt securities shall have offered to the trustee reasonable indemnity against costs, expenses and liabilities relating to such proceedings.

The indenture provides that, in determining whether the holders of the requisite aggregate principal amount of the outstanding debt securities of any series have given, made or taken any request, demand, authorization, direction, notice, consent, waiver or other action thereunder as of any date, debt securities owned by us or any affiliate of ours shall be disregarded and deemed not to be outstanding. In determining whether the trustee shall be protected in relying upon any request, demand, authorization, direction, notice, consent, waiver or other action, only debt securities that a responsible officer of the trustee actually knows to be so owned shall be so disregarded. Debt securities that have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the trustee the pledgee's right so to act with respect to those debt securities and that the pledgee is not us or any affiliate of ours.

Modification of the Indenture

The indenture provides that we, along with the trustee, may, without the consent of the holders, modify or amend the indenture in order to:

evidence the succession of another corporation to us and the assumption by any successor corporation of our covenants in the indenture and in the debt securities;

add to our covenants, agreements and obligations for the benefit of the holders of the debt securities;

add any additional events of default to the indenture;

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add to or change any of the provisions of the indenture necessary to permit the issuance of the debt securities in bearer form, registrable as to principal, and with or without interest coupons;

evidence and provide for the acceptance of appointment under the indenture by a successor trustee; or

cure any ambiguity, or correct or supplement any provision of the indenture that may be inconsistent with any other provision of the indenture, provided the action does not adversely affect the interest of the holders of the debt securities. (Indenture Section 9.1).

We, along with the trustee, may modify or amend the indenture with the consent of the holders of a majority in aggregate principal amount of each series of the debt securities, except that no modification or amendment may, without the consent of the holders of all then outstanding series of debt securities:

change the due date of the principal of, or any installment of principal of or interest on, any debt securities of any series;

reduce the principal amount of, or any installment of principal or interest or rate of interest on, or any premiums payable on redemption of, any debt securities of any series;

reduce the principal amount of any debt securities of any series payable upon acceleration of the maturity of any debt securities;

change the place or the currency of payment of principal of, or any premium or interest on, any debt securities of any series;

impair the right to institute suit for the enforcement of any payment on or with respect to any debt securities of any series on or after the due date thereof;

reduce the percentage in principal amount of debt securities of any series then outstanding, the consent of whose holders is required for modification or amendment of the indenture or for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults; or

modify certain provisions of the indenture regarding the amendment or modification of, or waiver with respect to, any provision of the indenture or the debt securities of any series. (Indenture Section 9.2).

Discharge of the Indenture

The indenture shall, upon our written request or order, cease to be of further effect, except as to any surviving rights of registration of transfer or exchange of debt securities expressly provided for in the debt securities, when: either (A) all debt securities authenticated and delivered, other than (1) debt securities that have been destroyed, lost or stolen and that have been replaced or paid and (2) debt securities for whose payment money has been deposited in trust or segregated and held in trust by us and then repaid or discharged from the trust, have been delivered to the trustee for cancellation or (B) all the debt securities not delivered to the trustee for cancellation (1) have become due and payable, (2) will become due and payable at their stated maturity within one year or (3) are to be called for redemption within one year under arrangements satisfactory to the trustee, and we, in the case of (B)(1), (2) or (3), have deposited or caused to be deposited with the trustee, an amount in dollars sufficient to pay and discharge the entire indebtedness on the debt securities not delivered to the trustee for cancellation, for principal and premium, if any, and interest to the date of the deposit, in the case of debt securities that have become due and payable, or to the stated maturity or redemption date, as the case may be;

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we have paid or caused to be paid all other sums payable by us under the indenture; and

we have delivered to the trustee an officers certificate and an opinion of counsel, each stating that all conditions precedent provided for in the indenture relating to the satisfaction and discharge of the indenture have been complied with. (Indenture Section 4.1).

Defeasance and Covenant Defeasance

Defeasance and Discharge. The indenture provides that we will be discharged from all our obligations with respect to the debt securities of any series, except for certain obligations to exchange or register the transfer of the debt securities of such series, to replace stolen, lost or mutilated debt securities, to maintain paying agencies and to hold moneys for payment in trust, upon the deposit in trust for the benefit of the holders of the debt securities of such series of money or U.S. government obligations, or both, which, through the payment of principal and interest in respect thereof in accordance with their terms, will provide money in an amount sufficient to pay any installment of principal of and any premium and interest on the debt securities of such series on the stated maturities in accordance with the terms of the indenture and the debt securities. This defeasance or discharge may occur only if, among other things, we have delivered to the trustee an opinion of counsel to the effect that the holders of the debt securities of such series will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance and discharge, and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge had not occurred, accompanied by a ruling to that effect received from or published by the Internal Revenue Service. (Indenture Section 13.2).

