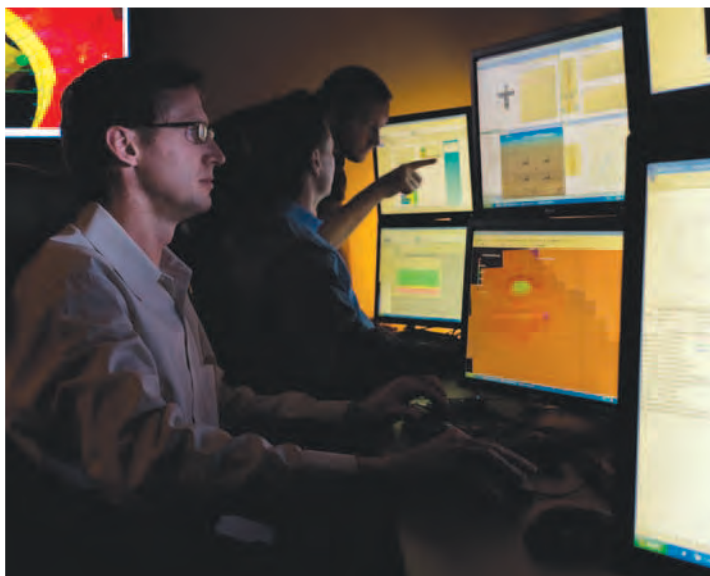




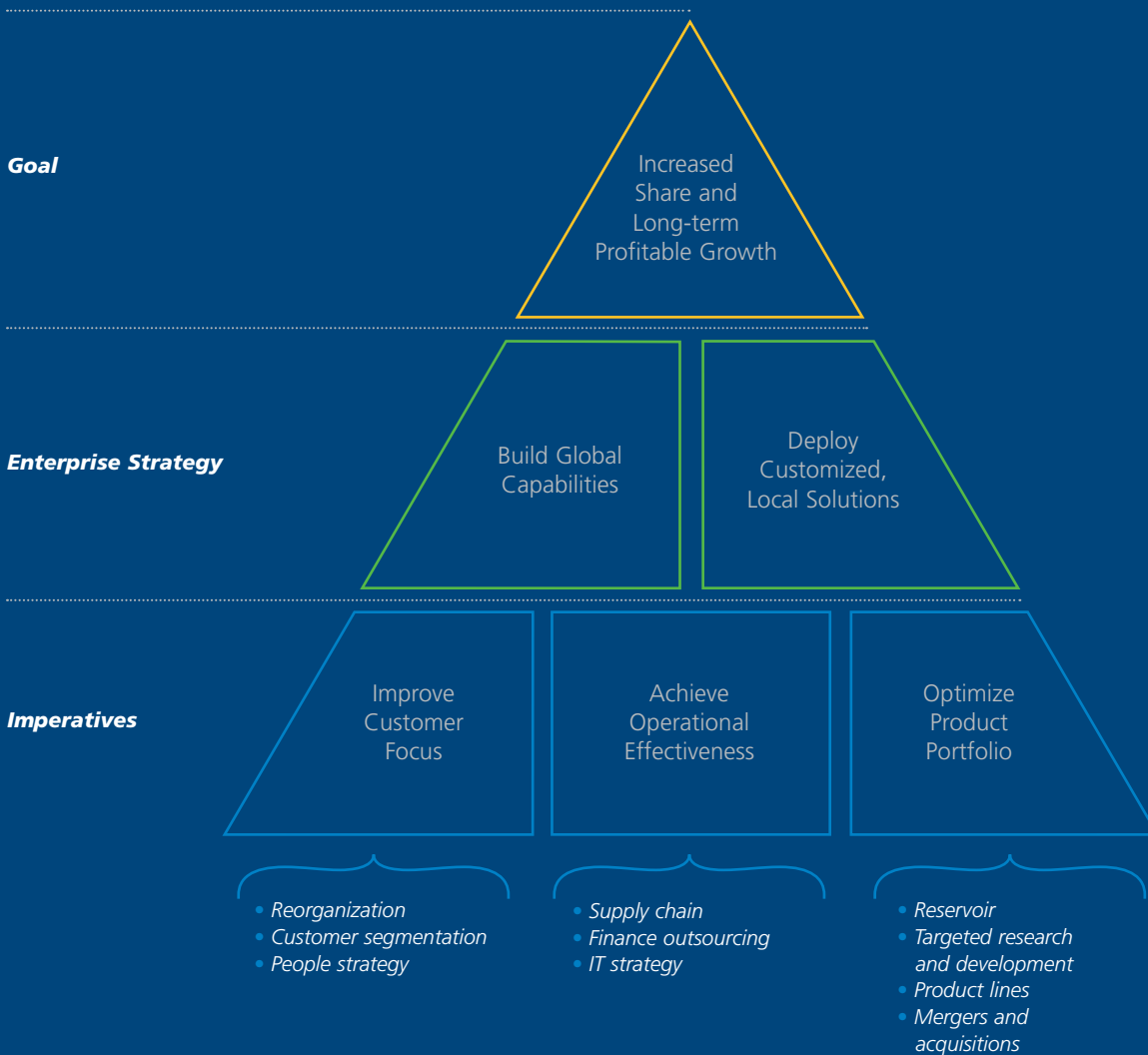
2009 ANNUAL REPORT TO STOCKHOLDERS



OUR STRATEGIC FRAMEWORK

Increasing market share and achieving long-term profitable growth requires Baker Hughes to pursue two related enterprise strategies: continue to build global capabilities to serve our customers around the world, and deploy customized local solutions to meet our customers' needs in each geographic market.

These strategies are supported by three key imperatives: improve customer focus, so we can better understand our customers and proactively meet their needs; achieve operational effectiveness and improve our overall cost position; and optimize our existing technology portfolio and fill strategic gaps.



Our cover depicts the contributions of our employees as they build the new Baker Hughes organization that will enable long-term growth and profitability.



Additional information about the company is available on our website at <http://www.bakerhughes.com/investor>

SELECTED FINANCIAL HIGHLIGHTS

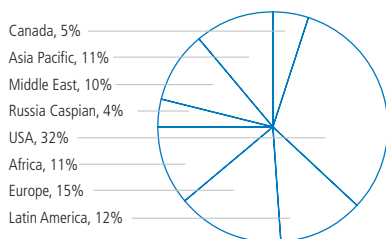
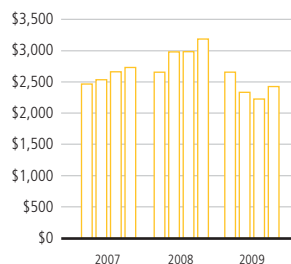
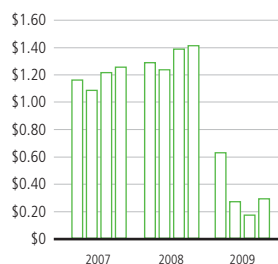
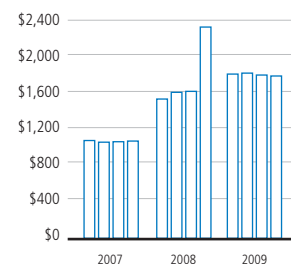
(In millions, except per share amounts)	Year Ended December 31,					
	2009	2008	2007	2006	2005	2004
As Reported:						
Revenues	\$ 9,664	\$ 11,864	\$ 10,428	\$ 9,027	\$ 7,185	\$ 6,080
Operating income	732	2,376	2,278	1,934	1,233	817
Income from continuing operations	421	1,635	1,514	2,399	874	526
Income before cumulative effect of accounting change	421	1,635	1,514	2,419	879	529
Net income	421	1,635	1,514	2,419	878	529
Per share of common stock:						
Income from continuing operations:						
Basic	\$ 1.36	\$ 5.32	\$ 4.76	\$ 7.26	\$ 2.58	\$ 1.57
Diluted	1.36	5.30	4.73	7.21	2.56	1.57
Net income:						
Basic	\$ 1.36	\$ 5.32	\$ 4.76	\$ 7.32	\$ 2.59	\$ 1.58
Diluted	1.36	5.30	4.73	7.27	2.57	1.58
Dividends	\$ 0.60	\$ 0.56	\$ 0.52	\$ 0.52	\$ 0.48	\$ 0.46
Number of shares:						
Weighted average common shares diluted	311	309	320	333	342	336
Reconciliation from As Reported to operating profit:						
Income from continuing operations	421	1,635	1,514	2,399	874	526
Non-operational items, net of tax ⁽¹⁾	–	–	–	(1,035)	–	–
Operating profit after tax ⁽²⁾	\$ 421	\$ 1,635	\$ 1,514	\$ 1,364	\$ 874	\$ 526
Per share of common stock:						
Operating profit after tax:						
Basic	\$ 1.36	\$ 5.32	\$ 4.76	\$ 4.12	\$ 2.58	\$ 1.57
Diluted	1.36	5.30	4.73	4.10	2.56	1.57
Cash, cash equivalents and short-term investments						
	\$ 1,595	\$ 1,955	\$ 1,054	\$ 1,104	\$ 774	\$ 319
Working capital						
	\$ 4,612	\$ 4,634	\$ 3,837	\$ 3,346	\$ 2,479	\$ 1,738
Total assets						
	11,439	11,861	9,857	8,706	7,807	6,821
Total debt						
	1,800	2,333	1,084	1,075	1,088	1,162
Stockholders' equity						
	7,284	6,807	6,306	5,243	4,698	3,895
Total debt/equity ratio						
	25%	34%	17%	21%	23%	30%
Number of employees (thousands)						
	34.4	39.8	35.8	34.6	29.1	26.9

Note: The above excludes the results of Baker SPD, Baker Hughes Mining Tools, BIRD Machine, EIMCO Process Equipment, and our oil producing operations in West Africa, all discontinued businesses.

⁽¹⁾ Includes gain on sale of our interest in affiliate, restructuring charges and reversals, and impairment of investment in affiliate and gain (loss) on disposal of assets. Additional information of each item can be found on our website at www.bakerhughes.com/investor.

⁽²⁾ Operating profit after tax is a non-GAAP measure comprised of income from continuing operations excluding the impact of certain non-operational items. We believe that operating profit after tax is useful to investors because it is a consistent measure of the underlying results of our business. Furthermore, management uses operating profit internally as a measure of the performance of our operations.

2009 REVENUES BY REGION

TOTAL REVENUES
2007–2009, by Quarter
(In millions)TOTAL OPERATING PROFIT
AFTER TAX PER SHARE (DILUTED)
2007–2009, by QuarterTOTAL DEBT
2007–2009, by Quarter
(In millions)

TO OUR STOCKHOLDERS

Chad C. Deaton
Chairman, President and
Chief Executive Officer



2009 was an important year of transition for Baker Hughes. In a difficult market, we made several strategic moves to enhance our ability to compete on a global scale and fully participate in the most significant opportunities in our industry over the next decade.

During the year, we reorganized to be more responsive to our customers, relocating operational leadership from our existing offices to 32 region and geomarket offices around the world. We created enterprise-wide marketing, technology and supply chain organizations to focus on key market segments, optimize our product portfolio, accelerate the pace of product introduction, and improve our operational efficiency. We also reached agreement to acquire BJ Services Company, a provider of pressure pumping and other oilfield services. BJ Services will add significant capabilities in pressure pumping and stimulation, closing a significant gap in our technology portfolio.

In 2009, the world faced the worst global recession since the Great Depression and demand for energy fell in step with the decline in economic activity. Capital spending by our customers, as measured by the Barclays Capital Spending Survey, declined 15% in 2009 compared to 2008. The average U.S. active rotary rig count of 1,090 in 2009 was down 42%, from 1,879 rigs in 2008, and the average international rig count of 997 was down 8% for the year.

Baker Hughes revenues of \$9.66 billion in 2009 were down 19% from \$11.86 billion in 2008. Net income was \$421 million

or \$1.36 per diluted share compared to \$1.64 billion or \$5.30 per diluted share in 2008. North America revenues declined 31% and revenues outside of North America fell 9% in 2009 compared to 2008.

The year ended with a bit of good news. Worldwide revenue increased 9% sequentially in the fourth quarter compared to the third quarter of 2009 as activity increased in all geographic regions.

Net income for 2009 was impacted by charges of \$250 million before tax (\$0.55 per diluted share), including \$138 million associated with reorganization and severance, \$18 million in acquisition-related costs, and an increase of \$94 million to our allowance for doubtful accounts, as many of our domestic and international customers struggled in the challenging economic conditions of 2009. Our operating profit margin for the year was impacted by the lower activity levels, significant price erosion, and the extra costs we carried to ensure a smooth organizational transition. Given the progress we have made on our transformation, these additional costs should largely be behind us as we enter 2010.

During 2009, debt decreased \$533 million to \$1.80 billion, and cash and short-term investments decreased \$360 million to \$1.60 billion as compared to 2008. Capital expenditures were \$1.09 billion, depreciation and amortization expense was \$711 million and dividend payments were \$185 million in 2009.

Strategic Direction

For the past several years, Baker Hughes has invested significantly in people, infrastructure and technology. These investments served as the foundation for the next set of strategic actions designed to help us increase market share and achieve long-term profitable growth. We communicated this strategy to our organization with the visual aid of a simple pyramid, as depicted on the inside cover of this annual report.

In brief, increasing market share and achieving long-term profitable growth requires Baker Hughes to pursue two related enterprise strategies: continue to build global capabilities to serve our customers around the world, and deploy customized local solutions to meet our customers' needs in each geographic market.

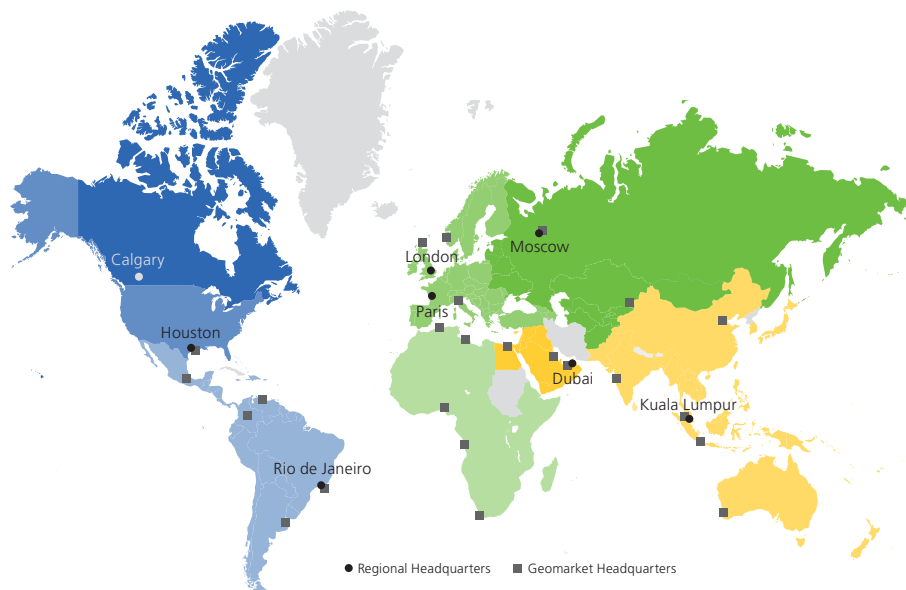
We further identified three imperatives that are critical to the implementation of these strategies. First, improve our customer focus, so we can better understand our customers and proactively meet their needs. Second, achieve operational effectiveness and improve our overall cost position. Third, optimize our existing technology portfolio and fill strategic gaps, including our reservoir engineering capabilities and pressure pumping services. To implement these imperatives, we launched a number of initiatives, including a major reorganization and targeted acquisitions.

Improve Customer Focus: Moving to a Geomarket Model

Our first imperative is to improve customer focus, and that means getting closer to our customers. The reorganization we implemented in May was based on moving from a portfolio-managed company with all the leadership in the southern United States, to a geomarket organization with Eastern and Western Hemispheres, nine presidents in regions around the world, and 23 geomarket managing directors on the ground in all the major markets.

The geographic organization improves customer focus in a number of ways. By locating senior management within the geomarkets, decision-making authority is closer to our customers and decisions can be made at “customer speed.” By organizing the product line field operations into geomarket operating units, we have improved our ability to deliver multi-product solutions specifically tailored to meet local requirements.

Over the last three years, we made a determined and successful effort to hire local talent to constitute the largest share of our regional management, and we are developing other employees so they can fill leadership roles at the geomarket, region and hemisphere levels. In addition, we have placed nationals in executive roles within each of the regions and have attracted senior executives from other companies, including companies outside of the oilfield services industry, to fill some of these positions.



This more-focused market approach is giving us the granular view we need to establish the right expert teams, drive the right market-based technology needs, and develop the right infrastructure in the right places around the world.

Achieve Operational Excellence: Improving Supply Chain and Administrative Functions

With operations in more than 90 countries, we know that managing our supply chain effectively is one of the single largest opportunities for improving execution and reducing costs; in fact, we estimate that we can save as much as \$300 million over several years through implementation of enterprise supply chain strategies.

We formed our Global Supply Chain and Manufacturing organization in 2009 so that we could achieve synergies from combining our product line manufacturing capabilities. The new organization leverages our global footprint of manufacturing facilities, suppliers and logistics expertise. Optimizing our supply chain will be an important area of focus in 2010 and beyond.

As part of our cost reduction efforts, we are also targeting \$50 million in annual savings through outsourcing specific shared services functions in 2010, and we are making improvements in our information technology infrastructure.

In a difficult market, we made several strategic moves to enhance our ability to compete on a global scale and fully participate in the most significant opportunities in our industry over the next decade.

Our research and development and technology centers, including the Celle Technology Center (in Germany) and Center for Technology and Innovation (in Houston), play a vital role in developing the market leading technologies necessary to meet future needs of our customers.



**Optimize the Product Portfolio:
Promoting Market-Driven Solutions**

In restructuring the company, we did not want to lose sight of the many benefits of focusing on products. We elected to maintain product line teams responsible for research and development and for efficiently delivering products and services to the geomarkets.

Our Products and Technology organization is comprised of three product centers which are grouped to enable technical synergies and the development of broad, multi-product line customer solutions. The Drilling & Evaluation product center focuses on drill bits, drilling systems, and logging-while-drilling and wireline products and services for formation evaluation. The Completion & Production product center develops well completion technologies and artificial lift systems, and the Fluids & Chemicals product center delivers drilling fluids and production chemicals.

We also took bold steps in 2008 and 2009 to cultivate a strong reservoir capability within Baker Hughes, acquiring Gaffney, Cline and Associates; GeoMechanics International; Helix (now Baker) RDS; and Epic Consulting to form the Reservoir Technology Consulting (RTC) group. Today, RTC boasts nearly 400 seasoned industry professionals with backgrounds in petrophysics, geology, geomechanics and geophysics, and offers a range of expertise from field evaluation to completion and production. This team's global activities connect directly to Baker Hughes' services for oil and gas wells, and present significant opportunities to increase business.

The Products and Technology team is also responsible for our technology and product centers, our global marketing functions, and our product and service reliability initiatives. Our technology and product centers comprise our global technology network, linking



Our technology and product centers comprise our global technology network, linking central research and development with commercial applications.



Our new geographical model gives Baker Hughes tremendous opportunities to drive standardized and rationalized processes and to improve our operational efficiencies in supply chain and manufacturing activities.

central research and development with commercial applications. In 2010, we will begin construction of two regional technology centers located in Brazil and Saudi Arabia. These centers will focus on commercialization of technical solutions which span our portfolio and address the specific challenges faced by our customers in Latin America and the Middle East. The global marketing team bridges the geographic and product line organizations to develop and deliver market strategies and the reliability team is responsible for quality in manufacturing and for reliable execution in the field.

BJ Services Merger

In addition to building our reservoir capabilities throughout 2009, we announced a proposed merger with BJ Services Company. This transaction will bring pressure pumping and stimulation capabilities to the company, in addition to a number of other complementary technologies.

BJ Services' capabilities in cementing, coiled tubing, hydraulic fracturing and offshore pressure pumping will advance Baker Hughes' competitive position in all of our strategic market segments, particularly in unconventional gas and deepwater projects, which have the highest potential for growth in the next decade.

Pressure pumping is an important component of many integrated operations projects, and we have partnered with BJ Services

on such projects in the past. With the combination of Baker Hughes and BJ Services, we can compete on an equal footing with companies that already have this capability. Pressure pumping is also a key service in deepwater projects, which require fracturing, cementing and gravel packing services, and combining capabilities with BJ Services will make Baker Hughes a leader in this area.

BJ Services also is a leader in shale fracturing technology and services in North America, and has operating bases in most of the key shale basins. Significant opportunities exist for Baker Hughes and BJ Services to integrate their respective technologies.

Compliance

Over the past several years, our employees have undertaken a broad range of compliance initiatives that focus on our Core Values of Integrity, Teamwork, Performance and Learning. These initiatives are at the heart of how we work every day, and I commend and thank all employees for their efforts in this regard.

While compliance remains every employee's responsibility, we have established a professional Ethics and Compliance group within our legal department to guide and implement our compliance program under the direction of the Audit & Ethics committee of the Board of Directors, our General Counsel and our Chief Compliance Officer.

Opportunities and Outlook

Looking forward, Baker Hughes will focus on a number of areas which provide opportunities for long-term growth, including relationships with national oil companies, development of unconventional gas reservoirs, and deepwater exploration and production.

National oil companies control more than eighty percent of the world's hydrocarbon reserves and each national oil company has unique requirements. Our geomarket organization allows us to tailor our product and technology capabilities and local content programs to meet each national oil company's needs.

Within North America, the unconventional gas fields present the greatest opportunity for oilfield service companies. With the pending addition of BJ Services, Baker Hughes can compete with a full breadth of products and services for each of these opportunities.

In 2009, in anticipation of a burgeoning deepwater exploration and production market, we formed a geomarket organization specifically focused on Gulf of Mexico customers. In addition, we increased our presence in Brazil by investing in new facilities, adding to our local workforce and signing a technology agreement with Petrobras. We also expanded our operations in West Africa, adding new facilities in Angola and Nigeria. We are well positioned to increase our share of products, technology and services for this critical market.

By locating senior management within the geomarkets, decision-making authority is closer to our customers and decisions can be made at "customer speed."

Baker Hughes is committed to hiring local talent within our regions, and to developing that talent to fill leadership roles at the geomarket, region and hemisphere levels.



Looking forward, gas-directed drilling in North America is gradually increasing, and we believe this trend will likely continue through 2010. However, strength of the unconventional gas business is dependent on continued improvement in supply and demand fundamentals and natural gas prices.

Internationally, we believe that customer spending reached its low point in the third quarter of 2009. Forecasts for increasing economic growth – particularly in China,

India and the Middle East – combined with modest spare production capacity, are supporting higher oil prices and laying the foundation for increased spending in 2010.

In the long term, significantly higher exploration and development activity will be needed to offset production declines and ultimately grow energy supplies. As the worldwide economy recovers, demand for our technologies and services will increase. With our new customer-focused organization and our strategic actions, which include the planned merger with BJ Services, we believe that we are emerging from this cycle a stronger global competitor.

In closing, I thank our stockholders and customers for their confidence in Baker Hughes as we took bold steps to transform our company in 2009.

I also recognize the contributions of our employees, who have worked hard to serve our customers while adopting a new organization and business model that will enable long-term growth and profitability.

Sincerely,

Chad C. Deaton
Chairman, President and CEO



With our new customer-focused organization and our strategic actions, which include the planned merger with BJ Services, we believe that we are emerging from this cycle a stronger global competitor.

Baker Hughes Incorporated

Notice Of Annual Meeting Of Stockholders

April 22, 2010

To the Stockholders of Baker Hughes Incorporated:

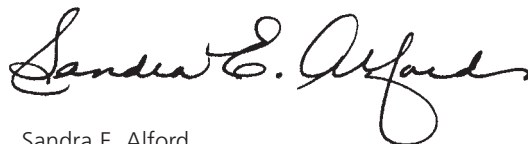
The Annual Meeting of the Stockholders of Baker Hughes Incorporated ("Company", "Baker Hughes", "we", "us" or "our") will be held at the Wortham Meeting Room No. 2 located at 2727 Allen Parkway, Houston, Texas on Thursday, April 22, 2010, at 9:00 a.m., Central Daylight Time, for the purpose of considering and voting on:

1. Election of Directors;
2. Ratification of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for Fiscal Year 2010;
3. Management Proposal No. 1 regarding the Approval of an Amendment to our Certificate of Incorporation that would, subject to any limitations that may be imposed in the Bylaws, require our Corporate Secretary to Call Special Stockholder Meetings following a Request from the Holders of 25% of our Voting Stock.
4. Stockholder Proposal No. 1 regarding Majority Vote Standard for Director Elections; and
5. Such other business as may properly come before the meeting and any reconvened meeting after an adjournment thereof.

The Board of Directors has fixed March 2, 2010 as the record date for determining the stockholders of the Company entitled to notice of, and to vote at, the meeting and any reconvened meeting after an adjournment thereof, and only holders of Common Stock of the Company of record at the close of business on that date will be entitled to notice of, and to vote at, that meeting or a reconvened meeting after an adjournment.

You are invited to attend the meeting in person. Whether or not you plan to attend in person, we urge you to promptly vote your shares by telephone, by the Internet or, if this Proxy Statement was mailed to you, by completing, signing, dating and returning it as soon as possible in the enclosed postage prepaid envelope in order that your vote may be cast at the Annual Meeting. You may revoke your proxy any time prior to its exercise, and you may attend the meeting and vote in person, even if you have previously returned your proxy.

By order of the Board of Directors,



Sandra E. Alford
Corporate Secretary

Houston, Texas
March 12, 2010

TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE (I) VOTE YOUR SHARES BY TELEPHONE OR THE INTERNET, OR (II) IF YOU RECEIVED A PAPER COPY, THEN SIGN, DATE AND RETURN YOUR PROXY AS PROMPTLY AS POSSIBLE. AN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, IS ENCLOSED FOR THIS PURPOSE.

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PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Baker Hughes Incorporated, a Delaware corporation ("Company"; "Baker Hughes"; "we"; "us" and "our"), to be voted at the Annual Meeting of Stockholders scheduled to be held on Thursday, April 22, 2010 and at any and all reconvened meetings after adjournments thereof.

Information About the Notice of Internet Availability of Proxy Materials

In accordance with rules and regulations adopted last year by the Securities and Exchange Commission (the "SEC"), we now furnish to our stockholders proxy materials, including our Annual Report to Stockholders, on the Internet. On or about March 12, 2010, we will send electronically an annual meeting package personalized with profile and voting information ("Electronic Delivery") to those stockholders that have previously signed up to receive their proxy materials via the Internet. On or about March 12, 2010, we will begin mailing a Notice of Internet Availability of proxy materials (the "E-Proxy Notice") to those stockholders that previously have not signed up to receive their proxy materials on the Internet. If you received the E-Proxy Notice by mail, you will not automatically receive a printed copy of the proxy materials or the Annual Report to Stockholders. If you received the E-Proxy Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the E-Proxy Notice.

Registered stockholders may also sign up to receive future proxy materials and other stockholder communications electronically instead of by mail. In order to receive the communications electronically, you must have an e-mail account, access to the Internet through an Internet service provider and a web browser that supports secure connections. Visit <http://www.bnymellon.com/shareowner/isd> for additional information regarding electronic delivery enrollment. Stockholders with shares registered in their names with BNY Mellon Shareowner Services LLC may authorize a proxy by the Internet at the following Internet address: <http://www.proxyvoting.com/bhia>, or telephonically by calling BNY Mellon Shareowner Services LLC at 1-866-540-5760. Proxies submitted through BNY Mellon Shareowner Services LLC by the Internet or telephone must be received by 11:59 p.m. Eastern time (10:59 p.m. Central time) on April 21, 2010. The giving of a proxy will not affect your right to vote in person if you decide to attend the meeting.

The Company will bear the cost of any solicitation of proxies, whether by Internet or mail. In addition to solicitation, certain of the directors, officers and regular employees of the Company may, without extra compensation, solicit proxies by telephone, facsimile and personal interview. The Company has retained Laurel Hill Advisory Group to assist in the solicitation of proxies from stockholders of the Company for an anticipated fee of \$8,500, plus out-of-pocket expenses.

A number of banks and brokerage firms participate in a program that also permits stockholders to direct their vote by the Internet or telephone. This option is separate from that

offered by BNY Mellon Shareowner Services LLC and should be reflected on the voting form from a bank or brokerage firm that accompanies this Proxy Statement. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may direct the vote of these shares by the Internet or telephone by following the instructions on the voting form enclosed with the proxy from the bank or brokerage firm. Votes directed by the Internet or telephone through such a program must be received by BNY Mellon Shareowner Services LLC by 11:59 p.m. Eastern time (10:59 p.m. Central time) on April 21, 2010. Directing the voting of your shares will not affect your right to vote in person if you decide to attend the meeting; however, you must first request a proxy either on the Internet or use the voting form that accompanies this Proxy Statement. Requesting a proxy prior to the deadlines described above will automatically cancel any voting directions you have previously given by the Internet or by telephone with respect to your shares.

The Internet and telephone proxy procedures are designed to authenticate stockholders' identities, to allow stockholders to give their proxy instructions and to confirm that those instructions have been properly recorded. Stockholders authorizing proxies or directing the voting of shares by the Internet should understand that there may be costs associated with electronic access, such as usage charges from access providers and telephone companies, and those costs must be borne by the stockholder.

Shares for which proxies have been executed will be voted as specified in the proxies. If no specification is made, the shares will be voted FOR the election of nominees listed herein as directors, FOR ratification of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for fiscal year 2010, FOR Management Proposal No. 1 regarding the Approval of an Amendment to our Certificate of Incorporation that would, subject to any limitations that may be imposed in the Bylaws, require our Corporate Secretary to Call Special Stockholder Meetings following a Request from the Holders of 25% of our Voting Stock and AGAINST Stockholder Proposal No. 1 regarding Majority Vote Standard for Director Elections.

Proxies may be revoked at any time prior to the exercise thereof by filing with the Company's Corporate Secretary, at the Company's executive offices, a written revocation or a duly executed proxy bearing a later date. The executive offices of the Company are located at 2929 Allen Parkway, Suite 2100, Houston, Texas 77019. For a period of at least ten days prior to the Annual Meeting of Stockholders, a complete list of stockholders entitled to vote at the Annual Meeting will be available for inspection during ordinary business hours at the Company's executive offices by stockholders of record for proper purposes.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on April 22, 2010. This Proxy Statement and the Annual Report to Stockholders and the means to vote by Internet are available at <http://bnymellon.mobular.net/bnymellon/bhi>.

VOTING SECURITIES

The securities of the Company entitled to be voted at the Annual Meeting consist of shares of its Common Stock, par value \$1.00 per share ("Common Stock"), of which 311,906,964 shares were issued and outstanding at the close of business on March 2, 2010. Only stockholders of record at the close of business on that date will be entitled to vote at the meeting. Each share of Common Stock entitles the holder thereof to one vote on each matter to be considered at the meeting. The presence in person or by proxy of the holders of a majority of our Common Stock issued and outstanding and entitled to vote at the Annual Meeting will constitute a quorum to transact business at the Annual Meeting.

Assuming a quorum is present at the Annual Meeting, either in person or represented by proxy, with respect to the election of directors, the director nominees who receive the greatest number of votes cast in their favor (up to the number of director seats available for election) will be elected, and the affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the matter is required for the approval of the ratification of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for fiscal year 2010, and for the approval of Stockholder Proposal No. 1, regarding Majority Vote Standard for Director Elections. There will be no cumulative voting in the election of directors. Under Delaware law, abstentions are treated as present and entitled to vote and thus, will be counted in determining whether a quorum is present and will have the effect of a vote against a matter, except for the election of directors in which case an abstention will have no effect. Shares held by brokers or nominees for which instructions have not been received from the beneficial owners or persons entitled to vote and for which the broker or nominee does not have discretionary power to vote on a particular matter (called "broker non-votes"), will be considered present for quorum purposes but not considered entitled to vote on that matter. Accordingly, broker non-votes will not have any impact on the vote on any of the foregoing proposals or on director elections. The approval of Management Proposal No. 1, regarding the Approval of an Amendment to our Certificate of Incorporation that would, subject to any limitations that may be imposed in the Bylaws, require our Corporate Secretary to Call Special Stockholder Meetings following a Request from the Holders of 25% of our Voting Stock, requires the affirmative vote of the holders of a majority of the voting power of our Common Stock outstanding. Abstentions and broker non-votes will have the same effect as votes against Management Proposal No. 1.

On July 1, 2009, the SEC approved the New York Stock Exchange's ("NYSE") proposed rule change that eliminates broker discretionary voting in uncontested director elections; therefore, under the rules of the NYSE in effect at the time this Proxy Statement was filed, if you hold your shares through a broker, your broker is permitted to vote your shares on "routine" matters, which includes the ratification of the Independent Registered Public Accounting Firm, even if the broker does not receive instructions from you. The NYSE does not consider the election of directors, the approval of Management Proposal No. 1 or Stockholder Proposal No. 1 routine matters, so your broker may not vote your shares on these proposals without receiving instructions from you.

The following table sets forth information about the holders of the Common Stock known to the Company on March 2, 2010 to own beneficially 5% or more of the Common Stock, based on filings by the holders with the SEC. For the purposes of this Proxy Statement, beneficial ownership of securities is defined in accordance with the rules of the SEC to mean generally the power to vote or dispose of securities regardless of any economic interest therein.

Name and Address	Shares	Percent
1. Wellington Management Company, LLP 75 State Street Boston, MA 02109	43,379,335	14.0%
2. Capital Research Global Investors 333 South Hope Street Los Angeles, CA 90071	32,914,500	10.6%
3. Dodge & Cox 555 California Street, 40th Floor San Francisco, CA 94104	28,112,419	9.1%
4. Capital World Investors 333 South Hope Street Los Angeles, CA 90071	22,051,764	7.1%

PROPOSAL NO. 1 ELECTION OF DIRECTORS

On August 30, 2009, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among the Company, BJ Services Company, a Delaware corporation ("BJ Services"), and BSA Acquisition LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company ("Merger Sub"), pursuant to which BJ Services will be merged with and into Merger Sub, with Merger Sub surviving the merger as a wholly owned subsidiary of the Company (the "Merger"). The Merger Agreement and the Merger have been approved by the Board of Directors of both the Company and BJ Services. In the Merger, each issued and outstanding share of BJ Services' common stock will be converted into the right to receive (i) 0.40035 shares of the Company's common stock, par value \$1.00 per share, and (ii) \$2.69 per share in cash.

For more information regarding the Merger, you are urged to read the joint proxy statement/prospectus dated February 12, 2010, which the Company and BJ Services filed with the SEC on February 16, 2010 and was first mailed to Company stockholders and BJ Services stockholders on or about February 16, 2010. You are urged to read the joint proxy statement/prospectus and any other relevant materials filed by the Company or BJ Services because they contain important information about the Company, BJ Services and the Merger. The joint proxy statement/prospectus and other relevant materials and any other documents filed by the Company or BJ Services with the SEC, may be obtained free of charge from the SEC's website at www.sec.gov. In addition, the documents filed with the SEC by the Company may be obtained free of charge from the Company's website at www.bakerhughes.com.

Completion of the Merger is expected to occur on March 19, 2010, the date the Company and BJ Services have scheduled special meetings of stockholders, subject to adjournment or postponement, where the stockholders of each entity will vote whether to approve the Merger. However, the completion of the Merger is subject to customary closing conditions, and although the Company expects the Merger to be completed on March 19, 2010, as anticipated, the Merger may not be completed prior to the Company's Annual Meeting on April 22, 2010.

As of the date of this proxy statement, the Company's Board of Directors consists of eleven directors, ten of whom are independent non-management directors. The Merger Agreement includes an agreement that two members of the BJ Services Board of Directors be added to the Baker Hughes Board of Directors following completion of the Merger. J.W. Stewart and James L. Payne have been designated to become members of the Baker Hughes Board of Directors upon closing of the Merger. Therefore, if the Merger is completed prior to the Annual Meeting, a total of thirteen nominees will be voted upon at the Annual Meeting for election

to the Board of Directors: eleven of the nominees will have served as directors since the last annual meeting and the remaining two will have been appointed to the Company Board of Directors upon closing of the Merger. If the Merger is not completed prior to the Annual Meeting, only the eleven incumbent directors will be voted upon for election to the Company Board of Directors.

In analyzing director nominations and director vacancies the Governance Committee strives to recommend candidates for director positions who will create a collective membership on the Board with varied experience and perspective and who maintain a Board that reflects diversity, including but not limited to gender, ethnicity, background, country of citizenship and experience. The Governance Committee strives to recommend candidates who demonstrate leadership and significant experience in a specific area of endeavor, comprehend the role of a public company director, exemplify relevant expertise, experience and a substantive understanding of domestic considerations and geopolitics, especially those pertaining to the service sector of the oil and gas and energy related industries.

When analyzing whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Governance Committee and the Board of Directors focus on the information as summarized in each of the Directors' individual biographies set forth on pages 5 through 7. In particular, the Board considered Mr. Deaton's senior executive experience for over 12 years in the oilfield services industry combined with extensive knowledge in his successful energy business career for over 30 years as well as active participation in energy-related professional organizations. His knowledge, expertise and management leadership regarding the issues affecting our business and the Company have been invaluable to the Board of Directors in overseeing the business and affairs of our Company. Similarly the Board has considered the extensive backgrounds of each of the independent non-management directors, including Mr. Brady's experience and leadership of public companies in the energy services sector and manufacturing sector together with his financial expertise; Mr. Cazalot's role as chief executive and director of a publicly traded energy company as well as his 37 successful years of experience in the global energy business; Ambassador Djerejian's extensive international and governmental experience, particularly his more than 30 years in the United States Foreign Service, including service as the U.S. Ambassador to two countries, as well as his role as director of two other public companies in the energy sector; Mr. Fernandes' leadership roles in several public companies in the energy and manufacturing sectors, including his service as a director of other public companies and his extensive financial expertise; Ms. Gargalli's leadership and consulting experience, extensive public board service

and her financial expertise; Dr. Jungels' technical knowledge, executive roles, 38 successful years of experience in the international energy industry and service as a member of public company boards; Mr. Lash's engineering and high technology knowledge and skills, his private equity leadership, manufacturing background, public service and financial expertise; Mr. Nichols' position as chief executive officer and director of a publicly traded energy company, successful career building a major oil and gas company and his leadership in related trade associations; Mr. Riley's 38 years of senior executive experience with a publicly traded diversified manufacturer, service as a director of other public companies and a national corporate governance organization; Mr. Watson's extensive executive leadership roles and active involvement in a number of energy related companies and businesses and service as a director of other public companies. With respect to Messrs. Payne and Stewart, the board considered their director positions with BJ Services prior to the pending Merger as well as Mr. Stewart's many years as President and Chief Executive Officer of BJ Services and Mr. Payne's current role as Chairman and Chief Executive Officer of an independent energy company and as a director of two public companies.

All directors will be elected at the Annual Meeting of Stockholders to serve for a one-year term expiring at the Annual Meeting of Stockholders expected to be held in April 2011. If the Merger is completed prior to the Annual Meeting, the proxyholders will vote FOR the thirteen persons listed below under the section "Company Nominees for Director Following Completion of the Merger"; unless contrary instructions are given. If the Merger is not completed prior to the Annual Meeting, the proxyholders will vote FOR the eleven persons listed below under the section "Company Nominees for Director Prior to Completion of the Merger"; unless contrary instructions are given. Accordingly, if the Merger is not completed prior to the Annual Meeting, the Company's proxyholders will not vote any shares in favor of the election of Messrs. Payne and Stewart, and they will not stand for election.

If you sign your proxy card but do not give instructions with respect to the voting of directors and if the Merger is completed prior to the Annual Meeting, your shares will be voted for the thirteen persons recommended by the Board of Directors. If you sign your proxy card but do not give instructions with respect to the voting of directors and if the Merger is not completed prior to the Annual Meeting, your shares will be voted for the eleven persons recommended by the Board of Directors in that case. If you wish to give specific instructions with respect to the voting of directors, you must do so with respect to the individual nominee.

Company Nominees for Director Following Completion of the Merger

The following table sets forth each nominee director's name, all positions with the Company held by the nominee, the nominee's principal occupation, age and year in which the nominee first became a director of the Company. Each nominee director has agreed to serve if elected. **If the Merger is completed prior to the Annual Meeting, the Board of Directors recommends a vote FOR the election to the Board of Directors of each of the following thirteen nominees.** The Board of Directors has waived the retirement age for James L. Payne for one year, pursuant to the Company's Bylaws:

Nominees	Principal Occupation	Age	Director Since
Larry D. Brady	Former Chairman of the Board and Chief Executive Officer of Intermecc, Inc. (industrial technologies). Mr. Brady served as Chairman of Intermecc from 2001 to 2007 and as Chief Executive Officer from 2000 to 2007. He served as President of Intermecc from 1999 to 2001 and as Chief Operating Officer from 1999 to 2000. Mr. Brady served as President of FMC Corporation from 1993 to 1999. He served as a Vice President of FMC from 1984 to 1989, as Executive Vice President from 1989 to 1993 and was a director from 1989 to 1999. Mr. Brady is a director of Pactiv Corporation and a member of the Advisory Board of Northwestern University's Kellogg School of Management.	67	2004
Clarence P. Cazalot, Jr.	President and Chief Executive Officer and Director since 2002 of Marathon Oil Corporation, formerly known as USX Corporation (diversified petroleum). He served as Vice Chairman of USX Corporation and President of Marathon Oil Company from 2000 to 2001. Mr. Cazalot was with Texaco Inc. from 1972 to 2000, and while at Texaco served in the following executive positions: President of Worldwide Production Operations of Texaco Inc. from 1999 to 2000; President of International Production and Chairman of London-based Texaco Ltd. from 1998 to 1999; President of International Marketing and Manufacturing from 1997 to 1998; President of Texaco Exploration and Production Inc. from 1994 to 1996; and President of Texaco's Latin America/West Africa Division from 1992 to 1994. In 1992, he was named Vice President, Texaco. He is a director and Executive Committee member of both the U.S. Saudi Arabian Business Council and the American Petroleum Institute. Additionally, he is a director of the Greater Houston Partnership, a member of the Business Council and serves on the Advisory Board of the World Affairs Council of Houston.	59	2002
Chad C. Deaton	Chairman of the Board, President and Chief Executive Officer of Baker Hughes Incorporated since February 1, 2008. Chairman of the Board and Chief Executive Officer from October 2004 to January 31, 2008. Mr. Deaton was President and Chief Executive Officer of Hanover Compressor Company (compression services) from 2002 through October 2004. He was a Senior Advisor to Schlumberger Oilfield Services (oilfield services) from 1999 to September 2001 and was an Executive Vice President from 1998 to 1999. Mr. Deaton is a director of Ariel Corporation. He is also a director of Junior Achievement of Southeast Texas, Houston Achievement Place, Greater Houston Partnership and a member of the Society of Petroleum Engineers Industry Advisory Council. Mr. Deaton was a director of CARBO Ceramics, Inc. from 2005 to 2009.	57	2004
Edward P. Djerejian	Director of the James A. Baker III Institute for Public Policy at Rice University since 1994. Ambassador Djerejian served as U.S. Ambassador to Israel from 1993 to 1994. He served as Assistant Secretary of State for Near Eastern Affairs from 1991 to 1993. Ambassador Djerejian also served as U.S. Ambassador to the Syrian Arab Republic from 1988 to 1991, as Deputy Assistant Secretary of Near Eastern and South Asian Affairs from 1986 to 1988 and as Special Assistant to the President and Deputy Press Secretary for Foreign Affairs from 1985 to 1986. He is a director of Global Industries, Ltd. and Occidental Petroleum.	70	2001

Nominees (cont'd.)	Principal Occupation	Age	Director Since
Anthony G. Fernandes	Former Chairman, President and Chief Executive Officer of Phillip Services Corporation (diversified industrial services provider) from August 1999 to April 2002. He was Executive Vice President of ARCO (Atlantic Richfield Company) from 1994 to 1999, President of ARCO Coal, a subsidiary of ARCO, from 1990 to 1994 and Corporate Controller of ARCO from 1987 to 1990. Mr. Fernandes serves on the Boards of Black & Veatch, Cytec Industries and ABM Industries, Inc.	64	2001
Claire W. Gargalli	Former Vice Chairman, Diversified Search and Diversified Health Search Companies (executive search consultants) from 1990 to 1998. Ms. Gargalli served as President and Chief Operating Officer of Equimark from 1984 to 1990. During that period, she also served as Chairman and Chief Executive Officer of Equimark's two principal subsidiaries, Equibank and Liberty Bank. Ms. Gargalli is a director of Praxair, Inc., Virginia National Bank and BioMotion Analytics. She is also a trustee emeritus of Carnegie Mellon University and Middlebury College. Within the past five years, Ms. Gargalli served as director of Intermec, Inc. (industrial technologies).	67	1998
Pierre H. Jungels	President of the Institute of Petroleum until June 2003. From 1997 through 2001 Dr. Jungels served as a Director and Chief Executive Officer of Enterprise Oil, plc. In 1996, Dr. Jungels served as the Managing Director of Exploration and Production at British Gas plc. Dr. Jungels is Chairman of Rockhopper Exploration plc and Oxford Catalysts plc. He is also a director of Woodside Petroleum Ltd. and Imperial Tobacco Group plc. Various positions from 1974 to 1995 at PetroFina SA, including Executive Director from 1989 to 1995.	66	2006
James A. Lash	Chairman of Manchester Principal LLC and its predecessor company (high technology venture capital firm) since 1976. Former First Selectman, Greenwich, Connecticut (city government) from 2003 to 2007. Mr. Lash also served as Chairman and Chief Executive Officer of Reading Tube Corporation from 1982 to 1996. Mr. Lash is a director of the East West Institute and a trustee of the Massachusetts Institute of Technology.	65	2002
J. Larry Nichols	Chairman of the Board and Chief Executive Officer of Devon Energy Corporation (independent energy company). Mr. Nichols has served as Chairman of Devon Energy Corporation since 2000 and as Chief Executive Officer since 1980. Mr. Nichols serves as a director of SONIC Corp. as well as several trade associations relevant to the oil and gas exploration and production business. Within the past five years, he was a director of Smedvig asa.	67	2001
H. John Riley, Jr.	Former Chairman of the Board of Cooper Industries, Ltd. (diversified manufacturer) from May 1996 to February 2006. He was Chief Executive Officer of Cooper Industries from 1995 to 2005. He was Executive Vice President, Operations of Cooper Industries from 1982 to 1992, Chief Operating Officer from 1992 to 1995 and President from 1992 to 2004. Mr. Riley is a director of The Allstate Corporation, Westlake Chemical Corporation, and Post Oak Bank, N.A. Mr. Riley also serves as a director of the National Association of Corporate Directors and as a trustee of the Museum of Fine Arts, Houston and Syracuse University.	69	1997
Charles L. Watson	Chairman CLW Investments, Inc. since 2009 (private investments), Chairman of Eagle Energy Partners from 2003 to 2009, Chairman of Wincrest Ventures, L.P. (private investments) since January 1994, Chairman of Collegiate Zone LP since 2004 and Chairman of Sigma Chi Foundation since 2005. Senior Advisor to EDF Trading North America LLC and Electricite de France during 2008 (energy marketing), Managing Director of Lehman Brothers from 2007 to 2008. Founder, Chairman and Chief Executive Officer of Dynegy Inc. (diversified energy) and its predecessor companies from 1985 to 2002. Mr. Watson is also a board member of Mainstream Renewable Power, Shona Energy Company, Inc., Baylor College of Medicine and Angeleno Investors, L.P.	60	1998

Nominees (cont'd.)	Principal Occupation	Age	Director Since
J.W. Stewart*	Chairman of the Board of Directors, President and Chief Executive Officer of BJ Services Company (pressure pumping services) from 1990 to 2010. Prior to 1990, Mr. Stewart held various management and staff positions with BJ Services Company and its predecessor company.	65	2010
James L. Payne*	Chairman and Chief Executive Officer of Shona Energy Company, Inc. (independent energy company) since 2006 and its predecessor Shona Energy Company, LLC formed in January 2005, Chairman, President and Chief Executive Officer of Nuevo Energy Company from 2001 to 2004, Chairman and Chief Executive Officer of Santa Fe Energy from 1990 until May 1999, Chief Executive Officer and Chairman of Santa Fe Snyder Corporation from 1999 to 2000, Vice Chairman and a director of Devon Energy Corporation from 2000 to 2001 and a director of BJ Services Company from 1999 to 2010. Mr. Payne is also a board member of Nabors Industries Ltd. and Global Industries, Ltd.	72	2010

* To be appointed to the Board of Directors upon completion of the Merger pursuant to the Merger Agreement.

Company Nominees for Directors Prior to Completion of the Merger

If the Merger is not completed prior to the Annual Meeting, the Board of Directors recommends a vote FOR the election to the Board of Directors each of the following eleven nominees:

Larry D. Brady – See biography above.

Clarence P. Cazalot, Jr. – See biography above.

Chad C. Deaton – See biography above.

Edward P. Djerejian – See biography above.

Anthony G. Fernandes – See biography above.

Claire W. Gargalli – See biography above.

Pierre H. Jungels – See biography above.

James A. Lash – See biography above.

J. Larry Nichols – See biography above.

H. John Riley, Jr. – See biography above.

Charles L. Watson – See biography above.

Election Policy

It is the policy of the Board of Directors that any nominee for director who receives a “withhold” vote representing a majority of the votes cast for his or her election would be required to submit a letter of resignation to the Board’s Governance Committee. The Governance Committee would recommend to the Board whether or not the resignation should be accepted. Pursuant to the Company’s Bylaws, in case of a vacancy on the Board of Directors, a majority of the remaining directors will appoint a successor, and the director so appointed will hold office until the next annual meeting or until his or her successor is elected and qualified or until his or her earlier death, retirement, resignation or removal.

CORPORATE GOVERNANCE

The Company’s Board of Directors believes the purpose of corporate governance is to maximize stockholder value in a manner consistent with legal requirements and the highest standards of integrity. The Board has adopted and adheres to corporate governance practice, which the Board and management believe promote this purpose, are sound and represent best practices. The Board periodically reviews these governance

practices, Delaware law (the state in which the Company is incorporated), the rules and listing standards of the NYSE and SEC regulations, as well as best practices suggested by recognized governance authorities. The Board has established the Company’s Corporate Governance Guidelines as the principles of conduct of the Company’s business affairs to benefit its stockholders, which Guidelines conform to the NYSE corporate governance listing standards and SEC rules. The Corporate Governance Guidelines are attached as Annex B to this Proxy Statement, posted under the “Corporate Governance” section of the Company’s website at www.bakerhughes.com/investor and are also available upon request to the Company’s Corporate Secretary.

Board of Directors

During the fiscal year ended December 31, 2009, the Board of Directors held ten meetings, the Audit/Ethics Committee held nine meetings, the Compensation Committee held five meetings, the Governance Committee held four meetings and the Finance Committee held five meetings. Each director attended more than 82% of the total number of meetings of the Company’s Board of Directors and of the respective Committees on which he or she served. During fiscal year 2009, each independent non-management director was paid an annual retainer of \$75,000. The Lead Director received an additional annual retainer of \$15,000. The Audit/Ethics Committee Chairman received an additional annual retainer of \$20,000. Each of the other independent non-management Committee Chairmen received an additional annual retainer of \$15,000. Each of the members of the Audit/Ethics Committee, excluding the Chairman, received an additional annual retainer of \$10,000. Each of the members, excluding the Chairmen, of the Compensation, Finance and Governance Committees received an additional annual retainer of \$5,000. Each non-management director also received annual non-retainer equity in a total amount of \$200,000, in the form of (i) restricted shares of the Company’s Common Stock with a value of \$140,000 issued in January of each year that generally will vest one-third on the annual anniversary date of the award (however, the restricted shares, to the extent not previously

vested or forfeited, will become fully vested on the annual meeting of stockholders next following the date the non-management director attains the age of 72); and (ii) options to acquire the Company's Common Stock with a value of \$30,000 issued in each of January and July. The options will vest one-third each year beginning on the first anniversary date of the grant of the option. The Company previously provided benefits under a Directors Retirement Plan, which Plan remains in effect until all benefits accrued thereunder are paid in accordance with the current terms and conditions of that Plan. No additional benefits have been accrued under the Plan since December 31, 2001. Messrs. Djerejian, Fernandes, Nichols, Riley, Watson and Ms. Gargalli have accrued benefits under the Plan.

Director Independence

All members of the Board of Directors, other than the Chairman, President and Chief Executive Officer, Mr. Deaton, satisfy the independence requirements of the NYSE. In addition, the Board has adopted a "Policy for Director Independence, Audit/Ethics Committee Members and Audit Committee Financial Expert" ("Policy for Director Independence") included as Exhibit C to the Corporate Governance Guidelines, which are attached as Annex B to this Proxy Statement. Such Policy supplements the NYSE independence requirements. Directors who meet these independence standards are considered to be "independent" as defined therein. The Board has determined that all the nominees for election at this Annual Meeting, other than Mr. Deaton, meet these standards. The Board of Directors has not yet made an independence determination with respect to J.W. Stewart and James L. Payne, the two BJ Services directors to be appointed to the

Board of Directors upon completion of the Merger pursuant to the Merger Agreement, as discussed in Proposal No. 1 regarding the Election of Directors on page 3.

Regularly Scheduled Executive Sessions of Independent Non-Management Directors

Pursuant to the Corporate Governance Guidelines, executive sessions of independent non-management directors are held at every regularly scheduled meeting of the Board of Directors and at such other times as the Board deems appropriate. The Governance Committee reviews and recommends to the Board a director to serve as Lead Director during executive sessions. Currently, Mr. Riley serves as the Lead Director during the executive sessions of independent non-management directors.

Committees of the Board

The Board of Directors has, in addition to other committees, an Audit/Ethics Committee, a Compensation Committee and a Governance Committee. The Audit/Ethics, Compensation and Governance Committees are comprised solely of independent non-management directors in accordance with NYSE corporate governance listing standards. The Board of Directors adopted charters for the Audit/Ethics, Compensation and Governance Committees that comply with the requirements of the NYSE standards, applicable provisions of the Sarbanes-Oxley Act of 2002 ("SOX") and SEC rules. Each of the charters has been posted and is available for public viewing under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor and are also available upon request to the Company's Corporate Secretary.

Committee Memberships 2009

Audit/Ethics	Compensation	Executive	Finance	Governance
Anthony G. Fernandes ^(C)	H. John Riley, Jr. ^(C)	Chad C. Deaton ^(C)	Larry D. Brady ^(C)	Clarence P. Cazalot, Jr. ^(C)
Larry D. Brady	Edward P. Djerejian	Clarence P. Cazalot, Jr.	Claire W. Gargalli	Edward P. Djerejian
Clarence P. Cazalot, Jr.	Claire W. Gargalli	H. John Riley, Jr.	Pierre H. Jungels	Anthony G. Fernandes
James A. Lash	Pierre H. Jungels	Charles L. Watson	James A. Lash	H. John Riley, Jr.
J. Larry Nichols	J. Larry Nichols		Charles L. Watson	Charles L. Watson

^(C) Chairman of the referenced Committee.

Audit/Ethics Committee

The Audit/Ethics Committee held nine meetings during fiscal year 2009. The Board of Directors has determined that each of the Audit/Ethics Committee members meet the NYSE standards for independence as well as those contained in the Company's "Policy for Director Independence". The Audit/Ethics Committee Charter is attached as Annex C to this Proxy Statement and can be accessed electronically under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor. The Vice President, Internal Audit and the Corporate internal audit function report directly to the Audit/Ethics Committee. The Company's Corporate Internal Audit Department sends written reports quarterly to the Audit/Ethics Committee on its audit findings and the status of its internal audit projects. The Audit/Ethics Committee provides assistance to the Board of Directors in overseeing matters relating to the accounting and reporting practices of the Company, the adequacy of the Company's disclosure controls and internal controls, the quality and integrity of the quarterly and annual financial statements of the Company, the performance of the Company's internal audit function, the review and pre-approval of the current year audit and non-audit fees and the Company's risk analysis and risk management procedures. In addition, the Audit/Ethics Committee oversees the Company's compliance programs relating to legal and regulatory requirements. The Audit/Ethics Committee has developed "Procedures for the Receipt, Retention and Treatment of Complaints" to address complaints received by the Company regarding accounting, internal controls or auditing matters. Such procedures are included as Exhibit F to the Corporate Governance Guidelines. The Corporate Governance Guidelines are attached as Annex B to this Proxy Statement, posted under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor and are also available upon request to the Company's Corporate Secretary.

The Audit/Ethics Committee also is responsible for the selection and hiring of the Company's Independent Registered Public Accounting Firm. To promote independence of the audit, the Audit/Ethics Committee consults separately and jointly with the Company's Independent Registered Public Accounting Firm, the internal auditors and management.

The Board has reviewed the experience of the members of the Audit/Ethics Committee and has found that each member of the Committee meets the qualifications to be an "audit committee financial expert" under the SEC rules issued pursuant to SOX. The Board has designated Anthony G. Fernandes as the member of the Committee who serves as the "audit committee financial expert" of the Company's Audit/Ethics Committee.

Compensation Committee

The Compensation Committee held five meetings during fiscal year 2009. The Board of Directors has determined that the Compensation Committee members meet the NYSE standards for independence as well as those contained in the Company's "Policy for Director Independence". The Compensation Committee Charter can be accessed electronically under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor. The functions

performed by the Compensation Committee include reviewing and approving Baker Hughes' executive salary and bonus structure; reviewing Baker Hughes' incentive compensation and stock award plans (and approving grants thereunder), employee retirement plans and the employee stock purchase plan; setting bonus goals; approving salary and bonus awards to key executives; recommending incentive compensation and stock award plans for approval by stockholders; and reviewing management succession plans.

Governance Committee

The Governance Committee held four meetings during fiscal year 2009. The Board of Directors has determined that the Governance Committee members meet the NYSE standards for independence as well as those contained in the Company's "Policy for Director Independence". A current copy of the Governance Committee Charter can be accessed electronically under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor. The functions performed by the Governance Committee include overseeing the Company's corporate governance affairs, health, safety and environmental compliance functions, government relations and monitoring compliance with the Corporate Governance Guidelines. In addition, the Governance Committee proposes candidates for the Board of Directors, proposes candidates to fill vacancies on the Board, reviews the structure and composition of the Board, considers the qualifications required for continuing Board service and recommends directors' compensation. The Governance Committee annually reviews the Company's Policy Statement on Shareholders' Rights Plans and reports any recommendations to the Board of Directors.

The Governance Committee has implemented policies regarding Board membership. The Governance Committee will consider candidates based upon the size and existing composition of the Board, the number and qualifications of candidates, the benefit of continuity on the Board and the relevance of the candidate's background and experience to issues facing the Company. The criteria used for selecting directors are described in the Company's "Guidelines for Membership on the Board of Directors", included as Exhibit A to the Corporate Governance Guidelines attached as Annex B to this Proxy Statement. In addition, the Company has established a formal process for the selection of candidates, as described in the Company's "Selection Process for New Board of Directors Candidates" included as Exhibit B to the Corporate Governance Guidelines, and candidates are evaluated based on their background, experience and other relevant factors as described in the Guidelines for Membership on the Board of Directors. The Board and the Governance Committee will evaluate candidates properly proposed by stockholders in the same manner as all other candidates.

The Governance Committee has established, in accordance with the Company's Bylaws regarding stockholder nominees, a policy that it will consider director candidates recommended by stockholders. Recommendations that stockholders desire to make for the 2011 Annual Meeting should be submitted between October 13, 2010 and November 12, 2010 in accordance with the Company's Bylaws and "Policy and Submission Procedures for Stockholder Recommended Director Candidates"

included as Exhibit D to the Corporate Governance Guidelines, which are attached as Annex B to this Proxy Statement, posted under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor and are also available upon request to: Chairman, Governance Committee of the Board of Directors, P.O. Box 4740, Houston, Texas, 77210, or to the Corporate Secretary, c/o Baker Hughes Incorporated, 2929 Allen Parkway, Suite 2100, Houston, Texas, 77019. Such recommendations should be accompanied by the information required under the Company's Bylaws for stockholder nominees and in accordance with the Company's Policy and Submission Procedures for Stockholder Recommended Director Candidates.

In connection with the 2009 election of directors, the Company has not paid any fee during 2009 or 2010 to a third party to identify or evaluate or to assist in identifying or evaluating such nominees. In connection with the 2010 Annual Meeting, the Governance Committee did not receive any recommendation for a nominee proposed from any stockholder or group of stockholders.

Stock Ownership by Directors

Each independent non-management director is expected to own at least four times his or her annual retainer in Company Common Stock. Such ownership level should be obtained within a reasonable period of time following the director's election to the Board. All independent non-management directors have met this ownership requirement.

Stockholder Communications with the Board of Directors

The Company's Annual Meeting provides an opportunity each year for stockholders to ask questions of or otherwise communicate directly with members of the Company's Board of Directors on matters related to the Company. In accordance with the Company's "Annual Meeting Director Attendance Policy," which has been incorporated into the Corporate Governance Guidelines, all directors and nominees for election as directors are requested and encouraged to personally attend the Company's Annual Meeting. All of the Company's 2009 director nominees attended the Company's 2009 Annual Meeting.

To provide the Company's stockholders and other interested parties with a direct and open line of communication to the Company's Board of Directors, a process has been established for communications with any member of the Board of Directors, including the Company's Lead Director, the Chairman of any of the Company's Governance Committee, Audit/Ethics Committee, Compensation Committee, or Finance Committee or with the independent non-management directors as a group. Stockholders may communicate with any member of the Board, including the Company's Lead Director, the Chairman of any of the Company's Governance Committee, Audit/Ethics Committee, Compensation Committee, or Finance Committee or with the independent non-management directors of the Company as a group, by sending such written communication to the Company's Corporate Secretary, c/o Baker Hughes Incorporated, 2929 Allen Parkway, Suite 2100, Houston, Texas, 77019. The procedures for "Stockholder

Communications with the Board of Directors" are also included as Exhibit E to the Corporate Governance Guidelines, which are attached as Annex B to this Proxy Statement, and can be accessed electronically under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor and are also available upon request to the Company's Corporate Secretary.

Business Code of Conduct

The Company has a Business Code of Conduct that applies to all officers, directors and employees, which includes the code of ethics for the Company's chief executive officer, chief financial officer, chief accounting officer or controller and all other persons performing similar functions within the meaning of the securities laws and regulations. Every year, each of these Company officers certify compliance with the Company's Business Code of Conduct and the applicable NYSE and SOX provisions. The Company's Business Code of Conduct and Code of Ethical Conduct Certification are posted under the "Corporate Governance" section of the Company's website at www.bakerhughes.com/investor and are also available upon request to the Company's Corporate Secretary.

The Board's Leadership Structure and Role in Risk Oversight

There are currently 11 members of the Board of Directors of the Company. Since joining the Company in October 2004, Chad Deaton has served as Chairman of the Board and Chief Executive Officer. All members of the Board of Directors, other than Mr. Deaton, are independent non-management directors. The Board has five standing committees: Audit/Ethics, Compensation, Governance, Finance and Executive. Other than the Executive Committee, all of the Board committees are comprised solely of independent non-management directors. Each of the five committees has a different Chairman. The Chairmen of the Audit/Ethics Committee, the Compensation Committee, the Finance Committee and the Governance Committee are each independent non-management directors. Our Corporate Governance Guidelines require the election, by the independent non-management directors, of a Lead Director who (i) presides at all meetings of the Board of Directors at which the Chairman is not present, including executive sessions of independent non-management directors; (ii) serves as liaison between the Chairman and the independent non-management directors; (iii) has the authority to call meetings of the independent non-management directors; and (iv) consults with the Chairman on agendas for Board meetings and other matters pertinent to the Company and the Board. The Governance Committee reviews and recommends to the Board a director to serve as Lead Director. John Riley is the current Lead Director. The independent non-management directors hold executive sessions at every regularly scheduled Board meeting and at such other times as the Board deems appropriate. Our Board leadership structure is utilized by a significant number of public companies in the United States, and we believe that it provides the optimal balance and is an effective leadership structure for the Company.

In accordance with NYSE requirements, our Audit/Ethics Committee is responsible for overseeing risk analysis and risk management procedures. The Audit/Ethics Committee reviews guidelines and policies on enterprise risk management, including risk assessment and risk management related to the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. At each meeting of the Audit/Ethics Committee, the officers of the Company provide information to the Audit/Ethics Committee addressing issues related to risk analysis and risk management. At every regularly scheduled meeting of the Audit/Ethics Committee the Company's Chief Compliance Officer provides a report to the Committee regarding the Company's Business Code of Conduct, including updates pertaining to the status of the Company's compliance with its standards, policies, procedures and processes. The Company maintains an Enterprise Risk Management ("ERM") process under which it reviews its business risk framework including an assessment of external

and internal risks and appropriate mitigation activities. The Company's annual ERM report is provided to the Audit/Ethics Committee and in addition a comprehensive in person presentation is made to the entire Board. In addition to the risk oversight which is exercised by the Audit/Ethics Committee of the Board of Directors, the Compensation Committee, the Finance Committee and the Governance Committee each regularly exercises oversight related to risks associated with responsibilities of the respective Committee. For example, the Compensation Committee has reviewed what risks, if any, could arise from the Company's compensation policies and practices, while the Finance Committee consistently reviews risks related to the financial structure and activities of the Company and the Governance Committee periodically provides oversight respecting risks associated with the Company's health, safety and environmental policies and practices. The Board of Directors believes that the risk management processes in place for the Company are appropriate.

SECURITY OWNERSHIP OF MANAGEMENT

Set forth below is certain information with respect to beneficial ownership of the Common Stock as of March 2, 2010 by each director nominee, the persons named in the Summary Compensation Table below and the directors and executive officers as a group. The table includes transactions effected prior to the close of business on March 2, 2010.

Name	Shares Beneficially Owned			
	Shares Owned as of March 2, 2010	Shares Subject to Options Which Are or Will Become Exercisable Prior to April 30, 2010	Total Beneficial Ownership as of April 30, 2010	% of Class ⁽¹⁾
Larry D. Brady	14,805	2,148	16,953	—
Clarence P. Cazalot, Jr.	16,396	3,875	20,271	—
Edward P. Djerejian	16,396	1,894	18,290	—
Anthony G. Fernandes	24,460	7,188	31,648	—
Claire W. Gargalli	20,048	3,875	23,923	—
Pierre H. Jungels	11,596	1,561	13,157	—
James A. Lash	16,396	3,875	20,271	—
J. Larry Nichols	18,396	3,875	22,271	—
H. John Riley, Jr.	29,396	3,875	33,271	—
Charles L. Watson	27,625	3,875	31,500	—
J.W. Stewart ⁽²⁾⁽³⁾	0	1,946,246	1,946,246	—
James L. Payne ⁽²⁾⁽³⁾	0	68,888	68,888	—
Chad C. Deaton	302,627	508,556	811,183	—
Peter A. Ragauss	89,827	108,960	198,787	—
Alan R. Crain	73,954	76,944	150,898	—
David H. Barr	43,521	105,982	149,503	—
Martin S. Craighead	76,399	61,214	137,613	—
John A. O'Donnell	59,159	32,363	91,522	—
All directors and executive officers as a group (26 persons)	840,783	2,945,194	3,785,977	

⁽¹⁾ No percent of class is shown for holdings of less than 1%.

⁽²⁾ Mr. Stewart and Mr. Payne will be voted upon for election to the Board of Directors at the Annual Meeting only if the Merger is completed prior to the Annual Meeting.

