HALLIBURTON CO
Form 10-Q
October 25, 2013

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, 2013

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	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

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 18, 2013, 848,226,439 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)

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of dollars and shares except per share data	2013	2012	2013	2012
Revenue:				
Services	$5,627	$5,521	$16,527	$16,615
Product sales	1,845	1,590	5,236	4,598
Total revenue	7,472	7,111	21,763	21,213
Operating costs and expenses:				
Cost of services	4,765	4,751	14,144	13,622
Cost of sales	1,519	1,339	4,386	3,911
Loss contingency for Macondo well incident	—	—	1,000	300
General and administrative	80	67	239	202
Total operating costs and expenses	6,364	6,157	19,769	18,035
Operating income	1,108	954	1,994	3,178
Interest expense, net of interest income of $1, $1, $6, and $5	(91)	(71)	(233)	(225)
Other, net	(12)	(6)	(37)	(30)
Income from continuing operations before income taxes	1,005	877	1,724	2,923
Provision for income taxes	(296)	(267)	(380)	(928)
Income from continuing operations	709	610	1,344	1,995
Loss from discontinued operations, net of income tax benefit of $1, $1, $1, and $2	(1)	(6)	(4)	(22)
Net income	$708	$604	$1,340	$1,973
Noncontrolling interest in net income of subsidiaries	(2)	(2)	(8)	(7)
Net income attributable to company	$706	$602	$1,332	$1,966
Amounts attributable to company shareholders:				
Income from continuing operations	$707	$608	$1,336	$1,988
Loss from discontinued operations, net	(1)	(6)	(4)	(22)
Net income attributable to company	$706	$602	$1,332	$1,966
Basic income per share attributable to company shareholders:				
Income from continuing operations	$0.79	$0.66	$1.46	$2.15
Loss from discontinued operations, net	—	(0.01)	—	(0.02)
Net income per share	$0.79	$0.65	$1.46	$2.13
Diluted income per share attributable to company shareholders:				
Income from continuing operations	$0.79	$0.65	$1.45	$2.14
Loss from discontinued operations, net	—	—	—	(0.02)
Net income per share	$0.79	$0.65	$1.45	$2.12
Cash dividends per share	$0.125	$0.09	$0.375	$0.27
Basic weighted average common shares outstanding	890	928	915	925
Diluted weighted average common shares outstanding	894	930	919	927

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of dollars	2013	2012	2013	2012
Net income	$ 708	$ 604	$ 1,340	$ 1,973
Other comprehensive income, net of income taxes:				
Defined benefit and other postretirement plans adjustments	$ 2	$ 1	$ 8	$ 15
Other	—	(2)	1	(4)
Other comprehensive income (loss), net of income taxes	2	(1)	9	11
Comprehensive income	$ 710	$ 603	$ 1,349	$ 1,984
Comprehensive income attributable to noncontrolling interest	(2)	(2)	(8)	(7)
Comprehensive income attributable to company shareholders	$ 708	$ 601	$ 1,341	$ 1,977

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY
Condensed Consolidated Balance Sheets

Millions of dollars and shares except per share data	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and equivalents	$1,491	$2,484
Receivables (less allowance for bad debts of $96 and $92)	6,626	5,787
Inventories	3,399	3,186
Other current assets	1,374	1,629
Total current assets	12,890	13,086
Property, plant, and equipment, net of accumulated depreciation of $9,137 and $8,056	10,949	10,257
Goodwill	2,125	2,135
Other assets	1,984	1,932
Total assets	$27,948	$27,410
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$2,278	$2,041
Accrued employee compensation and benefits	928	930
Other current liabilities	1,556	1,781
Total current liabilities	4,762	4,752
Long-term debt	7,816	4,820
Loss contingency for Macondo well incident	1,022	300
Employee compensation and benefits	575	607
Other liabilities	955	1,141
Total liabilities	15,130	11,620
Shareholders' equity:		
Common shares, par value $2.50 per share (authorized 2,000 shares, issued 1,072 and 1,073 shares)	2,681	2,682
Paid-in capital in excess of par value	401	486
Accumulated other comprehensive loss	(300)	(309)
Retained earnings	18,177	17,182
Treasury stock, at cost (225 and 144 shares)	(8,171)	(4,276)
Company shareholders' equity	12,788	15,765
Noncontrolling interest in consolidated subsidiaries	30	25
Total shareholders' equity	12,818	15,790
Total liabilities and shareholders' equity	$27,948	$27,410

See notes to condensed consolidated financial statements.

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HALLIBURTON COMPANY
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30	
Millions of dollars	2013	2012
Cash flows from operating activities:		
Net income	$1,340	$1,973
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, depletion, and amortization	1,403	1,197
Loss contingency for Macondo well incident	1,000	300
Other changes:		
Receivables	(856)	(776)
Accounts payable	243	297
Payment of Barracuda-Caratinga obligation	(219)	—
Inventories	(210)	(968)
Other	(152)	(110)
Total cash flows from operating activities	2,549	1,913
Cash flows from investing activities:		
Capital expenditures	(2,075)	(2,519)
Sales of investment securities	294	250
Purchases of investment securities	(168)	(171)
Other investing activities	82	(18)
Total cash flows from investing activities	(1,867)	(2,458)
Cash flows from financing activities:		
Payments to reacquire common stock	(4,356)	—
Proceeds from long-term borrowings, net of offering costs	2,968	—
Dividends to shareholders	(337)	(250)
Other financing activities	58	132
Total cash flows from financing activities	(1,667)	(118)
Effect of exchange rate changes on cash	(8)	(3)
Decrease in cash and equivalents	(993)	(666)
Cash and equivalents at beginning of period	2,484	2,698
Cash and equivalents at end of period	$1,491	$2,032
Supplemental disclosure of cash flow information:		
Cash payments during the period for:		
Interest	$269	$269
Income taxes	$566	$1,032

See notes to condensed consolidated financial statements.

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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 2012 Annual Report on Form 10-K.

Our accounting policies are in accordance with United States generally accepted accounting principles. 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, 2013, the results of our operations for the three and nine months ended September 30, 2013 and 2012, and our cash flows for the nine months ended September 30, 2013 and 2012. Such adjustments are of a normal recurring nature. In addition, certain reclassifications of prior period balances have been made to conform to 2013 classifications. The results of our operations for the three and nine months ended September 30, 2013 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 (such as the loss contingencies related to the Macondo well incident recorded during the first quarters of 2013 and 2012 and a $55 million charitable contribution expensed during the second quarter of 2013). Intersegment revenue was immaterial. Our equity in earnings and losses of unconsolidated affiliates that are accounted for by the equity method of accounting are included in revenue and operating income of the applicable segment.

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of dollars	2013	2012	2013	2012
Revenue:				
Completion and Production	$4,501	$4,293	$12,964	$13,043
Drilling and Evaluation	2,971	2,818	8,799	8,170
Total revenue	$7,472	$7,111	$21,763	$21,213
Operating income:				
Completion and Production	$763	$591	$2,110	$2,541
Drilling and Evaluation	450	430	1,272	1,191
Total operations	1,213	1,021	3,382	3,732
Corporate and other	(105)	(67)	(1,388)	(554)
Total operating income	$1,108	$954	$1,994	$3,178
Interest expense, net of interest income	(91)	(71)	(233)	(225)
Other, net	(12)	(6)	(37)	(30)
Income from continuing operations before income taxes	$1,005	$877	$1,724	$2,923

Receivables

As of September 30, 2013, 33% of our gross trade receivables were from customers in the United States. As of December 31, 2012, 36% of our gross trade receivables were from customers in the United States. No other country or single customer accounted for more than 10% of our gross trade receivables at these dates.

