HALLIBURTON CO
Form 10-Q
October 22, 2010

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

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended September 30, 2010

OR

[ ] Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-03492

HALLIBURTON COMPANY

(a Delaware corporation)
75-2677995

3000 North Sam Houston Parkway East
Houston, Texas 77032
(Address of Principal Executive Offices)

Telephone Number – Area Code (281) 871-2699

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[X]	Accelerated filer	[ ]
	[ ]	Smaller reporting company	[ ]

Non-accelerated
filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of October 15, 2010, 909,534,822 shares of Halliburton Company common stock, $2.50 par value per share, were outstanding.

HALLIBURTON COMPANY

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

HALLIBURTON COMPANY
Condensed Consolidated Statements of Operations
(Unaudited)

Millions of dollars and shares except per share data	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Revenue:				
Services	$ 3,598	$ 2,645	$ 9,814	$ 8,137
Product sales	1,067	943	2,999	2,852
Total revenue	4,665	3,588	12,813	10,989
Operating costs and expenses:				
Cost of services	2,891	2,269	8,075	6,843
Cost of sales	894	796	2,542	2,431
General and administrative	62	49	167	149
Total operating costs and expenses	3,847	3,114	10,784	9,423
Operating income	818	474	2,029	1,566
Interest expense, net of interest income of $3, $3, $9, and $8	(76)	(77)	(228)	(207)
Other, net	(7)	(4)	(56)	(23)
Income from continuing operations before income taxes	735	393	1,745	1,336
Provision for income taxes	(249)	(124)	(570)	(420)
Income from continuing operations	486	269	1,175	916
Income (loss) from discontinued operations, net of income tax (provision) benefit of $64, $2, $63, and $3	59	(3)	60	(5)
Net income	$ 545	$ 266	$ 1,235	$ 911
Noncontrolling interest in net income of subsidiaries	(1)	(4)	(5)	(9)
Net income attributable to company	$ 544	$ 262	$ 1,230	$ 902
Amounts attributable to company shareholders:				
Income from continuing operations	$ 485	$ 265	$ 1,170	$ 907
Income (loss) from discontinued operations, net	59	(3)	60	(5)
Net income attributable to company	$ 544	$ 262	$ 1,230	$ 902
Basic income per share attributable to company shareholders:				
Income from continuing operations	$ 0.53	$ 0.29	$ 1.29	$ 1.01
Income (loss) from discontinued operations, net	0.07	–	0.07	(0.01)
Net income per share	$ 0.60	$ 0.29	$ 1.36	$ 1.00
Diluted income per share attributable to company shareholders:				

Income from continuing operations	$	0.53	$	0.29	$	1.29	$	1.01	
Income (loss) from discontinued operations, net		0.07		–		0.06		(0.01	)
Net income per share	$	0.60	$	0.29	$	1.35	$	1.00	
Cash dividends per share	$	0.09	$	0.09	$	0.27	$	0.27	
Basic weighted average common shares outstanding		910		902		907		899	
Diluted weighted average common shares outstanding		912		904		910		901	

See notes to condensed consolidated financial statements.

HALLIBURTON COMPANY
Condensed Consolidated Balance Sheets
(Unaudited)

Millions of dollars and shares except per share data	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and equivalents	$ 1,875	$ 2,082
Receivables (less allowance for bad debts of $86 and $90)	3,723	2,964
Inventories	1,889	1,598
Investments in marketable securities	880	1,312
Current deferred income taxes	244	210
Other current assets	605	472
Total current assets	9,216	8,638
Property, plant, and equipment, net of accumulated depreciation of $5,844 and $5,230	6,486	5,759
Goodwill	1,254	1,100
Other assets	1,242	1,041
Total assets	$ 18,198	$ 16,538
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 1,095	$ 787
Current maturities of long-term debt	750	750
Accrued employee compensation and benefits	666	514
Deferred revenue	219	215
Department of Justice (DOJ) settlement and indemnity	–	142
Other current liabilities	603	481
Total current liabilities	3,333	2,889
Long-term debt	3,824	3,824
Employee compensation and benefits	445	462
Other liabilities	743	606
Total liabilities	8,345	7,781
Shareholders' equity:		
Common shares, par value $2.50 per share – authorized 2,000 shares, issued 1,068 shares and 1,067 shares	2,670	2,669
Paid-in capital in excess of par value	304	411
Accumulated other comprehensive loss	(209)	(213)
Retained earnings	11,848	10,863
Treasury stock, at cost – 159 and 165 shares	(4,773)	(5,002)
Company shareholders' equity	9,840	8,728
Noncontrolling interest in consolidated subsidiaries	13	29
Total shareholders' equity	9,853	8,757
Total liabilities and shareholders' equity	$ 18,198	$ 16,538

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY
Condensed Consolidated Statements of Cash Flows
(Unaudited)

Millions of dollars	Nine Months Ended September 30 2010	2009
Cash flows from operating activities:		
Net income	$1,235	$911
Adjustments to reconcile net income to net cash from operations:		
Depreciation, depletion, and amortization	817	677
Payments of DOJ and Securities and Exchange Commission (SEC) settlement and indemnity	(142)	(369)
Provision for deferred income taxes, continuing operations	42	164
Other changes:		
Receivables	(716)	737
Accounts payable	286	(111)
Inventories	(280)	114
Other	120	(493)
Total cash flows from operating activities	1,362	1,630
Cash flows from investing activities:		
Purchases of investments in marketable securities	(1,182)	(1,518)
Sales of investments in marketable securities	1,600	–
Capital expenditures	(1,412)	(1,390)
Acquisitions of business assets, net of cash acquired	(383)	(37)
Other investing activities	122	93
Total cash flows from investing activities	(1,255)	(2,852)
Cash flows from financing activities:		
Payments of dividends to shareholders	(245)	(243)
Proceeds from long-term borrowings, net of offering costs	–	1,975
Other financing activities	(51)	58
Total cash flows from financing activities	(296)	1,790
Effect of exchange rate changes on cash	(18)	(17)
Increase (decrease) in cash and equivalents	(207)	551
Cash and equivalents at beginning of period	2,082	1,124
Cash and equivalents at end of period	$1,875	$1,675
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Interest	$289	$226
Income taxes	$529	$437

See notes to condensed consolidated financial statements.

HALLIBURTON COMPANY
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared using generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, these financial statements do not include all information or notes required by generally accepted accounting principles for annual financial statements and should be read together with our 2009 Annual Report on Form 10-K.

Our accounting policies are in accordance with generally accepted accounting principles in the United States of America. The preparation of financial statements in conformity with these accounting principles requires us to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and
- the reported amounts of revenue and expenses during the reporting period.

Ultimate results could differ from our estimates.

In our opinion, the condensed consolidated financial statements included herein contain all adjustments necessary to present fairly our financial position as of September 30, 2010, the results of our operations for the three and nine months ended September 30, 2010 and 2009, and our cash flows for the nine months ended September 30, 2010 and 2009. Such adjustments are of a normal recurring nature. In addition, certain reclassifications of prior period balances have been made to conform to 2010 classifications. The results of operations for the three and nine months ended September 30, 2010 may not be indicative of results for the full year.

Note 2. Business Segment and Geographic Information

We operate under two divisions, which form the basis for the two operating segments we report: the Completion and Production segment and the Drilling and Evaluation segment.

The following table presents information on our business segments. “Corporate and other” includes expenses related to support functions and corporate executives. Also included are certain gains and losses not attributable to a particular business segment.

Intersegment revenue was immaterial. Our equity in earnings and losses of unconsolidated affiliates that are accounted for by the equity method are included in revenue and operating income of the applicable segment.

Millions of dollars	Three Months Ended September 30 2010	2009	Nine Months Ended September 30 2010	2009
Revenue:				
Completion and Production	$ 2,655	$ 1,821	$ 7,012	$ 5,601
Drilling and Evaluation	2,010	1,767	5,801	5,388
Total revenue	$ 4,665	$ 3,588	$ 12,813	$ 10,989
Operating income:				
Completion and Production	$ 609	$ 240	$ 1,344	$ 846
Drilling and Evaluation	271	283	859	871
Total operations	880	523	2,203	1,717
Corporate and other	(62)	(49)	(174)	(151)
Total operating income	$ 818	$ 474	$ 2,029	$ 1,566
Interest expense, net	(76)	(77)	(228)	(207)
Other, net	(7)	(4)	(56)	(23)
Income from continuing operations before income taxes	$ 735	$ 393	$ 1,745	$ 1,336

Receivables
As of September 30, 2010, 36% of our gross trade receivables were from customers in the United States. As of December 31, 2009, 26% of our gross trade receivables were from customers in the United States.

Note 3. Inventories
Inventories are stated at the lower of cost or market. In the United States, we manufacture certain finished products and parts inventories for drill bits, completion products, bulk materials, and other tools that are recorded using the last-in, first-out method, which totaled $97 million at September 30, 2010 and $68 million at December 31, 2009. If the average cost method had been used, total inventories would have been $33 million higher than reported at September 30, 2010 and December 31, 2009. The cost of the remaining inventory was recorded on the average cost method. Inventories consisted of the following:

Millions of dollars	September 30, 2010	December 31, 2009
Finished products and parts	$ 1,320	$ 1,090
Raw materials and supplies	504	480
Work in process	65	28
Total	$ 1,889	$ 1,598

Finished products and parts are reported net of obsolescence reserves of $89 million at September 30, 2010 and $94 million at December 31, 2009.

Note 4. Shareholders' Equity

The following tables summarize our shareholders' equity activity.

Millions of dollars	Total shareholders' equity	Company shareholders' equity	Noncontrolling interest in consolidated subsidiaries
Balance at December 31, 2009	$ 8,757	$ 8,728	$ 29
Transactions with shareholders	111	131	(20)
Treasury shares issued for acquisition of Boots & Coots, Inc.	105	105	–
Shares repurchased	(114)	(114)	–
Comprehensive income:			
Net income	1,235	1,230	5
Other comprehensive income	4	5	(1)
Total comprehensive income	1,239	1,235	4
Payments of dividends to shareholders	(245)	(245)	–
Balance at September 30, 2010	$ 9,853	$ 9,840	$ 13

Millions of dollars	Total shareholders' equity	Company shareholders' equity	Noncontrolling interest in consolidated subsidiaries
Balance at December 31, 2008	$ 7,744	$ 7,725	$ 19
Transactions with shareholders	151	152	(1)
Comprehensive income:			
Net income	911	902	9
Other comprehensive income	13	13	–
Total comprehensive income	924	915	9
Payments of dividends to shareholders	(243)	(243)	–
Balance at September 30, 2009	$ 8,576	$ 8,549	$ 27

The following table summarizes comprehensive income for the quarterly periods presented.

	Three Months Ended September 30	
Millions of dollars	2010	2009
Net income	$545	$266
Other comprehensive income (loss)	–	(4)
Total comprehensive income	$545	$262
Comprehensive income attributable to noncontrolling interest	1	4
Comprehensive income attributable to company	544	258

Accumulated other comprehensive loss consisted of the following:

Millions of dollars	September 30, 2010	December 31, 2009
Defined benefit and other postretirement liability adjustments	$ (142)	$ (149)
Cumulative translation adjustments	(67)	(65)

Unrealized gains on investments	–	1
Total accumulated other comprehensive loss	$ (209)	$ (213)

During the first nine months of 2010, we repurchased 3.5 million shares of our common stock under our existing share repurchase program at a cost of approximately $114 million at an average price of $32.44 per share. The program may be used for open market share purchases. Under this program, we are authorized to purchase shares with a market value of up to $5.0 billion, and, since the inception of the program, we have purchased 96 million shares at a total cost of approximately $3.3 billion.

In the third quarter of 2010, we issued approximately 3.4 million shares of common stock out of treasury, valued at approximately $105 million, in connection with our acquisition of Boots & Coots, Inc. (Boots & Coots).

Note 5. KBR Separation

During 2007, we completed the separation of KBR, Inc. (KBR) from us by exchanging KBR common stock owned by us for our common stock. In addition, we recorded a liability reflecting the estimated fair value of the indemnities and guarantees provided to KBR as described below. Since the separation, we have recorded adjustments to our liability for indemnities, guarantees, and income tax obligations to reflect changes to our estimation of our remaining obligation. All such adjustments are recorded in "Income (loss) from discontinued operations, net."

We entered into various agreements relating to the separation of KBR, including, among others, a master separation agreement and a tax sharing agreement. The master separation agreement provides for, among other things, KBR's responsibility for liabilities related to its business and our responsibility for liabilities unrelated to KBR's business. We provide indemnification in favor of KBR under the master separation agreement for certain contingent liabilities, including our indemnification of KBR and any of its greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for:

- fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of a claim made or assessed by a governmental authority in the United States, the United Kingdom, France, Nigeria, Switzerland, and/or Algeria, or a settlement thereof, related to alleged or actual violations occurring prior to November 20, 2006 of the United States Foreign Corrupt Practices Act (FCPA) or particular, analogous applicable foreign statutes, laws, rules, and regulations in connection with investigations pending as of that date, including with respect to the construction and subsequent expansion by a consortium of engineering firms comprised of Technip SA of France, Snamprogetti Netherlands B.V., JGC Corporation of Japan, and Kellogg Brown & Root LLC (TSKJ) of a natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria; and
- all out-of-pocket cash costs and expenses, or cash settlements or cash arbitration awards in lieu thereof, KBR may incur after the effective date of the master separation agreement as a result of the replacement of the subsea flowline bolts installed in connection with the Barracuda-Caratinga project.

Additionally, we provide performance guarantees, surety bond guarantees, and letter of credit guarantees that are currently in place in favor of KBR's customers or lenders under project contracts, letters of credit, and other KBR credit instruments. These guarantees will continue until they expire at the earlier of: (1) the termination of the underlying project contract or KBR obligations thereunder; or (2) the expiration of the relevant credit support instrument in accordance with its terms or release of such instrument by the customer. KBR has agreed to indemnify us, other than for the FCPA and Barracuda-Caratinga bolts matter, if we are required to perform under any of the guarantees related to KBR's letters of credit, surety bonds, or performance guarantees described above.