⁽³⁾ Assuming that the Merger is completed prior to April 30, 2010, Mr. Stewart and Mr. Payne will become beneficial owners of shares of our Common Stock by virtue of being owners of shares of common stock or stock equivalent securities of BJ Services. Assuming that the "Stock Award Exchange Ratio" (as defined in the Merger Agreement) is 0.45888, Mr. Stewart and Mr. Payne will become beneficial owners of 1,946,246 and 68,888 shares of our Common Stock, respectively.

CHARITABLE CONTRIBUTIONS

During the fiscal year ended December 31, 2009, the Company did not make any contributions to any charitable organization in which an independent, non-management director served as an executive officer, that exceeded the greater of \$1 million or 2% of the charitable organization's consolidated gross revenues.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), requires executive officers, directors and persons who beneficially own more than 10% of the Common Stock to file initial reports of ownership and reports of changes in ownership with the SEC and the NYSE. SEC regulations require executive officers, directors, and greater than 10% beneficial owners to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of those forms furnished to the Company and written representations from the executive officers and directors, the Company believes its executive officers and directors complied with all applicable Section 16(a) filing requirements during the fiscal year ended December 31, 2009 with the exception of one inadvertent late filing on Form 4 relating to one transaction for Derek Mathieson, Vice President and President of Products and Technology, filed on October 1, 2009 rather than July 22, 2009.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Board has adopted procedures for review and approval or ratification of transactions with "related persons." We subject the following related persons to these procedures: directors, director nominees, executive officers and any immediate family members of these persons.

The Board annually re-evaluates the independence of any related person for any transactions, arrangements or relationships, or any series of similar transactions, arrangements or relationships in which any director, director nominee, executive officer, or any immediate family member of those persons could be a participant, the amount involved exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest.

COMPENSATION DISCUSSION AND ANALYSIS

Oversight of Executive Compensation Program

The Compensation Committee of our Board of Directors (the "Compensation Committee") oversees our compensation programs and is charged with the review and approval of annual compensation decisions relating to our executives. Our compensation programs include programs that are designed specifically for (1) our most senior executives officers ("Senior Executives"), which include the Principal Executive Officer ("PEO") and the other named executive officers in the Summary Compensation Table (the "NEOs"); (2) employees who are designated as executives of the Company ("Executives"), which includes the Senior Executives and (3) a broad base of Company employees.

No Compensation Committee member participates in any of the Company's employee compensation programs in order to preserve their independence in making compensation decisions. However, the Compensation Committee members do receive grants of equity awards under the same program that covers the Senior Officers. Each year we review any and all relationships that each director serving on the Compensation Committee may have with us, and the Board of Directors reviews our findings. The Board of Directors has determined that none of the Compensation Committee members has any material business relationships with us.

The responsibilities of the Compensation Committee related to compensation decisions and policies include, among others, annually (i) reviewing and approving the Company's general compensation strategies and objectives; (ii) reviewing and approving the Company's goals and objectives relevant to the PEO's compensation, evaluating the PEO's performance in light of such goals and objectives, and determining the PEO's compensation level based on this evaluation and other relevant information; (iii) reviewing and approving the individual elements of total compensation for the Senior Executives; (iv) reviewing with the PEO and the Board matters relating to management succession, including compensation-related issues, as well as maintaining and reviewing a list of potential successors to the PEO; (v) making recommendations to the Board regarding all employment agreements, severance agreements, change in control provisions and agreements and any special supplemental benefits applicable to the Executives; (vi) assuring that the Company's incentive compensation program, including the annual and long-term incentive plans, is administered in a manner consistent with the Company's compensation strategy in regards to participation, target awards, financial goals and actual awards paid to Senior Executives; (vii) approving and/or recommending to the Board new incentive compensation plans and equity-based compensation plans, and submitting them for stockholder approval where appropriate; (viii) approving revisions to salary increases for the Senior Executives and reviewing compensation arrangements of the Senior Executives; (ix) reviewing and reporting to the Board the levels of stock ownership by the Senior Executives in accordance with the Stock Ownership Policy; (x) reviewing the Company's employee benefit programs and recommending for approval all committee administrative changes that may be subject to the approval of the stockholders or the Board; and (xi) producing an annual compensation committee report for inclusion in the Company's Proxy Statement in accordance with applicable rules and regulations.

Compensation Consultant

The Compensation Committee has retained Cogent Compensation Partners, Inc. since 2008 as its independent compensation consultant. Cogent advises the Compensation Committee on matters related to the Senior Executives' compensation and general compensation programs, including industry best practices. It is planned that this relationship will continue during 2010.

Cogent assists the Compensation Committee by providing comparative market data on compensation practices and programs (the "Survey Data") based on an analysis of ten publicly traded, energy-related companies that are competitors of ours (the "Peer Group") plus published compensation survey information from the 2008 Mercer U.S. Executive Compensation Benchmark Database and the 2008 Mercer U.S. Benchmark Survey data. The Peer Group, which annually is reviewed with the assistance of Cogent and approved by the Compensation Committee, is used to benchmark executive compensation levels against companies that have executive positions with responsibilities similar in breadth and scope to ours and have global businesses that compete with us for executive talent. With such information, the Compensation Committee reviews and analyzes compensation for each Senior Executive and makes adjustments as appropriate. The following ten companies comprise the Peer Group: Anadarko Petroleum Corporation, Apache Corporation, BJ Services Company, Devon Energy Corporation, Halliburton Company, National Oilwell Varco Incorporated, Schlumberger Limited, Smith International Incorporated, Transocean Incorporated and Weatherford International Ltd. An analysis by Cogent based on recent financial data shows that amongst our Peer Group we ranked eighth in revenue as of December 31, 2008. The Survey Data and general economic conditions and marketplace compensation trends are evaluated with the assistance of Cogent.

Cogent advises the Compensation Committee in (1) determining base salaries for Senior Executives, (2) setting individual performance goals and award levels for Senior Executives for the Long-Term Incentive Plan performance cycle and (3) designing and determining individual grant levels for the long-term incentive awards for Senior Executives.

From time to time Cogent provides advice to the Governance Committee with respect to reviewing and structuring our policy regarding fees paid to our directors as well as other equity and non-equity compensation awarded to independent, non-management directors, including designing and determining individual grant levels for the 2009 long-term incentive awards.

Overview of Compensation Philosophy and Program

The purpose of our compensation program is to motivate exceptional individual and organizational performance that is in the long-term best interests of stockholders. The following compensation objectives are considered in setting the compensation programs for our Senior Executives:

- drive and reward performance that supports the Company's core values of integrity, teamwork, performance and learning;
- provide a significant percentage of total compensation that is variable because it is at risk, based on predetermined performance criteria;
- require significant stock holdings to align the interests of Senior Executives with those of stockholders;

- design competitive total compensation and rewards programs to enhance our ability to attract and retain knowledgeable and experienced Senior Executives; and
- set compensation and incentive levels that reflect competitive market practices.

To reward both short and long-term performance in the compensation program and in furtherance of our compensation objectives noted above, our executive compensation philosophy includes the following two general principles:

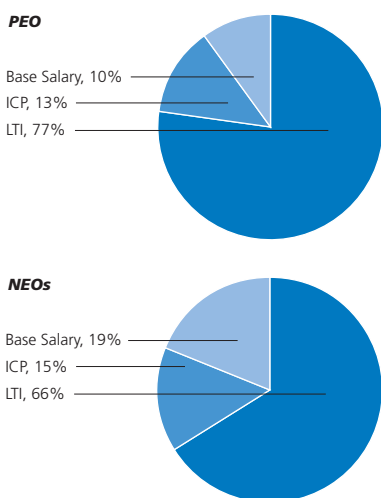
(i) **Compensation levels should be competitive and should be related to performance**

The Compensation Committee reviews the Survey Data to ensure that the compensation program is competitive with the Peer Group. We believe that a competitive compensation program is essential to our ability to attract and retain Senior Executives. The Compensation Committee also believes that a significant portion of a Senior Executive's compensation should be tied to performance. For this reason our incentive plans have been based on the performance of the overall Company and if applicable, the Executive's product line or geographic locale. The Compensation Committee also considers a Senior Executive's individual performance in determining salary increases, annual incentives, and the granting of long-term incentive awards. In assessing performance, the Compensation Committee considers financial and non-financial performance indicators. During periods when performance meets or exceeds the established objectives, Senior Executives should be paid at, or more than, expected levels, respectively. When performance does not meet key objectives, incentive award payments, if any, should be less than such levels.

(ii) **Incentive compensation should represent a large portion of a Senior Executive's total compensation and should balance short and long-term performance**

The Company de-emphasizes fixed compensation paid to Senior Executives in order to minimize costs when Company performance is not optimum. A significant portion of the Senior Executives' compensation is incentive compensation, which provides them with an incentive to increase Company profitability and stockholder return. The largest portion of total compensation is delivered in the form of variable compensation. Our variable compensation programs consist of our short-term incentives, made up of the Baker Hughes Incorporated Annual Incentive Compensation Plan, as amended (the "Annual Incentive Plan") and discretionary bonuses, and long-term incentives, made up of stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs"), and performance units. Less than fifty percent of each Senior Executive's compensation package is contingent solely upon continued employment with the remainder at risk and contingent on Senior Executives helping to drive the success of the Company.

While both short and long-term incentives drive the final compensation levels for Senior Executives, the Committee encourages a balance between short and long-term business goals by employing both types of compensation programs. Our incentive plans are established to emphasize long-term decision making. Because the value of our long-term incentive opportunity is meaningfully higher than the short-term incentive opportunity, we believe our Executives are properly motivated to manage the business for the long-term. The following pie charts demonstrate the current allocation of total direct compensation between base salary, target short term incentives and target long-term incentives for the PEO and the average of the other NEOs (other than Mr. David H. Barr):



Financial Metrics Used in Compensation Programs

Several financial metrics are commonly referenced in defining Company performance for Senior Executives' compensation. These metrics and their use in short-term incentives and long-term incentive programs are described below. The impact of certain items that are extraordinary, unusual in nature, infrequent in occurrence, related to the acquisition or disposal of a business, or related to a change in accounting principle ("certain identified items") may be excluded from the calculation of these metrics in order to ensure that the metrics consistently reflect Company performance and stockholder return. The existence of certain identified items is determined in accordance with standards established by accounting regulators applicable accounting rules, or consistent with Company policies and practices for measuring the achievement of performance goals on the date the Compensation Committee establishes the performance goal.

Earnings Per Share

To ensure that compensation is tied to the return on investment earned by stockholders, we use Earnings per Share ("EPS") as a metric for Senior Executives in the Annual Incentive Plan. EPS is generally defined as our net income divided by the weighted average number of shares outstanding during that period. Certain identified items (as defined above under the heading "Financial Metrics Used in Compensation Programs") are generally excluded from the EPS calculation for purposes of determining Annual Incentive Compensation payouts. The exclusion of certain identified items from the EPS calculation causes EPS to be a non-GAAP measure for purposes of determining Annual Incentive Compensation payouts.

Profit After Tax

A related metric used in the annual incentive calculations is profit after tax ("PAT"). PAT means revenues minus cost of sales (the cost of products sold and the cost of providing services, including personnel costs, repair and maintenance costs, freight/custom, depreciation and other costs directly relating to the service provided) minus operating expenses (costs incurred in non-manufacturing areas to provide products and services to customers (e.g., finance and administrative support), minus income taxes. The use of this metric allows us to reward Senior Executives for meeting targets related to actual operating profit earned each year. PAT is a non-GAAP measure because the impact of certain identified items is excluded. We believe that PAT is useful because it is a consistent measure of the underlying results of our business. Furthermore, management uses PAT internally as a measure of the performance of our operations.

Baker Value Added

Baker Value Added (BVA) is a non-GAAP measure that supplements traditional accounting measures to evaluate the return on capital invested in the business. BVA is calculated as our financial return in a given period less our capital charge for that period. Our financial return is defined as (i) profit before tax (as defined below) plus interest expense, multiplied by (ii) 1 minus the applicable tax rate. Our capital charge is defined as (i) the weighted average cost of capital determined for the Company for the period multiplied by (ii) the average capital employed. Profit before tax is calculated as total revenues (including interest and dividend income) minus total costs and expenses (including interest expense). BVA has been used in the past for both short-term and long-term incentive compensation for awards granted prior to 2009. At present, the Compensation Committee does not intend to use this metric for future awards.

Review of Senior Executive Performance

The Compensation Committee reviews, on an annual basis, each compensation element for each of the Senior Executives. In every case, the Compensation Committee takes into account the Executive's scope of responsibilities and experience and balances these against competitive salary levels. The members of the Compensation Committee have the opportunity to meet with the Senior Executives at various times during the year, which allows the Compensation Committee to form its own assessment of each Senior Executive's performance.

In addition, each year, the PEO presents to the Compensation Committee his evaluation of each of the other Senior Executives, which includes a review of contribution and performance over the past year, strengths, weaknesses, development plans and succession potential. Following this presentation and a review of the Survey Data, the Compensation Committee makes its own assessments and approves compensation for each Senior Executive.

In this way all compensation elements are reviewed and approved by the Compensation Committee. The PEO, as the direct manager of the NEOs, provides input on their individual performance and recommends specific compensation changes for his direct reports; however, the Committee retains ultimate approval for any compensation changes. The PEO makes no recommendations to the Compensation Committee regarding his own compensation. The Committee does take into consideration the NEOs' total compensation, including base salary annual incentives and long-term incentives, both cash and equity, when considering market based adjustments to the NEOs' compensation. Additionally, the Committee reviews compensation metrics and targets for all of the Senior Executives and is responsible for approving any adjustments to those metrics and targets.

Effect of Recent Economic Volatility on Executive Pay

The recent economic volatility has had a significant effect on world energy markets and has impacted our executive compensation program. In light of this, we reviewed the appropriateness of our compensation programs in an effort to maintain their effectiveness. We made changes to the structure of our approach to annual incentives which provides for an element of non-financial performance measures, reinforcing balance sheet management and strategic reorganization efforts. We also changed performance measures under the annual incentive plan and the performance unit program, moving away from the BVA metric in order to best manage the business during this period. While we still value the importance of focusing on profitable returns on capital, we determined that using revenue growth, operating margin and return on net capital employed in the performance unit awards was most appropriate at this time. We considered these measures timely to our strategy and responsive to the market conditions. We also began measuring performance solely against our peer group to be consistent with the manner investors value our performance relative to the market.

We considered the changes in stock price and its effect on our long-term incentive grants. The impact of a lower share price generally results in more options and restricted shares being granted to plan participants. We reviewed the resulting number of shares required to meet our long-term incentive target values and determined that number was within a reasonable range and therefore made no changes to our historical target award values in 2009.

Components of the Executive Compensation Program

The total compensation and benefits program for Senior Executives consists of the following:

- base salaries;
- short-term incentive compensation;
- long-term incentive compensation;
- retirement, health and welfare benefits; and
- perquisites and perquisite allowance payments.

The Compensation Committee targets different compensation levels for each element of compensation for the PEO and each other NEO based upon his level of responsibility to the Company (as discussed in more detail below).

Base Salaries

The Compensation Committee targets the median base salary level (50th percentile) of the Survey Data for the base salaries of our Senior Executives. The Committee has strategically decided to target the 50th percentile based on historical performance of the oilfield services industry. Because of the volatility of the industry, Baker Hughes strategically chooses to set base salaries at a competitive level, but not the highest in the market. Base salaries make up a large portion of fixed compensation costs, and our stockholders are served best by minimizing those fixed costs when business activity is low. To employ talented and capable Senior Executives we pay the market median for base salaries. We do not believe we need to pay above the market median, since we provide greater opportunity for earnings through compensation programs which are at risk and dependent on the performance of the Executives and the Company.

When considering adjustment of a Senior Executive's base salary, the Compensation Committee reviews Survey Data and evaluates the Senior Executive's level of responsibility and experience as well as Company performance. The Compensation Committee also considers the Senior Executive's success in achieving business results, promoting our core values and keys to success, improving health and safety and demonstrating leadership. We believe the Company's keys to success are (i) people contributing at their full potential, (ii) delivering unmatched value to our customers, (iii) being cost efficient in everything we do and (iv) employing our resources effectively.

Benchmarking and aligning base salaries are especially critical to a competitive compensation program. Other elements of our compensation are affected by changes in base salary. Annual incentives are targeted and paid out as a percentage of base salary, and the target levels of long-term incentives are also set as a percentage of base salary. Increases to base salaries, if any, are driven primarily by individual performance and comparative data from the Survey Data.

In determining base salaries, the Compensation Committee also considers the Company's continuing achievement of its short and long-term goals to:

- achieve specific EPS goals;
- communicate strategy and financial results effectively;
- increase emphasis on employee health and safety; and
- develop human resource capability and reduce attrition.

The Compensation Committee bases its compensation decisions on the Company's performance related to the goals listed above. The Compensation Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of the Senior Executives.

The Compensation Committee usually adjusts base salaries for Senior Executives when:

- their current compensation significantly deviates from the Survey Data;
- recognizing outstanding individual performance; or
- recognizing an increase in responsibility.

In 2009 the Compensation Committee approved base salary increases for Messrs. Ragauss, Craighead and O'Donnell. The decision to increase each such salary was based on the review of Survey Data from the Peer Group at the 50th percentile and the Senior Executive's increased level of responsibility. In approving the 2009 salary increases, the Compensation Committee reviewed the Survey Data which indicated that the Senior Executive group averaged 94% of the market median (excluding Mr. Barr who was not included in the review) as well as the performance of the Company and each of Messrs. Ragauss, Craighead and O'Donnell before approving the base salary increases. The new salaries were effective in May 2009. Mr. Barr retired from our employment on April 30, 2009. The individual performance factors considered by the Compensation Committee in awarding a salary increase to Mr. Ragauss were performance factors relating to compliance and standardization in the finance function. The Compensation Committee awarded salary increases to Messrs. Craighead and O'Donnell in connection with their promotions to positions of significantly increased responsibility during 2009. During 2009 Mr. Craighead was promoted to the position of Senior Vice President and Chief Operating Officer. Effective May 4, 2009, we reorganized our global operations by geography. Western Hemisphere Operations report to Mr. O'Donnell, a Company Vice President, who was named President Baker Hughes Western Hemisphere Operations.

Annual Incentive Plan

The Annual Incentive Plan provides Senior Executives with the opportunity to earn cash bonuses based on the achievement of specific Company-wide, business unit, division or function and individual performance goals. The Compensation Committee designs the annual incentive component of our compensation program to align Senior Executive pay with our annual (short-term) performance. Incentive bonuses are generally paid in cash in March of each year for the prior fiscal year's performance. The payouts for Senior Executives under the Annual Incentive Plan in conjunction with discretionary bonuses are targeted to pay out at the median (50th percentile) of the Survey Data in years when we reach expected

financial performance levels. If we reach, but do not exceed, the financial performance targets for any given year, the incentive payout should position the Senior Executives' total cash compensation near the median of the Survey Data. However, the Annual Incentive Plan is designed so that in years that financial performance significantly exceeds our financial performance targets, the payouts of the short-term incentive program could exceed the 50th percentile of the Survey Data, and vice versa in years when performance falls meaningfully short of expected results. The incentive target percentage represents the Senior Executive's annual bonus opportunity if the annual performance goals of the Annual Incentive Plan are achieved.

The Annual Incentive Plan incorporates a set of financial metrics for each Senior Executive. The sole financial metric used in the Annual Incentive Plan for the 2009 performance period was the financial metric of EPS. The Compensation Committee reviews and may change the metrics of the Annual Incentive Plan. As of the date of this Proxy Statement, the metrics have not changed.

The amount to be paid to each Senior Executive under the Annual Incentive Plan (the "Incentive Amount") is determined by the applicable financial metrics, which are combined into an overall value (the "Financial Result"). The Compensation Committee approves three performance levels with respect to the Financial Result, entry level, expected value and over achievement. Entry level is the minimum level of Financial Result for which the Compensation Committee approves any annual incentive payout. If the Company's Financial Result is less than the entry level threshold, then there is no payout for the Incentive Amount in that fiscal year. If we achieve the entry threshold, the Incentive Amount equals 25% of the target incentive compensation, which is a percentage of the Senior Executive's base salary. Expected value is the target level of financial performance. If the Company's Financial Result reaches the expected value level, the Incentive Amount equals 100% of target incentive compensation. Over achievement represents a level of financial performance that exceeds the expected value threshold. If the Company's Financial Result reaches the over achievement threshold, the Incentive Amount equals 200% of target incentive compensation. If the Company's Financial Result exceeds the over achievement level, the Incentive Amount will exceed 200% of the Senior Executive's target incentive compensation level. Financial performance between any of the performance levels results in a payout that is determined by interpolation between the two performance level percentages according to the actual Financial Result achieved. The individual bonus opportunities for achievement of bonus objectives above the over achievement level are determined by extrapolation.

Performance targets for all metrics are established at levels that are considered achievable but challenge the Company and the individual Senior Executives to perform at a high level. Targets are set such that only exceptional performance will result in payouts above the target incentive and poor performance will result in no incentive payment. We set the target performance goals at a level for which there is a reasonable chance of achievement based upon forecasted performance of our operating units. Scenarios were developed based upon a

range of assumptions used to build our annual budget. We did not perform specific analysis on the probability of the achievement of the target performance goals given that the market is difficult to predict. Rather, we relied upon our experience in setting these goals guided by our objective of setting a reasonably attainable and motivationally meaningful goal. Performance targets for each of the Senior Executives are reviewed annually by the Compensation Committee and the target percentages are based upon an extensive review of the Survey Data and an assessment of the Senior Executives' job descriptions and responsibilities.

The EPS goals established by the Compensation Committee for 2009 were \$0.88, \$1.76 and \$2.64 for the entry value, expected value and over achievement levels of performance,

respectively. The non-GAAP EPS for purposes of determining the Incentive Amount for 2009 was \$1.57. This level of performance resulted in bonus payments based upon 83.4% of the target incentive compensation threshold.

Each of the Senior Executives will receive an annual bonus in 2010 based on his individual contributions to the 2009 performance as shown in the Summary Compensation Table on page 27. The maximum annual award possible under the Annual Incentive Plan is \$4,000,000. The following table shows the Annual Incentive Plan target incentive compensation for each of the Senior Executives. The differences in percentages are based upon job description and responsibility and are reviewed by the Compensation Committee in light of the Survey Data.

2009 Annual Incentive Plan Targets for Named Executive Officers⁽¹⁾

	Mr. Deaton	Mr. Ragauss	Mr. Crain	Mr. Barr	Mr. Craighead	Mr. O'Donnell
Target Incentive Compensation (% of Base Salary)	60%	43.3%	37.5%	35%	41.7%	28.3%

⁽¹⁾ For 2010 the Target Incentive Compensation as a percentage of Base Salary for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell will be 84%, 63%, 52.5%, 63% and 42%, respectively. Mr. Barr retired from employment with us on April 30, 2009. Accordingly, the bonus that Mr. Barr received for 2009 was prorated based upon his service for us through April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed below under the heading "Retirement Agreement With David H. Barr."

Discretionary Bonuses

Because of the significant market uncertainty the Compensation Committee implemented the use of a second element in the annual incentive compensation program for 2009. This element is discretionary bonuses based upon the achievement of non-financial performance goals. These goals were established primarily to encourage focus on balance sheet management and the implementation of our strategic reorganization. During 2009 the Compensation Committee established non-financial performance goals for each of our Senior Executives based upon the metrics of inventory reduction, receivables reduction, the implementation of the reorganization and individual performance. The guidelines for assessing performance under the discretionary portion of the annual incentive program were not formulaic; however, the Compensation Committee considered management's objectives of inventory reduction of \$296.5 million and receivables reduction of \$501.5 million as expected results. The actual inventory reduction and receivables reduction results for 2009 were \$185.7 million and \$415.2 million, respectively. The measures for evaluating the success of the implementation of the reorganization and individual performance were subjective. These cash-based awards were made under the 2002 Director & Officer Long-Term Incentive Plan (the "2002 D&O Plan") to certain of our Senior Executives based upon their achievement of non-financial goals during 2009.

At the beginning of 2009 the PEO sets specific individual non-financial performance goals for each Senior Executive other than himself. The Compensation Committee established non-financial performance goals for the PEO at the beginning of 2009. Based upon the achievement of those performance goals the Senior Executives had the opportunity to earn discretionary bonuses.

Mr. Deaton's 2009 individual performance goals included goals pertaining to driving the Company's reorganization from a product line focus to a geographic focus, recruitment of key positions and diversification of the management team, realization of efficiency gains in information technology, health safety & environment and supply chain, achievement of safety goals, and the implementation of the monitor's recommendations.

Mr. Craighead's 2009 individual performance goals included goals relating to the successful implementation of the Company reorganization, cost containment associated with the reorganization, promotion of teamwork and collaboration across regions, geomarkets and product lines, implementation of standard performance metrics, achievement of safety goals, diversity and inclusion goals and the development of geomarket specific talent and indigenization strategies.

Mr. Ragauss' 2009 individual performance goals included goals relating to development of management information and corresponding support systems, development and implementation of common financial processes, realization of efficiency gains, implementation of the monitor's recommendations and the implementation of financial shared services outsourcing.

Mr. Crain's 2009 individual performance goals included goals relating to alignment of the legal function across product lines, regions and key geomarkets, appropriate structure of legal entities to enable the implementation of the new organization, improvement of staffing of the legal organization with local and regional personnel, implementation of the monitor's recommendations, and research & development strategy and optimization.

Mr. O'Donnell's 2009 individual performance goals included goals relating to the successful implementation of the Company reorganization, cost containment associated with the reorganization, promotion of teamwork and collaboration across regions, geomarkets and product lines, achievement of

safety goals and the reduction of per capita travel expenses by at least 20 percent. The per capita travel expenses were actually reduced by greater than 20 percent by during 2009.

Mr. Barr's 2009 individual performance goals included goals relating to the successful implementation the Company reorganization, implementation of standard performance metrics and achievement of safety goals.

The 2009 health and safety goals for Messrs. Deaton, Craighead and O'Donnell were a motor vehicle accident rate of less than or equal to 1.0. The rate is determined by multiplying the number of motor vehicle accidents by 1 million hours, divided by the total kilometers driven. The actual motor vehicle accident rate during 2009 was 1.03.

2009 Discretionary Bonus Targets for Named Executive Officers⁽¹⁾

	Mr. Deaton	Mr. Ragauss	Mr. Crain	Mr. Barr	Mr. Craighead	Mr. O'Donnell
Target Incentive Compensation (% of Base Salary)	60%	43.3%	37.5%	35%	41.7%	28.3%

⁽¹⁾ For 2010 the Target Incentive Compensation for discretionary bonuses as a percentage of Base Salary for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell will be 36%, 27%, 22.5%, 27% and 18%, respectively. Mr. Barr retired from employment with us on April 30, 2009. Accordingly, Mr. Barr will receive no bonus for 2010. The amounts we paid to Mr. Barr in connection with his retirement are discussed below in the "Potential Payments Upon Termination or Change in Control" section under the heading "Retirement Agreement With David H. Barr."

Long-Term Incentive Compensation

The long-term incentive program allows Senior Executives to increase their compensation over a number of years as stockholder value is increased as a result of a higher stock price or sustained improvements in financial performance over multiple years. Long-term incentives comprise the largest portion of a Senior Executive's compensation package and are consistent with our at-risk pay philosophy. Currently, long-term incentives generally are allocated to Senior Executives in the following percentages: 30% Performance Units, 40% Stock Options and 30% Restricted Stock. The Compensation Committee has approved targeting the 75th percentile of the Survey Data with respect to long-term incentive awards because the majority of long-term incentives are at risk and therefore justify a higher target percentage in relation to the Survey Data.

In 2002, the Compensation Committee and our Board of Directors approved the 2002 D&O Plan for performance-related awards for Senior Executives. Our stockholders approved the 2002 D&O Plan in April 2002. An objective of the 2002 D&O Plan was to align the interests of Senior Executives with stockholders and to provide a balanced long-term incentive program. Beginning in 2005, the Compensation Committee approved equity awards in shares of restricted stock (or RSUs in non-United States jurisdictions) in addition to the previously offered fixed-price stock options. Capitalized terms used in this section discussing long-term incentive compensation and not otherwise defined herein shall have the meaning assigned to such term in the 2002 D&O Plan.

The Compensation Committee approves the total stock options, restricted stock, performance units and cash-based awards that will be made to Senior Executives as well as the size of individual grants for each Senior Executive. The amounts granted to Senior Executives vary each year and are based on the Senior Executive's performance, the Survey Data,

The Compensation Committee has determined to award Messrs. Deaton, Ragauss, Crain, Barr, Craighead and O'Donnell cash awards in the amounts of \$940,000, \$360,000, \$240,000, \$70,000, \$330,000 and \$140,000, respectively, based upon their performance as compared to their individual performance goals. Given the Company's strong performance with respect to the implementation of the reorganization, the Compensation Committee strongly considered that performance factor in determining the amounts of these cash awards.

The following table shows the discretionary bonus targets for each of the Senior Executives. The differences in percentages are based upon job description and responsibility and were reviewed by the Compensation Committee in light of the Survey Data.

as well as the Senior Executive's total compensation package. Previous awards and grants, whether vested or unvested, have no impact on the current year's awards and grants.

Stock Options

An important objective of the long-term incentives is to strengthen the relationship between the long-term value of our stock price and the potential financial gain for employees. Stock options provide Senior Executives with the opportunity to purchase our Common Stock at a price fixed on the grant date regardless of future market price. Stock options generally vest and become exercisable one-third annually after the original award date.

The exercise prices of the stock options granted to the NEOs during fiscal year 2009 are shown in the Grants of Plan-Based Awards Table on page 28. Additional information on these grants, including the number of shares subject to each grant, also is shown in the Grants of Plan-Based Awards Table.

Options generally are granted semi-annually, at the same time as grants to the general eligible employee population, typically in January and July. Option grants are made at Compensation Committee meetings scheduled in advance to meet appropriate deadlines for compensation-related decisions. Our practice is that the exercise price for each stock option is the market value on the date of grant. Pursuant to the 2002 D&O Plan, the Option Price shall not be less than the fair market value of the shares on the date of grant. The market value on the date of grant is the closing price of our Common Shares on the last trading day immediately preceding the date of grant.

In certain instances, stock options may vest on an accelerated schedule. Retirement may trigger accelerated vesting if a Senior Executive's age plus years of service with us is greater than or equal to 65 years. In this instance, all unvested options will vest as of the retirement date, and the Senior Executive

will have three or five years to exercise the options depending on the terms outlined in the stock option award agreement. However, the exercise window may not exceed the original option term.

Additionally, death or disability while employed with the Company will cause all stock options to automatically vest and become exercisable per the terms outlined in the stock option award agreement.

Restricted Stock Awards and Restricted Stock Units

RSAs are intended to aid in retaining key employees, including the Senior Executives, through vesting periods. RSAs provide the opportunity for capital accumulation and more predictable long-term incentive value. In the United States, RSAs are typically utilized, while outside the United States, we generally utilize RSUs as a performance incentive.

RSAs generally are awarded to Senior Executives once a year in January, at the same time as awards to the general eligible employee population. RSAs are shares of our Common Stock that are awarded with the restriction that the Senior Executive remain with us until the date of vesting. RSAs generally vest one-third annually after the original award date. The purpose of granting RSAs is to encourage ownership of our Common Stock by, and retention of, our Senior Executives. Senior Executives are allowed to vote RSAs as a stockholder based on the number of shares held under restriction. The Senior Executives are also awarded dividends on the RSAs held by them.

Any unvested RSAs generally are forfeited if the Senior Executive terminates employment with the Company or if the Senior Executive fails to meet the continuing employment restriction outlined in the RSA agreement. In the event of death or disability, any unvested RSAs are immediately vested.

RSUs are similar to RSAs, but with a few key differences. An RSU is a commitment by us to issue a share of our Common Stock for each RSU at the time the restrictions in the award agreement lapse. RSUs are provided to Executives who are not on the United States payroll because of the different tax treatment in many other countries. RSU awards are eligible for dividend equivalent payments each time we pay dividends.

Any unvested RSUs are generally forfeited upon termination of employment with the Company if the restrictions outlined in the awards are not met. Any vested shares are fully owned. Additionally, in the event of death or disability, all shares of RSUs are immediately vested.

Performance Units

Performance units represent a significant portion of our long-term incentive program. Performance units are certificates of potential value that are payable in cash at the end of a specified performance period. Performance units only pay out if the Company achieves certain financial targets (BVA targets in the case of awards granted prior to 2009), typically after a three-year performance period. Failure to achieve the entry level threshold will render the performance unit awards valueless.

Performance units are designed to encourage long-range planning and reward sustained stockholder value creation. The objectives of the performance units are to (i) ensure a long-term

focus on capital employment; (ii) develop human resource capability; (iii) enable long-term growth opportunities; (iv) motivate accurate financial forecasting; and (v) reward long-term goal achievement. While stock options, RSAs and RSUs tie directly to our stock price, performance units reward contributions to our financial performance and mitigate the impact of the volatility of the stock market on our long-term incentive program. For performance unit awards granted in 2009, our revenue growth, operating margin and return on net capital employed as compared to a peer group consisting of six peer companies are the financial metrics that will be used to determine payouts. The peer group consists of Schlumberger Limited, Halliburton Company, National Oilwell Varco Incorporated, Smith International Incorporated, Weatherford International Ltd. and BJ Services Company. On August 30, 2009 we entered into an agreement to acquire BJ Services Company. If this acquisition agreement is consummated we will make appropriate adjustments to the performance unit awards granted during 2009 to reflect the fact that BJ Services Company is no longer in the peer group. For awards prior to 2009, BVA has been the financial metric used to determine payouts, if any, for performance units. As noted above, BVA measures operating PAT less the cost of capital employed and is generally the same BVA measure used in the Annual Incentive Plan. At this time the Compensation Committee does not intend to use the BVA metric for future performance unit awards.

The performance goals for the performance units granted in 2009 are based upon a three-year performance period ending on December 31, 2011 with three one-year measurement intervals within that three-year period. As of each measurement interval, the Company's performance is measured against the peer group and 25% of the award value is determined. In addition, at the end of the three-year performance period the Company's three-year performance is measured against the three-year performance of the peer group to determine the final 25% of the award values. The payout, if any, will be paid on March 13, 2012.

Performance units are generally awarded once each year in January to Senior Executives at the same time as grants to the general eligible employee population. The performance unit program operates in overlapping three-year cycles with a payout determined at the end of each cycle.

Performance units are generally forfeited if a Senior Executive voluntarily leaves the Company before the end of the performance cycle. Performance units pay out on a pro rata basis if a Senior Executive retires when the sum of his age and years of service equals at least 65.

When granted, the target value for our performance units is \$100 each, though the actual value realized depends on how well we perform against our peer group with respect to specified performance metrics (BVA targets in the case of grants prior to 2009), which are established by the Compensation Committee with assistance from Cogent Compensation Partners.

The following chart specifies the performance levels for the applicable performance measure and the dollar value per unit at various levels of performance. The payouts for results between the threshold and expected value levels of performance and

between the expected value level of performance and the over achievement level of performance will be determined by interpolation. The payouts for results in excess of the over achievement level of performance will be determined by extrapolation.

Performance Level	Percentage of expected value Target Amount	Performance Unit Value
Below Threshold	0–24%	\$ 0
Entry Level	25%	\$ 25
Expected Value Target	100%	\$ 100
Over Achievement	200%	\$ 200

The performance goals for the performance unit awards granted in 2007 for the three-year performance period ending on December 31, 2009 were not achieved. Accordingly, the performance unit value of each performance unit granted in 2007 is \$0. The amounts of the performance unit award payments for each of the Senior Executives for the three-year performance period ending on December 31, 2009 are shown in the Summary Compensation Table on page 27. Each of the Senior Executives were granted performance unit awards during 2007, 2008 and 2009.

Tax Implications

Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”) places a limit of \$1,000,000 on the amount of compensation that may be deducted by the Company in any year with respect to the CEO and the other NEOs other than Messrs. Ragauss unless the compensation is performance-based compensation as described in Section 162(m) and the related regulations, as well as pursuant to a plan approved by the Company’s stockholders. We have qualified certain compensation paid to Senior Executives for deductibility under Section 162(m), including (i) certain amounts paid under our Annual Incentive Plan and (ii) certain options and certain other long-term performance-based stock or cash awards granted pursuant to the 1998 Long-Term Incentive Plan and the 2002 D&O Plan. We may from time to time pay compensation to our Senior Executives that may not be deductible, including discretionary bonuses or other types of compensation.

Although the Compensation Committee has generally attempted to structure executive compensation so as to preserve deductibility, it also believes that there are circumstances where the Company’s interests are best served by maintaining flexibility in the way compensation is provided, even if it might result in the non-deductibility of certain compensation under the Code.

Although equity awards may be deductible for tax purposes by the Company, the accounting rules pursuant to FASB ASC Topic 718 require that the portion of the tax benefit in excess of the financial compensation cost be recorded to additional paid-in capital.

Employee Stock Purchase Plan

The purpose of the Employee Stock Purchase Plan is to encourage and enable eligible employees to purchase our stock at a discounted rate, thereby keeping the employees’ interests aligned with the interests of the stockholders. Senior

Executives may participate in this Employee Stock Purchase Plan on the same basis as all other eligible employees.

Employees may elect to contribute on an after-tax basis between 1% and 10% of their pay during an offering period to purchase our Common Stock; provided however, that an employee may not purchase Common Shares at a rate that accrues in excess of \$25,000 of fair market value of the stock (determined at the date of grant) for any one calendar year due to Internal Revenue Service restrictions. In no event may an eligible employee purchase more than 2,000 shares under the plan during an offering period. Starting in 2010, in addition to the foregoing limitations, an eligible employee may not purchase shares of Common Stock during an offering period in excess of the number of shares that may be purchased with \$5,000 at a per share purchase price of 85% of the fair market value of our Common Stock on the first day of the offering period. Shares are purchased by eligible employees at a 15% discount of the fair market value of our Common Stock on the first day of the offering period or the last day of the offering period, whichever is lower. Prior to 2010 the offering periods were calendar years. During 2010, the offering periods are two six month periods, the first of which began on January 1 and the second of which begins on July 1.

Retirement, Health and Welfare Benefits

We offer a variety of health and welfare and retirement programs to all eligible employees. The Senior Executives generally are eligible for the same benefit programs on the same basis as the rest of the broad-based employees. The health and welfare programs are intended to protect employees against catastrophic loss and encourage a healthy lifestyle. Our health and welfare programs include medical, wellness, pharmacy, dental, vision, life insurance, accidental death and dismemberment and disability coverages. Coverage under the life and accidental death and disability programs offer benefit amounts specific to Senior Executives. Senior Executives are eligible to receive reimbursement for certain medical examination expenses. Premiums for perquisite life and perquisite accidental death and dismemberment insurance may be paid from a Senior Executive’s perquisite allowance.

We offer retirement programs that are intended to supplement the employee’s personal savings and social security. The programs include the Baker Hughes Incorporated Thrift Plan (“Thrift Plan”), which is a 401(k) plan, the Baker Hughes Incorporated Pension Plan (“Pension Plan”) and the Baker Hughes Incorporated Supplemental Retirement Plan (“SRP”). All U.S. employees, including Senior Executives, are generally eligible for the Thrift Plan and the Pension Plan. Only U.S. Executives are eligible for the SRP. Non-U.S. employees are covered under different retirement plans. Senior Executives participate in the Thrift Plan and Pension Plan on the same basis as other employees and in the SRP on the same basis as other Executives.

The Thrift Plan allows eligible employees to elect to contribute from 1% to 50% of their eligible compensation to an investment trust. Eligible compensation generally means all wages, salaries and fees for services from the Company. Employee contributions are matched in cash by us at the rate of \$1.00 per \$1.00 employee contribution for the first 5% of

the employee's eligible compensation. Such contributions vest immediately. In addition, we make cash contributions for all eligible employees between 2% and 5% of their salary depending on the employee's age. These cash contributions become fully vested to the employee after three years of service. However, regardless of the number of years of service, an employee is fully vested in his Thrift Plan Base Contribution if the employee retires at age 65 or later, or terminates employment with three years of service, or the employee's employment is terminated due to death or total and permanent disability. The Thrift Plan does not provide our employees the option to invest directly in the Company's stock.

We adopted the Pension Plan, effective January 1, 2002, to supplement the benefits provided through our primary retirement vehicle, the Thrift Plan. The Pension Plan is a tax-qualified, defined benefit plan funded entirely by us. Under the provisions of the Pension Plan, a cash balance account is established for each participant. Age-based pay credits are made quarterly to the accounts as a percentage of eligible compensation. Eligible compensation generally means all wages, salaries and fees for services from the Company.

The following are the quarterly pay crediting rates under the Pension Plan:

Age at End of Quarter	Pay Credit as a Percentage of Quarterly Eligible Compensation
Under age 35	2.0%
35–39	2.5%
40–44	3.0%
45–49	3.5%
50 and older	4.0%

In addition to pay credits, cash balance accounts are credited with interest credits based on the balance in the account on the last day of the quarter, using the annual rate of interest on 30-year Treasury securities as specified by the Secretary of Treasury for the month of August of the preceding calendar year. The interest rate used for determining interest credits in 2009 was 4.5%. An employee is fully vested in his or her Pension Plan account after three years of service. Regardless of the number of years of service, an employee is fully vested if the employee retires at age 65 or later, or retires at age 55 with three years of service, or the employee's employment is terminated due to death or total and permanent disability. In addition, employees who were 55 years or older on January 1, 2002 had their prior years of service with us counted for vesting purposes. Pension Plan benefits in excess of \$1,000 are payable in the form of a joint and 75% survivor annuity for married individuals, or subject to spousal consent, or if unmarried, a single lump sum or single life annuity. There are no special provisions for Senior Executives under the Pension Plan.

We adopted the SRP, which was amended and restated effective January 1, 2009, to:

- allow Executives to continue saving toward retirement when, due to compensation and contribution ceilings established under the Code, they can no longer contribute to the Thrift Plan;

- provide Company base, pension and matching contributions that cannot be contributed to the Thrift Plan and Pension Plan due to compensation and contribution ceilings established under the Code; and
- enable covered Executives to defer base and incentive compensation on a tax-deferred basis.

Accordingly, Executive contributions include amounts calculated from an Executive's Thrift Plan pre-tax election on file as of the prior year end on compensation not eligible under the Thrift Plan due to the Code's compensation limit. The Company contributes matching, base and pension contributions on compensation not eligible under the Thrift Plan or Pension Plan based on the Code's compensation limit. Eligible compensation under the Thrift Plan and Pension Plan was limited to \$245,000 and pre-tax employee contributions were limited to \$16,500 (\$22,000 for employees age 50 or older) in 2009. Additionally, Executives may elect to defer eligible compensation each year instead of receiving that amount in current compensation. The Company contributes matching, base and pension contributions on compensation above the compensation ceiling established by the Code and on the Executive's deferred compensation. Company contributions, as a percentage of compensation, are made according to the following schedule:

Age	Base Contribution	Pension Contribution	Matching Contribution
Under Age 35	2.00%	2.00%	5%
35–39	2.50%	2.50%	5%
40–44	3.00%	3.00%	5%
45–49	3.50%	3.50%	5%
50–54	4.00%	4.00%	5%
55–59	4.50%	4.00%	5%
60 or older	5.00%	4.00%	5%

An Executive is fully vested in his or her deferrals and Company matching contributions. Beginning January 1, 2007 Executives generally are fully vested in pension contributions after three years of service. Regardless of the number of years of service, an Executive is fully vested in all contributions if the Executive retires at age 65 or later, or upon the Executive's termination of employment due to the death or total and permanent disability of the Executive. Distribution payments are made upon some specified period after separation from service in accordance with Section 409A of the Code. The methods of distribution include a single lump sum cash payment or annual installments for 2–20 years, with the default election being a lump sum distribution. In-service withdrawals are allowed in compliance with Section 409A of the Code. Hardship withdrawals are allowed in cases of unforeseen severe financial emergencies. All distribution and withdrawal elections are made during annual enrollment except for hardship withdrawals.

The assets of the SRP are invested by the trustee of the SRP rabbi trust. Additional information regarding these benefits and an accompanying narrative disclosure are provided in the Pension Benefits Table and Nonqualified Deferred Compensation Table disclosed on page 31.

Perquisites and Perquisite Allowance Payments

In order to remain competitive with the Peer Group and ensure our ability to attract and retain capable Senior Executives, the Company also provides perquisites that are common to executives in the United States and in our industry. The Compensation Committee annually reviews the perquisite program to ensure competitiveness and fairness. Executives are provided with the following benefits as a supplement to their other compensation:

- **Life Insurance & Accidental Death & Dismemberment Coverage:** We pay 100% of the premium for both term life insurance and accidental death and dismemberment coverage, equal to two times the Executive's base salary.
- **Perquisite Life and Accidental Death and Dismemberment Insurance:** Perquisite life and accidental death and dismemberment insurance benefits are provided to the Executives in addition to the supplemental life insurance and voluntary life insurance and accidental death and dismemberment coverage available to all employees. The cost of the perquisite life and perquisite accidental death and dismemberment insurance is paid from the Executive's perquisite allowance (as discussed below).
- **Short-Term and Long-Term Disability:** We pay 100% of the premium cost for these benefit programs for Executives. The short-term disability program provides income replacement at 100% of base pay level for up to six weeks or recovery. The program then pays 75% of the base pay level beginning on week seven up to 26 weeks or recovery. Upon the expiration of the 26-week short-term disability period, the long-term disability program provides income replacement at 60% of the benefits base pay level, up to a maximum of \$25,000 per month, until age 65 or recovery per the terms and conditions of the program.
- **Executive Physical Program:** At our expense each Executive is allowed to have a complete and professional personal physical exam on an annual basis.

In addition Senior Executives are provided with a cash allowance on a quarterly basis that is intended to pay for expenses associated with managing finances, healthcare, communication and entertainment. These expenses are associated with continued employment yet are not considered and may not be reported as business expenses. It is common practice in our industry to provide these personal benefits as perquisites.

The Compensation Committee has chosen to provide a cash allowance in lieu of providing these benefits directly to Senior Executives, for greater transparency in the value of such benefits and clarity around income tax treatment. While the Compensation Committee intends for such allowance to be applied to applicable benefits, the Senior Executive may apply such amounts to any use in their own discretion.

In addition to the Company-provided basic life insurance coverage of two times the Senior Executive's base salary, Senior Executives may elect additional life insurance coverage through the perquisite program. Additional information regarding these benefits and an accompanying narrative disclosure are provided in the Summary Compensation Table disclosed on page 27.

Severance Plan

Upon certain types of terminations of employment (other than a termination following a change in control of the Company), severance benefits may be paid to the Senior Executives. Additional severance benefits payable to our PEO are addressed in his employment agreement discussed below. The Senior Executives are covered under a general severance plan known as the Baker Hughes Incorporated Executive Severance Plan (the "Severance Plan"). The Severance Plan is designed to attract and retain Senior Executives and to provide replacement income if their employment is terminated because of an involuntary termination other than for cause.

To be eligible to receive benefits under the Severance Plan, a Senior Executive must (i) be an Executive on the date of termination, (ii) be involuntarily terminated and (iii) execute and deliver to the Severance Plan's Administrator a release agreement provided to the participant by the Severance Plan Administrator. No benefits are available or have accrued prior to a participant's employment termination date, and no rights are considered vested until the occurrence of an involuntary termination. We provide the following benefits to a participant who has satisfied the eligibility requirements.

- **Base Compensation** – We will pay the participant a single sum cash severance benefit based on the participant's base compensation at the participant's employment termination date, with the amount of the base compensation benefit determined pursuant to the table below.
- **Outplacement** – Each participant shall be entitled to outplacement assistance at the expense of the Company as shown in the table below.

Severance Plan – Schedule of Benefits for NEOs

Severance Benefits

Details of Benefit

1. Base Compensation	18 months of base compensation using the participant's base compensation for the month in which the participant's employment termination date occurs.
2. Outplacement	Outplacement services will be provided for the greater of 12 months or until such time as the value of the outplacement services reaches the maximum of \$10,000. The 12-month period commences with the first day of the month following the month in which the participant's employment termination date occurs.

Employment Agreements

The Company's philosophy is not to enter into employment agreements with Senior Executives; however, we do have an employment agreement with our CEO, dated as of October 25, 2004 and amended and restated on December 16, 2008, effective January 1, 2009. The term of the employment agreement is until October 25, 2011, with automatic one-year renewals unless either party provides a notice not to extend the employment agreement at least thirteen months prior to the then current expiration date. During the term of the employment agreement, Mr. Deaton is entitled to receive the following, all as established from time to time by the Board of Directors or the Compensation Committee:

- a base salary;
- the opportunity to earn annual cash bonuses in amounts that may vary from year to year and that are based upon achievement of performance goals;
- long-term incentives in the form of equity-based compensation no less favorable than awards made to other Senior Executives and that are commensurate with awards granted to CEOs of other public companies of a similar size to the Company; and
- benefits and perquisites that other officers and employees of the Company are entitled to receive.

Mr. Deaton's base salary is to be reviewed at least annually during the term of the employment agreement and may be increased (but not decreased) based upon his performance during the year.

Upon the termination of Mr. Deaton's employment, due to his disability or his death, he or his beneficiary is to be paid a lump sum in cash equal to one-half his then base salary for each year (prorated for partial years) during the remaining term of the employment agreement and a lump sum in cash equal to his expected value incentive bonus for the year of termination. For purposes of Mr. Deaton's employment agreement, disability is defined as any incapacity due to physical or mental illness resulting in an absence from full-time performance of his duties for ninety (90) days in the aggregate during any period of twelve (12) consecutive months or a reasonable expectation that such disability will exist for more than such period of time. Upon termination of Mr. Deaton's employment by him for "good reason" or by us without "cause" (please refer to the section "Potential Payments Upon Termination or Change in Control – Termination of Employment by Mr. Deaton for Good Reason or by Us Without Cause" located elsewhere in this proxy statement for a definition of "good reason" and "cause"), he is entitled to:

- a lump sum cash payment in an amount equal to two times his then base salary;
- a lump sum cash payment equal to his Highest Bonus Amount (as defined below under the heading "Change in Control Agreements"), prorated to the date of termination;
- a continuation of certain perquisites and medical insurance benefits for the remainder of the term of the employment agreement;

- a lump sum payment equivalent to the monthly basic life insurance premium applicable to Mr. Deaton's basic life insurance coverage on the date of termination multiplied by the number of months remaining in the term of the employment agreement;
- an amount equal to a continuation of employer contributions to the Company's SRP for the remainder of the term of the employment agreement; and
- a lump sum payment equal to the amount of interest that would be earned on any of the foregoing payments subject to a six-month payment delay under section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") using the six-month London Interbank Offered Rate plus two percentage points.

However, the foregoing benefits are not payable if Mr. Deaton is entitled to benefits under his Change in Control Agreement discussed below.

If Mr. Deaton's employment is terminated by him for any reason other than a good reason or by the Company for cause, he is to receive only those vested benefits to which he is entitled under the terms of the employee benefit plans in which he is a participant as of the date of termination and a lump sum amount in cash equal to the sum of (i) his base salary through the date of termination and (ii) any accrued vacation pay, in each case to the extent not already paid.

During the term of the employment agreement and for a period of two years following termination of the employment agreement, Mr. Deaton is prohibited from (i) engaging in competition with the Company and (ii) soliciting customers, employees and consultants of the Company. To the extent any provision is covered by both the employment agreement and the Change in Control Agreement, described and defined below, the Change in Control Agreement provision so covered will supersede the employment agreement provision.

Change in Control Agreements

In addition to the employment agreement described above, we have entered into change in control agreements ("Change in Control Agreements") with the Senior Executives, as well as certain other Executives. The Change in Control Agreements provide for payment of certain benefits to these officers as a result of termination of employment following, or in connection with, a Change in Control (as defined below) of the Company. The terms of the Change in Control Agreements for Messrs. Deaton, Ragauss, Crain and O'Donnell will be automatically extended until October 24, 2011; April 25, 2011; December 31, 2011; and July 27, 2011, respectively. The term of Mr. Craighead's Change in Control Agreement will expire on February 24, 2011 unless it is automatically renewed for an additional two years. Mr. Barr retired from employment with us on April 30, 2009.

After the expiration of the initial term or the extended term, each of the Change in Control Agreements will be automatically extended for successive two-year periods beginning on the day immediately following the expiration date, unless,

not later than 18 months prior to the expiration date or applicable renewal date, we shall give notice to the Senior Executive that the term of the Change in Control Agreements will not be extended. The terms of the Change in Control Agreements for Messrs. Deaton, Ragauss, Crain and O'Donnell will be automatically extended since we did not give notice that the terms would not be extended more than 18 months prior to the applicable renewal dates.

According to the Change in Control Agreements, we pay severance benefits to a Senior Executive if the Senior Executive's employment is terminated following, or in connection with, a Change in Control during the term unless:

- the Senior Executive resigns without "good reason";
- the Company terminates the employment of the Senior Executive for "cause"; or
- the employment of the Senior Executive is terminated by reason of death or "disability".

Please refer to "Potential Payments Upon Termination or Change in Control – Payments in the Event of a Change in Control and Termination of Employment by the Senior Executive for Good Reason or by the Company or its Successor Without Cause" for the definitions of "good reason," "cause" and "disability" in the context of the Change in Control Agreements.

If the Senior Executive meets the criteria for payment of severance benefits due to termination of employment following or in connection with a Change in Control during the term as described above, in addition to any benefits he is due under our employee benefit plans and equity and incentive compensation plans, he will receive the following benefits:

- (a) a lump sum payment equal to three times the Senior Executive's annual base salary in effect immediately prior to
 - (i) the first event or circumstance constituting Good Reason for his resignation, (ii) the Change of Control or (iii) the Senior Executive's termination of employment, whichever is greatest (his "Highest Base Salary");
- (b) a lump sum payment equal to the Senior Executive's Highest Bonus Amount (as defined below), prorated based upon the number of days of his service during the performance period (reduced by any payments received by the Senior Executive under our Annual Incentive Compensation Plan, as amended, in connection with the Change in Control if the Senior Executive's termination of employment occurs during the same calendar year in which the Change in Control occurs);
- (c) a lump sum payment equal to three times the greater of
 - (i) the Senior Executive's Highest Bonus Amount or (ii) the Senior Executive's Highest Base Salary multiplied by the Senior Executive's applicable multiple, which is 1.20; 0.80; 0.75; 0.70; and 0.70 for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell, respectively;
- (d) continuation of accident and health insurance benefits for an additional three years;
- (e) a lump sum payment equal to the sum of (i) the cost of the Senior Executive's perquisites in effect prior to his termination of employment for the remainder of the calendar year and (ii) the cost of the Senior Executive's perquisites in effect prior to his termination of employment for an additional three years;

- (f) a lump sum payment equal to the undiscounted value of the benefits the Senior Executive would have received had he continued to participate in our Thrift Plan, the Pension Plan and SRP for an additional three years, assuming for this purpose that:
 - (1) the Senior Executive continues to be paid his Highest Base Salary and Highest Bonus Amount during that three-year period, and
 - (2) the Senior Executive's contributions to and accruals under those plans remained at the levels in effect as of the date of the Change in Control or the date of termination, whichever is greater;
- (g) eligibility for our retiree medical program if the Senior Executive would have become entitled to participate in that program had he remained employed for an additional three years;
- (h) a lump sum payment equivalent to thirty-six multiplied by the monthly basic life insurance premium applicable to the Senior Executive's basic life insurance coverage on the date of termination;
 - (i) a lump sum payment of \$30,000 for outplacement services;
 - (j) an additional amount (a gross-up payment) in respect of excise taxes that may be imposed under the golden parachute rules on payments and benefits received in connection with the Change in Control. The gross-up payment would make the officer whole for excise taxes (and for all taxes on the gross-up payment) in respect of payments and benefits received pursuant to all the Company's plans, agreements and arrangements (including for example, acceleration of vesting of equity awards); and
- (k) a lump-sum payment equal to the amount of interest that would be earned on any of the foregoing payments subject to a six-month payment delay under Section 409A using the six-month London Interbank Offered Rate plus two percentage points.

In addition to the above, the Change in Control Agreements provide for full vesting of all stock options, RSAs and certain other equity incentive awards upon the occurrence of a Change in Control.

A Senior Executive's "Highest Bonus Amount" is the average of the Senior Executive's three highest bonus amounts received by the Senior Executive for each of our five fiscal years immediately preceding the Senior Executive's employment termination date. "Bonus amount" means the sum of (a) the amount of the annual incentive bonus, if any, paid in cash by us under the Annual Incentive Plan to or for the benefit of the Senior Executive for services rendered during one of our fiscal years and (b) the amount of the discretionary bonus or other bonus, if any, paid in cash by us outside of the Annual Incentive Plan, to or for the benefit of the Senior Executive for services rendered during the same fiscal year. The Senior Executive's bonus amount is determined by including any portion thereof that the Senior Executive could have received in cash in lieu of any elective deferrals under the Supplemental Retirement Plan, our Thrift Plan or our section 125 cafeteria plan.

According to the Change in Control Agreements, a "Change in Control" occurs if:

- the individuals who are incumbent directors cease for any reason to constitute a majority of the members of our Board of Directors;
- the consummation of a merger of us or our affiliate with another entity, unless the individuals and entities who were the beneficial owners of our voting securities outstanding immediately prior to such merger own, directly or indirectly, at least 50% of the combined voting power of our voting securities, the surviving entity or the parent of the surviving entity outstanding immediately after such merger;
- any person, other than us, our affiliate or another specified owner (as defined in the Change in Control Agreements), becomes a beneficial owner, directly or indirectly, of our securities representing 30% or more of the combined voting power of our then outstanding voting securities;
- a sale, transfer, lease or other disposition of all or substantially all of our assets (as defined in the Change in Control Agreements) is consummated (an "asset sale"), unless (i) the individuals and entities who were the beneficial owners of our voting securities immediately prior to such asset sale own, directly or indirectly, 50% or more of the combined voting power of the voting securities of the entity that acquires such assets in such asset sale or its parent immediately after such asset sale in substantially the same proportions as their ownership of our voting securities immediately prior to such asset sale or (ii) the individuals who comprise our Board of Directors immediately prior to such asset sale constitute a majority of the board of directors or other governing body of either the entity that acquired such assets in such asset sale or its parent (or a majority plus one member where such board or other governing body is comprised of an odd number of directors); or
- our stockholders approve a plan of complete liquidation or dissolution of us.

Section 280G of the Code disallows deductions for certain executive compensation that is contingent upon a change in ownership or effective control of the Company or a significant portion of the assets of the Company. Assuming such a control change had occurred on December 31, but no NEO had incurred a termination of employment, no amount paid by us would have been non-deductible executive compensation under Section 280G of the Code. If Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell had incurred terminations of employment in connection with such control change, \$7,001,901, \$2,693,092, \$0, \$2,286,917, and \$0 would have been non-deductible executive compensation, respectively. Mr. Barr retired from employment with us on April 30, 2009.

Indemnification Agreements

We have entered into an indemnification agreement with each of our independent, non-management directors and Senior Executives, which form of agreement has been filed with the SEC. These agreements provide for us to, among other things, indemnify such persons against certain liabilities that may arise by reason of their status or service as directors

or officers, to advance their expenses incurred as a result of a proceeding as to which they may be indemnified and to cover such person under any directors' and officers' liability insurance policy we choose, in our discretion, to maintain. These indemnification agreements are intended to provide indemnification rights to the fullest extent permitted under applicable indemnification rights statutes in the State of Delaware and shall be in addition to any other rights the indemnitee may have under the Company's Restated Certificate of Incorporation, Bylaws and applicable law. We believe these indemnification agreements enhance our ability to attract and retain knowledgeable and experienced Senior Executives and independent, non-management directors.

Stock Ownership Policy

The Board of Directors, upon the Compensation Committee's recommendation, adopted a Stock Ownership Policy for our Senior Executives to ensure that they have a meaningful economic stake in the Company. The Policy is designed to satisfy an individual Senior Executive's need for portfolio diversification, while maintaining management stock ownership at levels high enough to assure our stockholders of management's commitment to value creation.

The Compensation Committee annually reviews each Senior Executive's compensation and stock ownership levels to determine whether they are appropriate or if adjustments need to be made. In 2009, each of the Senior Executives (other than four persons who became Senior Executives in late 2008 and early 2009) was in compliance with the Compensation Committee's required levels of stock ownership, which currently requires each Senior Executive to have direct ownership of our Common Stock in at least the following amounts:

Stock Ownership Level

Officer Positions	(Multiple of Salary)
Chief Executive Officer	5x
President/Chief Operating Officer/Chief Financial Officer/Senior Vice Presidents	3x
Corporate Vice Presidents reporting to CEO or COO	2x
Hemisphere Presidents	2x

A Senior Executive has five years to comply with the ownership requirement starting from the date appointed to a position noted above. If a Senior Executive is promoted to a position with a higher Ownership Salary Multiple, the Senior Executive will have five years from the date of the change in position to reach the higher expected Stock Ownership Level but still must meet the prior expected Stock Ownership Level within the original five years of the date first appointed to such prior position. For those Senior Executives with the ownership requirements reflected in hiring letters, the date of hire marks the start of the five-year period.

Until a Senior Executive achieves the applicable Stock Ownership Level, the following applies:

Restricted Stock Awards

Upon vesting of an RSA award and after the payment of the taxes due as a result of vesting, the Senior Executive is required to hold the net profit shares until the applicable Stock Ownership Level is met. Net profit shares are the shares remaining after payment of the applicable taxes owed as a result of vesting of the restricted stock, including shares applied as payment of the minimum statutory taxes.

Exercise of Stock Options

Upon exercise of a stock option and after netting down the shares to pay the taxes due as a result of exercise, the Senior Executive is required to hold 50% of the net profit shares until the applicable Stock Ownership Level is met. Net profit shares are the shares remaining after payment of the applicable taxes owed as a result of the exercise of the option and the exercise price of the option, including shares applied as payment of the minimum statutory taxes. The remaining 50% of the net profit shares may be sold without restriction.

Reporting of Taxes upon Vesting

The Senior Executive shall report to the Company's Corporate Secretary the number of shares required by the Senior Executive to pay the applicable taxes upon the vesting of RSAs and the exercise of stock options, in excess of the minimum statutory taxes.

Required Ownership Shares

Upon reaching the required ownership level, the Senior Executive shall certify to the Company's Corporate Secretary that the ownership requirements have been met and the Company's Corporate Secretary shall confirm such representation and record the number of shares required to be held by the Senior Executive based on the closing price of the shares and the Senior Executive's current salary level on the day prior to certification by the Senior Executive (the "Required Ownership Shares"). At such time the restrictions on selling shares will no longer apply to the Senior Executive.

The Senior Executive will not be required to accumulate any shares in excess of the Required Ownership Shares so long as the Required Ownership Shares are held by the Senior Executive, regardless of changes in the price of the shares. However, the Senior Executive may only sell shares held prior to certification if, after the sale of shares, the Senior Executive will (a) still own a number of shares equal to at least the Required Ownership Shares or (b) still be in compliance with the Stock Ownership Level as of the day the shares are sold based on current share price and salary level.

Annual Review

The Compensation Committee reviews all Required Ownership Shares levels of the Senior Executives covered by the Policy on an annual basis. The PEO is responsible for ensuring compliance with this Policy.

Deviations from the Stock Ownership Policy can only be approved by the Compensation Committee or the PEO, and then only because of a personal hardship.

EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth the compensation earned by the CEO and other NEOs for services rendered to the Company and its subsidiaries for the fiscal years ended December 31, 2009, 2008 and 2007. Bonuses are paid under the Company's applicable incentive compensation guidelines and are generally paid in the year following the year in which the bonus is earned.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards ⁽¹⁾ (\$)	Option Awards ⁽¹⁾ (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension	All Other Compensation (\$)	Total (\$)
							Value and Non-Qualified Deferred Compensation ⁽²⁾ Earnings (\$)		
Chad C. Deaton – Principal Executive Officer	2009	\$ 1,155,000	\$ 0	\$ 2,490,485	\$ 2,692,629	\$ 1,517,962 ⁽³⁾	\$ 12,185	\$ 446,886 ⁽⁴⁾	\$ 8,315,147
	2008	\$ 1,155,000	\$ 0	\$ 3,151,769	\$ 2,123,830	\$ 6,383,399	\$ 11,200	\$ 349,002	\$ 13,174,200
	2007	\$ 1,082,692	\$ 0	\$ 1,811,992	\$ 2,393,961	\$ 1,092,717	\$ 10,400	\$ 399,200	\$ 6,790,962
Peter A. Ragauss – Principal Financial Officer	2009	\$ 618,622	\$ 0	\$ 808,814	\$ 871,791	\$ 585,149 ⁽³⁾	\$ 11,332	\$ 196,652 ⁽⁵⁾	\$ 3,092,360
	2008	\$ 568,000	\$ 0	\$ 1,120,526	\$ 617,983	\$ 2,091,601	\$ 10,300	\$ 137,908	\$ 4,546,318
	2007	\$ 541,154	\$ 0	\$ 563,467	\$ 643,442	\$ 451,044	\$ 8,500	\$ 136,200	\$ 2,343,807
Alan R. Crain – Senior Vice President and General Counsel	2009	\$ 473,000	\$ 0	\$ 554,379	\$ 599,342 ⁽⁶⁾	\$ 387,928 ⁽³⁾	\$ 13,345	\$ 156,536 ⁽⁷⁾	\$ 2,184,530
	2008	\$ 473,000	\$ 0	\$ 840,969	\$ 484,685	\$ 1,503,595	\$ 12,400	\$ 127,819	\$ 3,442,468
	2007	\$ 448,077	\$ 0	\$ 1,430,567	\$ 512,237	\$ 372,282	\$ 11,700	\$ 126,800	\$ 2,901,663
David H. Barr – Vice President and Group President, Completion and Production ⁽⁹⁾	2009	\$ 171,346	\$ 0	\$ 0	\$ 485,186	\$ 114,964 ⁽³⁾	\$ 13,346	\$ 477,175 ⁽⁸⁾	\$ 1,262,017
	2008	\$ 450,000	\$ 0	\$ 450,005	\$ 479,350	\$ 1,185,864	\$ 12,400	\$ 440,930	\$ 3,018,549
	2007	\$ 414,135	\$ 0	\$ 348,046	\$ 450,055	\$ 277,341	\$ 11,700	\$ 112,300	\$ 1,613,577
Martin S. Craighead – Senior Vice President and Chief Operating Officer ⁽⁹⁾	2009	\$ 573,077	\$ 0	\$ 752,421	\$ 805,561 ⁽⁶⁾	\$ 534,972 ⁽³⁾	\$ 11,498	\$ 162,910 ⁽¹⁰⁾	\$ 2,840,439
	2008	\$ 450,000	\$ 0	\$ 836,005	\$ 479,350	\$ 732,264	\$ 10,600	\$ 104,830	\$ 2,613,049
	2007	\$ 363,230	\$ 0	\$ 186,772	\$ 354,949	\$ 289,779	\$ 10,065	\$ 100,301	\$ 1,305,096
John A. O'Donnell – Vice President and President, Western Hemisphere Operations	2009	\$ 374,173	\$ 0	\$ 316,891	\$ 340,767 ⁽⁶⁾	\$ 229,460 ⁽³⁾	\$ 13,340	\$ 119,275 ⁽¹¹⁾	\$ 1,393,906
	2008	\$ 329,192	\$ 0	\$ 533,531	\$ 163,266	\$ 611,743	\$ 12,418	\$ 69,967	\$ 1,720,117
	2007	\$ 314,569	\$ 0	\$ 180,055	\$ 205,800	\$ 188,902	\$ 11,645	\$ 69,980	\$ 970,951

(1) Restricted stock awards were made on January 21, 2009. Stock option awards were made on January 21, 2009 at an exercise price of \$29.18. Stock option awards were also made on July 22, 2009 to NEOs other than Mr. Barr at an exercise price of \$39.52. The amounts included in the Stock Awards and Option Awards columns represent the aggregate grant date fair value of the awards made to NEOs computed in accordance with FASB ASC Topic 718. The value ultimately realized by the executive upon the actual vesting of the award(s) or the exercise of the stock option(s) may or may not be equal to the FASB ASC Topic 718 determined value. For a discussion of valuation assumptions, see "Note 4 – Stock-Based Compensation" of the Notes to Consolidated Financial Statements included in our annual report under Item 8 of the Form 10-K for the year ended December 31, 2009.