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Note 3. Inventories

Inventories are stated at the lower of cost or market value. 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 $162 million as of September 30, 2013 and $139 million as of December 31, 2012. If the average cost method had been used, total inventories would have been $34 million higher than reported as of September 30, 2013 and $41 million higher than reported as of December 31, 2012. The cost of the remaining inventory was recorded on the average cost method. Inventories consisted of the following:

Millions of dollars	September 30, 2013	December 31, 2012
Finished products and parts	$2,441	$2,264
Raw materials and supplies	805	793
Work in process	153	129
Total	$3,399	$3,186

Finished products and parts are reported net of obsolescence reserves of $130 million as of September 30, 2013 and $114 million as of December 31, 2012.

Note 4. Debt

Senior debt

In August 2013, we issued $3.0 billion aggregate principal amount of senior notes in four tranches: $600 million of 1.0% senior notes due August 2016, $400 million of 2.0% senior notes due August 2018, $1.1 billion of 3.5% senior notes due August 2023, and $900 million of 4.75% senior notes due August 2043. These senior notes rank equally with our existing and future senior unsecured indebtedness, have semiannual interest payments, and have no sinking fund requirements. We may redeem some or all of the notes of each series at any time at the applicable redemption prices, plus accrued and unpaid interest.

Revolving credit facilities

In April 2013, we amended our $2.0 billion five-year revolving credit facility expiring in 2016. The amendment increased the facility from $2.0 billion to $3.0 billion and extended the expiration to 2018. The purpose of the facility is to provide general working capital and credit for other corporate purposes. The full amount of the facility was available as of September 30, 2013.

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Note 5. 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, 2012	$ 15,790	$ 15,765	$ 25
Shares repurchased	(4,356)	(4,356)	—
Stock plans	397	397	—
Payments of dividends to shareholders	(337)	(337)	—
Other	(25)	(22)	(3)
Comprehensive income	1,349	1,341	8
Balance at September 30, 2013	$ 12,818	$ 12,788	$ 30

Millions of dollars	Total shareholders' equity	Company shareholders' equity	Noncontrolling interest in consolidated subsidiaries
Balance at December 31, 2011	$ 13,216	$ 13,198	$ 18
Stock plans	265	265	—
Payments of dividends to shareholders	(250)	(250)	—
Other	(24)	(22)	(2)
Comprehensive income	1,984	1,977	7
Balance at September 30, 2012	$ 15,191	$ 15,168	$ 23

In July 2013, our board of directors increased the authorization to purchase Halliburton common stock by $4.3 billion, to a new total repurchase capacity of $5.0 billion. In August 2013, we repurchased approximately 68 million shares of our common stock for an aggregate cost of $3.3 billion at a purchase price of $48.50 per share, excluding fees and expenses, pursuant to a modified Dutch auction cash tender offer. During the nine months ended September 30, 2013, we repurchased approximately 93 million shares of our common stock for a total cost of approximately $4.4 billion at an average price of $47.02 per share. As of September 30, 2013, approximately $1.7 billion remains available under the stock purchase authorization.

Accumulated other comprehensive loss consisted of the following:

Millions of dollars	September 30, 2013	December 31, 2012
Defined benefit and other postretirement liability adjustments	$ (233)	$ (241)
Cumulative translation adjustments	(68)	(69)
Other	1	1
Total accumulated other comprehensive loss	$ (300)	$ (309)

Amounts reclassified out of accumulated other comprehensive loss for the nine months ended September 30, 2013 and 2012 were not material. Additionally, the tax effects allocated to each component of other comprehensive income for the three and nine months ended September 30, 2013 and 2012 were not material.

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Note 6. 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. We entered into various agreements relating to the separation of KBR, including, among others, a Master Separation Agreement (“MSA”) and a Tax Sharing Agreement (“TSA”). We recorded a liability reflecting the estimated fair value of the indemnities provided to KBR. Since the separation, we have recorded adjustments to reflect changes to our estimation of our remaining obligation. All such adjustments are recorded in “Income (loss) from discontinued operations, net of income tax (provision) benefit.” Amounts accrued relating to our KBR liabilities were included in “Other liabilities” in our condensed consolidated balance sheets and totaled $219 million as of December 31, 2012. During the first quarter of 2013, we paid $219 million to satisfy our obligation under a guarantee related to the Barracuda-Caratinga matter, a legacy KBR project. Accordingly, there were no amounts accrued at September 30, 2013.

Tax Sharing Agreement

The TSA provides for the calculation and allocation of United States and certain other jurisdiction tax liabilities between KBR and us for the periods 2001 through the date of separation. The TSA is complex, and finalization of amounts owed between KBR and us under the TSA can occur only after income tax audits are completed by the taxing authorities and both parties have had time to analyze the results.

During the second quarter of 2012, we sent a notice as required by the TSA to KBR requesting the appointment of an arbitrator in accordance with the terms of the TSA. This request asked the arbitrator to find that KBR owes us a certain amount pursuant to the TSA. KBR denied that it owes us any amount and asserted instead that we owe KBR a certain amount under the TSA. KBR also asserted that they believe the MSA controls its defenses to our TSA claim and demanded arbitration under that agreement. On July 10, 2012, we filed suit in the District Court of Harris County, Texas, seeking to compel KBR to arbitrate this dispute in accordance with the provisions of the TSA, rather than the MSA. KBR filed a cross-motion seeking to compel arbitration under the MSA. In September 2012, the court denied our motion and granted KBR's motion to compel arbitration under the MSA. We continue to believe that the TSA was intended to govern this matter and have filed a notice of appeal, which is pending.

In May 2013, KBR's defenses were arbitrated before a panel appointed pursuant to the MSA. In June 2013, the panel issued its award, finding it had jurisdiction to hear the dispute and that a significant portion of our claims made under the TSA were barred by the time limitation provision in the MSA. While we disagree with the court's ruling and the MSA panel's findings, we are legally bound by these decisions, subject to the outcome of our notice of appeal.

The MSA panel also ordered the parties to return to the TSA arbitrator for determination of the parties' remaining claims under the TSA. The Parties chose an accounting referee to provide the determination of the amounts due with respect to the remaining claims under the TSA. On October 9, 2013, the accounting referee issued its report regarding the claims made by each party. The report found that KBR owes us a net amount of approximately $105 million, plus interest, with each party bearing its own costs related to the matter.

According to KBR’s public filings, KBR is reviewing, among other remedies, its ability to return to the MSA arbitration panel to determine if any of our claims submitted to the accounting referee were time barred under the MSA. Due to the uncertainty surrounding the ultimate determination of the parties' claims under the TSA, no material anticipated recovery amounts or liabilities related to this matter have been recognized in the condensed consolidated financial statements as of September 30, 2013.

Note 7. Commitments and Contingencies

Macondo well incident

Overview. 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 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. We performed a variety of services for BP Exploration, including cementing, mud logging, directional drilling, measurement-while-drilling, and rig data acquisition services. 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). The flow of hydrocarbons from the well ceased on July 15, 2010, and the well was permanently capped on September 19, 2010. Numerous attempts at estimating the volume of oil spilled have been made by various groups, and on August 2, 2010 the federal government published an estimate that approximately 4.9 million barrels of oil were discharged from the well. There were eleven fatalities and a number of injuries as a result of the Macondo well incident.

We are currently unable to fully estimate the impact the Macondo well incident will have on us. The multi-district litigation (MDL) trial referred to below is ongoing. We cannot predict the outcome of the many lawsuits and investigations relating to the Macondo well incident, including orders and rulings of the court that impact the MDL, the results of the MDL trial, the effect that the settlements between BP and the Plaintiffs' Steering Committee (PSC) in the MDL and other settlements may have on claims against us, or whether we might settle with one or more of the parties to any lawsuit or investigation.

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During the first quarter of 2013, we increased our reserve relating to the MDL to $1.3 billion based on court-facilitated settlement discussions that had taken place during the first quarter. As of September 30, 2013, our loss contingency for the Macondo well incident, relating to the MDL, remained at $1.3 billion, consisting of a current portion of $0.3 billion included in "Other current liabilities" and a non-current portion of $1.0 billion reflected as "Loss contingency for Macondo well incident" on our condensed consolidated balance sheets. This reserve represents a loss contingency that is probable and for which a reasonable estimate of a loss can be made, although we continue to believe that we have substantial legal arguments and defenses against any liability and that BP's indemnity obligation protects us as described below. This loss contingency does not include potential recoveries from our insurers. We have been participating in intermittent discussions with the PSC regarding the potential for a settlement that would resolve a substantial portion of the claims pending in the MDL trial. BP, however, is not participating in those settlement discussions as it is challenging certain provisions of its settlement with the PSC.