In February 2009, the United States Department of Justice (DOJ) and Securities and Exchange Commission (SEC) FCPA investigations were resolved. The total of fines and disgorgement was $579 million, of which KBR consented to pay $20 million. As of September 30, 2010, we have paid the full amounts due, consisting of $382 million as a result of the DOJ settlement and the indemnity we provided to KBR upon separation and $177 million as a result of the SEC settlement. A tax benefit of $62 million related to the SEC settlement was recorded in discontinued operations during the third quarter of 2010. Amounts accrued relating to our remaining KBR indemnities and guarantees are primarily included in "Other liabilities" on the condensed consolidated balance sheets and totaled $72 million at September 30, 2010. See Note 6 for further discussion of the TSKJ and Barracuda-Caratinga matters.

The tax sharing agreement provides for allocations of United States and certain other jurisdiction tax liabilities between us and KBR.

Note 6. Commitments and Contingencies

The Gulf of Mexico/Macondo well incident

The semisubmersible drilling rig, Deepwater Horizon, sank on April 22, 2010 after an explosion and fire onboard the rig that began on April 20, 2010. The Deepwater Horizon was owned by Transocean Ltd. and had been drilling the Macondo/MC252 exploration well in Mississippi Canyon Block 252 in the Gulf of Mexico for the lease operator, BP Exploration & Production, Inc. (BP Exploration), an indirect wholly owned subsidiary of BP p.l.c. Crude oil flowing from the well site spread across thousands of square miles of the Gulf of Mexico and reached the United States Gulf Coast. Efforts to contain the flow of hydrocarbons from the well were led by the United States government and by BP p.l.c., BP Exploration, and their affiliates (collectively, BP) and the well was permanently capped on September 19, 2010. There were eleven fatalities and a number of injuries as a result of the Macondo well incident.

We performed a variety of services on the Macondo well, including cementing, mud logging, directional drilling, measurement-while-drilling, and rig data acquisition services. We had completed the cementing of the final production casing string in accordance with BP Exploration's requirements approximately 20 hours prior to the Macondo well incident. We believe that we performed all such work in accordance with BP Exploration's specifications for its well construction plan and BP Exploration's instructions.

Investigations. The United States Department of Homeland Security and Department of the Interior are jointly investigating the cause of the Macondo well incident. The United States Coast Guard, a component of the United States Department of Homeland Security, and the Bureau of Ocean Energy Management, Regulation, and Enforcement (BOE) (formerly known as the Minerals Management Service), a bureau of the United States Department of the Interior, share jurisdiction over the investigation into the Macondo well incident. In addition, other investigations have been commenced by the Chemical Safety Board, the National Academy of Science and the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling that the President of the United States has established to, among other things, examine the relevant facts and circumstances concerning the causes of the Macondo well incident and develop options for guarding against future oil spills associated with offshore drilling. We are assisting in efforts to identify the factors that led to the Macondo well incident and have participated and will continue to participate in various hearings relating to the incident held by, among others, various committees and subcommittees of the House of Representatives and the Senate of the United States.

On May 28, 2010, the United States Department of the Interior issued an order imposing a six-month suspension on all offshore deepwater drilling projects. A preliminary injunction was issued blocking enforcement of the deepwater drilling suspension on June 22, 2010, and the Department of the Interior issued a new suspension of deepwater drilling on July 12, 2010. On October 12, 2010, the Department of the Interior announced it was lifting the deepwater drilling suspension.

On June 1, 2010, the United States Attorney General announced that the DOJ was launching civil and criminal investigations into the Macondo well incident to closely examine the actions of those involved, and that the DOJ was working with attorneys general of states affected by the Macondo well incident. The DOJ announced that it is reviewing, among other traditional criminal statutes, The Clean Water Act, which carries civil penalties and fines as well as criminal penalties, The Oil Pollution Act of 1990, which can be used to hold parties liable for cleanup costs and reimbursement for government efforts, and The Migratory Bird Treaty Act of 1918 and Endangered Species Act of 1973, which provide penalties for injury and death to wildlife and bird species.

In June 2010, we received a letter from the DOJ requesting thirty days advance notice of any event that may involve substantial transfers of cash or other corporate assets outside of the ordinary course of business. In our reply to the June 2010 DOJ letter, we conveyed our interest in briefing the DOJ on the services we provided on the Deepwater Horizon but indicated that we would not bind ourselves to the DOJ request. Subsequently, we have met twice with the DOJ in August and October to discuss the Macondo well incident and the DOJ's request.

We intend to cooperate fully with all governmental hearings, investigations, and requests for information relating to the Macondo well incident.

On September 8, 2010, an incident investigation team assembled by BP issued the Deepwater Horizon Accident Investigation Report (BP Report). The BP Report outlines eight key findings of BP related to the possible causes of the Macondo well incident, including failures of cement barriers, failures of equipment provided by other service companies and the drilling contractor, and failures of judgment by BP and the drilling contractor. With respect to the BP Report's assessment that the cement barrier did not prevent hydrocarbons from entering the wellbore after cement placement, the BP Report concluded that among other things there were "weaknesses in cement design and testing." According to the BP Report, the BP incident investigation team did not review its analyses or conclusions with us or any other entity or governmental agency conducting a separate or independent investigation of the incident. In addition, the BP incident investigation team did not conduct any testing using our cementing products.

Regardless of whether alleged weaknesses in cement design and testing are or are not ultimately established, and regardless of whether the cement slurry was utilized in similar applications or was consistent with industry standards, we believe that had BP conducted a cement bond log test, or had BP and others properly interpreted a negative-pressure test, these tests would have revealed any problems with our cement. A cement bond log test evaluates the integrity of the cement bond, and a negative-pressure test evaluates the integrity of the wellbore casing. BP, however, elected not to conduct a cement bond log test, and with others misinterpreted the negative-pressure tests, which would have resulted in remedial action, if appropriate, with respect to our cementing services.

Litigation. Currently, we have been named along with other unaffiliated defendants in more than 319 class-action complaints involving pollution damage claims and in 27 suits involving multiple plaintiffs that allege wrongful death and other personal injuries arising out of the Macondo well incident. The majority of these suits are consolidated in a multi-district litigation proceeding in the Eastern District of Louisiana. The pollution damage complaints generally allege, among other things, negligence and gross negligence, property damages, and potential economic losses as a result of environmental pollution and generally seek awards of unspecified economic, compensatory, and punitive damages, as well as injunctive relief. The wrongful death and other personal injury complaints generally allege negligence and gross negligence and seek awards of compensatory damages, including unspecified economic damages and punitive damages. We have retained counsel and are investigating and evaluating the claims, the theories of recovery, damages asserted, and our respective defenses to all of these claims. We intend to vigorously defend any litigation, fines, and/or penalties relating to the Macondo well incident. Additional lawsuits may be filed against us.

Indemnification and Insurance. Our contract with BP Exploration relating to the Macondo well provides for our indemnification for potential claims and expenses relating to the Macondo well incident, including those resulting from pollution or contamination (other than claims by our employees, loss or damage to our property, and any pollution emanating directly from our equipment). Also, under our contract with BP Exploration, we have, among other things, generally agreed to indemnify BP Exploration and other contractors performing work on the well for claims for personal injury of our employees and subcontractors, as well as for damage to our property. In turn, we believe that BP Exploration is obligated to obtain agreement by other contractors performing work on the well to indemnify us for claims for personal injury of their employees or subcontractors as well as for damages to their property. We believe that the indemnification obligations contained in our contract are valid and binding against BP Exploration. BP Exploration contractually assumed responsibility for costs and expenses relating to this event, including claims for gross negligence. Given the potential amounts involved, however, BP Exploration and other indemnifying parties may seek to avoid their indemnification obligations. In particular, while we do not believe there is any justification to do so, BP Exploration, in response to our request for indemnification, has generally reserved all of its rights and stated that it is premature to conclude that it is obligated to indemnify us. In doing so, BP Exploration has asserted that the facts are not sufficiently developed to determine who is responsible, and have cited a variety of possible legal theories based upon the contract and facts still to be developed. In addition, the financial analysts and the press have speculated about the financial capacity of BP, and whether it might seek to avoid indemnification obligations in bankruptcy proceedings. We consider the likelihood of a BP bankruptcy to be remote.

In addition to the contractual indemnity, we have a general liability insurance program of $600 million. Our insurance is designed to cover claims by businesses and individuals made against us in the event of property damage, injury or death and, among other things, claims relating to environmental damage. To the extent we incur any losses beyond those covered by indemnification, there can be no assurance that our insurance policies will cover all potential claims and expenses relating to the Macondo well incident. Insurance coverage can be the subject of uncertainties and, particularly in the event of large claims, potential disputes with insurance carriers. Finally, although we consider it remote, if we were to be subject to governmental fines or penalties, it is possible we might not be indemnified or insured.

As of September 30, 2010, we had not accrued any amounts related to this matter because we do not believe that a loss is probable.

TSKJ matters

Background. As a result of an ongoing FCPA investigation at the time of the KBR separation, we provided indemnification in favor of KBR under the master separation agreement for certain contingent liabilities, including our indemnification of KBR and any of its greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of a claim made or assessed by a governmental authority in the United States, the United Kingdom, France, Nigeria, Switzerland, and/or Algeria, or a settlement thereof, related to alleged or actual violations occurring prior to November 20, 2006 of the FCPA or particular, analogous applicable foreign statutes, laws, rules, and regulations in connection with investigations pending as of that date, including with respect to the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. As a condition of our indemnity, we have control over the investigation, defense, and/or settlement of these matters. We have the right to terminate the indemnity in the event KBR elects to take control over the investigation, defense, and/or settlement or refuses to agree to a settlement negotiated and presented by us.

TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (a subsidiary of Saipem SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root LLC (a subsidiary of KBR), each of which had an approximate 25% beneficial interest in the venture. Part of KBR’s ownership in TSKJ was held through M.W. Kellogg Limited (MWKL), a United Kingdom joint venture and subcontractor on the Bonny Island project, in which KBR beneficially owns a 55% interest. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA of Italy).

DOJ and SEC investigations resolved. In February 2009, the FCPA investigations by the DOJ and the SEC were resolved with respect to KBR and us. The DOJ and SEC investigations resulted from allegations of improper payments to government officials in Nigeria in connection with the construction and subsequent expansion by TSKJ of the Bonny Island project.

The DOJ investigation was resolved with respect to us with a non-prosecution agreement in which the DOJ agreed not to bring FCPA or bid coordination-related charges against us with respect to the matters under investigation, and in which we agreed to continue to cooperate with the DOJ’s ongoing investigation and to refrain from and self-report certain FCPA violations. The DOJ agreement did not provide a monitor for us.

As part of the resolution of the SEC investigation, we retained an independent consultant to conduct a 60-day review and evaluation of our internal controls and record-keeping policies as they relate to the FCPA, and we agreed to adopt any necessary anti-bribery and foreign agent internal controls and record-keeping procedures recommended by the independent consultant. The review and evaluation were completed during the second quarter of 2009, and we have implemented the consultant’s recommendations. As a result of the substantial enhancement of our anti-bribery and foreign agent internal controls and record-keeping procedures prior to the review of the independent consultant, we do not expect the implementation of the consultant’s recommendations to materially impact our long-term strategy to grow our international operations. In the third quarter of 2010, the independent consultant performed a 30-day, follow-up review, confirming that we have implemented the recommendations and continued the application of our

current policies and procedures.
KBR has agreed that our indemnification obligations with respect to the DOJ and SEC FCPA investigations have been fully satisfied.

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Other matters. In addition to the DOJ and the SEC investigations, we are aware of other investigations in France, Nigeria, the United Kingdom, and Switzerland regarding the Bonny Island project. In the United Kingdom, the Serious Fraud Office (SFO) is considering civil claims or criminal prosecution under various United Kingdom laws and appears to be focused on the actions of MWKL, among others. Violations of these laws could result in fines, restitution and confiscation of revenues, among other penalties, some of which could be subject to our indemnification obligations under the master separation agreement. Our indemnity for penalties under the master separation agreement with respect to MWKL is limited to 55% of such penalties, which is KBR's beneficial ownership interest in MWKL. MWKL is cooperating with the SFO's investigation. Whether the SFO pursues civil or criminal claims, and the amount of any fines, restitution, confiscation of revenues or other penalties that could be assessed would depend on, among other factors, the SFO's findings regarding the amount, timing, nature and scope of any improper payments or other activities, whether any such payments or other activities were authorized by or made with knowledge of MWKL, the amount of revenue involved, and the level of cooperation provided to the SFO during the investigations. MWKL has informed the SFO that it intends to self-report corporate liability for corruption-related offenses arising out of the Bonny Island project. MWKL has received confirmation that it has been admitted into the plea negotiation process under the Guidelines on Plea Discussions in Cases of Complex or Serious Fraud, which have been issued by the Attorney General for England and Wales.

On September 3, 2010, the Federal Government of Nigeria, through the office of the Attorney General of the Federation, filed criminal charges in connection with the Nigeria LNG project against various companies and individuals including TSKJ Nigeria Limited and the four companies participating in the TSKJ joint ventures, one of which is Kellogg Brown & Root LLC. The charges against TSKJ and its participants involve conspiracy for improper payments to public officials. Our indemnity to KBR would apply to any fines or penalties assessed against KBR should it be found liable in these proceedings. At this time, we are unable to make any estimate of the potential amount of any such fines or penalties. In addition, it has been reported in the press that the Attorney General of Nigeria intends to file a civil lawsuit against us in the United States.

The DOJ and SEC settlements and the other ongoing investigations could result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages, damage to our business or reputation, loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of us or our current or former subsidiaries.

Our indemnity of KBR and its majority-owned subsidiaries continues with respect to other investigations within the scope of our indemnity. Our indemnification obligation to KBR does not include losses resulting from third-party claims against KBR, including claims for special, indirect, derivative or consequential damages, nor does our indemnification apply to damage to KBR's business or reputation, loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of KBR or KBR's current or former subsidiaries.

At this time, other than the claims being considered by the SFO and the charges in Nigeria, no claims by governmental authorities in foreign jurisdictions have been asserted against the indemnified parties. Therefore, we are unable to estimate the maximum potential amount of future payments that could be required to be made under our indemnity to KBR and its majority-owned subsidiaries related to these matters. See Note 5 for additional information.

Barracuda-Caratinga arbitration

We also provided indemnification in favor of KBR under the master separation agreement for all out-of-pocket cash costs and expenses (except for legal fees and other expenses of the arbitration so long as KBR controls and directs it), or cash settlements or cash arbitration awards, KBR may incur after November 20, 2006 as a result of the replacement of certain subsea flowline bolts installed in connection with the Barracuda-Caratinga project. Under the master separation agreement, KBR currently controls the defense, counterclaim, and settlement of the subsea flowline bolts matter. As a condition of our indemnity, for any settlement to be binding upon us, KBR must secure our prior written consent to such settlement's terms. We have the right to terminate the indemnity in the event KBR enters into any settlement without our prior written consent.