(2) This amount represents above-market earnings on the NEO SRP account.

(3) These amounts for the 2009 fiscal year include annual performance bonuses earned under the Annual Incentive Plan by Messrs. Deaton, Ragauss, Crain, Barr, Craighead and O'Donnell in the amounts of \$577,962, \$225,149, \$147,928, \$44,964, \$204,972 and \$89,460, respectively. In addition, these amounts include cash-based awards under the 2002 D&O Plan to Messrs. Deaton, Ragauss, Crain, Barr, Craighead and O'Donnell in the amounts of \$940,000, \$360,000, \$240,000, \$70,000, \$330,000 and \$140,000, respectively.

(4) Amount for 2009 includes (i) \$301,583 that the Company contributed to Mr. Deaton's SRP account, (ii) an annual perquisite allowance of \$25,000, (iii) \$80,413 in dividends earned on holding of Company common stock, (iv) \$20,361 in life insurance premiums paid by the Company on behalf of Mr. Deaton and (v) \$19,529 in employer matching and employer base contributions that the Company contributed to the Thrift Plan on behalf of Mr. Deaton.

(5) Amount for 2009 includes (i) \$103,918 that the Company contributed to Mr. Ragauss' SRP account, (ii) an annual perquisite allowance of \$20,000, (iii) \$32,030 in dividends earned on holdings of Company common stock, (iv) \$18,654 in life insurance premiums paid by the Company on behalf of Mr. Ragauss and (v) \$22,050 in employer matching and employer base contributions that the Company contributed to the Thrift Plan on behalf of Mr. Ragauss.

(6) Because Messrs. Crain, Craighead and O'Donnell are eligible for retirement based upon their ages and years of service with the Company and, accordingly, their options will automatically vest upon retirement, the Company expenses the full value of their options upon grant for purposes of FASB ASC Topic 718.

(7) Amount for 2009 includes (i) \$80,529 that the Company contributed to Mr. Crain's SRP account, (ii) an annual perquisite allowance of \$20,000, (iii) \$19,872 in dividends earned on holdings of Company common stock, (iv) \$17,706 in life insurance premiums paid by the Company on behalf of Mr. Crain and (v) \$18,429 in employer matching and employer base contributions that the Company contributed to the Thrift Plan on behalf of Mr. Crain.

(8) Amount for 2009 includes (i) \$36,101 that the Company contributed to Mr. Barr's SRP account, (ii) an annual perquisite allowance of \$10,000, (iii) \$2,098 in dividends earned on holdings of Company common stock, (iv) \$14,431 in compensation associated with vacation earned and not taken before his retirement, (v) \$17,501 in life insurance premiums paid by the Company on behalf of Mr. Barr, (vi) \$377,654 in consulting fees and (vii) \$19,390 in employer matching and employer base contributions that the Company contributed to the Thrift Plan on behalf of Mr. Barr. Mr. Barr retired from the Company on April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed in the "Potential Payments Upon Termination or Change in Control" section under the heading "Retirement Agreement With David H. Barr."

(9) Effective April 30, 2009, Mr. Barr retired from the Company and Mr. Craighead was promoted to the position of Senior Vice President and Chief Operating Officer.

(10) Amount for 2009 includes (i) \$80,380 that the Company contributed to Mr. Craighead's SRP account, (ii) an annual perquisite allowance of \$20,000, (iii) \$24,322 in dividends earned on holdings of Company common stock, (iv) \$17,383 in life insurance premiums paid by the Company on behalf of Mr. Craighead and (v) \$20,825 in employer matching and employer base contributions that the Company contributed to the Thrift Plan on behalf of Mr. Craighead.

(11) Amount for 2009 includes (i) \$51,732 that the Company contributed to Mr. O'Donnell's SRP account, (ii) an annual perquisite allowance of \$17,917, (iii) \$12,444 in dividends earned on holdings of Company common stock, (iv) \$12,682 in life insurance premiums paid by the Company on behalf of Mr. O'Donnell and (v) \$24,500 in employer matching and employer base contributions that the Company contributed to the Thrift Plan on behalf of Mr. O'Donnell.

Grants Of Plan-Based Awards

This table discloses the actual numbers of stock options and RSAs granted during 2009 and the grant date fair value of these awards. It also captures potential future payouts under the Company's non-equity and equity incentive plans.

Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units (#) ⁽²⁾	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh) ⁽³⁾	Grant Date Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Chad C. Deaton	7/22/2009	\$ 173,250	\$ 693,000	— ⁽⁴⁾	—	—	—	9,248	107,583	\$ 39.52	\$ 1,912,524
	1/21/2009	\$ 637,500	\$ 2,550,000	\$ 5,100,000	—	—	—	72,824	109,941	\$ 29.18	\$ 3,270,590
Peter A. Ragauss	7/22/2009	\$ 67,491	\$ 269,963	— ⁽⁴⁾	—	—	—	4,651	37,194	\$ 39.52	\$ 718,657
	1/21/2009	\$ 208,750	\$ 835,000	\$ 1,670,000	—	—	—	21,419	32,336	\$ 29.18	\$ 961,948
Alan R. Crain	7/22/2009	\$ 44,343	\$ 177,372	— ⁽⁴⁾	—	—	—	2,059	23,946	\$ 39.52	\$ 425,715
	1/21/2009	\$ 141,900	\$ 567,600	\$ 1,135,200	—	—	—	16,210	24,472	\$ 29.18	\$ 728,006
David H. Barr	7/22/2009	\$ 12,115	\$ 48,462	— ⁽⁴⁾	—	—	—	0	0	\$ 0	\$ 0
	1/21/2009	\$ 0	\$ 0	\$ 0	—	—	—	0	46,563	\$ 29.18	\$ 485,186
Martin S. Craighead	7/22/2009	\$ 61,442	\$ 245,769	— ⁽⁴⁾	—	—	—	7,652	39,149	\$ 39.52	\$ 865,370
	1/21/2009	\$ 191,250	\$ 765,000	\$ 1,530,000	—	—	—	15,422	23,282	\$ 29.18	\$ 692,612
John A. O'Donnell	7/22/2009	\$ 26,816	\$ 107,266	— ⁽⁴⁾	—	—	—	2,325	15,262	\$ 39.52	\$ 311,352
	1/21/2009	\$ 82,500	\$ 330,000	\$ 660,000	—	—	—	7,711	11,641	\$ 29.18	\$ 346,306

⁽¹⁾ Target value potential payout amounts shown on the first line represent amounts under the Annual Incentive Plan and discretionary bonuses Expected Value performance. If threshold levels of performance are not met, then the payout can be zero. Amounts shown on the second line represent amounts under the 2008–2010 Long-Term Performance Unit Awards, which awards are paid in cash.

⁽²⁾ Amounts shown represent the number of shares granted in 2009 for RSAs.

⁽³⁾ Our practice is that the exercise price for each stock option is the fair market value on the date of grant. Under our long-term incentive program, fair market value is the closing stock price on the day before the date of grant.

⁽⁴⁾ There is no maximum amount that may be earned under an Annual Incentive Plan award other than the stockholder approved maximum dollar limitation of \$4,000,000 per award.

Outstanding Equity Awards At Fiscal Year-End

The following table shows outstanding stock option awards classified as exercisable and unexercisable as of December 31, 2009 for the CEO and each NEO. The table also shows unvested and unearned stock awards (both time-based awards and performance-contingent) assuming a market value of \$40.48 a share (the closing market price of the Company's stock on December 31, 2009).

Outstanding Equity Awards at Fiscal Year-End Table

Name	Option Awards				Stock Awards					
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date ⁽¹⁾	Number of Shares or Units that Have Not Vested (#) ⁽²⁾	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights that Have Not Vested (\$)		
Chad C. Deaton	0	107,583	\$ 39.52	7/22/2019	119,897	\$4,853,431				
	0	109,941	\$ 29.18	1/21/2019						
	14,349	28,699	\$ 77.20	8/11/2018						
	15,764	31,529	\$ 69.92	1/23/2018						
	36,666	18,334	\$ 82.28	7/25/2017						
	28,394	14,198	\$ 68.54	1/24/2017						
	45,887	0	\$ 80.73	7/27/2016						
	45,887	0	\$ 75.06	1/25/2016						
	90,000	0	\$ 56.21	7/27/2015						
	90,000	0	\$ 42.60	1/26/2015						
75,000	0	\$ 43.39	10/25/2014							
Peter A. Ragauss	0	37,194	\$ 39.52	7/22/2019	51,682	\$ 2,092,087				
	0	32,336	\$ 29.18	1/21/2019						
	4,175	8,351	\$ 77.20	8/11/2018						
	4,586	9,175	\$ 69.92	1/23/2018						
	8,830	4,415	\$ 82.28	7/25/2017						
	8,830	4,415	\$ 68.54	1/24/2017						
	15,025	0	\$ 80.73	7/27/2016						
	47,734	0	\$ 75.93	4/26/2016						
Alan R. Crain	0	23,946	\$ 39.52	7/22/2019	32,900	\$ 1,331,792				
	0	24,472	\$ 29.18	1/21/2019						
	3,274	6,550	\$ 77.20	8/11/2018						
	3,597	7,196	\$ 69.92	1/23/2018						
	7,647	3,824	\$ 82.28	7/25/2017						
	6,307	3,154	\$ 68.54	1/24/2017						
	13,500	0	\$ 80.73	7/27/2016						
	10,500	0	\$ 75.06	1/25/2016						
	5,500	0	\$ 56.21	7/27/2015						
	5,500	0	\$ 42.60	1/26/2015						
	2,792	0	\$ 35.81	1/28/2014						
3,418	0	\$ 29.25	1/29/2013							
David H. Barr	46,563	0	\$ 29.18	4/30/2014	0	\$ 0				
	9,716	0	\$ 77.20	4/30/2014						
	10,674	0	\$ 69.92	4/30/2014						
	10,191	0	\$ 82.28	4/30/2014						
	8,181	0	\$ 68.54	4/30/2014						
	7,870	0	\$ 80.73	4/30/2014						
	7,870	0	\$ 75.06	4/30/2014						
4,917	0	\$ 56.21	4/30/2014							
Martin S. Craighead	0	39,149	\$ 39.52	7/22/2019	37,312	\$ 1,510,390				
	0	23,282	\$ 29.18	1/21/2019						
	3,238	6,478	\$ 77.20	8/11/2018						
	3,557	7,117	\$ 69.92	1/23/2018						
	6,534	3,267	\$ 82.28	7/25/2017						
	2,266	1,134	\$ 67.16	3/30/2017						
	2,927	1,464	\$ 68.54	1/24/2017						
	4,133	0	\$ 80.73	7/27/2016						
	3,543	0	\$ 75.06	1/25/2016						
	7,500	0	\$ 56.21	7/27/2015						
	4,800	0	\$ 42.60	1/26/2015						
	8,800	0	\$ 39.23	7/28/2014						

Outstanding Equity Awards at Fiscal Year-End Table (cont'd.)

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date ⁽¹⁾	Number of Shares or Units that Have Not Vested (#) ⁽²⁾	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights that Have Not Vested (\$)
John A. O'Donnell	0	15,262	\$ 39.52	7/22/2019	15,653	\$ 633,633		
	0	11,641	\$ 29.18	1/21/2019				
	1,140	2,282	\$ 77.20	8/11/2018				
	1,166	2,333	\$ 69.92	1/23/2018				
	2,826	1,414	\$ 82.28	7/25/2017				
	2,821	1,411	\$ 68.54	1/24/2017				
	3,543	0	\$ 80.73	7/27/2016				
	3,543	0	\$ 75.06	1/25/2016				
	5,000	0	\$ 56.21	7/27/2015				
	2,200	0	\$ 42.60	1/26/2015				
	3,667	0	\$ 39.23	7/28/2014				

⁽¹⁾ Each option grant has a ten-year term. However, David H. Barr retired from employment with us on April 30, 2009. Pursuant to the terms of his stock options, the period during which David H. Barr may exercise his stock options was reduced to the period ending on April 30, 2014 as a result of his retirement. Each option vests pro rata as to one-third of the option grant beginning on the first anniversary of grant date.

⁽²⁾ The vesting dates of RSAs for the PEO and other NEOs are included as footnotes to the "Security Ownership of Management" table in this Proxy Statement.

Option Exercises And Stock Vested

The following table sets forth certain information regarding options and stock awards exercised and vested, respectively, during 2009 for the persons named in the Summary Compensation Table above.

Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Chad C. Deaton	0	\$ 0	35,569	\$ 1,317,218
Peter A. Ragauss	0	\$ 0	11,205	\$ 384,016
Alan R. Crain	0	\$ 0	12,788	\$ 414,636
David H. Barr	0	\$ 0	13,457	\$ 432,022
Martin S. Craighead	0	\$ 0	8,932	\$ 311,007
John A. O'Donnell	0	\$ 0	5,806	\$ 213,707

Pension Benefits

The following table discloses the years of credited service of, present single-sum value of the accrued benefits for, and payments during the last fiscal year to each of the PEO and other NEOs under the Pension Plan.

Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Chad C. Deaton	Pension Plan	5	\$ 53,531	\$ 0
Peter A. Ragauss	Pension Plan	3	\$ 33,614	\$ 0
Alan R. Crain	Pension Plan	8	\$ 79,537	\$ 0
David H. Barr	Pension Plan	7	\$ 81,063	\$ 0
Martin S. Craighead	Pension Plan	8	\$ 60,578	\$ 0
John A. O'Donnell	Pension Plan	8	\$ 81,886	\$ 0

Nonqualified Deferred Compensation

The following table discloses contributions, earnings and balances to each of the PEO and other NEOs under the SRP that provides for compensation deferral on a non-tax-qualified basis.

Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY (\$)	Registrant Contribution In Last FY (\$)	Aggregate Earnings In Last FY (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE (\$)
Chad C. Deaton	\$ 462,190	\$ 301,583	\$ 230,398	\$ 0	\$ 3,692,703
Peter A. Ragauss	\$ 76,692	\$ 103,918	\$ 137,726	\$ 0	\$ 542,873
Alan R. Crain	\$ 54,577	\$ 80,529	\$ 48,181	\$ 0	\$ 1,210,177
David H. Barr	\$ 22,699	\$ 36,101	\$ 3,186	\$ 0	\$ 1,906,789
Martin S. Craighead	\$ 124,495	\$ 80,380	\$ 104,052	\$ 0	\$ 956,416
John A. O'Donnell	\$ 64,180	\$ 51,732	\$ 25,251	\$ 0	\$ 521,235

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Employment Agreement With Chad C. Deaton

We have an employment agreement with Mr. Chad C. Deaton, dated as of October 25, 2004 and amended and restated effective January 1, 2009. The term of the employment agreement expires on October 25, 2011, with automatic one-year renewals unless Mr. Deaton or we provide a notice not to extend the employment agreement at least thirteen months prior to the then current expiration date.

Termination of Employment Due to Death or Disability

During the term of the employment agreement and for a period of two years following termination of the employment agreement, Mr. Deaton is prohibited from (i) engaging in competition (as defined in the employment agreement) with us and (ii) soliciting our customers, employees and consultants.

Upon the termination of Mr. Deaton's employment due to his disability or death:

- we will pay him or his beneficiary a lump sum in cash equal to one-half his then base salary for each year (prorated for partial years) during the remaining term of the employment agreement; and
- we will pay him or his beneficiary a lump sum in cash equal to his expected value incentive bonus for the year of termination.

For this purpose, Mr. Deaton will be deemed to have a "disability," if as a result of his incapacity due to physical or mental illness, (i) he is absent from the full-time performance of his duties with us for 90 days during any period of 12 consecutive months or (ii) it is reasonably certain that the disability will last for more than that period, and within 30 days after we give written notice of termination to Mr. Deaton he does not return to the performance of his duties with us on a full-time basis.

If Mr. Deaton's employment were to have been terminated on December 31, 2009, due to death or disability (as defined in the employment agreement), we estimate that the value of the payments and benefits described in clauses (a) and (b) above he would have been eligible to receive is as follows: (a) \$1,058,500 and (b) \$1,386,000, with an aggregate value of \$2,444,500.

Termination of Employment by Mr. Deaton for Good Reason or by Us Without Cause

- Upon the termination of Mr. Deaton's employment by him for good reason or by us without cause, we will pay him:
- a lump sum cash payment in an amount equal to two times his then base salary;
 - a lump sum cash payment equal to Mr. Deaton's Highest Bonus Amount (as defined below), prorated to the date of termination (in lieu of any bonus payment that would have otherwise been due under the Annual Incentive Plan for such year);
 - for the remainder of the term of the employment agreement, continuation of executive perquisites (other than executive life insurance);
 - for the remainder of the term of the employment agreement, continuation of medical insurance benefits at active employee premium rates⁽¹⁾;
 - a lump sum payment equivalent to the monthly basic life insurance premium applicable to Mr. Deaton's basic life insurance coverage on the date of termination multiplied by the number of months remaining in the term of the employment agreement;
 - for the remainder of the term of the employment agreement, continued employer contributions to the SRP; and
 - a lump sum payment equal to the amount of interest that would be earned on any of the foregoing payments subject to a six-month payment delay under Section 409A using the six-month London Interbank Offered Rate plus two percentage points.

However, the foregoing benefits are not payable if Mr. Deaton is entitled to benefits under his Change in Control Agreement discussed below.

"Good reason" as defined in the employment agreement includes: (i) the assignment to Mr. Deaton of any duties inconsistent with his position (including status, office, title and reporting requirements), authorities, duties or other responsibilities; (ii) the relocation of Mr. Deaton's principal place of employment to a location more than fifty (50) miles from his principal place of

⁽¹⁾ The value of this benefit is calculated as the aggregate premium amounts Mr. Deaton would be required to pay for such coverage under the Company's premium rate structure in effect on December 31, 2009 for continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") minus the aggregate premium amounts Mr. Deaton would be required to pay for such coverage under the employment agreement.

employment on October 25, 2004; or (iii) a material breach by us of any provision of the employment agreement.

“Cause” as defined in the employment agreement includes: (i) the conviction of Mr. Deaton of an act of fraud, embezzlement, theft or other criminal act constituting a felony; (ii) a material breach by Mr. Deaton of any provision of the employment agreement; (iii) the failure by Mr. Deaton to perform any and all covenants contained in the employment agreement dealing with conflicts of interest, competition, solicitation and disclosure of confidential information; or (iv) a material breach by Mr. Deaton of our Standards of Ethical Conduct. Cause shall not exist unless and until we have delivered to Mr. Deaton a copy of a resolution duly adopted by the affirmative vote of not less than two-thirds (2/3) of the entire membership of our Board of Directors at a meeting of the Board called and held for such purpose (after reasonable notice to Mr. Deaton and an opportunity for Mr. Deaton, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board, Mr. Deaton was guilty of the conduct set forth above and specifying the particulars thereof in detail.

Mr. Deaton’s “Highest Bonus Amount” is the average of his three highest bonus amounts received by him for each of our five fiscal years immediately preceding his employment termination date. “Bonus amount” means the sum of (a) the amount of the annual incentive bonus, if any, paid in cash by us under the Annual Incentive Plan to or for the benefit of Mr. Deaton for services rendered during one of our fiscal years and (b) the amount of the discretionary bonus or other bonus, if any, paid in cash by us outside of the Annual Incentive Plan, to or for the benefit of Mr. Deaton for services rendered during the same fiscal year. Mr. Deaton’s bonus amount is determined by including any portion thereof that he could have received in cash in lieu of any elective deferrals under the Supplemental Retirement Plan, our Thrift Plan or our section 125 cafeteria plan.

If Mr. Deaton’s employment were to have been terminated by him for good reason or by us (or our successor) without cause on December 31, 2009, we estimate that the value of the payments and benefits described in clauses (a) through (g) above he would have been eligible to receive is as follows: (a) \$2,310,000, (b) \$1,841,884, (c) \$45,833, (d) \$20,823, (e) \$8,436, (f) \$730,023 and (g) \$119,949 with an aggregate value of \$5,076,948.

Termination of Employment by Mr. Deaton Without Good Reason or by Us for Cause

If Mr. Deaton’s employment is terminated by him for any reason other than a good reason or by us for cause, he is to receive only those vested benefits to which he is entitled under the terms of the employee benefit plans in which he is a participant as of the date of termination and a lump sum amount in cash equal to the sum of his base salary through the date of termination and any accrued vacation pay, in each case to the extent not theretofore paid.

Change in Control Agreements

The Change in Control Agreements we have entered into with each of the Senior Executives provide for payment of certain benefits to them as a result of their terminations of employment following, or in connection with, a Change in Control.

Payments in the Event of a Change in Control

The Change in Control Agreements provide for full vesting of all stock options and other equity incentive awards upon the occurrence of a Change in Control. If a Change in Control were to have occurred on December 31, 2009, whether or not the Senior Executive incurred a termination of employment in connection with the Change in Control, all of the Senior Executive’s then outstanding options to acquire our stock would have become immediately exercisable, and all of his then outstanding Restricted stock awards and equity based compensatory performance awards would have become fully vested and nonforfeitable.

We (or our successor) must pay the Senior Executive an amount (a “gross-up” payment) in respect of excise taxes that may be imposed under the “golden parachute” rules on payments and benefits received in connection with the Change in Control. The gross-up payment would make the Senior Executive whole for excise taxes (and for all taxes on the gross-up payment) in respect of payments and benefits received pursuant to all the Company’s plans, agreements and arrangements (including for example, acceleration of vesting of equity awards).

We (or our successor) must reimburse the Senior Executive for any legal fees and expenses incurred by him in seeking in good faith to enforce the Change in Control Agreement or in connection with any tax audit or proceeding relating to the application of parachute payment excise taxes to any payment or benefit under the Change in Control Agreement.

Chad C. Deaton

Mr. Deaton’s options to purchase an aggregate of 310,284 of our shares, with a value of \$40.48 per share, would have become fully exercisable on December 31, 2009, if a Change of Control were to have occurred on that date. Under the terms of Mr. Deaton’s stock options, he would have to pay an aggregate of \$14,361,481 to purchase these shares. Mr. Deaton’s options with respect to 217,524 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$1,345,613 (\$40.48 per share value on December 31, 2009 multiplied by 217,524 of our shares subject to the options minus \$7,459,759, the aggregate exercise price for the options).

The substantial risk of forfeiture restrictions applicable to 119,897 shares of our stock granted to Mr. Deaton would have lapsed on December 31, 2009, if a Change of Control were to have occurred on that date. The maximum value of this accelerated vesting of Mr. Deaton's restricted stock awards would have been \$4,853,431 (\$40.48 per share value on December 31, 2009, multiplied by 119,897 of our shares subject to Mr. Deaton's unvested Restricted stock awards).

We estimate that if a Change in Control were to have occurred on December 31, 2009, but Mr. Deaton had not incurred a termination of employment, the value of the parachute payment tax gross-up payment that would have been due by us (or our successor) to Mr. Deaton is \$0.

Peter A. Ragauss

Mr. Ragauss' options to purchase an aggregate of 95,886 of our shares, with a value of \$40.48 per share, would have become fully exercisable on December 31, 2009, if a Change of Control were to have occurred on that date. Under the terms of Mr. Ragauss' stock options, he would have to pay an aggregate of \$4,365,555 to purchase these shares. Mr. Ragauss' options with respect to 69,530 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$401,103 (\$40.48 per share value on December 31, 2009, multiplied by 69,530 of our shares subject to the options minus \$2,413,471, the aggregate exercise price for the options).

The substantial risk of forfeiture restrictions applicable to 51,682 shares of our stock granted to Mr. Ragauss would have lapsed on December 31, 2009, if a Change of Control were to have occurred on that date. The maximum value of this accelerated vesting of Mr. Ragauss' restricted stock awards would have been \$2,092,087 (\$40.48 per share value on December 31, 2009, multiplied by 51,682 of our shares subject to Mr. Ragauss' unvested restricted stock awards).

We estimate that if a Change in Control were to have occurred on December 31, 2009, but Mr. Ragauss had not incurred a termination of employment, the value of the parachute payment tax gross-up payment that would have been due by us (or our successor) to Mr. Ragauss is \$0.

Alan R. Crain

Mr. Crain's options to purchase an aggregate of 69,142 of our shares, with a value of \$40.48 per share, would have become fully exercisable on December 31, 2009, if a Change of Control were to have occurred on that date. Under the terms of Mr. Crain's stock options, he would have to pay an aggregate of \$3,200,057 to purchase these shares. Mr. Crain's options with respect to 48,418 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$299,522

(per share stock value greater than per share exercise price) as of December 31, 2009 (\$40.48 per share value on December 31, 2009, multiplied by 48,418 of our shares subject to the options minus \$1,660,439, the aggregate exercise price for the options).

The substantial risk of forfeiture restrictions applicable to 32,900 shares of our stock granted to Mr. Crain would have lapsed on December 31, 2009, if a Change of Control were to have occurred on that date. The maximum value of this accelerated vesting of Mr. Crain's restricted stock awards would have been \$1,331,792 (\$40.48 per share value on December 31, 2009, multiplied by 32,900 of our shares subject to Mr. Crain's unvested restricted stock awards).

We estimate that if a Change in Control were to have occurred on December 31, 2009, but Mr. Crain had not incurred a termination of employment, the value of the parachute payment tax gross-up payment that would have been due by us (or our successor) to Mr. Crain is \$0.

David H. Barr

Mr. Barr retired from employment with us on April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed below under the heading "*Retirement Agreement With David H. Barr*."

Martin S. Craighead

Mr. Craighead's options to purchase an aggregate of 81,891 of our shares, with a value of \$40.48 per share would have become fully exercisable on December 31, 2009, if a Change of Control were to have occurred on that date. Under the terms of Mr. Craighead's stock options, he would have to pay an aggregate of \$3,669,570 to purchase these shares. Mr. Craighead's options with respect to 62,431 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$300,670 (\$40.48 per share value on December 31, 2009, multiplied by 62,431 of our shares subject to the options minus \$2,226,537, the aggregate exercise price for the options).

The substantial risk of forfeiture restrictions applicable to 37,312 shares of our stock granted to Mr. Craighead would have lapsed on December 31, 2009, if a Change of Control were to have occurred on that date. The maximum value of this accelerated vesting of Mr. Craighead's restricted stock awards would have been \$1,510,390 (\$40.48 per share value on December 31, 2009, multiplied by 37,312 of our shares subject to Mr. Craighead's unvested restricted stock awards).

We estimate that if a Change in Control were to have occurred on December 31, 2009, but Mr. Craighead had not incurred a termination of employment, the value of the parachute payment tax gross-up payment that would have been due by us (or our successor) to Mr. Craighead is \$0.

John A. O'Donnell

Mr. O'Donnell's options to purchase an aggregate of 34,343 of our shares, with a value of \$40.48 per share would have become fully exercisable on December 31, 2009, if a Change of Control were to have occurred on that date. Under the terms of Mr. O'Donnell's stock options, he would have to pay an aggregate of \$1,495,186 to purchase these shares. Mr. O'Donnell's options with respect to 26,903 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$146,194 (\$40.48 per share value on December 31, 2009, multiplied by 26,903 of our shares subject to the options minus \$942,839, the aggregate exercise price for the options).

The substantial risk of forfeiture restrictions applicable to 15,653 shares of our stock granted to Mr. O'Donnell would have lapsed on December 31, 2009, if a Change of Control were to have occurred on that date. The maximum value of this accelerated vesting of Mr. O'Donnell's restricted stock awards would have been \$633,633 (\$40.48 per share value on December 31, 2009, multiplied by 15,653 of our shares subject to Mr. O'Donnell's unvested restricted stock awards).

We estimate that if a Change in Control were to have occurred on December 31, 2009, but Mr. O'Donnell had not incurred a termination of employment, the value of the parachute payment tax gross-up payment that would have been due by us (or our successor) to Mr. O'Donnell is \$0.

Payments in the Event of a Change in Control and Termination of Employment by the Senior Executive for Good Reason or by the Company or its Successor Without Cause

Pursuant to the Change in Control Agreements, the Company (or its successor) pays severance benefits to a Senior Executive if the Senior Executive's employment is terminated following, or in connection with, a Change in Control and during the term unless: (i) the Senior Executive resigns without good reason; (ii) the Company terminates the employment of the Senior Executive for cause or (iii) the employment of the Senior Executive is terminated by reason of death or disability.

Under the Change in Control Agreements "good reason" includes: (i) the assignment to the Senior Executive of any duties or responsibilities which are substantially diminished from those in effect immediately prior to the Change in Control; (ii) a reduction in the Senior Executive's base salary; (iii) the relocation of the Senior Executive's principal place of employment to a location more than 50 miles from the Senior Executive's principal place of employment immediately prior to the Change in Control or our requiring the Senior Executive to be based anywhere other than such principal place of

employment; (iv) our failure to pay the Senior Executive any portion of his current compensation or to pay him any portion of an installment of deferred compensation within seven days of the date the payment is due; (v) our failure to continue in effect any compensation plan in which the Senior Executive participated immediately prior to the Change in Control which is material to his total compensation or (vi) our failure to continue to provide the Senior Executive with benefits substantially similar to those enjoyed by him under any of our pension, savings, life insurance, medical, health and accident, or disability plans in which he was participating immediately prior to the Change in Control, or our taking any action that would materially reduce any of such benefits or deprive the Senior Executive of any material fringe benefit or perquisite enjoyed by the Senior Executive, or our failure to provide the Senior Executive with the number of paid vacation days to which he is entitled.

Under the Change in Control Agreements "cause" includes: (i) the willful and continued failure by the Senior Executive to substantially perform his duties or (ii) the willful engaging by the Senior Executive in conduct which is materially injurious to us or our affiliates.

Under the Change in Control Agreements "disability" means the Senior Executive's incapacity due to physical or mental illness that has caused the Senior Executive to be absent from full-time performance of his duties with us for a period of six consecutive months.

If the Senior Executive meets the criteria for payment of severance benefits due to termination of employment following a Change in Control during the term as described above, he will receive the following benefits in addition to any benefits he is due under the Company's employee benefit plans and equity and incentive compensation plans, the value of accelerated vesting of equity based compensation and other benefits described above under the heading "*Payments in the Event of a Change in Control*":

- a. a lump sum payment equal to three times the Senior Executive's Highest Base Salary;
- b. a lump sum payment equal to the Senior Executive's Highest Bonus Amount, prorated based upon the number of days of his service during the performance period (reduced by any payments received by the Senior Executive under the Company's Annual Incentive Plan, as amended, in connection with the Change in Control if the Senior Executive's termination of employment occurs during the same calendar year in which the Change in Control occurs);
- c. a lump sum payment equal to three times the greater of (i) the Senior Executive's Highest Bonus Amount or (ii) the Senior Executive's Highest Base Salary multiplied by the Senior Executive's applicable multiple, which is 1.20; .80; .75; .70; and .70 for Messrs. Deaton, Ragauss; Crain; Craighead and O'Donnell, respectively;

- d. continuation of accident and health insurance benefits for an additional three years⁽²⁾;
- e. a lump sum payment equal to the sum of (i) the cost of the Senior Executive's perquisites in effect prior to his termination of employment for the remainder of the calendar year and (ii) the cost of the Senior Executive's perquisites in effect prior to his termination of employment for an additional three years;
- f. a lump sum payment equal to the undiscounted value of the benefits the Senior Executive would have received had he continued to participate in the Thrift Plan, the Pension Plan and the SRP for an additional three years, assuming for this purpose that:
- (1) the Senior Executive's compensation during that three-year period were his Highest Base Salary and Highest Bonus Amount, and
 - (2) the Senior Executive's contributions to and accruals under those plans remained at the levels in effect as of the date of the Change in Control or the date of termination, whichever is greater;
- g. eligibility for our retiree medical program if the Senior Executive would have become entitled to participate in that program had he remained employed for an additional three years⁽³⁾;
- h. a lump sum payment equivalent to 36 multiplied by the monthly basic life insurance premium applicable to the Senior Executive's basic life insurance coverage on the date of termination;
- i. a lump sum payment of \$30,000 for outplacement services;
- j. an additional amount (a "gross-up" payment) in respect of excise taxes that may be imposed under the "golden parachute" rules on payments and benefits received in connection with the Change in Control. The gross-up payment would make the officer whole for excise taxes (and for all taxes on the gross-up payment) in respect of payments and benefits received pursuant to all the Company's plans, agreements and arrangements (including for example, acceleration of vesting of equity awards); and
- k. a lump sum payment equal to the amount of interest that would be earned on any of the foregoing payments subject to a six-month payment delay under Section 409A using the six-month London Interbank Offered Rate plus two percentage points.

We (or our successor) must also reimburse the Senior Executive for any legal fees and expenses incurred by him (i) in disputing in good faith any issue relating to his termination of employment, (ii) in seeking in good faith to enforce the Change in Control Agreement or (iii) in connection with any tax audit or proceeding relating to the application of parachute payment excise taxes to any payment or benefit under the Change in Control Agreement.

⁽²⁾ The value of this benefit is calculated (i) for the first 18 months of continuation coverage as the aggregate premium amounts the NEO would be required to pay for such coverage under the Company's premium rate structure in effect on December 31, 2009 for continuation coverage under COBRA minus the aggregate premium amounts he would be required to pay for such coverage under the Change in Control Agreement and (ii) for the remaining 18 months of continuation coverage as the value of such medical benefit coverage utilizing the assumptions applied under *FASB ASC Topic 715, Compensation-Retirement Benefits*.

⁽³⁾ The value of this benefit is the aggregate value of the medical coverage utilizing the assumptions applied under *FASB ASC Topic 715, Compensation-Retirement Benefits*.

If the Senior Executive's employment were to have been terminated by him for Good Reason or by us (or our successor) without Cause in connection with a Change of Control on December 31, 2009, and a Change of Control were to have occurred on that date, we estimate that the value of the payments and benefits described in clauses (a) through (j) above that he would have been eligible to receive is as follows:

Payment or Benefit	Chad C. Deaton	Peter A. Ragauss	Alan R. Crain	Martin S. Craighead	John. A. O'Donnell
Clause (a)	\$ 3,465,000	\$ 1,950,000	\$ 1,419,000	\$ 1,950,000	\$ 1,200,000
Clause (b)	\$ 1,148,884	\$ 272,175	\$ 328,124	\$ 112,924	\$ 146,042
Clause (c)	\$ 5,525,652	\$ 1,620,114	\$ 1,516,497	\$ 1,365,000	\$ 840,000
Clause (d)	\$ 48,977	\$ 63,599	\$ 63,599	\$ 63,599	\$ 51,766
Clause (e)	\$ 75,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 53,751
Clause (f)	\$ 1,231,729	\$ 473,865	\$ 403,660	\$ 400,096	\$ 280,267
Clause (g)	\$ 0	\$ 0	\$ 23,700	\$ 0	\$ 0
Clause (h)	\$ 13,805	\$ 6,789	\$ 5,659	\$ 5,378	\$ 3,980
Clause (i)	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Clause (j) ⁽⁴⁾	\$ 7,001,901	\$ 2,693,092	\$ 0	\$ 2,286,917	\$ 0
Clause (k)	\$ 279,209	\$ 107,237	\$ 91,439	\$ 94,245	\$ 62,063
Accelerated exercisability of stock options	\$ 1,345,613	\$ 401,103	\$ 299,522	\$ 300,670	\$ 146,194
Accelerated vesting of restricted stock award	\$ 4,853,431	\$ 2,092,087	\$ 1,331,792	\$ 1,510,390	\$ 633,633
Payment in settlement of performance unit awards under the 2002 D&O Plan	\$ 5,782,548	\$ 1,769,741	\$ 1,297,829	\$ 1,258,406	\$ 551,735
Pro-rata Annual Incentive Plan bonus	\$ 693,000	\$ 267,863	\$ 177,375	\$ 238,973	\$ 105,875
Total	\$ 31,494,749	\$ 11,807,665	\$ 7,048,196	\$ 9,676,598	\$ 4,105,306

⁽⁴⁾ The estimated value of all parachute payment tax gross-up payments was calculated utilizing the highest marginal tax rates.

Mr. Barr retired from employment with us on April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed below under the heading "Retirement Agreement With David H. Barr."

Baker Hughes Incorporated Executive Severance Plan

On November 1, 2002, we adopted an executive severance program, the Baker Hughes Incorporated Executive Severance Plan (the "Executive Severance Plan") for our executives who are classified by us as United States executive salary grade system employees, including the Senior Executives. The Executive Severance Plan provides for payment of certain benefits to each of these executives as a result of an involuntary termination of employment provided that (i) the executive signs a release agreement substantially similar to the form of release agreement set forth in the Executive Severance Plans, (ii) during the two-year period commencing on the executive's date of termination of employment he complies with the noncompetition and nonsolicitation agreements contained in the Executive Severance Plan and (iii) the executive does not disclose our confidential information. Any amounts payable under the Executive Severance Plan are reduced by the amount of any severance payments payable to the Senior Executive by us under any other plan, program or individual contractual arrangement.

Payments in the Event of a Termination of Employment by the Senior Executive for Good Reason or by the Company or its Successor Without Cause

We (or our successor) will pay severance benefits to a Senior Executive if he incurs an Involuntary Termination. "Involuntary Termination" means the complete severance of a Senior Executive's employment relationship with us: (i) because his position is eliminated; (ii) because he and we agree to his resignation of his position at our request; (iii) which occurs in conjunction with, and during the period that begins 90 days before and ends 180 days after, an acquisition, merger, spin-off, reorganization (either business or personnel), facility closing or discontinuance of the operations of the divisions in which he is employed; or (iv) for any other reason which is deemed an Involuntary Termination by us.

An Involuntary Termination does not include: (i) a termination for cause; (ii) a transfer of employment among us and our affiliates; (iii) a temporary absence, such as a Family and Medical Leave Act leave or a temporary layoff in which the Senior Executive retains entitlement to re-employment; (iv) the Senior Executive's death, disability or Retirement (as defined in the Executive Severance Plan); or (v) a voluntary termination by the employee.

If the Senior Executive meets the criteria for payment of severance benefits due to an Involuntary Termination, we (or our successor) will pay him the following benefits in addition to any benefits he is due under our employee benefit plans and equity and incentive compensation plans:

- a. a lump sum payment equal to one and one-half times the Senior Executive's annual base salary in effect immediately prior to his termination of employment; and
- b. outplacement services for a period of 12 months, but not in excess of \$10,000.

If Mr. Deaton were to have incurred an Involuntary Termination by him on December 31, 2009, he would have been eligible to receive no benefits under the Severance Plan since the amount of the severance benefits payable under his employment agreement exceeds the amount of the severance benefits payable under the Severance Plan.

Payment or Benefit	Peter A. Ragauss	Alan R. Crain	Martin S. Craighead	John A. O'Donnell
Clause (a)	\$ 975,000	\$ 709,500	\$ 975,000	\$ 600,000
Clause (b)	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Total	\$ 985,000	\$ 719,500	\$ 985,000	\$ 610,000

Mr. Barr retired from employment with us on April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed below under the heading *"Retirement Agreement With David H. Barr"*.

Equity Compensation Awards

We have granted restricted stock awards, stock options, performance awards and performance stock units under the 2002 D&O Plan to Messrs. Deaton, Ragauss, Crain, Barr, Craighead and O'Donnell as well as other Executives.

Restricted Stock Awards

Full Vesting of Restricted Stock Awards Upon a Change in Control

If a change in control as defined in the Change in Control Agreements or as defined in the 2002 D&O Plan (a "2002 D&O Plan Change in Control") were to have occurred on December 31, 2009, prior to the Senior Executive's termination of employment with us, all of the Senior Executive's then outstanding restricted stock awards granted by us would have become fully vested and nonforfeitable. For each Senior Executive, the number of shares with respect to which the forfeiture restrictions would have lapsed and the value of this accelerated vesting is specified above under the subheading *"Payments in the Event of a Change in Control"* under the heading *"Change in Control Agreements."*

For purposes of awards granted on or after July 24, 2008, the term "2002 D&O Plan Change in Control" has the same meaning as "Change in Control" for purposes of the Change in Control Agreements (discussed above under the heading *"Change in Control Agreements"* in the section entitled *"Compensation Discussion and Analysis."*

For purposes of awards granted prior to July 24, 2008, a 2002 D&O Plan Change in Control is deemed to occur if:

- the individuals who are incumbent directors (within the meaning of the 2002 D&O Plan) cease for any reason to constitute a majority of the members of our Board of Directors;
- the consummation of a merger of us or our affiliate with another entity, unless the individuals and entities who were the beneficial owners of our voting securities outstanding immediately prior to such merger own, directly or indirectly, at least 55 percent of the combined voting power of the voting securities of us, the surviving entity or the parent of the surviving entity outstanding immediately after such merger;

If Messrs. Ragauss, Crain, Craighead and O'Donnell were to have incurred Involuntary Terminations on December 31, 2009, we estimate that the value of the payments and benefits described in clauses (a) and (b) above would be as follows:

- the consummation of a merger of us or our affiliate with another entity, unless the individuals who comprise our Board of Directors immediately prior thereto constitute at least a majority of the board of directors of the entity surviving the merger or any parent thereof (or a majority plus one member where such board is comprised of an odd number of members);
- any person becomes a beneficial owner, directly or indirectly, of our securities representing 30 percent or more of the combined voting power of our then outstanding voting securities (not including any securities acquired directly from us or our affiliates);
- a sale or disposition of all or substantially all of our assets is consummated (an "asset sale"), unless (i) the individuals and entities who were the beneficial owners of our voting securities immediately prior to such asset sale own, directly or indirectly, 55 percent or more of the combined voting power of the voting securities of the entity that acquires such assets in such asset sale or its parent immediately after such asset sale in substantially the same proportions as their ownership of our voting securities immediately prior to such asset sale; or (ii) the individuals who comprise our Board of Directors immediately prior to such asset sale constitute a majority of the board of directors or other governing body of either the entity that acquired such assets in such asset sale or its parent (or a majority plus one member where such board or other governing body is comprised of an odd number of directors); or
- our stockholders approve a plan of complete liquidation or dissolution of us.

Full Vesting of Restricted Stock Awards Upon Termination of Employment by the Senior Executive for Good Reason or By Us Without Cause in Connection with a Potential Change in Control

If on December 31, 2009, (i) we terminated the employment of a Senior Executive without cause prior to a 2002 D&O Plan Change in Control or (ii) the Senior Executive terminated his employment with us for good reason and, in the case of (i) or (ii), the event or circumstance occurred at the request or direction of the person who entered into an agreement with us, the consummation of which would constitute a 2002 D&O Plan Change in Control or is otherwise in connection with or in anticipation of a 2002 D&O Plan Change in Control, then all of the Senior Executive's then outstanding restricted stock awards granted by us would have become fully vested and nonforfeitable.

For this purpose the term “good reason” as defined in the 2002 D&O Plan includes: (i) the assignment to the Senior Executive of any duties inconsistent with the status of the Senior Executive’s position with us or a substantial adverse alteration in the nature or status of the Senior Executive’s responsibilities from those in effect immediately prior to the 2002 D&O Plan Change in Control; (ii) a reduction in the Senior Executive’s base salary; (iii) the relocation of the Senior Executive’s principal place of employment to a location more than 50 miles from the Senior Executive’s principal place of employment immediately prior to the 2002 D&O Plan Change in Control or our requiring the Senior Executive to be based anywhere other than such principal place of employment; (iv) our failure to pay the Senior Executive any portion of his current compensation or to pay him any portion of an installment of deferred compensation within seven days of the date the payment is due; (v) our failure to continue in effect any compensation plan in which the Senior Executive participated immediately prior to the 2002 D&O Plan Change in Control which is material to his total compensation or (vi) our failure to continue to provide the Senior Executive with benefits substantially similar to those enjoyed by him under any of our pension, savings, life insurance, medical, health and accident, or disability plans in which he was participating immediately prior to the 2002 D&O Plan Change in Control, or our taking any action that would materially reduce any of such benefits or deprive the Senior Executive of any material fringe benefit or perquisite enjoyed by the Senior Executive, or our failure to provide the Senior Executive with the number of paid vacation days to which he is entitled.

For this purpose, the term “cause” as defined in the 2002 D&O Plan includes: (i) the willful and continued failure by the Senior Executive to substantially perform his duties or (ii) the willful engaging by the Senior Executive in conduct which is materially injurious to us or our affiliates.

For each Senior Executive, the number of shares with respect to which the forfeiture restrictions would have lapsed and the value of this accelerated vesting is specified above under the subheading “*Payments in the Event of a Change in Control*” under the heading “*Change in Control Agreements*”

Pro Rata Vesting of Restricted Stock Awards Upon Termination of Employment in Connection with the Sale of a Business Unit

If (i) on December 31, 2009 we or one of our affiliates sold a business unit, (ii) on December 31, 2009 the Senior Executive’s employment with us terminated in connection with the sale and (iii) the sale did not constitute a 2002 D&O Plan Change in Control, a pro-rata portion of the Senior Executive’s then outstanding restricted stock awards granted by us would have become vested and nonforfeitable. The forfeiture restrictions would have lapsed as to that number of shares of restricted stock that were subject to forfeiture restrictions on December 31, 2009, multiplied by the applicable reduction factor, the number of days during the period commencing on the date of grant of the award and ending on December 31, 2009, divided by the number of days the Senior Executive would be required to work to achieve full vesting under the normal vesting provisions of the award.

Chad C. Deaton

The substantial risk of forfeiture restrictions applicable to 49,888 shares of our stock granted to Mr. Deaton would have lapsed on December 31, 2009, if (i) on December 31, 2009, we or one of our affiliates sold a business unit, (ii) on December 31, 2009, Mr. Deaton’s employment with us terminated in connection with the sale and (iii) the sale did not constitute a 2002 D&O Plan Change in Control. The maximum value of this accelerated vesting of Mr. Deaton’s restricted stock awards would have been \$2,019,466 (\$40.48 per share value on December 31, 2009, multiplied by the number of our shares subject to each of Mr. Deaton’s unvested restricted stock awards, multiplied by the applicable reduction factors for the awards).

Peter A. Ragauss

The substantial risk of forfeiture restrictions applicable to 27,543 shares of our stock granted to Mr. Ragauss would have lapsed on December 31, 2009, if (i) on December 31, 2009, we or one of our affiliates sold a business unit, (ii) on December 31, 2009, Mr. Ragauss’ employment with us terminated in connection with the sale and (iii) the sale did not constitute a 2002 D&O Plan Change in Control. The maximum value of this accelerated vesting of Mr. Ragauss’ restricted stock awards would have been \$1,114,941 (\$40.48 per share value on December 31, 2009, multiplied by the number of our shares subject to each of Mr. Ragauss’ unvested restricted stock awards, multiplied by the applicable reduction factors for the awards).

Alan R. Crain

The substantial risk of forfeiture restrictions applicable to 16,579 shares of our stock granted to Mr. Crain would have lapsed on December 31, 2009, if (i) on December 31, 2009, we or one of our affiliates sold a business unit, (ii) on December 31, 2009, Mr. Crain’s employment with us terminated in connection with the sale and (iii) the sale did not constitute a 2002 D&O Plan Change in Control. The maximum value of this accelerated vesting of Mr. Crain’s restricted stock awards would have been \$671,118 (\$40.48 per share value on December 31, 2009, multiplied by the number of our shares subject to each of Mr. Crain’s unvested restricted stock awards, multiplied by the applicable reduction factors for the awards).

David H. Barr

Mr. Barr retired from employment with us on April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed below under the heading “*Retirement Agreement With David H. Barr*”

Martin S. Craighead

The substantial risk of forfeiture restrictions applicable to 16,456 shares of our stock granted to Mr. Craighead would have lapsed on December 31, 2009, if (i) on December 31, 2009, we or one of our affiliates sold a business unit, (ii) on December 31, 2009, Mr. Craighead’s employment with us terminated in connection with the sale and (iii) the sale did not constitute a 2002 D&O Plan Change in Control. The maximum

value of this accelerated vesting of Mr. Craighead's restricted stock awards would have been \$666,241 (\$40.48 per share value on December 31, 2009, multiplied by the number of our shares subject to each of Mr. Craighead's unvested restricted stock awards, multiplied by the applicable reduction factors for the awards).

John A. O'Donnell

The substantial risk of forfeiture restrictions applicable to 6,090 shares of our stock granted to Mr. O'Donnell would have lapsed on December 31, 2009, if (i) on December 31, 2009, we or one of our affiliates sold a business unit, (ii) on December 31, 2009, Mr. O'Donnell's employment with us terminated in connection with the sale and (iii) the sale did not constitute a 2002 D&O Plan Change in Control. The maximum value of this accelerated vesting of Mr. O'Donnell's restricted stock awards would have been \$246,523 (\$40.48 per share value on December 31, 2009, multiplied by the number of our shares subject to each of Mr. O'Donnell's unvested restricted stock awards, multiplied by the applicable reduction factors for the awards).

Full Vesting of Restricted Stock Awards Upon the Senior Executive's Termination of Employment Due to His Disability or His Death

If the Senior Executive had terminated employment with us on December 31, 2009 due to death or due to disability, all of his then outstanding restricted stock awards granted by us would have become fully vested and nonforfeitable. For this purpose a Senior Executive is treated as having incurred a disability if he qualifies for long-term disability benefits under our long-term disability program. For each Senior Executive, the number of shares with respect to which the forfeiture restrictions would have lapsed and the value of this accelerated vesting is specified above under the subheading "*Payments in the Event of a Change in Control*" under the heading "*Change in Control Agreements*".

Stock Options

Full Vesting of Stock Options Upon A Change in Control

If a change in control (as defined in the Change in Control Agreements or the 2002 D&O Plan) were to have occurred on December 31, 2009, all of the then outstanding stock options granted by us to the Senior Executives would have become fully vested and exercisable. For each Senior Executive, the number of our shares for which the options would have become fully exercisable is specified above under the subheading "*Payments in the Event of a Change in Control*" under the heading "*Change in Control Agreements*".

Full Vesting of Stock Options Upon Termination of Employment in Connection With a Change in Control or Upon Sale of a Business Unit

If a 2002 D&O Plan Change in Control had occurred on December 31, 2009, and the Senior Executive had terminated employment with us for good reason (as defined in the 2002 D&O Plan) on December 31, 2009 or we had terminated the

Senior Executive's employment with us on December 31, 2009 for reasons other than cause (as defined in the 2002 D&O Plan) in connection with a change in control all of the then outstanding stock options granted by us to the Senior Executive would have become fully exercisable. If on December 31, 2009, we or one of our affiliates sold a business unit that employed the Senior Executive, all of the Senior Executive's then outstanding stock options would have become fully exercisable. For each Senior Executive, the number of shares for which the options would have become fully exercisable is specified above under the subheading "*Payments in the Event of a Change in Control*" under the heading "*Change in Control Agreements*".

Full Vesting of Stock Options Upon Retirement of Senior Executive

If the Senior Executive had terminated employment on December 31, 2009, and the sum of his age and years of service with us equaled at least 65, all of the Senior Executive's then outstanding stock options granted by us would have become fully vested and exercisable.

Messrs. Deaton and Ragauss are not yet eligible to retire for purposes of their outstanding stock options.

If Mr. Crain had terminated employment with us on December 31, 2009 due to retirement his options to purchase an aggregate of 69,142 our shares, with a value of \$40.48 per share would have become fully exercisable on December 31, 2009. Under the terms of Mr. Crain's stock options, he would have to pay an aggregate of \$3,200,057 to purchase these shares. Mr. Crain's options with respect to 48,418 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$299,522 (per share stock value greater than per share exercise price) as of December 31, 2009 (\$40.48 per share value on December 31, 2009), multiplied by 48,418 of our shares subject to the options minus \$1,660,439, the aggregate exercise price for the options).

Mr. Barr retired from employment with us on April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed below under the heading "*Retirement Agreement With David H. Barr*".

If Mr. Craighead had terminated employment with us on December 31, 2009 due to retirement his options to purchase an aggregate of 81,891 of our shares, with a value of \$40.48 per share would have become fully exercisable on December 31, 2009. Under the terms of Mr. Craighead's stock options, he would have to pay an aggregate of \$3,669,570 to purchase these shares. Mr. Craighead's options with respect to 62,431 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$300,670 (\$40.48 per share value on December 31, 2009, multiplied by 62,431 of our shares subject to the options minus \$2,226,537, the aggregate exercise price for the options).

If Mr. O'Donnell had terminated employment with us on December 31, 2009 due to retirement his options to purchase an aggregate of 34,343 of our shares, with a value of \$40.48 per share would have become fully exercisable on December 31, 2009. Under the terms of Mr. O'Donnell's stock options, he would have to pay an aggregate of \$1,495,186 to purchase these shares. Mr. O'Donnell's options with respect to 26,903 of our shares were in-the-money (per share stock value greater than per share exercise price) as of December 31, 2009. The maximum value of the accelerated vesting of these in-the-money options would have been \$146,194 (\$40.48 per share value on December 31, 2009), multiplied by 26,903 of our shares subject to the options minus \$942,839, the aggregate exercise price for the options).

Full Vesting of Stock Options Upon Termination of Employment Due to Death or Disability of the Senior Executive

If the Senior Executive had terminated employment on December 31, 2009, due to the disability of the Senior Executive (as determined by the 2002 D&O Plan committee) or due to the death of the Senior Executive, all of the Senior Executive's then outstanding stock options granted by us would have become fully vested and exercisable. For each Senior Executive, the number of our shares for which stock options would have become fully exercisable and the value of the accelerated vesting of the options if on December 31, 2009 the Senior Executive terminated employment with us due to his death or disability is specified above under the heading *"Full Vesting of Stock Options Upon a Change in Control!"*

Performance Unit Awards

Pro Rata Payment of Performance Unit Awards Upon a Change in Control

If a 2002 Change in Control were to have occurred on December 31, 2009, prior to the Senior Executive's termination of employment with us, we, or our successor, would have paid the Senior Executive, in cash, an amount equal to \$100 multiplied by the number of performance units specified in the Senior Executive's performance unit award agreement, multiplied by the number of days during the performance period through December 30, 2009 divided by the number of days during the performance period. The amounts we or our successor would have paid are \$5,782,548, \$1,769,741, \$1,297,829, \$1,258,406, and \$551,735 for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell, respectively.

Mr. Barr retired from the Company on April 30, 2009 and accordingly would not receive any amounts under his performance unit awards as a result of a change of control. As discussed below under the heading *"Retirement Agreement With David H. Barr"*, we did agree to vest certain of Mr. Barr's performance units in connection with his retirement.

Pro Rata Payment of Performance Unit Awards Upon Termination of Employment by the Senior Executive for Good Reason or By Us Without Cause in Connection with a Potential Change in Control

If on December 31, 2009, (i) we terminated the employment of a Senior Executive without cause (within the meaning of the 2002 D&O Plan) prior to a 2002 D&O Plan Change in Control, or (ii) the Senior Executive terminated his employment with us for good reason (within the meaning of the 2002 D&O Plan) and, in the case of (i) or (ii), the circumstance or event occurred at the request or direction of the person who entered into an agreement with us the consummation of which would constitute such a change in control or is otherwise in connection with or in anticipation of such a change in control, we would have paid the Senior Executive, in cash, an amount equal to \$100 multiplied by the number of performance units specified in the Senior Executive's performance unit award agreement, multiplied by the number of days during the performance period through December 30, 2009 divided by the number of days during the performance period.

The amounts we would have paid the Senior Executives are specified above under the heading *"Pro Rata Payment of Performance Unit Awards Upon a Change in Control!"*

Pro Rata Payment of Performance Unit Awards Upon the Senior Executive's Termination of Employment Due to His Disability or His Death

If the Senior Executive had terminated employment with us on December 31, 2009 due to disability or death prior to the last day of the performance period we would have paid him in a single sum in cash an amount equal to \$100 multiplied by the number of performance units specified in the Senior Executive's performance unit award agreement, multiplied by the number of days during the performance period through December 31, 2009, divided by the number of days during the performance period.

The Senior Executive is treated as having incurred a disability for this purpose if he (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months receiving income replacement benefits for a period of not less than three months under our accident and health plan.

If the Senior Executives had terminated employment with us on December 31, 2009 due to disability or death we would have paid, in single sums in cash, \$5,790,245, \$1,772,115, \$1,299,557, \$1,260,215 and \$552,501 for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell, respectively.

Pro Rata Payment of Performance Unit Awards Upon the Senior Executive's Termination of Employment Due to His Retirement

If the Senior Executive had terminated employment with us on December 31, 2009 due to his retirement prior to the last day of the performance period, we would have paid in a single sum in cash an amount equal to the applicable performance unit value multiplied by the number of performance units specified in the Senior Executive's performance unit award agreement, multiplied by the number of days during the performance period through December 30, 2009, divided by the number of days during the performance period.

The Senior Executive is treated as having retired for this purpose if he terminates employment with us after the sum of his age and years of service with us is at least 65.

Messrs. Deaton and Ragauss are not yet eligible to retire for purposes of their outstanding performance unit awards.

If Mr. Crain had terminated employment with us on December 31, 2009 due to retirement and the threshold level of performance is not achieved for the performance unit award granted to him on January 24, 2007 and the expected value level of performance is achieved for the performance unit awards granted to him on January 23, 2008 and March 31, 2009, we would pay Mr. Crain, in cash, at the normal payment dates specified in the awards, the sums of \$0 and \$484,921 and \$188,670 in complete settlement of his performance unit award granted under the 2002 D&O Plan on January 24, 2007, January 23, 2008 and March 31, 2009, respectively, for a total of \$673,591.

Mr. Barr retired from employment with us on April 30, 2009. The amounts we paid to Mr. Barr in connection with his retirement are discussed below under the heading "*Retirement Agreement With David H. Barr*."

If Mr. Craighead had terminated employment with us on December 31, 2009 due to retirement and the threshold level of performance is not achieved for the performance unit award granted to him on January 24, 2007 and the expected value level of performance is achieved for the performance unit awards granted to him on January 23, 2008 and March 31, 2009, we would pay Mr. Craighead, in cash, at the normal payment dates specified in the awards, the sums of \$0 and \$479,592 and \$254,286 in complete settlement of his performance unit award granted under the 2002 D&O Plan on January 24, 2007, January 23, 2008 and March 31, 2009, respectively, for a total of \$733,878.

If Mr. O'Donnell had terminated employment with us on December 31, 2009 due to retirement and the threshold level of performance is not achieved for the performance unit award granted to him on January 24, 2007 and the expected value level of performance is achieved for the performance unit awards granted to him on January 23, 2008 and March 31, 2009, we would pay Mr. O'Donnell, in cash, at the normal payment dates specified in the awards, the sums of \$0 and \$157,200 and \$109,692 in complete settlement of his performance unit award granted under the 2002 D&O Plan on January 24, 2007, January 23, 2008 and March 31, 2009, respectively, for a total of \$266,892.

Baker Hughes Incorporated Supplemental Retirement Plan

Under the SRP the Senior Executives may elect to defer portions of their compensation. We also provide additional credits under the SRP to supplement the benefits provided under our qualified retirement plans. We will pay the benefits due the Senior Executives under the SRP in accordance with the Senior Executives' payment selections.

Accelerated Vesting Upon Termination of Senior Executive's Termination of Employment Due to His Retirement

If the Senior Executive had terminated employment with us on December 31, 2009 due to his retirement, he would have had a fully nonforfeitable interest in his Company base thrift deferral account, Company pension deferral account and Company discretionary deferral account under the SRP. For this purpose, "retirement" means termination of employment with us on or after (i) attaining the age of 65 or (ii) attaining the age of 55 and completing ten years of service with us.

Messrs. Deaton, Ragauss, Crain and Craighead are not yet eligible to retire for purposes of the SRP. However, due to their years of service with us Messrs. Deaton, Crain and Craighead have fully vested interests in all of their accounts under the SRP. Mr. O'Donnell would have been eligible to retire on December 31, 2009 for purposes of the SRP. Due to his years of service, Mr. O'Donnell already had a fully vested interest in all of his accounts under the SRP as of December 31, 2009.

Mr. Barr retired from employment with us on April 30, 2009. Due to his years of service, Mr. Barr had a fully vested interest in all of his accounts under the SRP. The value of Mr. Barr's SRP accounts as of April 30, 2009 was \$1,894,681.

Accelerated Vesting Upon Termination of Senior Executive's Termination of Employment Due to His Death or Disability

If the Senior Executive had terminated employment with us on December 31, 2009 due to his death or his disability, he would have had a fully nonforfeitable interest in his company base thrift deferral account, company pension deferral account and company discretionary deferral account under the SRP without regard to his tenure with us. For this purpose, a Senior Executive has a disability if he is eligible for benefits under our long-term disability plan.

Messrs. Deaton, Ragauss, Crain, Barr, Craighead and O'Donnell have fully vested interests in all of their accounts under the SRP.

Payments Under the SRP Due to Termination of Employment of Senior Executive for Reason Other Than Retirement or Death

If the Senior Executive had terminated employment with us on December 31, 2009 due to his resignation (rather than due to his retirement or disability) he would have been entitled to receive his then vested interest in his accounts under the SRP. The estimated values of the Senior Executives' vested interests in their SRP accounts as of December 31, 2009 are \$3,692,703, \$542,873, \$1,210,177, \$956,416 and \$521,235, for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell, respectively. Mr. Barr retired from employment with us on April 30, 2009. Due to his years of service, Mr. Barr had a fully vested interest in all of his accounts under the SRP. The value of Mr. Barr's SRP accounts as of April 30, 2009 was \$1,894,681.

Baker Hughes Incorporated Annual Incentive Compensation Plan

In the event of the retirement, disability or death of a Senior Executive he would be entitled to receive an amount equal to his earned Annual Incentive Plan bonus, prorated based upon the number of months of the Senior Executive's participation in the Annual Incentive Plan during the calendar year. For this purpose, "retirement" means the termination of employment with us on or after attaining the age of 55 and completing ten years of service with us, and "disability" means the inability of the Senior Executive to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months. If the Senior Executive had terminated employment with us on December 31, 2009 due to his retirement, disability or death, and the target level of performance had been achieved, we would have paid, in single sums in cash, \$693,000, \$267,863, \$177,375, \$283,973, and 105,875 for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell, respectively.

In the event a change in control occurs during a calendar year and the Senior Executive's employment is terminated by us or our successor without cause or the Senior Executive resigns for good reason during the calendar year, the Senior Executive would be entitled to receive an amount equal to his Annual Incentive Plan bonus computed as if the target level of performance had been achieved, multiplied by a fraction, the numerator of which is the number of the Senior Executive's months of participation during the calendar year through the date of change in control and the denominator of which is 12. For this purpose, the terms "change in control", "cause" and "good reason" have the meanings ascribed to such terms in the 2002 D&O Plan (discussed above under the subheadings "Full Vesting of Restricted Stock Awards Upon a Change in Control" and "Full Vesting of Restricted Stock Awards Upon Termination of Employment by the Senior Executive for Good

Reason or By Us Without Cause in Connection With a Potential Change in Control" under the heading "Restricted Stock Award". If a change in control had occurred on December 31, 2009, and the Senior Executive had incurred a qualifying termination of employment with us on December 31, 2009, we would have paid, in single sums in cash, \$693,000, \$267,863, \$177,375, \$283,973, and 105,875 for Messrs. Deaton, Ragauss, Crain, Craighead and O'Donnell, respectively.

Mr. Barr retired from the Company on April 30, 2009. As discussed below under the heading "Retirement Agreement With David H. Barr", Mr. Barr will receive a prorated annual incentive bonus for the 2009 performance period in the amount of \$44,964.

Retirement Agreement With David H. Barr

We entered into a retirement agreement with David H. Barr dated February 25, 2009. Mr. Barr retired from employment with us on April 30, 2009. Under Mr. Barr's retirement agreement, in consideration of Mr. Barr's signing a release of claims against us and his provision of consulting services for us through October 31, 2010, the substantial risk of forfeiture restrictions applicable to 5,984 of our shares subject to restricted stock awards granted by us under the 2002 D&O Plan lapsed on April 30, 2009. Under the terms and conditions of the stock options granted by us to Mr. Barr, as a result of Mr. Barr's retirement on April 30, 2009 his options to purchase an aggregate of 75,541 shares became fully exercisable on April 30, 2009. Under the terms of such stock options Mr. Barr would have to pay an aggregate of \$3,564,159 to purchase these shares. The maximum value of the accelerated vesting of the options was the per share value of our common stock on April 30, 2009, \$35.58, multiplied by 75,541 of our shares subject to the options minus \$3,564,159, the aggregate exercise price for the options. Under the terms and conditions of Mr. Barr's performance units granted on January 24, 2007 and January 23, 2008, Mr. Barr forfeited 1,213 of the 5,403 performance units granted on January 24, 2007. Mr. Barr also forfeited 4,014 of the 7,200 of the performance units granted on January 23, 2008. Assuming that the expected value level of performance is achieved for the performance unit granted on January 23, 2008, on March 11, 2011 (the normal payment date specified in the award), we will pay to Mr. Barr, in cash, the sum of \$318,600 in complete settlement of the performance unit award. On March 12, 2010, Mr. Barr will receive a prorated annual incentive bonus for the 2009 performance period in the amount of \$44,964. On March 12, 2010, Mr. Barr will receive a prorated discretionary bonus for the 2009 performance period in the amount of \$70,000. We will transfer to Mr. Barr his corporate country club membership. We estimate that the value of this benefit is approximately \$29,906. For the period commencing on May 1, 2009 and ending on October 31, 2010, Mr. Barr will perform consulting services for us for a fee of \$39,500 per month.

DIRECTOR COMPENSATION

The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of the Company's independent non-management directors during the fiscal year ended 2009. For a description of the fees and other awards payable to the Company's directors, please refer to the section titled "Corporate Governance — Board of Directors" contained elsewhere in this proxy statement.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ^(1,2)	Option Awards (\$) ^(1,2)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Larry D. Brady	\$ 112,500	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 274,102
Clarence P. Cazalot, Jr.	\$ 100,000	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 261,602
Edward P. Djerejian	\$ 85,000	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 246,602
Anthony G. Fernandes	\$ 100,000 ⁽³⁾	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 261,602
Claire W. Gargalli	\$ 93,750	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 255,352
Pierre H. Jungels	\$ 85,000	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 246,602
James A. Lash	\$ 90,000	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 251,602
James F. McCall ⁽⁴⁾	\$ 28,171	\$ 139,976	\$ 10,712	\$ 0	\$ 0	\$ 178,859
J. Larry Nichols	\$ 100,000	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 261,602
H. John Riley, Jr.	\$ 110,000 ⁽³⁾	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 271,602
Charles L. Watson	\$ 85,000	\$ 139,976	\$ 21,626	\$ 0	\$ 0	\$ 246,602

⁽¹⁾ A restricted stock award was made on January 21, 2009. Stock option awards were made on January 21, 2009 and July 22, 2009 at an exercise price of \$29.18 and \$39.52, respectively. The amounts included in the Stock Awards and Option Awards columns represent the aggregate grant date fair value of the awards made to independent non-management directors computed in accordance with FASB ASC Topic 718. The value ultimately realized by the director upon the actual vesting of the award(s) or the exercise of the stock option(s) may or may not be equal to the FASB ASC Topic 718 determined value. For a discussion of valuation assumptions, see "Note 4 – Stock-Based Compensation" of the Notes to Consolidated Financial Statements included in our annual report under Item 8 of the Form 10-K for the year ended December 31, 2009.