Reaching a settlement of the type contemplated by our current discussions involves a complex process, and there can be no assurance as to whether or when we may complete a settlement. In addition, the settlement discussions do not cover all parties and claims relating to the Macondo well incident. Accordingly, there are additional loss contingencies relating to the Macondo well incident that are reasonably possible but for which we cannot make a reasonable estimate. Given the numerous potential developments relating to the MDL and other lawsuits and investigations, which could occur at any time, we may adjust our estimated loss contingency in the future. Liabilities arising out of the Macondo well incident could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

In September 2013, the United States Department of Justice (DOJ) closed the federal government's criminal investigation of us in relation to the Macondo well incident. See "DOJ Investigations and Actions" below for more information.

Investigations and Regulatory Action. 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 (formerly known as the Minerals Management Service and which was replaced effective October 1, 2011 by two new, independent bureaus – the Bureau of Safety and Environmental Enforcement (BSEE) and the Bureau of Ocean Energy Management), a bureau of the United States Department of the Interior, shared jurisdiction over the investigation into the Macondo well incident and formed a joint investigation team that reviewed information and held hearings regarding the incident (Marine Board Investigation). We were named as one of the 16 parties-in-interest in the Marine Board Investigation. The Marine Board Investigation, as well as investigations of the incident that were conducted by The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling (National Commission) and the National Academy of Sciences, have been completed, and reports issued as a result of those investigations have been critical of BP, Transocean, and us, among others. For example, one or more of those reports have concluded that primary cement failure was a direct cause of the blowout, that cement testing performed by an independent laboratory “strongly suggests” that the foam cement slurry used on the Macondo well was unstable, and that numerous other oversights and factors caused or contributed to the cause of the incident, including BP's failure to run a cement bond log, BP's and Transocean's failure to properly conduct and interpret a negative-pressure test, the failure of the drilling crew and our surface data logging specialist to recognize that an unplanned influx of oil, natural gas, or fluid into the well was occurring, communication failures among BP, Transocean, and us, and flawed decisions relating to the design, construction, and testing of barriers critical to the temporary abandonment of the well. The U.S. Chemical Safety and Hazard Investigation Board is also conducting an investigation of the incident.

In October 2011, the BSEE issued a notification of Incidents of Noncompliance (INCs) to us for allegedly violating federal regulations relating to the failure to take measures to prevent the unauthorized release of hydrocarbons, the failure to take precautions to keep the Macondo well under control, the failure to cement the well in a manner that would, among other things, prevent the release of fluids into the Gulf of Mexico, and the failure to protect health, safety, property, and the environment as a result of a failure to perform operations in a safe and workmanlike manner. According to the BSEE's notice, we did not ensure an adequate barrier to hydrocarbon flow after cementing the production casing and did not detect the influx of hydrocarbons until they were above the blowout preventer stack. We understand that the regulations in effect at the time of the alleged violations provide for fines of up to $35,000 per day

per violation. We have appealed the INCs to the Interior Board of Land Appeals (IBLA). In January 2012, the IBLA, in response to our and the BSEE's joint request, suspended the appeal and ordered us and the BSEE to file notice within 15 days after the conclusion of the MDL and, within 60 days after the MDL court issues a final decision, to file a proposal for further action in the appeal. The BSEE has announced that the INCs will be reviewed for possible imposition of civil penalties once the appeal has ended. The BSEE has stated that this is the first time the Department of the Interior has issued INCs directly to a contractor that was not the well's operator.

The Cementing Job and Reaction to Reports. We disagree with the reports referred to above regarding many of their findings and characterizations with respect to our cementing and surface data logging services, as applicable, on the Deepwater Horizon. We have provided information to the National Commission, its staff, and representatives of the joint investigation team for the Marine Board Investigation that we believe has been overlooked or omitted from their reports, as applicable. We intend to continue to vigorously defend ourselves in any investigation relating to our involvement with the Macondo well that we believe inaccurately evaluates or depicts our services on the Deepwater Horizon.

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The cement slurry on the Deepwater Horizon was designed and prepared pursuant to well condition data provided by BP. 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 prepared consistent with industry standards, we believe that had BP and Transocean properly interpreted a negative-pressure test, this test would have revealed any problems with the cement. In addition, had BP designed the Macondo well to allow a full cement bond log test or if BP had conducted even a partial cement bond log test, the test likely would have revealed any problems with the cement. BP, however, elected not to conduct any cement bond log tests, and with Transocean misinterpreted the negative-pressure test, both of which could have resulted in remedial action, if appropriate, with respect to the cementing services.

At this time we cannot predict the impact of the investigations or reports referred to above, or the conclusions of future investigations or reports. We also cannot predict whether any investigations or reports will have an influence on or result in us being named as a party in any action alleging liability or violation of a statute or regulation.

We intend to continue to cooperate fully with all hearings, investigations, and requests for information relating to the Macondo well incident. We cannot predict the outcome of, or the costs to be incurred in connection with, any of these hearings or investigations, and therefore we cannot predict the potential impact they may have on us.

DOJ Investigations and Actions. 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 was reviewing, among other traditional criminal statutes, possible violations of and liabilities under The Clean Water Act (CWA), The Oil Pollution Act of 1990 (OPA), and the Endangered Species Act of 1973 (ESA).

The CWA provides authority for civil penalties for discharges of oil into or upon navigable waters of the United States, adjoining shorelines, or in connection with the Outer Continental Shelf Lands Act (OCSLA) in quantities that are deemed harmful. A single discharge event may result in the assertion of numerous violations under the CWA. Civil proceedings under the CWA can be commenced against an “owner, operator, or person in charge of any vessel, onshore facility, or offshore facility from which oil or a hazardous substance is discharged” in violation of the CWA. The civil penalties that can be imposed against responsible parties range from up to $1,100 per barrel of oil discharged in the case of those found strictly liable to $4,300 per barrel of oil discharged in the case of those found to have been grossly negligent.

The OPA establishes liability for discharges of oil from vessels, onshore facilities, and offshore facilities into or upon the navigable waters of the United States. Under the OPA, the “responsible party” for the discharging vessel or facility is liable for removal and response costs as well as for damages, including recovery costs to contain and remove discharged oil and damages for injury to natural resources and real or personal property, lost revenues, lost profits, and lost earning capacity. The cap on liability under the OPA is the full cost of removal of the discharged oil plus up to $75 million for damages, except that the $75 million cap does not apply in the event the damage was proximately caused by gross negligence or the violation of certain federal safety, construction or operating standards. The OPA defines the set of responsible parties differently depending on whether the source of the discharge is a vessel or an offshore facility. Liability for vessels is imposed on owners and operators; liability for offshore facilities is imposed on the holder of the permit or lessee of the area in which the facility is located.

The ESA establishes liability for injury and death to wildlife. The ESA provides for civil penalties for knowing violations that can range up to $25,000 per violation.