Defeasance of Certain Covenants. The indenture provides that we may omit to comply with some of the restrictive covenants described under the captions Certain Covenants Limitation on Indebtedness Secured by a Lien and Certain Covenants Limitation on Sale and Lease-Back Transactions above, and that the omission will be deemed not to be or result in an event of default in each case with respect to each series of debt securities. In order to do so, we will have to deposit, in trust for the benefit of the holders of the debt securities, money or U.S. government obligations, or both, which through the payment of principal and interest in accordance with their terms, will provide money in an amount sufficient to pay any installment of the principal of and any premium and interest on the debt securities on the stated maturities in accordance with the terms of the indenture and the debt securities. We will also have to, among other things, deliver to the trustee an opinion of counsel to the effect that holders of the debt securities will not recognize gain or loss for federal income tax purposes as a result of the deposit and defeasance of the obligations and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and defeasance had not occurred. In the event we exercise this option with respect to the debt securities and the debt securities are declared due and payable because of the occurrence of any event of default, the amount of money and U.S. government obligations deposited in trust will be sufficient to pay amounts due on the debt securities at the time of their stated maturity but may not be sufficient to pay amounts due on the debt securities upon any acceleration resulting from the event of default. In that case, we will remain liable for the payments.

The Trustee

The Bank of New York is the trustee under the indenture. Its address is One Wall Street, New York, N.Y. 10286. We have also appointed the trustee as the initial registrar and as the initial paying agent under the indenture.

The indenture contains limitations on the right of the trustee, should it become a creditor of ours, to obtain payment of claims in some cases, or to realize on property received in respect of any claim as security or otherwise. In the event the trustee acquires any conflicting interest, as defined in the Trust Indenture Act of 1939, however, it must eliminate the conflict or resign.

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We maintain a banking relationship in the ordinary course of business with an affiliate of the trustee.

Governing Law

The indenture is, and the debt securities will be, governed by, and construed in accordance with, the internal laws of the State of New York, except as may otherwise be required by mandatory provisions of law, without regard to conflicts of laws principles thereof.

DESCRIPTION OF UNITS

We may offer units consisting of common stock and debt securities. We may issue the units as, and for the period of time specified in the units, the units may be transferable as, a single security only, as distinguished from the separate constituent securities comprising the units. Any units will be offered pursuant to a prospectus supplement that will:

identify and designate the title of any series of units;

- if the principal of or premium, if any, or interest, if any, on the bonds, or any tranche thereof, is to be payable in securities or other property at the election of CFC or a holder, the type and amount of the securities or other property, or the formula or method by which the amount will be determined, and the periods within which, and the terms and conditions upon which, any election may be made;
- if the amount payable in respect of principal of or any premium, if any, or interest, if any, on such bonds, or any tranche thereof, may be determined with reference to an index or other fact or event ascertainable outside the indenture, the manner in which the amounts will be determined;
- if other than the principal amount of the bonds, the portion of the principal amount of the bonds, or any tranche thereof, payable upon declaration of the acceleration of the maturity;
- the terms, if any, on which bonds, or any tranche thereof, may be converted into or exchanged for securities of CFC or any other person;
- any events of default, in addition to those specified under **Events of Default** in the indenture, with respect to the bonds, and any covenants of CFC for the benefit of the holders of the bonds, in addition to those set forth in Article 7 of the indenture;
- if the bonds or any tranche thereof are to be issued in global form, the depositary with respect to the global bond or bonds, any limitations on the rights of the holders of the bonds to transfer or exchange them or to obtain the registration of transfer or to obtain certificates in definitive form in lieu of temporary form, and any and all other matters incidental to such bonds;
- if the bonds or any tranche thereof are to be issuable as bearer securities, any and all matters incidental thereto;
- any limitations on the rights of a holder to transfer or exchange the bonds or to obtain the registration of transfer thereof, and the amount or terms of any service charge for the registration of transfer or exchange of the bonds;
- the right, if any, of CFC to limit or discharge the indenture as to the bonds or any tranche thereof;

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whether and under what circumstances CFC will pay additional amounts on the bonds, or any tranche thereof, held by a person who is not a U.S. person in respect of any tax, assessment or governmental charge withheld or deducted and, if so, whether and on what terms CFC will have the option to redeem the bonds rather than pay the additional amounts; and

any other terms of the bonds or any tranche thereof, not inconsistent with the provisions of the indenture. (*Section 2.03*)

The bonds may be issued in registered form, a form registered as to principal only, or any combination thereof. In addition, all or a portion of the bonds may be issued in temporary or definitive global form.