⁽²⁾ The following table shows the aggregate number of stock awards and options awards outstanding for each director as of December 31, 2009 as well as the grant date fair value of stock awards and option grants made during 2009:

Name	Aggregate Stock Awards Outstanding as of December 31	Aggregate Option Awards Outstanding as of December 31	Grant Date Fair Value of Stock and Option Awards made during 2009
Larry D. Brady	6,238	4,030	\$161,603
Clarence P. Cazalot, Jr.	6,238	5,757	\$161,603
Edward P. Djerejian	6,238	3,776	\$161,603
Anthony G. Fernandes	6,238	9,070	\$161,603
Claire W. Gargalli	6,238	5,757	\$161,603
Pierre H. Jungels	6,238	3,443	\$161,603
James A. Lash	6,238	5,757	\$161,603
James F. McCall ⁽⁴⁾	6,238	3,017	\$150,688
J. Larry Nichols	6,238	5,757	\$161,603
H. John Riley, Jr.	6,238	5,757	\$161,603
Charles L. Watson	6,238	7,820	\$161,603

⁽³⁾ Messrs. Fernandes and Riley previously elected to have their fees deferred and thus the amounts shown above were paid to their deferred compensation accounts pursuant to the Director Compensation Deferral Plan (discussed below).

⁽⁴⁾ Effective April 23, 2009, James F. McCall retired from the Board of Directors.

The Baker Hughes Incorporated Director Compensation Deferral Plan, as amended and restated effective January 1, 2009 (the "Deferral Plan"), is intended to provide a means for members of our Board of Directors to defer compensation otherwise payable and provide flexibility with respect to our compensation policies. Under the provisions of the Deferral Plan, directors may elect to defer income with respect to each calendar year. The compensation deferrals may be stock option-related deferrals or cash-based deferrals.

COMPENSATION COMMITTEE REPORT

The Compensation Committee held five meetings during fiscal year 2009. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based upon such review, the related discussions and such other matters deemed relevant and appropriate by the Compensation Committee, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement to be delivered to stockholders.

H. John Riley, Jr. (Chairman)
Edward P. Djerejian
Claire W. Gargalli
Pierre H. Jungels
J. Larry Nichols

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee consists of Messrs. Riley (Chairman), Djerejian, Jungels, Nichols and Ms. Gargalli, all of whom are independent non-management directors. None of the Compensation Committee members has served as an officer or employee of the Company, and none of the Company's executive officers has served as a member of a compensation committee or board of directors of any other entity which has an executive officer serving as a member of the Company's Board of Directors.

AUDIT/ETHICS COMMITTEE REPORT

The Audit/Ethics Committee is comprised of five members, each of whom is independent, as defined by the standards of the NYSE, the rules of the SEC, and under the Company's policy for director independence ("Policy for Director Independence"). Under the Charter of the Audit/Ethics Committee (attached as Annex C to this Proxy Statement), the Audit/Ethics Committee assists the Board of Directors in overseeing matters relating to the accounting and reporting practices of the Company, the adequacy of the Company's disclosure controls and internal controls, the quality and integrity of the quarterly and annual financial statements of the Company, the performance of the Company's internal audit function and the review and pre-approval of the current year audit and non-audit fees with the Company's Independent Registered Public Accounting Firm. The Audit/Ethics Committee also oversees the Company's policies with respect to risk assessment and risk management and compliance programs relating to legal and regulatory requirements.

During the year ended December 31, 2009, the Audit/Ethics Committee held nine meetings and otherwise met and communicated with management and with Deloitte & Touche LLP, the Company's Independent Registered Public Accounting Firm for 2009. Deloitte & Touche discussed with the Audit/Ethics Committee various matters under applicable auditing standards, including information regarding the scope and results of the audit and other matters required to be discussed by the Statement on Auditing Standards No. 114, "The Auditor's Communication with Those Charged with Governance." The Audit/Ethics Committee also discussed with Deloitte & Touche its independence from the Company and received the written disclosures and the letter from Deloitte & Touche concerning independence as required by the Public Company Accounting Oversight Board Ethics and Independence Rule 3526, "Communication with Audit Committees Concerning Independence." The Audit/Ethics Committee also reviewed the provision of services by Deloitte & Touche not related to the audit of the Company's financial statements and not related to the review of the Company's interim financial statements as it pertains to the independence of Deloitte & Touche. Deloitte & Touche also periodically reported the progress of its audit of the effectiveness of the Company's internal control over financial reporting.

The Audit/Ethics Committee reviewed and discussed with management the Company's financial results prior to the release of earnings. In addition, the Audit/Ethics Committee reviewed and discussed with management, the Company's internal auditors and Deloitte & Touche the interim financial information included in the March 31, 2009, June 30, 2009 and September 30, 2009 Form 10-Qs prior to their being filed with the SEC. The Audit/Ethics Committee also reviewed and discussed the Company's audited financial statements for the year ended December 31, 2009 with management, the Company's internal auditors and Deloitte & Touche. Deloitte & Touche informed the Audit/Ethics Committee that the Company's audited financial statements are presented fairly in conformity with accounting principles generally accepted in the United States of America. The Audit/Ethics Committee also monitored and reviewed the Company's procedures and policies relating to the requirements of Section 404 of the Sarbanes-Oxley Act and related regulations.

Based on the review and discussions referred to above, and such other matters deemed relevant and appropriate by the Audit/Ethics Committee, the Audit/Ethics Committee recommended to the Board of Directors, and the Board has approved, that the financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Anthony G. Fernandes (Chairman)
Larry D. Brady
Clarence P. Cazalot, Jr.
James A. Lash
J. Larry Nichols

PROPOSAL NO. 2 RATIFICATION OF THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit/Ethics Committee has selected the firm of Deloitte & Touche LLP ("Deloitte & Touche") as our Independent Registered Public Accounting Firm to audit the Company's books and accounts for the year ending December 31, 2010. Deloitte & Touche served as our Independent Registered Public Accounting Firm for fiscal year 2009. While the Audit/Ethics Committee is responsible for the appointment, compensation, retention, termination and oversight of the Independent Registered Public Accounting Firm, we are requesting, as a matter of good corporate governance, that the stockholders ratify the appointment of Deloitte & Touche as our principal Independent Registered Public Accounting Firm. If the stockholders fail to ratify the selection, the Audit/Ethics Committee will reconsider whether to retain Deloitte & Touche and may retain that firm or another without re-submitting the matter to our stockholders. Even if the appointment is ratified, the Audit/Ethics Committee may, in its discretion, direct the appointment of a different Independent Registered Public Accounting Firm at anytime during the year if it determines that such change would be in the Company's best interests and in the best interests of our stockholders.

Deloitte & Touche's representatives will be present at the Annual Meeting and will have an opportunity to make a statement, if they so desire, as well as to respond to appropriate questions asked by our stockholders.

Recommendation of the Board of Directors

Your Board of Directors recommends a vote FOR ratification of the selection of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for 2010.

FEES PAID TO DELOITTE & TOUCHE LLP

Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates (collectively, "Deloitte Entities") billed or will bill the Company or its subsidiaries for the aggregate fees set forth in the table below for services provided during 2009 and 2008. These amounts include fees paid or to be paid by the Company for (i) professional services rendered for the audit of the Company's annual financial statements, review of quarterly financial statements and audit services related to the effectiveness of the Company's internal control over financial reporting, (ii) assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and (iii) professional services rendered for tax compliance, tax advice, and tax planning.

	2009 (in millions)	2008 (in millions)
Audit fees	\$ 12.4	\$ 11.6
Audit-related fees	0.3	1.6
Tax fees	1.3	0.8
Total	\$ 14.0	\$ 14.0

Audit fees include fees related to the audit of the Company's annual financial statements, review of quarterly financial statements and audit services related to the effectiveness of the Company's internal control over financial reporting. Audit-related fees consist primarily of services related to the S-4 filing with the SEC regarding the proposed merger with BJ Services.

Tax fees are primarily for the preparation of income, payroll, value added and various other miscellaneous tax returns in 21 of the more than 90 countries where the Company operates. The Company also incurs local country tax advisory services in these countries. Examples of these kinds of services are assistance with audits by the local country tax authorities, acquisition and disposition advice, consultation regarding changes in legislation or rulings and advice on the tax effect of other structuring and operational matters.

In addition to the above services and fees, Deloitte Entities provide audit and other services to various Company sponsored employee benefit plans which fees are incurred by and paid by the respective plans. Fees paid to Deloitte Entities for these services totaled approximately \$0.3 million in 2009 and \$0.2 million in 2008.

Pre-Approval Policies and Procedures

The Audit/Ethics Committee has adopted guidelines for the pre-approval of audit and permitted non-audit services by the Company's Independent Registered Public Accounting Firm. The Audit/Ethics Committee will consider annually and, if appropriate, approve the provision of audit services by its Independent Registered Public Accounting Firm and consider and, if appropriate, pre-approve the provision of certain defined audit and non-audit services. The Audit/Ethics Committee will also consider on a case-by-case basis and, if appropriate, approve specific engagements that are not otherwise pre-approved. Any proposed engagement with estimated non-audit fees of \$15,000 or more that does not fit within the definition of a pre-approved service are presented to the Chairman of the Audit/Ethics Committee for pre-approval. The Chairman of the Audit/Ethics Committee will report any specific approval of services at its next regular meeting. The Audit/Ethics Committee will review a summary report detailing all services being provided to the Company by its Independent Registered Public Accounting Firm. All of the fees and services described above under "audit fees", "audit-related fees" and "tax fees" were approved under the Guidelines for Pre-Approval of Audit and Non-Audit Fees of the Independent Registered Public Accounting Firm and pursuant to Section 202 of SOX.

**PROPOSAL NO. 3,
MANAGEMENT PROPOSAL NO. 1 REGARDING THE
APPROVAL OF AN AMENDMENT TO OUR CERTIFICATE
OF INCORPORATION THAT WOULD, SUBJECT TO ANY
LIMITATIONS THAT MAY BE IMPOSED IN THE BYLAWS,
REQUIRE OUR CORPORATE SECRETARY TO CALL SPECIAL
STOCKHOLDER MEETINGS FOLLOWING A REQUEST
FROM THE HOLDERS OF 25% OF OUR VOTING STOCK.**

Stockholders are being asked to approve an amendment to our Certificate of Incorporation that would enable the holders of 25% or more of our outstanding stock to require the Secretary of the Company to call special meetings of stockholders to vote on business proposed by those holders (the "Charter Amendment"). Currently, Article Ninth of our Certificate of Incorporation only permits the Board or an authorized committee of the Board to call special meetings.

In determining whether to recommend the Charter Amendment to stockholders, the Board and its Governance Committee considered whether stockholders should be empowered to require the Company to call special meetings and, if so, what percentage of stockholders should possess this authority. On the one hand, the ability of stockholders to have special meetings called is increasingly considered an important aspect of corporate governance for U.S. public companies because it allows stockholders to unilaterally present proposals for stockholder action between annual meetings. On the other hand, if our stockholders can require the Company to call special meetings, such meetings can divert the attention of our directors, officers and employees away from performing their primary functions of oversight of the Company, managing the Company and carrying out their operational responsibilities, respectively. In addition, if the Company were ever in negotiations to sell itself, our Board may have less bargaining power in negotiating with a would-be acquiror to obtain the best price for our stockholders because the acquiror would have the option of asking the stockholders to cause a special meeting to be called in order to replace the incumbent directors with the acquiror's nominees, who may be willing to pursue a sale at a price that is less than their predecessors would have supported. Additionally, such special meetings can cost the Company to incur potentially significant legal, printing and mailing costs typically associated with providing notice of, and holding, a special meeting.

The Board and its Governance Committee determined that the Charter Amendment strikes a proper balance among these factors by requiring that a stockholder proposal to call a special meeting be supported by the holders of 25% of the Company stock outstanding. This requirement ensures that the Company will incur the costs and disruptions associated with calling and holding a special meeting only if a significant portion of our stockholders support holding the special meeting. Accordingly, the Board, based in part on the recommendation of its Governance Committee, adopted the Charter Amendment, declared it advisable and recommends that the stockholders vote in favor of its adoption.

The Board has also adopted corresponding amendments to the Company's Bylaws (the "Bylaw Amendments") that would become effective if and when the Charter Amendment becomes effective. The Charter Amendment provides that the stockholders' ability to require the Company to call a special meeting is subject to the provisions set forth in the Bylaws, as amended from time to time. Among other things, the Bylaw Amendments establish certain requirements that must be satisfied by stockholders who wish to have a special meeting called and specify the types of business that may be transacted at the special meeting. The requirements set forth in the Bylaw Amendments may be amended in the future by either the Board or by the holders of a majority of the voting power of the Company's stock entitled to vote in the election of directors. Future changes to the Charter Amendment would require both Board and stockholder approval.

If the Charter Amendment is approved at the Annual Meeting, the Company will file a certificate of amendment containing the Charter Amendment with the Secretary of State of the State of Delaware. The Board has adopted resolutions providing that the Bylaw Amendments would also become effective at the time of that filing. Annex A is marked to show the proposed changes to the current Certificate of Incorporation that would be enacted by the Charter Amendment. The description of the Charter Amendment set forth in this proxy statement is qualified in its entirety by reference to the actual provisions set forth in Annex A. We urge you to read the Annex carefully.

The affirmative vote of the holders of a majority of the voting power of the outstanding shares of Common Stock is required for the approval of this proposal. Abstentions and broker non-votes (if any) will have the same effect as votes "against" this proposal.

Recommendation of the Board of Directors

Your Board of Directors recommends a vote FOR approval of Management Proposal No. 1 regarding the Approval of an Amendment to our Certificate of Incorporation that would, subject to any limitations that may be imposed in the Bylaws, require our Corporate Secretary to Call Special Stockholder Meetings following a Request from the Holders of 25% of our Voting Stock.

PROPOSAL NO. 4, STOCKHOLDER PROPOSAL NO. 1 REGARDING MAJORITY VOTE STANDARD FOR DIRECTOR ELECTIONS

The following proposal was submitted to Baker Hughes by the United Brotherhood of Carpenters Pension Fund (with an address of 101 Constitution Avenue, N.W., Washington D.C. 20001) who is the owner of 4,728 shares of the Company's Common Stock, and is included in this Proxy Statement in compliance with SEC rules and regulations. The proposed resolution and supporting statement, for which the Board of Directors and the Company accept no responsibility, are set forth below.

Director Election Majority Vote Standard Proposal

Resolved: That the shareholders of Baker Hughes Incorporated ("Company") hereby request that the Board of Directors initiate the appropriate process to amend the Company's governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, that is, when the number of director nominees exceeds the number of board seats.

Supporting Statement: In order to provide shareholders a meaningful role in director elections, the Company's director election vote standard should be changed to a majority vote standard. A majority vote standard would require that a nominee receive a majority of the votes cast in order to be elected. The standard is particularly well-suited for the vast majority of director elections in which only board nominated candidates are on the ballot. We believe that a majority vote standard in board elections would establish a challenging vote standard for board nominees and improve the performance of individual directors and entire boards. Baker Hughes presently uses a plurality vote standard in all director elections. Under the plurality vote standard, a nominee for the board can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are "withheld" from the nominee.

In response to strong shareholder support for a majority vote standard in director elections, a strong majority of the nation's leading companies, including Intel, General Electric, Motorola, Hewlett-Packard, Morgan Stanley, Wal-Mart, Home Depot, Gannett, Marathon Oil, and Safeway have adopted a majority vote standard in company bylaws or articles of incorporation. Additionally, these companies have adopted director resignation policies in their bylaws or corporate governance policies to address post-election issues related to the status of director nominees that fail to win election. However, Baker Hughes has responded only partially to the call for change, simply adopting a post-election director resignation policy that sets procedures for addressing the status of director nominees that receive more "withhold" votes than "for" votes. The plurality vote standard remains in place.

We believe that a post-election director resignation policy without a majority vote standard in Company bylaws or articles is an inadequate reform. The critical first step in establishing a meaningful majority vote policy is the adoption of a majority vote standard. With a majority vote standard in place, the Board can then consider action on developing post-election

procedures to address the status of directors that fail to win election. A majority vote standard combined with a post-election director resignation policy would establish a meaningful right for shareholders to elect directors, and reserve for the Board an important post-election role in determining the continued status of an unelected director. We feel that this combination of the majority vote standard with a post-election policy represents a true majority vote standard.

Recommendation of the Board of Directors

The Board of Directors recommends a vote AGAINST the approval of Stockholder Proposal No. 1 regarding a Director election majority vote standard for these reasons:

Opposition Statement of the Company: The Board of Directors believes that adherence to sound corporate governance policies and practices is key to ensuring that the Company is governed and managed with the highest standards of responsibility, ethics and integrity and in the best interests of its stockholders.

Baker Hughes is incorporated under the laws of Delaware, and stockholders currently elect its directors by plurality voting. Plurality voting is the normal standard under Delaware law and has long been the accepted standard among most public companies. Consequently, the rules governing plurality voting are well established and understood.

The Board is proactive in ensuring that it remains familiar with corporate governance developments including those pertaining to majority voting in the election of directors. As a result, the Board has already addressed the concerns expressed in the proposal at issue. In particular, during 2005 the Board adopted a policy (Director Resignation Policy) which is set forth in the Company's Corporate Governance Guidelines at <http://www.BakerHughes.com/Investor>. Under the Director Resignation Policy any director nominee who receives a greater number of votes "withheld" than votes "for" such election shall submit his or her offer of resignation. The Governance Committee will then consider all of the relevant facts and circumstances and recommend to the Board the action to be taken with respect to such offer of resignation. The Board has also amended the Company's Bylaws to incorporate this policy.

We believe that this existing Director Resignation Policy provides stockholders with a meaningful and significant voice in the election of directors, while preserving the Board's ability to exercise its independent judgment in a way that best serves the interests of both the Company and the stockholders. It provides for a detailed case-by-case analysis. By allowing stockholders to express their preferences regarding director nominees, the Director Resignation Policy already accomplishes the primary objective of the proposal at issue, and therefore the adoption of a majority vote standard is unnecessary. In addition, stockholders of other public companies have rejected similar stockholder proposals when those companies followed a policy similar to the Baker Hughes Director Resignation Policy.

The stockholder proposal's characterization of our plurality voting standard, particularly the statement that a director could be elected with a single vote, is misleading as well as highly unrealistic. As an example, in the past 10 years, the

average affirmative vote for directors has been close to 90% of the shares voted through the plurality voting process with no director receiving less than 84% of the votes cast. As a result, the adoption of a majority voting standard would not have affected the outcome of the elections in any of these years. Not only have our Directors historically received high levels of support, but, we also maintain a comprehensive director nomination and election process. The nomination and election process has been instrumental in the construction of a Board that is comprised of highly qualified directors from diverse backgrounds. In addition, other than the Chairman, all Directors are independent as defined under the New York Stock Exchange listing standards. Because our stockholders have a history of electing highly qualified and independent directors using a plurality voting system, a change in the director election process is neither necessary nor appropriate in order to enhance the Company's corporate governance.

In evaluating this proposal, the Board has determined that the Director Resignation Policy incorporated in the Company's Bylaws and our Corporate Governance Guidelines allow the Board to consider and address stockholder concerns without creating undue uncertainty. In contrast, the stockholder proposal does not address what would occur if a candidate fails to receive the requisite majority vote. Under Delaware law and Baker Hughes' Bylaws, the possible scenarios include an incumbent director remaining in office until a successor is elected and qualified, the Board of Directors electing a director to fill a vacancy, or the position remaining vacant. All of these alternatives, in the view of Baker Hughes' Board of Directors are less desirable than the current system which allows for election of directors by plurality vote subject to the Director Resignation Policy.

We are committed to strong corporate governance and it is our fiduciary duty to act in the best interests of our stockholders. We have consistently and continuously demonstrated our commitment to good governance, including the adoption of the Director Resignation Policy and taking the action necessary to declassify the Board. Notwithstanding these prior actions, we will continue to monitor the majority vote issue and will take additional necessary steps in the future consistent with our commitment to act in the best interests of our stockholders. The proposal at issue would not further enhance the ability of stockholders to impact the outcome of director elections, and, for that reason and the reasons presented above, we do not believe that the proposal is in the best interests of the Company or its stockholders.

For the foregoing reasons, the Board of Directors recommends a vote AGAINST the approval of Stockholder Proposal No. 1 regarding a Director election majority vote standard.

ANNUAL REPORT

The 2009 Annual Report on Form 10-K of the Company (the "Annual Report"), which includes audited financial statements for the fiscal year ended December 31, 2009, accompanies this Proxy Statement only if you have requested that a copy of this Proxy Statement be mailed to you. The Annual Report also is available electronically by following the instructions in the E-Proxy Notice, as described in the "Proxy Statement – Information About the Notice of Internet Availability of Proxy Materials" section of this Proxy Statement. However, the Annual Report is not part of the proxy soliciting information.

INCORPORATION BY REFERENCE

To the extent that this Proxy Statement is incorporated by reference into any other filing by Baker Hughes under the Securities Act of 1933, as amended, or the Exchange Act, the sections of this Proxy Statement entitled "Compensation Committee Report" and "Audit/Ethics Committee Report" (to the extent permitted by the rules of the SEC) as well as the annexes to this Proxy Statement, will not be deemed incorporated unless specifically provided otherwise in such filing. Information contained on or connected to our website is not incorporated by reference into this Proxy Statement and should not be considered part of this Proxy Statement or any other filing that we make with the SEC.

STOCKHOLDER PROPOSALS

Proposals of stockholders intended to be presented at the 2011 Annual Meeting must be received by the Company by November 12, 2010 to be properly brought before the 2011 Annual Meeting and to be considered for inclusion in the Proxy Statement and form of proxy relating to that meeting. Such proposals should be mailed to the Company's Corporate Secretary, c/o Baker Hughes Incorporated, 2929 Allen Parkway, Suite 2100, Houston, Texas 77019. Nominations of directors by stockholders must be received by the Chairman of the Governance Committee of the Company's Board of Directors, P.O. Box 4740, Houston, Texas 77210-4740 or the Corporate Secretary, c/o Baker Hughes Incorporated, 2929 Allen Parkway, Suite 2100, Houston, Texas 77019 between October 13, 2010 and November 12, 2010 to be properly nominated before the 2011 Annual Meeting, although the Company is not required to include such nominees in its Proxy Statement.

OTHER MATTERS

The Board of Directors knows of no other matter to be presented at the Annual Meeting. If any additional matter should be presented properly, it is intended that the enclosed proxy will be voted in accordance with the discretion of the persons named in the proxy.

ANNEX A

NOTE: For convenience, Annex A reflects the changes that will be made, should Proposal No. 3 be approved, by striking through the text to be deleted and underlining the text that would be added to supplement or replace the current text. The actual Certificate of Amendment to be filed would not include the deleted text.

CERTIFICATE OF AMENDMENT OF RESTATED CERTIFICATE OF INCORPORATION OF BAKER HUGHES INCORPORATED

Baker Hughes Incorporated (the "Corporation"), a corporation duly organized and existing under the General Corporation Law of the State of Delaware, does hereby certify that Article NINTH of the Corporation's Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

NINTH: Subject to the terms of any class or series of Preferred Stock, special ~~special~~ meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by (i) the Board of Directors, (ii) an authorized ~~an authorized~~ committee of the Board of Directors, ~~which has been duly designated by the Board of Directors and whose powers and authority, as provided in a resolution of the Board of Directors or in the bylaws of the Corporation, include the power to call such meetings: or~~ (iii) the Secretary of the Corporation following the Secretary's receipt of written requests to call a meeting from the holders of 25% of the voting power of the capital stock outstanding who have delivered such requests in accordance with and subject to the provisions of the bylaws of the Corporation (as amended from time to time), including any limitations set forth in the bylaws of the Corporation on the ability to make such a request for such a special meeting. Except as required by law or provided by the terms of any class or series of Preferred Stock, special meetings of stockholders of the Corporation may not be called by any other person or persons.

ANNEX B

BAKER HUGHES INCORPORATED CORPORATE GOVERNANCE GUIDELINES

(As Amended February 19, 2010)

These Baker Hughes Incorporated Corporate Governance Guidelines are established by the Board of Directors ("Board") as the principles for conduct of the Company's business affairs to benefit its stockholders.

Board

The responsibility of the members of the Board is to exercise their business judgment to act in what they reasonably believe to be in the best interest of the Company and its stockholders. In addition to the Board's general oversight of management's performance of its responsibilities, the principal functions of the Board acting directly or through its Committees (as defined in "Committees of the Board") include:

- Providing effective oversight of the governance of the affairs of the Company in order to maximize long-term benefit to the stockholders
- Maintaining a viable succession plan for the office of the Chief Executive Officer ("CEO") of the Company and other members of senior management
- Evaluating the performance of the Board and identifying and recruiting new members for the Board
- Reviewing and approving long-term business plans
- Appointing, approving the compensation and overseeing the work of the independent auditors
- Overseeing certain compliance related issues, including accounting, internal audit, disclosure controls and internal controls, enterprise risk management and environmental policies
- Reviewing quarterly earnings release and quarterly and annual financial statements to be filed with the Securities and Exchange Commission ("SEC")
- Evaluating and setting the compensation of the CEO and other members of senior management
- Adopting an appropriate governance policy

Selection and Qualification of Directors – The Governance Committee will annually assess the needs of the Company and the Board in order to recommend to the Board the director candidates who will further the goals of the Company in representing the long-term interests of the stockholders. In particular, the Governance Committee will assess the special skills, expertise and backgrounds relevant to the Company's business to determine whether or not a candidate has the character traits and breadth of business knowledge to make him or her an effective director, based on previously established criteria, as described in Exhibit A, "Guidelines for Membership on the Board of Directors." The Governance Committee will annually assess the contributions of the directors whose terms expire at the next Annual Meeting of Stockholders and recommend to the Board if they should be nominated for re-election by stockholders. The Board will propose a slate of nominees to the stockholders for election to the Board at the next Annual Meeting, as described in Exhibit B, "Selection Process for New Board of Directors Candidates."

Independence – The Board will be comprised of a majority of directors who qualify as independent directors under the listing standards of the New York Stock Exchange (“NYSE”), as described in Exhibit C, “Policy for Director Independence, Audit/Ethics Committee Members and Audit Committee Financial Expert.” Annually, the Board will review the relationship that each director has with the Company to determine that the director has no material relationship with the Company, its affiliates or any member of the senior management of the Company, subject to additional qualifications prescribed under the listing standards of the New York Stock Exchange. The Company will not make any personal loans or extensions of credit to directors or executive officers.

Size and Term of the Board – In accordance with the Company’s Bylaws, the Board determines the number of directors on the Board, which currently will consist of not more than 11 directors. In accordance with the Company’s Restated Certificate of Incorporation, at each Annual Meeting of Stockholders, directors shall be elected for a term of one year ending on the date of the Annual Meeting of Stockholders following the annual meeting at which the directors were elected and will serve until their successors are elected and qualified or until his or her earlier death, retirement, resignation or removal. Stockholders may propose nominees for consideration by the Governance Committee, as described in Exhibit D, “Policy and Submission Procedures for Stockholder Recommended Director Candidates,” by submitting within the prescribed time period the name and supporting information to: Chairman, Governance Committee of the Board of Directors, P.O. Box 4740, Houston, Texas 77210-4740 or to the Corporate Secretary, c/o Baker Hughes Incorporated 2929 Allen Parkway, Suite 2100, Houston, Texas 77019-2118 to be properly nominated before the next Annual Meeting of Stockholders, although the Company is not required to include such nominees in its proxy statement. Between such annual meetings, the Board may elect directors to serve until the next annual meeting.

Voting for Directors – Any nominee for director in an uncontested election who receives a “withhold” vote representing a majority of the votes cast for his or her election will be required to submit a letter of resignation to the Governance Committee of the Board of Directors. The Governance Committee will consider all of the relevant facts and circumstances and recommend to the Board of Directors whether or not the resignation should be accepted. For the purposes of this Section, an “uncontested election” shall mean an election in which the number of nominees as of the record date for the meeting at which directors are to be elected does not exceed the number of directors to be elected at such meeting.

Director Orientation and Continuing Education – The Governance Committee will periodically review and recommend to the Board a director orientation program that includes an initial and continuing orientations providing the director with comprehensive information about the Company’s business, one-on-one meetings with senior management and other officers of the Company, an overview of the Director Reference Manual and tours of the Company’s operations. The directors will be provided with continuing education materials covering upcoming seminars and conferences.

Independent Advisors – The Board and the Committees of the Board have the right at any time to retain independent outside financial, legal or other advisors.

Executive Sessions – The Board will meet in executive session with the CEO after each Board meeting. In addition, the independent directors of the Company will meet in executive session following each regularly scheduled Board meeting without any inside director or Company executives present. These executive session discussions may include any topic relevant to the business affairs of the Company as determined by the independent directors.

Lead Director – The Governance Committee will review and recommend to the Board a director to serve as Lead Director during executive sessions of the independent members of the Board. The Lead Director will be elected by the independent members of the Board; preside at all meeting of the Board of Directors at which the Chairman is not present, including executive sessions of independent directors; serve as liaison between the Chairman and the independent directors; have the authority to call meetings of the independent directors; consult with the Chairman on agendas for Board meeting and other matters pertinent to the Company and the Board.

Stockholder Communications – In order to provide the stockholders of the Company and other interested parties with a direct and open line of communication to the Company’s Board, procedures have been established, as described in Exhibit E, “Stockholder Communications with the Board of Directors.”

Termination of Independent Director Status – In accordance with the Company’s Bylaws, an independent director shall not stand for reelection as a director of the Company at the Annual Meeting following any of the occurrences set forth below. The following provisions may be waived by the Board (excluding the affected director) if the Board determines that such waiver would be in the best interest of the Company and its stockholders.

Retirement – The director’s 72nd birthday.

Attendance – Any fiscal year in which a director fails to attend at least 66% of the meetings of the Board and any Committees of the Board on which the director serves.

Termination of Inside Director Status – In accordance with the Company’s Bylaws, an inside director must resign from the Board (i) at the time of any diminution of his or her responsibilities as an officer; (ii) at the time of termination of employment by the Company for any reason; or (iii) on the director’s 72nd birthday.

Conflict of Interest – The Board expects each director, as well as senior management and employees, to act ethically at all times. Independent directors may not serve on more than four other boards of publicly listed companies in addition to the Company’s Board of Directors. No officer of the Company may serve on a board of any company having a present or retired employee on the company’s Board. Additionally, officers of the Company may not serve as directors of any other publicly-held companies without the approval of the Governance Committee. The CEO may serve on no more than three boards of publicly-held companies, while other officers may serve on

no more than one board of a publicly-held company or for profit company. Members of Audit/Ethics Committee of the Board may not simultaneously serve on the audit committees of more than three public companies. If an independent director serving on the Company's Board is asked to join another board of directors, prior notice shall be given to the Chairman of the Governance Committee and the Corporate Secretary of the Company. If an actual or potential conflict of interest arises for a director or senior management, the individual shall promptly inform the CEO or the Board. Any waivers of the Company's Business Code of Conduct for a director or senior management will be determined by the Board or its designated Committee and will be publicly disclosed.

Board Compensation and Evaluation Procedures

Compensation – The Governance Committee will annually review compensation to determine director compensation and recommend any changes to the Board.

Company Stock Ownership – Each independent director is expected to own at least four times his or her annual retainer in Company Common Stock. Such ownership level should be obtained within a reasonable period of time following the director's election to the Board.

Evaluation – Any independent director may at any time provide the Chairman of the Governance Committee an evaluation of another independent director. Questions and observations regarding the evaluation of an independent director will be referred, as necessary, to the Lead Director. The independent directors will perform an annual evaluation on the performance and effectiveness of the Audit/Ethics Committee in accordance with the regulations of the Public Company Accounting Oversight Board.

Board Functions

Board Meetings – The Board will hold five regular meetings per year to handle recurring business, with special meetings called as appropriate. Directors are expected to attend all scheduled Board and Committee meetings.

Special Meetings – The number of scheduled Board meetings will vary with circumstances and special meetings will be called as necessary.

Annual Meetings of Stockholders – The Company's Annual Meeting of Stockholders provides an opportunity each year for stockholders to ask questions of or otherwise communicate directly with members of the Company's Board on matters relevant to the Company. It is the Company's policy to request and encourage all of the Company's directors and nominees for election as directors to attend in person the Annual Meeting of Stockholders.

Agenda Items – The Chairman will be responsible for setting the agenda for and presiding over the Board meetings. Individual directors are encouraged to contact the Chairman with respect to any proposed agenda items that the director believes should be on the agenda. The Corporate Secretary will endeavor to timely provide to the directors all written Board materials to be covered in regular meetings prior thereto.

Committees of the Board

The Board has constituted five standing Committees: Governance Committee, Audit/Ethics Committee, Compensation Committee, Finance Committee and Executive Committee. Each Committee is comprised solely of independent directors, except for the Executive Committee. The Chairman of the Board serves on the Executive Committee. Any independent member of the Board may attend any Committee meeting as an observer.

The Governance Committee annually proposes Committee assignments and chairmanships to the Board. Each Committee is elected by the Board, including the designation by the Board of one person to serve as Chairman of each Committee. On an annual basis, each Committee shall perform an evaluation of the Committee and its activities.

Governance Committee

Purpose: The Committee's purpose is to develop and recommend to the Board a set of corporate governance principles applicable to the Company ("Corporate Governance Guidelines") and to oversee compliance with, conduct reviews of and recommend appropriate modifications to such Corporate Governance Guidelines.

Principal Responsibilities: The Committee will have the oversight responsibility for recruiting and recommending candidates for election to the Board, with advice of the Company's Chairman and CEO. The Committee will periodically conduct a review of criteria for Board membership against current needs of the Board to ensure timeliness of the criteria. The Committee will also be responsible for monitoring compliance with these Corporate Governance Guidelines adopted by the Board, and updating such guidelines when appropriate. The Committee will also review and recommend to the Board the annual retainer for members of the Board and Committees of the Board. The Committee's Charter shall be posted on the Company's website.

Composition: The Committee will be comprised of not less than three nor more than six of its independent directors. All members of the Committee will be independent, as that term is defined in the NYSE corporate governance listing standards.

Meetings: The Committee will meet at least two times per year as determined by the Board with special meetings called by the Board or the Committee as necessary.

Audit/Ethics Committee

Purpose: The Committee's purpose is to assist the Board with oversight of: (i) the integrity of the Company's financial statements and reporting system, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence and (iv) the performance of the Company's internal audit function and independent auditors. The Committee shall also prepare the Audit/Ethics Committee Report to be included in the Company's proxy statement for the Annual Meeting of Stockholders, conduct an annual self-evaluation and carry out the duties and responsibilities set forth in its Charter.

Principal Responsibilities: The principal responsibilities of the Committee are: (i) to provide assistance to the Board in fulfilling its responsibility in matters relating to the accounting and reporting practices of the Company, the adequacy of the Company's internal controls over financial reporting and disclosure controls and procedures; and the quality and integrity of the financial statements of the Company; and (ii) to oversee the Company's compliance programs. The independent auditor is ultimately accountable to the Board and the Committee, as representatives of the Company's stockholders, and shall report directly to the Committee. The Committee has the ultimate authority and direct responsibility to select, appoint, evaluate, compensate and oversee the work, and, if necessary, terminate and replace the independent auditor. The Committee shall conduct or authorize investigations into any matters within its scope of responsibilities.

The Committee shall engage independent counsel and other advisors, as the Committee deems necessary to carry out its duties. The Committee has the sole authority to approve the fees paid to any independent advisor retained by the Committee, and the Company will provide funding for such payments. The Company shall provide funding for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. The Committee will review the composition, expertise and availability of the Committee members on an annual basis. The Committee will also perform a self-evaluation of the Committee and its activities on an annual basis. The Committee will meet in executive session at each regularly scheduled meeting, including separate, private meetings with the independent auditors, internal auditors, general counsel and compliance officer. The Committee's Charter shall be posted on the Company's website.

The Committee's compliance responsibilities will include the recommendation of and monitoring of compliance with the Company's Business Code of Conduct and Foreign Corrupt Practices Act Policy, establishing formal procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or audit matters, (ii) the confidential, anonymous submissions by Company employees of concerns regarding questionable accounting or auditing matters, and (iii) the protection of reporting employees from retaliation as described in Exhibit F, "Procedures for the Receipt, Retention and Treatment of Complaints"; reviewing in conjunction with counsel (i) any legal matters that could have significant impact on the organization's financial statements; (ii) correspondence and material inquiries received from regulators or governmental agencies; and (iii) all matters relating to the ethics of the Company and its subsidiaries; coordinate the Company's compliance with inquiries from any government officials concerning legal compliance in the areas covered by the Business Code of Conduct and the Foreign Corrupt Practices Act Policy; and review the Company's compliance with its environmental policy on an annual basis. The Committee's Charter shall be posted on the Company's website.

Composition: The Committee will be comprised of not less than three independent directors who are (i) independent (as defined by Section 10A(m)(3) of the Securities Exchange

Act of 1934 and the regulations thereunder and the NYSE) and (ii) financially literate (as interpreted by the Board in its business judgment). Such Committee members may not simultaneously serve on the audit committee of more than three publicly-held companies. At least one member of the Committee will have accounting or related financial management expertise and at least one member of the Committee will be an "audit committee financial expert," as defined by the SEC. The audit committee financial expert must have: an understanding of GAAP and financial statements; experience in the (a) preparation, auditing, analyzing or evaluating of financial statements of generally comparable issuers and (b) application of such principles in connection with the accounting for estimates, accruals and reserves; an understanding of internal accounting controls and procedures for financial reporting; and an understanding of audit committee functions.

Meetings: The Committee meets at least five times per year as determined by the Board, with special meetings called by the Board or the Committee as necessary.

Compensation Committee

Purpose: The purpose of the Compensation Committee will be to discharge the Board's responsibilities relating to compensation of the Company's executives. The Committee will have overall responsibility for reviewing and evaluating and, as applicable, approving the officer compensation plans of the Company. It is also the purpose of the Committee to produce an annual report on executive compensation for inclusion in the Company's proxy statement for the Annual Meeting of Stockholders.

Principal Responsibilities: The principal responsibility of the Committee will be to ensure that the senior executives of the Company are compensated effectively in a manner consistent with the stated compensation strategy of the Company, internal equity considerations and competitive practice. The Committee will also communicate to the stockholders of the Company, the Company's compensation policies and the reasoning behind such policies as required by the rules and regulations of the SEC. These responsibilities include reviewing from time to time and approving the Company's stated compensation strategy to ensure that management is rewarded appropriately for its contributions to Company growth and profitability and that the executive compensation strategy supports organization objectives and stockholder interests; reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those goals and objectives, and determining the CEO's compensation level based on this evaluation; reviewing annually and determining the individual elements of total compensation of the CEO, including annual salary, annual bonus and long-term incentive compensation, and reporting such determination to the Board, provided, however, that the salary, bonus and other long-term incentive compensation will be subject to the approval of the Board. The Committee reviews with the CEO matters relating to management succession. The Committee's Charter shall be posted on the Company's website.

Composition: The Committee will be comprised of not less than three nor more than six of its independent directors. Such directors will meet the requirements for “independent” pursuant to the listing standards of the NYSE and shall meet the requirements for “disinterested independent directors” pursuant to Rule 16b-3 of the Securities Exchange Act of 1934, as amended.

Meetings: The Committee will meet at least three times per year as determined by the Board.

Finance Committee

Purpose: The Committee’s purpose will be to review and monitor the financial structure of the Company to determine that it is consistent with the Company’s requirements for growth and fiscally sound operation.

Principal Responsibilities: The Committee will be responsible for the review and approval of (i) public offerings; (ii) debt and other financings; (iii) dividend policy and changes in the rate of dividend; and (iv) budget and long-range plans. In addition the Committee will periodically review the Company’s activities with credit rating agencies, its policy governing approval levels for capital expenditures and funding thereof and its insurance programs. The Committee’s Charter shall be posted on the Company’s website.

Composition: The Committee will be comprised of not less than three independent directors.

Meetings: The Committee will meet at least two times per year as determined by the Board with special meetings called by the Board or the Committee as necessary.

Executive Committee

Principal Responsibilities: The Committee will act in the stead of the Board during intervals between Board meetings and may exercise all of the authority of the Board in the business and affairs of the Company, except where action by the full Board is specifically required. More specifically, the Committee will be responsible for advising and aiding the officers of the Company in all matters concerning its interests and the management of its business. When the Board is not in session, the Committee has and may exercise all the powers of the Board, so far as such may be delegated legally, with reference to the conduct of the business of the Company, except that the Committee will not take any action to amend the Restated Certificate of Incorporation or the Bylaws, to amend its Charter, to elect Directors to fill vacancies on the Board, to fix the compensation of Directors for service in any capacity, to fill vacancies on the Committee or change its membership, to elect or remove officers of the Company or to declare dividends. The Committee’s Charter shall be posted on the Company’s website.

Composition: The Committee will be comprised of not less than three directors, a majority of which shall be independent and one of which shall be the Chairman of the Board. The Chairman of the Board shall serve as the Chairman of the Committee unless the Board elects a different director to serve as Chairman. In the absence of the Chairman of the Committee, the Lead Director of the Board will serve as Chairman of the meeting.

Meetings: The Committee will meet from time to time during the year, as needed.

INTERACTION WITH MANAGEMENT

Evaluation of the CEO – The Compensation Committee with input from the Board will annually review and approve corporate goals and objectives relevant to the CEO’s compensation, evaluate the CEO’s performance in light of such goals and objectives, and determine the CEO’s compensation level based on this evaluation and other relevant information. The Committee shall also review annually and determine the individual elements of total compensation of the CEO, including annual salary, annual bonus and long-term incentive compensation and report such determination to the Board, provided, however, that the annual salary, annual bonus and long-term incentive compensation shall be subject to the approval of the Board.

Succession Planning – The Board and the Compensation Committee share the responsibility for succession planning. The Committee shall maintain and review with the Board a list for the Board of potential successors to the CEO. The Chairman shall review management succession planning with the Compensation Committee on an annual basis, and provide a report to the Board.

Attendance at Board & Committee Meetings – The Chairman will routinely invite senior management to attend Board meetings. The Board or any Committee may request the presence of any Company employee at any Board or Committee meeting. In addition, the Chairman will invite such other managers and outside experts to the Board meetings in situations where such persons can aid the Board in its deliberations.

Access to Management – Directors will have complete access to management and management will be available to the Board with respect to any questions regarding Company issues.

INTERPRETATION OF GUIDELINES

These Guidelines provide a framework for governance of the Company and the Board. The Board recognizes that situations may dictate variations from the Guidelines in order to respond to business changes and the needs of the stockholders. In addition, the Guidelines shall be revised and updated from time-to-time. Accordingly, the Guidelines do not constitute invariable rules nor shall they preclude the Board from acting in variance thereto at any time in the future.

The Board endorses and supports the Company's Core Values and Keys for Success:

Core Values

Integrity:

We believe integrity is the foundation of our individual and corporate actions that drives an organization of which we are proud.

- We are a responsible corporate citizen committed to the health and safety of people, protection of the environment, and compliance with laws, regulations, and company policies.
- We are honest, trustworthy, respectful and ethical in our actions.
- We honor our commitments.
- We are accountable for our actions, successes and failures.

Teamwork:

We believe teamwork leverages our individual strengths.

- We are committed to common goals.
- We expect everyone to actively participate on the BHI team.
- We openly communicate up, down, and across the organization.
- We value the diversity of our workforce.
- We willingly share our resources.

Performance:

We believe performance excellence will drive the results that differentiate us from our competitors.

- We focus on what is important.
- We establish and communicate clear expectations.
- We relentlessly pursue success.
- We strive for flawless execution.
- We work hard, celebrate our successes and learn from our failures.
- We continuously look for new ways to improve our products, services and processes.

Learning:

We believe a learning environment is the way to achieve the full potential of each individual and the company.

- We expect development throughout each individual's career by a combination of individual and company commitment.
- We learn from sharing past decisions and actions, both good and bad, to continuously improve performance.
- We improve by benchmarking and adopting best practices.

Keys to Success

People contributing at their full potential.

Everyone can make a difference.

- We understand our priorities and performance goals.
- We drive to do our part every day.
- We support new ideas and take appropriate risks.
- We take action to find and correct problems.
- We commend each other on a job well done.

Delivering unmatched value to our customers.

- We make it easy for customers to do business with us.
- We listen to our customers and understand their needs.
- We plan ahead to deliver innovative, cost-effective solutions.
- We are dedicated to safe, flawless execution and top quality results.

Being cost efficient in everything we do.

- We maintain a competitive cost structure for the long-term.
- We utilize shared services to control cost for the enterprise.
- We seek the best value for Baker Hughes in our relationships with suppliers.
- We ruthlessly eliminate waste without compromising safety or quality.

Employing our resources effectively.

- We assign our people where they can make the biggest contribution.
- We allocate our investments to leverage the best opportunities for Baker Hughes.
- We handle company assets as if they were our own.
- We manage our balance sheet to enhance return on investment.

EXHIBIT A

BAKER HUGHES INCORPORATED GUIDELINES FOR MEMBERSHIP ON THE BOARD OF DIRECTORS

(As Amended October 23, 2008)

These Guidelines set forth the policies of the Board of Directors ("Board") of Baker Hughes Incorporated ("Company") regarding Board membership. These Guidelines shall be implemented by the Governance Committee of the Board with such modifications as it deems appropriate. The Governance Committee will consider candidates based upon:

- The size and existing composition of the Board
- The number and qualifications of candidates
- The benefit of continuity on the Board
- The relevance of the candidate's background and experience to current and foreseeable business of the Company.

1. Criteria for Selection

In filling director vacancies on the Board, the Governance Committee will strive to:

- Recommend candidates for director positions who will help create a collective membership on the Board with varied experience and perspective and who:
 - Have demonstrated leadership, and significant experience in an area of endeavor such as business, finance, law, public service, banking or academia;
 - Comprehend the role of a public company director, particularly the fiduciary obligations owed to the Company and its stockholders;
 - Have relevant expertise and experience, and are able to offer advice and guidance based upon that expertise;

- iv) Have a substantive understanding of domestic considerations and geopolitics, especially those pertaining to the service sector of the oil and gas and energy related industries;
 - v) Will dedicate sufficient time to Company business;
 - vi) Exhibit integrity, sound business judgment and support for the Core Values of the Company;
 - vii) Understand financial statements;
 - viii) Are independent as defined by the Securities and Exchange Commission ("SEC") and the New York Stock Exchange;
 - ix) Support the ideals of the Company's Business Code of Conduct and are not engaged in any activity adverse to, or do not serve on the board of another company whose interests are adverse to, or in conflict with the Company's interests;
 - x) Possess the ability to oversee, as a director, the affairs of the Company for the benefit of its stockholders while keeping in perspective the interests of the Company's customers, employees and the public; and
 - xi) Are able to exercise sound business judgment.
- B) Maintain a Board that reflects diversity, including but not limited to gender, ethnicity, background, country of citizenship and experience.

2. Age & Attendance

The Board will not nominate any person to serve as a director who has attained the age of 72. No director shall stand for re-election in any fiscal year in which a director fails to attend at least 66% of the meetings of the Board and any Committees of the Board on which the director serves. These provisions may be waived by the Board (excluding the affected director) if the Board determines that such waiver would be in the best interest of the Company and its stockholders.

3. Audit/Ethics Committee

The Governance Committee believes that it is desirable that one or more members of the Company's Audit/Ethics Committee possess those qualities and skills such that they qualify as an Audit Committee Financial Expert, as defined by SEC rules and regulations.

4. Significant Change in Occupation or Employment

An independent non-management director who has a significant change in occupation or retires from his or her principal employment or position will promptly notify the Governance Committee. The Governance Committee will consider such change in determining if it is in the best interests of the Company to nominate such person to stand for reelection as a director at the Company's next Annual Meeting of Stockholders.

5. Board Review and Assessments

Each year the members of the Board will participate in a review and assessment of the Board and of each committee. In connection with such reviews, or at any other time, a director with concerns regarding the performance, attendance, potential conflicts of interest, or any other concern respecting any other director shall report such concerns to the Chairman of the Governance Committee. The Chairman of the Governance Committee, in consultation with such other directors as he or she deems appropriate will determine how such concerns should be investigated and reported to members of the Governance Committee who are not the director in question ("Independent Non-Management Committee Members"). If the Independent Non-Management Committee Members conclude that the director is not fulfilling his or her duties, they will determine what actions should be taken. Such actions may include, without limitation, the Chairman of the Board, the lead director or another Board member discussing the situation with the director in question, identifying what steps are required to improve performance, or, if appropriate, requesting that the director resign from the Board.

EXHIBIT B

BAKER HUGHES INCORPORATED SELECTION PROCESS FOR NEW BOARD OF DIRECTORS CANDIDATES

Baker Hughes Incorporated ("Company") has established the following process for the selection of new candidates for the Company's Board of Directors ("Board"). The Board or the Company's Governance Committee will evaluate candidates properly proposed by stockholders in the same manner as all other candidates.

1. Chairman/CEO, the Governance Committee, or other Board members identify a need to fill vacancies or add newly created directorships.
2. Chairman of the Governance Committee initiates search, working with staff support and seeking input from the Board members and senior management, and hiring a search firm or obtaining advice from legal or other advisors, if necessary.
3. Candidates, including any candidates properly proposed by stockholders in accordance with the Company's Bylaws, that satisfy criteria as described in the Company's "Guidelines For Membership on the Board of Directors" or otherwise qualify for membership on the Board, are identified and presented to the Governance Committee.
4. Determine if the Governance Committee members, Board members or senior management have a basis to initiate contact with preferred candidates; or if appropriate, utilize a search firm.
5. Chairman/CEO and at least one member of the Governance Committee interviews prospective candidate(s).
6. Full Board to be kept informed of progress.
7. The Governance Committee meets to consider and approve final candidate(s) (conduct interviews as necessary).
8. The Governance Committee will propose to the full Board candidates for Board membership to fill vacancies, or to stand for election at the next Annual Meeting of Stockholders.

EXHIBIT C

BAKER HUGHES INCORPORATED POLICY FOR DIRECTOR INDEPENDENCE, AUDIT/ETHICS COMMITTEE MEMBERS AND AUDIT COMMITTEE FINANCIAL EXPERT

(As Amended October 23, 2008)

INDEPENDENCE

I. Introduction

A member of the Board of Directors ("Board") of Baker Hughes Incorporated ("Company") shall be deemed independent pursuant to this Policy of the Board, only if the Board affirmatively determines that (1) such director meets the standards set forth in Section II below, and (2) the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). In making its determination, the Board shall broadly consider all relevant facts and circumstances. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others.

Each director of the Company's Audit/Ethics Committee, Governance Committee and Compensation Committee must be independent. A director who is a member of the Company's Audit/Ethics Committee is also required to meet the criteria set forth below in Section III. These standards shall be implemented by the Governance Committee with such modifications as it deems appropriate.

II. Standards for Director Independence

1. A director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship. Employment as an interim Chairman or CEO shall not disqualify a director from being considered independent following that employment.
2. A director who receives, or whose immediate family member receives, more than \$120,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$120,000 per year in such compensation. Compensation received by a director for former service as an interim Chairman or CEO need not be considered in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of the Company need not be considered in determining independence under this test.
3. A director who is affiliated with or employed by a present or former internal or external auditor of the Company is not "independent" until three years after the end of the affiliation or the employment or auditing relationship. A director, however, is still considered independent if the director's immediate family member currently works for the company's auditor, as long as the immediate family member is not a

partner of the company's auditor or is not personally involved (and has not been personally involved for the past three years) in the company's audit.

4. A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee is not "independent" until three years after the end of such service or the employment relationship.
5. A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of the consolidated gross revenues of such other company employing such executive officer or employee, is not "independent" until three years after falling below such threshold.⁽¹⁾
6. The three year period referred to in paragraphs II.1 through II.5 above will be applied consistent with the New York Stock Exchange's ("NYSE") transition rules, which permit a one year look-back period until November 4, 2004. Accordingly, until November 4, 2004, a one year period, rather than a three-year period, shall apply to the determination of independence and the application of paragraphs II.1 through II.5 above.

III. Standards for Audit/Ethics Committee Members

1. A director who is a member of the Audit/Ethics Committee other than in his or her capacity as a member of the Audit/Ethics Committee, the Board, or any other Board committee, may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any subsidiary thereof, provided that, unless the rules of the NYSE provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service).

Indirect acceptance of compensatory payments includes: (1) payments to spouses, minor children or stepchildren, or children or stepchildren sharing a household with the member; or (2) payments accepted by an entity in which such member is a partner, member, officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position and which provides accounting, consulting, legal, investment banking or financial advisory services to the Company.

⁽¹⁾ In applying this test, both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year. The look-back provision for this test applies solely to the financial relationship between the Company and the director or immediate family member's current employer; the Company need not consider former employment of the director or immediate family member. Charitable organizations shall not be considered "companies" for purposes of this test; provided, however, that the Company shall disclose in its annual proxy statement any charitable contributions made by the Company to any charitable organization in which a director serves as an executive officer if, within the preceding three years, contributions in any single fiscal year exceeded the greater of \$1 million, or 2% of such charitable organization's consolidated gross revenues.

2. A director, who is a member of the Audit/Ethics Committee may not, other than in his or her capacity as a member of the Audit/Ethics Committee, the Board, or any other Board committee, be an affiliated person of the Company or any subsidiary thereof.
3. A member of the Audit/Ethics Committee may not simultaneously serve on the audit committees of more than two other public companies in addition to the Company.

IV. Definitions

An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's household. When considering the application of the three year period referred to in each of paragraphs II.1 through II.5 above, the Company need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

The "Company" includes any subsidiary in a consolidated group with the Company.

AUDIT/ETHICS COMMITTEE FINANCIAL EXPERT QUALIFICATIONS

The Company believes that it is desirable that one or more members of the Audit/Ethics Committee possess such qualities and skills such that they qualify as an Audit Committee Financial Expert as defined by the Securities and Exchange Commission ("SEC").

1. The SEC rules define an Audit Committee Financial Expert as a director who has the following attributes:
 - (a) An understanding of generally accepted accounting principles and financial statements;
 - (b) The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
 - (c) Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities;
 - (d) An understanding of internal controls and procedures for financial reporting; and
 - (e) An understanding of audit committee functions.
2. Under SEC rules, a director must have acquired such attributes through any one or more of the following:
 - (a) Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
 - (b) Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;

- (c) Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- (d) Other relevant experience.

EXHIBIT D

BAKER HUGHES INCORPORATED POLICY AND SUBMISSION PROCEDURES FOR STOCKHOLDER RECOMMENDED DIRECTOR CANDIDATES

(As Amended October 23, 2008)

The Governance Committee of Baker Hughes Incorporated ("Company") has established a policy that it will consider director candidates recommended by stockholders. The Company's Board of Directors ("Board") or the Governance Committee will evaluate candidates properly proposed by stockholders in the same manner as all other candidates. Any such recommendations should be communicated to the Chairman, Governance Committee of the Board of Directors, P.O. Box 4740, Houston, Texas 77210-4740 or to the Corporate Secretary, c/o Baker Hughes Incorporated, 2929 Allen Parkway, Suite 2100, Houston, Texas 77019-2118 and should be accompanied by the types of information as are required under the Company's Bylaws for stockholder nominees.

In summary, the Company's Bylaws provide in substance that:

1. Stockholder nominations shall be made pursuant to timely written notice ("a Nomination Notice"). To be timely, a Nomination Notice must be received by the Secretary not less than 120 days, nor more than 150 days, before the one year anniversary of the date on which the Company's proxy statement was released to stockholders in connection with the previous year's annual meeting of the stockholders.
2. The Nomination Notice shall set forth (a) all information relating to the nominee as required to be disclosed in solicitations of proxies for election of directors, or as otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 or any successor regulation thereto (including such person's written consent to be named in the proxy statement as a nominee and to serve as a director if elected), (b) the nominee's independence, any voting commitments and/or other obligations such person will be bound by as a director, and any material relationships between such person and (1) the nominating stockholder, or (2) the beneficial owner, if any, on whose behalf the nomination is made (each nominating party and each beneficial owner, a "nominating party"), including compensation and financial transactions, (c) the nominating party's name and record address, (d) the class, series, and number of shares of the Company that are owned beneficially and of record, directly or indirectly, by each nominating party, (e) all other related ownership interests directly or indirectly owned beneficially by each nominating party, and (f) any interest of each nominating party in such nomination. At the request of the Board,

any person nominated by the Board for election as a director shall furnish to the Corporate Secretary of the Company that information required to be set forth in a stockholder's Nomination Notice that pertains to the nominee.

The foregoing is a generalized summary and the specific requirements of the Bylaws shall control.

EXHIBIT E

BAKER HUGHES INCORPORATED STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

(As Amended October 23, 2008)

In order to provide the stockholders and other interested parties of Baker Hughes Incorporated ("Company") with a direct and open line of communication to the Company's Board of Directors ("Board"), the following procedures have been established for communications to the Board.

Stockholders and other interested persons may communicate with any member of the Board, including the Company's Lead Director, the Chairman of any of the Company's Governance Committee, Audit/Ethics Committee, Compensation Committee, Finance Committee or with the independent non-management directors of the Company as a group, by sending such written communication to the following address:

Corporate Secretary
c/o Baker Hughes Incorporated
2929 Allen Parkway, Suite 2100
Houston, TX 77019-2118

Stockholders desiring to make candidate recommendations for the Board may do so by submitting nominations to the Company's Governance Committee, in accordance with the Company's Bylaws and "Policy and Submission Procedures For Stockholder Recommended Director Candidates" addressed, as above, to the Corporate Secretary, or to:

Chairman, Governance Committee of the Board of Directors
P.O. Box 4740
Houston, TX 77210-4740

Any written communications received by the Corporate Secretary will be forwarded to the appropriate directors.

EXHIBIT F

BAKER HUGHES INCORPORATED PROCEDURES FOR THE RECEIPT, RETENTION AND TREATMENT OF COMPLAINTS

(As Amended October 22, 2009)

Sarbanes-Oxley Act Section 301 Requirements

The Sarbanes-Oxley Act of 2002 ("SOX") Section 301 requires that each audit committee establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and confidential, anonymous submissions by employees of the Company of concerns regarding questionable accounting or auditing matters.

Guidelines for Reporting

Complaints or concerns regarding accounting, internal accounting controls or auditing matters may be submitted by employees and/or third parties to the Business Help Line or the Chief Compliance Officer ("CCO"). Concerns received by the Business Help Line, which accepts anonymous submissions, are forwarded to the CCO. All complaints received by the CCO are reviewed and validated and a list of all such items will be provided to the Chairman of the Audit/Ethics Committee. The CCO has an affirmative duty to report all issues for which the CCO has credible evidence of a material or potential violation of any applicable securities laws, fiduciary duty, or similar violation to the Audit/Ethics Committee ("AEC") in a timely manner. The CCO may bring any issue to the attention of the AEC if, in the CCO's opinion, it is necessary and appropriate to inform the AEC.

When the CCO brings an issue to the AEC, the AEC and the CCO will collaboratively discuss the issue and agree to a course of action which may include an internal investigation involving one or more of the CCO, Corporate Security, Human Resources Department, Operations, Internal Audit and outside counsel.

The CCO will maintain appropriate records for all issues presented to the AEC and provide updates. The CCO will retain issue related documentation in accordance with the Company's record retention policy.

In the event that a complaint is received concerning the CCO, the complaint will be sent directly to the Chairman of the AEC. The Chairman of the AEC will decide the appropriate course of action.

Third party reporting procedures are posted on the Company's internet website in the Investor Relations-Compliance Section. The reporting protocol for employees is posted on the intranet within the Interchange-Legal Compliance site. In addition to the websites, the Company has a Business Help Line brochure.

No employee shall suffer retaliation in any form for reporting, in good faith, suspected violations of the Business Code of Conduct.

ANNEX C

BAKER HUGHES INCORPORATED CHARTER OF THE AUDIT/ETHICS COMMITTEE OF THE BOARD OF DIRECTORS

(As Amended and Restated October 21, 2009)

The Board of Directors of Baker Hughes Incorporated (the "Company") has heretofore constituted and established an Audit/Ethics Committee (the "Committee") with authority, responsibility and specific duties as described in this Charter. It is intended that this Charter and the composition of the Committee comply with the rules of the New York Stock Exchange (the "NYSE"). This document replaces and supercedes in its entirety the previous Charter of the Committee adopted by the Board of Directors of the Company.

Purpose

The Committee's purpose is to assist the Board of Directors with oversight of: (i) the integrity of the Company's financial statements and financial reporting system, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications, independence and performance and (iv) the performance of the Company's internal audit function. The Committee shall also prepare the report of the Committee to be included in the Company's annual proxy statement, carry out the duties and responsibilities set forth in this Charter and conduct an annual self-evaluation.

Composition

The Committee and Chairman of the Committee shall be elected annually by the Board of Directors and are subject to removal pursuant to the terms of the Company's Bylaws. The Committee shall be comprised of not less than three non-employee Directors who are (i) independent (as defined by Section 10A(m)(3) of the Securities Exchange Act of 1934 and the rules and regulations thereunder and the NYSE) and (ii) financially literate (as interpreted by the Board of Directors in its business judgment). Such Committee members may not simultaneously serve on the audit committee of more than three public companies. At least one member of the Committee shall be an "audit committee financial expert," as defined by the Securities and Exchange Commission ("SEC"). The audit committee financial expert must have: (i) an understanding of GAAP and financial statements; (ii) experience in the (a) preparation, auditing, analyzing or evaluating of financial statements of generally comparable issuers or supervising one or more persons engaged in such activities and (b) applying GAAP principles in connection with the accounting for estimates, accruals and reserves; (iii) an understanding of internal control over financial reporting; and (iv) an understanding of audit committee functions. The Committee may, if appropriate, delegate its authority to subcommittees.

If a member of the Committee ceases to be independent for reasons outside the member's reasonable control, his or her membership on the committee may, if so permitted under then applicable NYSE rules, continue until the earlier of the Company's next annual meeting of stockholders or one year from the occurrence of the event that caused the failure to qualify as independent.

Principal Responsibilities

The principal responsibilities of the Committee are: (i) to provide assistance to the Board of Directors in fulfilling its responsibility in matters relating to the accounting and reporting practices of the Company, the adequacy of the Company's internal controls over financial reporting and disclosure controls and procedures, and the quality and integrity of the financial statements of the Company; and (ii) to oversee the Company's compliance programs. The independent auditor is ultimately accountable to the Board of Directors and the Committee, as representatives of the Company's stockholders, and shall report directly to the Committee. The Committee has the ultimate authority and direct responsibility to select, appoint, evaluate, compensate and oversee the work, and, if necessary, terminate and replace the independent auditor (subject, if applicable, to stockholder ratification). The Committee shall have authority to conduct or authorize investigations into any matters within its scope of responsibilities.

The Committee shall have the authority to engage independent counsel and other advisors, as the Committee deems necessary to carry out its duties. The Committee shall have the sole authority to approve the fees paid to any independent advisor retained by the Committee, and the Company shall provide funding for such payments. In addition, the Company must provide funding for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee shall review the composition, expertise and availability of the Committee members on an annual basis. The Committee shall also perform a self-evaluation of the Committee and its activities on an annual basis.

The Committee shall meet in executive session at each regularly scheduled meeting, including separate, private meetings with the independent registered public accounting firm, corporate auditors, general counsel and compliance officer. The Committee shall also meet in executive session with such other employees as it deems necessary and appropriate.

This Charter is intended to be flexible so that the Committee is able to meet changing conditions. The Committee is authorized to take such further actions as are consistent with the following described responsibilities and to perform such other actions as applicable law, the NYSE, the Company's charter documents and/or the Board of Directors may require. To that end, the Committee shall review and reassess the adequacy of this Charter annually. Any proposed changes shall be put before the Board of Directors for its approval.

With regard to its audit responsibilities, the Committee shall:

- Receive and review reports from the independent registered public accounting firm pursuant to the Sarbanes-Oxley Act of 2002 ("SOX") and Section 10(A)(k) of the Exchange Act regarding: (i) all critical accounting policies and practices being used; (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, and the treatment preferred by the independent registered public accounting firm; and (iii) other material written communications between the independent auditor and management, such as any management letter or schedule of unrecorded audit adjustments.
- On an annual basis, receive and review formal written reports from the independent registered public accounting firm regarding the auditors' independence required by the Public Company Accounting Oversight Board ("PCAOB") Ethics and Independence Rule 3526 "Communication with Audit Committees Concerning Independence," giving consideration to the range of audit and non-audit services performed by them and all their relationships with the Company, as well as a report describing the (i) independent registered public accounting firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review or peer review of the independent registered public accounting firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years with respect to one or more independent audits carried out by the auditors; and (iii) any steps taken to deal with such issues. Conduct an active discussion with the independent registered public accounting firm with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors. Select the independent registered public accounting firm to be employed or discharged by the Company. Review and evaluate competence of partners and managers of the independent registered public accounting firm who lead the audit. As required by law, ensure the rotation of the lead audit partner having primary responsibility for the Company's audit and the audit partner responsible for reviewing the audit. Consider whether there should be a rotation of the independent registered public accounting firm. The Committee shall establish hiring policies for the Company of employees or former employees of the independent registered public accounting firm in accordance with the NYSE rules, SOX and as specified by the SEC and review and discuss with management and the independent registered public accounting firm any proposals for hiring any key member of the independent registered public accounting firm's team.
- Prior to commencement of the annual audit, review with management, the corporate auditors and the independent registered public accounting firm the proposed scope of the audit plan and fees, including the areas of business to be examined, the personnel to be assigned to the audit, the procedures to be followed, special areas to be investigated, as well as the program for integration of the independent and internal audit efforts.
- Review policies and procedures for the engagement of the independent registered public accounting firm to provide audit and non-audit services, giving due consideration to whether the independent auditor's performance of non-audit services is compatible with the auditor's independence and review and pre-approve all audit and non-audit fees for such services, subject to the de minimus exception under SOX. With the exception of the annual audit, the Committee may delegate to a member of the Committee the authority to pre-approve all audit and non-audit services with any such decision presented to the full Committee at the next scheduled meeting.
- Review with management and independent registered public accounting firm the accounting and reporting policies and procedures that may be viewed as critical accounting estimates, any improvements, questions of choice and material changes in accounting policies and procedures, including interim accounting, as well as significant accounting, auditing and SEC pronouncements.
- Review with management and the independent registered public accounting firm any financial reporting and disclosure issues, including material correcting adjustments and off-balance sheet financings and relationships, if any. Discuss significant judgment matters made in connection with the preparation of the Company's financial statements and ascertain that any significant disagreements among them have been satisfactorily resolved. Ascertain that no restrictions were placed by management on implementation of the independent or corporate auditors' examinations. Regularly scheduled executive sessions will be held for this purpose.
- Review with management, the corporate auditors and the independent registered public accounting firm the results of (i) the annual audit prior to release of the audited financial statements in the Company's annual report on Form 10-K filed with the SEC, including a review of the MD&A section; and (ii) the quarterly financial statements prior to release in the Company's quarterly report on Form 10-Q filed with the SEC, including a review of the MD&A section. Have management review the Company's financial results with the Board of Directors.
- Review and discuss with management and the independent registered public accounting firm management's report on internal control prior to the filing of the Company's annual report on Form 10-K.
- Establish guidelines with respect to earnings releases and financial information and earnings guidance provided to analysts and rating agencies. The Committee may request a prior review of any annual or quarterly earnings release or earnings guidance and delegate to the Chairman of the Committee the authority to review any such earnings releases and guidance.
- Review with the Board of Directors any issues that arise with respect to the quality or integrity of the Company's financial statements and financial reporting system, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent registered public accounting firm or the performance of the internal audit function.