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At Petrobras' direction, KBR replaced certain bolts located on the subsea flowlines that failed through mid-November 2005, and KBR has informed us that additional bolts have failed thereafter, which were replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. We understand KBR believes several possible solutions may exist, including replacement of the bolts. Initial estimates by KBR indicated that costs of these various solutions ranged up to $148 million. In March 2006, Petrobras commenced arbitration against KBR claiming $220 million plus interest for the cost of monitoring and replacing the defective bolts and all related costs and expenses of the arbitration, including the cost of attorneys' fees. The arbitration panel held an evidentiary hearing in March 2008 to determine which party is responsible for the designation of the material used for the bolts. On May 13, 2009, the arbitration panel held that KBR and not Petrobras selected the material to be used for the bolts. Accordingly, the arbitration panel held that there is no implied warranty by Petrobras to KBR as to the suitability of the bolt material and that the parties' rights are to be governed by the express terms of their contract. The parties presented evidence and witnesses to the panel in May 2010, and final arguments were presented in August 2010. Our estimation of the indemnity obligation regarding the Barracuda-Caratinga arbitration is recorded as a liability in our condensed consolidated financial statements as of September 30, 2010 and December 31, 2009. See Note 5 for additional information regarding the KBR indemnification.

Securities and related litigation

In June 2002, a class action lawsuit was filed against us in federal court alleging violations of the federal securities laws after the SEC initiated an investigation in connection with our change in accounting for revenue on long-term construction projects and related disclosures. In the weeks that followed, approximately twenty similar class actions were filed against us. Several of those lawsuits also named as defendants several of our present or former officers and directors. The class action cases were later consolidated, and the amended consolidated class action complaint, styled Richard Moore, et al. v. Halliburton Company, et al., was filed and served upon us in April 2003. As a result of a substitution of lead plaintiffs, the case is now styled Archdiocese of Milwaukee Supporting Fund (AMSF) v. Halliburton Company, et al. We settled with the SEC in the second quarter of 2004.

In June 2003, the lead plaintiffs filed a motion for leave to file a second amended consolidated complaint, which was granted by the court. In addition to restating the original accounting and disclosure claims, the second amended consolidated complaint included claims arising out of the 1998 acquisition of Dresser Industries, Inc. by Halliburton, including that we failed to timely disclose the resulting asbestos liability exposure.

In April 2005, the court appointed new co-lead counsel and named AMSF the new lead plaintiff, directing that it file a third consolidated amended complaint and that we file our motion to dismiss. The court held oral arguments on that motion in August 2005, at which time the court took the motion under advisement. In March 2006, the court entered an order in which it granted the motion to dismiss with respect to claims arising prior to June 1999 and granted the motion with respect to certain other claims while permitting AMSF to re-plead some of those claims to correct deficiencies in its earlier complaint. In April 2006, AMSF filed its fourth amended consolidated complaint. We filed a motion to dismiss those portions of the complaint that had been re-pled. A hearing was held on that motion in July 2006, and in March 2007 the court ordered dismissal of the claims against all individual defendants other than our Chief Executive Officer (CEO). The court ordered that the case proceed against our CEO and Halliburton.

In September 2007, AMSF filed a motion for class certification, and our response was filed in November 2007. The court held a hearing in March 2008, and issued an order November 3, 2008 denying AMSF's motion for class certification. AMSF then filed a motion with the Fifth Circuit Court of Appeals requesting permission to appeal the district court's order denying class certification. The Fifth Circuit granted AMSF's motion. Both parties filed briefs, and the Fifth Circuit heard oral argument in December of 2009. The Fifth Circuit affirmed the district court's order denying class certification. On May 13, 2010, AMSF filed a writ of certiorari in the United States Supreme Court. In early October 2010, the Supreme Court neither granted nor denied the Writ of Certiorari but referred it to the Solicitor General for an opinion on whether the Court should accept the case or not. The Solicitor General will confer with interested agencies such as the SEC, meet with the parties, and develop its recommendation, which it will provide to the Court. Then, the Court will decide if it will hear the appeal. As of September 30, 2010, we had not accrued any amounts related to this matter because we do not believe that a loss is probable. Further, an estimate of possible loss or range of loss related to this matter cannot be made.

Shareholder derivative cases

In May 2009, two shareholder derivative lawsuits involving us and KBR were filed in Harris County, Texas naming as defendants various current and retired Halliburton directors and officers and current KBR directors. These cases allege that the individual Halliburton defendants violated their fiduciary duties of good faith and loyalty to the detriment of Halliburton and its shareholders by failing to properly exercise oversight responsibilities and establish adequate internal controls. The District Court consolidated the two cases and the plaintiffs filed a consolidated petition against current and former Halliburton directors and officers only containing various allegations of wrongdoing including violations of the FCPA, claimed KBR offenses while acting as a government contractor in Iraq, claimed KBR offenses and fraud under United States government contracts, Halliburton activity in Iran, and illegal kickbacks. Our Board of Directors has designated a special committee of independent directors to oversee the investigation of the allegations made in the lawsuits and make recommendations to the Board on actions that should be taken. As of September 30, 2010, we had not accrued any amounts related to this matter because we do not believe that a loss is probable. Further, an estimate of possible loss or range of loss related to this matter cannot be made.

Environmental

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

- the Comprehensive Environmental Response, Compensation, and Liability Act;
- the Resource Conservation and Recovery Act;
- the Clean Air Act;
- the Federal Water Pollution Control Act; and
- the Toxic Substances Control Act.

In addition to the federal laws and regulations, states and other countries where we do business often have numerous environmental, legal, and regulatory requirements by which we must abide. We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal, and regulatory requirements. On occasion, we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated, as well as efforts to meet or correct compliance-related matters. Our Health, Safety and Environment group has several programs in place to maintain environmental leadership and to prevent the occurrence of environmental contamination.

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. Our accrued liabilities for environmental matters were $47 million as of September 30, 2010 and $53 million as of December 31, 2009. Our total liability related to environmental matters covers numerous properties.

We have subsidiaries that have been named as potentially responsible parties along with other third parties for nine federal and state superfund sites for which we have established a liability. As of September 30, 2010, those nine sites accounted for approximately $10 million of our total $47 million liability. For any particular federal or state superfund site, since our estimated liability is typically within a range and our accrued liability may be the amount on the low end of that range, our actual liability could eventually be well in excess of the amount accrued. Despite attempts to resolve these superfund matters, the relevant regulatory agency may at any time bring suit against us for amounts in excess of the amount accrued. With respect to some superfund sites, we have been named a potentially responsible party by a regulatory agency; however, in each of those cases, we do not believe we have any material liability. We also could be subject to third-party claims with respect to environmental matters for which we have been named as a potentially responsible party.

Guarantee arrangements

In the normal course of business, we have agreements with financial institutions under which approximately $1.6 billion of letters of credit, bank guarantees, or surety bonds were outstanding as of September 30, 2010, including $210 million of surety bonds related to Venezuela. In addition, $216 million of the total $1.6 billion relates to KBR letters of credit, bank guarantees, or surety bonds that are being guaranteed by us in favor of KBR’s customers and lenders. KBR has agreed to compensate us for these guarantees and indemnify us if we are required to perform under any of these guarantees. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Note 7. Income per Share

Basic income per share is based on the weighted average number of common shares outstanding during the period. Diluted income per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued.

A reconciliation of the number of shares used for the basic and diluted income per share calculations is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of shares	2010	2009	2010	2009
Basic weighted average common shares outstanding	910	902	907	899
Dilutive effect of stock options	2	2	3	2
Diluted weighted average common shares outstanding	912	904	910	901

Excluded from the computation of diluted income per share are options to purchase six million shares of common stock that were outstanding during the three and nine months ended September 30, 2010 and six million and eight million shares that were outstanding during the three and nine months ended September 30, 2009. These options were outstanding during these periods but were excluded because they were antidilutive, as the option exercise price was greater than the average market price of the common shares.

Note 8. Fair Value of Financial Instruments

At September 30, 2010, we held $880 million of United States Treasury securities with maturities that extend through June 2011. These securities are accounted for as available-for-sale and recorded at fair value in "Investments in marketable securities."

The carrying amount of cash and equivalents, receivables, and accounts payable, as reflected in the condensed consolidated balance sheets, approximates fair market value due to the short maturities of these instruments. We have no financial instruments measured at fair value using unobservable inputs. The following table presents the fair values of our other financial assets and liabilities and the basis for determining their fair values:

Millions of dollars	Carrying Value	Fair value	Quoted prices in active markets for identical assets or liabilities	Significant observable inputs for similar assets or liabilities
September 30, 2010				
Marketable securities	$ 880	$ 880	$ 880	$ –
Long-term debt	4,574	5,575	3,945	1,630(a)
December 31, 2009				
Marketable securities	$ 1,312	$ 1,312	$ 1,312	$ –
Long-term debt	4,574	5,301	4,874	427(a)

(a) Calculated based on the fair value of other actively-traded Halliburton debt.

Note 9. Retirement Plans

The components of net periodic benefit cost related to pension benefits for the three and nine months ended September 30, 2010 and September 30, 2009 were as follows:

	Three Months Ended September 30			
	2010		2009	
Millions of dollars	United States	International	United States	International
Service cost	$ –	$ 5	$ –	$ 6
Interest cost	1	12	1	10
Expected return on plan assets	(2)	(11)	(1)	(8)
Recognized actuarial loss	1	1	–	1
Net periodic benefit cost	$ –	$ 7	$ –	$ 9

	Nine Months Ended September 30			
	2010		2009	
Millions of dollars	United States	International	United States	International
Service cost	$ –	$ 15	$ –	$ 19
Interest cost	4	37	4	31
Expected return on plan assets	(5)	(33)	(5)	(25)
Settlements/curtailments	–	–	1	1
Recognized actuarial loss	2	3	1	3
Net periodic benefit cost	$ 1	$ 22	$ 1	$ 29

Note 10. Accounting Standards Recently Adopted

On January 1, 2010, we adopted the provisions of a new accounting standard which provides amendments to previous guidance on the consolidation of variable interest entities. This standard clarifies the characteristics that identify a variable interest entity (VIE) and changes how a reporting entity identifies a primary beneficiary that would consolidate the VIE from a quantitative risk and rewards calculation to a qualitative approach based on which variable interest holder has controlling financial interest and the ability to direct the most significant activities that impact the VIE's economic performance. This standard requires the primary beneficiary assessment to be performed on a continuous basis. It also requires additional disclosures about an entity's involvement with a VIE, restrictions on the VIE's assets and liabilities that are included in the reporting entity's condensed consolidated balance sheet, significant risk exposures due to the entity's involvement with the VIE, and how its involvement with a VIE impacts the reporting entity's condensed consolidated financial statements. The standard is effective for fiscal years beginning after November 15, 2009. The adoption of this standard did not have a material impact on our condensed consolidated financial statements.

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

EXECUTIVE OVERVIEW

Organization

We are a leading provider of products and services to the energy industry. We serve the upstream oil and natural gas industry throughout the lifecycle of the reservoir, from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production through the life of the field. Activity levels within our operations are significantly impacted by spending on upstream exploration, development, and production programs by major, national, and independent oil and natural gas companies. We report our results under two segments, Completion and Production and Drilling and Evaluation:

- our Completion and Production segment delivers cementing, stimulation, intervention, pressure control, and completion services. The segment consists of production enhancement services, completion tools and services, cementing services, and Boots and Coots;
- our Drilling and Evaluation segment provides field and reservoir modeling, drilling, evaluation, and precise wellbore placement solutions that enable customers to model, measure, and optimize their well construction activities. The segment consists of fluid services, drilling services, drill bits, wireline and perforating services, testing and subsea, software, and integrated project management and consulting services.

The business operations of our segments are organized around four primary geographic regions: North America (includes Canada and the United States), Latin America, Europe/Africa/CIS, and Middle East/Asia. We have significant manufacturing operations in various locations, including, but not limited to, the United States, Canada, the United Kingdom, Malaysia, Mexico, Brazil, and Singapore. With more than 55,000 employees, we operate in approximately 70 countries around the world and our corporate headquarters are in Houston, Texas and Dubai, United Arab Emirates.

Financial results

During the first nine months of 2010, we produced revenue of $12.8 billion and operating income of $2.0 billion, reflecting an operating margin of 16%. Revenue increased $1.8 billion or 17% from the first nine months of 2009, while operating income increased $463 million or 30% from the first nine months of 2009. Overall, these increases were due to our customers' higher capital spending throughout 2010, led by increased drilling activity and pricing improvements in North America.

Business outlook

We continue to believe in the strength of the long-term fundamentals of our business. Although we have seen improvements in our business during the first nine months of 2010, due to the concerns about the global recovery, the current excess supply of oil and natural gas, and the Gulf of Mexico/Macondo well incident, the near-term growth for our business may be at a more moderate pace.

In North America, the industry experienced an unprecedented decline in drilling activity and rig count during 2009. These declines, coupled with natural gas storage levels reaching record levels, resulted in severe margin contraction in 2009. However, during the first nine months of 2010, we saw a rebound in United States land rig count and drilling activity. The trend toward more service-intensive work, especially in the oil and liquids-rich shale plays, has resulted in absorption of much of the industry's excess oilfield equipment capacity. The shift to oil and liquids-rich plays is mainly the result of stable oil prices. Due to this absorption of excess capacity and our equipment utilization rates surpassing peak levels experienced in the third quarter of 2008, we continue to see price and margin improvements over the prior year for most of our products and services. Despite weaker natural gas fundamentals due to lower prices and higher storage volumes, we believe our North America revenues and margins are likely sustainable through

2011. Our third quarter 2010 Gulf of Mexico business declined sharply due to the impact of the drilling suspension, although we did perform some work on the Macondo relief wells. The drilling suspension was lifted in the fourth quarter of 2010, but we anticipate a further reduction in Gulf of Mexico operations as operators adjust to new regulations.

Outside of North America, operating income declined in 2009 from 2008 levels due to a drop in rig count and the impact of pricing concessions that were renegotiated or given in the contract retendering process. During the first nine months of 2010, our international revenues remained flat while our operating income has continued to decline. However, we expect the global demand growth will have a moderate recovery as international rig count increases. We continue to have concerns around the pace of global economic recovery, which has caused our customers to revise their capital spending budget for the remainder of the year. On a longer term basis, we expect the global economic recovery to accelerate, which will lead to absorption of the industry's spare capacity and improved international pricing.