Unless stated otherwise in any supplemental indenture, CFC may also re-open a previous series of bonds of any series without the consent of the holders of the bonds of any series and issue additional bonds of the same series, which additional bonds will have the same terms as the original series except for the issue price and the issue date. CFC will not issue any additional bonds of the same series unless the additional bonds will be fungible with all bonds of the same series for United States Federal income tax purposes.

Security

The bonds will be secured equally with outstanding bonds issued under the indenture, by the pledge with the trustee of eligible collateral having an allowable amount at least equal to the aggregate principal amount of bonds outstanding.

The indenture provides that eligible collateral will consist of cash, eligible mortgage notes of distribution system members and permitted investments. The allowable amount of cash is 100% thereof, the allowable amount of eligible mortgage notes is the amount advanced and not repaid and the allowable amount of permitted investments is their cost to CFC (exclusive of accrued interest and brokerage commissions). However, the allowable amount of permitted investments traded on a national securities exchange or in any over-the-counter market is their fair market value as determined by CFC. For purposes of the indenture and as used in describing the bonds herein, a member is any person which is a member of CFC, and a distribution system member is a member 50% or more of whose gross operating revenues are derived from sales of electricity to end users, as determined as of the end of the last completed calendar year. (*Sections 1.01 and 3.01*)

CFC has previously issued collateral trust bonds, including under an indenture dated as of February 15, 1994, between CFC and U.S. Bank National Association, as successor trustee. The collateral under the indenture dated as of February 15, 1994 secures only those bonds issued thereunder, and will not secure bonds issued hereby. As of May 31, 2013, \$1,465,000,000 aggregate principal amount of bonds issued under the indenture dated February 15, 1994 are outstanding.

As a condition to the authentication and delivery of bonds or to the withdrawal of collateral, and in any event at least once a year, CFC must certify to the trustee that:

the allowable amount of eligible collateral pledged under the indenture is at least equal to the aggregate principal amount of bonds to be outstanding immediately after the authentication and delivery of such bonds;

the allowable amount of eligible collateral pledged under the indenture after any withdrawal of collateral is at least equal to the aggregate principal amount of bonds to be outstanding immediately after such withdrawal;

each eligible mortgage note included in the eligible collateral so certified is an eligible mortgage note of a member having an Equity Ratio (defined below) of at least 20% and an Average Coverage Ratio (defined below) of at least 1.35; and

the aggregate allowable amount of all eligible mortgage notes of any one member so certified does not exceed 10% of the aggregate allowable amount of all eligible collateral so certified. (*Sections 3.01, 6.01 and 7.13*)

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CFC is also entitled to the authentication and delivery of bonds on the basis of the retirement of outstanding bonds at their final maturity or by redemption at the option of CFC. (*Section 3.02*)

The indenture provides that bonds may be issued without limitation as to aggregate principal amount so long as the allowable amount of eligible collateral pledged under the indenture at least equals the aggregate principal amount of bonds to be outstanding and meets the other requirements set forth herein. (*Sections 2.03 and 13.01*) Eligible mortgage note means a mortgage note of a distribution system member which is secured by a validly existing mortgage under which no event of default as defined in the mortgage shall have occurred and shall have resulted in the exercise of any right or remedy described in the mortgage. (*Section 1.01*)

Equity Ratio of any member means the ratio determined by dividing such member's equities and margins at the end of the last completed calendar year by such member's total assets and other debits at such date, in each case computed in accordance with the Uniform System of Accounts prescribed by RUS, or if such member does not prepare its financial statements in accordance with the Uniform System of Accounts prescribed by RUS, then in accordance with Generally Accepted Accounting Principles (GAAP). (*Section 1.01*)