- Review guidelines and policies on enterprise risk management including risk assessment and risk management related to the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
 - Annually prepare an audit committee report for inclusion in the Company's proxy statement stating that the Committee has (i) reviewed and discussed the audited financial statements with management; (ii) discussed with the independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 114; (iii) received a formal written report from the independent registered public accounting firm concerning the auditors' independence required by the PCAOB's Ethics and Independence Rule 3526, "Communication with Audit Committees Concerning Independence," and has discussed with the independent accountant the independent accountant's independence; and (iv) based upon the review and discussion of the audited financial statements with both management and the independent registered public accounting firm, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the SEC.
 - Cause the Charter to be included periodically in the proxy statement as required by applicable rules.
 - Review actions taken by management on the independent registered public accounting firm and corporate auditors' recommendations relating to organization, internal controls and operations.
 - Meet separately and periodically with management, the corporate auditors and the independent registered public accounting firm to review the responsibilities, budget and staffing of the Company's internal audit function, the effectiveness of the Company's internal controls, including computerized information systems controls, and security. Review the Company's annual internal audit plan, staffing and budget, and receive regular reports on their activities, including significant findings and management's actions. Review annually the audit of the travel and entertainment expenses of the Company's senior management. Review annually the audit of the travel expenses of the members of the Company's Board of Directors. At least every three years the Committee reviews the Corporate Audit Department Charter. At least every five years the Committee reviews the report received from a qualified, independent audit firm regarding its quality assurance review of the Company's internal audit function.
 - Review membership of the Company's "Disclosure Control and Internal Control Committee" ("DCIC"), the DCIC's scheduled activities and the DCIC's quarterly report. Review on an annual basis the DCIC Charter.
 - Receive reports from the CEO and CFO on any material weaknesses and significant deficiencies in the design or operation of certain internal controls over financial reporting and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
 - Review reports, media coverage and similar public information provided to analysts and rating agencies, as the Committee deems appropriate.
 - Establish formal procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, (ii) the confidential, anonymous submissions by Company employees of concerns regarding questionable accounting or auditing matters, and (iii) the protection of reporting employees from retaliation.
 - Annually review with the independent registered public accounting firm any audit problems or difficulties and management's response. The Committee must regularly review with the independent auditor any difficulties the auditor encountered in the course of the audit work, including any restrictions on the scope of the independent registered public accounting firm's activities or on access to requested information, and any significant disagreements with management. Among the items the Committee may want to review with the auditors are: any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement; and any "management" or "internal control" letter issued, or proposed to be issued, by the audit firm to the Company.
- With regard to its compliance responsibilities, the Committee shall:
- Review policies and procedures that the Company has implemented regarding compliance with applicable federal, state and local laws and regulations, including the Company's Business Code of Conduct and its Foreign Corrupt Practices Act policies. Monitor the effectiveness of these policies and procedures for compliance with the U.S. Federal Sentencing Guidelines, as amended, and institute any changes or revisions to such policies and procedures may be deemed, warranted or necessary.
 - Review in conjunction with counsel (i) any legal matters that could have significant impact on the organization's financial statements; (ii) correspondence and material inquiries received from regulators or governmental agencies; and (iii) all matters relating to the ethics of the Company and its subsidiaries.
 - Coordinate the Company's compliance with inquiries from any government officials concerning legal compliance in the areas covered by the Business Code of Conduct and the Foreign Corrupt Practices Act policy.
 - Review the Company's compliance with its environmental policy on an annual basis.
 - Respond to such other duties as may be assigned to the Committee, from time to time, by the Board of Directors.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits; those are the responsibilities of the independent registered public accounting firm. Further, it is not the Committee's responsibility to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles; those are the responsibilities of management. Nor is it the duty of the Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations or with Company policies.

Meetings

The Committee will meet at least five times per year as determined by the Board of Directors. Special meetings may be called, as needed, by the Chairman of the Board of Directors or the Chairman of the Committee. The Committee may create subcommittees who shall report to the Committee. The Committee may ask employees, the independent registered public accounting firm, corporate auditors or others whose advice and counsel the Committee deems relevant to attend meetings and provide information to the Committee. The Committee will be available to the independent registered public accounting firm and the corporate auditors of the Company. All meetings of the Committee will be held pursuant to the Bylaws of the Company and written minutes of each meeting will be duly filed in the Company records. Reports of meetings of the Committee shall be made to the Board of Directors at its next regularly scheduled meeting following the Committee meeting accompanied by any recommendations to the Board of Directors approved by the Committee.

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-9397

Baker Hughes Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

76-0207995

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

2929 Allen Parkway, Suite 2100, Houston, Texas

(Address of principal executive offices)

77019-2118

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$1 Par Value per Share

Name of each exchange on which registered
**New York Stock Exchange
SWX Swiss Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter (based on the closing price on June 30, 2009 reported by the New York Stock Exchange) was approximately \$11,257,160,000.

As of February 19, 2010, the registrant has outstanding 311,904,517 shares of common stock, \$1 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Definitive Proxy Statement for the 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

BAKER HUGHES INCORPORATED

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PART I

ITEM 1. BUSINESS

Baker Hughes Incorporated is a Delaware corporation engaged in the oilfield services industry. As used herein, "Baker Hughes," "Company," "we," "our" and "us" may refer to Baker Hughes Incorporated and/or its subsidiaries. The use of these terms is not intended to connote any particular corporate status or relationships. Baker Hughes was formed in April 1987 in connection with the combination of Baker International Corporation and Hughes Tool Company. We may conduct our operations through subsidiaries, affiliates, ventures and alliances.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are made available free of charge on our Internet website at www.bakerhughes.com as soon as reasonably practicable after these reports have been electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). Information contained on or connected to our website is not incorporated by reference into this annual report on Form 10-K and should not be considered part of this report or any other filing we make with the SEC.

We have adopted a Business Code of Conduct to provide guidance to our directors, officers and employees on matters of business conduct and ethics, including compliance standards and procedures. We have also required our principal executive officer, principal financial officer and principal accounting officer to sign a Code of Ethical Conduct Certification. Our Business Code of Conduct and Code of Ethical Conduct Certifications are available on the Investor Relations section of our website at www.bakerhughes.com. We will disclose on a current report on Form 8-K or on our website information about any amendment or waiver of these codes for our executive officers and directors. Waiver information disclosed on our website will remain on the website for at least 12 months after the initial disclosure of a waiver. Our Corporate Governance Guidelines and the charters of our Audit/Ethics Committee, Compensation Committee, Executive Committee, Finance Committee and Governance Committee are also available on the Investor Relations section of our website at www.bakerhughes.com. In addition, a copy of our Business Code of Conduct, Code of Ethical Conduct Certifications, Corporate Governance Guidelines and the charters of the committees referenced above are available in print at no cost to any stockholder who requests them by writing or telephoning us at the following address or telephone number:

Baker Hughes Incorporated
2929 Allen Parkway, Suite 2100
Houston, TX 77019-2118
Attention: Investor Relations
Telephone: (713) 439-8039

ABOUT BAKER HUGHES

Baker Hughes is a major supplier of wellbore-related products and technology services and systems. We operate in over 90 countries around the world and our corporate headquarters is in Houston, Texas. We provide products and services for drilling and evaluation of oil and gas wells; completion and production of oil and gas wells; fluids and chemicals used in drilling oil and gas wells and producing hydrocarbons; and reservoir technology and consulting to the worldwide oil and natural gas industry. As of December 31, 2009, we had approximately 34,400 employees, of which approximately 61% work outside the United States.

Prior to May 4, 2009, our business operations were organized primarily through seven product line divisions and secondarily through four super regions – North America; Latin America; Europe, Africa, Russia, Caspian ("EARC"); and Middle East, Asia Pacific ("MEAP"). On May 4, 2009, we reorganized the Company by geography and product lines. Global operations are now organized into a number of geomarket organizations, which report into nine region presidents, who in turn report into two hemisphere presidents. Separately, product-line marketing and technology organizations report to a president of products and technology. The presidents of the Eastern Hemisphere, Western Hemisphere, Products and Technology, and the Vice President of Supply Chain report to our Chief Operating Officer.

The geographic organizations are responsible for sales, field operations and well site execution. The geographic reorganization of operations is intended to strengthen our client-focused operations by moving management into the countries where we conduct our business. Western Hemisphere operations consist of four regions – Canada, headquartered in Calgary, Alberta; U.S. Land and Gulf of Mexico, both headquartered in Houston, Texas; and Latin America, headquartered in Rio de Janeiro, Brazil. Eastern Hemisphere operations consist of five regions – Europe, headquartered in London, England; Africa, headquartered in Paris, France; Russia Caspian, headquartered in Moscow, Russia; Middle East, headquartered in Dubai, United Arab Emirates ("UAE"); and Asia Pacific, headquartered in Kuala Lumpur, Malaysia.

The product-line marketing and technology organization is responsible for product development, technology, marketing and delivery of innovative and reliable solutions for our customers to advance their reservoir performance. The new organization is expected to improve cross-product-line technology development, sales processes and integrated operations capabilities.

The supply chain organization is responsible for development of cost-effective procurement and manufacturing of our products and services. We have manufacturing operations in various countries, including, but not limited to, the United States (Texas, Oklahoma and Louisiana), the United Kingdom (Scotland and Northern Ireland), Germany (Celle), South America (Venezuela and Argentina) and the UAE (Dubai).

SEGMENTS

At this time, we continue to review product line financial information as well as geographic information in deciding how to allocate resources and in assessing performance. Accordingly, we report our results under two segments: the Drilling and Evaluation segment and the Completion and Production segment. Collectively, we refer to the results of these two segments as Oilfield Operations. We have aggregated our product lines within each segment by aligning our product lines based upon the types of products and services provided to our customers and upon the business characteristics of the product lines during business cycles. The product lines have similar economic characteristics and the long-term financial performance of these product lines are affected by similar economic conditions. They also operate in the same markets, which include all of the major oil and natural gas producing regions of the world.

- The Drilling and Evaluation segment consists of the following product lines: drilling fluids, drill bits, directional drilling, drilling evaluation services, wireline formation evaluation, wireline completion and production services and reservoir technology and consulting. The Drilling and Evaluation segment provides products and services used to drill and evaluate oil and natural gas wells as well as consulting services used in the analysis of oil and gas reservoirs.
- The Completion and Production segment consists of the following product lines: wellbore construction and completion, specialty chemicals, artificial lift systems, permanent monitoring systems, chemical injection systems, integrated operations and project management. The Completion and Production segment provides equipment and services used from the completion phase through the productive life of oil and natural gas wells.

For additional industry segment information for the three years ended December 31, 2009, see Note 13 of the Notes to Consolidated Financial Statements in Item 8 herein.

Drilling and Evaluation Segment

Our Drilling and Evaluation segment is a leading provider of products and services used in the drilling and evaluation of oil and natural gas wells. We provide drilling and completion fluids and fluids environmental services, Tricone® roller cone bits and fixed-cutter polycrystalline diamond compact ("PDC") bits, directional drilling services, measurement-while-drilling ("MWD") and logging-while-drilling ("LWD") services, wireline formation evaluation and completion and production services, and reservoir technology and consulting services.

The primary drivers of our customer's buying decisions for drilling and evaluation products and services include reducing capital expenditures through drilling efficiency (total cost per foot or meter); reduction of non-productive time; product and service quality and reliability; and performance which can impact the productivity of the reservoir (wellbore placement and wellbore quality).

Drilling Fluids

Drilling fluids (also called "Mud") are an important component of the drilling process and are pumped from the surface through the drill string, exiting nozzles in the drill bit and traveling back up the wellbore where the fluids are recycled. This process cleans the bottom of the well by transporting the cuttings to the surface while also cooling and lubricating the bit and drill string. Drilling fluids are typically manufactured by mixing oil, synthetic fluids or water with barite to give them weight, which enables the fluids to hold the wellbore open and stabilize it. Additionally, the fluids control downhole pressure and seal porous sections of the wellbore. To ensure maximum efficiency and wellbore stability, chemical additives are blended by the wellsite engineer with drilling fluids to achieve particular physical or chemical characteristics. For drilling through the reservoir itself, drill-in or completion fluids (also called "brines") possess properties that minimize formation damage. Fluids environmental services (also called "waste management") is the process of separating the drill cuttings from the drilling fluids and re-injecting the processed cuttings into specially prepared wells, or transporting and disposing of the cuttings by other means.

Drill Bits

We are a leading supplier of tri-cone and diamond drill bits. The primary objective of a drill bit is to drill a high quality wellbore as efficiently as possible. There are two primary types of drill bits:

Tricone® Bits. Tricone® drill bits employ either hardened steel teeth or tungsten carbide insert cutting structures mounted on three rotating cones. These bits work by crushing and shearing the formation rock as they are turned. Tricone® drill bits have a wide application range.

PDC Bits. PDC (also known as "Diamond") bits use fixed position cutters that shear the formation rock with a milling action as they are turned. In many softer and less variable applications, PDC bits offer higher penetration rates and a longer life than Tricone® drill bits. Advances in PDC technology have expanded the application of PDC bits into harder, more abrasive formations. A rental market has developed for PDC bits as improvements in bit life and bit repairs allow a bit to be used to drill multiple wells.

Directional Drilling and Drilling Evaluation Services

We are a leading supplier of drilling and evaluation services, which include directional drilling, MWD and LWD services.

Directional Drilling. Directional drilling services are used to guide a drill string along a predetermined path to drill a wellbore to optimally recover hydrocarbons from the reservoir. These services are used to accurately drill vertical wells, deviated or directional wells (which deviate from vertical by a planned angle and direction), horizontal wells (which are sections of wells drilled perpendicular or nearly perpendicular to vertical) and extended reach wells (which are wells of significant lateral reach or depth). We provide both conventional (using a steerable motor assembly and mud motor) and rotary based directional drilling systems.

Measurement-While-Drilling. Directional drilling systems need real-time measurements of the location and orientation of the bottom-hole assembly to operate effectively. MWD systems are downhole tools that provide this directional information, which is necessary to adjust the drilling process and guide the wellbore to a specific target. The AutoTrak® rotary steerable system has these MWD systems built in, allowing the tool to automatically alter its course based on a planned trajectory.

Logging-While-Drilling. LWD is a variation of MWD in which the LWD tool gathers information on the petrophysical properties of the formation through which the wellbore is being drilled. Many LWD measurements are the same as those taken via wireline; however, taking measurements in real-time before any damage has been sustained by the reservoir as a result of the drilling process often allows for greater accuracy. Real-time measurements also enable “geo-steering” where geological markers identified by LWD tools are used to guide the bit and assure placement of the wellbore in the optimal location.

Mud Logging Services. We are also a provider of mud logging services, through which our engineers monitor the interaction between the drilling fluid and the formation and perform laboratory analysis of drilling fluids and examinations of the drill cuttings to detect the presence of hydrocarbons and identify the different geological layers penetrated by the drill bit.

Wireline Formation Evaluation and Completion and Production Services

We are a leading provider of wireline formation evaluation and completion and production services for oil and natural gas wells.

Formation Evaluation. Formation evaluation involves measuring and analyzing specific physical properties of the rock (petrophysical properties) in the immediate vicinity of a wellbore to determine an oil or natural gas reservoir’s boundaries, volume of hydrocarbons and ability to produce fluids to the surface. Electronic sensor instrumentation is run through the wellbore to measure porosity and density (how much open space there is in the rock), permeability (how well connected the spaces in the rock are) and resistivity (whether there is oil, natural gas or water in the spaces). Imaging tools are run through the wellbore to record a picture of the formation along the well’s length. Acoustic logs measure rock properties and help correlate wireline data with previous seismic surveys. Magnetic resonance measurements characterize the volume and type of fluids in the formation as well as provide a direct measure of permeability. At the surface, measurements are recorded digitally and can be displayed on a continuous graph, or “well log,” which shows how each parameter varies along the length of the wellbore. Wireline formation evaluation tools can also be used to record formation pressures and take samples of formation fluids to be further evaluated on the surface.

Formation evaluation instrumentation can be run in the well in several ways and at different times over the life of the well. The two most common methods of data collection are wireline logging and LWD. Wireline logging is conducted by pulling or pushing instruments through the wellbore after it is drilled, while LWD instruments are attached to the drill string and take measurements while the well is being drilled.

Wireline logging measurements can be made before the well’s protective steel casing is set (open hole logging) or after casing has been set (cased hole logging).

We also offer geophysical data interpretation services which help the operator interpret the petrophysical properties measured by the logging instruments and make inferences about the formation, presence and quantity of hydrocarbons. This information is used to determine the next steps in drilling and completing the well.

Wireline Completion and Production Services. Wireline completion and production services include using wireline instruments to evaluate well integrity, perform mechanical intervention and perform cement evaluations. Wireline instruments can also be run in producing wells to perform production logging. We also provide perforating services, which involve puncturing a well’s steel casing and cement sheath with explosive charges. This creates a fracture in the formation and provides a path for hydrocarbons in the formation to enter the wellbore and be produced.

Reservoir Technology and Consulting

Our reservoir technology and consulting group provides a broad range of services that assist our customers in the evaluation, drilling, completion and production of oil and gas reservoirs. Services include well planning, drilling optimization, formation evaluation and imaging, well placement, sand control completions and stimulation and fracturing operations. We also provide consulting services to assist customers with operations management, exploration and field development and reservoir management.

Completion and Production Segment

Our Completion and Production segment provides products and services used in the completion and production phase of oil and natural gas wells. This includes a wide variety of product lines which support wellbore construction and completion. This segment also provides specialty chemicals for the oilfield and refining markets, pipeline inspection and treatment services and the design, manufacture and repair of artificial lift systems; permanent monitoring and chemical injection systems; and integrated operations and project management services.

The primary drivers of our customer’s buying decisions for completion and production products and services include reducing operating expenditures through improving production rates and ultimate production; minimizing down time or lost production or the risk of lost production; the quality and reliability of the equipment; and reducing costs per barrel produced as well as lower capital expenditures.

Wellbore Construction and Completion

Baker Hughes is a world leader in wellbore construction, cased-hole completions, sand control and wellbore intervention solutions. The economic success of a well largely depends on how the well is completed. A successful completion ensures and optimizes the efficient and safe production of oil and natural gas to the surface. Our completion systems are matched to the formation and reservoir for optimum production and can employ a variety of products and services.

Wellbore Construction. Wellbore completion products and services include liner hangers, multilateral completion systems and expandable metal technology. Liner hangers suspend a section of steel casing (also called a liner) inside the bottom of the previous section of casing. The liner hanger's expandable slips grip the inside of the casing and support the weight of the liner below. Multilateral completion systems enable two or more zones to be produced from a single well, using multiple horizontal branches. Expandable metal technology involves the permanent downhole expansion of a variety of tubular products used in drilling, completion and well remediation applications.

Cased-Hole Completions. Cased-hole completions products and services include packers, flow control equipment, subsurface safety valves and intelligent completions. Packers seal the annular space between the steel production tubing and the casing. These tools control the flow of fluids in the well and protect the casing above and below from reservoir pressures and corrosive formation fluids. Flow control equipment controls and adjusts the flow of downhole fluids. A common flow control device is a sliding sleeve, which can be opened or closed to allow or limit production from a particular portion of a reservoir. Flow control can be accomplished from the surface via wireline or downhole via hydraulic or electric motor-based automated systems. Subsurface safety valves shut off all flow of fluids to the surface in the event of an emergency, thus saving the well and preventing pollution of the environment. These valves are required in substantially all offshore wells. Intelligent Completions® use real-time, remotely operated downhole systems to control the flow of hydrocarbons from one or more zones.

Sand Control. Sand control equipment includes gravel pack tools, sand screens and fracturing fluids. Sand control systems and pumping services are used in loosely consolidated formations to prevent the production of formation sand with the hydrocarbons.

Wellbore Intervention. Wellbore intervention products and services are designed to protect producing assets. Intervention operations troubleshoot drilling problems and improve, maintain or restore economical production from already-producing wells. Products for wellbore intervention range from service tools and inflatable products to conventional and through-tubing fishing systems, casing exits, wellbore cleaning and temporary abandonment. Service tools function as surface-activated, downhole sealing and anchoring devices to isolate a portion of the wellbore during repair or stimulation operations. Service tool applications range from treating and cleaning to testing components from the wellhead to the perforations. Service tools also refer to tools and systems that are used for temporary or permanent well abandonment. Inflatable packers expand to set in pipe that is much larger than the outside diameter of the packer itself, so it can run through a restriction in the well and then set in the larger diameter below. Inflatable packers also can be set in "open hole"; whereas conventional tools only can be set inside casing. Through-tubing inflatables enable remedial operations in producing wells. Significant cost savings result from lower rig requirements and the ability to intervene in the well without having to remove the completion. Fishing tools and services

are used to locate, dislodge and retrieve damaged or stuck pipe, tools or other objects from inside the wellbore, often thousands of feet below the surface. Wellbore cleaning systems remove post-drilling debris to help ensure trouble-free well testing, completion and optimum production for the life of the well. Casing exit systems are used to "sidetrack" new wells from existing ones, to provide a cost-effective method of tapping previously unreachable reserves.

Specialty Chemicals

We are a leading provider of specialty chemicals to the oil and gas industry. We also supply specialty chemicals to a number of industries including refining, pipeline transportation, petrochemical, agricultural and iron and steel manufacturing and provide polymer-based products to a broad range of industrial and consumer markets. Through our Pipeline Management Group, we offer a variety of products and services for the pipeline transportation industry.

Oilfield Chemicals. We provide oilfield chemical programs for drilling, well stimulation, production, pipeline transportation and maintenance programs. Our products provide measurable increases in productivity, decreases in operating and maintenance costs and solutions to environmental problems. Examples of specialty oilfield chemical programs include emulsion breakers, corrosion inhibitors, and chemicals which inhibit the formation of paraffin (from organic material dissolved in crude oil), scale (from mineral-based contaminants dissolved in produced water), and natural gas hydrates.

Refining, Industrial and Other Specialty Chemicals. For the refining industry, we offer various process and water treatment programs, as well as finished fuel additives. Examples include programs to remove salt from crude oil and to control corrosion in processing equipment and environmentally friendly cleaners that decontaminate refinery equipment and petrochemical vessels at a lower cost than other methods. We also provide chemical technology solutions to other industrial markets throughout the world, including petrochemicals, fuel additives, plastics, imaging, adhesives, steel and crop protection.

Pipeline Management. Baker Hughes offers a variety of products and services for the pipeline transportation industry. We offer custom turnkey cleaning programs that improve efficiency by combining chemical treatments with brush and scraper tools that are pumped through the pipeline. Efficiency can also be improved by adding polymer-based drag reduction agents to reduce the slowing effects of friction between the pipeline walls and the fluids within, thus increasing throughput and pipeline capacity. Additional services allow pipelines to operate more safely. These include inspection and internal corrosion assessment technologies, which physically confirm the structural integrity of the pipeline. In addition, our flow-modeling capabilities can identify high-risk segments of a pipeline to ensure proper mitigation programs are in place.

Artificial Lift Systems

We are a leading manufacturer and supplier of artificial lift systems including electrical submersible pump systems ("ESPs") and progressing cavity pump systems ("PCPs").

Electrical Submersible Pump Systems. ESPs lift large quantities of oil or oil and water from wells that do not flow under their own pressure. These “artificial lift” systems consist of a centrifugal pump and electric motor installed in the well-bore, armored electric cabling to provide power to the down-hole motor and a variable speed controller at the surface. Baker Hughes designs, manufactures, markets and installs all the components of ESPs and also offers modeling software to size ESPs and simulate operating performance. ESPs may be used in both onshore and offshore wells. The range of appropriate application of ESPs is expanding as technology and reliability enhancements have improved ESPs’ performance in harsher environments and marginal reservoirs.

Progressing Cavity Pump Systems. PCPs are a form of artificial lift comprised of a downhole progressing cavity pump powered by either a downhole electric motor or a rod turned by a motor on the surface. PCPs are preferred when the fluid to be lifted is viscous or when the volume is significantly less than could be economically lifted with ESPs.

Permanent Monitoring and Chemical Injection Systems

Permanent Monitoring Systems. Permanent downhole gauges are used in oil and gas wells to measure temperature, pressure, flow and other parameters in order to monitor well production as well as to confirm the integrity of the completion and production equipment in the well. We are a leading provider of electronic gauges including the engineering, application and field services necessary to complete an installation of a permanent monitoring system. In addition, we provide chemical injection line installation and services for treating wells for corrosion, paraffin, scale and other well performance problems. We also provide fiber optic based permanent down-hole gauge technology for measuring pressure, temperature and distributed temperature. The benefits of fiber optic sensing include reliability, high temperature properties and the ability to obtain distributed readings.

Chemical Automation Systems. Chemical automation systems remotely monitor chemical tank levels that are resident in producing field locations for well treatment or production stimulation as well as continuously monitor and control chemicals being injected in individual wells. By using these systems, a producer can ensure proper chemical injection through real-time monitoring and can also remotely modify the injection parameters to ensure optimized production.

Integrated Operations and Project Management

Integrated Operations and Project Management. We offer integrated operations and project management services to our customers. Integrated operations and project management is the process of coordinating the delivery of multiple product lines and services to a specific customer or project normally under a single contract or agreement, including the coordination of third-party products and services in addition to those which we may provide. Under a project management contract, we may be asked to assume responsibility for certain risks related to a project. These assumed risks may include the performance of our products and services, performance of

products and services of third-party providers, or completion of the project in accordance with specified technical parameters or in a specified timeframe.

PENDING MERGER WITH BJ SERVICES

On August 30, 2009, the Company and its subsidiary and BJ Services Company (“BJ Services”) entered into a merger agreement (the “Merger Agreement”) pursuant to which the Company will acquire 100% of the outstanding common stock of BJ Services in exchange for newly issued shares of the Company’s common stock and cash. BJ Services is a leading provider of pressure pumping and oilfield services. The Merger Agreement and the merger have been approved by the Board of Directors of both the Company and BJ Services. Consummation of the merger is subject to the approval of the stockholders of the Company and BJ Services’ stockholders at special meetings scheduled on March 19, 2010 subject to adjournment or postponement, regulatory approvals, and the satisfaction or waiver of various other conditions as more fully described in the Merger Agreement.

Subject to receipt of all required approvals, it is anticipated that closing of the merger will occur in March 2010. Under the terms of the Merger Agreement, each share of BJ Services common stock will be converted into the right to receive 0.40035 shares of the Company’s common stock and \$2.69 in cash. Baker Hughes has estimated the total consideration expected to be issued and paid in the merger to be approximately \$6.4 billion, consisting of approximately \$0.8 billion to be paid in cash and approximately \$5.6 billion to be paid through the issuance of approximately 118 million shares of Baker Hughes common stock valued at the February 11, 2010 closing share price of \$46.68 per share. The value of the merger consideration will fluctuate based upon changes in the price of shares of Baker Hughes common stock and the number of BJ Services common shares and options outstanding at the closing date.

MARKETING, COMPETITION AND ECONOMIC CONDITIONS

We market our products and services on a product line basis primarily through our own sales organizations, although certain of our products and services are marketed through independent distributors, commercial agents, licensees or sales representatives. Over the past several years, we have significantly reduced the number of commercial agents that we use to conduct our business. In the markets in which we formerly utilized commercial agents, we have established our own marketing operations and are continuing to build direct relationships with our customers. We ordinarily provide technical and advisory services to assist in our customers’ use of our products and services. Stock points and service centers for our products and services are located in areas of drilling and production activity throughout the world.

Our primary competitors include the major diversified oil service companies such as Schlumberger, Halliburton and Weatherford, where the breadth of service capabilities as well as competitive position of each product line are the keys to differentiation in the market. We also compete with other

competitors who may participate in only a few product lines, for example, Smith International, National Oilwell Varco, Champion Technologies, Inc., Nalco Holding Company, and Newpark Resources, Inc.

Our products and services are sold in highly competitive markets, and revenues and earnings can be affected by changes in competitive prices, fluctuations in the level of drilling, workover and completion activity in major markets, general economic conditions, foreign currency exchange fluctuations and governmental regulations. We believe that the principal competitive factors in our industries are product and service quality, availability and reliability, health, safety and environmental standards, technical proficiency and price.

Further information is set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 of the Notes to Consolidated Financial Statements in Item 8 herein.

INTERNATIONAL OPERATIONS

We operate in over 90 countries around the world. We have manufacturing operations internationally in various countries including, but not limited to, the United Kingdom, Germany, Venezuela, Argentina, and the UAE. The business operations of our two segments are organized around nine primary geographic regions. In the Western Hemisphere there are four regions: U.S. Land, Gulf of Mexico, Canada and Latin America. In the Eastern Hemisphere there are five regions: Europe, Africa, Russia Caspian, Middle East, and Asia Pacific. Through this structure, we have placed our management close to our customers, facilitating stronger customer relationships and allowing us to react more quickly to local market conditions and needs.

Our operations are subject to the risks inherent in doing business in multiple countries with various laws and differing political environments. These risks include the risks identified in "Item 1A. Risk Factors." Although it is impossible to predict the likelihood of such occurrences or their effect on us, we routinely evaluate these risks and take appropriate actions to mitigate the risks where possible. However, there can be no assurance that an occurrence of any one or more of these events would not have a material adverse effect on our operations.

Further information is set forth in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

RESEARCH AND DEVELOPMENT; PATENTS

We are engaged in research and development activities directed primarily toward the improvement of existing products and services, the design of specialized products to meet specific customer needs and the development of new products, processes and services. For information regarding the amounts of research and development expense in each of the three years in the period ended December 31, 2009, see Note 1 of the Notes to Consolidated Financial Statements in Item 8 herein.

We have followed a policy of seeking patent and trademark protection in numerous countries and regions throughout the world for products and methods that appear to have commercial significance. We believe our patents and trademarks to be adequate for the conduct of our business, and aggressively pursue protection of our patents against patent infringement worldwide. No single patent or trademark is considered to be critical to our business.

SEASONALITY

Our operations can be affected by seasonal weather, which can temporarily affect the delivery and performance of our products and services, as well as customers' budgetary cycles for capital expenditures. The widespread geographic locations of our operations and the timing of seasonal events serve to reduce the impact of individual events. Examples of seasonal events which can impact our business include:

- the severity and duration of the winter in North America can have a significant impact on gas storage levels and drilling activity for natural gas;
- the timing and duration of the spring thaw in Canada directly affects activity levels due to road restrictions;
- hurricanes can disrupt coastal and offshore drilling and production operations;
- severe weather during the winter months normally results in reduced activity levels in the North Sea and Russia; and
- large export orders which tend to be sold in the second half of a calendar year.

RAW MATERIALS

We purchase various raw materials and component parts for use in manufacturing our products. The principal materials we purchase are steel alloys (including chromium and nickel), titanium, beryllium, copper, lead, tungsten carbide, synthetic and natural diamonds, printed circuit boards and other electronic components and hydrocarbon-based chemical feed stocks. These materials are generally available from multiple sources and may be subject to price volatility. We have not experienced significant shortages of these materials and normally do not carry inventories of such materials in excess of those reasonably required to meet our production schedules. We do not expect significant interruptions in supply, but there can be no assurance that there will be no price or supply issues over the long term.

EMPLOYEES

On December 31, 2009, we had approximately 34,400 employees, as compared with approximately 39,800 employees on December 31, 2008. Approximately 2,900 of these employees are represented under collective bargaining agreements or similar-type labor arrangements, of which the majority are outside the U.S. Based upon the geographic diversification of these employees, we believe any risk of loss from employee strikes or other collective actions would not be material to the conduct of our operations taken as a whole.

EXECUTIVE OFFICERS

The following table shows, as of February 25, 2010, the name of each of our executive officers, together with his age and all offices presently held.

Name	Age	
<i>Chad C. Deaton</i>	57	Chairman of the Board, President and Chief Executive Officer of the Company since February 2008. Chairman of the Board and Chief Executive Officer from 2004 to 2008. President and Chief Executive Officer of Hanover Compressor Company from 2002 to 2004. Senior Advisor to Schlumberger Oilfield Services from 1999 to 2001. Executive Vice President of Schlumberger from 1998 to 1999. Employed by the Company in 2004.
<i>Peter A. Ragauss</i>	52	Senior Vice President and Chief Financial Officer of the Company since 2006. Segment Controller of Refining and Marketing for BP plc from 2003 to 2006. Mr. Ragauss joined BP plc in 1998 as Assistant to the Group Chief Executive until 2000 when he became Chief Executive Officer of Air BP. Vice President of Finance and Portfolio Management for Amoco Energy International immediately prior to its merger with BP in 1998. Vice President of Finance for El Paso Energy International from 1996 to 1998 and Vice President of Corporate Development for Tenneco Energy in 1996. Employed by the Company in 2006.
<i>Alan R. Crain</i>	58	Senior Vice President and General Counsel of the Company since 2007. Vice President and General Counsel from 2000 to 2007. Executive Vice President, General Counsel and Secretary of Crown, Cork & Seal Company, Inc. from 1999 to 2000. Vice President and General Counsel from 1996 to 1999, and Assistant General Counsel from 1988 to 1996, of Union Texas Petroleum Holdings, Inc. Employed by the Company in 2000.
<i>Martin S. Craighead</i>	50	Senior Vice President and Chief Operating Officer effective April 30, 2009. Group President of Drilling and Evaluation since 2007 and Vice President of the Company from 2005 until April 30, 2009. President of INTEQ from 2005 to 2007. President of Baker Atlas from February 2005 to August 2005. Vice President of Worldwide Operations for Baker Atlas from 2003 to 2005 and Vice President, Marketing and Business Development for Baker Atlas from 2001 to 2003; Region Manager for Baker Atlas in Latin America and Asia and Region Manager for E&P Solutions from 1995 to 2001. Employed by the Company in 1986.
<i>Russell J. Cancilla</i>	58	Vice President, and Chief Security Officer, Health, Safety, Environment and Security of the Company since 2009. Chief Security Officer from June 2006 to January 2009. Vice President and Security Officer of Innovene from 2005 to 2006; Vice President, Resources & Capabilities for HSSE for BP from 2003 to 2005 and Vice President, Real Estate and Management Services for BP from 1998 to 2003. Employed by the Company in 2006.
<i>Belgacem Chariag</i>	47	Vice President of the Company and President Eastern Hemisphere Operations since 2009. Vice President/Director HSE of Schlumberger Limited from May 2008 to May 2009. President of Well Services, a Schlumberger product line, from 2006 to 2008. Vice President Strategic Marketing Oilfield Services for Europe, Africa and CIS of Schlumberger from 2004 to 2006. Various other positions at Schlumberger from 1989 to 2008. Employed by the Company in 2009.
<i>Didier Charreton</i>	46	Vice President, Human Resources of the Company since 2007. Group Human Resources Director of Coats Plc, a global company engaged in the sewing thread and needlecrafts industry, from 2002 to 2007. Business Development of ID Applications for Gemplus S.A., a global company in the Smart Card industry, from 2000 to 2001. Various human resources positions at Schlumberger from 1989 to 2000. Employed by the Company in 2007.
<i>Alan J. Keifer</i>	55	Vice President and Controller of the Company since 1999. Western Hemisphere Controller of Baker Oil Tools from 1997 to 1999 and Director of Corporate Audit for the Company from 1990 to 1996. Employed by the Company in 1990.
<i>Jay G. Martin</i>	58	Vice President, Chief Compliance Officer and Senior Deputy General Counsel of the Company since 2004. Shareholder at Winstead Sechrest & Minick P.C. from 2001 to 2004. Partner, Phelps Dunbar from 2000 to 2001 and Partner, Andrews & Kurth from 1996 to 2000. Employed by the Company in 2004.
<i>Derek Mathieson</i>	39	Vice President of the Company since December 2008. President, Products and Technology since May 2009. Chief Technology and Marketing Officer of the Company from December 2008 to May 2009. Chief Executive Officer of WellDynamics, Inc. from May 2007 to November 2008. Vice President Business Development, Technology and Marketing of WellDynamics, Inc. from April 2006 to May 2007; Technology Director and Chief Technology Officer from January 2004 to April 2006;

Research and Development Manager from August 2002 to January 2004 and Reliability Assurance Engineer from April 2001 to August 2002 of WellDynamics, Inc. Well Engineer, Shell U.K. Exploration and Production 1997 to 2001. Employed by the Company in 2008.

John A. O'Donnell 61

Vice President of the Company since 1998 and President Western Hemisphere Operations since May 2009. President of Baker Petrolite Corporation from 2005 to May 2009. President of Baker Hughes Drilling Fluids from 2004 to 2005. Vice President, Business Process Development of the Company from 1998 to 2002; Vice President, Manufacturing, of Baker Oil Tools from 1990 to 1998 and Plant Manager of Hughes Tool Company from 1988 to 1990. Employed by the Company in 1975.

Arthur L. Soucy 47

Vice President Supply Chain of the Company since April 2009. Vice President, Global Supply Chain for Pratt and Whitney from 2007 to 2009. Sloan Fellows Program, Innovation and Global Leadership at Massachusetts Institute of Technology from 2006 to 2007. General Manager, Combustors, Augmenters and Nozzles of Pratt and Whitney from 2005 to 2006. Various managerial positions at Pratt and Whitney from 1995 to 2006. Employed by the Company in 2009.

Clifton N.B. Triplett 51

Vice President and Chief Information Officer of the Company since September 2008. Corporate Vice President, Motorola Global Services from 2007 to 2008 and Corporate Vice President and Chief Information Officer of Motorola's Network and Enterprise Group from 2006 to 2007. Employed by General Motors from 1997 to 2006 as Global Information Systems Officer for Computing and Telecommunications Services from 2003 to 2006 and Global Manufacturing and Quality Information Systems Officer from 1997 to 2003. Employed by the Company in 2008.

There are no family relationships among our executive officers.

ENVIRONMENTAL MATTERS

We are committed to the health and safety of people, protection of the environment and compliance with laws, regulations and our policies. Our past and present operations include activities that are subject to domestic (including U.S. federal, state and local) and international regulations with regard to air and water quality and other environmental matters. We believe we are in substantial compliance with these regulations. Regulation in this area continues to evolve, and changes in standards of enforcement of existing regulations, as well as the enactment and enforcement of new legislation, may require us and our customers to modify, supplement or replace equipment or facilities or to change or discontinue present methods of operation.

We are involved in voluntary remediation projects at some of our present and former manufacturing locations or other facilities, the majority of which relate to properties obtained in acquisitions or to sites no longer actively used in operations. On rare occasions, remediation activities are conducted as specified by a government agency-issued consent decree or agreed order. Estimated remediation costs are accrued using currently available facts, existing environmental permits, technology and presently enacted laws and regulations. For sites where we are primarily responsible for the remediation, our cost estimates are developed based on internal evaluations and are not discounted. We record accruals when it is probable that we will be obligated to pay amounts for environmental site evaluation, remediation or related activities, and such amounts can be reasonably estimated. If the obligation can only be estimated within a range, we accrue the minimum amount in the range. In general, we seek to accrue costs for the most likely scenario, where known. Accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. Ongoing environmental compliance costs, such as obtaining environmental permits, installation of pollution control equipment and waste disposal, are expensed as incurred.

The Comprehensive Environmental Response, Compensation and Liability Act (known as "Superfund" or "CERCLA") imposes liability for the release of a "hazardous substance" into the environment. Superfund liability is imposed without regard to fault, even if the waste disposal was in compliance with laws and regulations. The United States Environmental Protection Agency (the "EPA") and appropriate state agencies supervise investigative and cleanup activities at Superfund sites.

We have been identified as a potentially responsible party ("PRP") in remedial activities related to various Superfund sites, and we accrue our share of the estimated remediation costs of the site based on the ratio of the estimated volume of waste we contributed to the site to the total volume of waste disposed at the site. PRPs in Superfund actions have joint and several liability for all costs of remediation. Accordingly, a PRP may be required to pay more than its proportional share of such costs. For some projects, it is not possible at this time to quantify our ultimate exposure because the projects are either in the investigative or early remediation stage, or allocation information is not yet available. However, based upon current information, we do not believe that probable or reasonably possible expenditures in connection with the sites are likely to have a material adverse effect on our consolidated financial statements because we have recorded adequate reserves to cover the estimate we presently believe will be our ultimate liability in the matter. Further, other PRPs involved in the sites have substantial assets and may reasonably be expected to pay their share of the cost of remediation, and, in some circumstances, we have insurance coverage or contractual indemnities from third parties to cover a portion of or the ultimate liability.

During the year ended December 31, 2009, we spent \$35 million to comply with domestic and international standards regulating the discharge of materials into the environment or otherwise relating to the protection of the environment (collectively, "Environmental Regulations"). This cost includes

the total spent on remediation projects at current or former sites, Superfund projects and environmental compliance activities, exclusive of capital expenditures. In 2010, we expect to spend approximately \$43 million to comply with Environmental Regulations. During the year ended December 31, 2009, we incurred \$22 million in capital expenditures for environmental control equipment, and we estimate we will incur approximately \$24 million during 2010. Based upon current information, we believe that our compliance with Environmental Regulations will not have a material adverse effect upon our capital expenditures, earnings or competitive position because we have either established adequate reserves or our cost for that compliance is not expected to be material to our consolidated financial statements. Our total accrual for environmental remediation is \$18 million and \$17 million, which includes accruals of \$6 million and \$6 million for the various Superfund sites, at December 31, 2009 and 2008, respectively.

We are subject to various other governmental proceedings and regulations, including foreign regulations, relating to environmental matters, but we do not believe that any of these matters is likely to have a material adverse effect on our consolidated financial statements. We continue to focus on reducing future environmental liabilities by maintaining appropriate company standards and improving our assurance programs. See Note 15 of the Notes to Consolidated Financial Statements in Item 8 herein for further discussion of environmental matters.

ITEM 1A. RISK FACTORS

An investment in our common stock involves various risks. When considering an investment in our Company, one should consider carefully all of the risk factors described below, as well as other information included and incorporated by reference in this report. There may be additional risks, uncertainties and matters not listed below, that we are unaware of, or that we currently consider immaterial. Any of these could adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in our Company.

Risk Factors Related to the Worldwide Oil and Natural Gas Industry

Our business is focused on providing products and services to the worldwide oil and natural gas industry; therefore, our risk factors include those factors that impact, either positively or negatively, the markets for oil and natural gas. Expenditures by our customers for exploration, development and production of oil and natural gas are based on their expectations of future hydrocarbon demand, the risks associated with developing the reserves, their ability to finance exploration for and development of reserves, and the future value of the reserves. Their evaluation of the future value is based, in part, on their expectations for global demand, global supply, excess production capacity, inventory levels, and other factors that influence oil and natural gas prices. The key risk factors currently influencing the worldwide oil and natural gas markets are discussed below.

Demand for oil and natural gas is subject to factors beyond our control, which may adversely affect our operating results. Changes in the global economy or credit market could impact our customers' spending levels and our revenues and operating results.

Demand for oil and natural gas, as well as the demand for our services, is highly correlated with global economic growth, and in particular by the economic growth of countries such as the U.S., India, and China, as well as developing countries in Asia and the Middle East who are either significant users of oil and natural gas or whose economies are experiencing the most rapid economic growth compared to the global average. The past slowdown in global economic growth and recession in the developed economies resulted in reduced demand for oil and natural gas, increased spare productive capacity and lower energy prices. Weakness or deterioration of the global economy or credit market could reduce our customers' spending levels and reduce our revenues and operating results. Incremental weakness in global economic activity, particularly in China, India, the Middle East and developing Asia will reduce demand for oil and natural gas and result in lower oil and natural gas prices. Incremental strength in global economic activity in such areas will create more demand for oil and natural gas and support higher oil and natural gas prices. In addition, demand for oil and natural gas could be impacted by environmental regulation, including "cap and trade" legislation, carbon taxes and the cost for carbon capture and sequestration related regulations.

Volatility of oil and natural gas prices can adversely affect demand for our products and services.

Volatility in oil and natural gas prices can also impact our customers' activity levels and spending for our products and services. Current energy prices are important contributors to cash flow for our customers and their ability to fund exploration and development activities. Expectations about future prices and price volatility are important for determining future spending levels.

Lower oil and gas prices generally lead to decreased spending by our customers. While higher oil and natural gas prices generally lead to increased spending by our customers, sustained high energy prices can be an impediment to economic growth, and can therefore negatively impact spending by our customers. Our customers also take into account the volatility of energy prices and other risk factors by requiring higher returns for individual projects if there is higher perceived risk. Any of these factors could affect the demand for oil and natural gas and could have a material adverse effect on our results of operations.

Many of our customers' activity levels and spending for our products and services and ability to pay amounts owed us have been impacted by economic conditions.

Access to capital is dependent on our customers' ability to access the funds necessary to develop economically attractive projects based upon their expectations of future energy prices, required investments and resulting returns. Limited access to external sources of funding has caused many customers to

reduce their capital spending plans to levels supported by internally-generated cash flow. In addition, the combination of a reduction of cash flow resulting from declines in commodity prices, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may impact the ability of our customers to pay amounts owed to us. Starting in late 2008 and continuing through the fourth quarter of 2009, we experienced a delay in receiving payments from our customers in Venezuela. As of December 31, 2009, our accounts receivable in Venezuela totaled approximately 5% of our total accounts receivable. For the year ended December 31, 2009, Venezuela revenues were approximately 2% of our total consolidated revenues.

Supply of oil and natural gas is subject to factors beyond our control, which may adversely affect our operating results.

Productive capacity for oil and natural gas is dependent on our customers' decisions to develop and produce oil and natural gas reserves. The ability to produce oil and natural gas can be affected by the number and productivity of new wells drilled and completed, as well as the rate of production and resulting depletion of existing wells. Advanced technologies, such as horizontal drilling, improve total recovery but also result in a more rapid production decline.

Access to prospects is also important to our customers. Access to prospects may be limited because host governments do not allow access to the reserves or because another oil and natural gas exploration company owns the rights to develop the prospect. Government regulations and the costs incurred by oil and natural gas exploration companies to conform to and comply with government regulations, may also limit the quantity of oil and natural gas that may be economically produced.

Supply can also be impacted by the degree to which individual Organization of Petroleum Exporting Countries ("OPEC") nations and other large oil and natural gas producing countries, including, but not limited to, Norway and Russia, are willing and able to control production and exports of oil, to decrease or increase supply and to support their targeted oil price while meeting their market share objectives. Any of these factors could affect the supply of oil and natural gas and could have a material adverse effect on our results of operations.

Changes in spare productive capacity or inventory levels can be indicative of future customer spending to explore for and develop oil and natural gas which in turn influences the demand for our products and services.

Spare productive capacity and oil and natural gas storage inventory levels are an indicator of the relative balance between supply and demand. High or increasing storage or inventories generally indicate that supply is exceeding demand and that energy prices are likely to soften. Low or decreasing storage or inventories are an indicator that demand is growing faster than supply and that energy prices are likely to rise. Measures of maximum productive capacity compared to demand ("spare productive capacity") are also an important

factor influencing energy prices and spending by oil and natural gas exploration companies. When spare productive capacity is low compared to demand, energy prices tend to be higher and more volatile reflecting the increased vulnerability of the entire system to disruption.

Seasonal and adverse weather conditions adversely affect demand for our services and operations.

Weather can also have a significant impact on demand as consumption of energy is seasonal, and any variation from normal weather patterns, cooler or warmer summers and winters, can have a significant impact on demand. Adverse weather conditions, such as hurricanes in the Gulf of Mexico, may interrupt or curtail our operations, or our customers' operations, cause supply disruptions and result in a loss of revenue and damage to our equipment and facilities, which may or may not be insured. Extreme winter conditions in Canada, Russia or the North Sea may interrupt or curtail our operations, or our customers' operations, in those areas and result in a loss of revenue.

Risk Factors Related to Our Business

Our expectations regarding our business are affected by the following risk factors and the timing of any of these risk factors:

We operate in a highly competitive environment, which may adversely affect our ability to succeed.

We operate in a highly competitive environment for marketing oilfield services and securing equipment and trained personnel. Our ability to continually provide competitive products and services can impact our ability to defend, maintain or increase prices for our products and services, maintain market share and negotiate acceptable contract terms with our customers. In order to be competitive, we must provide new technologies and reliable products and services that perform as expected and that create value for our customers. Our ability to defend, maintain or increase prices for our products and services is in part dependent on the industry's capacity relative to customer demand, and on our ability to differentiate the value delivered by our products and services from our competitors' products and services. In addition, our ability to negotiate acceptable contract terms and conditions with our customers, especially state-owned national oil companies, our ability to manage warranty claims and our ability to effectively manage our commercial agents can also impact our results of operations.

Managing development of competitive technology and new product introductions on a forecasted schedule and at forecasted costs can impact our financial results. Development of competing technology that accelerates the obsolescence of any of our products or services can have a detrimental impact on our financial results and can result in the potential impairment of long-lived assets.

We may be disadvantaged competitively and financially by a significant movement of exploration and production operations to areas of the world in which we are not currently active.

The high cost or unavailability of infrastructure, materials, equipment, supplies and personnel, particularly in periods of rapid growth, could adversely affect our ability to execute our operations on a timely basis.

Our manufacturing operations are dependent on having sufficient raw materials, component parts and manufacturing capacity available to meet our manufacturing plans at a reasonable cost while minimizing inventories. Our ability to effectively manage our manufacturing operations and meet these goals can have an impact on our business, including our ability to meet our manufacturing plans and revenue goals, control costs and avoid shortages of raw materials and component parts. Raw materials and components of particular concern include steel alloys (including chromium and nickel), titanium, beryllium, copper, lead, tungsten carbide, synthetic and natural diamonds, electronic components and hydrocarbon-based chemical feed stocks. Our ability to repair or replace equipment damaged or lost in the well can also impact our ability to service our customers. A lack of manufacturing capacity could result in increased backlog, which may limit our ability to respond to short lead time orders.

People are a key resource to developing, manufacturing and delivering our products and services to our customers around the world. Our ability to manage the recruiting, training and retention of the highly skilled workforce required by our plans and to manage the associated costs could impact our business. A well-trained, motivated work force has a positive impact on our ability to attract and retain business. Periods of rapid growth present a challenge to us and our industry to recruit, train and retain our employees while managing the impact of wage inflation and potential lack of available qualified labor in the markets where we operate. Likewise, in the current condition of the economy and our markets, we may have to adjust our workforce to control costs and yet not lose our skilled and diverse workforce. Labor-related actions, including strikes, slowdowns and facility occupations can also have a negative impact on our business.

Our business is subject to geopolitical and terrorism risks.

Geopolitical risks and terrorist activity continue to grow in several key countries where we do business. Geopolitical risks could lead to, among other things, a loss of our investment in the country and an inability to collect our accounts receivable. Terrorism risks could lead to a loss of our investment in the country, as well as a disruption in business activities. Key oil producing countries in which we do business include Angola, Brazil, Canada, China, Norway, Russia, Saudi Arabia, U.K., U.S. and Venezuela.

The terms and the impact of the settlement with the Department of Justice (“DOJ”) and SEC may negatively impact our ongoing operations.

Under the settlements in connection with the previously disclosed compliance investigations by the DOJ and SEC, we are subject to ongoing review and regulation of our business operations, including the review of our operations and compliance program by an independent monitor appointed to assess

our Foreign Corrupt Practices Act (“FCPA”) policies and procedures. The activities of the independent monitor will have a cost to us and may cause a change in our processes and operations, the outcome of which we are unable to predict. In addition, the settlements may impact our operations or result in legal actions against us in the countries that are the subject of the settlements. Also, the collateral impact of settlement in the United States and other countries outside the United States where we do business that may claim jurisdiction over any of the matters related to the DOJ and SEC settlements could be material. These settlements could also result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages.

Our failure to comply with the terms of our agreements with the DOJ and SEC would have a negative impact on our ongoing operations.

The settlements reached with the DOJ and SEC could be substantially nullified and we could be subject to severe sanctions and civil and criminal prosecution as well as fines and penalties in the event of a subsequent violation by us or any of our employees or our failure to meet all of the conditions contained in the settlements. The impact of the settlements on our ongoing operations could include limits on revenue growth and increases in operating costs. Our ability to comply with the terms of the settlements is dependent on the success of our ongoing compliance program, including our ability to continue to manage our agents and business partners and supervise, train and retain competent employees and the efforts of our employees to comply with applicable law and the Baker Hughes Business Code of Conduct.

Compliance with and changes in laws or adverse positions taken by taxing authorities could be costly and could affect operating results.

We have operations in the U.S. and in over 90 countries that can be impacted by expected and unexpected changes in the legal and business environments in which we operate. Our ability to manage our compliance costs will impact our ability to meet our earnings goals. Compliance related issues could also limit our ability to do business in certain countries. Changes that could impact the legal environment include new legislation, new regulations, new policies, investigations and legal proceedings and new interpretations of existing legal rules and regulations, in particular, changes in export control laws or exchange control laws, additional restrictions on doing business in countries subject to sanctions, and changes in laws in countries where we operate or intend to operate. Changes that impact the business environment include changes in accounting standards, changes in environmental laws, changes in tax laws or tax rates, the resolution of tax assessments or audits by various tax authorities, and the ability to fully utilize our tax loss carryforwards and tax credits. In addition, we may periodically restructure our legal entity organization. If taxing authorities were to disagree with our tax positions in connection with any such restructurings, our effective tax rate could be materially impacted.

These changes could have a significant financial impact on our future operations and the way we conduct, or if we conduct, business in the affected countries.

Uninsured claims and litigation could adversely impact our operating results.

We could be impacted by the outcome of pending litigation as well as unexpected litigation or proceedings. We have insurance coverage against operating hazards, including product liability claims and personal injury claims related to our products, to the extent deemed prudent by our management and to the extent insurance is available, however, no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future claims and litigation. This insurance has deductibles or self-insured retentions and contains certain coverage exclusions. The insurance does not cover damages from breach of contract by us or based on alleged fraud or deceptive trade practices. Whenever possible, we obtain agreements from customers that limit our liability. Insurance and customer agreements do not provide complete protection against losses and risks, and our results of operations could be adversely affected by unexpected claims not covered by insurance.

Compliance with and rulings and litigation in connection with environmental regulations may adversely affect our business and operating results.

Our business is impacted by unexpected outcomes or material changes in environmental liability. Our expectations regarding our compliance with environmental regulations and our expenditures to comply with environmental regulations, including (without limitation) our capital expenditures for environmental control equipment, are only our forecasts regarding these matters. These forecasts may be substantially different from actual results, which may be affected by the following factors: changes in environmental regulations; a material change in our allocation or other unexpected, adverse outcomes with respect to sites where we have been named as a PRP, including (without limitation) Superfund sites; the discovery of new sites of which we are not aware and where additional expenditures may be required to comply with environmental regulations; an unexpected discharge of hazardous materials.

A variety of regulatory developments, proposals or requirements have been introduced in the U.S. and various other countries that are focused on restricting the emission of carbon dioxide, methane and other gases. Among these developments are the United Nations Framework Convention on Climate Change, also known as the "Kyoto Protocol" (an internationally applied protocol, which has been ratified in Canada, the Regional Greenhouse Gas Initiative or "RGGI" in the Northeastern United States, and the Western Regional Climate Action Initiative in the Western United States). Also, in 2007, the U.S. Supreme Court held in *Massachusetts, et al. v. EPA* that certain gases are an "air pollutant" under the federal Clean Air

Act and thus subject to future regulation. These developments may curtail production and demand for fossil fuels such as oil and gas in areas of the world where customers of the company operate and thus adversely affect future demand for products and services of the company, which may in turn adversely affect future results of operations.

Control of oil and gas reserves by state-owned oil companies may impact the demand for our services and create additional risks in our operations.

Much of the world's oil and gas reserves are controlled by state-owned oil companies. State-owned oil companies may require their contractors to meet local content requirements or other local standards, such as joint ventures, that could be difficult or undesirable for the Company to meet. The failure to meet the local content requirements and other local standards may adversely impact the Company's operations in those countries.

In addition, many state-owned oil companies may require integrated contracts or turn-key contracts that could require the Company to provide services outside its core business. Providing services on an integrated or turnkey basis generally requires the Company to assume additional risks.

Changes in economic conditions and currency fluctuations may impact our operating results.

Fluctuations in foreign currencies relative to the U.S. Dollar can impact our revenue and our costs of doing business. Most of our products and services are sold through contracts denominated in U.S. Dollars or local currency indexed to U.S. Dollars. Some revenue and some local expenses and some of our manufacturing costs are incurred in local currencies and therefore changes in the exchange rates between the U.S. Dollar and foreign currencies, particularly the British Pound Sterling, Euro, Canadian Dollar, Norwegian Krone, Russian Ruble, Australian Dollar, Brazilian Real and the Venezuelan Bolivar (which was devalued by the Venezuelan government in January 2010), can increase or decrease our revenue and expenses reported in U.S. Dollars and may impact our results of operations.

The condition of the capital markets and equity markets in general can affect the price of our common stock and our ability to obtain financing, if necessary. If the Company's credit rating is downgraded, this would increase borrowing costs under our revolving credit agreements and commercial paper program, as well as the cost of renewing or obtaining, or make it more difficult to renew or obtain or issue, new debt financing.

Changes in market conditions may impact any stock repurchases.

To the extent the Company engages in stock repurchases, such activity is subject to market conditions, such as the trading prices for our stock, as well as the terms of any stock purchase plans intended to comply with Rule 10b5-1 or Rule 10b-18 of the Exchange Act. Management, in its discretion, may engage in or discontinue stock repurchases at any time.

Risk Factors Related to the Merger with BJ Services

Our expectations regarding our business may be impacted by the following risk factors related to the pending merger with BJ Services:

Failure to complete the merger with BJ Services could negatively affect our stock price and our future business and financial results.

Completion of the merger with BJ Services is not assured and is subject to risks, including the risks that approval of the transaction by stockholders of both Baker Hughes and BJ Services is not obtained or that certain other closing conditions are not satisfied. If the merger is not completed, our ongoing business may be adversely affected and will be subject to several risks, including the following:

- having to pay certain significant costs relating to the merger without receiving the benefits of the merger, including in certain circumstances a termination fee of \$175 million to BJ Services;
- the attention of our management will have been diverted to the merger instead of on our operations and pursuit of other opportunities that may have been beneficial to us; and
- resulting negative customer perception could adversely affect our ability to compete for, or to win, new and renewal business in the marketplace.

We will incur substantial transaction and merger-related costs as well as assume additional debt from BJ Services in connection with the merger and our stockholders will be diluted by the merger.

We expect to incur a number of non-recurring transaction and merger-related costs associated with completing the merger with BJ Services, combining the operations of the two companies and achieving desired synergies. These fees and costs will be substantial. Additional unanticipated costs may be incurred in the integration of the businesses of Baker Hughes and BJ Services. Although we expect that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will offset the incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all. In addition, we will assume approximately \$500 million of long-term debt from BJ Services.

The merger will dilute the ownership position of our current stockholders who are expected to hold approximately 72.5% of the combined company's common stock on a fully diluted basis immediately after the merger.

If the merger is completed, we will be subject to additional risks.

The success of the merger will depend, in part, on our ability to realize these anticipated benefits from combining the businesses of Baker Hughes and BJ Services. However, to realize these anticipated benefits, we must successfully integrate the operations and personnel of BJ Services into our business.

If we are not able to achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. Because we and BJ Services have operated independently and, until the completion of the merger, we will continue to operate independently, it is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees or the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, which could adversely affect the combined company's ability to achieve the anticipated benefits of the merger. The combined company's results of operations could also be adversely affected by any issues attributable to either company's operations that arise or are based on events or actions that occur prior to the closing of the merger. Further, the size of the merger may make integration difficult, expensive and disruptive, adversely affecting our revenues after the merger. Failure to achieve the anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results and prospects. In addition, we may not be able to eliminate duplicative costs or realize other efficiencies from integrating the businesses to offset part or all of the transaction and merger-related costs incurred by us.

Our performance following the merger, could be adversely affected if we are unable to retain and maintain high technology equipment and certain key employees and to a greater extent by the skilled labor shortages of certain types of qualified personnel, including engineers, project managers, field supervisors, linemen and other qualified personnel, which both Baker Hughes and BJ Services have from time-to-time experienced. These shortages have also negatively impacted, and may continue to negatively impact, the productivity and profitability of certain projects and can result in lost sales during periods of unanticipated demand. Our inability to bid on new and attractive projects, or maintain productivity and profitability on existing projects, including ones developed by BJ Services, due to the limited supply of high technology equipment and skilled workers could negatively affect our profitability and results of operation.

In addition, the approval or regulatory requirements of certain government or regulatory agencies in connection with the merger could contain terms, conditions, or restrictions, such as the divestiture of assets or line of business that would be detrimental to the Company after the merger. Additionally, even after the statutory waiting period under the anti-trust laws and even after completion of the merger, governmental authorities could seek to block or challenge the merger as they deem necessary or desirable in the public interest. In addition, in some jurisdictions, a competitor, customer or other third party could initiate a private action under the antitrust laws challenging or seeking to enjoin the merger, before or after it is completed. The Company or BJ Services may not prevail and may incur significant costs in defending or settling any action under the anti-trust laws.

Upon consummation of the merger, a portion of the combined company's revenues will be derived from its North American operations. Because of the economic environment and related decrease in demand for energy, natural gas exploration and production in North America have decreased significantly from their peak levels in the summer of 2008. Many factors may adversely impact demand for natural gas and, therefore, demand for oilfield services. Further decline in natural gas exploration and production could cause a decline in the demand for the services and products of the combined company. Such decline could result in a significant adverse effect on our operating results and the expected benefits of the merger.

In addition to disclosures in this annual report regarding the Company's settlements, as further described in its SEC filings, BJ Services has voluntarily disclosed information found in its internal investigations to the DOJ and SEC and has engaged in discussions with these authorities in connection with their review of possible illegal payments. Neither BJ Services nor the Company can currently predict the outcome of its investigations, when any of these matters will be resolved, or what, if any, actions may be taken by the DOJ, SEC, Baker Hughes' independent monitor or other authorities or the effect the actions may have on the business or consolidated financial statements of the combined company. If the DOJ or SEC were to take action for failure to comply with the U.S. Foreign Corrupt Practices Act or terms of agreements with such agencies, it could significantly affect our results of operations.

While a settlement has been proposed in connection with the pending stockholder class action litigation against BJ Services, its directors and certain officers and Baker Hughes in connection with the merger, the litigation could adversely affect our business, financial condition or results of operations following the merger if the proposed settlement has not been completed.

Demand for the combined company's products and services, including pressure pumping services, could be reduced or eliminated by governmental regulation or a change in the law.

Upon completion of the merger, pressure pumping services will account for approximately 20% of the combined company's revenue. Recently, legislation has been introduced in the United States Congress that would authorize the Environmental Protection Agency to regulate hydraulic fracturing under the Clean Water Act. Such regulations could greatly reduce or eliminate demand for the combined company's pressure pumping services. If such regulation were enacted, the combined company could suffer a significant decrease in revenue. We are unable to predict whether the proposed legislation or any other proposals will ultimately be enacted, and if so, the impact on the combined company's business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We are headquartered in Houston, Texas and operate 46 principal manufacturing plants (including significant equipment repair facilities), ranging in size from approximately 10,000 to 300,000 square feet of manufacturing space. The total aggregate area of the plants is approximately 3.6 million square feet, of which approximately 2.4 million square feet (65%) are located in North America, 0.3 million square feet (8%) are located in Latin America, 0.8 million square feet (23%) are located in Europe, and a minimal amount of space is located in the Middle East, Asia Pacific region. Our principal manufacturing plants are located in: (i) North America – Houston, Texas; Broken Arrow, Claremore and Tulsa, Oklahoma; Lafayette, Louisiana; Calgary, Canada; (ii) Latin America – Maracaibo, Venezuela; Mendoza, Argentina; (iii) Europe, Africa, Russia, Caspian – Aberdeen and East Kilbride, Scotland; Celle, Germany; Belfast, Northern Ireland; and (vi) Middle East, Asia Pacific – Dubai, United Arab Emirates.

We own or lease numerous service centers, shops and sales and administrative offices throughout the geographic regions in which we operate. We also have a significant investment in service vehicles, rental tools and manufacturing and other equipment. We believe that our manufacturing facilities are well maintained and suitable for their intended purposes. The table below shows our principal manufacturing plants by segment and geographic region:

Segment	North America	Latin America	Europe, Africa, Russia, Caspian	Middle East, Asia Pacific	Total
Completion and Production	20	3	4	2	29
Drilling and Evaluation	10	1	4	2	17

ITEM 3. LEGAL PROCEEDINGS

The information with respect to Item 3. Legal Proceedings is contained in Note 15 of the Notes to Consolidated Financial Statements in Item 8 herein. We previously disclosed copies of the orders, agreements, settlements and deferred prosecution agreement, referenced in Note 15, and the same are incorporated by reference in this annual report as Exhibits 10.61 and 10.62 and 99.1 through 99.7.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, \$1.00 par value per share, is principally traded on the New York Stock Exchange. Our common stock is also traded on the SWX Swiss Exchange. As of February 19, 2010, there were approximately 238,600 stockholders and approximately 14,100 stockholders of record.

For information regarding quarterly high and low sales prices on the New York Stock Exchange for our common stock during the two years ended December 31, 2009, and information regarding dividends declared on our common stock during the two years ended December 31, 2009, see Note 17 of the Notes to Consolidated Financial Statements in Item 8 herein.

The following table contains information about our purchases of equity securities during the fourth quarter of 2009.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as Part of a Publicly Announced Program ⁽²⁾	Average Price Paid Per Share ⁽²⁾	Total Number of Shares Purchased in the Aggregate	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program ⁽³⁾
October 1–31, 2009	7,639	\$ 45.33	–	\$ –	7,639	\$ –
November 1–30, 2009	–	–	–	–	–	–
December 1–31, 2009	10,932	39.09	–	–	10,932	–
Total	18,571	\$ 41.66	–	\$ –	18,571	\$ 1,197,127,803

⁽¹⁾ Represents shares purchased from employees to pay the option exercise price related to stock-for-stock exchanges in option exercises or to satisfy the tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock units.

⁽²⁾ There were no share repurchases during the three months ended December 31, 2009.

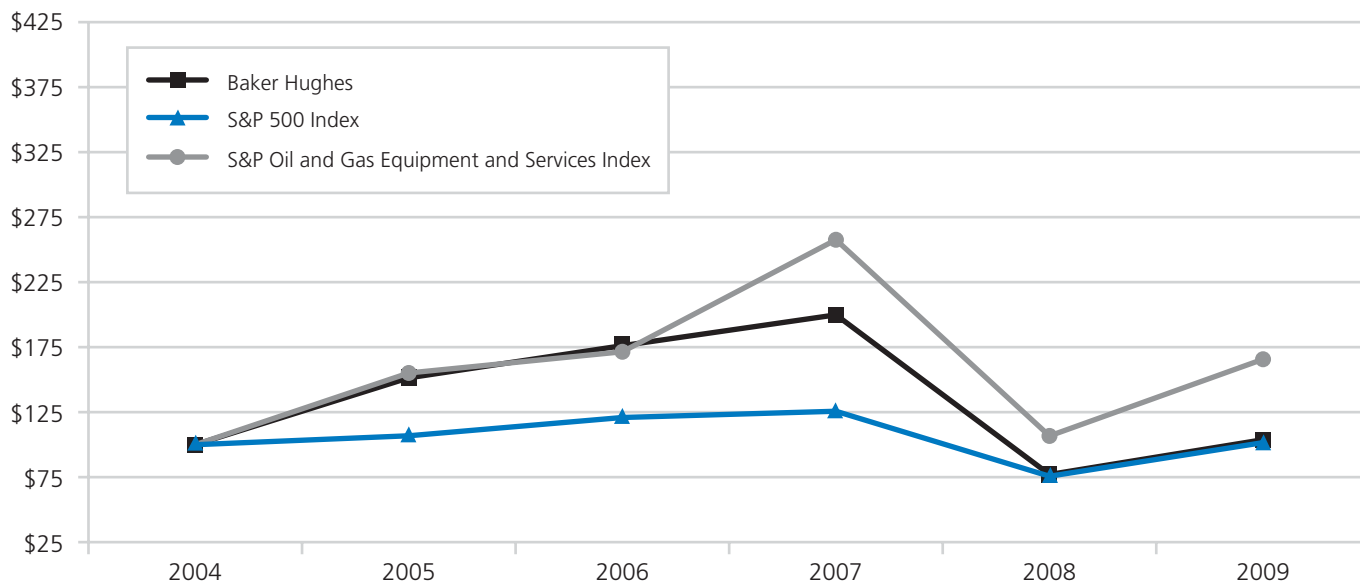
⁽³⁾ Our Board of Directors has authorized a program to repurchase our common stock from time to time. During the fourth quarter of 2009, we did not repurchase any shares of our common stock. We had authorization remaining to repurchase up to a total of \$1,197 million of our common stock.