Our operating performance and business outlook are described in more detail in "Business Environment and Results of Operations."

Gulf of Mexico/Macondo well incident

On April 22, 2010, the semisubmersible drilling rig, Deepwater Horizon, sank in the Gulf of Mexico after an explosion and fire onboard the rig that began on April 20, 2010. We performed a variety of services on the well, including cementing, mud logging, directional drilling, measurement-while-drilling, and rig data acquisition services. The cause of the explosion, fire, and resulting oil spill is being investigated by numerous industry participants, governmental agencies and Congressional committees, and we have been named in many class action complaints involving pollution damage claims and other lawsuits related to wrongful death and other personal injuries claims. On May 28, 2010, the United States Department of the Interior issued an order imposing a six-month suspension on all offshore deepwater drilling projects. A preliminary injunction has been issued blocking enforcement of the suspension on June 22, 2010, and the Department of the Interior issued a new suspension of deepwater drilling on July 12, 2010. On October 12, 2010, the Department of the Interior announced it was lifting the deepwater drilling suspension. Despite the fact that the drilling suspension has been lifted, we anticipate a reduction in our Gulf of Mexico operations in the fourth quarter of 2010. Longer term, we do not know the extent of the impact on revenue or earnings as they are dependent on, among other things, our customers' actions and the potential movement of deepwater rigs to other markets. For additional information, see "Business Environment and Result of Operations," Note 6 to the condensed consolidated financial statements, Item 1, "Legal Proceedings," and Item 1(a), "Risk Factors."

Financial markets, liquidity, and capital resources

Since mid-2008, the global financial markets have been volatile. While this has created additional risks for our business, we believe we have invested our cash balances conservatively and secured sufficient financing to help mitigate any near-term negative impact on our operations. For additional information, see "Liquidity and Capital Resources" and "Business Environment and Results of Operations."

LIQUIDITY AND CAPITAL RESOURCES

We ended the third quarter of 2010 with cash and equivalents of $1.9 billion compared to $2.1 billion at December 31, 2009.

Significant sources of cash

Cash flows from operating activities contributed $1.4 billion to cash in the first nine months of 2010.

During the first nine months of 2010, we sold approximately $1.6 billion of United States Treasury securities.

Further available sources of cash. We have an unsecured $1.2 billion revolving credit facility expiring in 2012 to provide commercial paper support, general working capital, and credit for other corporate purposes. The facility was undrawn as of September 30, 2010. In addition, we have $880 million in United States Treasury securities that will be maturing at various dates through June 2011.

Significant uses of cash

Capital expenditures were $1.4 billion in the first nine months of 2010 and were predominantly made in the production enhancement, drilling services, wireline and perforating, and cementing product service lines.

During the period, we purchased non-cash equivalents of approximately $1.2 billion in United States Treasury securities, with varying maturity dates of less than one year.

We paid $383 million to acquire various companies, including Boots & Coots, Inc. (Boots & Coots), during the first nine months of 2010 that should enhance or augment our current portfolio of products and services.

In September 2010, we completed the acquisition of Boots & Coots in a stock and cash transaction valued at approximately $248 million, of which approximately $143 million was paid in cash and approximately 3.4 million shares of our common stock were issued to Boots & Coots stockholders. Subsequent to the acquisition, we retired approximately $39 million of Boots & Coots outstanding debt. Beginning October 2010, Boots & Coots results of operations will be included in our Completion and Production segment.

During the third quarter of 2010, we repurchased 3.5 million shares of our common stock under our share repurchase program at a cost of approximately $114 million at an average price of $32.44 per share.

We paid $245 million in dividends to our shareholders in the first nine months of 2010.

We paid the final amounts due to the Department of Justice (DOJ) in the first nine months of 2010 related to the settlement of Foreign Corrupt Practices Act (FCPA) investigations and under the related indemnity provided to KBR, Inc. (KBR) upon separation. See Notes 5 and 6 to our condensed consolidated financial statements for more information.

Future uses of cash. Capital spending for 2010 is expected to be approximately $2.1 billion. The capital expenditures plan for 2010 is primarily directed toward our production enhancement, drilling services, wireline and perforating, and cementing product service lines and toward retiring old equipment to replace it with new equipment to improve our fleet reliability and efficiency.

We are currently exploring other opportunities for acquisitions that will enhance or augment our current portfolio of products and services, including those with unique technologies or distribution networks in areas where we do not already have large operations.

In October 2010, we retired $750 million principal amount of our 5.5% senior notes with available cash and equivalents.

Subject to Board of Directors approval, we expect to pay quarterly dividends of approximately $80 million during the remainder of 2010. We also have approximately $1.7 billion remaining available under our share repurchase authorization, which may be used for open market share purchases.

Other factors affecting liquidity

Guarantee arrangements. In the normal course of business, we have agreements with financial institutions under which approximately $1.6 billion of letters of credit, bank guarantees, or surety bonds were outstanding as of September 30, 2010, including $210 million of surety bonds related to Venezuela. See “Business Environment and Results of Operations – International Operations” for further discussion related to Venezuela. In addition, $216 million of the total $1.6 billion relates to KBR letters of credit, bank guarantees, or surety bonds that are being guaranteed by us in favor of KBR’s customers and lenders. KBR has agreed to compensate us for these guarantees and indemnify us if we are required to perform under any of these guarantees. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Financial position in current market. We believe our $1.9 billion of cash and equivalents and $880 million in investments in marketable securities as of September 30, 2010 provide sufficient liquidity and flexibility, given the current market environment. Our debt maturities extend over a long period of time. We currently have a total of $1.2 billion of committed bank credit under our revolving credit facility to support our operations and any commercial paper we may issue in the future. We have no financial covenants or material adverse change provisions in our bank agreements. Currently, there are no borrowings under the revolving credit facility. Although a portion of earnings from our foreign subsidiaries is reinvested overseas indefinitely, we do not consider this to have a significant impact on our liquidity.

In addition, we manage our cash investments by investing principally in United States Treasury securities and in investment funds that principally hold United States Treasury securities.

Credit ratings. Credit ratings for our long-term debt remain A2 with Moody’s Investors Service and A with Standard & Poor’s. The credit ratings on our short-term debt remain P-1 with Moody’s Investors Service and A-1 with Standard & Poor’s.

Customer receivables. In line with industry practice, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures to pay our invoices due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets. For example, we have seen a delay in receiving payment on our receivables from one of our primary customers in Venezuela. If our customers delay in paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

BUSINESS ENVIRONMENT AND RESULTS OF OPERATIONS

We operate in approximately 70 countries throughout the world to provide a comprehensive range of discrete and integrated services and products to the energy industry. The majority of our consolidated revenue is derived from the sale of services and products to major, national, and independent oil and natural gas companies worldwide. We serve the upstream oil and natural gas industry throughout the lifecycle of the reservoir, from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production throughout the life of the field. Our two business segments are the Completion and Production segment and the Drilling and Evaluation segment. The industries we serve are highly competitive with many substantial competitors in each segment. In the first nine months of 2010, based upon the location of the services provided and products sold, 45% of our consolidated revenue was from the United States. In the first nine months of 2009, 36% of our consolidated revenue was from the United States. No other country accounted for more than 10% of our revenue during these periods.

Operations in some countries may be adversely affected by unsettled political conditions, acts of terrorism, civil unrest, force majeure, war or other armed conflict, expropriation or other governmental actions, inflation, exchange control problems, and highly inflationary currencies. We believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country would be materially adverse to our consolidated results of operations.

Activity levels within our business segments are significantly impacted by spending on upstream exploration, development, and production programs by major, national, and independent oil and natural gas companies. Also impacting our activity is the status of the global economy, which impacts oil and natural gas consumption. See Item 1(a), "Risk Factors," for further information.

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

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

	Three Months Ended September 30		Year Ended December 31
Average Oil Prices (dollars per barrel)	2010	2009	2009
West Texas Intermediate	$ 75.92	$ 68.20	$ 61.65
United Kingdom Brent	77.44	68.20	61.49
Average United States Gas Prices (dollars per thousand cubic feet, or mcf)			
Henry Hub	$ 4.41	$ 3.26	$ 4.06

The quarterly and year-to-date average rig counts based on the Baker Hughes Incorporated rig count information were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
Land vs. Offshore	2010	2009	2010	2009
United States:				
Land	1,604	940	1,457	1,032
Offshore (incl. Gulf of Mexico)	18	34	35	46
Total	1,622	974	1,492	1,078
Canada:				
Land	360	186	330	201
Offshore	1	1	2	1
Total	361	187	332	202
International (excluding Canada):				
Land	798	699	783	718
Offshore	312	270	305	275
Total	1,110	969	1,088	993
Worldwide total	3,093	2,130	2,912	2,273
Land total	2,762	1,825	2,570	1,951
Offshore total	331	305	342	322

	Three Months Ended September 30		Nine Months Ended September 30	
Oil vs. Natural Gas	2010	2009	2010	2009
United States (incl. Gulf of Mexico):				
Oil	640	279	547	253
Natural Gas	982	695	945	825
Total	1,622	974	1,492	1,078
Canada:				
Oil	219	105	189	90
Natural Gas	142	82	143	112
Total	361	187	332	202
International (excluding Canada):				
Oil	858	756	833	774
Natural Gas	252	213	255	219
Total	1,110	969	1,088	993
Worldwide total	3,093	2,130	2,912	2,273
Oil total	1,717	1,140	1,569	1,117
Natural Gas total	1,376	990	1,343	1,156

	Three Months Ended September 30		Nine Months Ended September 30	
Drilling Type	2010	2009	2010	2009
United States (incl. Gulf of Mexico):				
Horizontal	885	420	777	432
Vertical	515	375	490	441
Directional	222	179	225	205
Total	1,622	974	1,492	1,078

Our customers' cash flows, in many instances, depend upon the revenue they generate from the sale of oil and natural gas. Lower oil and natural gas prices usually translate into lower exploration and production budgets. The opposite is true for higher oil and natural gas prices.

During the latter portion of 2008 and throughout much of 2009, there was an unprecedented decline in oil and natural prices and demand for our services due to the worldwide recession. Since then, prices have rebounded. According to the International Energy Agency's (IEA) October 2010 "Oil Market Report," 2010 world petroleum demand is forecasted to increase 2% over 2009 levels. Emerging economies are becoming a more significant factor in the recovery, while mature economies play a lesser role. The outlook thus faces great uncertainties, as the global recovery remains fragile. Despite the reduction in demand from peak levels in 2008 due to the worldwide recession, we believe that, over the long term, any major macroeconomic disruptions may ultimately correct themselves as the underlying trends of smaller and more complex reservoirs, high depletion rates, and the need for continual reserve replacement should drive the long-term need for our services.

North America operations

Volatility in natural gas prices can impact our customers' drilling and production activities, particularly in North America. In 2009, the region experienced an unprecedented decline in rig count and drilling activity due to the decline in natural gas prices. Beginning in the fourth quarter of 2009 and continuing through the third quarter of 2010, drilling activity has improved. Also, the shift to oil and liquids-rich activity continues to drive service intensity through horizontal drilling and completions complexity. As of September 30, 2010, rig counts had increased approximately 40% from the end of 2009. Current horizontal rigs represent over 50% of total rigs in the United States and are about 40% higher than the levels at the peak rig count of third quarter 2008. These trends have led to increased demand and increased pricing for most of our products and services in our United States land operations. In the third quarter of 2010, North America revenue increased 13% sequentially and operating income increased 30%. Going forward, we expect that the overall rig count will continue to grow, but at a slower rate. We also expect further pricing opportunities from our already high utilization rate; however, growing cost pressure will serve to somewhat slow down the rate of improvement in our margins.

Gulf of Mexico/Macondo well incident. The semisubmersible drilling rig, Deepwater Horizon, sank in the Gulf of Mexico on April 22, 2010 after an explosion and fire onboard the rig that began on April 20, 2010. We performed a variety of services on the well, including cementing, mud logging, directional drilling, measurement-while-drilling, and rig data acquisition services. The cause of the explosion, fire, and resulting oil spill is being investigated by numerous industry participants and governmental agencies. On May 28, 2010, the United States Department of the Interior issued an order imposing a six-month suspension on all offshore deepwater drilling projects. A preliminary injunction has been issued blocking enforcement of the suspension on June 22, 2010, and the Department of the Interior issued a new suspension of deepwater drilling on July 12, 2010. On October 12, 2010, the Department of the Interior announced it was lifting the deepwater drilling suspension.

We are assessing our plans in light of the Macondo well incident relating to the Deepwater Horizon and the prospective regulatory response, including any new temporary or permanent Bureau of Ocean Energy Management, Regulation, and Enforcement (BOE) rules. For the past two quarters we have engaged in discussions with our customers in the Gulf of Mexico and relocated equipment and personnel to other markets. Our business in the Gulf of Mexico represented approximately 12% of our North America revenue in 2008, approximately 16% in 2009 and approximately 10% in the first nine months of 2010, and approximately 5% of our consolidated revenue in 2008, approximately 6% in 2009 and approximately 5% in the first nine months of 2010. Currently, approximately 44% of our Gulf of Mexico business is related to deepwater activities. Generally, our average margins in the Gulf of Mexico have been similar to the average of our United States onshore margins over the last three years, though less volatile. We are adjusting the allocation of our Gulf of Mexico existing assets and/or anticipated capital expenditures to some degree during the remainder of 2010. Despite the fact that the drilling suspension has been lifted, we anticipate a further reduction in our Gulf of Mexico operations in the fourth quarter. Longer term, we do not know the extent of the impact on revenue or earnings, as they are dependent, among other things, on our customers' actions and the potential movement of deepwater rigs to other markets.

In this respect, we referenced earlier in 2010 the following contract wins that are at least partially affected as a result of the hiatus in Gulf of Mexico deepwater activity:

§ a five-year, $1.5 billion contract to provide a broad base of products and services to an international oil company for its work associated with North America; and

§ several wins totaling $1 billion, including $700 million to provide deepwater drilling fluid services in the Gulf of Mexico, Brazil, Indonesia, Angola, and other countries and $300 million for shelf- and land-related work.