On December 15, 2010, the DOJ filed a civil action seeking damages and injunctive relief against BP Exploration, Anadarko Petroleum Corporation and Anadarko E&P Company LP (together, Anadarko), which had an approximate 25% interest in the Macondo well, certain subsidiaries of Transocean Ltd., and others for violations of the CWA and the OPA. The DOJ’s complaint seeks an action declaring that the defendants are strictly liable under the CWA as a result of harmful discharges of oil into the Gulf of Mexico and upon United States shorelines as a result of the Macondo well incident. The complaint also seeks an action declaring that the defendants are strictly liable under the OPA for the discharge of oil that has resulted in, among other things, injury to, loss of, loss of use of, or destruction of natural resources and resource services in and around the Gulf of Mexico and the adjoining United States shorelines

and resulting in removal costs and damages to the United States far exceeding $75 million. BP Exploration has been designated, and has accepted the designation, as a responsible party for the pollution under the CWA and the OPA. Others have also been named as responsible parties, and all responsible parties may be held jointly and severally liable for any damages under the OPA. A responsible party may make a claim for contribution against any other responsible party or against third parties it alleges contributed to or caused the oil spill. In connection with the proceedings discussed below under "Litigation," in April 2011 BP Exploration filed a claim against us for equitable contribution with respect to liabilities incurred by BP Exploration under the OPA or another law, which subsequent court filings have indicated may include the CWA, and requested a judgment that the DOJ assert its claims for OPA financial liability directly against us. We filed a motion to dismiss BP Exploration's claim, and that motion is pending. In July 2013, we also filed a motion for summary judgment requesting a court order that we are not liable to BP or Transocean for equitable indemnification or contribution with regard to any CWA fines and penalties that have been assessed or may be assessed against BP or Transocean. That motion is also pending.

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We were not named as a responsible party under the CWA or the OPA in the DOJ civil action, and we do not believe we are a responsible party under the CWA or the OPA. While we were not included in the DOJ's civil complaint, there can be no assurance that federal governmental authorities will not bring a civil action against us under the CWA, the OPA, and/or other statutes or regulations, or that state governmental authorities will not bring an action, whether civil or criminal, against us.

In July 2013, we reached an agreement with the DOJ to conclude the federal government's criminal investigation of us in relation to the Macondo well incident. Pursuant to a cooperation guilty plea agreement, Halliburton Energy Services, Inc., our wholly owned subsidiary (HESI), agreed to plead guilty to one misdemeanor violation of federal law concerning the deletion of certain computer files created after the occurrence of the Macondo well incident. Pursuant to the plea agreement, HESI agreed to pay a criminal fine of $0.2 million within five days of sentencing and agreed to three years' probation. The DOJ has agreed that it will not pursue further criminal prosecution of us (including our subsidiaries) for any conduct relating to or arising out of the Macondo well incident. We have agreed to continue to cooperate with the DOJ in any ongoing investigation related to or arising from the incident. In September 2013, our guilty plea was entered and approved by a federal district court judge on the terms and conditions of the plea agreement, and the DOJ closed its criminal investigation of us in relation to the Macondo well incident.

In November 2012, BP announced that it reached an agreement with the DOJ to resolve all federal criminal charges against it stemming from the Macondo well incident. BP agreed to plead guilty to 14 criminal charges, with 13 of those charges based on the negligent misinterpretation of the negative-pressure test conducted on the Deepwater Horizon. BP also agreed to pay $4.0 billion, including approximately $1.3 billion in criminal fines, to take actions to further enhance the safety of drilling operations in the Gulf of Mexico, to a term of five years' probation, and to the appointment of two monitors with four-year terms, one relating to process safety and risk management procedures concerning deepwater drilling in the Gulf of Mexico and one relating to the improvement, implementation, and enforcement of BP's code of conduct.

In January 2013, Transocean announced that it reached an agreement with the DOJ to resolve certain claims for civil penalties and potential criminal claims against it arising from the Macondo well incident. Transocean agreed to plead guilty to one misdemeanor violation of the CWA for negligent discharge of oil into the Gulf of Mexico, to pay $1.0 billion in CWA penalties and $400 million in fines and recoveries, to implement certain measures to prevent a recurrence of an uncontrolled discharge of hydrocarbons, and to a term of five years' probation.

Litigation. Since April 21, 2010, plaintiffs have been filing lawsuits relating to the Macondo well incident. Generally, those lawsuits allege either (1) damages arising from the oil spill pollution and contamination (e.g., diminution of property value, lost tax revenue, lost business revenue, lost tourist dollars, inability to engage in recreational or commercial activities) or (2) wrongful death or personal injuries. We are named along with other unaffiliated defendants in more than 1,800 complaints, most of which are alleged class actions, involving pollution damage claims and at least eight personal injury lawsuits involving four decedents and at least 10 allegedly injured persons who were on the drilling rig at the time of the incident. At least six additional lawsuits naming us and others relate to alleged personal injuries sustained by those responding to the explosion and oil spill. Plaintiffs originally filed the lawsuits described above in federal and state courts throughout the United States. Except for a relatively small number of lawsuits not yet consolidated, the Judicial Panel on Multi-District Litigation ordered all of the lawsuits against us consolidated in the MDL proceeding before Judge Carl Barbier in the United States Eastern District of Louisiana. The pollution complaints generally allege, among other things, negligence and gross negligence, property damages, taking of protected species, 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. Plaintiffs in these pollution cases have brought suit under various legal provisions, including the OPA, the CWA, The Migratory Bird Treaty Act of 1918, the ESA, the OCSLA, the Longshoremen and Harbor Workers Compensation Act, general maritime law, state common law, and various state environmental and products liability statutes.

Furthermore, the pollution complaints include suits brought against us by governmental entities, including the State of Alabama, the State of Florida, the State of Louisiana, the State of Mississippi, the State of Texas, numerous local governmental entities, the Mexican State of Yucatan, and the United Mexican States. Complaints brought against us by at least seven parishes in Louisiana were dismissed with prejudice, and the dismissal is being appealed by those

parishes. 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.

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Judge Barbier is also presiding over a separate proceeding filed by Transocean under the Limitation of Liability Act (Limitation Action). In the Limitation Action, Transocean seeks to limit its liability for claims arising out of the Macondo well incident to the value of the rig and its freight. While the Limitation Action has been formally consolidated into the MDL, the court is nonetheless, in some respects, treating the Limitation Action as an associated but separate proceeding. In February 2011, Transocean tendered us, along with all other defendants, into the Limitation Action. As a result of the tender, we and all other defendants will be treated as direct defendants to the plaintiffs' claims as if the plaintiffs had sued us and the other defendants directly. In the Limitation Action, the judge intends to determine the allocation of liability among all defendants in the hundreds of lawsuits associated with the Macondo well incident, including those in the MDL proceeding that are pending in his court. Specifically, we believe the judge will determine the liability, limitation, exoneration, and fault allocation with regard to all of the defendants in a trial, which is scheduled to occur in at least two phases and which began in February 2013.

The first phase of this trial has concluded and covered issues arising out of the conduct and degree of culpability of various parties allegedly relevant to the loss of well control, the ensuing fire and explosion on and sinking of the Deepwater Horizon, and the initiation of the release of hydrocarbons from the Macondo well. After the conclusion of the first phase, the parties to the MDL, including the PSC, the States of Louisiana and Alabama, the United States, BP, Transocean, and us, submitted proposed findings of fact and conclusions of law and post-trial briefs. The MDL court has not ruled on any of the findings or briefs that were submitted.

The second phase of this trial was split into two parts, with testimony presented in October 2013. The first part covered attempts to collect, control, or halt the flow of hydrocarbons from the well, while the second part covered the quantification of hydrocarbons discharged from the well. The parties will now submit post-trial briefs, responses, and proposed findings of fact and conclusions of law over the next three months according to a schedule announced by the MDL Court.

Subsequent proceedings would be held to the extent triable issues remain unresolved by the first two phases of the trial, settlements, motion practice, or stipulation. Although the DOJ participated in the first two phases of the trial with regard to BP's conduct and the amount of hydrocarbons discharged from the well, the MDL court anticipates that the DOJ's civil action for the CWA violations, fines, and penalties will be addressed by the court in a third phase of the trial to the extent necessary. We do not believe that a single apportionment of liability in the Limitation Action is properly applied, particularly with respect to gross negligence and punitive damages, to the hundreds of lawsuits pending in the MDL proceeding.

Damages for the cases tried in the MDL proceeding, including punitive damages, are expected to be tried following the phases of the trial described above. Under ordinary MDL procedures, such cases would, unless waived by the respective parties, be tried in the courts from which they were transferred into the MDL. It remains unclear, however, what impact the overlay of the Limitation Action will have on where these matters are tried.