Corporate Performance Graph

The following graph compares the yearly change in our cumulative total stockholder return on our common stock (assuming reinvestment of dividends into common stock at the date of payment) with the cumulative total return on the published Standard & Poor's 500 Stock Index and the cumulative total return on Standard & Poor's 500 Oil and Gas Equipment and Services Index over the preceding five-year period.

Comparison of Five-Year Cumulative Total Return*

Baker Hughes Incorporated; S&P 500 Index and S&P 500 Oil and Gas Equipment and Services Index



	2004	2005	2006	2007	2008	2009
Baker Hughes	\$ 100.00	\$ 143.78	\$ 177.82	\$ 194.45	\$ 77.66	\$ 101.12
S&P 500 Index	100.00	104.91	121.48	128.15	80.74	102.22
S&P 500 Oil and Gas Equipment and Services Index	100.00	148.57	171.65	253.87	103.64	165.63

* Total return assumes reinvestment of dividends on a quarterly basis.

The comparison of total return on investment (change in year-end stock price plus reinvested dividends) assumes that \$100 was invested on December 31, 2004 in Baker Hughes common stock, the S&P 500 Index and the S&P 500 Oil and Gas Equipment and Services Index.

The Corporate Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that Baker Hughes specifically incorporates it by reference into such filing.

ITEM 6. SELECTED FINANCIAL DATA

The Selected Financial Data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data," both contained herein.

(In millions, except per share amounts)	Year Ended December 31,				
	2009	2008	2007	2006	2005
Revenues	\$ 9,664	\$ 11,864	\$ 10,428	\$ 9,027	\$ 7,185
Costs and expenses:					
Cost of revenues	7,397	7,954	6,845	5,876	5,024
Research and engineering	397	426	372	339	300
Marketing, general and administrative	1,120	1,046	933	878	628
Acquisition-related costs	18	—	—	—	—
Litigation settlement	—	62	—	—	—
Total costs and expenses	8,932	9,488	8,150	7,093	5,952
Operating income	732	2,376	2,278	1,934	1,233
Equity in income of affiliates	—	2	1	60	100
Gain on sale of product line	—	28	—	—	—
Gain on sale of interest in affiliate	—	—	—	1,744	—
Gain (loss) on investments	4	(25)	—	—	—
Interest expense	(131)	(89)	(66)	(69)	(72)
Interest and dividend income	6	27	44	68	18
Income from continuing operations before income taxes	611	2,319	2,257	3,737	1,279
Income taxes	(190)	(684)	(743)	(1,338)	(405)
Income from continuing operations	421	1,635	1,514	2,399	874
Income from discontinued operations, net of tax	—	—	—	20	5
Income before cumulative effect of accounting change	421	1,635	1,514	2,419	879
Cumulative effect of accounting change, net of tax	—	—	—	—	(1)
Net income	\$ 421	\$ 1,635	\$ 1,514	\$ 2,419	\$ 878

Per share of common stock:

Income from continuing operations:

Basic	\$ 1.36	\$ 5.32	\$ 4.76	\$ 7.26	\$ 2.58
Diluted	1.36	5.30	4.73	7.21	2.56
Dividends	0.60	0.56	0.52	0.52	0.48

Balance Sheet Data:

Cash, cash equivalents and short-term investments	\$ 1,595	\$ 1,955	\$ 1,054	\$ 1,104	\$ 774
Working capital (current assets minus current liabilities)	4,612	4,634	3,837	3,346	2,479
Total assets	11,439	11,861	9,857	8,706	7,807
Long-term debt	1,785	1,775	1,069	1,074	1,078
Stockholders' equity	7,284	6,807	6,306	5,243	4,698

NOTES TO SELECTED FINANCIAL DATA

- Gain (loss) on investments.** 2009 income from continuing operations includes a \$4 million gain on the settlement of auction rate securities ("ARS"). 2008 income from continuing operations includes a charge for impairment loss of \$25 million relating to ARS.
- Litigation settlement.** 2008 income from continuing operations includes a net charge of \$62 million relating to the settlement of litigation with ReedHycalog.
- Gain on sale of product line.** 2008 income from continuing operations includes \$28 million for the gain on the sale of the Completion and Production segment's Surface Safety Systems ("SSS") product line.
- Equity in income of affiliates and gain on sale of interest in affiliate.** On April 28, 2006, we sold our 30% interest in WesternGeco, a seismic venture we formed with Schlumberger in 2000, and recorded a gain of \$1,744 million on the sale.
- Discontinued operations.** The selected financial data includes reclassifications to reflect Baker Supply Products Division, as discontinued operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements of "Item 8. Financial Statements and Supplementary Data" contained herein.

EXECUTIVE SUMMARY

We are a major supplier of wellbore-related products and technology services and systems and provide products and services for drilling, formation evaluation, completion and production, and reservoir technology and consulting to the worldwide oil and natural gas industry. We report our results under two segments: the Drilling and Evaluation segment and the Completion and Production segment, which are aligned by product line based upon the types of products and services provided to our customers and upon the business characteristics of the product lines during business cycles. Collectively, we refer to the results of these two segments as Oilfield Operations. The primary driver of our business is our customers' capital and operating expenditures dedicated to oil and natural gas exploration, field development and production. Our business is cyclical and is dependent upon our customers' expectations for future oil and natural gas prices, economic growth, hydrocarbon demand and estimates of current and future oil and natural gas production.

Prior to May 4, 2009, our business operations were organized primarily through seven product line divisions and secondarily through four super regions – North America; Latin America; Europe, Africa, Russia, Caspian ("EARC"); and Middle East, Asia Pacific ("MEAP"). On May 4, 2009, we reorganized the Company by geography and product lines. Global operations are now organized into a number of geomarket organizations, which report into nine region presidents, who in turn report into two hemisphere presidents. Separately, product-line marketing and technology organizations report to a president of products and technology. The presidents of the Eastern Hemisphere, Western Hemisphere, Products and Technology and the Vice President of Supply Chain report to our Chief Operating Officer. The reorganization of the Company by geography and product lines is intended to strengthen our client-focused operations by moving management into the countries where we conduct our business. The product-line organizations will continue to be responsible for product development and manufacturing, technology, marketing and delivery of solutions for our customers to advance their reservoir performance. The supply chain organization is responsible for development of cost-effective procurement and manufacturing of our products and services. The new organization structure will also improve cross-product-line technology development, sales processes and integrated operations capabilities. As of December 31, 2009, we had approximately 34,400 employees, with approximately 61% of these employees working outside the United States.

During 2009, as the global economy continued to weaken many of our customers reduced their 2009 exploration and development spending, and we saw significant decreases from peak drilling activity, particularly in the U.S. land market and Canada. In addition, we experienced declines in prices for our products and services.

For 2009 we generated revenues of \$9.66 billion, which is down \$2.20 billion or 19% compared to 2008 and compared to a 31% decrease in the worldwide average rig count for the same time period. Our North American revenues for 2009 were \$3.58 billion, a decrease of 31% compared to a 42% decrease in the average rig counts in both the U.S. and Canada, which reflects the severe contraction in customer spending and activity. Revenues outside of North America were \$6.08 billion, a decrease of 9% compared to 2008. As a result of the decline in activity and contractions in customer spending, during 2009 we took actions to adjust our operating cost base, which consisted primarily of reductions in workforce. In connection with the reductions in workforce, we recorded expenses of \$92 million in 2009 related to employee severance costs. Net income for 2009 was \$421 million compared to \$1.64 billion in 2008.

In late 2009 and early 2010, there was a modest improvement in the outlook for the global economy. In response to higher prices for oil and natural gas, many of our North American customers are anticipating an increase in drilling activity from year-end 2009 levels. While crude prices in the \$70–\$80/Bbl range are adequate to support many international projects, the outlook for international activity will be influenced by the degree to which the global economy improves, driving demand for oil and natural gas.

PENDING MERGER WITH BJ SERVICES

On August 30, 2009, the Company and BJ Services entered into a merger agreement pursuant to which the Company will acquire 100% of the outstanding common stock of BJ Services. We have estimated the total consideration expected to be issued and paid in the merger to be approximately \$6.4 billion, consisting of approximately \$0.8 billion to be paid in cash and approximately \$5.6 billion to be paid through the issuance of approximately 118 million shares of Baker Hughes common stock valued at the February 11, 2010 closing Baker Hughes share price of \$46.68 per share. Subject to satisfaction of conditions to closing, it is anticipated that closing of the transaction will occur in March 2010; however, we cannot guarantee when or if the merger will be completed or that, if completed, it will be exactly on the terms as set forth in the merger agreement.

BJ Services is a Delaware corporation formed in 1990. BJ Services is a leading provider of pressure pumping and oilfield services for the petroleum industry. BJ Services' pressure pumping services consist of cementing and stimulation services used in the completion of new oil and natural gas wells and in remedial work on existing wells, both onshore and offshore. BJ Services' oilfield services include casing and tubular services, precommissioning, maintenance and turnaround services in the pipeline and process business, including pipeline inspection, chemical services, completion tools and completion fluids.

BUSINESS ENVIRONMENT

Our business environment and its corresponding operating results are affected significantly by the level of energy industry spending for the exploration, development and production of oil and natural gas reserves. Spending by oil and natural gas exploration and production companies is dependent upon their forecasts regarding the expected future supply and future demand for oil and natural gas products and their estimates of costs to find, develop, and produce reserves. Changes in oil and natural gas exploration and production spending will normally result in increased or decreased demand for our products and services, which will be reflected in the rig count and other measures.

In 2009, the impact of the global economic recession and the associated decline in oil and natural gas consumption and energy prices resulted in significant decreases in capital spending by our customers for exploration for and development of oil and natural gas resources. In the first half of 2009, spending continued to decline from the peak levels of September 2008 as evidenced by a 57% drop in the U.S. rig count from a peak of 2,031 rigs in September 2008 to a low of 876 rigs in June 2009 and a 15% drop in the international rig count from a peak of 1,108 rigs in September 2008 to a low of 947 rigs in August 2009. Prices for our products and services, particularly in the Drilling and Evaluation segment, declined significantly in the first half of 2009. In the second half of 2009, oil-driven activity began to increase in both the U.S. and international markets as oil prices improved and as the market began to anticipate a recovery of economic activity.

Oil and Natural Gas Prices

Oil (Bloomberg West Texas Intermediate (WTI) Cushing Crude Oil Spot Price) and natural gas (Bloomberg Henry Hub Natural Gas Spot Price) prices are summarized in the table below as averages of the daily closing prices during each of the periods indicated.

	2009	2008	2007
Oil prices (\$/Bbl)	\$ 61.99	\$ 99.92	\$ 72.23
Natural gas prices (\$/mmBtu)	3.94	8.89	6.96

Oil prices averaged \$61.99/Bbl in 2009. The year 2009 began with oil prices trading near \$46/Bbl in early January. In response to a weakening outlook for the worldwide economy and for oil consumption, oil prices decreased through early February reaching a low for the year of \$33.98/Bbl. In mid-2009, oil prices began to increase, driven in part by an improving outlook for the global economy. Oil prices reached a high of \$81.04 /Bbl in late October, thereafter trading in the mid-to-high \$70/Bbl range for the balance of the year.

Natural gas prices averaged \$3.94/mmBtu for the year 2009. The year 2009 began with natural gas prices in the high \$5/mmBtu range. However, weakness in the U.S. economy and expectations for a decline in demand, particularly in the industrial sector, led to weakening gas prices through the third quarter of the year. In early September, the price of natural gas

hit a low for the year of \$1.88/mmBtu as strong production data, coupled with a weak demand outlook, led to expectations that natural gas inventories would rise to record levels at the end of the annual injection season. Natural gas prices increased in late December as colder-than-normal temperatures led to strong withdrawals of natural gas from storage.

Rig Counts

Baker Hughes has been providing rig counts to the public since 1944. We gather all relevant data through our field service personnel, who obtain the necessary data from routine visits to the various rigs, customers, contractors and/or other outside sources. This data is then compiled and distributed to various wire services and trade associations and is published on our website. Rig counts are compiled weekly for the U.S. and Canada and monthly for all international and U.S. work-over rigs. Published international rig counts do not include rigs drilling in certain locations, such as Russia, the Caspian and onshore China, because this information is not readily available.

Rigs in the U.S. are counted as active if, on the day the count is taken, the well being drilled has been started but drilling has not been completed and the well is anticipated to be of sufficient depth to be a potential consumer of our drill bits. Rigs in Canada are counted as active if data obtained by the Canadian Association of Oilwell Drillers and Contractors indicates that drilling operations have occurred during the week and we are able to verify this information. In most international areas, rigs are counted as active if drilling operations have taken place for at least 15 days during the month. In some active international areas where better data is available, we compute a weekly or daily average of active rigs. In international areas where there is poor availability of data, the rig counts are estimated from third-party data. The rig count does not include rigs that are in transit from one location to another, rigging up, being used in non-drilling activities, including production testing, completion and workover, and are not expected to be significant consumers of drill bits.

Our rig counts are summarized in the table below as averages for each of the periods indicated.

	2009	2008	2007
U.S. – land and inland waters	1,046	1,814	1,695
U.S. – offshore	44	65	73
Canada	222	382	343
North America	1,312	2,261	2,111
Latin America	356	384	355
North Sea	43	45	48
Other Europe	41	53	29
Africa	62	65	66
Middle East	252	280	265
Asia Pacific	243	252	241
Outside North America	997	1,079	1,004
Worldwide	2,309	3,340	3,115

RESULTS OF OPERATIONS

The discussions below relating to significant line items from our consolidated statements of operations are based on available information and represent our analysis of significant changes or events that impact the comparability of reported amounts. Where appropriate, we have identified specific events and changes that affect comparability or trends and, where possible and practical, have quantified the impact of such items. In addition, the discussions below for revenues and cost of revenues are on a combined basis as the business drivers for the individual components of product sales and service and rentals are similar.

The table below details certain consolidated statement of operations data and their percentage of revenues (dollar amounts in millions).

	2009		2008		2007	
	\$	%	\$	%	\$	%
Revenues	\$ 9,664	100%	\$ 11,864	100%	\$ 10,428	100%
Cost of revenues	7,397	77%	7,954	67%	6,845	66%
Research and engineering	397	4%	426	4%	372	4%
Marketing, general and administrative	1,120	12%	1,046	9%	933	9%

Revenues

2009 Compared to 2008

	Twelve Months Ended December 31,		Increase (decrease)	% Change
	2009	2008		
Geographic Revenues:				
North America	\$ 3,584	\$ 5,178	\$ (1,594)	(31%)
Latin America	1,134	1,127	7	1%
Europe, Africa, Russia, Caspian	2,925	3,386	(461)	(14%)
Middle East, Asia Pacific	2,021	2,173	(152)	(7%)
Total revenues	\$ 9,664	\$ 11,864	\$ (2,200)	(19%)

Revenues for 2009 decreased \$2.20 billion or 19% compared to 2008 primarily due to a decrease in activity as evidenced by a 31% decline in the worldwide rig count, and to a lesser extent, pricing pressure on our products and services.

North America

Revenues in North America, which accounted for 37% of total revenues, decreased 31% in 2009 compared to 2008, due to a sharp reduction in rig count and activity. U.S. revenues from our Drilling & Evaluation segment decreased 47% in 2009, compared to a 42% reduction in the U.S. land and inland water rig count and a 32% reduction in the U.S. offshore rig count. U.S. revenues from our Completion & Production segment, which is impacted less by changes in the rig count, were down 16% in 2009 compared to 2008. Canada revenues decreased 23% compared to a 42% decrease in the rig count reflecting challenging economics for Canadian natural gas producers.

Outside North America

Revenues outside North America, which accounted for 63% of total revenues, decreased 9% in 2009 compared to 2008, in line with the 8% decrease in the rig count outside North America.

Latin America revenues increased 1% compared to a 7% decrease in the rig count. The improved revenue in Latin America was led by directional drilling systems in Mexico/Central America, Brazil and the Andean geomarkets; drilling fluids in the Brazil geomarket; and drill bits and completions and production systems in the Mexico/Central America geomarket.

Europe, Africa, Russia, Caspian revenues decreased 14% in 2009 compared to 2008. The revenue decline in the region was broad-based, across all product lines and geographies within the region. The largest revenue decreases occurred in the Russia, U.K., Norway and Caspian geomarkets.

Middle East, Asia Pacific revenues decreased 7% in 2009 compared to 2008. Middle East revenues decreased 11% compared to a 10% decrease in the rig count. Asia Pacific revenues were down 3% in line with a 4% decrease in the rig count. The largest revenue declines occurred in the Saudi Arabia/Bahrain, Egypt, Indonesia and North Asia geomarkets.

2008 Compared to 2007

	Twelve Months Ended December 31,		Increase (decrease)	% Change
	2008	2007		
Geographic Revenues:				
North America	\$ 5,178	\$ 4,441	\$ 737	17%
Latin America	1,127	903	224	25%
Europe, Africa, Russia, Caspian	3,386	3,076	310	10%
Middle East, Asia Pacific	2,173	2,008	165	8%
Total revenues	\$ 11,864	\$ 10,428	\$ 1,436	14%

Revenues for 2008 increased 14% compared to 2007 primarily due to increases in activity in certain geographic areas, as evidenced by a 7% increase in the worldwide rig count, price improvement and changes in market share in selected product lines and geographic areas. These increases were partially offset by the impact of hurricanes in the Gulf of Mexico.

North America

Revenues in North America, which accounted for 44% of total revenues, increased 17% in 2008 compared to 2007, despite the unfavorable impact on our U.S. offshore revenues from hurricane-related disruptions in 2008. The improvement in North America revenues was led by our Completion and Production segment and directional drilling, as evidenced by a 7% increase in the U.S. rig count for land and inland water drilling. The U.S. offshore rig count was down 11% due to the continued migration of rigs out of the Gulf of Mexico to more attractive international markets and weather-related disruptions. Canada revenues increased 12% compared to an 11% increase in the rig count reflecting improved economics for Canadian natural gas producers.

Outside North America

Revenues outside North America, which accounted for 56% of total revenues, increased 12% in 2008 compared to 2007. This increase reflected the improvement in international drilling activity, as evidenced by a 7% increase in the rig count outside North America, and market share gains in certain geographic areas.

Latin America revenues increased 25% compared to an 8% increase in the rig count. The improved revenue in Latin America was led by directional drilling systems in Brazil and Colombia; completions and production systems in Mexico; and drill bits throughout the region.

Europe, Africa, Russia, Caspian revenues increased 10%. The improved revenue in the region was led by all product lines across both segments in Norway and Libya; and completion systems as well as multiple product lines in the Drilling and Evaluation segment in both Kazakhstan and Russia partially offset by lower drilling activity in the U.K.

Middle East, Asia Pacific revenues increased 8%. Middle East revenues increased 9% compared to a 6% increase in the rig count. Asia Pacific revenues were up 7% compared to a 5% increase in the rig count. The improvement in revenues from the region was led by our Completion and Production segment in China and sales of various other product lines throughout the region including Oman and United Arab Emirates.

Cost of Revenues

Cost of revenues as a percentage of revenues was 77% and 67% for 2009 and 2008, respectively. The increase was primarily due to significant declines in activity worldwide resulting in excess manufacturing capacity, lower utilization of our rental tools and price deterioration, primarily in North America. Additional contributing factors to this increase include costs associated with employee severance of \$73 million; an increase in the net provision for doubtful accounts of \$73 million; and a change in the geographic and product mix from the sale of our products and services as we continue to emphasize productivity and cost improvements.

Cost of revenues as a percentage of revenues was 67% and 66% for 2008 and 2007, respectively. The increase was primarily due to a change in the geographic and product mix from the sale of our products and services and increasingly competitive conditions and pricing pressures, particularly in North America. In addition, higher raw material costs and labor costs contributed to the increase.

Research and Engineering

Research and engineering expenses decreased 7% in 2009 compared with 2008. The decrease is in line with the decrease in activity; however, we continue to be committed to developing and commercializing new technologies as well as investing in our core product offerings. The decrease is offset by \$5 million associated with employee severance. Research and development costs decreased 12% in 2009 compared with 2008.

Research and engineering expenses increased 15% in 2008 compared with 2007. Research and development costs increased 12% in 2008 compared with 2007. During 2007, we opened the first phase of the Center for Technology and Innovation in Houston, Texas. This facility focuses on research and development of completion and production systems in harsh environments. The second phase was completed in 2008.

Marketing, General and Administrative

Marketing, general and administrative ("MG&A") expenses increased 7% in 2009 compared with 2008. This increase resulted primarily from an increase in costs associated with enterprise-wide accounting system implementations and reorganization activities of \$46 million, and employee severance of \$14 million. These increases were partially offset by lower marketing and compliance related expenses.

MG&A expenses increased 12% in 2008 compared with 2007. This increase corresponds with increased activity and resulted primarily from higher employee related costs including compensation, training and benefits, higher marketing expenses as a result of increased activity and an increase in legal, tax and other compliance related expenses. These increases were partially offset by foreign exchange gains.

Litigation Settlement

In connection with the settlement of litigation with ReedHycalog, in June 2008, the Company paid ReedHycalog \$70 million in royalties for prior use of certain patented technologies, and ReedHycalog paid the Company \$8 million in royalties for the license of certain Company patented technologies. The net pre-tax charge of \$62 million for the settlement of this litigation is reflected in the 2008 consolidated statement of operations. See Note 15. "Commitment and Contingencies – Litigation" in the Notes to Consolidated Financial Statements in Item 8 herein.

Gain on Sale of Product Line

In February 2008, we sold the assets associated with the Completion and Production segment's Surface Safety Systems ("SSS") product line and received cash proceeds of \$31 million. The SSS assets sold included hydraulic and pneumatic actuators, bonnet assemblies and control systems. We recorded a pre-tax gain of \$28 million (\$18 million after-tax).

Gain (Loss) on Investments

The Company had investments in auction rate securities ("ARS") that represent interests in three variable rate debt securities. These are credit linked notes and generally combine low risk assets and credit default swaps ("CDS") to create a security that pays interest from the assets' coupon payments and the periodic sale proceeds of the CDS. Since September 2007, we had been unable to sell our ARS investments because of unsuccessful auctions. We estimated the fair value of our ARS investments based on the underlying structure of each security and their collateral values, including assessments of counterparty credit quality, default risk underlying the security, expected cash flows, discount rates and overall capital market liquidity. In December 2008, we recorded an impairment loss of \$25 million, to record the ARS to fair value. In December 2009, we sold the ARS for \$15 million and recorded a gain of \$4 million.

Interest Expense and Interest and Dividend Income

Interest expense increased \$42 million in 2009 compared with 2008 and increased \$23 million in 2008 compared with 2007. These increases are primarily due to the new long-term debt issuances of \$1.25 billion in October 2008, resulting in higher average debt levels throughout 2009 and 2008.

Interest and dividend income decreased \$21 million in 2009 compared with 2008 and decreased \$17 million in 2008 compared with 2007. The decrease in both years was primarily due to a reduction of the average interest rate earned, partially offset by an increase in the average investment balance.

Income Taxes

Our effective tax rates in 2009, 2008 and 2007 are 31.1%, 29.5%, and 32.9% respectively, which are lower than the U.S. statutory income tax rate of 35% due to lower rates of tax on certain international operations offset by state income taxes.

Our tax filings for various periods are subject to audit by the tax authorities in most jurisdictions where we conduct business. These audits may result in assessment of additional taxes that are resolved with the authorities or through the courts. We believe these assessments may occasionally be based on erroneous and even arbitrary interpretations of local tax law. We have received tax assessments from various taxing authorities and are currently at varying stages of appeals and/or litigation regarding these matters. We believe we have substantial defenses to the questions being raised and will pursue all legal remedies should an unfavorable outcome result. However, resolution of these matters involves uncertainties and there are no assurances that the outcomes will be favorable. We provide for uncertain tax positions pursuant to Accounting Standards Codification ("ASC") 740, *Income Taxes*.

OUTLOOK

This section should be read in conjunction with the factors described in "Part I, Item 1A. Risk Factors" and in the "Forward-Looking Statements" section in this Part I, Item 7, both contained herein. These factors could impact, either positively or negatively, our expectation for: oil and natural gas demand; oil and natural gas prices; exploration and development spending and drilling activity; and production spending.

Our industry is cyclical, and past cycles have been driven primarily by alternating periods of ample supply or shortage of oil and natural gas relative to demand. As an oilfield services company, our revenue is dependent on spending by our customers for oil and natural gas exploration, field development and production. This spending is dependent on a number of factors, including our customers' forecasts of future energy demand, their expectations for future energy prices, their access to resources to develop and produce oil and gas and their ability to fund their capital programs.

The recovery from the global economic recession is expected to be the primary driver impacting the 2010 business environment. As the worldwide economy recovers, demand for hydrocarbons will increase. The largest incremental demands for oil are expected to be generated by China, India and the Middle East. Increasing oil demand along with the weakness in the U.S. Dollar relative to other currencies is expected to support oil prices between \$60/Bbl and \$85/Bbl. In North America, the 12-month futures price for natural gas, as quoted in February 2010, has been trading above \$6/mmBtu, offering operators an opportunity to hedge future gas production and lock-in an attractive return regardless of near-term spot prices. As a result of improved cash flow and outlook for stronger economic growth, our customers are expected to increase their spending to explore for and develop oil and natural gas in 2010 compared to 2009. Capital discipline on the part of our competitors, attrition of existing rental fleets and rising demand are expected to result in an environment that we believe will support increasing prices for our products and services in some markets by the second half of 2010.

Our outlook for exploration and development spending is based upon our expectations for customer spending in the markets in which we operate, and is driven primarily by our perception of industry expectations for oil and natural gas prices and their likely impact on customer capital and operating budgets as well as other factors that could impact the economic return oil and gas companies expect for developing oil and gas reserves. Our forecasts are based on our analysis of information provided by our customers as well as market research and analyst reports including the *Short Term Energy Outlook* ("STEO") published by the Energy Information Administration of the U.S. Department of Energy ("DOE"), the *Oil Market Report* published by the IEA and the *Monthly Oil Market Report* published by OPEC. Our outlook for economic growth is based on our analysis of information published by a number of sources including the International Monetary Fund ("IMF"), the Organization for Economic Cooperation and Development ("OECD") and the World Bank.

In North America, the outlook for spending in 2010 will be significantly influenced by the outlook for the natural gas industry. The lack of recovery in industrial demand for natural gas in conjunction with a rebound in the gas-directed rig count from mid-2009 lows and continued advances in horizontal drilling and advanced fracturing and completion technologies has led to increasing rates of initial production in the unconventional gas fields, resulting in high levels of gas production relative to demand. Natural gas prices have recovered from low levels reached in the third and fourth quarters of 2009 in response to colder weather throughout much of the U.S. The increase in oil-directed drilling in the U.S. reflects the rise in oil prices from low levels in the first half of 2009.

Expectations for Oil Prices – Due to improved expectations for the global economy, demand for oil is expected to increase in a range from 0.8 million to 1.1 million barrels per day in 2010 relative to 2009. Non-OPEC supply growth is expected to increase modestly in 2010 related to 2009 and is expected to increase in a range of between 100 thousand to 310 thousand barrels per day. Decreased demand and moderate growth in non-OPEC production are expected to pressure OPEC to manage its production levels to support oil prices. Inventories and spare productive capacity, which buffer oil markets from supply disruptions, are expected to increase as the gap between increasing supply and decreasing demand grows. In its February 2010 STEO report, the DOE forecasted oil prices (West Texas Intermediate) to average \$81/Bbl in the second half of 2010, increasing to an average of \$84/Bbl in 2011.

Expectations for North America Natural Gas Prices – The lack of overall demand growth, increasing gas-directed rig count and improving rates of initial production from new gas wells are expected to keep natural gas prices from increasing dramatically in 2010. In its February 2010 STEO report, the DOE forecasted that U.S. natural gas prices would average \$5.37/mmBTU in 2010. The DOE forecasts gas prices to increase to an average of \$5.86/mmBTU in 2011.

Our capital expenditures are expected to be approximately \$1.1 billion to \$1.2 billion for 2010, including approximately \$350 million to \$400 million that we expect to spend on infrastructure, primarily outside North America, but excluding the pending BJ Services merger and any other acquisitions. A

significant portion of our planned capital expenditures can be adjusted to reflect changes in our expectations for future customer spending. We expect to manage our capital expenditures to match market demand.

COMPLIANCE

We do business in over 90 countries, including approximately one-half of the 40 countries having the lowest scores, which indicates high levels of corruption, in Transparency International's Corruption Perception Index survey for 2009. We devote significant resources to the development, maintenance and enforcement of our Business Code of Conduct policy, our anti-bribery compliance policies, our internal control processes and procedures and other compliance related policies. Notwithstanding the devotion of such resources, and in part as a consequence thereof, from time to time we discover or receive information alleging potential violations of laws and regulations, including the FCPA and our policies, processes and procedures. We conduct internal investigations of these potential violations and take appropriate action depending upon the outcome of the investigation.

We anticipate that the devotion of significant resources to compliance-related issues, including the necessity for investigations, will continue to be an aspect of doing business in a number of the countries in which oil and natural gas exploration, development and production take place and in which we are requested to conduct operations. Compliance-related issues have limited our ability to do business and/or have raised the cost of operating in these countries. In order to provide products and services in some of these countries, we may in the future utilize ventures with third parties, sell products to distributors or otherwise modify our business approach in order to improve our ability to conduct our business in accordance with applicable laws and regulations and our Business Code of Conduct.

Our *Best-in-Class* Global Ethics and Compliance Program ("Compliance Program") is based on (i) our Core Values of Integrity, Performance, Teamwork and Learning; (ii) the standards contained in our Business Code of Conduct; (iii) the laws of the countries where we operate; and (iv) our commitments to the DOJ and the SEC. Our Compliance Program is referenced within the Company as "C2" or "Completely Compliant". The Completely Compliant theme is intended to establish the proper *Tone-at-the-Top* throughout the Company. Employees are consistently reminded that they play a crucial role in ensuring that the Company always conducts its business ethically, legally and safely.

Our Chief Compliance Officer ("CCO") oversees the development, administration and enforcement of our Business Code of Conduct, as well as legal compliance standards, policies, procedures and processes. The CCO reports directly to the Senior Vice President and General Counsel and the Chairman of the Audit/Ethics Committee of our Board of Directors. The CCO has ready access to all of the other senior officers of the Company. Our legal compliance group includes our CCO, International Trade Counsel, Region Compliance Counsel, FCPA due diligence counsel, specialized investigative counsel, as well as labor and employment counsel. The legal compliance

group and our other company attorneys located throughout the world are available to answer legal questions regarding the Compliance Program and provide assistance to employees.

In connection with our settlements with the DOJ and SEC, we retained an independent monitor (the "Monitor") to assess and make recommendations about our compliance policies and procedures. The Monitor is required to perform two follow up reviews and to "certify whether the anti-bribery compliance program of Baker Hughes, including its policies and procedures, is appropriately designed and implemented to ensure compliance with the FCPA, U.S. commercial bribery laws and foreign bribery laws". On April 8, 2009, the Monitor issued his report for the first of such follow up reviews and the Monitor issued his certification that our compliance program is appropriately designed and implemented to ensure such compliance. In response to the Monitor's initial recommendations, we enhanced and added several elements to our overall Compliance Program.

Highlights of our Compliance Program, including enhancements or additions as a result of the independent monitor's recommendations, include the following:

- We have a comprehensive employee compliance training program covering substantially all employees. This includes requiring all employees to take web-based FCPA training and testing modules, which are available in numerous languages; mandatory global, in-person, customized training on anti-bribery compliance for key managers, customs/logistics personnel, sponsors of commercial sales representatives, persons dealing with petty cash, invoice coding and approval, and expense account approval, sales/marketing personnel dealing with national oil companies and specially designed training for all new employees. In addition, our programs allow us to verify the prompt training of new employees regarding our Core Values, Business Code of Conduct and Compliance Standards;
- We have comprehensive internal policies over such areas as facilitating payments; travel, entertainment, gifts and charitable donations connected to non-U.S. government officials; payments to non-U.S. commercial sales representatives; due diligence procedures for commercial sales representatives, processing consultants and professional consultants; non-U.S. community contributions; real estate transactions in selected countries; and the use of non-U.S. police or military organizations for security purposes. In addition, we have country-specific guidance for customs standards, export and re-export controls, economic sanctions and antiboycott laws;
- We have a special compliance committee, which is made up of senior officers, that meets no less than twice a year to review the oversight reports for all active commercial sales representatives;
- We use technology to monitor and report on compliance matters, including a web-based antiboycott reporting tool and a global trade management software tool;
- We have a whistleblower program designed to encourage reporting of any ethics or compliance matter without fear of retaliation including a worldwide Business Helpline operated by a third party and currently available toll-free in 150 languages to ensure that our helpline is easily accessible to employees in their own language;
- We have a Blue Ribbon Panel comprised of well-known outside experts advising us in the areas of securities and compliance laws;
- We have continued our reduction of the use of commercial sales representatives ("CSRs") and processing agents, including the reduction of customs agents. We have also continued to enhance our channels of communication regarding agents while streamlining our compliance due diligence process for agents, including more clearly delineating the responsibilities of participants in the compliance due diligence process. We have adopted a risk-based compliance due diligence procedure for professional agents, enhancing our process for classifying distributors and creating a formal policy to guide business personnel in determining when subcontractors should be subjected to compliance due diligence. We have also instituted a program to ensure that each of our internal sponsors regularly reviews their CSRs, including a review with senior management;
- We have adopted a risk-based compliance due diligence procedure for processing and professional agents, enhancing our process for classifying distributors and creating a formal policy to guide business personnel in determining when subcontractors should be subjected to compliance due diligence;
- We have reviewed and expanded the use of our centralized finance organization including further implementation of our enterprise-wide accounting system and company-wide policies regarding expense reporting, petty cash, the approval of invoice payments and general ledger account coding. We also have consolidated our divisional audit functions and redeployed some of these resources for corporate audits. Further, we have restructured our corporate audit function, and are incorporating additional anti-corruption procedures into some of our audits, which are applied on a country-wide basis. We are also continuing to refine and enhance our procedures for FCPA compliance reviews, risk assessments, and legal audit procedures;
- We continue to work to ensure that we have adequate legal compliance coverage around the world, including the coordination of compliance advice and training across all regions and countries where we do business. We have also worked to create simplified summaries, flow charts, and FAQs (Frequently Asked Questions) to accompany each of our compliance related policies and we are supplementing our existing policies. At the same time, we are taking steps to achieve further centralization of our customs and logistics function including the development of uniform and simplified customs policies and procedures. We are also developing uniform procedures for the verification and documentation of services provided by customs agents and a training program in which customs and logistics personnel receive specialized training focused specifically on risks associated with the customs process. We have also adopted a written plan for reviewing and reducing the number of our customs agents and freight forwarders;
- We are continuing to centralize our human resources function, including creating consistent standards for pre-hire screening of employees, the screening of existing employees prior to promoting them to positions where they may be exposed to corruption-related risks, and creating a uniform

policy for on-boarding training. We are implementing a training program that identifies employees for compliance training and sets appropriate training schedules based on job function and risk profile in addition to employment grade. Further, the contents of our training programs are being tailored to address the different risks posed by different categories of employees. We are supplementing our FCPA electronic training module while taking steps to ensure that training is available in the principal local languages of our employees and that local anti-corruption laws are discussed as part of our compliance training. We have also worked to ensure that our helpline is easily accessible to employees in their own language as well as taking actions to counter any cultural norms that might discourage employees from using the helpline. We continue to provide a regular and consistent message from senior management that compliance with our Code of Conduct is obligatory, everyone at Baker Hughes is accountable for upholding its requirements, and emphasizes that compliance is a positive factor in the continued success of our business.

LIQUIDITY AND CAPITAL RESOURCES

Our objective in financing our business is to maintain adequate financial resources and access to sufficient liquidity. At December 31, 2009, we had cash and cash equivalents of \$1.59 billion and \$1.0 billion available for borrowing under committed revolving credit facilities with commercial banks. We have a shelf registration statement on file with the SEC, which positions us to raise additional funds in the capital market as deemed appropriate.

During the first half of 2009, the declines in commodity prices led to reductions in cash flows of many of our customers. In addition, the tight credit markets and increased costs of borrowing affected the availability of credit. These factors may have adverse effects on the financial condition of our customers, which may result in delays, partial payment or non-payment of amounts owed to us thus negatively impacting our operating cash flows. During the second half of 2009, the capital markets improved and allowed some of our customers renewed access.

Our capital planning process is focused on utilizing cash flows generated from operations in ways that enhance the value of our company. In 2009, we used cash to pay for a variety of activities including working capital needs, dividends, debt maturities and capital expenditures.

Cash Flows

Cash flows provided (used) by continuing operations by type of activity were as follows for the years ended December 31 (in millions):

	2009	2008	2007
Operating activities	\$ 1,239	\$ 1,614	\$ 1,475
Investing activities	(966)	(1,170)	(620)
Financing activities	(675)	541	(593)

Statements of cash flows for entities with international operations that are local currency functional exclude the effects of the changes in foreign currency exchange rates that occur during any given year, as these are noncash changes. As a result, changes reflected in certain accounts on the consolidated statements of cash flows may not equal the changes in corresponding accounts on the consolidated balance sheets.

Operating Activities

Cash flows from operating activities provided \$1,239 million for the year ended December 31, 2009 compared with \$1,614 million for the year ended December 31, 2008. This decrease in cash flows of \$375 million is primarily due to a decrease in net income offset by the change in net operating assets and liabilities that provided more cash in 2009 compared to 2008.

The underlying drivers in 2009 of the changes in operating assets and liabilities are as follows:

- A decrease in accounts receivable provided \$399 million in cash compared with using \$515 million in 2008. The change in accounts receivable was primarily due to the decrease in activity offset by an increase in the days sales outstanding (defined as the average number of days our net trade receivables are outstanding based on quarterly revenues) by approximately nine days, reflecting a slowdown in customer payments.
- Inventory provided \$240 million in cash compared with using \$371 million in 2008 due to activity decreases.
- A decrease in accounts payable used \$89 million in cash in 2009 compared with providing \$242 million in cash in 2008. This decrease in accounts payable corresponds with the decrease in operating assets to support decreased activity.
- Accrued employee compensation and other accrued liabilities used \$130 million in cash in 2009 compared with providing \$90 million in cash in 2008. The change was primarily due to an increase in payments in 2009 compared to 2008 primarily related to employee bonuses earned in 2008 but paid in 2009.
- Our contributions to our defined benefit pension plans in 2009 and 2008 totaled \$15 million in each year.

Cash flows from operating activities of continuing operations provided \$1,614 million for the year ended December 31, 2008 compared with \$1,475 million for the year ended December 31, 2007. Cash flows from operating activities for 2007 were reduced by \$125 million for income tax payments related to the gain on the sale of our interest in WesternGeco. Excluding these income tax payments, cash flows from operating activities for 2007 were \$1,600 million increasing only slightly in 2008.

The underlying drivers in 2008 of the changes in operating assets and liabilities are as follows:

- An increase in accounts receivable used \$515 million in cash in 2008 compared with using \$309 million in cash in 2007. This increase in accounts receivable was primarily due to the increase in revenues. Days sales outstanding (defined as the average number of days our net trade receivables are outstanding based on quarterly revenues) remained flat.

- A build up in inventory related to increased activity used \$371 million in cash in 2008 compared with using \$142 million in cash in 2007.
- An increase in accounts payable provided \$242 million in cash in 2008 compared with providing \$26 million in cash in 2007. This increase in accounts payable was primarily due to an increase in operating assets to support increased activity.
- Accrued employee compensation and other accrued liabilities provided \$90 million in cash in 2008 compared with using \$139 million in cash in 2007. The increase in cash was primarily due to payments made in 2007 that were greater than payments made in 2008 including payments related to employee bonuses, non-income tax liabilities and the payment of \$44 million related to the settlement of the investigations by the SEC and DOJ.
- Our contributions to our defined benefit pension plans in 2008 were \$15 million compared to 2007 contributions of \$21 million, a decrease of \$6 million driven primarily by the change in exchange rates in non-U.S. locations.

Investing Activities

Our principal recurring investing activity is the funding of capital expenditures to support the appropriate levels and types of rental tools we have in place to generate revenues from operations. Expenditures for capital assets totaled \$1,086 million, \$1,303 million and \$1,127 million for 2009, 2008 and 2007, respectively. While the majority of these expenditures were for rental tools, including wireline tools, and machinery and equipment, we have also increased our spending on new facilities, expansions of existing facilities and other infrastructure projects.

Proceeds from disposal of assets were \$163 million, \$222 million and \$179 million for 2009, 2008 and 2007, respectively. These disposals relate to rental tools that were lost-in-hole, as well as machinery, rental tools and equipment no longer used in operations that were sold throughout the year.

We routinely evaluate potential acquisitions of businesses of third parties that may enhance our current operations or expand our operations into new markets or product lines. We may also from time to time sell business operations that are not considered part of our core business. During 2009, we paid \$47 million, net of cash acquired of \$4 million, for several acquisitions and as a result, recorded \$9 million of goodwill and \$22 million of intangible assets. We also paid \$11 million for additional purchase price consideration for past acquisitions.

In 2008, we paid an aggregate of \$120 million for acquisitions of businesses, the most significant of which were the acquisitions for our reservoir technology and consulting group, in which we paid cash of \$72 million, including \$4 million of direct transaction costs and net of cash acquired of \$5 million. As a result of these acquisitions, we recorded \$45 million of goodwill and \$45 million of intangible assets.

In 2008, we sold the assets associated with the Completion and Production segment's Surface Safety Systems product line and received cash proceeds of \$31 million.

Prior to September 2007, we invested in auction rate securities. We limited our investments in auction rate securities ("ARS") to non mortgage-backed securities that, at the time of the initial investment, carried an AAA (or equivalent) rating from a recognized rating agency. In December 2008, we recorded an impairment loss of \$25 million on these investments. In December 2009, we sold the ARS for \$15 million and recorded a gain of \$4 million.

In 2007, we received \$10 million in proceeds from the sale of our equity investment in Toyo Petrolite Company Ltd.

Financing Activities

We had net repayments of commercial paper and other short-term debt of \$16 million in 2009, and net borrowing of commercial paper and short-term debt of \$15 million and \$14 million in 2008 and 2007, respectively. In addition, in the first quarter of 2009, we repaid \$525 million of maturing long-term debt. Total debt outstanding at December 31, 2009 was \$1.80 billion, a decrease of \$533 million compared with December 31, 2008. The total debt to total capitalization (defined as total debt plus stockholders' equity) ratio was 0.20 at December 31, 2009 and 0.25 at December 31, 2008.

On October 28, 2008, we sold \$500 million of 6.50% Senior Notes that will mature November 15, 2013, and \$750 million of 7.50% Senior Notes that will mature November 15, 2018 (collectively, the "Notes"). Net proceeds from the offering were \$1,235 million after deducting the underwriting discounts and expenses of the offering. We used a portion of the net proceeds to repay outstanding commercial paper, as well as to repay \$325 million aggregate principal amount of our outstanding 6.25% notes, which matured on January 15, 2009, and \$200 million aggregate principal amount of our outstanding 6.00% notes, which matured on February 15, 2009. We used the remaining net proceeds from the offering for general corporate purposes. The Notes are senior unsecured obligations and rank equal in right of payment to all of our existing and future senior indebtedness; senior in right of payment to any future subordinated indebtedness; and effectively junior to our future secured indebtedness, if any, and to all existing and future indebtedness of our subsidiaries. We may redeem, at our option, all or part of the Notes at any time, at the applicable make-whole redemption prices plus accrued and unpaid interest to the date of redemption.

We received proceeds of \$51 million, \$87 million and \$67 million in 2009, 2008 and 2007, respectively, from the issuance of common stock through the exercise of stock options and the employee stock purchase plan.

Our Board of Directors has authorized a program to repurchase our common stock from time to time. During 2007, we repurchased 6 million shares of common stock at an average price of \$81.25 per share for a total of \$521 million. During 2008, we repurchased 9 million shares of our common stock at an average price of \$68.12 per share for a total of \$627 million. During 2009, we did not repurchase any shares of common stock. We had authorization remaining to repurchase approximately \$1.2 billion in common stock at the end of 2009.

We paid dividends of \$185 million, \$173 million and \$167 million in 2009, 2008 and 2007, respectively.

Available Credit Facilities

On March 30, 2009, we entered into a credit agreement (the "2009 Credit Agreement") for a committed \$500 million revolving credit facility that expires on March 29, 2010, which we currently expect to extend or replace. In addition to the 2009 Credit Agreement, there is a \$500 million committed revolving credit facility which expires on July 7, 2012. Under a committed facility, the lender is obligated to advance funds and/or provide credit to the borrower as per the terms and conditions stipulated in the credit agreement. At December 31, 2009, we had \$1.0 billion of committed revolving credit facilities with commercial banks. Both facilities contain certain covenants which, among other things, require the maintenance of a funded indebtedness to total capitalization ratio (a defined formula per the facility), restrict certain merger transactions or the sale of all or substantially all of our assets or a significant subsidiary and limit the amount of subsidiary indebtedness. Upon the occurrence of certain events of default, our obligations under the facilities may be accelerated. Such events of default include payment defaults to lenders under the facilities, covenant defaults and other customary defaults.

At December 31, 2009, we were in compliance with all of the facility covenants of both committed credit facilities. There were no direct borrowings under the committed credit facilities at the end of 2009. We also have an outstanding commercial paper program under which we may issue from time to time up to \$1.0 billion in commercial paper with maturity of no more than 270 days. To the extent we have commercial paper outstanding, our ability to borrow under the committed credit facilities is reduced by a similar amount. At December 31, 2009, we had no commercial paper outstanding.

If market conditions were to change and revenues were to be significantly reduced or operating costs were to increase, our cash flows and liquidity could be reduced. Additionally, it could cause the rating agencies to lower our credit rating. There are no ratings triggers that would accelerate the maturity of any borrowings under our committed credit facilities. However, a downgrade in our credit ratings could increase the cost of borrowings under the facilities and could also limit or preclude our ability to issue commercial paper. Should this occur, we would seek alternative sources of funding, including borrowing under the facilities.

We believe our current credit ratings would allow us to obtain interim financing over and above our existing credit facilities for any currently unforeseen significant needs or growth opportunities. We also believe that such interim financings could be funded with subsequent issuances of long-term debt or equity, if necessary.

Cash Requirements

In 2010, we believe cash on hand and operating cash flows will provide us with sufficient capital resources and liquidity to manage our working capital needs, meet contractual obligations, fund capital expenditures, and support the development of our short-term and long-term operating strategies. We may issue commercial paper or other short-term debt to fund cash needs in the U.S. in excess of the cash generated in the U.S.

The expectations described below exclude any amounts related to the pending merger with BJ Services.

In 2010, we expect our capital expenditures to be between \$1.1 billion to \$1.2 billion, excluding any amount related to the pending merger with BJ Services and other acquisitions. The expenditures are expected to be used primarily for normal, recurring items necessary to support our business and operations. A significant portion of our capital expenditures can be adjusted based on future activity of our customers. We expect to manage our capital expenditures to match market demand. In 2010, we also expect to make interest payments of between \$129 million and \$135 million, based on debt levels as of December 31, 2009. We anticipate making income tax payments of between \$300 million and \$350 million in 2010.

We may repurchase our common stock depending on market conditions, applicable legal requirements, our liquidity and other considerations. We anticipate paying dividends of between \$180 million and \$190 million in 2010; however, the Board of Directors can change the dividend policy at anytime.

For all pension plans, we make annual contributions to the plans in amounts equal to or greater than amounts necessary to meet minimum governmental funding requirements. Although we previously expected to forgo contributions for a period of five to eight years, due to recent downturns in investment markets and the decline in the value of the pension plan assets, we may be required to make contributions to the U.S. qualified pension plan within the next one to two years. In 2010, we expect to contribute between \$20 million and \$25 million to our U.S. pension plans and between \$15 million and \$20 million to the non-U.S. pension plans. In 2010, we also expect to make benefit payments related to post-retirement welfare plans of between \$18 million and \$20 million, and we estimate we will contribute between \$142 million and \$154 million to our defined contribution plans. See Note 14 of the Notes to Consolidated Financial Statements in Item 8 herein for further discussion of our employee benefit plans.

Cash Requirement for Pending Merger

Subject to receipt of all required approvals, we currently anticipate that the closing of the BJ Services merger will occur in March of 2010. In order to fund the estimated \$794 million cash portion of the merger consideration, we expect to use approximately \$294 million of our cash on hand and \$500 million of our financing through available facilities or market issuances of debt securities. In addition, we intend to use such internal cash resources and financing as well as cash on hand of BJ Services following the merger, which at December 31, 2009 was \$261 million, to pay for the estimated direct merger transaction costs and professional services as well as pre-existing change of control contractual payments to certain BJ Services employees that as of December 31, 2009 was estimated to be approximately \$280 million. Also, in connection with the pending merger we will assume approximately \$500 million of long-term debt of BJ Services and various guarantees and contractual obligations in place in connection with BJ Services' normal course of business. Following the merger, we may seek additional sources of funding.

Contractual Obligations

In the table below, we set forth our contractual cash obligations as of December 31, 2009. Certain amounts included in this table are based on our estimates and assumptions about these obligations, including their duration, anticipated actions by third parties and other factors. The contractual cash obligations we will actually pay in future periods may vary from those reflected in the table because the estimates and assumptions are subjective (in millions).

	Payments Due by Period				
	Total	Less Than 1 year	2–3 Years	4–5 Years	More than 5 Years
Total debt ⁽¹⁾	\$ 1,815	\$ 15	\$ –	\$ 500	\$ 1,300
Estimated interest payments ⁽²⁾	1,352	129	258	224	741
Operating leases ⁽³⁾	445	126	150	67	102
Purchase obligations ⁽⁴⁾	221	219	2	–	–
Other long-term liabilities ⁽⁵⁾	53	10	17	5	21
Income tax liabilities for uncertain tax positions ⁽⁶⁾	339	115	160	43	21
Total	\$ 4,225	\$ 614	\$ 587	\$ 839	\$ 2,185

⁽¹⁾ Amounts represent the expected cash payments for our total debt and do not include any unamortized discounts, deferred issuance costs or net deferred gains on terminated interest rate swap agreements.

⁽²⁾ Amounts represent the expected cash payments for interest on our long-term debt.

⁽³⁾ We enter into operating leases in the normal course of business. Some lease agreements provide us with the option to renew the lease. Our future operating lease payments as reflected in the table above would change if we exercised these renewal options and if we entered into additional operating lease agreements.

⁽⁴⁾ Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable at anytime without penalty.

⁽⁵⁾ Amounts represent other long-term liabilities, including the current portion, reflected in the consolidated balance sheet where both the timing and amount of payment streams are known. Amounts include: payments for certain environmental remediation liabilities, payments for deferred compensation, payouts under acquisition agreements and payments for certain asset retirement obligations. Amounts do not include: payments for pension contributions and payments for various postretirement welfare benefit plans and postemployment benefit plans.

⁽⁶⁾ The estimated income tax liabilities for uncertain tax positions will be settled as a result of expiring statutes, audit activity, competent authority proceedings related to transfer pricing, or final decisions in matters that are the subject of litigation in various taxing jurisdictions in which we operate. The timing of any particular settlement will depend on the length of the tax audit and related appeals process, if any, or an expiration of a statute. If a liability is settled due to a statute expiring or a favorable audit result, the settlement of the tax liability would not result in a cash payment.

Off-Balance Sheet Arrangements

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, such as letters of credit and other bank issued guarantees, which totaled approximately \$692 million at December 31, 2009. We also had commitments outstanding for purchase obligations related to capital expenditures and inventory under purchase orders and contracts of approximately \$221 million at December 31, 2009. It is not practicable to estimate the fair value of these financial instruments. None of the off-balance sheet arrangements either has, or is likely to have, a material effect on our consolidated financial statements.

Other than normal operating leases, we do not have any off-balance sheet financing arrangements such as securitization agreements, liquidity trust vehicles, synthetic leases or special purpose entities. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures and about contingent assets and liabilities. We base these estimates and judgments on historical

experience and other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty, and accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the business environment in which we operate changes.

We have defined a critical accounting estimate as one that is both important to the portrayal of either our financial condition or results of operations and requires us to make difficult, subjective or complex judgments or estimates about matters that are uncertain. We have discussed the development and selection of our critical accounting estimates with the Audit/Ethics Committee of our Board of Directors and the Audit/Ethics Committee has reviewed the disclosure presented below. During the past three fiscal years, we have not made any material changes in the methodology used to establish the critical accounting estimates discussed below, except as required by the adoption of ASC 740, *Income Taxes*. We believe that the following are the critical accounting estimates used in the preparation of our consolidated financial statements. In addition, there are other items within our consolidated financial statements that require estimation but are not deemed critical as defined above.

Allowance for Doubtful Accounts

The determination of the collectibility of amounts due from our customers requires us to use estimates and make judgments regarding future events and trends, including monitoring our customers' payment history and current credit worthiness to determine that collectibility is reasonably assured, as well as consideration of the overall business climate in which our customers operate. Inherently, these uncertainties require us to make frequent judgments and estimates regarding our customers' ability to pay amounts due us in order to determine the appropriate amount of valuation allowances required for doubtful accounts. Provisions for doubtful accounts are recorded when it becomes evident that the customer will not make the required payments at either contractual due dates or in the future. At December 31, 2009 and 2008, allowance for doubtful accounts totaled \$157 million, or 6%, and \$74 million, or 3%, of total gross accounts receivable, respectively. Starting in late 2008 and continuing through the fourth quarter of 2009, we experienced a delay in receiving payments from our customers in Venezuela resulting in an increase in our provisions for doubtful accounts in 2009. We believe that our allowance for doubtful accounts is adequate to cover potential bad debt losses under current conditions; however, uncertainties regarding changes in the financial condition of our customers, either adverse or positive, could impact the amount and timing of any additional provisions for doubtful accounts that may be required. A five percent change in the allowance for doubtful accounts would have had an impact on income before income taxes of approximately \$8 million in 2009.

Inventory Reserves

Inventory is a significant component of current assets and is stated at the lower of cost or market. This requires us to record provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine these reserve amounts, we regularly review inventory quantities on hand and compare them to estimates of future product demand, market conditions, production requirements and technological developments. These estimates and forecasts inherently include uncertainties and require us to make judgments regarding potential outcomes. At December 31, 2009 and 2008, inventory reserves totaled \$297 million, or 14%, and \$244 million, or 11%, of gross inventory, respectively. We believe that our reserves are adequate to properly value potential excess, slow moving and obsolete inventory under current conditions. Significant or unanticipated changes to our estimates and forecasts could impact the amount and timing of any additional provisions for excess or obsolete inventory that may be required. A five percent change in this inventory reserve balance would have had an impact on income before income taxes of approximately \$15 million in 2009.

Impairment of Long-Lived Assets

Long-lived assets, which include property, goodwill, intangible assets, and certain other assets, comprise a significant amount of our total assets. We review the carrying values of these assets for impairment periodically, and at least annually

for goodwill, or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the carrying amount is not recoverable. This requires us to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for our products and services, future market conditions and technological developments. We perform our annual impairment test of goodwill as of October 1 of each year. In performing the test, we individually test each of our seven reporting units. These tests involve the use of three different valuation techniques, including a market approach, comparable transactions and discounted cash flow methodology, all of which include, but are not limited to, assumptions regarding matters such as discount rates, anticipated growth rates and expected profitability rates and similar items. The results of the 2009 test indicated that there were no impairments of goodwill; however, for three reporting units, the excess of estimated fair value over the carrying value was less than 15% of the related carrying value. Goodwill associated with these three reporting units totaled approximately \$394 million at December 31, 2009. Unanticipated changes, including even small revisions, to these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, it is not possible to reasonably quantify the impact of changes in these assumptions.

Income Taxes

The liability method is used for determining our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for valuation allowances, we have considered and made judgments and estimates regarding estimated future taxable income and ongoing prudent and feasible tax planning strategies. These estimates and judgments include some degree of uncertainty and changes in these estimates and assumptions could require us to adjust the valuation allowances for our deferred tax assets. Historically, changes to valuation allowances have been caused by major changes in the business cycle in certain countries and changes in local country law. The ultimate realization of the deferred tax assets depends on the generation of sufficient taxable income in the applicable taxing jurisdictions.

We operate in more than 90 countries under many legal forms. As a result, we are subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. Our operations in these different jurisdictions are taxed on various bases: actual income before taxes, deemed profits (which are

generally determined using a percentage of revenues rather than profits) and withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or our level of operations or profitability in each taxing jurisdiction could have an impact on the amount of income taxes that we provide during any given year.

Our tax filings for various periods are subjected to audit by the tax authorities in most jurisdictions where we conduct business. These audits may result in assessments of additional taxes that are resolved with the authorities or through the courts. We believe these assessments may occasionally be based on erroneous and even arbitrary interpretations of local tax law. Resolution of these situations inevitably includes some degree of uncertainty; accordingly, we provide taxes only for the amounts we believe will ultimately result from these proceedings consistent with the requirements of ASC 740, *Income Taxes*. The resulting change to our tax liability, if any, is dependent on numerous factors that are difficult to estimate. These include, among others, the amount and nature of additional taxes potentially asserted by local tax authorities; the willingness of local tax authorities to negotiate a fair settlement through an administrative process; the impartiality of the local courts; the sheer number of countries in which we do business; and the potential for changes in the tax paid to one country to either produce, or fail to produce, an offsetting tax change in other countries. Our experience has been that the estimates and assumptions we have used to provide for future tax assessments have proven to be appropriate. However, past experience is only a guide, and the potential exists, however limited, that the tax resulting from the resolution of current and potential future tax controversies may differ materially from the amount accrued.

In addition to the aforementioned assessments that have been received from various tax authorities, we provide for taxes for uncertain tax positions where assessments have not been received in accordance with ASC 740, *Income Taxes*. We believe such tax reserves are adequate in relation to the potential for additional assessments. Once established, we adjust these amounts only when more information is available or when an event occurs necessitating a change to the reserves. Future events such as changes in the facts or law, judicial decisions regarding the application of existing law or a favorable audit outcome will result in changes to the amounts provided. We believe that the resolution of tax matters will not have a material effect on the consolidated financial condition of the Company, although a resolution could have a material impact on our consolidated statement of operations for a particular period and on our effective tax rate for any period in which such resolution occurs.

Pensions and Postretirement Benefit Obligations

Pensions and postretirement benefit obligations and the related plan expenses are calculated using actuarial models and methods. This involves the use of two critical assumptions, the discount rate and the expected rate of return on assets, both of which are important elements in determining plan expenses and in measuring plan assets and liabilities. We evaluate these critical assumptions at least annually. Although considered less critical, other assumptions used in determining benefit obligations and plan expenses, such as demographic factors like retirement age, mortality and turnover, are also evaluated periodically and are updated to reflect our actual and expected experience.

The discount rate enables us to state expected future cash flows at a present value on the measurement date. The development of the discount rate for our U.S. plans was based on a bond matching model whereby a hypothetical bond portfolio of high-quality, fixed-income securities is selected that will match the cash flows underlying the projected benefit obligation. The discount rate assumption for our non-U.S. plans reflects the market rate for high-quality, fixed-income securities. A lower discount rate increases the present value of benefit obligations and increases plan expenses. We used a discount rate of 6.4% in 2009 and 6.0% in 2008 and in 2007 to determine plan expenses. A 50 basis point reduction in the discount rate would have decreased income before income taxes by approximately \$3 million in 2009.

To determine the expected rate of return on plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. A lower rate of return increases plan expenses. We assumed rates of return on our plan investments were 8.0% in 2009 and in 2008 and 8.5% in 2007. A 50 basis point reduction in the expected rate of return on assets of our principal plans would have decreased income before income taxes by approximately \$2 million in 2009.

NEW ACCOUNTING STANDARDS AND ACCOUNTING STANDARDS UPDATES

In June 2009, the Financial Accounting Standards Board ("FASB") issued ASC 105, *Generally Accepted Accounting Principles*. The ASC identifies itself as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP. The ASC does not change GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We have included references to authoritative accounting literature in accordance with the Codification. There are no other changes to the content of the Company's financial statements or disclosures as a result of the adoption.

In October 2009, the FASB issued an update to ASC 605, *Revenue Recognition – Multiple Deliverable Revenue Arrangements*. This ASU addresses accounting for multiple-deliverable arrangements to enable vendors to account for deliverables separately. The provision establishes a selling price hierarchy for determining the selling price of a deliverable. This update requires expanded disclosures for multiple deliverable revenue arrangements. The ASU will be effective for revenue arrangements entered into or materially modified beginning on or after June 15, 2010. We have not determined the impact, if any, on our consolidated financial statements.

In September 2006, FASB issued ASC 820, *Fair Value Measurements and Disclosures*, which is intended to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. On January 1, 2008, we adopted the provisions of this ASC related to financial assets and liabilities and to nonfinancial assets and liabilities measured at fair value on a recurring basis and on January 1, 2009, we adopted the provisions related to nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. There was no material impact to our consolidated financial statements related to these adoptions. Additionally, in April 2009, the FASB issued the following three accounting standards updates: (i) ASC 820, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, (ii) ASC 320, *Recognition and Presentation of Other-Than-Temporary Impairments*, and (iii) ASC 825, *Interim Disclosures about Fair Value of Financial Instruments*, which collectively provide additional guidance and require additional disclosure regarding determining and reporting fair values for certain assets and liabilities. We adopted the three accounting standards updates in the second quarter of 2009 with no material impact to our consolidated financial statements. In September 2009, the FASB issued an update to ASC 820, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU provides a practical means for measuring the fair value of investments in certain entities that calculate net asset value per share. The ASU is effective for the first reporting period ending after December 15, 2009. We adopted the provisions and disclosure requirements of this ASU in December 2009 with no material impact to our consolidated financial statements.

In December 2007, the FASB issued an update to ASC 810, *Consolidation*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary in an effort to improve the relevance, comparability and transparency of the financial information that a reporting entity provides. On January 1, 2009, we adopted this statement with no change to our consolidated financial statements as amounts are immaterial.

In December 2007, the FASB issued an update to ASC 805, *Business Combinations*, to establish principles and requirements for the recognition and measurement of assets, liabilities and goodwill, and requires that most transaction and restructuring costs related to the acquisition be expensed. We have applied the provisions of this ASC for business combinations with an acquisition date on or after January 1, 2009.

In March 2008, the FASB issued an update to ASC 815, *Disclosures about Derivative Instruments and Hedging Activities*, to require qualitative disclosures about objectives and strategies for using derivatives and quantitative data about the fair value of and gains and losses on derivative contracts. We adopted the new disclosure requirements in the first quarter of 2009.

In June 2008, the FASB issued an update to ASC 260, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that all unvested share-based payments that contain rights to non-forfeitable dividends are participating securities and shall be included in the computation of both basic and diluted earnings per share. On January 1, 2009, we adopted this ASC and have not applied the provisions to prior year quarters as the impact is immaterial.

In December 2008, the FASB issued an update to ASC 715, *Employers' Disclosures about Postretirement Benefit Plan Assets*, to require the disclosures of investment policies and strategies, major categories of plan assets, fair value measurement of plan assets and significant concentration of credit risks. We adopted the new disclosure requirements in the fourth quarter of 2009. See Note 14 of the Notes to Consolidated Financial Statements in Item 8 herein for further information on the impact of this standard.

RELATED PARTY TRANSACTIONS

There were no significant related party transactions during the three years ended December 31, 2009.

FORWARD-LOOKING STATEMENTS

MD&A and certain statements in the Notes to Consolidated Financial Statements include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act (each a "forward-looking statement"). The words "anticipate," "believe," "ensure," "expect," "if," "intend," "estimate," "probable," "project," "forecasts," "predict," "outlook," "aim," "will," "could," "should," "would," "may," "likely" and similar expressions, and the negative thereof, are intended to identify forward-looking statements. Our forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. The statements do not include the potential impact of future transactions, such as an acquisition, disposition, merger, joint venture or other transaction that could occur, except to the extent specific disclosure is made with respect to the potential merger with BJ Services. We undertake no obligation to publicly update or revise any forward-looking statement. Our expectations regarding our business outlook, including changes in revenue, pricing, capital

spending, profitability, strategies for our operations, impact of any common stock repurchases, oil and natural gas market conditions, market share and contract terms, costs and availability of resources, economic and regulatory conditions, the potential merger with BJ Services, and environmental matters are only our forecasts regarding these matters.

All of our forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors and the timing of any of those risk factors identified in Item 1A. Risk Factors and those set forth from time to time in our filings with the SEC. These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval System ("EDGAR") at <http://www.sec.gov>.

Risk Factors

For discussion of our risk factors and cautions regarding forward-looking statements, see Item 1A. Risk Factors and in the "Forward-Looking Statements" section in Item 7, both contained herein. The risk factors and cautions discussed there are not intended to be all inclusive.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks that are inherent in our financial instruments and arise from changes in interest rates and foreign currency exchange rates. We may enter into derivative financial instrument transactions to manage or reduce market risk but do not enter into derivative financial instrument transactions for speculative purposes. A discussion of our primary market risk exposure in financial instruments is presented below.

INTEREST RATE RISK AND INDEBTEDNESS

We are subject to interest rate risk on our long-term fixed interest rate debt. Commercial paper borrowings, other short-term borrowings and variable rate long-term debt do not give rise to significant interest rate risk because these borrowings either have maturities of less than three months or have variable interest rates similar to the interest rates we receive on our short-term investments. All other things being equal, the fair market value of debt with a fixed interest rate will increase as interest rates fall and will decrease as interest rates rise. This exposure to interest rate risk can be managed by borrowing money that has a variable interest rate or using interest rate swaps to change fixed interest rate borrowings to variable interest rate borrowings.

Interest Rate Swap Agreements

In June 2009, we entered into two interest rate swap agreements ("the Swap Agreements") for a notional amount of \$250 million each in order to hedge changes in the fair market value of our \$500 million 6.5% senior notes maturing on November 15, 2013. Under the Swap Agreements, we receive interest at a fixed rate of 6.5% and pay interest at a floating rate of one-month Libor plus a spread of 3.67% on one swap and three-month Libor plus a spread of 3.54% on the second swap through November 15, 2013. The Swap Agreements are designated and each qualifies as a fair value hedging instrument. The fair value of the Swap Agreements at December 31, 2009, was a \$7 million asset and was based on quoted market prices for contracts with similar terms and maturity dates.

The financial institutions that are counterparties to the Swap Agreements are primarily the lenders in our credit facilities. Under the terms of the credit support documents governing the Swap Agreements, the relevant party will have to post collateral in the event such party's long-term debt rating falls below investment grade or is no longer rated.