International operations

Consistent with our long-term strategy to grow our operations outside of North America, we expect to continue to invest capital in our international operations. The tepid recovery that we are seeing is consistent with the behavior of the previous cycles at this stage. We believe that volume increases will be steady, but measured, which will eventually lead to meaningful absorption of equipment supply and result in pricing power sometime in 2011. During 2009, operating income declined from 2008 levels due to a drop in rig count and the impact of pricing concessions that were renegotiated or given in the contract retendering process. During the third quarter of 2010, revenue outside of North America remained flat and operating income decreased 18% when compared to the prior quarter, primarily due to a non-cash impairment charge for an oil and gas property in Bangladesh. Despite steady activity levels in the third quarter, we have continued concerns around the pace of global recovery, which may cause our customers to revise their capital spending budget for the remainder of the year. Further, international agencies are reassessing the regulatory process, which may potentially cause short-term delays in the execution of certain projects.

Venezuela. We historically had remeasured our net Bolívar Fuerte-denominated monetary asset position at the official, fixed exchange rate of 2.15 Bolívar Fuerte to United States dollar. In January 2010, the Venezuelan government announced a devaluation of the Bolívar Fuerte under a new two-exchange rate system: a 2.6 Bolívar Fuerte to United States dollar rate for essential products and a 4.3 Bolívar Fuerte to United States dollar rate for non-essential products. In the first quarter of 2010, as a result of the devaluation, we recorded a foreign exchange loss of $31 million, which was not tax deductible in Venezuela. We also recorded $10 million of additional tax expense for local Venezuelan income tax purposes as a result of a taxable gain on our net United States dollar-denominated monetary asset position in the country. Based on our best understanding of the two-exchange rate system for non-essential products, we are now utilizing the 4.3 Bolívar Fuerte to United States dollar exchange rate. However, no formal notification has been received from the central bank, which has resulted in uncertainty in the marketplace, including with our primary customer, as to the proper exchange rate to use for energy service industry transactions. As of September 30, 2010, our total net investment in Venezuela was approximately $167 million. In addition to this amount, we also have $210 million of surety bond guarantees outstanding relating to our Venezuelan operations.

Initiatives and recent contract awards

Following is a brief discussion of some of our recent and current initiatives:

- increasing our market share in more economic, unconventional shale plays and deepwater markets by leveraging our broad technology offerings to provide value to our customers through integrated solutions and the ability to more efficiently drill and complete their wells;
- making key investments in technology and capital to accelerate growth opportunities;
- improving working capital, operating within our cash flow, and managing our balance sheet to maximize our financial flexibility;
- continuing to seek ways to be one of the most cost efficient service providers in the industry by using our scale and breadth of operations; and
- expanding our business with national oil companies.

Contract wins positioning us to grow our operations over the long term include:

- an integrated services contract by ExxonMobil Iraq Ltd. for refurbishment of wells in the West Qurna (Phase 1) field in southern Iraq;
- a multi-million dollar contract with Eni to provide a range of integrated energy services, including wireline logging, perforating, acidizing, and well testing, for the redevelopment of the Zubair field in southern Iraq;
- a letter of intent by Shell Iraq Petroleum Development B.V. for the development of the Majnoon field in southern Iraq. The contract is still subject to final approval by the appropriate Iraqi authorities;
- a deepwater, multi-services contract in Angola valued at approximately $1.3 billion for the provision of cementing, production enhancement, completion tools, wireline, and perforating services;
- a contract valued at approximately $750 million from a major exploration and production company for stimulation services in the Williston basin;
- a two-year contract, plus options, with ConocoPhillips China Inc., valued at approximately $40 million, which includes provisions for directional-drilling and logging-while-drilling services on the Peng Lai Development in China's Bohai Bay; and
- frac pack and gravel pack deepwater completions awards in Brazil.

RESULTS OF OPERATIONS IN 2010 COMPARED TO 2009

Three Months Ended September 30, 2010 Compared with Three Months Ended September 30, 2009

REVENUE: Millions of dollars	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Increase (Decrease)	Percentage Change
Completion and Production	$ 2,655	$ 1,821	$ 834	46%
Drilling and Evaluation	2,010	1,767	243	14%
Total revenue	$ 4,665	$ 3,588	$ 1,077	30%
By geographic region:				
Completion and Production:				
North America	$ 1,706	$ 807	$ 899	111%
Latin America	208	223	(15)	(7)
Europe/Africa/CIS	437	483	(46)	(10)
Middle East/Asia	304	308	(4)	(1)
Total	2,655	1,821	834	46
Drilling and Evaluation:				
North America	675	478	197	41
Latin America	360	319	41	13
Europe/Africa/CIS	510	529	(19)	(4)
Middle East/Asia	465	441	24	5
Total	2,010	1,767	243	14
Total revenue by region:				
North America	2,381	1,285	1,096	85
Latin America	568	542	26	5
Europe/Africa/CIS	947	1,012	(65)	(6)
Middle East/Asia	769	749	20	3

OPERATING INCOME: Millions of dollars	Three Months Ended September 30 2010	2009	Increase (Decrease)	Percentage Change
Completion and Production	$ 609	$ 240	$ 369	154%
Drilling and Evaluation	271	283	(12)	(4)
Corporate and other	(62)	(49)	(13)	27
Total operating income	$ 818	$ 474	$ 344	73%
By geographic region:				
Completion and Production:				
North America	$ 458	$ 9	$ 449	4,989%
Latin America	28	45	(17)	(38)
Europe/Africa/CIS	73	107	(34)	(32)
Middle East/Asia	50	79	(29)	(37)
Total	609	240	369	154
Drilling and Evaluation:				
North America	115	28	87	311
Latin America	49	52	(3)	(6)
Europe/Africa/CIS	66	94	(28)	(30)
Middle East/Asia	41	109	(68)	(62)
Total	271	283	(12)	(4)
Total operating income by region (excluding Corporate and other):				
North America	573	37	536	1,449
Latin America	77	97	(20)	(21)
Europe/Africa/CIS	139	201	(62)	(31)
Middle East/Asia	91	188	(97)	(52)

The 30% increase in consolidated revenue in the third quarter of 2010 compared to the third quarter of 2009 was a result of strong activity in United States land, primarily in the Completion and Production segment. Revenue outside North America was 49% of consolidated revenue in the third quarter of 2010 and 64% of consolidated revenue in the third quarter of 2009.

The increase in consolidated operating income compared to the third quarter of 2009 was attributable to strong activity and also improved pricing as the shift to unconventional natural gas and oil basins continues to drive service intensity and completions complexity. Operating income in the third quarter of 2010 was adversely impacted by a $50 million non-cash impairment charge for an oil and gas property in Bangladesh. Operating income in the third quarter of 2009 was adversely impacted by $28 million in charges associated with employee separation costs.

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

Completion and Production revenue increased 46% compared to the third quarter of 2009. North America revenue grew 111%. This growth was attributable to an increase in demand for production enhancement services in our United States land operations. Latin America revenue fell 7% as the curtailment of activity in Mexico offset increased sales across all product service lines in Argentina and Colombia. Europe/Africa/CIS revenue decreased 10% as lower activity for production enhancement services in Europe offset increased demand across all product service lines in Nigeria. Middle East/Asia revenue was essentially flat with improved activity in China offset by declines in India. Revenue outside of North America was 36% of total segment revenue in the third quarter of 2010 and 56% of total segment revenue in the third quarter of 2009.

The increase in Completion and Production operating income compared to the third quarter of 2009 was most significant in North America, where operating income grew by $449 million. The increase in North America was primarily attributable to higher activity and improved pricing for production enhancement and cementing services in United States land. Latin America operating income decreased 38% due to activity declines in Mexico. Europe/Africa/CIS operating income decreased 32%, largely due to higher costs and a decline in activity for production enhancement services. Middle East/Asia operating income fell 37%, due to a decline in completion tools sales in Asia and lower activity for production enhancement services in India and Australia.

Drilling and Evaluation revenue increased compared to the third quarter of 2009, with year-over-year increases in all regions except Europe/Africa/CIS. North America revenue grew 41% with higher activity in United States land and Canada being partially offset by lower drilling fluid service activity in the Gulf of Mexico. Latin America revenue increased 13% as activity reductions in Mexico were offset by increased demand for all product services lines in Brazil, Colombia, and Argentina. Europe/Africa/CIS revenue declined 4% as higher activity in Russia was offset by project delays in Algeria and lower activity in Nigeria and Kazakhstan. Middle East/Asia revenue increased 5% as the commencement of operations in Iraq and Philippines were partially offset by lower direct sales in China. Revenue outside of North America was 66% of total segment revenue in the third quarter of 2010 and 73% of total segment revenue in the third quarter of 2009.

The decrease in Drilling and Evaluation operating income compared to the third quarter of 2009 was most significant in Asia, due to a non-cash impairment charge to an oil and gas property in Bangladesh, partially offset by higher activity and improved pricing in United States land. North America operating income increased $87 million, with the region benefiting from the strong increase in demand for drilling services in United States land. Latin America operating income fell 6%, due to the activity reductions in Mexico. Europe/Africa/CIS operating income fell 30% due to lower drilling activity, project delays, and higher costs in Africa. Middle East/Asia operating income decreased 62%, primarily due to a non-cash impairment charge to an oil and gas property in Bangladesh and lower direct sales in China.

Corporate and other expenses were $62 million in the third quarter of 2010 compared to $49 million in the third quarter of 2009 due to higher pension expenses and legal costs.

NONOPERATING ITEMS

Income from discontinued operations, net in the third quarter of 2010 included $62 million of income primarily related to the finalization of a United States tax matter with the Internal Revenue Service.

RESULTS OF OPERATIONS IN 2010 COMPARED TO 2009

Nine Months Ended September 30, 2010 Compared with Nine Months Ended September 30, 2009

REVENUE: Millions of dollars	Nine Months Ended September 30 2010	2009	Increase (Decrease)	Percentage Change
Completion and Production	$7,012	$5,601	$1,411	25%
Drilling and Evaluation	5,801	5,388	413	8
Total revenue	$12,813	$10,989	$1,824	17%
By geographic region:				
Completion and Production:				
North America	$ 4,265	$ 2,673	$ 1,592	60%
Latin America	622	682	(60)	(9)
Europe/Africa/CIS	1,281	1,348	(67)	(5)
Middle East/Asia	844	898	(54)	(6)
Total	7,012	5,601	1,411	25
Drilling and Evaluation:				
North America	1,931	1,554	377	24
Latin America	1,008	960	48	5
Europe/Africa/CIS	1,567	1,603	(36)	(2)
Middle East/Asia	1,295	1,271	24	2
Total	5,801	5,388	413	8
Total revenue by region:				
North America	6,196	4,227	1,969	47
Latin America	1,630	1,642	(12)	(1)
Europe/Africa/CIS	2,848	2,951	(103)	(3)
Middle East/Asia	2,139	2,169	(30)	(1)

OPERATING INCOME: Millions of dollars	Nine Months Ended September 30 2010	2009	Increase (Decrease)	Percentage Change
Completion and Production	$ 1,344	$ 846	$ 498	59%
Drilling and Evaluation	859	871	(12)	(1)
Corporate and other	(174)	(151)	(23)	15
Total operating income	$ 2,029	$ 1,566	$ 463	30%
By geographic region:				
Completion and Production:				
North America	$ 905	$ 227	$ 678	299%
Latin America	91	152	(61)	(40)
Europe/Africa/CIS	207	253	(46)	(18)
Middle East/Asia	141	214	(73)	(34)
Total	1,344	846	498	59
Drilling and Evaluation:				
North America	339	120	219	183
Latin America	121	159	(38)	(24)
Europe/Africa/CIS	210	271	(61)	(23)
Middle East/Asia	189	321	(132)	(41)
Total	859	871	(12)	(1)
Total operating income by region (excluding Corporate and other):				
North America	1,244	347	897	259
Latin America	212	311	(99)	(32)
Europe/Africa/CIS	417	524	(107)	(20)
Middle East/Asia	330	535	(205)	(38)

The 17% increase in consolidated revenue in the first nine months of 2010 compared to the first nine months of 2009 was primarily due to higher rig counts and increased demand for our products and services in North America. Revenue outside North America was 52% of consolidated revenue in the first nine months of 2010 and 62% of consolidated revenue in the first nine months of 2009.

The increase in consolidated operating income in the first nine months of 2010 compared to the first nine months of 2009 primarily stemmed from improved pricing and increased demand in North America. Operating income in the first nine months of 2010 was adversely impacted by a $50 million non-cash impairment charge for an oil and gas property in Bangladesh. Operating income in the first nine months of 2009 was adversely impacted by $73 million in charges associated with employee separation costs.

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

Completion and Production revenue increase compared to the first nine months of 2009 was the result of higher activity in North America. North America revenue increased 60%, primarily due to increased activity in the United States in cementing services and production enhancement. Latin America revenue fell 9% due to declines in all product service lines from reduced activity in Mexico and Venezuela. Europe/Africa/CIS revenue declined 5% from lower activity in the United Kingdom and decreased demand for production enhancement services in Europe and the Caspian partially offset by increased demand for completion tools in Norway and Angola and higher cementing activity in Russia. Middle East/Asia revenue fell 6%, largely due to a decrease in demand for cementing services and production enhancement services in the Middle East. Lower completion tool sales in Malaysia and India and decreased demand for production enhancement services in India and Australia also contributed to the decline in revenue for the region. Revenue outside North America was 39% of total segment revenue in the first nine months of

2010 and 52% of total segment revenue in the first nine months of 2009.

The Completion and Production segment operating income increase compared to the first nine months of 2009 was due to the North America region, where operating income grew by $678 million, largely due to increases in production enhancement services and cementing services which benefitted from increased rig count associated with higher horizontal drilling activity and improved pricing. Latin America operating income fell 40%, primarily due to lower activity in Mexico. Europe/Africa/CIS operating income declined 18% from declines in Europe in completion tools and production enhancement services. Middle East/Asia operating income decreased 34% due to activity declines throughout the region.

Drilling and Evaluation revenue increased compared to the first nine months of 2009 primarily as a result of increased activity in North America, where revenue grew 24%. Latin America revenue grew 5% as increased demand for all products and services in Brazil was offset by the currency devaluation in Venezuela and lower demand for wireline and perforating services in Mexico. Europe/Africa/CIS revenue was essentially flat for the period as higher drilling activity and increased demand for drilling fluid services in Norway and the Commonwealth of Independent States (CIS) was offset by lower drilling activity and decreased demand for drilling fluid services throughout Africa. Middle East/Asia revenue remained flat as increased demand for drilling fluid services in Australia and Malaysia and wireline and perforating services in the Middle East offset decreased demand for drilling services throughout most of the region. Revenue outside North America was 67% of total segment revenue in the first nine months of 2010 and 71% of total segment revenue in the first nine months of 2009.