Coverage Ratio of any member for any completed calendar year of such member means the ratio determined by adding such member's patronage capital and operating margins, non-operating margins interest, interest expense with respect to long-term debt and depreciation and amortization expense for such year, and dividing the sum so obtained by the sum of all payments of principal and interest required to be made during such year on account of such member's long-term debt (but in the event any portion of such member's long-term debt was refinanced during such year, the payments of principal and interest required to be made during such year in respect thereof shall be based (in lieu of actual payments thereon) upon the larger of (x) an annualization of such payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding and (y) the payments of principal and interest required to be made during the following year on account of such refinancing debt); patronage capital and operating margins, interest expense with respect to long-term debt, depreciation and amortization expense, non-operating margins interest and long-term debt being determined in accordance with the Uniform System of Accounts prescribed at the time by RUS or, if such member does not maintain its accounts in accordance with said Uniform System of Accounts, otherwise determined in accordance with GAAP, except that (i) in computing interest expense with respect to long-term debt, and payments of interest required to be made on account of long-term debt, for the purpose of the foregoing definition, there shall be added, to the extent not otherwise included, an amount equal to 33 1/3% of the excess of the restricted rentals paid by such member for such year over 2% of such member's equities and margins for such year as defined in the Uniform System of Accounts prescribed by RUS or, if such member does not maintain its accounts in accordance with said Uniform System of Accounts, otherwise determined in accordance with GAAP, and (ii) in computing such member's patronage capital and operating margins for the purpose of the foregoing definition, all cash received in respect of generation and transmission and other capital credits shall be included. The Average Coverage Ratio of any member means the average of the two higher coverage ratios of a member for each of the last three completed calendar years. (*Section 1.01*) The effect of these provisions is to exclude from the computation of the coverage ratio capital credits, except to the extent received by the member in the form of cash.

The indenture requires that each mortgage securing an eligible mortgage note be consistent with CFC's standard lending practices from time to time. (*Section 1.01*) There are no requirements in the indenture as to the value of the property subject to the lien of a mortgage.

The indenture provides that, unless an event of default under the indenture exists, and other than certain limited duties specified in the indenture, the trustee shall have no duties or responsibilities with regard to any mortgage, and no responsibilities with regard to the value of any property subject thereto. (*Section 4.03*)

Permitted investments are defined to include:

obligations of or guaranteed by the United States or any agency thereof for which the full faith and credit of the obligor shall be pledged and which shall mature, except in the case of obligations guaranteed by RUS, not more than two years after purchase;

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obligations of any state or municipality, or subdivision or agency of either thereof, which shall mature not more than two years after the purchase thereof and are rated AA (or equivalent) or better by at least two nationally recognized statistical rating organizations or having a comparable rating in the event of any future change in the rating system of such agencies;

certificates of deposit or time deposits of any bank or trust company organized under the laws of the United States or any state thereof, having at least \$500,000,000 of capital and surplus and maturing not more than two years after purchase; and

commercial paper of bank holding companies or other issuers, other than CFC, generally rated in the highest category by at least two nationally recognized statistical rating agencies and maturing not more than one year after purchase.

(Section 5.03)

Exercise of Rights under Pledged Mortgage Notes; Receipt of Payments

Until the occurrence of an event of default under the indenture, CFC retains the right to control the exercise of rights and powers under mortgage notes pledged under the indenture. (Section 15.01) Unless an event of default under the indenture occurs, CFC will be entitled to receive and retain all payments on account of principal, premium and interest on the eligible mortgage notes and permitted investments on deposit with the trustee. (Section 4.02)

Modification of the Indenture

Modifications of the provisions of the indenture may be made with the consent of the holders of not less than a majority in aggregate principal amount of the then outstanding bonds, but, without the consent of the holder of each bond affected thereby, no such modification may:

effect a reduction, or a change of the stated time of payment, of the principal of or interest on any bond or of any premium payable on redemption, change the coin or currency in which the bond is payable, or impair the right to take legal action for the enforcement of any such payment;

permit the creation of any prior or equal lien on pledged property under the indenture, terminate the lien under the indenture, or deprive the holder of any bond of the lien created by the indenture;

reduce the above-stated percentage of holders of bonds whose consent is required to modify the indenture or the percentage of holders of bonds whose consent is required for any waiver under the indenture; or

modify any of the provisions of certain sections of the indenture, except to increase any percentage of holders or to provide that certain provisions of the indenture cannot be modified or waived without the consent of the holder of each bond affected. (Section 13.02)

The indenture provides that CFC and the trustee may, without the consent of any holders of bonds, enter into supplemental indentures for the purposes of:

evidencing the succession of another company to the indenture and the assumption of all covenants of the indenture by such company;

adding to CFC's covenants or events of default;

changing or eliminating any restriction on the payment of principal of bonds, provided any such action does not adversely affect the interests of the holders of bonds in any material respect;

conveying, transferring and assigning to the trustee, and subjecting to the lien of the indenture, additional properties of CFC, and correcting or amplifying the description of any property at any time;

establishing the form or terms of bonds of any series;

providing for the issuance of uncertificated bonds, original issue discount bonds and bonds payable in foreign currencies of one or more series;
modifying, eliminating or adding to the indenture for purposes of maintaining qualification under the Trust Indenture Act;