In April and May 2011, certain defendants in the proceedings described above filed numerous cross claims and third party claims against certain other defendants. BP Exploration and BP America Production Company filed claims against us seeking subrogation, contribution, including with respect to liabilities under the OPA, and direct damages, and alleging negligence, gross negligence, fraudulent conduct, and fraudulent concealment. Transocean filed claims against us seeking indemnification, and subrogation and contribution, including with respect to liabilities under the OPA and for the total loss of the Deepwater Horizon, and alleging comparative fault and breach of warranty of workmanlike performance. Anadarko filed claims against us seeking tort indemnity and contribution, and alleging negligence, gross negligence and willful misconduct, and MOEX Offshore 2007 LLC (MOEX), who had an approximate 10% interest in the Macondo well at the time of the incident, filed a claim against us alleging negligence. Cameron International Corporation (Cameron) (the manufacturer and designer of the blowout preventer), M-I Swaco (provider of drilling fluids and services, among other things), Weatherford U.S. L.P. and Weatherford International, Inc. (together, Weatherford) (providers of casing components, including float equipment and centralizers, and services), and Dril-Quip, Inc. (Dril-Quip) (provider of wellhead systems), each filed claims against us seeking indemnification and contribution, including with respect to liabilities under the OPA in the case of Cameron, and alleging negligence. Additional civil lawsuits may be filed against us. In addition to the claims against us, generally the defendants in the proceedings described above filed claims, including for liabilities under the OPA and other

claims similar to those described above, against the other defendants described above. BP has since announced that it has settled those claims between it and each of MOEX, Weatherford, Anadarko, and Cameron. Also, BP and M-I Swaco have dismissed all claims between them.

In April 2011, we filed claims against BP Exploration, BP p.l.c. and BP America Production Company (BP Defendants), M-I Swaco, Cameron, Anadarko, MOEX, Weatherford, Dril-Quip, and numerous entities involved in the post-blowout remediation and response efforts, in each case seeking contribution and indemnification and alleging negligence. Our claims also alleged gross negligence and willful misconduct on the part of the BP Defendants, Anadarko, and Weatherford. We also filed claims against M-I Swaco and Weatherford for contractual indemnification, and against Cameron, Weatherford and Dril-Quip for strict products liability, although the court has since issued orders dismissing all claims asserted against Cameron, Dril-Quip, M-I Swaco and Weatherford in the MDL. We filed our answer to Transocean's Limitation petition denying Transocean's right to limit its liability, denying all claims and responsibility for the incident, seeking contribution and indemnification, and alleging negligence and gross negligence.

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Judge Barbier has issued an order, among others, clarifying certain aspects of law applicable to the lawsuits pending in his court. The court ruled that: (1) general maritime law will apply, and therefore all claims brought under state law causes of action were dismissed; (2) general maritime law claims may be brought directly against defendants who are non-"responsible parties" under the OPA with the exception of pure economic loss claims by plaintiffs other than commercial fishermen; (3) all claims for damages, including pure economic loss claims, may be brought under the OPA directly against responsible parties; and (4) punitive damage claims can be brought against both responsible and non-responsible parties under general maritime law. As discussed above, with respect to the ruling that claims for damages may be brought under the OPA against responsible parties, we have not been named as a responsible party under the OPA, but BP Exploration has filed a claim against us for contribution with respect to liabilities incurred by BP Exploration under the OPA.

In September 2011, we filed claims in Harris County, Texas against the BP Defendants seeking damages, including lost profits and exemplary damages, and alleging negligence, grossly negligent misrepresentation, defamation, common law libel, slander, and business disparagement. Our claims allege that the BP Defendants knew or should have known about an additional hydrocarbon zone in the well that the BP Defendants failed to disclose to us prior to our designing the cement program for the Macondo well. The location of the hydrocarbon zones is critical information required prior to performing cementing services and is necessary to achieve desired cement placement. We believe that had the BP Defendants disclosed the hydrocarbon zone to us, we would not have proceeded with the cement program unless it was redesigned, which likely would have required a redesign of the production casing. In addition, we believe that the BP Defendants withheld this information from the report of BP's internal investigation team and from the various investigations discussed above. In connection with the foregoing, we also moved to amend our claims against the BP Defendants in the MDL proceeding to include fraud. The BP Defendants have denied all of the allegations relating to the additional hydrocarbon zone and filed a motion to prevent us from adding our fraud claim in the MDL. In October 2011, our motion to add the fraud claim against the BP Defendants in the MDL proceeding was denied. The court's ruling does not, however, prevent us from using the underlying evidence in our pending claims against the BP Defendants.

In December 2011, BP filed a motion for sanctions against us alleging, among other things, that we destroyed evidence relating to post-incident testing of the foam cement slurry on the Deepwater Horizon and requesting adverse findings against us. The magistrate judge in the MDL proceeding denied BP's motion. BP appealed that ruling, and Judge Barbier affirmed the magistrate judge's decision.

In April 2012, BP announced that it had reached definitive settlement agreements with the PSC to resolve the substantial majority of eligible private economic loss and medical claims stemming from the Macondo well incident. The PSC acts on behalf of individuals and business plaintiffs in the MDL. According to BP, the settlements do not include claims against BP made by the DOJ or other federal agencies or by states and local governments. In addition, the settlements provide that, to the extent permitted by law, BP will assign to the settlement class certain of its claims, rights, and recoveries against Transocean and us for damages, including BP's alleged direct damages such as damages for clean-up expenses and damage to the well and reservoir. We do not believe that our contract with BP Exploration permits the assignment of certain claims to the settlement class without our consent. The MDL court has since confirmed certification of the classes for both settlements and granted final approval of the settlements. We objected to the settlements on the grounds set forth above, among other reasons. The MDL court held, however, that we, as a non-settling defendant, lacked standing to object to the settlements but noted that it did not express any opinion as to the validity of BP's assignment of certain claims to the settlement class and that the settlements do not affect any of our procedural or substantive rights in the MDL. We are unable to predict at this time the effect that the settlements may have on claims against us.

In October 2012, the MDL court issued an order dismissing three types of plaintiff claims: (1) claims by or on behalf of owners, lessors, and lessees of real property that allege to have suffered a reduction in the value of real property even though the property was not physically touched by oil and the property was not sold; (2) claims for economic losses based solely on consumers' decisions not to purchase fuel or goods from BP fuel stations and stores based on consumer animosity toward BP; and (3) claims by or on behalf of recreational fishermen, divers, beachgoers, boaters and others that allege damages such as loss of enjoyment of life from their inability to use portions of the Gulf of

Mexico for recreational and amusement purposes. The MDL court also noted that we are not liable with respect to those claims under the OPA because we are not a “responsible party” under OPA. A group of plaintiffs appealed the order, but the Fifth Circuit dismissed the appeal.

At the conclusion of the plaintiffs' case in the first phase of the MDL trial, we and the other defendants each submitted a motion requesting the MDL court to dismiss certain claims. In March 2013, the MDL court denied our motion and declined to dismiss any claims, including those alleging gross negligence, against BP, Transocean and us. In addition, the MDL court dismissed all claims against M-I Swaco and claims alleging gross negligence against Cameron. In April 2013, the MDL court dismissed all remaining claims against Cameron, leaving BP, Transocean, and us as the remaining defendants with respect to the matters addressed during the first phase of the trial.

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Also in March 2013, we advised the MDL court that we recently found a rig sample of dry cement blend collected at another well that was cemented before the Macondo well using the same dry cement blend as used on the Macondo production casing. In April 2013, we advised the MDL parties that we recently discovered some additional documents related to the Macondo well incident. BP and others have asked the court to impose sanctions and adverse findings against us because, according to their allegations, we should have identified the cement sample in 2010 and the additional documents by October 2011. The MDL court has not ruled on the requests for sanctions and adverse findings. We believe that those discoveries were the result of simple misunderstandings or mistakes, and that sanctions are not warranted.