Segment operating income compared to the first nine months of 2009 remained flat due to increased activity in North America being offset by lower activity internationally. North America operating income increased $219 million from improved pricing and increased demand for all products and services. Latin America operating income fell 24%, primarily due to lower drilling activity in Mexico and Colombia. The Europe/Africa/CIS region operating income fell 23% as decreased demand and higher costs for drilling services, wireline and perforating services, and drilling fluid services in Africa offset higher drilling services and an improved product mix for drilling fluid services in Norway. Middle East/Asia operating income decreased 41% over the first nine months of 2009 mainly due to a non-cash impairment charge to an oil and gas property in Bangladesh, higher costs throughout most of the region, lower drilling services in Saudi Arabia, and decreased demand for drilling services, wireline and perforating services, and testing and subsea services in most of Asia Pacific.

Corporate and other expenses were $174 million in the first nine months of 2010 compared to $151 million in the first nine months of 2009. The 15% increase was primarily related to higher legal and environmental costs in the first nine months of 2010.

NONOPERATING ITEMS

Interest expense, net of interest income increased $21 million in the first nine months of 2010 compared to the first nine months of 2009 primarily due to the issuance of $2 billion in senior notes in March of 2009.

Other, net in the first nine months of 2010 included a $31 million loss on foreign exchange associated with the devaluation of the Venezuelan Bolívar Fuerte.

Income from discontinued operations, net for the first nine months of 2010 included $62 million of income primarily related to the finalization of a United States tax matter with the Internal Revenue Service.

ENVIRONMENTAL MATTERS

We are subject to numerous environmental, legal, and regulatory requirements related to our operations worldwide. For information related to environmental matters, see Note 6 to the condensed consolidated financial statements, Item 1, "Legal Proceedings—Environmental," and Item 1(a), "Risk Factors."

NEW ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued an update to existing guidance on revenue recognition for arrangements with multiple deliverables. This update will allow companies to allocate consideration received for qualified separate deliverables using estimated selling price for both delivered and undelivered items when vendor-specific objective evidence or third-party evidence is unavailable. Additional disclosures discussing the nature of multiple element arrangements, the types of deliverables under the arrangements, the general timing of their delivery, and significant factors and estimates used to determine estimated selling prices are required. We will adopt this update for new revenue arrangements entered into or materially modified beginning January 1, 2011. We do not expect the provisions of this update to have a material impact on our condensed consolidated financial statements.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Forward-looking information is based on projections and estimates, not historical information. Some statements in this Form 10-Q are forward-looking and use words like "may," "may not," "believes," "do not believe," "expects "do not expect," "anticipates," "do not anticipate," and other expressions. We may also provide oral or written forward-looking information in other materials we release to the public. Forward-looking information involves risk and uncertainties and reflects our best judgment based on current information. Our results of operations can be affected by inaccurate assumptions we make or by known or unknown risks and uncertainties. In addition, other factors may affect the accuracy of our forward-looking information. As a result, no forward-looking information can be guaranteed. Actual events and the results of operations may vary materially.
We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events, or for any other reason. You should review any additional disclosures we make in our press releases and Forms 10-K, 10-Q, and 8-K filed with or furnished to the Securities and Exchange Commission (SEC). We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Item 7(a), "Quantitative and Qualitative Disclosures About Market Risk," in our 2009 Annual Report on Form 10-K. Our exposure to market risk has not changed materially since December 31, 2009.

Item 4. Controls and Procedures

In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2010 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the three months ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
Item 1. Legal Proceedings

The Gulf of Mexico/Macondo well incident
The semisubmersible drilling rig, Deepwater Horizon, sank on April 22, 2010 after an explosion and fire onboard the rig that began on April 20, 2010. The Deepwater Horizon was owned by Transocean Ltd. and had been drilling the Macondo/MC252 exploration well in Mississippi Canyon Block 252 in the Gulf of Mexico for the lease operator, BP Exploration & Production, Inc. (BP Exploration), an indirect wholly owned subsidiary of BP p.l.c. Crude oil flowing from the well site spread across thousands of square miles of the Gulf of Mexico and reached the United States Gulf Coast. Efforts to contain the flow of hydrocarbons from the well were led by the United States government and by BP p.l.c., BP Exploration, and their affiliates (collectively, BP) and the well was permanently capped on September 19, 2010. There were eleven fatalities and a number of injuries as a result of the Macondo well incident.
We performed a variety of services on the Macondo well, including cementing, mud logging, directional drilling, measurement-while-drilling, and rig data acquisition services. We had completed the cementing of the final production casing string in accordance with BP Exploration’s requirements approximately 20 hours prior to the Macondo well incident. We believe that we performed all such work in accordance with BP Exploration’s specifications for its well construction plan and BP Exploration’s instructions.
Investigations. The United States Department of Homeland Security and Department of the Interior are jointly investigating the cause of the Macondo well incident. The United States Coast Guard, a component of the United States Department of Homeland Security, and the BOE (formerly known as the Minerals Management Service), a bureau of the United States Department of the Interior, share jurisdiction over the investigation into the Macondo well incident. In addition, other investigations have been commenced by the Chemical Safety Board, the National Academy of Science and the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling that the President of the United States has established to, among other things, examine the relevant facts and circumstances concerning the causes of the Macondo well incident and develop options for guarding against future oil spills associated with offshore drilling. We are assisting in efforts to identify the factors that led to the Macondo well incident and have participated and will continue to participate in various hearings relating to the incident held by, among others, various committees and subcommittees of the House of Representatives and the Senate of the United States.
On May 28, 2010, the United States Department of the Interior issued an order imposing a six-month suspension on all offshore deepwater drilling projects. A preliminary injunction was issued blocking enforcement of the deepwater drilling suspension on June 22, 2010, and the Department of the Interior issued a new suspension of deepwater drilling on July 12, 2010. On October 12, 2010, the Department of the Interior announced it was lifting the deepwater drilling suspension.
On June 1, 2010, the United States Attorney General announced that the DOJ was launching civil and criminal investigations into the Macondo well incident to closely examine the actions of those involved, and that the DOJ was working with attorneys general of states affected by the Macondo well incident. The DOJ announced that it is reviewing, among other traditional criminal statutes, The Clean Water Act, which carries civil penalties and fines as well as criminal penalties, The Oil Pollution Act of 1990, which can be used to hold parties liable for cleanup costs and reimbursement for government efforts, and The Migratory Bird Treaty Act of 1918 and Endangered Species Act of 1973, which provide penalties for injury and death to wildlife and bird species.
In June 2010, we received a letter from the DOJ requesting thirty days advance notice of any event that may involve substantial transfers of cash or other corporate assets outside of the ordinary course of business. In our reply to the June 2010 DOJ letter, we conveyed our interest in briefing the DOJ on the services we provided on the Deepwater Horizon but indicated that we would not bind ourselves to the DOJ request. Subsequently, we have met twice with the DOJ in August and October to discuss the Macondo well incident and the DOJ’s request.
We intend to cooperate fully with all governmental hearings, investigations, and requests for information relating to the Macondo well incident.

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On September 8, 2010, an incident investigation team assembled by BP issued the Deepwater Horizon Accident Investigation Report (BP Report). The BP Report outlines eight key findings of BP related to the possible causes of the Macondo well incident, including failures of cement barriers, failures of equipment provided by other service companies and the drilling contractor, and failures of judgment by BP and the drilling contractor. With respect to the BP Report's assessment that the cement barrier did not prevent hydrocarbons from entering the wellbore after cement placement, the BP Report concluded that among other things there were "weaknesses in cement design and testing." According to the BP Report, the BP incident investigation team did not review its analyses or conclusions with us or any other entity or governmental agency conducting a separate or independent investigation of the incident. In addition, the BP incident investigation team did not conduct any testing using our cementing products.

Regardless of whether alleged weaknesses in cement design and testing are or are not ultimately established, and regardless of whether the cement slurry was utilized in similar applications or was consistent with industry standards, we believe that had BP conducted a cement bond log test, or had BP and others properly interpreted a negative-pressure test, these tests would have revealed any problems with our cement. A cement bond log test evaluates the integrity of the cement bond, and a negative-pressure test evaluates the integrity of the wellbore casing. BP, however, elected not to conduct a cement bond log test, and with others misinterpreted the negative-pressure tests, which would have resulted in remedial action, if appropriate, with respect to our cementing services.

Litigation. Currently, we have been named along with other unaffiliated defendants in more than 319 class-action complaints involving pollution damage claims and in 27 suits involving multiple plaintiffs that allege wrongful death and other personal injuries arising out of the Macondo well incident. The majority of these suits are consolidated in a multi-district litigation proceeding in the Eastern District of Louisiana. The pollution damage complaints generally allege, among other things, negligence and gross negligence, property damages, and potential economic losses as a result of environmental pollution and generally seek awards of unspecified economic, compensatory, and punitive damages, as well as injunctive relief. The wrongful death and other personal injury complaints generally allege negligence and gross negligence and seek awards of compensatory damages, including unspecified economic damages and punitive damages. We have retained counsel and are investigating and evaluating the claims, the theories of recovery, damages asserted, and our respective defenses to all of these claims. We intend to vigorously defend any litigation, fines, and/or penalties relating to the Macondo well incident. Additional lawsuits may be filed against us.

Indemnification and Insurance. Our contract with BP Exploration relating to the Macondo well provides for our indemnification for potential claims and expenses relating to the Macondo well incident, including those resulting from pollution or contamination (other than claims by our employees, loss or damage to our property, and any pollution emanating directly from our equipment). Also, under our contract with BP Exploration, we have, among other things, generally agreed to indemnify BP Exploration and other contractors performing work on the well for claims for personal injury of our employees and subcontractors, as well as for damage to our property. In turn, we believe that BP Exploration is obligated to obtain agreement by other contractors performing work on the well to indemnify us for claims for personal injury of their employees or subcontractors as well as for damages to their property. We believe that the indemnification obligations contained in our contract are valid and binding against BP Exploration. BP Exploration contractually assumed responsibility for costs and expenses relating to this event, including claims for gross negligence. Given the potential amounts involved, however, BP Exploration and other indemnifying parties may seek to avoid their indemnification obligations. In particular, while we do not believe there is any justification to do so, BP Exploration, in response to our request for indemnification, has generally reserved all of its rights and stated that it is premature to conclude that it is obligated to indemnify us. In doing so, BP Exploration has asserted that the facts are not sufficiently developed to determine who is responsible, and have cited a variety of possible legal theories based upon the contract and facts still to be developed. In addition, the financial analysts and the press have speculated about the financial capacity of BP, and whether it might seek to avoid indemnification obligations in bankruptcy proceedings. We consider the likelihood of a BP bankruptcy to be remote.

In addition to the contractual indemnity, we have a general liability insurance program of $600 million. Our insurance is designed to cover claims by businesses and individuals made against us in the event of property damage, injury or death and, among other things, claims relating to environmental damage. To the extent we incur any losses beyond those covered by indemnification, there can be no assurance that our insurance policies will cover all potential claims and expenses relating to the Macondo well incident. Insurance coverage can be the subject of uncertainties and, particularly in the event of large claims, potential disputes with insurance carriers. Finally, although we consider it remote, if we were to be subject to governmental fines or penalties, it is possible we might not be indemnified or insured.

TSKJ matters

Background. As a result of an ongoing FCPA investigation at the time of the KBR separation, we provided indemnification in favor of KBR under the master separation agreement for certain contingent liabilities, including our indemnification of KBR and any of its greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of a claim made or assessed by a governmental authority in the United States, the United Kingdom, France, Nigeria, Switzerland, and/or Algeria, or a settlement thereof, related to alleged or actual violations occurring prior to November 20, 2006 of the FCPA or particular, analogous applicable foreign statutes, laws, rules, and regulations in connection with investigations pending as of that date, including with respect to the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. As a condition of our indemnity, we have control over the investigation, defense, and/or settlement of these matters. We have the right to terminate the indemnity in the event KBR elects to take control over the investigation, defense, and/or settlement or refuses to agree to a settlement negotiated and presented by us.

TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (a subsidiary of Saipem SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root LLC (a subsidiary of KBR), each of which had an approximate 25% beneficial interest in the venture. Part of KBR’s ownership in TSKJ was held through M.W. Kellogg Limited (MWKL), a United Kingdom joint venture and subcontractor on the Bonny Island project, in which KBR beneficially owns a 55% interest. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA of Italy).

DOJ and SEC investigations resolved. In February 2009, the FCPA investigations by the DOJ and the SEC were resolved with respect to KBR and us. The DOJ and SEC investigations resulted from allegations of improper payments to government officials in Nigeria in connection with the construction and subsequent expansion by TSKJ of the Bonny Island project.

The DOJ investigation was resolved with respect to us with a non-prosecution agreement in which the DOJ agreed not to bring FCPA or bid coordination-related charges against us with respect to the matters under investigation, and in which we agreed to continue to cooperate with the DOJ’s ongoing investigation and to refrain from and self-report certain FCPA violations. The DOJ agreement did not provide a monitor for us.

As part of the resolution of the SEC investigation, we retained an independent consultant to conduct a 60-day review and evaluation of our internal controls and record-keeping policies as they relate to the FCPA, and we agreed to adopt any necessary anti-bribery and foreign agent internal controls and record-keeping procedures recommended by the independent consultant. The review and evaluation were completed during the second quarter of 2009, and we have implemented the consultant’s recommendations. As a result of the substantial enhancement of our anti-bribery and foreign agent internal controls and record-keeping procedures prior to the review of the independent consultant, we do not expect the implementation of the consultant’s recommendations to materially impact our long-term strategy to grow our international operations. In the third quarter of 2010, the independent consultant performed a 30-day, follow-up review, confirming that we have implemented the recommendations and continued the application of our current policies and procedures.

KBR has agreed that our indemnification obligations with respect to the DOJ and SEC FCPA investigations have been fully satisfied.