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curing ambiguities or inconsistencies in the indenture or, provided the action does not adversely affect the interests of the holders of any series of bonds in any material respect, making other provisions with respect to matters arising under the indenture; or

providing for mortgage notes, mortgages and/or loan agreements to be deposited with a depository or an agency and/or permitting the addition to and withdrawal from the pledged property of such instruments, to be evidenced by a book-entry or other notation not requiring physical delivery of such instruments. *(Section 13.01)*

Waiver of Certain Covenants

Under the indenture, CFC will not be required to comply with certain covenants and conditions if the holders of at least a majority in principal amount of the then outstanding bonds waive compliance with such covenant or condition in such instance or generally, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived. *(Section 7.16)*

Events of Default

Each of the following will constitute an event of default under the indenture:

failure to pay interest on any bonds for 30 days after the interest becomes due;
failure to pay principal or any premium on any bonds at their maturity or upon redemption;
default in the making of any sinking fund payment;

default in the performance or breach of specified covenants in the indenture for 60 days after such default is known to any officer of CFC, including the covenant to maintain eligible collateral outlined above;

failure to perform any other covenant or warranty in the indenture for 60 days after notice from the trustee to CFC or from holders of at least 25% in principal amount of the then outstanding bonds to CFC and the trustee; and
specified events of bankruptcy, reorganization or insolvency. *(Section 9.01)*

CFC is required to file annually with the trustee a written statement as to CFC compliance with the conditions and covenants under the indenture. *(Section 7.15)* In case an event of default should occur and be continuing, the trustee or the holders of at least 25% in principal amount of the bonds then outstanding may declare the principal of the bonds to be immediately due and payable. Each declaration may, under certain circumstances, be rescinded by the holders of a majority in principal amount of the bonds at the time outstanding. *(Section 9.02)*

Further, if an event of default shall have occurred and be continuing for 30 days following notice and demand for remedy of such event of default from the trustee, the trustee may sell any or all of the mortgage notes or other property pledged as collateral under the indenture. *(Section 9.03)*

Additionally, if an event of default shall have occurred and be continuing for 30 days following notice and demand for remedy of such event of default from the trustee, the trustee shall, upon the written request of the holders of a majority in aggregate principal amount of the bonds then outstanding and the offering of indemnity as discussed below, proceed by suit or other action to enforce payment of the bonds or the underlying mortgage notes or other property pledged as collateral. *(Sections 9.03 and 9.08)*

Subject to the provisions of the indenture relating to the duties of the trustee in case an event of default shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of the bonds, unless the holders have offered to the trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by compliance. Subject to the provisions for indemnification and certain limitations contained in the indenture, the holders of a majority in principal amount of the bonds then outstanding will have the right to direct the time, method and place of conducting any

proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee. The trustee is not required to expend or risk its own

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funds or incur financial liability if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured. (*Sections 9.08, 10.01 and 10.03*)

The indenture provides that on receipt by the trustee of notice of an event of default, declaring an acceleration or directing the time, method or place of conducting a proceeding at law if an event of default has occurred and is continuing, the trustee shall, with respect to any series of bonds represented by a global bond or bonds, and may, with respect to any other series of bonds, establish a record date for the purpose of determining holders of outstanding bonds of the series entitled to join in the notice. (*Sections 9.01, 9.02 and 9.08*)

Satisfaction and Discharge; Defeasance

At the request of CFC, the indenture will cease to be in effect as to CFC, except for certain obligations to register the transfer or exchange of bonds and hold moneys for payment in trust with respect to the bonds, when the principal of and interest on bonds have been paid and/or CFC has deposited with the trustee, in trust, money or U.S. government obligations which, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient to pay all the principal of, and interest on, the bonds in accordance with the terms of the bonds, or such bonds are deemed paid and discharged in the manner described in the next paragraph. (*Section 14.01*)