When our plea agreement with the DOJ was announced in July 2013, BP filed a motion requesting that the MDL court re-open the evidence for phase one of the MDL trial to take into account our guilty plea and re-urging their request for sanctions. After the plea was entered, the PSC and the States of Alabama and Louisiana (as coordinating counsel for the states involved in the MDL) filed a motion likewise seeking to admit the guilty plea agreement and other court filings into evidence and asking that the MDL court use that evidence as a basis for assessing punitive damages against us. We filed replies opposing both motions and setting forth our position that the deleted computer simulations were not evidence, were not relevant, and in any event were re-created.

We intend to vigorously defend any litigation, fines, and/or penalties relating to the Macondo well incident and to vigorously pursue any damages, remedies, or other rights available to us as a result of the Macondo well incident. We have incurred and expect to continue to incur significant legal fees and costs, some of which we expect to be covered by indemnity or insurance, as a result of the numerous investigations and lawsuits relating to the incident.

Indemnification and Insurance. Our contract with BP Exploration relating to the Macondo well generally provides for our indemnification by BP Exploration for certain 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 was 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 have entered into separate indemnity agreements with Transocean and M-I Swaco, under which we have agreed to indemnify those parties for claims for personal injury of our employees and subcontractors and they have agreed to indemnify us for claims for personal injury of their employees and subcontractors.

In April 2011, we filed a lawsuit against BP Exploration in Harris County, Texas to enforce BP Exploration’s contractual indemnity and alleging BP Exploration breached certain terms of the contractual indemnity provision. BP Exploration removed that lawsuit to federal court in the Southern District of Texas, Houston Division. We filed a motion to remand the case to Harris County, Texas, and the lawsuit was transferred to the MDL.

BP Exploration, in connection with filing its claims with respect to the MDL proceeding, asked that court to declare that it is not liable to us in contribution, indemnification, or otherwise with respect to liabilities arising from the Macondo well incident. Other defendants in the litigation discussed above have generally denied any obligation to contribute to any liabilities arising from the Macondo well incident.

In January 2012, the court in the MDL proceeding entered an order in response to our and BP’s motions for summary judgment regarding certain indemnification matters. The court held that BP is required to indemnify us for third-party compensatory claims, or actual damages, that arise from pollution or contamination that did not originate from our property or equipment located above the surface of the land or water, even if we are found to be grossly negligent. The court did not express an opinion as to whether our conduct amounted to gross negligence, but we do not believe the performance of our services on the Deepwater Horizon constituted gross negligence. The court also held, however, that BP does not owe us indemnity for punitive damages or for civil penalties under the CWA, if any, and that fraud could void the indemnity on public policy grounds, although the court stated that it was mindful that mere failure to perform contractual obligations as promised does not constitute fraud. As discussed above, the DOJ is not seeking civil penalties from us under the CWA, but BP has filed a claim for equitable contribution against us with respect to

its liabilities. The court in the MDL proceeding deferred ruling on whether our indemnification from BP covers penalties or fines under the OCSLA, whether our alleged breach of our contract with BP Exploration would invalidate the indemnity, and whether we committed an act that materially increased the risk to or prejudiced the rights of BP so as to invalidate the indemnity. We do not believe that we breached our contract with BP Exploration or committed an act that would otherwise invalidate the indemnity. The court's rulings will be subject to appeal at the appropriate time. In responding to similar motions for summary judgment between Transocean and BP, the court also held that public policy would not bar Transocean's claim for indemnification of compensatory damages, even if Transocean was found to be grossly negligent. The court also held, among other things, that Transocean's contractual right to indemnity does not extend to punitive damages or civil penalties under the CWA.

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The rulings in the MDL proceeding regarding the indemnities are based on maritime law and may not bind the determination of similar issues in lawsuits not comprising a part of the MDL proceeding. Accordingly, it is possible that different conclusions with respect to indemnities will be reached by other courts.

Indemnification for criminal fines or penalties, if any, may not be available if a court were to find such indemnification unenforceable as against public policy. In addition, certain state laws, if deemed to apply, would not allow for enforcement of indemnification for gross negligence, and may not allow for enforcement of indemnification of persons who are found to be negligent with respect to personal injury claims.

In addition to the contractual indemnities discussed above, 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, as well as legal fees incurred in defending against those claims. We have received and expect to continue to receive payments from our insurers with respect to covered legal fees incurred in connection with the Macondo well incident. Through September 30, 2013, we have incurred legal fees and related expenses of approximately $242 million, of which $211 million has been reimbursed under or is expected to be covered by our insurance program. 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. In addition, we may not be insured with respect to civil or criminal fines or penalties, if any, pursuant to the terms of our insurance policies. Insurance coverage can be the subject of uncertainties and, particularly in the event of large claims, potential disputes with insurance carriers, as well as other potential parties claiming insured status under our insurance policies.

BP’s public filings indicate that BP has recognized in excess of $40 billion in pre-tax charges, excluding offsets for settlement payments received from certain defendants in the proceedings described above under “Litigation,” as a result of the Macondo well incident. BP’s public filings also indicate that the amount of, among other things, certain natural resource damages with respect to certain OPA claims, some of which may be included in such charges, cannot be reliably estimated as of the dates of those filings.

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 Securities and Exchange Commission (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 was styled Archdiocese of Milwaukee Supporting Fund (AMSF) v. Halliburton Company, et al. AMSF has changed its name to Erica P. John Fund, Inc. (the Fund). 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 our 1998 acquisition of Dresser Industries, Inc., including that we failed to timely disclose the resulting asbestos liability exposure.

In April 2005, the court appointed new co-lead counsel and named the Fund 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. 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 the Fund to re-plead some of those claims to correct deficiencies in its earlier complaint. In April 2006, the Fund 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 us.

In September 2007, the Fund filed a motion for class certification, and our response was filed in November 2007. The district court held a hearing in March 2008, and issued an order November 3, 2008 denying the motion for class

certification. The Fund appealed the district court’s order to the Fifth Circuit Court of Appeals. The Fifth Circuit affirmed the district court’s order denying class certification. On May 13, 2010, the Fund filed a writ of certiorari in the United States Supreme Court. In January 2011, the Supreme Court granted the writ of certiorari and accepted the appeal. The Court heard oral arguments in April 2011 and issued its decision in June 2011, reversing the Fifth Circuit ruling that the Fund needed to prove loss causation in order to obtain class certification. The Court’s ruling was limited to the Fifth Circuit’s loss causation requirement, and the case was returned to the Fifth Circuit for further consideration of our other arguments for denying class certification. The Fifth Circuit returned the case to the district court, and in January 2012 the court issued an order certifying the class. We filed a Petition for Leave to Appeal with the Fifth Circuit, which was granted. In March 2013, the Fifth Circuit heard oral argument in the appeal. In April 2013, the Fifth Circuit issued an order affirming the District Court's order certifying the class.

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The case is now pending in the District Court and fact discovery has resumed. We have filed a writ of certiorari with the United States Supreme Court seeking an appeal of the Fifth Circuit decision. In spite of its age, the case is at an early stage, and we cannot predict the outcome or consequences thereof. As of September 30, 2013, 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. We intend to vigorously defend this case.

Investigations

We are conducting internal investigations of certain areas of our operations in Angola and Iraq, focusing on compliance with certain company policies, including our Code of Business Conduct (COBC), and the FCPA and other applicable laws.

In December 2010, we received an anonymous e-mail alleging that certain current and former personnel violated our COBC and the FCPA, principally through the use of an Angolan vendor. The e-mail also alleges conflicts of interest, self-dealing, and the failure to act on alleged violations of our COBC and the FCPA. We contacted the DOJ to advise them that we were initiating an internal investigation.

During the second quarter of 2012, in connection with a meeting with the DOJ and the SEC regarding the above investigation, we advised the DOJ and the SEC that we were initiating unrelated, internal investigations into payments made to a third-party agent relating to certain customs matters in Angola and to third-party agents relating to certain customs and visa matters in Iraq.