Other matters. In addition to the DOJ and the SEC investigations, we are aware of other investigations in France, Nigeria, the United Kingdom, and Switzerland regarding the Bonny Island project. In the United Kingdom, the Serious Fraud Office (SFO) is considering civil claims or criminal prosecution under various United Kingdom laws and appears to be focused on the actions of MWKL, among others. Violations of these laws could result in fines, restitution and confiscation of revenues, among other penalties, some of which could be subject to our indemnification obligations under the master separation agreement. Our indemnity for penalties under the master separation agreement with respect to MWKL is limited to 55% of such penalties, which is KBR's beneficial ownership interest in MWKL. MWKL is cooperating with the SFO's investigation. Whether the SFO pursues civil or criminal claims, and the amount of any fines, restitution, confiscation of revenues or other penalties that could be assessed would depend on, among other factors, the SFO's findings regarding the amount, timing, nature and scope of any improper payments or other activities, whether any such payments or other activities were authorized by or made with knowledge of MWKL, the amount of revenue involved, and the level of cooperation provided to the SFO during the investigations. MWKL has informed the SFO that it intends to self-report corporate liability for corruption-related offenses arising out of the Bonny Island project. MWKL has received confirmation that it has been admitted into the plea negotiation process under the Guidelines on Plea Discussions in Cases of Complex or Serious Fraud, which have been issued by the Attorney General for England and Wales.

On September 3, 2010, the Federal Government of Nigeria, through the office of the Attorney General of the Federation, filed criminal charges in connection with the Nigeria LNG project against various companies and individuals including TSKJ Nigeria Limited and the four companies participating in the TSKJ joint ventures, one of which is Kellogg Brown & Root LLC. The charges against TSKJ and its participants involve conspiracy for improper payments to public officials. Our indemnity to KBR would apply to any fines or penalties assessed against KBR should it be found liable in these proceedings. In addition, it has been reported in the press that the Attorney General of Nigeria intends to file a civil lawsuit against us in the United States.

The DOJ and SEC settlements and the other ongoing investigations could result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages, damage to our business or reputation, loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of us or our current or former subsidiaries.

Our indemnity of KBR and its majority-owned subsidiaries continues with respect to other investigations within the scope of our indemnity. Our indemnification obligation to KBR does not include losses resulting from third-party claims against KBR, including claims for special, indirect, derivative or consequential damages, nor does our indemnification apply to damage to KBR's business or reputation, loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of KBR or KBR's current or former subsidiaries.

At this time, other than the claims being considered by the SFO and the charges in Nigeria, no claims by governmental authorities in foreign jurisdictions have been asserted against the indemnified parties.

Barracuda-Caratinga arbitration

We also provided indemnification in favor of KBR under the master separation agreement for all out-of-pocket cash costs and expenses (except for legal fees and other expenses of the arbitration so long as KBR controls and directs it), or cash settlements or cash arbitration awards, KBR may incur after November 20, 2006 as a result of the replacement of certain subsea flowline bolts installed in connection with the Barracuda-Caratinga project. Under the master separation agreement, KBR currently controls the defense, counterclaim, and settlement of the subsea flowline bolts matter. As a condition of our indemnity, for any settlement to be binding upon us, KBR must secure our prior written consent to such settlement's terms. We have the right to terminate the indemnity in the event KBR enters into any settlement without our prior written consent.

At Petrobras' direction, KBR replaced certain bolts located on the subsea flowlines that failed through mid-November 2005, and KBR has informed us that additional bolts have failed thereafter, which were replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. We understand KBR believes several possible solutions may exist, including replacement of the bolts. Initial estimates by KBR indicated that costs of these various solutions ranged up to $148 million. In March 2006, Petrobras commenced arbitration against KBR claiming $220 million plus interest for the cost of monitoring and replacing the defective bolts and all related costs and expenses of the arbitration, including the cost of attorneys' fees. The arbitration panel held an evidentiary hearing in March 2008 to determine which party is responsible for the designation of the material used for the bolts. On May 13, 2009, the arbitration panel held that KBR and not Petrobras selected the material to be used for the bolts. Accordingly, the arbitration panel held that there is no implied warranty by Petrobras to KBR as to the suitability of the bolt material and that the parties' rights are to be governed by the express terms of their contract. The parties presented evidence and witnesses to the panel in May 2010, and final arguments were presented in August 2010.

Securities and related litigation

In June 2002, a class action lawsuit was filed against us in federal court alleging violations of the federal securities laws after the SEC initiated an investigation in connection with our change in accounting for revenue on long-term construction projects and related disclosures. In the weeks that followed, approximately twenty similar class actions were filed against us. Several of those lawsuits also named as defendants several of our present or former officers and directors. The class action cases were later consolidated, and the amended consolidated class action complaint, styled Richard Moore, et al. v. Halliburton Company, et al., was filed and served upon us in April 2003. As a result of a substitution of lead plaintiffs, the case is now styled Archdiocese of Milwaukee Supporting Fund (AMSF) v. Halliburton Company, et al. We settled with the SEC in the second quarter of 2004.

In June 2003, the lead plaintiffs filed a motion for leave to file a second amended consolidated complaint, which was granted by the court. In addition to restating the original accounting and disclosure claims, the second amended consolidated complaint included claims arising out of the 1998 acquisition of Dresser Industries, Inc. by Halliburton, including that we failed to timely disclose the resulting asbestos liability exposure.

In April 2005, the court appointed new co-lead counsel and named AMSF the new lead plaintiff, directing that it file a third consolidated amended complaint and that we file our motion to dismiss. The court held oral arguments on that motion in August 2005, at which time the court took the motion under advisement. In March 2006, the court entered an order in which it granted the motion to dismiss with respect to claims arising prior to June 1999 and granted the motion with respect to certain other claims while permitting AMSF to re-plead some of those claims to correct deficiencies in its earlier complaint. In April 2006, AMSF filed its fourth amended consolidated complaint. We filed a motion to dismiss those portions of the complaint that had been re-pled. A hearing was held on that motion in July 2006, and in March 2007 the court ordered dismissal of the claims against all individual defendants other than our Chief Executive Officer (CEO). The court ordered that the case proceed against our CEO and Halliburton.

In September 2007, AMSF filed a motion for class certification, and our response was filed in November 2007. The court held a hearing in March 2008, and issued an order November 3, 2008 denying AMSF's motion for class certification. AMSF then filed a motion with the Fifth Circuit Court of Appeals requesting permission to appeal the district court's order denying class certification. The Fifth Circuit granted AMSF's motion. Both parties filed briefs, and the Fifth Circuit heard oral argument in December of 2009. The Fifth Circuit affirmed the district court's order denying class certification. On May 13, 2010, AMSF filed a writ of certiorari in the United States Supreme Court. In early October 2010, the Supreme Court neither granted nor denied the Writ of Certiorari but referred it to the Solicitor General for an opinion on whether the Court should accept the case or not. The Solicitor General will confer with interested agencies such as the SEC, meet with the parties, and develop its recommendation, which it will provide to the Court. Then, the Court will decide if it will hear the appeal.

Shareholder derivative cases

In May 2009, two shareholder derivative lawsuits involving us and KBR were filed in Harris County, Texas naming as defendants various current and retired Halliburton directors and officers and current KBR directors. These cases allege that the individual Halliburton defendants violated their fiduciary duties of good faith and loyalty to the detriment of Halliburton and its shareholders by failing to properly exercise oversight responsibilities and establish adequate internal controls. The District Court consolidated the two cases and the plaintiffs filed a consolidated petition against current and former Halliburton directors and officers only containing various allegations of wrongdoing including violations of the FCPA, claimed KBR offenses while acting as a government contractor in Iraq, claimed KBR offenses and fraud under United States government contracts, Halliburton activity in Iran, and illegal kickbacks. Our Board of Directors has designated a special committee of independent directors to oversee the investigation of the allegations made in the lawsuits and make recommendations to the Board on actions that should be taken.

Environmental

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

- the Comprehensive Environmental Response, Compensation, and Liability Act;
- the Resource Conservation and Recovery Act;
- the Clean Air Act;
- the Federal Water Pollution Control Act; and
- the Toxic Substances Control Act.

In addition to the federal laws and regulations, states and other countries where we do business often have numerous environmental, legal, and regulatory requirements by which we must abide. We evaluate and address the environmental impact of our operations by assessing and remediating contaminated properties in order to avoid future liabilities and comply with environmental, legal, and regulatory requirements. On occasion, we are involved in specific environmental litigation and claims, including the remediation of properties we own or have operated, as well as efforts to meet or correct compliance-related matters. Our Health, Safety and Environment group has several programs in place to maintain environmental leadership and to prevent the occurrence of environmental contamination.

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations.

We have subsidiaries that have been named as potentially responsible parties along with other third parties for nine federal and state superfund sites for which we have established a liability. As of September 30, 2010, those nine sites accounted for approximately $10 million of our total $47 million liability. For any particular federal or state superfund site, since our estimated liability is typically within a range and our accrued liability may be the amount on the low end of that range, our actual liability could eventually be well in excess of the amount accrued. Despite attempts to resolve these superfund matters, the relevant regulatory agency may at any time bring suit against us for amounts in excess of the amount accrued. With respect to some superfund sites, we have been named a potentially responsible party by a regulatory agency; however, in each of those cases, we do not believe we have any material liability. We also could be subject to third-party claims with respect to environmental matters for which we have been named as a potentially responsible party.

Item 1(a). Risk Factors

The statements in this section describe the known material risks to our business and should be considered carefully. The risk factors discussed below update the risk factors previously discussed in our 2009 Annual Report on Form 10-K.

An adverse determination or result against us or any party indemnified by us in any investigation or third-party claim related to FCPA matters could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

As a result of an ongoing investigation under the FCPA at the time of the KBR separation, we provided indemnification in favor of KBR and any of its greater than 50%-owned subsidiaries (which included MWKL) against certain liabilities related to investigations under the FCPA or analogous applicable foreign laws.

In February 2009, the FCPA investigations by the DOJ and the SEC were resolved with respect to KBR and us. We are aware of other investigations in France, Nigeria, the United Kingdom, and Switzerland regarding the Bonny Island project. In the United Kingdom, the SFO is considering civil claims or criminal prosecution under various United Kingdom laws and appears to be focused on the actions of MWKL, among others. Violations of these laws could result in fines, restitution and confiscation of revenues, among other penalties, some of which could be subject to our indemnification obligations under the master separation agreement.

On September 3, 2010, the Federal Government of Nigeria, through the office of the Attorney General of the Federation, filed criminal charges in connection with the Nigeria LNG project against various companies and individuals including TSKJ Nigeria Limited and the four companies participating in the TSKJ joint ventures, one of which is Kellogg Brown & Root LLC. The charges against TSKJ and its participants involve conspiracy for improper payments to public officials.

The DOJ and SEC settlements and the other ongoing investigations could result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages, damage to our business or reputation, loss of, or a material adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of us or our current or former subsidiaries.

An adverse determination or result against us or any party indemnified by us in any investigation or third-party claim related to these FCPA matters could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

We could be subject to claims under our indemnification in favor of KBR for liability with respect to undersea bolts installed in connection with KBR's Barracuda-Caratinga project that could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

We also provided indemnification in favor of KBR for out-of-pocket cash costs and expenses, or cash settlements or cash arbitration awards, KBR may incur as a result of the replacement of certain subsea flowline bolts installed in connection with KBR's Barracuda-Caratinga project.

At the direction of Petrobras, the Brazilian national oil company, KBR replaced certain bolts located on the subsea flowlines that failed through mid-November 2005, and KBR has informed us that additional bolts have failed thereafter, which were replaced by Petrobras. In March 2006, Petrobras commenced arbitration against KBR claiming $220 million plus interest for the cost of monitoring and replacing the defective bolts and all related costs and expenses of the arbitration, including the cost of attorneys' fees. The parties presented evidence and witnesses to the panel in May 2010, and final arguments were presented in August 2010. An adverse determination or result against KBR in the arbitration could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

Certain matters relating to the Macondo well incident and similar catastrophic events could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

The semisubmersible drilling rig, Deepwater Horizon, sank on April 22, 2010 after an explosion and fire onboard the rig that began on April 20, 2010. The Deepwater Horizon was owned by Transocean Ltd. and had been drilling the Macondo/MC252 exploration well in Mississippi Canyon Block 252 in the Gulf of Mexico for BP Exploration, the lease operator. Crude oil escaping from the Macondo well site spread across thousands of square miles of the Gulf of Mexico and reached the United States Gulf Coast. We performed a variety of services on the Macondo well.

Results of the Macondo well incident and the subsequent oil spill could include offshore drilling delays, increased state, federal, and international regulation of our and our customer's operations and could negatively impact the availability and cost of insurance coverage. Any increased regulation of the exploration and production industry as a whole that arises out of the Macondo well incident could result in higher operating costs for our customers and reduced demand for our services.

Our contract with BP Exploration relating to the Macondo well provides for our indemnification for claims and expenses relating to the Macondo well incident. Given the potential amounts involved, BP Exploration and other indemnifying parties may seek to avoid their indemnification obligations. Financial analysts and the press have speculated about the financial capacity of BP, and whether it might seek to avoid indemnification obligations in bankruptcy. If BP Exploration filed for bankruptcy protection, a bankruptcy judge could disallow our contract with BP Exploration, including the indemnification obligations thereunder.

In addition, we may be subject to governmental fines or penalties for which we might not be indemnified or insured.

As illustrated by the Macondo well incident, the services we provide for our customers are performed in challenging environments which can be dangerous. Catastrophic events such as a well blowout, fire or explosion can occur, resulting in property damage, personal injury, death, pollution, and environmental damage. While we are typically indemnified by our customers for these types of events and the resulting damages and injuries (except in some cases, claims by our employees, loss or damage to our property, and any pollution emanating directly from our equipment), we will be exposed to significant potential losses should such catastrophic events occur if adequate indemnification provisions are not in place, if existing indemnity provisions are determined by a court to be unenforceable or if our customer is unable or unwilling to satisfy its indemnity obligation.

These matters relating to the Macondo well incident and similar catastrophic events could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

A downward trend in estimates of production volumes or prices or an upward trend in production costs could have a material adverse effect on our consolidated results of operations and result in impairment of or higher depletion rate on our oil and natural gas properties.

We have interests in oil and natural gas properties in Bangladesh and North America totaling approximately $158 million, net of accumulated depletion, which we account for under the successful efforts method. These oil and natural gas properties are assessed for impairment whenever changes in facts and circumstances indicate that the properties' carrying amounts may not be recoverable. The expected future cash flows used for impairment reviews and related fair-value calculations are based on judgmental assessments of future production volumes, prices, and costs, considering all available information at the date of review.

A downward trend in estimates of production volumes or prices or an upward trend in production costs could have a material adverse effect on our consolidated results of operations and result in other impairment charges or a higher depletion rate on our oil and natural gas properties.

Our operations are subject to political and economic instability and risk of government actions that could have a material adverse effect on our consolidated results of operations and consolidated financial condition.