Unless the prospectus supplement relating to the bonds provides otherwise, CFC at its option will be discharged from any and all obligations in respect of the bonds, except for certain obligations to register the transfer or exchange of bonds, replace stolen, lost or mutilated bonds, maintain paying agencies and hold moneys for payment in trust, or need not comply with certain restrictive covenants of the indenture, in each case on the 91st day after CFC deposits with the trustee, in trust, money and U.S. government obligations, or, in the case of bonds denominated in a foreign currency, foreign government securities, which, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient to pay in the currency, currencies or currency unit or units in which the bonds are payable all the principal of, and interest on, the bonds on the dates on which payments are due in accordance with the terms of the bonds. Among the conditions to CFC's exercising this option, CFC is required to deliver to the trustee an opinion of counsel to the effect that the deposit and related defeasance would not cause the holders of the bonds to recognize income, gain or loss for United States Federal income tax purposes and that such holders will be subject to United States Federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such deposit and related defeasance had not occurred. (*Section 14.02*)

At the request of CFC, the trustee will deliver or pay to CFC any U.S. government obligations, foreign government securities or money deposited with the trustee by CFC for the purposes described in the preceding two paragraphs and which, in the opinion of an independent accountant, are in excess of the amount which would then have been required to be deposited for such purposes. In addition, the trustee, in exchange for other U.S. government obligations, foreign government securities or money, will deliver or pay to CFC, at CFC's request, U.S. government obligations, foreign government securities or money deposited with the trustee for the purposes described in the preceding two paragraphs, so long as the exchange occurs simultaneously, CFC has delivered to the trustee an officers' certificate and opinion of counsel stating that all related conditions precedent have been complied with, and in the opinion of an independent accountant, immediately after the exchange, the obligations, securities or money then held by the trustee will be in the amount as would then have been required to be deposited with the trustee for these purposes. (*Section 14.02*)

Governing Law

The indenture is, and the bonds will be, governed by and construed in accordance with the laws of the State of New York.

The Trustee

U.S. Bank National Association is the trustee with respect to all bonds issued under the indenture.

PLAN OF DISTRIBUTION

Bonds of any series may be sold to the public through dealers, agents, an underwriter or an underwriting syndicate. The dealers, agents or underwriters with respect to an offering of bonds will be named in the prospectus supplement relating to the offering. If a dealer is utilized in the sale of any bonds, CFC will sell

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such bonds to the dealer, as principal. The dealer may then resell the bonds to the public at varying prices to be determined by the dealer at the time of resale. The initial public offering price and any discounts or concessions allowed or reallocated or paid to any dealers set forth in the prospectus supplement may change from time to time.

If an agent is utilized in the sale, unless otherwise indicated in the prospectus supplement, any such agent will be acting on a reasonable best-efforts basis for the period of its appointment.

If underwriters are utilized in the sale, CFC will enter into an underwriting agreement with those underwriters and the underwriters will use the prospectus supplement to make resales of the bonds. Unless otherwise set forth in the prospectus supplement, the obligations of any underwriters to purchase bonds will be subject to conditions precedent and the underwriters will be obligated to purchase all of the bonds if any are purchased.

Any dealers, agents and underwriters may be deemed to be underwriters and any discounts, commissions or concessions received by them from CFC or any profit on the resale of the bonds by them may be deemed to be underwriting discounts and commissions under the Securities Act. Any such person who may be deemed to be an underwriter and any such compensation received from CFC will be described in the prospectus supplement.

Under agreements entered into with CFC, dealers, agents and underwriters who participate in the distribution of the bonds may be entitled to indemnification by CFC against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof.

The place and time of delivery for the bonds in respect of which this prospectus is delivered will be set forth in the prospectus supplement.

Certain of the underwriters, dealers or agents and their associates may engage in transactions with and perform services for CFC in the ordinary course of business.

In connection with offerings made hereby, the underwriters or agents may purchase and sell the bonds in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the underwriters or agents in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the bonds, and short positions created by the underwriters or agents involve the sale by the underwriters or agents of a greater aggregate principal amount of bonds than they are required to purchase from CFC. The underwriters or agents also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the bonds sold in an offering may be reclaimed by the underwriters or agents if such bonds are repurchased in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the bonds, which may be higher than the price that might otherwise prevail in the open market. These activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

LEGAL OPINIONS

The validity of the bonds offered hereby and certain other matters in connection with an offering of bonds will be passed upon for CFC by Hogan Lovells US LLP, Columbia Square, 555 Thirteenth Street NW, Washington, D.C. The dealers, agents or underwriters, if any, will be represented by counsel that will be named in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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**National Rural Utilities
Cooperative Finance Corporation
\$ % Collateral Trust Bonds due
PROSPECTUS SUPPLEMENT**

Joint Book-Running Managers

**KeyBanc Capital Markets
Mizuho Securities
RBS
US Bancorp**