Since the initiation of the investigations described above, we have participated in meetings with the DOJ and the SEC to brief them on the status of the investigations and have been producing documents to them both voluntarily and as a result of SEC subpoenas to us and certain of our current and former officers and employees.

We expect to continue to have discussions with the DOJ and the SEC regarding the Angola and Iraq matters described above and have indicated that we would further update them as our investigations progress. We have engaged outside counsel and independent forensic accountants to assist us with these investigations.

During the second quarter of 2013, we received a civil investigative demand from the Antitrust Division of the DOJ regarding pressure pumping services. We have engaged in discussions with the DOJ on this matter and are in the process of providing responses to the DOJ's information requests. We understand there have been others in our industry who have received similar correspondence from the DOJ, and we do not believe that we are being singled out for any particular scrutiny.

We intend to continue to cooperate with the DOJ's and the SEC's inquiries and requests in these investigations. Because these investigations are ongoing, we cannot predict their outcome or the consequences thereof.

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;
- the Toxic Substances Control Act; and
- the Oil Pollution 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. Our Health, Safety, and Environment group has several programs in place to maintain environmental leadership and to help prevent the occurrence of environmental contamination. On occasion, in addition to the matters relating to the Macondo well incident described above, we are involved in other 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. We do not expect costs related to those claims and remediation requirements to have a material adverse effect on our liquidity, consolidated results of

operations, or consolidated financial position. Excluding our loss contingency for the Macondo well incident, our accrued liabilities for environmental matters were $69 million as of September 30, 2013 and $72 million as of December 31, 2012. Because 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. Our total liability related to environmental matters covers numerous properties.

In November 2012, we received an Enforcement Notice from the Pennsylvania Department of Environmental Protection (PADEP) regarding an alleged improper disposal of oil field acid in or around Homer City, Pennsylvania between 1999 and 2011. We are currently negotiating with the PADEP to resolve this matter in an amicable manner. We expect the PADEP to assess a penalty in excess of $100,000 and have therefore accrued for an immaterial amount.

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Additionally, we have subsidiaries that have been named as potentially responsible parties along with other third parties for eight federal and state Superfund sites for which we have established reserves. As of September 30, 2013, those eight sites accounted for approximately $5 million of our $69 million total environmental reserve. 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 an aggregate of approximately $2.0 billion of letters of credit, bank guarantees, or surety bonds were outstanding as of September 30, 2013, including $184 million of surety bonds related to Venezuela. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Note 8. 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. Differences between basic and diluted weighted average common shares outstanding for all periods presented resulted from the dilutive effect of awards granted under our stock incentive plans.

Excluded from the computation of diluted income per share are options to purchase one million and five million shares of common stock that were outstanding during the three and nine months ended September 30, 2013, and seven million shares of common stock that were outstanding during both the three and nine months ended September 30, 2012. These options were outstanding but were excluded because they were antidilutive, as the option exercise price was greater than the average market price of the common shares.

Note 9. Fair Value of Financial Instruments

At September 30, 2013, we held $273 million of investments in fixed income securities, with maturities ranging from less than one year to October 2016, compared to $398 million of investments in fixed income securities held at December 31, 2012. These securities are accounted for as available-for-sale and recorded at fair value as follows:

	September 30, 2013			December 31, 2012		
Millions of dollars	Level 1	Level 2	Total	Level 1	Level 2	Total
Fixed income securities:						
U.S. treasuries (a)	$—	$—	$—	$150	$—	$150
Other (b)	—	273	273	—	248	248
Total	$—	$273	$273	$150	$248	$398

(a) These securities are classified as "Other current assets" in our condensed consolidated balance sheets.

(b) Of these securities, $140 million are classified as “Other current assets” and $133 million are classified as “Other assets” on our condensed consolidated balance sheets as of September 30, 2013, compared to $120 million classified as “Other current assets” and $128 million classified as “Other assets” as of December 31, 2012. These securities consist primarily of municipal bonds, corporate bonds, and other debt instruments.

The fair value of our Level 1 securities are based on quoted prices in active markets, and the fair value of our Level 2 securities are based on quoted prices for identical assets in less active markets. We have no financial instruments measured at fair value using unobservable inputs (Level 3). The carrying amount of cash and equivalents, receivables, and accounts payable, as reflected in the condensed consolidated balance sheets, approximates fair value due to the short maturities of these instruments.

The carrying amount and fair value of our long-term debt is as follows:

	September 30, 2013				December 31, 2012			
Millions of dollars	Level 1	Level 2	Total fair value	Carrying value	Level 1	Level 2	Total fair value	Carrying value
Long-term debt	$8,504	$296	$8,800	$7,816	$1,112	$5,272	$6,384	$4,820

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The fair value and the carrying value of our long-term debt as of September 30, 2013 increased from December 31, 2012 due to new debt issued in the third quarter of 2013. See Note 4 for further information.
Our Level 1 debt fair values are calculated using quoted prices in active markets for identical liabilities with transactions occurring on the last two days of period-end. Our Level 2 debt fair values are calculated using significant observable inputs for similar liabilities where estimated values are determined from observable data points on our other bonds and on other similarly rated corporate debt or from observable data points of transactions occurring prior to two days from period-end and adjusting for changes in market conditions. We have no debt measured at fair value using unobservable inputs (Level 3).

Note 10. Accounting Standards Recently Adopted
In February 2013, the Financial Accounting Standards Board issued an update to existing guidance on the presentation of comprehensive income. This update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income (AOCI) by component. For significant items reclassified out of AOCI to net income in their entirety during the reporting period, companies must report the effect on the line items in the statement where net income is presented. For significant items not reclassified to net income in their entirety during the period, companies must provide cross-references in the notes to other disclosures that already provide information about those amounts. We adopted this update effective January 1, 2013, and it did not have a material impact on our condensed consolidated financial statements.

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

EXECUTIVE OVERVIEW

Organization

We are a leading provider of services and products 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, the Completion and Production segment and the Drilling and Evaluation segment:

- our Completion and Production segment delivers cementing, stimulation, intervention, pressure control, specialty chemicals, artificial lift, and completion services. The segment consists of Halliburton Production Enhancement, Cementing, Completion Tools, Boots & Coots, Multi-Chem, and Artificial Lift.
- 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 Halliburton Drill Bits and Services, Wireline and Perforating, Testing and Subsea, Baroid, Sperry Drilling, Landmark Software and Services, and Consulting and Project Management.

The business operations of our segments are organized around four primary geographic regions: North America, Latin America, Europe/Africa/CIS, and Middle East/Asia. We have significant manufacturing operations in various locations, including the United States, Canada, Malaysia, Mexico, Singapore, and the United Kingdom.

With over 75,000 employees, we operate in approximately 80 countries around the world, and our corporate headquarters are in Houston, Texas and Dubai, United Arab Emirates.

Financial results

Our consolidated revenue for the third quarter of 2013 was $7.5 billion, a quarterly record for us. We also achieved record revenues within our Cementing, Completion Tools, Boots & Coots, Drill Bits, Testing and Subsea, and Multi-Chem product service lines. Additionally, during the third quarter of 2013, our international revenue comprised approximately 48% of our total company revenues. The percentage of our revenue that relates to our international operations has been steadily increasing and is representative of our ongoing strategy to grow our international business and balance our geographic mix.

During the first nine months of 2013, we produced revenue of $21.8 billion and operating income of $2.0 billion. Revenue increased $550 million from the first nine months of 2012 primarily due to increased activity in all of our international regions and the Gulf of Mexico. This was partially offset by lower activity levels and pricing pressure in the United States land market, primarily for production enhancement services. Operating income in the first nine months of 2013 was negatively impacted by a $1.0 billion, pre-tax, reserve related to the Macondo well incident, a $55 million, pre-tax, charge related to a charitable contribution to the National Fish and Wildlife Foundation, and $54 million, pre-tax, of restructuring charges related to severance and asset write-offs. Operating income in the first nine months of 2012 was negatively impacted by a $300 million, pre-tax, reserve related to the Macondo well incident, along with a $48 million, pre-tax, charge related to an earn-out adjustment due to significantly better than expected performance of a past acquisition, partially offset by a $20 million, pre-tax, gain related to the settlement of a patent infringement lawsuit.