Indebtedness

We had fixed rate debt aggregating to \$1,800 million at December 31, 2009 and \$2,325 million at December 31, 2008. The following table sets forth the required cash payments for our indebtedness, which bear a fixed rate of interest and are denominated in U.S. Dollars, and the related weighted average effective interest rates by expected maturity dates as of December 31, 2009 and 2008 (dollar amounts in millions).

	2008	2009	2010	2011	2012	2013	Thereafter	Total
As of December 31, 2009								
Long-term debt ^{(1) (2)}	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 1,300	\$ 1,800
Weighted average effective interest rates						6.73%	7.61%	7.37%
As of December 31, 2008								
Long-term debt ^{(1) (2)}	\$ -	\$ 525	\$ -	\$ -	\$ -	\$ 500	\$ 1,300	\$ 2,325
Weighted average effective interest rates		5.90% ⁽³⁾				6.73%	7.07%	7.03% ⁽³⁾

⁽¹⁾ Amounts do not include any unamortized discounts, deferred issuance costs or net deferred gains on terminated interest rate swap agreements.

⁽²⁾ Fair market value of fixed rate long-term debt was \$2,111 million at December 31, 2009 and \$2,455 million at December 31, 2008.

⁽³⁾ Includes the effect of the amortization of net deferred gains on terminated interest rate swap agreements.

FOREIGN CURRENCY AND FOREIGN CURRENCY FORWARD CONTRACTS

We conduct operations around the world in a number of different currencies. The majority of our significant foreign subsidiaries have designated the local currency as their functional currency. As such, future earnings are subject to change due to fluctuations in foreign currency exchange rates when transactions are denominated in currencies other than our functional currencies. To minimize the need for foreign currency forward contracts to hedge this exposure, our objective is to manage foreign currency exposure by maintaining a minimal consolidated net asset or net liability position in a currency other than the functional currency.

In January 2010, Venezuela's currency was devalued and a new currency exchange rate system was announced. The new rate will be 4.3 Venezuelan Bolívars Fuertes per U.S. Dollar to apply to our local currency denominated balances and transactions. Although our functional currency is the U.S. Dollar in Venezuela, certain balances and transactions are denominated in local currency. We estimate the impact of this devaluation to be a loss of between \$8 million to \$10 million, which will be recorded in the first quarter of 2010. Going forward, although this devaluation will result in a reduction in the U.S. Dollar reported amount of local currency denominated revenues and expenses, we do not believe the impact will be material to our consolidated financial statements.

Foreign Currency Forward Contracts

At December 31, 2009, we had outstanding foreign currency forward contracts with notional amounts aggregating \$153 million to hedge exposure to currency fluctuations in various foreign currencies. These contracts are designated and qualify as fair value hedging instruments. Based on quoted market prices as of December 31, 2009 for contracts with similar terms and maturity dates, we recorded a loss of \$1 million to adjust these foreign currency forward contracts to their fair market value. This loss offsets designated foreign currency exchange gains resulting from the underlying exposures and is included in MG&A expenses in the consolidated statement of operations.

At December 31, 2008, we had outstanding foreign currency forward contracts with notional amounts aggregating \$125 million to hedge exposure to currency fluctuations in various foreign currencies. These contracts are designated and qualify as fair value hedging instruments. Based on quoted market prices as of December 31, 2008 for contracts with similar terms and maturity dates, we recorded a loss of \$1 million to adjust these foreign currency forward contracts to their fair market value. This loss offsets designated foreign currency exchange gains resulting from the underlying exposures and is included in MG&A expenses in the consolidated statement of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our control environment is the foundation for our system of internal control and is embodied in our Business Code of Conduct, which sets the tone of our company and includes our Core Values of Integrity, Teamwork, Performance and Learning. Included in our system of internal control are written policies, an organizational structure providing division of responsibilities, the selection and training of qualified personnel and a program of financial and operations reviews by a professional staff of internal auditors. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Our evaluation was based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our principal executive officer and principal financial officer concluded that our internal control over financial reporting was effective as of December 31, 2009. The conclusion of our principal executive officer and principal financial officer is based on the recognition that there are inherent limitations in all systems of internal control. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting.



Chad C. Deaton
Chairman, President and
Chief Executive Officer



Peter A. Ragauss
Senior Vice President and
Chief Financial Officer



Alan J. Keifer
Vice President and
Controller

Houston, Texas
February 25, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Baker Hughes Incorporated
Houston, Texas

We have audited the internal control over financial reporting of Baker Hughes Incorporated and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

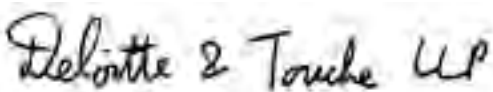
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule II as of and for the year ended December 31, 2009 of the Company and our report dated February 25, 2010 expressed an unqualified opinion on those financial statements and financial statement schedule.



Houston, Texas
February 25, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

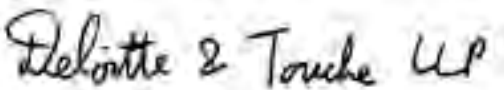
To the Board of Directors and Stockholders of Baker Hughes Incorporated
Houston, Texas

We have audited the accompanying consolidated balance sheets of Baker Hughes Incorporated and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included financial statement schedule II – valuation and qualifying accounts, listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Baker Hughes Incorporated and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Houston, Texas
February 25, 2010

CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(In millions, except per share amounts)</i>	Year Ended December 31,		
	2009	2008	2007
Revenues:			
Sales	\$ 4,809	\$ 5,734	\$ 5,171
Services and rentals	4,855	6,130	5,257
Total revenues	9,664	11,864	10,428
Costs and expenses:			
Cost of sales	3,858	4,081	3,517
Cost of services and rentals	3,539	3,873	3,328
Research and engineering	397	426	372
Marketing, general and administrative	1,120	1,046	933
Acquisition-related costs	18	–	–
Litigation settlement	–	62	–
Total costs and expenses	8,932	9,488	8,150
Operating income	732	2,376	2,278
Equity in income of affiliates	–	2	1
Gain on sale of product line	–	28	–
Gain (loss) on investments	4	(25)	–
Interest expense	(131)	(89)	(66)
Interest and dividend income	6	27	44
Income before income taxes	611	2,319	2,257
Income taxes	(190)	(684)	(743)
Net income	\$ 421	\$ 1,635	\$ 1,514
Basic earnings per share	\$ 1.36	\$ 5.32	\$ 4.76
Diluted earnings per share	\$ 1.36	\$ 5.30	\$ 4.73

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(In millions, except par value)	December 31,	
	2009	2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,595	\$ 1,955
Accounts receivable – less allowance for doubtful accounts (2009 – \$157; 2008 – \$74)	2,331	2,759
Inventories, net	1,836	2,021
Deferred income taxes	268	231
Other current assets	195	179
Total current assets	6,225	7,145
Property, plant and equipment – less accumulated depreciation (2009 – \$3,668; 2008 – \$3,203)	3,161	2,833
Goodwill	1,418	1,389
Intangible assets, net	195	198
Other assets	440	296
Total assets	\$ 11,439	\$ 11,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 821	\$ 888
Short-term borrowings and current portion of long-term debt	15	558
Accrued employee compensation	448	530
Income taxes payable	95	272
Other accrued liabilities	234	263
Total current liabilities	1,613	2,511
Long-term debt	1,785	1,775
Deferred income taxes and other tax liabilities	309	384
Liabilities for pensions and other postretirement benefits	379	317
Other liabilities	69	67
Commitments and contingencies		
Stockholders' Equity:		
Common stock, one dollar par value (shares authorized – 750; issued and outstanding: 2009 – 312; 2008 – 309)	312	309
Capital in excess of par value	874	745
Retained earnings	6,512	6,276
Accumulated other comprehensive loss	(414)	(523)
Total stockholders' equity	7,284	6,807
Total liabilities and stockholders' equity	\$ 11,439	\$ 11,861

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>(In millions, except per share amounts)</i>	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2006	\$ 320	\$ 1,600	\$ 3,510	\$ (187)	\$ 5,243
Adoption of ASC 360, Property, Plant and Equipment, net of tax of \$(9)			25		25
Adoption of ASC 740, Income Taxes			(64)		(64)
Adjusted beginning balance January 1, 2007	\$ 320	\$ 1,600	\$ 3,471	\$ (187)	\$ 5,204
Comprehensive income:					
Net income			1,514		
Foreign currency translation adjustments				72	
Defined benefit pension plans, net of tax of \$(37)				71	
Total comprehensive income					1,657
Issuance of common stock, pursuant to employee stock plans	2	66			68
Tax benefit on stock plans		19			19
Stock-based compensation		46			46
Repurchase and retirement of common stock	(6)	(515)			(521)
Cash dividends (\$0.52 per share)			(167)		(167)
Balance, December 31, 2007	\$ 316	\$ 1,216	\$ 4,818	\$ (44)	\$ 6,306
Adoption of ASC 715, Compensation – Retirement Benefits			(4)		(4)
Adjusted beginning balance January 1, 2008	316	1,216	4,814	(44)	6,302
Comprehensive income:					
Net income			1,635		
Foreign currency translation adjustments				(354)	
Defined benefit pension plans, net of tax of \$67				(125)	
Total comprehensive income					1,156
Issuance of common stock, pursuant to employee stock plans	2	76			78
Tax benefit on stock plans		11			11
Stock-based compensation		60			60
Repurchase and retirement of common stock	(9)	(618)			(627)
Cash dividends (\$0.56 per share)			(173)		(173)
Balance, December 31, 2008	\$ 309	\$ 745	\$ 6,276	\$ (523)	\$ 6,807
Comprehensive income:					
Net income			421		
Foreign currency translation adjustments				122	
Defined benefit pension plans, net of tax of \$2				(13)	
Total comprehensive income					530
Issuance of common stock, pursuant to employee stock plans	3	43			46
Tax provision on stock plans		(2)			(2)
Stock-based compensation		88			88
Cash dividends (\$0.60 per share)			(185)		(185)
Balance, December 31, 2009	\$ 312	\$ 874	\$ 6,512	\$ (414)	\$ 7,284

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 421	\$ 1,635	\$ 1,514
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	711	637	521
(Gain) loss on investments	(4)	25	–
Stock-based compensation costs	88	60	51
(Benefit) provision for deferred income taxes	(256)	(21)	(4)
Gain on sale of product line	–	(28)	–
Gain on disposal of assets	(64)	(101)	(79)
Provision for doubtful accounts	94	31	22
Changes in operating assets and liabilities:			
Accounts receivable	399	(515)	(309)
Inventories	240	(371)	(142)
Accounts payable	(89)	242	26
Accrued employee compensation and other accrued liabilities	(130)	90	(139)
Income taxes payable	(169)	76	129
Income taxes paid on sale of interest in affiliate	–	–	(125)
Liabilities for pensions and other postretirement benefits and other liabilities	13	(38)	(4)
Other	(15)	(108)	14
Net cash flows from operations	1,239	1,614	1,475
Cash flows from investing activities:			
Expenditures for capital assets	(1,086)	(1,303)	(1,127)
Proceeds from disposal of property, plant and equipment	163	222	179
Proceeds from sale of businesses and interests in affiliates	–	31	10
Acquisition of businesses, net of cash acquired	(58)	(120)	–
Proceeds from sale of investments	15	–	–
Purchase of short-term investments	–	–	(2,521)
Proceeds from maturities of short-term investments	–	–	2,839
Net cash flows from investing activities	(966)	(1,170)	(620)
Cash flows from financing activities:			
Net (repayments) borrowings of commercial paper and other short-term debt	(16)	15	14
Repayment of long-term debt	(525)	–	–
Proceeds from issuance of long-term debt	–	1,235	–
Proceeds from issuance of common stock	51	87	67
Repurchase of common stock	–	(627)	(521)
Dividends	(185)	(173)	(167)
Excess tax benefits from stock-based compensation	–	4	14
Net cash flows from financing activities	(675)	541	(593)
Effect of foreign exchange rate changes on cash	42	(84)	42
(Decrease) increase in cash and cash equivalents	(360)	901	304
Cash and cash equivalents, beginning of year	1,955	1,054	750
Cash and cash equivalents, end of year	\$ 1,595	\$ 1,955	\$ 1,054
Supplemental cash flows disclosures:			
Income taxes paid	\$ 604	\$ 621	\$ 717
Interest paid	\$ 154	\$ 86	\$ 76
Supplemental disclosure of noncash investing activities:			
Capital expenditures included in accounts payable	\$ 29	\$ 43	\$ 40

See Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Baker Hughes Incorporated ("Baker Hughes") is engaged in the oilfield services industry. We are a major supplier of wellbore related products and technology services and systems and provide products and services for drilling, formation evaluation, completion and production, and reservoir technology and consulting to the worldwide oil and natural gas industry.

Basis of Presentation

The consolidated financial statements include the accounts of Baker Hughes and all majority owned subsidiaries ("Company", "we", "our" or "us"). Investments over which we have the ability to exercise significant influence over operating and financial policies, but do not hold a controlling interest, are accounted for using the equity method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation. In the Notes to Consolidated Financial Statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. While we believe that the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates. Estimates are used for, but are not limited to, determining the following: allowance for doubtful accounts and inventory valuation reserves, recoverability of long-lived assets, useful lives used in depreciation and amortization, income taxes and related valuation allowances and insurance, environmental, legal, pensions and postretirement benefit obligations and stock-based compensation.

Revenue Recognition

Our products and services are generally sold based upon purchase orders or contracts with the customer that include fixed or determinable prices and that do not include right of return or other similar provisions or other significant post-delivery obligations. Our products are produced in a standard manufacturing operation, even if produced to our customer's

specifications, and are sold in the ordinary course of business through our regular marketing channels. We recognize revenue for these products upon delivery, when title passes, when collectibility is reasonably assured and there are no further significant obligations for future performance. Provisions for estimated warranty returns or similar types of items are made at the time the related revenue is recognized. Revenue for services and rentals is recognized as the services are rendered and when collectibility is reasonably assured. Rates for services are typically priced on a per day, per meter, per man hour or similar basis. In certain situations, revenue is generated from transactions that may include multiple products and services under one contract or agreement. Revenue from these arrangements is recognized as each item or service is delivered based on their relative fair value.

Cost of Sales and Cost of Services and Rentals

Cost of sales and cost of services and rentals include material, labor, selling and field service costs, and overhead costs associated with the manufacture and distribution of our products for sale or rental. Distribution costs include freight costs, purchasing and receiving costs, warehousing costs and other costs of our distribution network.

Research and Engineering

Research and engineering expenses include costs associated with the research and development of new products and services and costs associated with sustaining engineering of existing products and services. These costs are expensed as incurred and include research and development costs for new products and services of \$231 million, \$263 million and \$234 million for the year ended December 31, 2009, 2008 and 2007, respectively.

Marketing, General and Administrative

Marketing, general and administrative ("MG&A") expenses include all advertising and marketing efforts, business development costs, and other general and administrative costs not directly associated with the manufacture and distribution of our products for sale or rental and the employee related costs associated with these functions. MG&A expenses also include gains and losses from foreign currency transactions.

Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Investments

Prior to September 2007, we invested in auction rate securities, which are variable-rate debt securities. We limited our investments in auction rate securities ("ARS") to non mortgage-backed securities that, at the time of the initial investment, carried an AAA (or equivalent) rating from a recognized rating agency. During 2009, we sold all ARS investments and recorded a gain of \$4 million. During 2008, we recorded an impairment loss of \$25 million on these investments.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method or the average cost method, which approximates FIFO, and includes the cost of materials, labor and manufacturing overhead.

Property, Plant and Equipment and Accumulated Depreciation

Property, plant and equipment ("PP&E") is stated at cost less accumulated depreciation, which is generally provided by using the straight-line method over the estimated useful lives of the individual assets. Significant improvements and betterments are capitalized if they extend the useful life of the asset. We manufacture a substantial portion of our rental tools and equipment and the cost of these items, which includes direct and indirect manufacturing costs, are capitalized and carried in inventory until the tool is completed. Once the tool has been completed, the cost of the tool is reflected in capital expenditures and the tool is classified as rental tools and equipment in PP&E. Maintenance and repairs are charged to expense as incurred. The capitalized costs of computer software developed or purchased for internal use are classified in machinery and equipment in PP&E.

In 2006, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standards Codification ("ASC") 360, *Property, Plant and Equipment*, which prohibits the use of the accrue-in-advance method of accounting for planned major maintenance and repair activities. We adopted this update on January 1, 2007, to change our method of accounting for repairs and maintenance activities on certain rental tools from the accrue-in-advance method to the direct expense method. The adoption resulted in an increase of \$25 million to beginning retained earnings as of January 1, 2007.

Asset Retirement Obligations

Legal obligations associated with the retirement of long-lived assets are to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost is capitalized as part of the related long-lived asset and depreciated on a straight-line basis over the remaining estimated useful life of the related asset. Accretion expense in connection with the discounted liability is also recognized over the remaining useful life of the related asset. Asset retirement obligations were \$18 million and \$17 million at December 31, 2009 and 2008, respectively.

Goodwill, Intangible Assets and Amortization

Goodwill and intangible assets with indefinite lives are not amortized. Intangible assets with finite useful lives are amortized on a basis that reflects the pattern in which the economic benefits of the intangible assets are realized, which is generally on a straight-line basis over the asset's estimated useful life.

Impairment of Long-Lived Assets

We review PP&E, intangible assets and certain other assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of recoverability is made based upon the

estimated undiscounted future net cash flows, excluding interest expense. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flow analysis, with the carrying value of the related assets.

We perform an annual impairment test of goodwill for each of our reporting units as of October 1, or more frequently if circumstances indicate an impairment may exist. Our reporting units are based on our organizational and reporting structure. Corporate and other assets and liabilities are allocated to the reporting units to the extent that they relate to the operations of those reporting units in determining their carrying amount. The determination of impairment is made by comparing the carrying amount with its fair value, which is calculated using a combination of a market and discounted cash flow approach.

Income Taxes

We use the liability method for determining our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Deferred income taxes are provided for the estimated income tax effect of temporary differences between financial and tax bases in assets and liabilities. Deferred tax assets are also provided for certain tax credit carryforwards. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We intend to indefinitely reinvest certain earnings of our foreign subsidiaries in operations outside the U.S., and accordingly, we have not provided for U.S. income taxes on such earnings. We do provide for the U.S. and additional non-U.S. taxes on earnings anticipated to be repatriated from our non-U.S. subsidiaries.

We operate in more than 90 countries under many legal forms. As a result, we are subject to the jurisdiction of numerous domestic and foreign tax authorities, as well as to tax agreements and treaties among these governments. Our operations in these different jurisdictions are taxed on various bases: actual income before taxes, deemed profits (which are generally determined using a percentage of revenues rather than profits) and withholding taxes based on revenue. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events, such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, agreements and treaties, foreign currency exchange restrictions or our level of operations or profitability in each tax jurisdiction could have an impact upon the amount of income taxes that we provide during any given year.

Our tax filings for various periods are subjected to audit by tax authorities in most jurisdictions where we conduct business. These audits may result in assessments of additional taxes that are resolved with the authorities or through the courts. We believe that these assessments may occasionally be based on erroneous and even arbitrary interpretations of local tax law. We have received tax assessments from various tax authorities and are currently at varying stages of appeals and/or litigation regarding these matters. We have provided for the amounts we believe will ultimately result from these proceedings. We believe we have substantial defenses to the questions being raised and will pursue all legal remedies should an unfavorable outcome result. However, resolution of these matters involves uncertainties and there are no assurances that the outcomes will be favorable. We provide for uncertain tax positions pursuant to ASC 740, *Income Taxes*.

In July 2006, the FASB issued new guidance for accounting for uncertain tax positions which provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions effective January 1, 2007, pursuant to which we recognized a \$78 million increase in the gross liability for unrecognized tax benefits, a \$14 million increase in non-current tax receivables, and a net decrease to beginning retained earnings of \$64 million.

Product Warranties

We sell certain products with a product warranty that provides that customers can return a defective product during a specified warranty period following the purchase in exchange for a replacement product, repair at no cost to the customer or the issuance of a credit to the customer. We accrue amounts for estimated warranty claims based upon current and historical product sales data, warranty costs incurred and any other related information known to us. Our product warranty liability was \$11 million and \$8 million at December 31, 2009 and 2008, respectively.

Environmental Matters

Estimated remediation costs are accrued using currently available facts, existing environmental permits, technology and presently enacted laws and regulations. For sites where we are primarily responsible for the remediation, our cost estimates are developed based on internal evaluations and are not discounted. Accruals are recorded when it is probable that we will be obligated to pay for environmental site evaluation, remediation or related activities, and such costs can be reasonably

estimated. If the obligation can only be estimated within a range, we accrue the minimum amount in the range. Accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. As additional or more accurate information becomes available, accruals are adjusted to reflect current cost estimates. Ongoing environmental compliance costs, such as obtaining environmental permits, installation of pollution control equipment and waste disposal, are expensed as incurred. Where we have been identified as a potentially responsible party in a United States federal or state "Superfund" site, we accrue our share of the estimated remediation costs of the site. This share is based on the ratio of the estimated volume of waste we contributed to the site to the total volume of waste disposed at the site.

Foreign Currency

A number of our significant foreign subsidiaries have designated the local currency as their functional currency and, as such, gains and losses resulting from balance sheet translation of foreign operations are included as a separate component of accumulated other comprehensive loss within stockholders' equity. Gains and losses from foreign currency transactions, such as those resulting from the settlement of receivables or payables in the non-functional currency, are included in MG&A expenses in the consolidated statements of operations as incurred. For those foreign subsidiaries that have designated the U.S. Dollar as the functional currency, gains and losses resulting from balance sheet remeasurement of foreign operations are also included in MG&A expense in the consolidated statements of operations as incurred.

Derivative Financial Instruments

We monitor our exposure to various business risks including commodity prices, foreign currency exchange rates and interest rates and occasionally use derivative financial instruments to manage these risks. Our policies do not permit the use of derivative financial instruments for speculative purposes. We use foreign currency forward contracts to hedge certain firm commitments and transactions denominated in foreign currencies. We use interest rate swaps to manage interest rate risk.

At the inception of any new derivative, we designate the derivative as a hedge as that term is defined in ASC 815, *Derivatives and Hedging* or we determine the derivative to be undesignated as a hedging instrument as the facts dictate. We document all relationships between the hedging instruments and the hedged items, as well as our risk management objectives and strategy for undertaking various hedge transactions. We assess whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged item at both the inception of the hedge and on an ongoing basis.

New Accounting Standards and Accounting Standards Updates

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles*. The ASC identifies itself as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP. The ASC does not change GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We have included references to authoritative accounting literature in accordance with the Codification. There are no other changes to the content of the Company's financial statements or disclosures as a result of the adoption.

In October 2009, the FASB issued an update to ASC 605, *Revenue Recognition – Multiple Deliverable Revenue Arrangements*. This ASU addresses accounting for multiple-deliverable arrangements to enable vendors to account for deliverables separately. The provision establishes a selling price hierarchy for determining the selling price of a deliverable. This update requires expanded disclosures for multiple deliverable revenue arrangements. The ASU will be effective for revenue arrangements entered into or materially modified beginning on or after June 15, 2010. We have not determined the impact, if any, on our consolidated financial statements.

In September 2006, FASB issued ASC 820, *Fair Value Measurements and Disclosures*, which is intended to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. On January 1, 2008, we adopted the provisions of this ASC related to financial assets and liabilities and to nonfinancial assets and liabilities measured at fair value on a recurring basis and on January 1, 2009, we adopted the provisions related to nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. There was no material impact to our consolidated financial statements related to these adoptions. Additionally, in April 2009, the FASB issued the following three accounting standards updates: (i) ASC 820, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, (ii) ASC 320, *Recognition and Presentation of Other-Than-Temporary Impairments*, and (iii) ASC 825, *Interim Disclosures about Fair Value of Financial Instruments*, which collectively provide additional guidance and require additional disclosure regarding determining and reporting fair values for certain assets and liabilities. We adopted the three accounting standards updates in the second quarter of 2009 with no material impact to our consolidated financial statements. In September 2009, the FASB issued an update to ASC 820, *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

The ASU provides a practical means for measuring the fair value of investments in certain entities that calculate net asset value per share. The ASU is effective for the first reporting period ending after December 15, 2009. We adopted the provisions and disclosure requirements of this ASU in December 2009 with no material impact to our consolidated financial statements.

In December 2007, the FASB issued an update to ASC 810, *Consolidation*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary in an effort to improve the relevance, comparability and transparency of the financial information that a reporting entity provides. On January 1, 2009, we adopted this statement with no change to our consolidated financial statements as amounts are immaterial.

In December 2007, the FASB issued an update to ASC 805, *Business Combinations*, to establish principles and requirements for the recognition and measurement of assets, liabilities and goodwill, and requires that most transaction and restructuring costs related to the acquisition be expensed. We have applied the provisions of this ASC for business combinations with an acquisition date on or after January 1, 2009.

In March 2008, the FASB issued an update to ASC 815, *Disclosures about Derivative Instruments and Hedging Activities*, to require qualitative disclosures about objectives and strategies for using derivatives and quantitative data about the fair value of and gains and losses on derivative contracts. We adopted the new disclosure requirements in the first quarter of 2009.

In June 2008, the FASB issued an update to ASC 260, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that all unvested share-based payments that contain rights to non-forfeitable dividends are participating securities and shall be included in the computation of both basic and diluted earnings per share. On January 1, 2009, we adopted this ASC and have not applied the provisions to prior year quarters as the impact is immaterial.

In December 2008, the FASB issued an update to ASC 715, *Employers' Disclosures about Postretirement Benefit Plan Assets*, to require the disclosures of investment policies and strategies, major categories of plan assets, fair value measurement of plan assets and significant concentration of credit risks. We adopted the new disclosure requirements in the fourth quarter of 2009. See Note 14 of the Notes to Consolidated Financial Statements in Item 8 herein for further information on the impact of this standard.

NOTE 2. PENDING MERGER WITH BJ SERVICES

On August 30, 2009, the Company and its subsidiary and BJ Services Company ("BJ Services") entered into a merger agreement (the "Merger Agreement") pursuant to which the Company will acquire 100% of the outstanding common stock of BJ Services in exchange for newly issued shares of the Company's common stock and cash. BJ Services is a leading provider of pressure pumping and oilfield services. The Merger Agreement and the merger have been approved by the Board of Directors of both the Company and BJ Services. Consummation of the merger is subject to the approval of the stockholders of the Company and BJ Services' stockholders at

special meetings scheduled on March 19, 2010 subject to adjournment or postponement, regulatory approvals, and the satisfaction or waiver of various other conditions as more fully described in the Merger Agreement.

Subject to receipt of all required approvals, it is anticipated that closing of the merger will occur in March 2010. Under the terms of the Merger Agreement, each share of BJ Services common stock will be converted into the right to receive 0.40035 shares of the Company's common stock and \$2.69 in cash. Baker Hughes has estimated the total consideration expected to be issued and paid in the merger to be approximately \$6.4 billion, consisting of approximately \$0.8 billion to be paid in cash and approximately \$5.6 billion to be paid through the issuance of approximately 118 million shares of Baker Hughes common stock valued at the February 11, 2010 closing share price of \$46.68 per share. The value of the merger consideration will fluctuate based upon changes in the price of shares of Baker Hughes common stock and the number of BJ Services common shares and options outstanding at the closing date.

NOTE 3. GAIN ON SALE OF PRODUCT LINE

In February 2008, we sold the assets associated with the Completion and Production segment's Surface Safety Systems ("SSS") product line and received cash proceeds of \$31 million. The SSS assets sold included hydraulic and pneumatic actuators, bonnet assemblies and control systems. We recorded a pre-tax gain of \$28 million (\$18 million after-tax) in 2008.

NOTE 4. STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the date of grant, based on the calculated fair value of the award, and is recognized as expense over the employee's service period, which is generally the vesting period of the equity grant. Additionally, compensation cost is recognized based on awards ultimately expected to vest, therefore, we have reduced the cost for estimated forfeitures based on historical forfeiture rates. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods to reflect actual forfeitures.

The following table summarizes stock-based compensation costs for the years ended December 31, 2009, 2008 and 2007. There were no stock-based compensation costs capitalized as the amounts were not material.

	2009	2008	2007
Stock-based compensation costs	\$ 88	\$ 60	\$ 51
Tax benefit	(15)	(11)	(11)
Stock-based compensation costs, net of tax	\$ 73	\$ 49	\$ 40

For our stock options and restricted stock awards and units, we currently have 17 million shares authorized for issuance and as of December 31, 2009, approximately 2 million shares were available for future grants. Our policy is to issue

new shares for exercises of stock options; vesting of restricted stock awards and units; and issuances under the employee stock purchase plan.

Stock Options

Our stock option plans provide for the issuance of incentive and non-qualified stock options to directors, officers and other key employees at an exercise price equal to the fair market value of the stock at the date of grant. Although subject to the terms of the stock option agreement, substantially all of the stock options become exercisable in three equal annual installments, beginning a year from the date of grant, and generally expire ten years from the date of grant. The stock option plans provide for the acceleration of vesting upon the employee's retirement; therefore, the service period is reduced for employees that are or will become retirement eligible during the vesting period and, accordingly, the recognition of compensation expense for these employees is accelerated. Compensation cost related to stock options is recognized on a straight-line basis over the vesting or service period and is net of forfeitures.

The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. The following table presents the weighted average assumptions used in the option pricing model for options granted. The expected life of the options represents the period of time the options are expected to be outstanding. The expected life is based on our historical exercise trends and post-vest termination data incorporated into a forward-looking stock price model. The expected volatility is based on our implied volatility, which is the volatility forecast that is implied by the prices of our actively traded options to purchase our stock observed in the market. The risk-free interest rate is based on the observed U.S. Treasury yield curve in effect at the time the options were granted. The dividend yield is based on our history of dividend payouts.

	2009	2008	2007
Expected life (years)	6.0	5.5	5.1
Risk-free interest rate	2.6%	3.1%	4.8%
Volatility	41.2%	31.4%	28.6%
Dividend yield	1.8%	0.8%	0.7%
Weighted average fair value per share at grant date	\$ 12.66	\$ 23.64	\$ 24.20

A summary of our stock option activity and related information is presented below (in thousands, except per option prices):

	Number of Options	Weighted Average Exercise Price Per Option
Outstanding at December 31, 2008	3,470	\$ 59.92
Granted	2,311	35.03
Exercised	(40)	29.16
Forfeited	(55)	49.18
Expired	(10)	36.77
Outstanding at December 31, 2009	5,676	\$ 50.16

The total intrinsic value of stock options (defined as the amount by which the market price of the underlying stock on the date of exercise exceeds the exercise price of the option) exercised in 2009, 2008 and 2007 was \$0.4 million, \$13 million and \$73 million, respectively. The income tax benefit realized from stock options exercised was \$0.1 million, \$7 million and \$19 million in 2009, 2008 and 2007, respectively.

The total fair value of options vested in 2009, 2008 and 2007 was \$17 million, \$17 million and \$20 million, respectively. As of December 31, 2009, there was \$15 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted average period of two years.

The following table summarizes information about stock options outstanding as of December 31, 2009 (in thousands, except per option prices and remaining life):

Range of Exercise Prices	Outstanding			Exercisable		
	Number of Options	Weighted Average Remaining Contractual Life (In years)	Weighted Average Exercise Price Per Option	Number of Options	Weighted Average Remaining Contractual Life (In years)	Weighted Average Exercise Price Per Option
\$ 14.79 – \$ 16.78	3	3.7	\$ 15.84	3	3.7	\$ 15.84
22.88 – 33.32	1,286	7.6	29.35	377	4.0	29.73
34.45 – 46.48	2,146	7.5	39.77	860	4.4	40.22
56.21 – 82.28	2,218	7.1	71.94	1,639	6.7	71.20
86.50 – 86.50	23	8.6	86.50	8	8.6	86.50
Total	5,676	7.4	\$ 50.16	2,887	5.7	\$ 56.54

The aggregate intrinsic value of stock options outstanding at December 31, 2009 was \$17 million, \$5 million of which relates to options vested and exercisable. The intrinsic value for stock options outstanding is calculated as the amount by which the quoted price of \$40.48 of our common stock as of the end of 2009 exceeds the exercise price of the options.

Restricted Stock Awards and Units

In addition to stock options, officers, directors and key employees may be granted restricted stock awards ("RSA"), which is an award of common stock with no exercise price, or restricted stock units ("RSU"), where each unit represents the right to receive at the end of a stipulated period one unrestricted share of stock with no exercise price. RSAs and RSUs are subject to cliff or graded vesting, generally ranging over a three to five year period. We determine the fair value of restricted stock awards and restricted stock units based on the market price of our common stock on the date of grant. Compensation cost for RSAs and RSUs is primarily recognized on a straight-line basis over the vesting or service period and is net of forfeitures.

A summary of our RSA and RSU activity and related information is presented below (in thousands, except per share/unit prices):

	RSA Number of Shares	Weighted Average Grant Date Fair Value Per Share	RSU Number of Units	Weighted Average Grant Date Fair Value Per Unit
Nonvested balance at December 31, 2008	902	\$ 69.63	325	\$ 74.74
Granted	1,091	31.18	427	31.54
Vested	(412)	68.28	(116)	73.41
Forfeited	(65)	44.61	(42)	45.56
Nonvested balance at December 31, 2009	1,516	\$ 43.40	594	\$ 46.01

The weighted average grant date fair value per share for RSAs in 2009, 2008 and 2007 was \$31.18, \$72.82 and \$68.59, respectively. The weighted average grant date fair value per unit for RSUs in 2009, 2008 and 2007 was \$31.54, \$75.96 and \$68.54, respectively.

The total fair value of RSAs and RSUs vested in 2009, 2008 and 2007 was \$18 million, \$30 million and \$16 million, respectively. As of December 31, 2009, there was \$38 million and \$18 million of total unrecognized compensation cost related to nonvested RSAs and RSUs, respectively, which is expected to be recognized over a weighted average period of two years.

Employee Stock Purchase Plan

In 2009, the Employee Stock Purchase Plan ("ESPP") allowed eligible employees to elect to contribute on an after-tax basis between 1% and 10% of their annual pay to purchase our common stock; provided, however, an employee may not contribute more than \$25,000 annually to the plan pursuant to Internal Revenue Service restrictions. Shares are purchased at a 15% discount of the fair market value of our common stock on January 1 or December 31, whichever is lower.

Effective January 1, 2010, the ESPP will provide for shares to be purchased: (i) on June 30 of each year at a 15% discount of the fair market value of our common stock on January 1 or June 30, whichever is lower, and (ii) on December 31 of each year at a 15% discount of fair market value of our common stock on July 1 or December 31, whichever is lower. Also effective January 1, 2010, an employee may not contribute more than \$5,000 in either of the six-month measurement periods described above or \$10,000 annually. All other terms and conditions of the ESPP remain in effect.

We currently have 22.5 million shares authorized for issuance under the ESPP, and at December 31, 2009, there were 7.2 million shares reserved for future issuance under the ESPP. Compensation expense determined under ASC 718, *Compensation – Stock Compensation* for the year ended December 31, 2009 was calculated using the Black-Scholes option pricing model with the following assumptions:

	2009	2008	2007
Expected life (years)	1.0	1.0	1.0
Risk-free interest rate	0.3%	3.2%	4.9%
Volatility	69.5%	32.8%	30.5%
Dividend yield	1.9%	0.6%	0.7%
Fair value per share of 15% cash discount	\$ 4.81	\$ 10.01	\$ 9.07
Fair value per share of look-back provision	8.44	11.44	10.39
Total weighted average fair value per share at grant date	\$ 13.25	\$ 21.45	\$ 19.46

We calculated estimated volatility using historical daily prices based on the expected life of the stock purchase plan. The risk-free interest rate is based on the observed U.S. Treasury yield curve in effect at the time the ESPP shares were granted. The dividend yield is based on our history of dividend payouts.

NOTE 5. INCOME TAXES

The provision for income taxes on income is comprised of the following for the years ended December 31:

	2009	2008	2007
Current:			
United States	\$ 65	\$ 292	\$ 366
Foreign	381	413	381
Total current	446	705	747
Deferred:			
United States	(210)	(14)	19
Foreign	(46)	(7)	(23)
Total deferred	(256)	(21)	(4)
Provision for income taxes	\$ 190	\$ 684	\$ 743

The geographic sources of income before income taxes are as follows for the years ended December 31:

	2009	2008	2007
United States	\$ (18)	\$ 795	\$ 877
Foreign	629	1,524	1,380
Income before income taxes	\$ 611	\$ 2,319	\$ 2,257

The provision for income taxes differs from the amount computed by applying the U.S. statutory income tax rate to income before income taxes for the reasons set forth below for the years ended December 31:

	2009	2008	2007
Statutory income tax at 35%	\$ 214	\$ 812	\$ 790
Effect of foreign operations	(61)	(134)	(84)
Net tax charge (benefit) related to foreign losses	38	3	(1)
State income taxes – net of U.S. tax benefit	6	19	18
Other – net	(7)	(16)	20
Provision for income taxes	\$ 190	\$ 684	\$ 743

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as operating loss and tax credit carryforwards. The tax effects of our temporary differences and carryforwards are as follows at December 31:

	2009	2008
Deferred tax assets:		
Receivables	\$ 29	\$ 9
Inventory	233	206
Property	51	71
Employee benefits	131	124
Other accrued expenses	49	35
Operating loss carryforwards	76	36
Tax credit carryforwards	171	54
Capitalized research and development costs	8	16
Other	63	55
Subtotal	811	606
Valuation allowances	(142)	(77)
Total	669	529
Deferred tax liabilities:		
Goodwill	142	139
Undistributed earnings of foreign subsidiaries	64	124
Other	43	45
Total	249	308
Net deferred tax asset	\$ 420	\$ 221

We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. We have provided a valuation allowance for operating loss and foreign tax credit carryforwards in certain non-U.S. jurisdictions. Of the \$65 million net increase in valuation allowance in 2009, \$38 million represents net tax charges related to foreign losses, \$28 million pertains to a change in our ability to fully utilize deferred tax assets in Venezuela offset by a \$12 million reduction in valuation allowance related to

deferred tax assets in Brazil. The remaining \$11 million net increase represents various items none of which are individually significant. The operating loss carryforwards without a valuation allowance will expire in varying amounts over the next twenty years.

We have provided for U.S. and additional foreign taxes for the anticipated repatriation of certain earnings of our foreign subsidiaries. We consider the undistributed earnings of our foreign subsidiaries above the amount for which taxes have already been provided to be indefinitely reinvested, as we have no intention to repatriate these earnings. As such, deferred income taxes are not provided for temporary differences of approximately \$2.3 billion, \$2.2 billion and \$1.6 billion as of December 31, 2009, 2008 and 2007, respectively, representing earnings of non-U.S. subsidiaries intended to be permanently reinvested. These additional foreign earnings could become subject to additional tax if remitted, or deemed remitted, as a dividend. Computation of the potential deferred tax liability associated with these undistributed earnings and other basis difference is not practicable.

At December 31, 2009, we had approximately \$55 million of foreign tax credits which may be carried forward indefinitely under applicable foreign law and \$115 million of foreign tax credits available to offset future payments of federal income taxes, expiring in 2018 and 2019. In addition, at December 31, 2009, we had approximately \$1 million of state tax credits expiring in varying amounts between 2016 and 2021.

As of December 31, 2009, we had \$339 million of tax liabilities for gross unrecognized tax benefits, which includes liabilities for interest and penalties of \$72 million and \$17 million, respectively. If we were to prevail on all uncertain tax positions, the net effect would be a benefit to our effective tax rate of approximately \$288 million. The remaining approximately \$51 million, which is recorded as a deferred tax asset, represents tax benefits that would be received in different taxing jurisdictions in the event that we did not prevail on all uncertain tax positions.

We classify interest and penalties related to unrecognized tax benefits as income taxes in our financial statements. For the year ended December 31, 2009, we recognized tax provision of \$11 million for interest and penalties related to unrecognized tax benefits in the consolidated statement of operations.

The following presents a rollforward of our unrecognized tax benefits and associated interest and penalties included in the balance sheet.

	Gross Unrecognized Tax Benefits, Excluding Interest and Penalties	Interest and Penalties	Total Gross Unrecognized Tax Benefits
Balance at January 1, 2007	\$ 354	\$ 69	\$ 423
Increase in prior year tax positions	3	21	24
Increase in current year tax positions	20	5	25
Decrease related to settlements with taxing authorities and lapse of statute of limitations	(22)	(5)	(27)
Increase due to effects of foreign currency translation	8	4	12
Balance at January 1, 2008	363	94	457
Increase/(decrease) in prior year tax positions	(7)	10	3
Increase in current year tax positions	17	5	22
Decrease related to settlements with taxing authorities	(24)	(10)	(34)
Decrease related to lapse of statute of limitations	(20)	(17)	(37)
Decrease due to effects of foreign currency translation	(6)	(4)	(10)
Balance at January 1, 2009	323	78	401
Increase/(decrease) in prior year tax positions	(75)	10	(65)
Increase in current year tax positions	16	6	22
Decrease related to settlements with taxing authorities	(6)	(2)	(8)
Decrease related to lapse of statute of limitations	(9)	(4)	(13)
Increase due to effects of foreign currency translation	1	1	2
Balance at December 31, 2009	\$ 250	\$ 89	\$ 339

It is expected that the amount of unrecognized tax benefits will change in the next 12 months due to expiring statutes, audit activity, tax payments, competent authority proceedings related to transfer pricing, or final decisions in matters that are the subject of litigation in various taxing jurisdictions in which we operate. At December 31, 2009, we had approximately \$80 million of tax liabilities, net of \$35 million of tax assets, related to uncertain tax positions, each of which are individually insignificant, and each of which are reasonably possible of being settled within the next 12 months primarily as the result of audit settlements or statute expirations in several taxing jurisdictions.

At December 31, 2009, approximately \$224 million of gross unrecognized tax benefits were included in the non-current portion of our income tax liabilities, for which the settlement period cannot be determined; however, it is not expected to be within the next 12 months.

We operate in over 90 countries and are subject to income taxes in most taxing jurisdictions in which we operate. The following table summarizes the earliest tax years that remain subject to examination by the major taxing jurisdictions in which we operate. These jurisdictions are those we project to have the highest tax liability for 2010.

Jurisdiction	Earliest Open Tax Period	Jurisdiction	Earliest Open Tax Period
Canada	1998	Norway	1999
Germany	2003	United Kingdom	2004
Netherlands	1999	United States	2002

NOTE 6. EARNINGS PER SHARE

On January 1, 2009, we adopted an update to ASC 260 which clarifies that all unvested share-based payments that contain rights to non-forfeitable dividends are participating securities and shall be included in the computation of both basic and diluted earnings per share. ASC 260 has not been applied to any prior year as the impact is immaterial.

A reconciliation of the number of shares used for the basic and diluted EPS computations is as follows for the years ended December 31:

	2009	2008	2007
Weighted average common shares outstanding for basic EPS	310	307	318
Effect of dilutive securities – stock plans	1	2	2
Adjusted weighted average common shares outstanding for diluted EPS	311	309	320

Future potentially dilutive shares
excluded from diluted EPS:

Options with an exercise price
greater than the average
market price for the period

4	2	1
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NOTE 7. INVENTORIES

Inventories, net of reserves of \$297 million and \$244 million in 2009 and 2008, respectively, are comprised of the following at December 31:

	2009	2008
Finished goods	\$ 1,570	\$ 1,693
Work in process	126	175
Raw materials	140	153
Total	\$ 1,836	\$ 2,021

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following at December 31:

	Depreciation Period	2009	2008
Land		\$ 81	\$ 85
Buildings and improvements	1–30 years	1,136	878
Machinery and equipment	1–20 years	3,384	3,082
Rental tools and equipment	1–15 years	2,228	1,991
Subtotal		6,829	6,036
Accumulated depreciation		(3,668)	(3,203)
Total		\$ 3,161	\$ 2,833

We perform an annual impairment test of goodwill as of October 1 of every year. There were no impairments of goodwill in 2009, 2008 or 2007 related to the annual impairment test.

Intangible assets are comprised of the following at December 31:

	2009			2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Technology-based	\$ 277	\$ (140)	\$ 137	\$ 256	\$ (122)	\$ 134
Contract-based	13	(9)	4	12	(7)	5
Marketing-related	36	(13)	23	33	(6)	27
Customer-based	41	(10)	31	37	(5)	32
Other	1	(1)	–	1	(1)	–
Total	\$ 368	\$ (173)	\$ 195	\$ 339	\$ (141)	\$ 198

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are detailed below by segment:

	Drilling and Evaluation	Completion and Production	Total
Balance as of December 31, 2007	\$ 914	\$ 440	\$ 1,354
Goodwill acquired during the period	45	–	45
Purchase price and other adjustments	9	–	9
Impact of foreign currency translation adjustments	(17)	(2)	(19)
Balance as of December 31, 2008	951	438	1,389
Goodwill acquired during the period	9	–	9
Purchase price and other adjustments	8	1	9
Impact of foreign currency translation adjustments	11	–	11
Balance as of December 31, 2009	\$ 979	\$ 439	\$ 1,418

Intangible assets are amortized either on a straight-line basis with estimated useful lives ranging from 1 to 20 years, or on a basis that reflects the pattern in which the economic benefits of the intangible assets are expected to be realized, which range from 15 to 30 years.

Amortization expense included in net income for the years ended December 31, 2009, 2008 and 2007 was \$31 million, \$20 million and \$21 million, respectively. Estimated amortization expense for each of the subsequent five fiscal years is expected to be as follows: 2010 – \$24 million; 2011 – \$19 million; 2012 – \$18 million; 2013 – \$17 million; and 2014 – \$16 million.

NOTE 10. FAIR VALUE OF CERTAIN FINANCIAL ASSETS AND LIABILITIES

We measure certain financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting

date. We use the fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels as described below:

- Level 1: Quoted prices in active markets for identical assets or liabilities (these are observable market inputs). The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets (includes quoted market prices for similar assets or identical or similar assets in markets in which there are few transactions, prices that are not current or vary substantially).
- Level 3: Unobservable inputs that reflect the entity's own assumptions in pricing the asset or liability (used when little or no market data is available).

Financial assets and liabilities included in our financial statements and measured at fair value as of December 31, 2009 and 2008 are classified based on the valuation hierarchy in the table below:

Description	Fair Value Measurement at December 31, 2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Non-qualified defined contribution plan assets	\$ 146	\$ 146	\$ –	\$ –
Liabilities:				
Non-qualified defined contribution plan liabilities	\$ 146	\$ 146	\$ –	\$ –

Description	Fair Value Measurement at December 31, 2008			
	Total	Level 1	Level 2	Level 3
Assets:				
Auction rate securities	\$ 11	\$ –	\$ –	\$ 11
Non-qualified defined contribution plan assets	112	112	–	–
Total assets at fair value	\$ 123	\$ 112	\$ –	\$ 11
Liabilities:				
Non-qualified defined contribution plan liabilities	\$ 112	\$ 112	\$ –	\$ –

The following is a reconciliation of activity for the period for assets measured at fair value based on significant unobservable inputs (Level 3).

	Level 3 Fair Value Measurements Auction Rate Securities
Balance as of December 31, 2007	\$ 36
Total gains or (losses) realized and unrealized:	
Included in earnings (or changes to net assets)	(25)
Included in other comprehensive income	-
Balance as of December 31, 2008	\$ 11
Total gains or (losses) realized and unrealized:	
Included in earnings (or changes to net assets)	4
Sales	(15)
Included in other comprehensive income	-
Balance as of December 31, 2009	\$ -

Auction Rate Securities

The Company owned auction rate securities ("ARS") that were purchased in 2007 at an original cost of \$36 million. These ARS represented interests in three variable rate debt securities, which are credit linked notes that generally combine low risk assets and credit default swaps ("CDS") to create a security that pays interest from the assets' coupon payments and the periodic sale proceeds of the CDS. In December 2009, we sold all ARS investments for \$15 million and recorded a gain of \$4 million.

When estimating the fair value of the ARS investments we used Level 3 inputs. These inputs were based on the underlying structure of each security and their collateral values, including assessments of the credit quality, the default risk, the expected cash flows, the discount rates and the overall capital market liquidity. Based on our ability and intent to hold such investments for a period of time sufficient to allow for any anticipated recovery in the fair value, we had classified all ARS as noncurrent investments up until the sale in December 2009.

Non-qualified Defined Contribution Plan Assets and Liabilities

We have a non-qualified defined contribution plan that provides basically the same benefit as our Thrift Plan for certain non-U.S. employees who are not eligible to participate in the Thrift Plan. In addition, we provide a non-qualified supplemental retirement plan for certain officers and employees whose benefits under the Thrift Plan and/or U.S. defined benefit pension plan are limited by federal tax law. The assets of both plans consist primarily of mutual funds and to a lesser extent equity securities. We hold the assets of these plans under a grantor trust and have recorded the assets along with the related deferred compensation liability at fair value. The assets and liabilities were valued using Level 1 inputs at the reporting date and were based on quoted market prices from various major stock exchanges.

NOTE 11. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Our financial instruments include cash and short-term investments, noncurrent investments in auction rate securities, accounts receivable, accounts payable, debt, foreign currency forward contracts, foreign currency option contracts and interest rate swaps. Except as described below, the estimated fair value of such financial instruments at December 31, 2009 and 2008 approximates their carrying value as reflected in our consolidated balance sheets. The fair value of our debt, foreign currency forward contracts and interest rate swaps has been estimated based on quoted year end market prices.

The estimated fair value of total debt at December 31, 2009 and 2008 was \$2,126 million and \$2,471 million, respectively, which differs from the carrying amounts of \$1,800 million and \$2,333 million, respectively, included in our consolidated balance sheets.

Foreign Currency Forward Contracts

We conduct our business in over 90 countries around the world, and we are exposed to market risks resulting from fluctuations in foreign currency exchange rates. A number of our significant foreign subsidiaries have designated the local currency as their functional currency. We transact in various foreign currencies and have established a program that primarily utilizes foreign currency forward contracts to reduce the risks associated with the effects of certain foreign currency exposures. Under this program, our strategy is to have gains or losses on the foreign currency forward contracts mitigate the foreign currency transaction gains or losses to the extent practical. These foreign currency exposures typically arise from changes in the value of assets and liabilities which are denominated in currencies other than the functional currency. Our foreign currency forward contracts generally settle within 90 days. We do not use these forward contracts for trading or speculative purposes. We designate these forward contracts as fair value hedging instruments pursuant to ASC 815, *Derivatives and Hedging*. Accordingly, we record the fair value of these contracts as of the end of our reporting period to our consolidated balance sheet with changes in fair value recorded in our consolidated statement of operations along with the change in fair value of the hedged item.

At December 31, 2009 and 2008, we had outstanding foreign currency forward contracts with notional amounts aggregating \$153 million and \$125 million, respectively, to hedge exposure to currency fluctuations in various foreign currencies. These contracts are designated and qualify as fair value hedging instruments. The fair value was determined using a model with Level 2 inputs including quoted market prices for contracts with similar terms and maturity dates.

Interest Rate Swaps

We are subject to interest rate risk on our debt and investment of cash and cash equivalents arising in the normal course of our business, as we do not engage in speculative trading strategies. We maintain an interest rate management strategy, which primarily uses a mix of fixed and variable rate debt

that is intended to mitigate the exposure to changes in interest rates in the aggregate for our investment portfolio. In addition, we are currently using interest rate swaps to manage the economic effect of fixed rate obligations associated with our senior notes so that the interest payable on the senior notes effectively becomes linked to variable rates.

In June 2009, we entered into two interest rate swap agreements ("the Swap Agreements") for a notional amount of \$250 million each in order to hedge changes in the fair market value of our \$500 million 6.5% senior notes maturing on November 15, 2013. Under the Swap Agreements, we receive interest at a fixed rate of 6.5% and pay interest at a floating rate of one-month Libor plus a spread of 3.67% on

one swap and three-month Libor plus a spread of 3.54% on the second swap both through November 15, 2013. The counterparties are primarily the lenders in our credit facilities. The Swap Agreements are designated and each qualifies as a fair value hedging instrument. The swap to three-month Libor is deemed to be 100 percent effective resulting in no gain or loss recorded in the consolidated statement of operations. The effectiveness of the swap to one-month Libor, which is highly effective, is calculated as of each period end and any ineffective portion is recognized in the consolidated statement of operations. The fair value of the Swap Agreements was determined using a model with Level 2 inputs including quoted market prices for contracts with similar terms and maturity dates.

Fair Value of Derivative Instruments

The fair value of derivative instruments included in our consolidated balance sheet was as follows as of December 31, 2009:

Derivative	Balance Sheet Location	Fair Value
Foreign Currency Forward Contracts	Other accrued liabilities	\$ 1
Interest Rate Swaps	Other assets	7

The effects of derivative instruments in our consolidated statement of operations were as follows for the year ended December 31, 2009 (amounts exclude any income tax effects):

Derivative	Statement of Operations Location	Amount of Gain Recognized in Income
Foreign Currency Forward Contracts	Marketing, general and administrative	\$ 11
Interest Rate Swaps	Interest Expense	6

Concentration of Credit Risk

We sell our products and services to numerous companies in the oil and natural gas industry. Although this concentration could affect our overall exposure to credit risk, we believe that our risk is minimized since the majority of our business is conducted with major companies within the industry. We perform periodic credit evaluations of our customers' financial condition

and generally do not require collateral for our accounts receivable. In some cases, we will require payment in advance or security in the form of a letter of credit or bank guarantee.

We maintain cash deposits with financial institutions that may exceed federally insured limits. We monitor the credit ratings and our concentration of risk with these financial institutions on a continuing basis to safeguard our cash deposits.

NOTE 12. INDEBTEDNESS

Total debt consisted of the following at December 31, net of unamortized discount and debt issuance costs:

	2009	2008
6.25% Notes due January 2009 with an effective interest rate of 5.77%	\$ —	\$ 325
6.00% Notes due February 2009 with an effective interest rate of 6.11%	—	200
6.50% Senior Notes due November 2013 with an effective interest rate of 6.73%	504	495
7.50% Senior Notes due November 2018 with an effective interest rate of 7.67%	741	740
8.55% Debentures due June 2024 with an effective interest rate of 8.76%	148	148
6.875% Notes due January 2029 with an effective interest rate of 7.08%	392	392
Other debt	15	33
Total debt	1,800	2,333
Less short-term debt and current maturities of long-term debt	15	558
Long-term debt	\$ 1,785	\$ 1,775

During the first quarter of 2009, we repaid \$325 million principal amount of our 6.25% notes, which matured on January 15, 2009, and \$200 million principal amount of our 6.00% notes, which matured on February 15, 2009.

On March 30, 2009, we entered into a credit agreement (the "2009 Credit Agreement") for a committed \$500 million revolving credit facility that expires in March 2010. In addition to the 2009 Credit Agreement, there is a \$500 million committed revolving credit facility which expires on July 7, 2012. Under a committed facility, the lender is obligated to advance funds and/or provide credit to the borrower as per the terms and conditions stipulated in the credit agreement. At December 31, 2009, we had \$1.0 billion of committed revolving credit facilities with commercial banks. Both facilities contain certain covenants which, among other things, require the maintenance of a funded indebtedness to total capitalization ratio (a defined formula per each agreement), restrict certain merger transactions or the sale of all or substantially all of our assets or a significant subsidiary and limit the amount of subsidiary indebtedness. Upon the occurrence of certain events of default, our obligations under the facilities may be accelerated. Such events of default include payment defaults to lenders under the facilities, covenant defaults and other customary defaults.

At December 31, 2009, we were in compliance with all of the covenants of both committed credit facilities. There were no direct borrowings under the committed credit facilities during 2009. We also have an outstanding commercial paper program under which we may issue from time to time up to \$1.0 billion in commercial paper with maturity of no more than 270 days. To the extent we have commercial paper outstanding, our ability to borrow under the facilities is reduced. At December 31, 2009, we had no outstanding commercial paper.

Maturities of debt at December 31, 2009 are as follows: 2010 – \$15 million; 2011 – \$0 million; 2012 – \$0 million; 2013 – \$504 million; 2014 – \$0 million; and \$1,281 million thereafter.

NOTE 13. SEGMENT AND RELATED INFORMATION

We are a major supplier of wellbore-related products and technology services and systems and provide products and services for drilling, formation evaluation, completion and production, and reservoir technology and consulting to the worldwide oil and natural gas industry. In May 2009, we reorganized the Company by geography and product lines; however, at this time we continue to review product line financial information as well as geographic information in deciding how to allocate resources and in assessing performance. Accordingly, we report results for our product lines under two segments: the Drilling and Evaluation segment and the Completion and Production segment. We have aggregated the product lines within each segment because they have similar economic characteristics and because the long-term financial performance of these product lines is affected by similar economic conditions. They also operate in the same markets, which includes all of the major oil and natural gas producing regions of the world. The accounting policies of our segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements.

- The Drilling and Evaluation segment consists of the following product lines: drilling fluids, drill bits, directional drilling, drilling evaluation services, wireline formation evaluation, wireline completion and production services and reservoir technology and consulting. The Drilling and Evaluation segment provides products and services used to drill and evaluate oil and natural gas wells as well as consulting services used in the analysis of oil and gas reservoirs.
- The Completion and Production segment consists of the following product lines: wellbore construction and completion, specialty chemicals, artificial lift systems, permanent monitoring systems, chemical injection systems, integrated operations and project management. The Completion and Production segment provides equipment and services used from the completion phase through the productive life of oil and natural gas wells.

The performance of our segments is evaluated based on segment profit (loss), which is defined as income before income taxes, interest expense, interest and dividend income, and certain gains and losses not allocated to the segments.

Summarized financial information is shown in the following table.

	Drilling and Evaluation	Completion and Production	Oilfield Operations	Corporate and Other	Total
2009					
Revenues	\$ 4,605	\$ 5,059	\$ 9,664	\$ –	\$ 9,664
Segment profit (loss)	320	728	1,048	(437)	611
Total assets	5,419	4,451	9,870	1,569	11,439
Capital expenditures	629	455	1,084	2	1,086
Depreciation and amortization	467	233	700	11	711
2008					
Revenues	\$ 6,049	\$ 5,815	\$ 11,864	\$ –	\$ 11,864
Segment profit (loss)	1,398	1,282	2,680	(361)	2,319
Total assets	5,468	4,518	9,986	1,875	11,861
Capital expenditures	806	352	1,158	145	1,303
Depreciation and amortization	409	185	594	43	637
2007					
Revenues	\$ 5,293	\$ 5,135	\$ 10,428	\$ –	\$ 10,428
Segment profit (loss)	1,396	1,112	2,508	(251)	2,257
Total assets	4,720	4,096	8,816	1,041	9,857
Capital expenditures	774	352	1,126	1	1,127
Depreciation and amortization	335	162	497	24	521

For the years ended December 31, 2009, 2008 and 2007, there were no revenues attributable to one customer that accounted for more than 10% of total revenues.

The following table presents the details of "Corporate and Other" segment loss for the years ended December 31:

	2009	2008	2007
Corporate and other expenses	\$ (298)	\$ (240)	\$ (229)
Interest expense	(131)	(89)	(66)
Interest and dividend income	6	27	44
Gain (loss) on investments	4	(25)	–
Acquisition-related costs	(18)	–	–
Gain on sale of product line	–	28	–
Litigation settlement	–	(62)	–
Total	\$ (437)	\$ (361)	\$ (251)

The following table presents the details of "Corporate and Other" total assets at December 31:

	2009	2008	2007
Cash and other assets	\$ 1,266	\$ 1,684	\$ 795
Accounts receivable	17	20	7
Current deferred tax asset	1	2	1
Property, plant and equipment	10	28	38
Other tangible assets	275	141	200
Total	\$ 1,569	\$ 1,875	\$ 1,041

The following table presents consolidated revenues based on the location of the use of the products or services for the years ended December 31:

	2009	2008	2007
United States	\$ 3,091	\$ 4,512	\$ 3,822
Canada and other	493	666	619
North America	3,584	5,178	4,441
Latin America	1,134	1,127	903
Europe, Africa, Russia, Caspian	2,925	3,386	3,076
Middle East, Asia Pacific	2,021	2,173	2,008
Total	\$ 9,664	\$ 11,864	\$ 10,428

The following table presents net property, plant and equipment based on the location of the asset at December 31:

	2009	2008	2007
United States	\$ 1,377	\$ 1,356	\$ 1,128
Canada and other	105	104	91
North America	1,482	1,460	1,219
Latin America	354	259	160
Europe, Africa, Russia, Caspian	809	679	641
Middle East, Asia Pacific	516	435	325
Total	\$ 3,161	\$ 2,833	\$ 2,345

NOTE 14. EMPLOYEE BENEFIT PLANS**Defined Benefit Plans**

We have both funded and unfunded noncontributory defined benefit pension plans ("Pension Benefits") covering employees primarily in the U.S., the U.K., Germany and several other countries in the Middle East region. Under the provisions of the U.S. qualified pension plan, a hypothetical cash balance account is established for each participant. Such accounts receive pay credits on a quarterly basis. The quarterly pay credit is based on a percentage according to the employee's age on the last day of the quarter applied to quarterly eligible compensation. In addition to quarterly pay credits, a cash balance account receives interest credits based on the balance in the account on the last day of the quarter. The U.S. qualified pension plan also includes frozen accrued benefits for participants

in legacy defined benefit plans. For the majority of the participants in the U.K. pension plans, we do not accrue benefits as the plans are frozen; however, there are a limited number of members who still accrue future benefits on a defined benefit basis. The Germany pension plan is an unfunded plan where benefits are based on creditable years of service, creditable pay and accrual rates. We also provide certain postretirement health care benefits ("other postretirement benefits"), through an unfunded plan, to substantially all U.S. employees who retire and have met certain age and service requirements.

ASC 715, *Compensation – Retirement* requires an employer to measure the funded status of each of its plans as of the date of its year end statement of financial position effective for 2008. The impact of moving our funded status measurement date from October 1 to December 31 was a reduction of \$4 million to our 2008 beginning retained earnings.

Funded Status

Below is the reconciliation of the beginning and ending balances of benefit obligations, fair value of plan assets and the funded status of our plans. For our pension plans, the benefit obligation is the projected benefit obligation ("PBO") and for our other postretirement benefit plan, the benefit obligation is the accumulated postretirement benefit obligation ("APBO"). The beginning of the year balance was October 1, 2008. The end of year balances are as of December 31 for 2009 and 2008; therefore, for 2008 reconciling items reflected below represent 15 months of activity as a result of the adoption of ASC 715.

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008	2009	2008
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 303	\$ 280	\$ 227	\$ 319	\$ 158	\$ 156
Service cost	29	38	3	3	8	10
Interest cost	20	21	15	21	10	11
Actuarial loss (gain)	51	(16)	49	(36)	(1)	(1)
Benefits paid	(19)	(16)	(7)	(8)	(13)	(18)
Curtailement	(9)	–	(1)	–	(5)	–
Other	–	(4)	18	(2)	–	–
Exchange rate adjustments	–	–	23	(70)	–	–
Benefit obligation at end of year	375	303	327	227	157	158
Change in plan assets:						
Fair value of plan assets at beginning of year	290	459	197	306	–	–
Actual return on plan assets	77	(152)	24	(45)	–	–
Employer contributions	2	3	13	17	13	18
Benefits paid	(19)	(16)	(7)	(8)	(13)	(18)
Other	(4)	(4)	(1)	–	–	–
Exchange rate adjustments	–	–	22	(73)	–	–
Fair value of plan assets at end of year	346	290	248	197	–	–
Funded status – underfunded at end of year	\$ (29)	\$ (13)	\$ (79)	\$ (30)	\$ (157)	\$ (158)

The amounts recognized in the consolidated balance sheet consist of the following as of December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008	2009	2008
Noncurrent assets	\$ -	\$ 4	\$ -	\$ 11	\$ -	\$ -
Current liabilities	(2)	(2)	(4)	(1)	(18)	(15)
Noncurrent liabilities	(27)	(15)	(75)	(40)	(139)	(143)
Net amount recognized	\$ (29)	\$ (13)	\$ (79)	\$ (30)	\$ (157)	\$ (158)

The accumulated benefit obligation ("ABO") is the actuarial present value of pension benefits attributed to employee service to date and present compensation levels. The ABO differs from the PBO in that the ABO does not include any assumptions about future compensation levels. The ABO for all U.S. plans was \$366 million and \$293 million at December 31, 2009 and 2008, respectively. The ABO for all non-U.S. plans was \$313 million and \$220 million at December 31, 2009 and 2008, respectively.

Information for the plans with ABOs in excess of plan assets is as follows at December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008	2009	2008
Projected benefit obligation	\$ 375	\$ 17	\$ 327	\$ 43	n/a	n/a
Accumulated benefit obligation	366	17	313	36	\$ 157	\$ 158
Fair value of plan assets	346	-	248	2	n/a	n/a

Weighted average assumptions used to determine benefit obligations for these plans are as follows for the years ended December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008	2009	2008
Discount rate	5.9%	6.4%	5.6%	6.4%	5.9%	6.4%
Rate of compensation increase	4.0%	4.0%	4.1%	4.0%	n/a	n/a
Social security increase	3.5%	3.5%	3.1%	3.1%	n/a	n/a

The development of the discount rate for our U.S. plans was based on a bond matching model whereby a hypothetical bond portfolio of high-quality, fixed-income securities is selected that will match the cash flows underlying the projected benefit obligation. The discount rate assumption for our non-U.S. plans reflects the market rate for high-quality, fixed-income securities.

Accumulated Other Comprehensive Loss

The amounts recognized in accumulated other comprehensive loss consist of the following as of December 31:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008	2009	2008
Net loss	\$ 150	\$ 173	\$ 132	\$ 83	\$ -	\$ 6
Net prior service cost	3	4	-	-	2	4
Total	\$ 153	\$ 177	\$ 132	\$ 83	\$ 2	\$ 10

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$14 million and \$1 million, respectively. The estimated prior service cost for the other postretirement benefits that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is \$1 million.

Net Periodic Benefit Costs

The components of net periodic cost (benefit) are as follows for the years ended December 31:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Service cost	\$ 29	\$ 30	\$ 31	\$ 3	\$ 2	\$ 3	\$ 8	\$ 8	\$ 8
Interest cost	20	17	16	15	17	18	10	9	9
Expected return on plan assets	(25)	(38)	(34)	(15)	(20)	(19)	–	–	–
Amortization of prior service cost	1	–	–	–	–	–	1	1	1
Amortization of net loss	14	1	1	2	1	3	–	–	–
Curtailement	1	–	–	–	–	–	–	–	–
Other	3	–	–	(1)	(2)	–	–	–	–
Net periodic cost (benefit)	\$ 43	\$ 10	\$ 14	\$ 4	\$ (2)	\$ 5	\$ 19	\$ 18	\$ 18

Weighted average assumptions used to determine net periodic benefit costs for these plans are as follows for the years ended December 31:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Discount rate	6.3%	6.3%	6.0%	6.4%	5.7%	5.0%	6.3%	6.3%	6.0%
Expected long-term return on plan assets	8.5%	8.5%	8.5%	7.2%	7.2%	6.9%	n/a	n/a	n/a
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%	4.1%	3.9%	n/a	n/a	n/a
Social security increase	3.5%	3.5%	n/a	3.1%	3.1%	n/a	n/a	n/a	n/a

In selecting the expected rate of return on plan assets, we consider the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of these plans. This includes considering the trusts' asset allocation and the expected returns likely to be earned over the life of the plans.