We are exposed to risks inherent in doing business in each of the countries in which we operate. Operations are subject to various risks unique to each country that could have a material adverse effect on our consolidated results of operations and consolidated financial condition. With respect to any particular country, these risks may include:

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

For example, due to the unsettled political conditions in many oil-producing countries, our revenue and profits are subject to the adverse consequences of war, the effects of terrorism, civil unrest, strikes, currency controls, and governmental actions. Countries where we operate that have significant political risk include: Algeria, Indonesia, Iraq, Nigeria, Russia, Kazakhstan, and Venezuela. Our facilities and our employees are under threat of attack in some countries where we operate. In addition, military action or continued unrest in the Middle East could impact the supply and pricing for oil and natural gas, disrupt our operations in the region and elsewhere, and increase our costs for security worldwide.

Our operations outside the United States require us to comply with a number of United States and international regulations, violations of which could have a material adverse effect on our consolidated results of operations and consolidated financial condition.

Our operations outside the United States require us to comply with a number of United States and international regulations. For example, our operations in countries outside the United States are subject to the FCPA, which prohibits United States companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. Our activities create the risk of unauthorized payments or offers of payments by one of our employees or agents that could be in violation of the FCPA, even though these parties are not always subject to our control. We have internal control policies and procedures and have implemented training and compliance programs for our employees and agents with respect to the FCPA. However, we cannot assure that our policies, procedures and programs always will protect us from reckless or criminal acts committed by our employees or agents. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, consolidated results of operations and consolidated financial condition. In addition, investigations by governmental authorities as well as legal, social, economic, and political issues in these countries could have a material adverse effect on our business and consolidated results of operations. We are also subject to the risks that our employees, joint venture partners, and agents outside of the United States may fail to comply with applicable laws.

Acts of terrorism and threats of armed conflicts in or around various areas in which we operate, such as the Middle East, Nigeria, and Indonesia, could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of personnel or assets.
Acts of terrorism and threats of armed conflicts in or around various areas in which we operate, such as the Middle East, Nigeria, and Indonesia, could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts, or the loss of personnel or assets. Such events may cause further disruption to financial and commercial markets and may generate greater political and economic instability in some of the geographic areas in which we operate. In addition, any possible reprisals as a consequence of the wars and ongoing military action in the Middle East, such as acts of terrorism in the United States or elsewhere, could have a material adverse effect on our business and consolidated results of operations.

Changes in or interpretation of tax law and currency/repatriation control could impact the determination of our income tax liabilities for a tax year.
We have operations in approximately 70 countries other than the United States. Consequently, we are subject to the jurisdiction of a significant number of taxing authorities. The income earned in these various jurisdictions is taxed on differing bases, including net income actually earned, net income deemed earned, and revenue-based tax withholding. The final determination of our income tax liabilities involves the interpretation of local tax laws, tax treaties, and related authorities in each jurisdiction, as well as the significant use of estimates and assumptions regarding the scope of future operations and results achieved and the timing and nature of income earned and expenditures incurred. Changes in the operating environment, including changes in or interpretation of tax law and currency/repatriation controls, could impact the determination of our income tax liabilities for a tax year.

We are subject to foreign exchange risks and limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries or to repatriate assets from some countries.
A sizable portion of our consolidated revenue and consolidated operating expenses is in foreign currencies. As a result, we are subject to significant risks, including:

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

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

Trends in oil and natural gas prices affect the level of exploration, development and production activity of our customers and the demand for our services and products which could have a material adverse effect on our consolidated results of operations and consolidated financial condition.

Demand for our services and products is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. The level of exploration, development, and production activity is directly affected by trends in oil and natural gas prices, which, historically, have been volatile and are likely to continue to be volatile.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other economic factors that are beyond our control. Any prolonged reduction in oil and natural gas prices will depress the immediate levels of exploration, development, and production activity which could have a material adverse effect on our consolidated results of operations and consolidated financial condition. Perceptions of longer-term lower oil and natural gas prices by oil and natural gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Factors affecting the prices of oil and natural gas include:

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

The worldwide recession could continue to affect demand for our well services and products, which could have a material adverse effect on our consolidated results of operations.

The worldwide recession has reduced the levels of economic activity and the expansion of industrial business operations. This has negatively impacted worldwide demand for energy, resulting in lower oil and natural gas prices, a lowering of the level of exploration, development, and production activity, and a corresponding decline in the demand for our well services and products. This reduction in demand could continue through 2010 and beyond, which could have a material adverse effect on our consolidated results of operations.

Our business is dependent on capital spending by our customers and reductions in capital spending could have a material adverse effect on our consolidated results of operations.

Our business is directly affected by changes in capital expenditures by our customers, and restrictions in capital spending could have a material adverse effect on our consolidated results of operations. Some of the changes that may materially and adversely affect us include:

- the consolidation of our customers, which could:
  - cause customers to reduce their capital spending, which would in turn reduce the demand for our services and products; and
  - result in customer personnel changes, which in turn affect the timing of contract negotiations;
- adverse developments in the business and operations of our customers in the oil and natural gas industry, including write-downs of reserves and reductions in capital spending for exploration, development, and production; and
- ability of our customers to timely pay the amounts due us.

If our customers delay in paying or fail to pay a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.
We depend on a limited number of significant customers. While none of these customers represented more than 10% of consolidated revenue in any period presented, the loss of one or more significant customers could have a material adverse effect on our business and our consolidated results of operations.
In most cases, we bill our customers for our services in arrears and are, therefore, subject to our customers delaying or failing to pay our invoices. In weak economic environments, we may experience increased delays and failures due to, among other reasons, a reduction in our customers' cash flow from operations and their access to the credit markets. If our customers delay in paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

Our business in Venezuela subjects us to actions by the Venezuelan government and delays in receiving payments, which could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.
We believe there are risks associated with our operations in Venezuela, including the possibility that the Venezuelan government could assume control over our operations and assets. We also continue to see a delay in receiving payment on our receivables from our primary customer in Venezuela and future payments could be based on an exchange rate different than what we believe to be the official rate. If our customer further delays in paying or fails to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.
The future results of our Venezuelan operations will be affected by many factors, including our ability to take actions to mitigate the effect of devaluation of the Bolívar Fuerte, the foreign currency exchange rate, actions of the Venezuelan government, and general economic conditions such as continued inflation and future customer payments and spending.

Doing business with national oil companies exposes us to greater risks of cost overruns, delays, and project losses and unsettled political conditions that can heighten these risks.
Much of the world's oil and natural gas reserves are controlled by national or state-owned oil companies (NOCs). Several of the NOCs are among our top 20 customers. Increasingly, NOCs are turning to oilfield services companies like us to provide the services, technologies, and expertise needed to develop their reserves. Reserve estimation is a subjective process that involves estimating location and volumes based on a variety of assumptions and variables that cannot be directly measured. As such, the NOCs may provide us with inaccurate information in relation to their reserves that may result in cost overruns, delays, and project losses. In addition, NOCs often operate in countries with unsettled political conditions, war, civil unrest, or other types of community issues. These types of issues may also result in similar cost overruns, losses, and contract delays.

Some of our customers require us to enter into long-term, fixed-price contracts that may require us to assume additional risks associated with cost over-runs, operating cost inflation, labor availability and productivity, supplier and contractor pricing and performance, and potential claims for liquidated damages.

Our customers, primarily NOCs, may require integrated, long-term, fixed-price contracts that could require us to provide integrated project management services outside our normal discrete business to act as project managers as well as service providers. Providing services on an integrated basis may require us to assume additional risks associated with cost over-runs, operating cost inflation, labor availability and productivity, supplier and contractor pricing and performance, and potential claims for liquidated damages. For example, we generally rely on third-party subcontractors and equipment providers to assist us with the completion of our contracts. To the extent that we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely fashion or at a profit may be impaired. If the amount we are required to pay for these goods and services exceeds the amount we have estimated in bidding for fixed-price work, we could experience losses in the performance of these contracts. These delays and additional costs may be substantial, and we may be required to compensate the NOCs for these delays. This may reduce the profit to be realized or result in a loss on a project. Currently, long-term, fixed price contracts with NOCs do not comprise a significant portion of our business. However, in the future, based on the anticipated growth of NOCs, we expect our business with NOCs to grow relative to our other business, with these types of contracts likely comprising a more significant portion of our business.

Our acquisitions, dispositions and investments may not result in the realization of savings, the creation of efficiencies, the generation of cash or income, or the reduction of risk, which may have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

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

These transactions also involve risks, and we cannot ensure that:

- any acquisitions would result in an increase in income;
- any acquisitions would be successfully integrated into our operations and internal controls;
- the due diligence prior to an acquisition would uncover situations that could result in legal exposure, including under the FCPA, or that we will appropriately quantify the exposure from known risks;
- any disposition would not result in decreased earnings, revenue, or cash flow;
- use of cash for acquisitions would not adversely affect our cash available for capital expenditures and other uses;
- any dispositions, investments, acquisitions, or integrations would not divert management resources; or
- any dispositions, investments, acquisitions, or integrations would not have a material adverse effect on our results of operations or financial condition.

Actions of and disputes with our joint venture partners could have a material adverse effect on the business and results of operations of our joint ventures and, in turn, our business and consolidated results of operations.

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

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Failure on our part to comply with applicable environmental requirements could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

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

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

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

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

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

Liability for cleanup costs, natural resource damages, and other damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

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

We are periodically notified of potential liabilities at state and federal superfund sites. These potential liabilities may arise from both historical Halliburton operations and the historical operations of companies that we have acquired. Our exposure at these sites may be materially impacted by unforeseen adverse developments both in the final remediation costs and with respect to the final allocation among the various parties involved at the sites. For any particular federal or state superfund site, since our estimated liability is typically within a range and our accrued liability may be the amount on the low end of that range, our actual liability could eventually be well in excess of the amount accrued. The relevant regulatory agency may bring suit against us for amounts in excess of what we have accrued and what we believe is our proportionate share of remediation costs at any superfund site. We also could be subject to third-party claims, including punitive damages, with respect to environmental matters for which we have been named as a potentially responsible party.

Existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change could have a negative impact on our business and may result in additional compliance obligations with respect to the release, capture, and use of carbon dioxide that could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.
Changes in environmental requirements may negatively impact demand for our services. For example, oil and natural gas exploration and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). State, national, and international governments and agencies have been evaluating climate-related legislation and other regulatory initiatives that would restrict emissions of greenhouse gases in areas in which we conduct business. Because our business depends on the level of activity in the oil and natural gas industry, existing or future laws, regulations, treaties or international agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources, could have a negative impact on our business if such laws, regulations, treaties, or international agreements reduce the worldwide demand for oil and natural gas. Likewise, such restrictions may result in additional compliance obligations with respect to the release, capture, and use of carbon dioxide that could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

The adoption of any future federal or state laws or implementing regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete natural gas and oil wells and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.
We are a leading provider of hydraulic fracturing services, a process that creates fractures extending from the well bore through the rock formation to enable natural gas or oil to move more easily through the rock pores to a production well. Bills pending in the United States House and Senate have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. The proposed legislation would require the reporting and public disclosure of chemicals used in the fracturing process. This legislation, if adopted, could establish an additional level of regulation at the federal level that could lead to operational delays and increased operating costs. During the first quarter of 2010, the United States Environmental Protection Agency announced it will begin a detailed scientific study of hydraulic fracturing and the alleged effect on surface and ground water. The adoption of any future federal or state laws or implementing regulations imposing reporting obligations on, or otherwise limiting, the hydraulic fracturing process could make it more difficult to complete natural gas and oil wells and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

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

Constraints in the supply of raw materials can have a material adverse effect on our consolidated results of operations.
Raw materials essential to our business are normally readily available. Market conditions can trigger constraints in the supply chain of certain raw materials, such as sand, cement, and specialty metals, which can have a material adverse effect on our consolidated results of operations. The majority of our risk associated with supply chain constraints occurs in those situations where we have a relationship with a single supplier for a particular resource.

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

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

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

Our ability to operate and our growth potential could be materially and adversely affected if we cannot employ and retain technical personnel at a competitive cost.
Many of the services that we provide and the products that we sell are complex and highly engineered and often must perform or be performed in harsh conditions. We believe that our success depends upon our ability to employ and retain technical personnel with the ability to design, utilize, and enhance these services and products. In addition, our ability to expand our operations depends in part on our ability to increase our skilled labor force. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If either of these events were to occur, our cost structure could increase, our margins could decrease, and any growth potential could be impaired.

Our business could be materially and adversely affected by severe or unseasonable weather, particularly in the Gulf of Mexico where we have operations.

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

- evacuation of personnel and curtailment of services;
- weather-related damage to offshore drilling rigs resulting in suspension of operations;
- weather-related damage to our facilities and project work sites;
- inability to deliver materials to jobsites in accordance with contract schedules; and
- loss of productivity.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Following is a summary of our repurchases of our common stock during the three-month period ended September 30, 2010.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)
July 1-31	4,333	$ 28.13	–
August 1-31	14,275	$ 28.71	–
September 1-30	3,514,300	$ 32.45	3,500,000
Total	3,532,908	$ 32.43	3,500,000

(a) Of the 3,532,908 shares purchased during the three-month period ended September 30, 2010, 32,908 shares were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock grants. These shares were not part of a publicly announced program to purchase common shares.
(b) During the first nine months of 2010, we repurchased 3.5 million shares of our common stock under our existing share repurchase program at a cost of approximately $114 million at an average price of $32.44 per share. The program may be used for open market share purchases. Under this program, we are authorized to purchase up to $5.0 billion, and, since the inception of the program, we have purchased 96 million shares for a total cost of approximately $3.3 billion.

Item 3. Defaults Upon Senior Securities
None.

Item 4. [Removed and Reserved]

Item 5. Other Information
None.

Item 6. Exhibits

*	12.1	Computation of Ratio of Earnings to Fixed Charges
*	31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**	32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**	101.INS	XBRL Instance Document
**	101.SCH	XBRL Taxonomy Extension Schema Document
**	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**	101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
**	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

*	Filed with this Form 10-Q
**	Furnished with this Form 10-Q

SIGNATURES

As required by the Securities Exchange Act of 1934, the registrant has authorized this report to be signed on behalf of the registrant by the undersigned authorized individuals.

HALLIBURTON COMPANY

/s/ Mark A. McCollum	/s/ Evelyn M. Angelle
Mark A. McCollum	Evelyn M. Angelle
Executive Vice President and	Vice President, Corporate Controller, and
Chief Financial Officer	Principal Accounting Officer

Date: October 22, 2010