Business outlook

We continue to believe in the strength of the long-term fundamentals of our business. Energy demand is expected to increase over the long term driven by economic growth in developing countries despite current underlying downside risks in the industry, such as sluggish growth in developed countries and supply uncertainties associated with geopolitical tensions in the Middle East and North Africa. Furthermore, development of new resources is expected to be more complex, resulting in increasing service intensity with our customers making higher investments on a per-well basis.

In North America, the industry has experienced an activity shift from natural gas plays to oil and liquids-rich basins due to low natural gas prices resulting from continued strong natural gas production. As a result, operators have been optimizing their budgets by focusing on basins with better economics. In addition, we are observing a meaningful switch to multi-well pad activity among our customer base, which is resulting in increased drilling and completion service efficiency. We believe the incremental efficiency gains provided by multi-well pad drilling will provide for higher service intensity.

Outside of North America, both revenue and operating income increased by 16% in the first nine months of 2013 compared to the first nine months of 2012. We expect to see gradual activity and pricing improvements in those international markets where we have made strategic investments in capital and technologies. We also believe that new international unconventional oil and natural gas projects may contribute to activity improvements for the remainder of 2013 and into 2014. In Latin America, we are anticipating lower fourth quarter activity levels due to a decline in existing integrated project management work in Mexico as we begin transitioning to newly-tendered projects and due to reduced ongoing activity in Brazil.

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We are continuing to execute several key initiatives in 2013. These initiatives include increasing manufacturing production in the Eastern Hemisphere and reinventing our service delivery platform to lower our delivery costs. Our operating performance and business outlook are described in more detail in “Business Environment and Results of Operations.”

Financial markets, liquidity, and capital resources

We believe we have invested our cash balances conservatively and secured sufficient financing to help mitigate any near-term negative impact on our operations from adverse market conditions. For additional information, see “Liquidity and Capital Resources” and “Business Environment and Results of Operations.”

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LIQUIDITY AND CAPITAL RESOURCES

We ended the third quarter of 2013 with cash and equivalents of $1.5 billion, compared to $2.5 billion at the end of 2012. As of September 30, 2013, approximately $350 million of the $1.5 billion of cash and equivalents was held by our foreign subsidiaries that would be subject to United States tax if repatriated. However, our intent is to permanently reinvest these funds outside of the United States and our current plans do not suggest a need to repatriate them to fund our United States operations. At September 30, 2013, we also held $273 million of investments in fixed income securities compared to $398 million at December 31, 2012. These securities are reflected in "Other current assets" and "Other assets" in our condensed consolidated balance sheets.

Significant sources and uses of cash

Cash flows from operating activities were $2.5 billion in the first nine months of 2013.

In August 2013, we issued $3.0 billion aggregate principal amount of senior notes and used the net proceeds, along with cash on hand, to fund the repurchase of approximately 68 million shares of our common stock at an aggregate cost of $3.3 billion pursuant to a modified Dutch auction cash tender offer. Through the first nine months of 2013, we have repurchased approximately 93 million shares of our common stock under our share repurchase program at a cost of approximately $4.4 billion.

Capital expenditures were $2.1 billion in the first nine months of 2013, and were predominantly made in our Production Enhancement, Boots & Coots, Sperry Drilling, Wireline and Perforating, and Cementing product service lines.

During the first nine months of 2013, our primary components of working capital (receivables, inventories, and accounts payable) increased by a net $823 million, primarily due to increased business activity.

We paid $337 million in dividends to our shareholders in the first nine months of 2013.

In January 2013, we made a $219 million payment under a guarantee we issued for the Barracuda-Caratinga project.

In April 2013, we made a $172 million earn-out payment related to a prior year acquisition due to significantly better than expected operating performance.

During the first nine months of 2013, we sold $126 million of investment securities, net of investment securities purchased.

Future sources of cash. We were recently awarded $105 million by an accounting referee regarding amounts owed by KBR related to the Tax Sharing Agreement. KBR is reviewing our claims and there is uncertainty as to the ultimate timing and amount of any payment. See Note 6 for further information.

Future uses of cash. Capital spending for the fourth quarter of 2013 is expected to be approximately $800 million. The capital expenditures plan for the fourth quarter of 2013 is primarily directed toward our Boots & Coots, Sperry Drilling, Production Enhancement, Wireline and Perforating, and Cementing product service lines with less capital to be directed toward the North America pressure pumping market.

Subject to Board of Directors approval, our intention going forward is to pay dividends representing at least 15% to 20% of our net income on an annual basis. Currently, our dividend rate is $0.125 per common share, or approximately $107 million per quarter.

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

Other factors affecting liquidity

Guarantee agreements. In the normal course of business, we have agreements with financial institutions under which an aggregate of approximately $2.0 billion of letters of credit, bank guarantees, or surety bonds were outstanding as of September 30, 2013. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Financial position in current market. As of September 30, 2013, we had $1.5 billion of cash and equivalents, $273 million in fixed income investments, and a total of $3.0 billion of available committed bank credit under our revolving credit facility. Reflecting the growth of our company, in April 2013, we executed an amendment to our revolving credit facility, which increased the capacity from $2.0 billion to $3.0 billion and extended the maturity to 2018.

Furthermore, we have no financial covenants or material adverse change provisions in our bank agreements, and our debt maturities extend over a long period of time. Although a portion of earnings from our foreign subsidiaries is reinvested outside the United States indefinitely, we do not consider this to have a significant impact on our liquidity. We currently believe that our capital expenditures, working capital investments, and dividends, if any, during the remainder of 2013 can be fully funded through cash from operations.

As a result, we believe we have a reasonable amount of liquidity and, if necessary, additional financing flexibility given the current market environment to fund our potential contingent liabilities, if any. However, as discussed in Note 7 to the condensed consolidated financial statements, there are numerous future developments that may arise as a result of the Macondo well incident that could have a material adverse effect on our liquidity.

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.

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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, as well as unsettled political conditions. For example, we continue to experience delays in collecting payment on our receivables from one of our primary customers in Venezuela. Our total outstanding trade receivables in Venezuela at September 30, 2013 were $536 million, which represents approximately 8% of our gross trade receivables at that date. If our customers delay 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. See "Business Environment and Results of Operations – International Operations" for further discussion related to Venezuela.

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BUSINESS ENVIRONMENT AND RESULTS OF OPERATIONS

We operate in approximately 80 countries 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 through the life of the field. Our two business segments are the Completion and Production segment and the Drilling and Evaluation segment. The industry we serve is highly competitive with many substantial competitors in each segment.
In the first nine months of 2013, based upon the location of the services provided and products sold, 49% of our consolidated revenue was from the United States. In the first nine months of 2012, 55% 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, foreign currency exchange restrictions, and highly inflationary currencies. We believe the geographic diversification of our business activities reduces the risk that loss of operations in any one country, other than the United States, 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 our customers. Also impacting our activity is the status of the global economy, which impacts oil and natural gas consumption.
Some of the more significant measures 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, government regulation, 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. Additionally, our financial performance is impacted by well count in the North America market as a result of improved drilling and completion efficiencies.
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
	2013	2012	2012
Oil price - WTI (1)	$104.74	$91.49	$94.15
Oil price - Brent (1)	109.28	108.80	111.60
Natural gas price - Henry Hub (2)	3.56	2.85	2.81

(1) Oil price measured in dollars per barrel
(2) Natural gas price measured in dollars per thousand cubic feet, or Mcf

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The quarterly and yearly average rig counts based on the weekly Baker Hughes Incorporated rig count information were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
Land vs. Offshore	2013	2012	2013	2012
United States:				
Land	1,708	1,855	1,708	1,909
Offshore (incl. Gulf of Mexico)	61			