Health Care Cost Trend Rates

Assumed health care cost trend rates have a significant effect on the amounts reported for other postretirement benefits. As of December 31, 2009, the health care cost trend rate was 7.7% for employees under age 65 and 6.4% for participants over age 65, with each declining gradually each successive year until it reaches 5.0% for both employees under age 65 and over age 65 in 2018. A one percentage point change in assumed health care cost trend rates would have had the following effects on 2009:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$ 0.4	\$ (0.4)
Effect on postretirement welfare benefit obligation	5.5	(5.0)

Plan Assets – U.S. Pension Plan

We have investment committees that meet regularly to review the portfolio returns and to determine asset-mix targets based on asset/liability studies. Third-party investment consultants assist us in developing asset allocation strategies to determine our expected rates of return and expected risk for various investment portfolios. The investment committees considered these strategies in the formal establishment of the current asset-mix targets based on the projected risk and return levels for all major asset classes.

The investment policy of the U.S. pension plan (the "U.S. Plan") was developed after examining the historical relationships of risk and return among asset classes and the relationship between the expected behavior of the U.S. Plan's assets and liabilities. The investment policy of the U.S. Plan is designed to provide the greatest probability of meeting or exceeding the U.S. Plan's objectives at the lowest possible risk.

In establishing its risk tolerance, the investment committee for the U.S. Plan ("U.S. Committee") considers its ability to withstand short-term and intermediate-term volatility in market conditions. The U.S. Committee also reviews the long-term characteristics of various asset classes, focusing on balancing risk with expected return. Accordingly, the U.S. Committee selected the following four asset classes as allowable investments for the assets of the U.S. Plan: U.S. equities, Real Estate, U.S. fixed-income securities, and non-U.S. equities.

The table below presents the fair values of the assets in the U.S. Plan at December 31, 2009, by asset category and by levels of fair value as further defined in Note 10 of Notes to Consolidated Financial Statements.

Asset Category	Level 1	Level 2	Level 3	Total Asset Value
Fixed Income ^(a)	\$ —	\$ 95	\$ —	\$ 95
Non-U.S. Equity ^(b)	—	78	—	78
U.S. Small Cap Equity ^(c)	—	55	—	55
S&P 500 Index Fund ^(d)	—	48	—	48
U.S. Large Cap Growth Equity ^(e)	—	30	—	30
U.S. Large Cap Value Equity ^(f)	—	23	—	23
Real Estate Fund ^(g)	—	—	13	13
Real Estate Investment Trust Equity	—	4	—	4
Total	\$ —	\$ 333	\$ 13	\$ 346

(a) A pooled fund with a strategy of investing in fixed income securities. The current allocation includes: 35% in U.S. Government securities; 34% in residential mortgage backed; 26% in corporate bonds; and 5% in index-linked, commercial mortgage-backed and asset-backed securities and cash.

(b) Multi-manager strategy investing in common stocks of non-U.S. listed companies using both value and growth approaches.

(c) Multi-manager strategy investing in common stocks of smaller U.S. listed companies using both value and growth approaches.

(d) A passively managed commingled fund investing in common stocks of the S&P 500 Index.

(e) Multi-manager growth strategy investing in common stocks of U.S. listed, large capitalization companies.

(f) Multi-manager value strategy investing in common stocks of U.S. listed, large capitalization companies.

(g) Commingled fund investing in a diversified portfolio of U.S. based properties. The current allocation includes: 30% Office, 28% Apartments, 24% Retail, 12% Industrial and 6% Hotel.

Plan Assets – Non-U.S. Pension Plans

The investment policy of the Baker Hughes U.K. pension plan, (the “U.K. Plan”) covers the asset allocation that the Trustees believe is the most appropriate for the U.K. Plan in the long term taking into account the nature of the liabilities they expect to have to meet.

The suitability of the asset allocation and investment policy is reviewed after every actuarial valuation of the U.K. Plan and will take the form of an asset and liability modeling study (if required). As part of the review, the Trustees will examine the

impact on the volatility of the U.K. Plan’s funding level arising from decisions made about the investment arrangements, including decisions about the investment strategy, about active and passive management and about manager selection. The Trustees will consider the likely impact on their ability to pay benefits should the U.K. Plan fail to be fully funded on both an ongoing and discontinuance basis. The review will also take into account the risk of changes in the Plan’s funding position resulting from changes in the U.K. Plan’s liabilities.

The table below presents the fair values of the assets in our non-U.S. pension plans at December 31, 2009, by asset category and by levels of fair value as further defined in Note 10 of Notes to Consolidated Financial Statements.

Asset Category	Level 1	Level 2	Level 3	Total Asset Value
U.K. Equity Index Fund ^(a)	\$ —	\$ 68	\$ —	\$ 68
Global Equity Strategy ^(b)	—	54	—	54
Over 15 Yrs U.K. Gilt Index Fund ^(c)	—	44	—	44
Corporate Bond Index Fund Over 15 Years ^(d)	—	39	—	39
U.K. Property Fund ^(e)	—	—	19	19
Sterling Liquidity Fund ^(f)	—	10	—	10
Over 5 Yrs Index Linked Index Fund ^(g)	—	7	—	7
Insurance contracts	—	—	7	7
Total	\$ —	\$ 222	\$ 26	\$ 248

(a) Invests passively in securities to achieve returns in line with the Financial Times (London) Stock Exchange (“FTSE”) All-Share Index.

(b) Invests in global securities from the world’s developed markets, including the U.S. and, on an annualized basis, seeks to outperform the Morgan Stanley Capital International World Index by 3%, over a complete market cycle.

(c) Invests passively in securities to achieve returns in line with the FTSE U.K. Gilts Over 15 Year Index.

(d) Invests passively in securities to achieve returns in line with the iBoxx £ non-gilts, over 15 years index.

(e) Invests in a diversified range of property throughout the U.K., principally in the retail, office and industrial/warehouse sectors.

(f) Invests in securities to receive an investment return that is consistent with the security of capital and a high degree of liquidity.

(g) Invests passively in securities to receive returns in line with the FTSE U.K. Gilts Index-Linked Over 5 Years Index.

The following table presents a rollforward for the fair value of the assets using Level 3 unobservable inputs.

	U.S. Property Fund	Non-U.S. Property Fund	Non-U.S. Insurance Contracts	Total
Beginning balance at January 1, 2009	\$ 19	\$ 18	\$ 7	\$ 44
Unrealized gains (losses)	(6)	1	1	(4)
Net purchases (sales)	—	—	(1)	(1)
Ending balance at December 31, 2009	\$ 13	\$ 19	\$ 7	\$ 39

Expected Cash Flows

For all pension plans, we make annual contributions to the plans in amounts equal to or greater than amounts necessary to meet minimum governmental funding requirements. Although we previously expected to forgo contributions for a period of five to eight years, due to recent downturns in investment markets and the decline in the value of the pension plan assets, we may be required to make contributions to the U.S. qualified pension plan within the next one to two years. In 2010, we expect to contribute between \$20 million and \$25 million to our U.S. pension plans and between \$15 million and \$20 million to the non-U.S. pension plans. In 2010, we also expect to make benefit payments related to postretirement welfare plans of between \$18 million and \$20 million.

The following table presents the expected benefit payments over the next ten years. The U.S. and non-U.S. pension benefit payments are made by the respective pension trust funds. The other postretirement benefits are net of expected Medicare subsidies of approximately \$2 million per year and are payments that are expected to be made by us.

Year	U.S. Pension Benefits	Non-U.S. Pension Benefits	Other Postretirement Benefits
2010	\$ 20	\$ 11	\$ 19
2011	23	10	16
2012	26	10	16
2013	29	12	16
2014	32	13	17
2015–2019	207	66	95

Defined Contribution Plans

During the periods reported, generally all of our U.S. employees were eligible to participate in our sponsored Thrift Plan, which is a 401(k) plan under the Internal Revenue Code of 1986, as amended (“the Code”). The Thrift Plan allows eligible employees to elect to contribute from 1% to 50% of their salaries to an investment trust. Employee contributions are matched by the Company in cash at the rate of \$1.00 per \$1.00 employee contribution for the first 5% of the employee’s salary and such contributions vest immediately. In addition, we make cash contributions for all eligible employees between 2% and 5% of their salary depending on the employee’s age. Such contributions are fully vested to the employee after three years of employment. The Thrift Plan provides for ten different investment options, for which the employee has sole discretion in determining how both the

employer and employee contributions are invested. The Thrift Plan does not offer Baker Hughes company stock as an investment option. Our contributions to the Thrift Plan and several other non-U.S. defined contribution plans amounted to \$129 million, \$137 million and \$131 million in 2009, 2008 and 2007, respectively.

For certain non-U.S. employees who are not eligible to participate in the Thrift Plan, we provide a non-qualified defined contribution plan that provides basically the same benefits as the Thrift Plan. In addition, we provide a non-qualified supplemental retirement plan (“SRP”) for certain officers and employees whose benefits under the Thrift Plan and/or the U.S. defined benefit pension plan are limited by federal tax law. The SRP also allows the eligible employees to defer a portion of their eligible compensation and provides for employer matching and base contributions pursuant to limitations. Both non-qualified plans are invested through trusts, and the assets and corresponding liabilities are included in our consolidated balance sheet. Our contributions to these non-qualified plans were \$11 million, \$9 million and \$11 million for 2009, 2008 and 2007, respectively.

In 2010, we estimate we will contribute between \$142 million and \$154 million to our defined contribution plans.

Postemployment Benefits

We provide certain postemployment disability income, medical and other benefits to substantially all qualifying former or inactive U.S. employees. Income benefits for long-term disability are provided through a fully-insured plan. The continuation of medical and other benefits while on disability (“Continuation Benefits”) are provided through a qualified self-insured plan. The accrued postemployment liability for Continuation Benefits at December 31, 2009 and 2008 was \$13 million and \$12 million, respectively, and is included in other liabilities in our consolidated balance sheet.

NOTE 15. COMMITMENTS AND CONTINGENCIES

Leases

At December 31, 2009, we had long-term non-cancelable operating leases covering certain facilities and equipment. The minimum annual rental commitments, net of amounts due under subleases, for each of the five years in the period ending December 31, 2014 are \$126 million, \$87 million, \$63 million, \$40 million and \$27 million, respectively, and \$102 million in the aggregate thereafter. Rent expense, which generally includes transportation equipment and warehouse facilities,

was \$241 million, \$227 million and \$179 million for the years ended December 31, 2009, 2008 and 2007, respectively. We have not entered into any significant capital leases during the three years ended December 31, 2009.

Litigation

We are involved in litigation or proceedings that have arisen in our ordinary business activities as well as in relation to the pending merger with BJ Services. We insure against these risks to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. In determining the amount of self-insurance, it is our policy to self-insure those losses that are predictable, measurable and recurring in nature, such as claims for automobile liability, general liability and workers compensation. The accruals for losses are calculated by estimating losses for claims using historical claim data, specific loss development factors and other information as necessary.

Department of Justice and Securities and Exchange Commission Matters

On April 26, 2007, the United States District Court, Southern District of Texas, Houston Division (the "Court") unsealed a three-count criminal information (the "Information") that had been filed against us as part of the execution of a Deferred Prosecution Agreement (the "DPA") between us and the Department of Justice ("DOJ"). The three counts arose out of payments made to an agent in connection with a project in Kazakhstan and included conspiracy to violate the Foreign Corrupt Practices Act ("FCPA"), a substantive violation of the antibribery provisions of the FCPA, and a violation of the FCPA's books-and-records provisions. All three counts related to our operations in Kazakhstan during the period from 2000 to 2003. The DPA relates to our March 29, 2002 announcement that the SEC and the DOJ were conducting investigations into allegations of violations of law relating to Nigeria and other related matters. In connection therewith, the SEC had issued a formal order of investigation into possible violations of provisions under the FCPA and issued subpoenas regarding our operations in Nigeria, Angola and Kazakhstan.

On April 26, 2009, the DPA expired and pursuant to a motion filed by the DOJ, the Court issued an order on April 28, 2009, dismissing the Information on the basis that the Company had fully complied with its obligations under the DPA.

The DPA also required us to retain an independent monitor (the "Monitor") for a term of three years to assess and make recommendations about our compliance policies and procedures and our implementation of those procedures. In addition, the Monitor was required to perform two follow up reviews and to "certify whether the anti-bribery compliance

program of Baker Hughes, including its policies and procedures, is appropriately designed and implemented to ensure compliance with the FCPA, U.S. commercial bribery laws and foreign bribery laws." On April 8, 2009, the Monitor issued his report for the first of such follow up reviews, and the Monitor issued his certification that our compliance program is appropriately designed and implemented to ensure such compliance. Pursuant to the DPA, the DOJ has agreed not to prosecute us for violations of the FCPA based on information that we have disclosed to the DOJ regarding our operations in Nigeria, Angola, Kazakhstan, Indonesia, Russia, Uzbekistan, Turkmenistan, and Azerbaijan, among other countries.

On April 26, 2007, the Court also accepted a plea of guilty by our subsidiary Baker Hughes Services International, Inc. ("BHSII") pursuant to a plea agreement between BHSII and the DOJ (the "Plea Agreement") based on similar charges relating to the same conduct. Pursuant to the Plea Agreement, BHSII agreed to a three-year term of organizational probation. The Plea Agreement contains provisions requiring BHSII to cooperate with the government, to comply with all federal criminal law, and to adopt a Compliance Code similar to the one that the DPA requires of the Company.

Also on April 26, 2007, the SEC filed a Complaint (the "SEC Complaint") and a proposed order ("2007 Order") against us in the Court. The SEC Complaint and the 2007 Order were filed as part of a settled civil enforcement action by the SEC, to resolve the civil portion of the government's investigation of us. As part of our agreement with the SEC, we consented to the filing of the SEC Complaint without admitting or denying the allegations in the Complaint, and also consented to the entry of the 2007 Order. The SEC Complaint alleged civil violations of the FCPA's antibribery provisions related to our operations in Kazakhstan, the FCPA's books-and-records and internal-controls provisions related to our operations in Nigeria, Angola, Kazakhstan, Indonesia, Russia, and Uzbekistan, and the cease and desist order that we had entered into with the SEC on September 12, 2001 ("2001 Order"). In entering into the 2001 Order, we had neither admitted nor denied the factual allegations contained therein including alleged violations of Section 13(b)(2)(A) and Section 13(b)(2)(B) of the Securities Exchange Act of 1934 that require issuers to: (x) make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer and (y) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; and (ii) transactions are recorded as necessary: (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets. The 2007 Order became effective on May 1, 2007, which is the date it was confirmed by the Court. The 2007 Order enjoins us from violating the FCPA's antibribery, books-and-records, and internal-controls provisions. As in the DPA, it required that we retain the independent monitor to assess our FCPA compliance policies and procedures.

Under the terms of the settlements with the DOJ and the SEC, the Company and BHSII paid, in the second quarter of 2007, \$44 million (\$11 million in criminal penalties, \$10 million in civil penalties, \$20 million in disgorgement of profits and \$3 million in pre-judgment interest) to settle these investigations. In the fourth quarter of 2006, we recorded a financial charge for the potential settlement.

Derivative Lawsuits

On May 4, 2007 and May 15, 2007, the Sheetmetal Workers' National Pension Fund and Chris Larson, respectively, instituted shareholder derivative lawsuits for and on the Company's behalf against certain current and former members of the Board of Directors and certain current and former officers, and the Company as a nominal defendant, following the Company's settlement with the DOJ and SEC in April 2007. On August 17, 2007, the Alaska Plumbing and Pipefitting Industry Pension Trust also instituted a shareholder derivative lawsuit for and on the Company's behalf against certain current and former members of the Board of Directors and certain current and former officers, and the Company as a nominal defendant. On June 6, 2008, the Midwestern Teamsters Pension Trust Fund and Oppenheim Kapitalanlagegesellschaft mbH instituted a shareholder derivative lawsuit for and on the Company's behalf against certain current and former members of the Board of Directors and certain current and former officers, and the Company as a nominal defendant. The complaints in all four lawsuits allege, among other things, that the individual defendants failed to implement adequate controls and compliance procedures to prevent the events addressed by the settlement with the DOJ and SEC. The relief sought in the lawsuits includes a declaration that the defendants breached their fiduciary duties, an award of damages sustained by the Company as a result of the alleged breach and monetary and injunctive relief, as well as attorneys' and experts' fees. On May 15, 2008, the consolidated complaint of the Sheetmetal Workers' National Pension Fund and the Alaska Plumbing and Pipefitting Industry Pension Trust was dismissed for lack of subject matter jurisdiction by the Houston Division of the United States District Court for the Southern District of Texas. The lawsuit brought by Chris Larson in the 215th District Court of Harris County, Texas was dismissed on September 15, 2008. The lawsuit brought by the Midwestern Teamsters Pension Trust Fund and Oppenheim Kapitalanlagegesellschaft mbH in the Houston Division of the United States District Court for the Southern District of Texas was dismissed on May 26, 2009. The time period for plaintiffs to file a Notice of Appeal in each of the cases has expired.

BJ Services Merger Related Stockholder Lawsuits

Delaware Cases

On September 1, 2009, three purported stockholder class action lawsuits styled *Laborers Local 235 Benefit Fund v. Stewart, et al.*, *The Booth Family Trust v. Huff, et al.*, and *Dugdale v. Huff, et al.*, were filed in the Court of Chancery of the State of Delaware (the "Delaware Chancery Court") on behalf of the public stockholders of BJ Services, with respect to the Merger Agreement, dated as of August 30, 2009, among

Baker Hughes, its wholly owned subsidiary, BSA Acquisition LLC, a Delaware limited liability company ("Merger Sub") and BJ Services, whereby, subject to satisfaction of the conditions to closing, BJ Services will merge with and into Merger Sub (the "Merger"), with Merger Sub continuing as the surviving entity after the Merger. Each action names BJ Services, the current members of the BJ Services Board of Directors (the "BJ Services Board") and the Company as defendants (collectively the "Defendants").

In these Delaware actions, and the follow-on actions discussed below, the plaintiffs allege, among other things, that the members of the BJ Services Board breached their fiduciary duties by failing to properly value BJ Services, failing to take steps to maximize the value of BJ Services to its public stockholders, and avoiding a competitive bidding process. The actions each allege that the Company aided and abetted the purported breaches by the BJ Services Board. The plaintiffs in each lawsuit seek, among other things, injunctive relief with respect to the Merger.

To date, six additional purported class action lawsuits have been filed in the Delaware Chancery Court on behalf of the public stockholders of BJ Services against the Company, BJ Services and the BJ Services Board, including: *Myers, v. BJ Services, et al.*, which was filed on September 4, 2009, *Garden City Employees' Retirement System v. BJ Services, et al.*, which was filed on September 8, 2009, *Saratoga Advantage Trust-Energy & Basic Materials Portfolio v. Huff, et al.*, which was filed on September 8, 2009, *Stationary Engineers Local 39 Pension Trust Fund v. Stewart, et al.*, which was filed on September 11, 2009, *Jacobs v. Stewart, et al.*, which was filed on September 23, 2009, and *Lyle v. BJ Services Company, et al.*, which was filed on October 1, 2009.

On September 25, 2009, the Delaware Chancery Court entered an order consolidating the lawsuits filed in the Delaware Chancery Court. On October 6, 2009, the Delaware Chancery Court entered an order implementing a bench ruling of October 5, 2009, resolving competing motions for appointment of lead counsel in the Delaware Chancery Court and designating the law firm of Faruqi & Faruqi, LLP of New York, New York as lead counsel and Rosenthal, Monhait & Goddess, P.A. of Wilmington, Delaware as liaison counsel. On October 14, 2009, the Delaware Chancery Court entered a supplemental consolidation order adding the October 1, 2009 Lyle complaint to the consolidated action.

On October 16, 2009, lead counsel for plaintiffs in the consolidated class action, *In re: BJ Services Company Shareholders Litigation, C.A. No. 4851-VCN*, served a Verified Consolidated Amended Class Action Complaint (the "Amended Complaint") in the Delaware Court of Chancery. The Amended Complaint, among other things, adds an officer of BJ Services (Jeffrey E. Smith, the Executive Vice President – Finance and CFO of BJ Services) as a defendant, contains new factual allegations about the negotiations between BJ Services and the Company, and alleges the Form S-4 Registration Statement and preliminary joint proxy statement/prospectus, filed with the Securities and Exchange Commission on October 14, 2009, omits and misrepresents material information.

Texas Cases

On September 4, 2009, a purported stockholder class action lawsuit styled Garden City Employees' Retirement System v. BJ Services Company, et al., was filed in the 80th Judicial District Court of Harris County, Texas, on behalf of the public stockholders of BJ Services with respect to the Merger Agreement naming BJ Services, the current members of the BJ Services Board, the Company and Merger Sub as defendants.

To date, three additional actions have been filed against the Company, BJ Services and its Board in District Courts in Harris County, Texas. They are: (1) Johnson v. Stewart, et al., filed on September 11, 2009, (2) Saratoga Advantage Trust – Energy & Basic Materials Portfolio v. Huff, et al., filed on September 11, 2009, and (3) Matt v. Huff, et al., which was filed on September 21, 2009. The lead plaintiff and plaintiff's counsel in the Garden City and Saratoga Advantage Trust cases filed in Texas also filed the cases of the same name in Delaware that are listed above. The Texas actions make substantially the same allegations as were initially asserted in the Delaware actions, and seek the same relief.

On October 9, 2009, the Harris County Court consolidated the Texas actions and restyled the action as Garden City Employees' Retirement System, et al. v. BJ services Company, et al., Cause No. 2009-57320, 80th Judicial District of Harris County, Texas. No amended consolidated complaint has been filed as of the date of this Annual Report on Form 10-K.

On October 20, 2009, the Court of Appeals for the First District of Texas at Houston granted Defendants' emergency motion to stay the Texas cases pending its decision on defendants' mandamus petition seeking a stay of the Texas litigation pending adjudication of the first-filed cases in Delaware.

Proposed Settlement of Delaware and Texas Cases

The Company believes that the Delaware and Texas actions are without merit, and that it has valid defenses to all claims. Nevertheless, in an effort to minimize further cost, expense, burden and distraction of any litigation relating to such lawsuits, on February 9, 2010, the parties to the Delaware and Texas actions entered into a Memorandum of Understanding regarding the terms of settlement of such lawsuits. The Memorandum of Understanding resolves the allegations by the plaintiffs against the defendants in connection with the merger and provides a release and settlement by the purported class of the BJ Services stockholders of all claims against BJ Services, its directors and an officer and Baker Hughes, and their affiliates and agents, in connection with the merger. In exchange for such release and settlement, the parties agreed, after discussions on an arms' length basis, that Baker Hughes and BJ Services provide additional supplemental disclosures in the joint proxy statement/prospectus included in a registration statement on Form S-4 filed by Baker Hughes on February 9, 2010 with the SEC. The proposed settlement includes an agreement that neither BJ Services nor Baker Hughes will oppose plaintiff's counsel's application for BJ Services to pay attorneys' fees and costs in an amount to be determined by the court up to \$700,000. In general, the terms of the Memorandum of Understanding will not become legally binding unless and until further definitive documentation is entered

into and court approval is obtained. The settlement is contingent upon consummation of the merger. There can be no assurance as to when or whether any of the foregoing conditions will be satisfied. In the event that these conditions are not satisfied, the Company intends to continue to vigorously defend these actions.

Environmental Matters

Our past and present operations include activities which are subject to extensive domestic (including U.S. federal, state and local) and international environmental regulations with regard to air, land and water quality and other environmental matters. Our environmental procedures, policies and practices are designed to ensure compliance with existing laws and regulations and to minimize the possibility of significant environmental damage.

We are involved in voluntary remediation projects at some of our present and former manufacturing locations or other facilities, the majority of which relate to properties obtained in acquisitions or to sites no longer actively used in operations. On rare occasions, remediation activities are conducted as specified by a government agency-issued consent decree or agreed order. Remediation costs are accrued based on estimates of probable exposure using currently available facts, existing environmental permits, technology and presently enacted laws and regulations. Remediation cost estimates include direct costs related to the environmental investigation, external consulting activities, governmental oversight fees, treatment equipment and costs associated with long-term operation, maintenance and monitoring of a remediation project.

We have also been identified as a potentially responsible party ("PRP") in remedial activities related to various Superfund sites. We participate in the process set out in the Joint Participation and Defense Agreement to negotiate with government agencies, identify other PRPs, determine each PRP's allocation and estimate remediation costs. We have accrued what we believe to be our pro-rata share of the total estimated cost of remediation and associated management of these Superfund sites. This share is based upon the ratio that the estimated volume of waste we contributed to the site bears to the total estimated volume of waste disposed at the site. Applicable United States federal law imposes joint and several liability on each PRP for the cleanup of these sites leaving us with the uncertainty that we may be responsible for the remediation cost attributable to other PRPs who are unable to pay their share. No accrual has been made under the joint and several liability concept for those Superfund sites where our participation is de minimis since we believe that the probability that we will have to pay material costs above our volumetric share is remote. We believe there are other PRPs who have greater involvement on a volumetric calculation basis, who have substantial assets and who may be reasonably expected to pay their share of the cost of remediation. For those Superfund sites where we are a significant PRP, remediation costs are estimated to include recalcitrant parties. In some cases, we have insurance coverage or contractual indemnities from third parties to cover a portion of or the ultimate liability.

Our total accrual for environmental remediation is \$18 million and \$17 million, which includes accruals of \$6 million and \$6 million for the various Superfund sites, at December 31, 2009 and 2008, respectively. The determination of the required accruals for remediation costs is subject to uncertainty, including the evolving nature of environmental regulations and the difficulty in estimating the extent and type of remediation activity that will be utilized. We believe that the likelihood of material losses in excess of the amounts accrued is remote.

Other

In connection with the settlement of litigation with ReedHycalog, in June 2008, the Company paid ReedHycalog \$70 million in royalties for prior use of certain patented technologies, and ReedHycalog paid the Company \$8 million in

royalties for the license of certain Company patented technologies. The net pre-tax charge of \$62 million for the settlement of this litigation is reflected in the 2008 consolidated statement of operations.

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, such as letters of credit and other bank issued guarantees, which totaled approximately \$692 million at December 31, 2009. We also had commitments outstanding for purchase obligations related to capital expenditures and inventory under purchase orders and contracts of approximately \$221 million at December 31, 2009. It is not practicable to estimate the fair value of these financial instruments. None of the off-balance sheet arrangements either has, or is likely to have, a material effect on our consolidated financial statements.

NOTE 16. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a reconciliation of Accumulated Other Comprehensive Loss:

	Pensions and Other Postretirement Benefits	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at December 31, 2007	\$ (56)	\$ 12	\$ (44)
Translation adjustments	—	(354)	(354)
Amortization of prior service cost	1	—	1
Amortization of actuarial net loss	2	—	2
Actuarial net losses arising in the year	(222)	—	(222)
Adjustment to reflect change in measurement date	1	—	1
Effect of exchange rate	26	—	26
Deferred taxes	67	—	67
Balance at December 31, 2008	(181)	(342)	(523)
Translation adjustments	—	122	122
Amortization of prior service cost	1	—	1
Amortization of actuarial net loss	16	—	16
Actuarial net losses arising in the year	(22)	—	(22)
Effect of exchange rate	(10)	—	(10)
Deferred taxes	2	—	2
Balance at December 31, 2009	\$ (194)	\$ (220)	\$ (414)

NOTE 17. QUARTERLY DATA (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
2009					
Revenues	\$ 2,668	\$ 2,336	\$ 2,232	\$ 2,428	\$ 9,664
Gross profit ⁽¹⁾	599	437	383	451	1,870
Net income	195	87	55	84	421
Basic earnings per share	0.63	0.28	0.18	0.27	1.36
Diluted earnings per share	0.63	0.28	0.18	0.27	1.36
Dividends per share	0.15	0.15	0.15	0.15	0.60
Common stock market prices:					
High	38.08	42.33	44.01	47.67	
Low	26.58	29.22	33.41	38.04	
2008					
Revenues	\$ 2,670	\$ 2,998	\$ 3,010	\$ 3,186	\$ 11,864
Gross profit ⁽¹⁾	798	895	879	912	3,484
Net income	395	379	429	432	1,635
Basic earnings per share	1.28	1.24	1.40	1.41	5.32
Diluted earnings per share	1.27	1.23	1.39	1.41	5.30
Dividends per share	0.13	0.13	0.15	0.15	0.56
Common stock market prices:					
High	81.34	89.56	88.57	60.54	
Low	63.90	68.50	60.93	26.02	

⁽¹⁾ Represents revenues less cost of sales, cost of services and rentals and research and engineering.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act of 1934, as amended (the "Exchange Act"). This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that, as of December 31, 2009, our disclosure controls and procedures, as defined by Rule 13a-15(e) of the Exchange Act, are effective at a reasonable assurance level.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, such as this annual report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Design and Evaluation of Internal Control Over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management included a report of their assessment of the design and effectiveness of our internal controls over financial reporting as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2009. Deloitte & Touche LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in Item 8 under the caption entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" and are incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding the Business Code of Conduct and Code of Ethical Conduct Certificates for our principal executive officer, principal financial officer and principal accounting officer are described in Item 1. Business of this Annual Report. Information concerning our directors is set forth in the sections entitled "Proposal No. 1, Election of Directors"; and "Corporate Governance – Committees of the Board – Audit/Ethics Committee" in our Definitive Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the SEC pursuant to the Exchange Act within 120 days of the end of our fiscal year on December 31, 2009 ("Proxy Statement"), which sections are incorporated herein by reference. For information regarding our executive officers, see "Item 1. Business – Executive Officers" in this Annual Report on Form 10-K. Additional information regarding compliance by directors and executive officers with Section 16(a) of the Exchange Act is set forth under the section entitled "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in our Proxy Statement, which section is incorporated herein by reference. For information concerning our Business Code of Conduct and Code of Ethical Conduct Certificates, see "Item 1. Business" in this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information for this item is set forth in the following sections of our Proxy Statement, which sections are incorporated herein by reference: "Compensation Discussion and Analysis"; "Executive Compensation"; "Director Compensation"; "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report."

Equity Compensation Plan Information

The information in the following table is presented as of December 31, 2009 with respect to shares of our common stock that may be issued under our existing equity compensation plans, including the Baker Hughes Incorporated 1993 Stock Option Plan, the Baker Hughes Incorporated Long-Term Incentive Plan and the Baker Hughes Incorporated 2002 Directors & Officers Long-Term Incentive Plan, all of which have been approved by our stockholders (in millions, except per share prices).

Equity Compensation Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the first column)
Stockholder-approved plans (excluding Employee Stock Purchase Plan)	2.0	\$ 53.64	1.4
Nonstockholder-approved plans ⁽¹⁾	3.7	48.27	0.6
Subtotal (except for weighted average exercise price)	5.7	50.17	2.0
Employee Stock Purchase Plan ⁽²⁾	–	–	7.2
Total	5.7	\$ 50.17	9.2

⁽¹⁾ The table includes the following nonstockholder-approved plans: the 1998 Employee Stock Option Plan, the 2002 Employee Long-Term Incentive Plan and the Director Compensation Deferral Plan. A description of each of these plans is set forth below.

⁽²⁾ The per share purchase price under the Baker Hughes Incorporated Employee Stock Purchase Plan is determined in accordance with section 423 of the Code as 85% of the lower of the fair market value of a share of our common stock on the date of grant or the date of purchase.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and our management is set forth in the sections entitled "Voting Securities" and "Security Ownership of Management" in our Proxy Statement, which sections are incorporated herein by reference.

Our Board of Directors has approved procedures for use under our Securities Trading and Disclosure Policy to permit our employees, officers and directors to enter into written trading plans complying with Rule 10b5-1 under the Exchange Act. Rule 10b5-1 provides criteria under which such an individual may establish a prearranged plan to buy or sell a specified number of shares of a company's stock over a set period of time. Any such plan must be entered into in good faith at a time when the individual is not in possession of material, non-public information. If an individual establishes a plan satisfying the requirements of Rule 10b5-1, such individual's subsequent receipt of material, nonpublic information will not prevent transactions under the plan from being executed. Certain of our officers have advised us that they have and may enter into a stock sales plan for the sale of shares of our common stock which are intended to comply with the requirements of Rule 10b5-1 of the Exchange Act. In addition, the Company has and may in the future enter into repurchases of our common stock under a plan that complies with Rule 10b5-1 or Rule 10b-18 of the Exchange Act.

Our nonstockholder-approved plans are described below:

1998 Employee Stock Option Plan

The Baker Hughes Incorporated 1998 Employee Stock Option Plan (the "1998 ESOP") was adopted effective as of October 1, 1998. The number of shares authorized for issuance under the 1998 ESOP was 7.0 million shares. Nonqualified stock options may be granted under the 1998 ESOP to our employees. The exercise price of the options will be equal to the fair market value per share of our common stock on the date of grant, and option terms may be up to ten years. Under the terms and conditions of the option award agreements for options issued under the 1998 ESOP, options generally vest and become exercisable in installments over the optionee's period of service, and the options vest on an accelerated basis in the event of a change in control. As of December 31, 2009, options covering approximately 0.1 million shares of our common stock were outstanding under the 1998 ESOP, options covering approximately 9,000 shares were exercised during fiscal year 2009. There are no shares available for grants of future options as the plan expired on October 1, 2008.

2002 Employee Long-Term Incentive Plan

The Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (the "2002 Employee LTIP") was adopted effective as of March 6, 2002. The 2002 Employee LTIP permits the grant of awards as nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, stock awards and cash-based awards to our corporate officers and key employees. The number of shares authorized for issuance under the 2002 Employee LTIP is 9.5 million, with no more than 69,000 shares available for future grants (the number of shares is subject to adjustment for changes in our common stock).

The 2002 Employee LTIP is the companion plan to the Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan, which was approved by our stockholders in 2002. The rationale for the two companion plans was to discontinue the use of the remaining older option plans and to have only two plans from which we would issue compensation awards.

Options. The exercise price of the options will not be less than the fair market value of the shares of our common stock on the date of grant, and options terms may be up to ten years. The maximum number of shares of our common stock that may be subject to options granted under the 2002 Employee LTIP to any one employee during any one fiscal year will not exceed 3.0 million, subject to adjustment under the antidilution provisions of the 2002 Employee LTIP. Under the terms and conditions of the stock option awards for options issued under the 2002 Employee LTIP, options generally vest and become exercisable in installments over the optionee's period of service, and the options vest on an accelerated basis in the event of a change in control or certain terminations of employment. As of December 31, 2009, options covering approximately 3.5 million shares of our common stock were outstanding under the 2002 Employee LTIP and options covering approximately 24,000 shares were exercised during fiscal year 2009.

Performance Shares and Units; Cash-Based Awards.

Performance shares may be granted to employees in the amounts and upon the terms determined by the Compensation Committee of our Board of Directors, but must be limited to no more than 1.0 million shares to any one employee in any one fiscal year. Performance units and cash-based awards may be granted to employees in amounts and upon the terms determined by the Compensation Committee, but must be limited to no more than \$10 million for any one employee in any one fiscal year. The performance measures that may be used to determine the extent of the actual performance payout or vesting include, but are not limited to, net earnings; earnings per share; return measures; cash flow return on investments (net cash flows divided by owner's equity); earnings before or after taxes, interest, depreciation and/or amortization; share price (including growth measures and total shareholder return) and Baker Value Added (our metric that measures operating profit after tax less the cost of capital employed).

Restricted Stock and Restricted Stock Units. With respect to awards of restricted stock and restricted stock units, the Compensation Committee will determine the conditions or restrictions on the awards, including whether the holders of the restricted stock or restricted stock units will exercise full voting rights (in the case of restricted stock awards only) or receive dividends and other distributions during the restriction period. At the time the award is made, the Compensation Committee will determine the right to receive unvested restricted stock or restricted units after termination of service. Awards of restricted stock are limited to 1.0 million shares in any one year to any one individual. Awards of restricted stock units are limited to 1.0 million units in any one year to any one individual.

Stock Appreciation Rights. Stock appreciation rights may be granted under the 2002 Employee LTIP on the terms and conditions determined by the Compensation Committee. The grant price of a freestanding stock appreciation right will not be less than the fair market value of our common stock on the date of grant. The maximum number of shares of our common stock that may be subject to stock appreciation rights granted under the 2002 Employee LTIP to any one individual during any one fiscal year will not exceed 3.0 million shares, subject to adjustment under the antidilution provisions of the 2002 Employee LTIP.

Administration; Amendment and Termination. The Compensation Committee shall administer the 2002 Employee LTIP, and in the absence of the Compensation Committee, the Board will administer the Plan. The Compensation Committee will have full and exclusive power to interpret the provisions of the 2002 Employee LTIP as the Committee may deem necessary or proper. The Board may alter, amend, modify, suspend or terminate the 2002 Employee LTIP, except that no amendment, modification, suspension or termination that would adversely affect in any material way the rights of a participant under any award previously granted under the 2002 Employee LTIP may be made without the written consent of the participant. In addition, no amendment of the 2002 Employee LTIP shall become effective absent stockholder approval of the amendment, to the extent stockholder approval is otherwise required by applicable legal requirements.

Director Compensation Deferral Plan

The Baker Hughes Incorporated Director Compensation Deferral Plan, as amended and restated effective July 24, 2002 (the "Deferral Plan"), is intended to provide a means for members of our Board of Directors to defer compensation otherwise payable and provide flexibility with respect to our compensation policies. Under the provisions of the Deferral Plan, directors may elect to defer income with respect to each calendar year. The compensation deferrals may be stock option-related deferrals or cash-based deferrals. If a director elects a stock option-related deferral, on the last day of each calendar quarter he or she will be granted a nonqualified stock option. The number of shares subject to the stock option is calculated by multiplying the amount of the deferred compensation that otherwise would have been paid to the director during the quarter by 4.4 and then dividing by the fair market value of our common stock on the last day of the quarter. The per share exercise price of the option will be the fair market value of a share of our common stock on the date the option is granted. Stock options granted under the Deferral Plan vest on the first anniversary of the date of grant and must be exercised within ten years of the date of grant. If a director's

directorship terminates for any reason, any options outstanding will expire three years after the termination of the directorship. The maximum aggregate number of shares of our common stock that may be issued under the Deferral Plan is 0.5 million. As of December 31, 2009, options covering 3,313 shares of our common stock were outstanding under the Deferral Plan, there were no shares exercised during fiscal 2009 and approximately 0.5 million shares remained available for future options.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information for this item is set forth in the sections entitled "Corporate Governance-Director Independence" and "Certain Relationships and Related Transactions" in our Proxy Statement, which sections are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning principal accounting fees and services is set forth in the section entitled "Fees Paid to Deloitte & Touche LLP" in our Proxy Statement, which section is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of Documents filed as part of this Report.

(1) Financial Statements

All financial statements of the Registrant as set forth under Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts

(3) Exhibits

Each exhibit identified below is filed as a part of this report. Exhibits designated with an “*” are filed as an exhibit to this Annual Report on Form 10-K. Exhibits designated with a “+” are identified as management contracts or compensatory plans or arrangements. Exhibits previously filed as indicated below are incorporated by reference.

- 3.1 Restated Certificate of Incorporation (filed as Exhibit 3.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2007).
- 3.2 Restated Bylaws of Baker Hughes Incorporated effective as of February 19, 2010 except for Article III, Section 1 which will not be effective unless and until the closing of the pending merger with BJ Services Company (filed as Exhibit 3.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed February 23, 2010).
- 4.1 Rights of Holders of the Company’s Long-Term Debt. The Company has no long-term debt instrument with regard to which the securities authorized there under equal or exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of its long-term debt instruments to the SEC upon request.
- 4.2 Restated Certificate of Incorporation (filed as Exhibit 3.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2007).
- 4.3 Restated Bylaws of Baker Hughes Incorporated effective as of February 19, 2010 except for Article III, Section 1 which will not be effective unless and until the closing of the pending merger with BJ Services Company (filed as Exhibit 3.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed February 23, 2010).
- 4.4 Indenture dated as of May 15, 1994 between Western Atlas Inc. and The Bank of New York, Trustee, providing for the issuance of securities in series (filed as Exhibit 4.4 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2004).
- 4.5 Indenture dated October 28, 2008, between Baker Hughes Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 29, 2008).
- 4.6 Officers’ Certificate of Baker Hughes Incorporated dated October 28 2008 establishing the 6.50% Senior Notes due 2013 and the 7.50% Senior Notes due 2018 (filed as Exhibit 4.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 29, 2008).
- 4.7 Form of 6.50% Senior Notes Due 2013 (filed as Exhibit 4.3 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 29, 2008).
- 4.8 Form of 7.50% Senior Notes Due 2018 (filed as Exhibit 4.4 to Current Report of Baker Hughes Incorporated on Form 8-K filed October 29, 2008).
- 10.1+ Amendment and Restatement of Employment Agreement between Chad C. Deaton and Baker Hughes Incorporated dated as of January 1, 2009 (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
- 10.2+ Form of Amended and Restated Change in Control Agreement between Baker Hughes Incorporated and each of the executive officers effective as of January 1, 2009.
- 10.3+ Stock Option Agreement issued to Chad C. Deaton on October 25, 2004 in the amount of 75,000 shares of Company Common Stock (filed as Exhibit 10.4 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended September 30, 2004).
- 10.4+ Agreement regarding restricted stock award issued to Chad C. Deaton on October 25, 2004 in the amount of 80,000 shares of Company Common Stock (filed as Exhibit 10.5 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended September 30, 2004).
- 10.5+ Letter Agreement between Peter A. Ragauss and Baker Hughes Incorporated dated as of March 27, 2006 (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed March 31, 2006).
- 10.6+ Amendment and Restatement of the Baker Hughes Incorporated Change in Control Severance Plan effective as of January 1, 2009 (filed as Exhibit 10.3 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
- 10.7+ Form of Indemnification Agreement between Baker Hughes Incorporated and each of the directors and executive officers (filed as Exhibit 10.4 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2003).

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- 10.8+ Form of Amendment to the Indemnification Agreement between Baker Hughes Incorporated and each of the directors and executive officers effective as of January 1, 2009 (filed as Exhibit 10.4 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
 - 10.9+ Baker Hughes Incorporated Director Retirement Policy for Certain Members of the Board of Directors (filed as Exhibit 10.10 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2003).
 - 10.10+ Baker Hughes Incorporated Director Compensation Deferral Plan, as amended and restated effective as of January 1, 2009 (filed as Exhibit 10.2 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2008).
 - 10.11+ Amendment to Baker Hughes Incorporated Director Compensation Deferral Plan effective as of January 1, 2009 (filed as Exhibit 10.5 to Current Report of Baker Hughes Incorporated on Form 8-K filed on December 19, 2008).
 - 10.12+ Baker Hughes Incorporated Executive Severance Plan, as amended and restated on February 7, 2008 (filed as Exhibit 10.17 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2007).
 - 10.13+ Amendment to Exhibit A of Baker Hughes Incorporated Executive Severance Plan as of July 20, 2009 (filed as Exhibit 10.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2009).
 - 10.14+ Baker Hughes Incorporated Annual Incentive Compensation Plan, as amended and restated on February 20, 2008 (filed as Exhibit 10.18 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2007).
 - 10.15+ Amendment to the Baker Hughes Annual Incentive Compensation Plan effective as of January 1, 2009 (filed as Exhibit 10.7 to Current Report of Baker Hughes Incorporated on Form 8-K filed on December 19, 2008).
 - 10.16+ Baker Hughes Incorporated Supplemental Retirement Plan, as amended and restated effective as of January 1, 2009 (filed as Exhibit 10.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2008).
 - 10.17+ Amendment to the Baker Hughes Incorporated Supplemental Retirement Plan effective as of January 1, 2009 (filed as Exhibit 10.6 to Current Report of Baker Hughes Incorporated on Form 8-K filed on December 19, 2008).
 - 10.18+ Long-Term Incentive Plan, as amended by Amendment No. 1999-1 to Long-Term Incentive Plan (filed as Exhibit 10.18 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2002).
 - 10.19+ Baker Hughes Incorporated 1998 Employee Stock Option Plan, as amended by Amendment No. 1999-1 to 1998 Employee Stock Option Plan (filed as Exhibit 10.3 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2003).
 - 10.20+ Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan (filed as Exhibit 4.4 to Registration Statement No. 333-87372 of Baker Hughes Incorporated on Form S-8 filed May 1, 2002).
 - 10.21+ Amendment to Baker Hughes Incorporated 2002 Employee Long-Term Incentive Plan, effective July 24, 2008 (filed as Exhibit 10.4 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2008).
 - 10.22+ Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan (filed as Exhibit 10.2 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended September 30, 2003).
 - 10.23+ Amendment to 2002 Director & Officer Long-Term Incentive Plan, effective as of October 27, 2005 (filed as Exhibit 10.3 of Baker Hughes Incorporated to Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
 - 10.24+ Amendment to Baker Hughes Incorporated 2002 Director & Officer Long-Term Incentive Plan effective July 24, 2008 (filed as Exhibit 10.3 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2008).
 - 10.25* Baker Hughes Incorporated Employee Stock Purchase Plan, as amended and restated, effective as of January 1, 2010.
 - 10.26+ Form of Stock Option Agreement for executive officers effective October 1, 1998 (filed as Exhibit 10.37 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2000).
 - 10.27+ Form of Nonqualified Stock Option Agreement for directors effective October 25, 1998 (filed as Exhibit 10.39 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2000).
 - 10.28+ Form of Baker Hughes Incorporated Nonqualified Stock Option Agreement for executive officers, dated January 24, 2001 (filed as Exhibit 10.41 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2001).
 - 10.29+ Form of Baker Hughes Incorporated Nonqualified Stock Option Agreement for employees, dated January 30, 2002 (filed as Exhibit 10.43 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2001).
 - 10.30+*Form of Baker Hughes Incorporated Nonqualified Stock Option Agreement with Terms and Conditions for officers.
 - 10.31+ Form of Baker Hughes Incorporated Incentive Stock Option Agreement for employees, dated January 30, 2002 (filed as Exhibit 10.44 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2001).
 - 10.32+ Form of Baker Hughes Incorporated Stock Option Award Agreements, with Terms and Conditions (filed as Exhibit 10.46 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2002).
 - 10.33+*Form of Baker Hughes Incorporated Incentive Stock Option Agreement with Terms and Conditions for officers.

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- 10.34+ Form of Restricted Stock Award Resolution, including Terms and Conditions (filed as Exhibit 10.3 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2004).
 - 10.35+ Form of Baker Hughes Incorporated Restricted Stock Award Agreement (filed as Exhibit 10.54 to Annual Report on Form 10-K for the year ended December 31, 2004).
 - 10.36+ Form of Baker Hughes Incorporated Restricted Stock Award Terms and Conditions (filed as Exhibit 10.54 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2004).
 - 10.37+*Form of Baker Hughes Incorporated Restricted Stock Award with Terms and Conditions for officers.
 - 10.38+ Form of Baker Hughes Incorporated Restricted Stock Unit Agreement, including Terms and Conditions (filed as Exhibit 10.18 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2007).
 - 10.39+ Form of Baker Hughes Incorporated Restricted Stock Unit Agreement (filed as Exhibit 10.54 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2004).
 - 10.40 Form of Baker Hughes Incorporated Restricted Stock Unit Terms and Conditions (filed as Exhibit 10.54 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2004).
 - 10.41+*Form of Baker Hughes Incorporated Restricted Stock Unit Award Agreement and Terms and Conditions for officers.
 - 10.42+ Form of Baker Hughes Incorporated Restricted Stock Award, including Terms and Conditions for directors (filed as Exhibit 10.40 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2005).
 - 10.43+ Form of Baker Hughes Incorporated Stock Option Award Agreement, including Terms and Conditions for directors (filed as Exhibit 10.41 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2005).
 - 10.44+ Form of Baker Hughes Incorporated Performance Unit Award Agreement, including Terms and Conditions (filed as Exhibit 10.42 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2007).
 - 10.45+ Form of Baker Hughes Incorporated Performance Unit Award Agreement, including Terms and Conditions (filed as Exhibit 10.42 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2005).
 - 10.46+ Form of Amended Baker Hughes Incorporated 2006 Performance Unit Award Terms and Conditions (filed as Exhibit 10.8 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
 - 10.47+ Form of Amended Baker Hughes Incorporated 2007 Performance Unit Award Terms and Conditions (filed as Exhibit 10.9 to Current Report of Baker Hughes Incorporated on Form 8-K filed December 19, 2008).
 - 10.48+*Form of Baker Hughes Incorporated Performance Unit Award Agreement and terms and Conditions for officers.
 - 10.49+ Performance Goals for the Performance Unit Award granted in 2006 (filed as Exhibit 10.43 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2005).
 - 10.50+ Form of Performance Goals for the Performance Unit Awards (filed as Exhibit 10.44 of Baker Hughes Incorporated to Annual Report on Form 10-K for the year ended December 31, 2006).
 - 10.51+ Form of 2009 Performance Unit Award Agreement, including Terms and Conditions (filed as Exhibit 10.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed March 31, 2009).
 - 10.52+*Compensation Table for Named Executive Officers and Directors.
 - 10.53 Form of Credit Agreement, dated as of July 7, 2005, among Baker Hughes Incorporated, JPMorgan Chase Bank, N.A., as Administrative Agent and fourteen lenders for \$500 million, in the aggregate for all banks (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed July 11, 2005).
 - 10.54 First Amendment to the Credit Agreement dated June 7, 2006, among Baker Hughes Incorporated and fifteen banks for \$500 million, in the aggregate for all banks (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed on June 12, 2006).
 - 10.55 Second Amendment to the Credit Agreement dated May 31, 2007, among Baker Hughes Incorporated and fifteen banks for \$500 million, in the aggregate for all banks (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed June 4, 2007).
 - 10.56 Third Amendment to Credit Agreement dated as of April 1, 2008, among Baker Hughes Incorporated, JP Morgan Chase Bank, N.A., as Administrative Agent, and fifteen lenders for \$500 million, in the aggregate for all banks (filed as Exhibit 10.2 to Current Report of Baker Hughes Incorporated on Form 8-K filed April 2, 2008).
 - 10.57 Credit Agreement dated as of March 30, 2009, among Baker Hughes Incorporated, JP Morgan Chase Bank, N.A., as Administrative Agent, and thirteen lenders for \$500 million, in the aggregate for all banks (filed as Exhibit 10.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed March 31, 2009).
 - 10.58 Agreement of Resignation, Appointment and Acceptance by and among Baker Hughes Incorporated, Citibank, N.A. and the Bank of New York Trust Company, N.A. dated as of April 26, 2007, effective May 1, 2007 (filed as Exhibit 10.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
 - 10.59 Agreement and Plan of Merger among Baker Hughes Incorporated, Baker Hughes Delaware I, Inc. and Western Atlas Inc. dated as of May 10, 1998 (filed as Exhibit 10.30 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2003).
 - 10.60+ Employee Benefits Agreement dated October 31, 1997, between Western Atlas Inc. and UNOVA Inc. (filed as Exhibit 10.32 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2003).

- 10.61 Deferred Prosecution Agreement between Baker Hughes Incorporated and the United States Department of Justice filed on April 26, 2007, with the United States District Court of Texas, Houston Division (filed as Exhibit 10.4 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
- 10.62 Plea Agreement between Baker Hughes Services International, Inc. and the United States Department of Justice filed on April 26, 2007, with the United States District Court of Texas, Houston Division (filed as Exhibit 10.5 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
- 10.63+ Letter Agreement between Baker Hughes Incorporated and David H. Barr dated February 25, 2009 (filed as Exhibit 10.59 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2008).
- 10.64+ Consulting Agreement between Baker Hughes Oilfield Operations, Inc. and David H. Barr dated February 25, 2009 (filed as Exhibit 10.60 to Annual Report of Baker Hughes Incorporated on Form 10-K for the year ended December 31, 2008).
- 10.65 Agreement and Plan of Merger dated as of August 30, 2009, among Baker Hughes Incorporated, BSA Acquisition LLC and BJ Services Company (filed as Exhibit 2.1 to Current Report of Baker Hughes incorporated on Form 8-K filed August 31, 2009).
- 21.1* Subsidiaries of Registrant.
- 23.1* Consent of Deloitte & Touche LLP.
- 31.1* Certification of Chad C. Deaton, Chief Executive Officer, dated February 25, 2010, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of Peter A. Ragauss, Chief Financial Officer, dated February 25, 2010, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 32* Statement of Chad C. Deaton, Chief Executive Officer, and Peter A. Ragauss, Chief Financial Officer, dated February 25, 2010, furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
- 99.1 Administrative Proceeding, File No. 3-10572, dated September 12, 2001, as issued by the Securities and Exchange Commission (filed as Exhibit 99.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed on September 19, 2001).
- 99.2 Baker Hughes Incorporated Information document filed on April 26, 2007, by the United States Attorney's Office for the Southern District of Texas and the United States Department of Justice (filed as Exhibit 99.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
- 99.3 Baker Hughes Services International, Inc. Information document filed on April 26, 2007, by the United States Attorney's Office for the Southern District of Texas and the United States Department of Justice (filed as Exhibit 99.2 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
- 99.4 Sentencing Memorandum and Motion for Waiver of Pre-Sentence Investigation of Baker Hughes Services International, Inc. (filed as Exhibit 99.3 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
- 99.5 Baker Hughes Services International, Inc. Sentencing Letter from the United States Department of Justice dated April 24, 2007 (filed as Exhibit 99.4 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
- 99.6 The Complaint by the Securities and Exchange Commission vs. Baker Hughes Incorporated filed on April 26, 2007, with the United States District Court of Texas, Houston Division (filed as Exhibit 99.5 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2007).
- 99.7 Final Judgment by the Securities and Exchange Commission as to Defendant Baker Hughes Incorporated dated and filed on May 1, 2007, with the United States District Court of Texas, Houston Division (filed as Exhibit 99.1 to Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended June 30, 2007).

** 101.INS XBRL Instance Document
 ** 101.SCH XBRL Schema Document
 ** 101.CAL XBRL Calculation Linkbase Document
 ** 101.LAB XBRL Label Linkbase Document
 ** 101.PRE XBRL Presentation Linkbase Document
 ** 101.DEF XBRL Definition Linkbase Document

** Furnished with this Form 10-K, not filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BAKER HUGHES INCORPORATED

Date: February 25, 2010

/s/CHAD C. DEATON

Chad C. Deaton

Chairman of the Board, President and Chief Executive Officer

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Chad C. Deaton and Peter A. Ragauss, each of whom may act without joinder of the other, as their true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/CHAD C. DEATON</u> (Chad C. Deaton)	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	February 25, 2010
<u>/s/PETER A. RAGAUSS</u> (Peter A. Ragauss)	Senior Vice President and Chief Financial Officer (principal financial officer)	February 25, 2010
<u>/s/ALAN J. KEIFER</u> (Alan J. Keifer)	Vice President and Controller (principal accounting officer)	February 25, 2010
<u>/s/LARRY D. BRADY</u> (Larry D. Brady)	Director	February 25, 2010
<u>/s/CLARENCE P. CAZALOT, JR.</u> (Clarence P. Cazalot, Jr.)	Director	February 25, 2010
<u>/s/EDWARD P. DJEREJIAN</u> (Edward P. Djerejian)	Director	February 25, 2010
<u>/s/ANTHONY G. FERNANDES</u> (Anthony G. Fernandes)	Director	February 25, 2010
<u>/s/CLAIRE W. GARGALLI</u> (Claire W. Gargalli)	Director	February 25, 2010
<u>/s/PIERRE H. JUNGELS</u> (Pierre H. Jungels)	Director	February 25, 2010
<u>/s/JAMES A. LASH</u> (James A. Lash)	Director	February 25, 2010
<u>/s/J. LARRY NICHOLS</u> (J. Larry Nichols)	Director	February 25, 2010
<u>/s/H. JOHN RILEY, JR.</u> (H. John Riley, Jr.)	Director	February 25, 2010
<u>/s/CHARLES L. WATSON</u> (Charles L. Watson)	Director	February 25, 2010

BAKER HUGHES INCORPORATED
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

<i>(In millions)</i>	Balance at Beginning of Period	Charged to Cost and Expenses	Write-offs ⁽¹⁾	Charged to Other Accounts ⁽²⁾	Balance at End of Period
Year ended December 31, 2009					
Reserve for doubtful accounts receivable	\$ 74	\$ 94	\$ (12)	\$ 1	\$ 157
Reserve for inventories	244	101	(53)	5	297
Year ended December 31, 2008					
Reserve for doubtful accounts receivable	59	31	(15)	(1)	74
Reserve for inventories	221	61	(30)	(8)	244
Year ended December 31, 2007					
Reserve for doubtful accounts receivable	51	22	(10)	(4)	59
Reserve for inventories	212	43	(37)	3	221

⁽¹⁾ Represents the elimination of accounts receivable and inventory deemed uncollectible or worthless.

⁽²⁾ Represents reclassifications, currency translation adjustments and divestitures.

GOVERNANCE AT BAKER HUGHES

Baker Hughes Corporate Governance Guidelines

Our board's Corporate Governance Guidelines regulate its relationship with stockholders, the conduct of the company's affairs and its relationship with our senior executive management.

The guidelines recognize that the board has a separate and unique role as the link in the chain of authority between the stockholders and senior executive management. The Corporate Governance Guidelines can be accessed electronically at www.bakerhughes.com/investor in the "About Baker Hughes" section.

The Baker Hughes board consists of 12 directors, including 11 independent non-management directors. The company's bylaws allow the board to have between 9 and 12 members. Expansion above 12 members requires an affirmative vote of 75% of the members of the board. The sole inside director is Chad C. Deaton, Chairman of the Board, President and Chief Executive Officer of Baker Hughes. Director H. John Riley serves as the Lead Director. Directors are elected annually. Independent non-management directors cannot stand for re-election at the annual meeting of stockholders following their 72nd birthday, and must resign if attendance at board and committee meetings falls below 66%.

The board may waive these requirements if it believes retention of the board member is in the best interest of our company. In addition, any nominee for director who receives a "withhold" vote representing a majority of the votes cast for his or her election is required to submit a letter of resignation to the Board's Governance Committee. The Governance Committee would recommend to the Board whether or not the resignation should be accepted.

Baker Hughes Directors At A Glance

- All 11 independent non-management directors serve on no more than three other public boards.
- The average age of the directors is 66. The average tenure on the board is approximately nine years.
- The diversity of principal occupations represented on our board includes Diplomacy (Djerejian), Diversified Industrial and Manufacturing (Fernandes and Riley), Energy (Cazalot, Jungels, Nichols and Watson), Executive Search (Gargalli), Finance (McCall), High Technology (Lash), Industrial Technologies (Brady) and Oilfield Services (Deaton).
- The board has five meetings scheduled in 2010.
- In 2009, the board held ten meetings and all directors attended more than 82% of all committee and board meetings.
- All six members of the Audit/Ethics Committee meet the SEC requirements of an "audit committee financial expert." The board has named Anthony G. Fernandes as its financial expert.
- The Audit/Ethics, Compensation, Finance and Governance Committees are all comprised solely of independent non-management directors.
- The board conducts continuing director education and director orientation.

Committees of the Board

The board has five standing committees – Audit/Ethics, Compensation, Finance, Governance and Executive. The Audit/Ethics, Compensation and Governance Committees are comprised solely of independent non-management directors in accordance with NYSE corporate governance listing standards. The Finance Committee is also comprised of independent non-management directors. Additionally, the board has adopted charters for the Audit/Ethics, Compensation and Governance Committees that comply with the requirements of the NYSE standards, applicable provisions of the Sarbanes-Oxley Act of 2002 ("SOX") and SEC rules. Each of the charters has been posted and is available for public viewing in the "About Baker Hughes" section of our website at www.bakerhughes.com. The Audit/Ethics Committee met nine times in 2009. The Compensation Committee met five times in 2009. The Finance Committee met four times in 2009. The Governance Committee met four times in 2009. Independent non-management directors meet without the CEO on a regular basis.

The Audit/Ethics Committee is comprised of five independent non-management directors and is responsible for assisting the board with the oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the qualification and independence of our independent registered public accounting firm and the performance of our internal audit function.

The Committee:

- selects the independent registered public accounting firm used by the company and reviews their performance;
- reviews financial reporting and disclosure issues with management and the internal auditors;
- establishes guidelines with respect to earnings news releases and the financial information and earnings guidance provided to analysts;
- meets periodically with management, the internal auditors and the independent registered public accounting firm to review the work of each. The independent registered public accounting firm and internal auditors have full and free access to the Audit/Ethics Committee, without management present, to discuss auditing and financial reporting matters;
- reviews and pre-approves audit and non-audit fees;
- provides assistance to the board in overseeing matters related to risk analysis and risk management;
- annually reviews compliance with our Business Code of Conduct and Foreign Corrupt Practices Act policies. The Baker Hughes Business Code of Conduct and Code of Ethical Conduct Certifications are available on our website;
- prepares an annual report to stockholders which is published in our proxy statement (contained herein) and made available on our website.

Directors	Age	Committee*					Employee	Independent	Director Since
		Executive	Audit/Ethics	Governance	Finance	Compensation			
Chad C. Deaton	57	C					X		2004
Larry D. Brady	67		M		C			X	2004
Clarence P. Cazalot, Jr.	59	X	M	C				X	2002
Edward P. Djerejian	70			M		M		X	2001
Anthony G. Fernandes	64		C	M				X	2001
Claire W. Gargalli	67				M	M		X	1998
Pierre H. Jungels	66				M	M		X	2006
James A. Lash	65		M		M			X	2002
J. Larry Nichols	67		M			M		X	2001
James L. Payne**	72								
H. John Riley, Jr.	69	X		M		C		X	1997
J.W. Stewart**	65								
Charles L. Watson	60	X		M	M			X	1998

* M=Member; C=Chairman

** to be appointed to the Board of Directors upon closing of the merger

Resources

The following information is available at www.bakerhughes.com/investor

- Corporate Governance Guidelines
- Governance Committee Charter
- Audit/Ethics Committee Charter
- Audit/Ethics Committee Annual Report
- Finance Committee Charter
- Compensation Committee Charter
- Compensation Committee Annual Report
- Executive Committee Charter
- Code of Ethical Conduct Certification
- Policy Statement on Shareholder Rights Plans
- Business Code of Conduct
- Environmental Policy
- Biographies of Board Members
- Biographies of Executive Officers

Ownership Structure

Investors	Source	Shares (millions)	% of Total
Wellington	(12/09, 13F)	43.4	13.8%
Capital Research			
Global Investors	(12/09, 13F)	32.9	10.5%
Dodge & Cox	(12/09, 13F)	28.1	8.9%
Capital World	(12/09, 13F)	22.1	7.0%
BlackRock	(12/09, 13F)	15.5	4.9%
State Street	(12/09, 13F)	12.0	3.8%
Vanguard Group	(12/09, 13F)	10.8	3.4%
T. Rowe Price	(12/09, 13F)	8.7	2.8%
Fidelity	(12/09, 13F)	7.6	2.4%
UBS Global Asset Mgmt	(12/09, 13F)	6.1	1.9%
Top 10 investors		187.2	59.6%
Other holders		126.8	40.4%
Total		314.0	100.0%

Source: Thomson Financial

New York Stock Exchange

Last year our Annual CEO Certification, without qualifications, was timely submitted to the NYSE. Also, we have filed our certifications required under SOX as exhibits to our Form 10-K.

Important Stockholder Dates

2010 Annual Meeting	4/22/10
Q110 Earnings News Release*	5/4/10
Q210 Earnings News Release*	7/27/10
Q310 Earnings News Release*	10/26/10
Q410 Earnings News Release*	1/25/11

* Dates subject to change without notice

Independent Registered Public Accounting Firm

In 2009, we paid our independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, audit fees of \$12.4 million; audit-related fees of \$0.3 million, and tax fees of \$1.3 million primarily for the preparation of income, payroll, value added and other tax returns.

CORPORATE OFFICERS

Chad C. Deaton

Chairman, President and Chief Executive Officer

Martin S. Craighead

Senior Vice President and Chief Operating Officer

Belgacem Chariag

Vice President and President, Eastern Hemisphere Operations

Derek Mathieson

Vice President and President, Products and Technology

John A. O'Donnell

Vice President and President, Western Hemisphere

Arthur Soucy

Vice President, Supply Chain

Clifton Triplett

Vice President and Chief Information Officer

Peter A. Ragauss

Senior Vice President and Chief Financial Officer

David E. Emerson

Vice President, Corporate Development

Gary R. Flaharty

Vice President, Investor Relations

Alan J. Keifer

Vice President and Controller

John H. Lohman, Jr.

Vice President, Tax

Ronald E. Martz

Vice President, Internal Audit

Jan Kees van Gaalen

Vice President and Treasurer

Alan R. Crain

Senior Vice President and General Counsel

Sandra E. Alford

Corporate Secretary

Jay G. Martin

Vice President, Chief Compliance Officer and Senior Deputy General Counsel

Didier Charreton

Vice President, Human Resources

Russell J. Cancilla

Vice President, Health, Safety and Environment and Security

BOARD OF DIRECTORS



Larry D. Brady
Former Chairman, President and Chief Executive Officer, Intermecc, Inc.



Clarence P. Cazalot, Jr.
President and Chief Executive Officer, Marathon Oil Corporation



Chad C. Deaton
Chairman, President and Chief Executive Officer, Baker Hughes Incorporated



Edward P. Djerejian
Director, James A. Baker III Institute for Public Policy, Rice University



Anthony G. Fernandes
Former Chairman, President and Chief Executive Officer, Phillip Services Corporation



Claire W. Gargalli
Former Vice Chairman, Diversified Search and Diversified Health Search Companies



Pierre H. Jungels, CBE
Former President of the Institute of Petroleum



James A. Lash
Chairman, Manchester Principal LLC



James F. McCall*
Lt. General, U.S. Army (Retired) and Former Executive Director of the American Society of Military Comptrollers



J. Larry Nichols
Chairman and Chief Executive Officer, Devon Energy Corporation



H. John Riley, Jr.
Former Chairman, Cooper Industries, Ltd.



Charles L. Watson
Chairman, CLW Investments, Inc.



James L. Payne**
Chairman and Chief Executive Officer, Shona Energy Company, Inc.



J.W. Stewart**
Chairman, President and Chief Executive Officer, BJ Services Company

Stockholder Information

Transfer Agent and Registrar
BNY Mellon Shareowner Services LLC
480 Washington Boulevard
Jersey City, NJ 07310
(888) 216-8057

Stock Exchange Listings

Ticker Symbol "BHI"
New York Stock Exchange, Inc.
SWX Swiss Exchange

Investor Relations Office

Gary R. Flaharty
Vice President,
Investor Relations
Baker Hughes Incorporated
P.O. Box 4740
Houston, Texas 77210-4740
ir@bakerhughes.com

Form 10-K

Additional copies of the company's Annual Report to the Securities and Exchange Commission (Form 10-K) are available by writing to:
Baker Hughes Investor Relations
P.O. Box 4740
Houston, Texas 77210-4740

Annual Meeting

The company's Annual Meeting of Stockholders will be held at 9:00 a.m. Central Time on April 22, 2010 at:
Wortham Meeting Room No. 2
2727 Allen Parkway
Houston, Texas 77019-2118

Corporate Office Location and Mailing Address

2929 Allen Parkway, Suite 2100
Houston, Texas 77019-2118
Telephone: (713) 439-8600
P.O. Box 4740
Houston, Texas 77210-4740

Website

www.bakerhughes.com

As a Baker Hughes stockholder, you are invited to take advantage of our convenient stockholder services or request more information about Baker Hughes.

BNY Mellon Shareowner Services, our transfer agent, maintains the records for our registered stockholders and can help you with a variety of stockholder related services at no charge including:

- Change of name or address
- Duplicate mailings
- Lost stock certificates
- Additional administrative services
- Consolidation of accounts
- Dividend reinvestment enrollment
- Transfer of stock to another person

Access your investor statements online 24 hours a day, 7 days a week with MLinkSM. For more information, go to www.melloninvestor.com/ISD.

* Retired from the Board of Directors at the Annual Meeting of Stockholders held on April 23, 2009.

** To be appointed to the Board of Directors upon closing of the merger.

Baker Hughes Incorporated

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