UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2016

OR

o **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	**76-0207995**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
17021 Aldine Westfield, Houston, Texas	**77073-5101**
(Address of principal executive offices)	(Zip Code)

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

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 o

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 o

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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO ☑

As of October 19, 2016, the registrant has outstanding 422,794,027 shares of Common Stock, $1 par value per share.

Baker Hughes Incorporated
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Baker Hughes Incorporated

Consolidated Condensed Statements of Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	**2016**	**2015**	**2016**	**2015**
Revenue:				
Sales	$ 933	$ 1,363	$ 2,900	$ 4,322
Services	1,420	2,423	4,531	8,026
Total revenue	2,353	3,786	7,431	12,348
Costs and expenses:				
Cost of sales	794	1,138	2,920	3,703
Cost of services	1,265	2,237	4,909	7,598
Research and engineering	91	110	292	366
Marketing, general and administrative	203	211	632	749
Impairment and restructuring charges	304	98	1,590	747
Goodwill impairment	17	—	1,858	—
Merger and related costs	—	93	180	204
Merger termination fee	—	—	(3,500)	—
Total costs and expenses	2,674	3,887	8,881	13,367
Operating loss	(321)	(101)	(1,450)	(1,019)
Loss on early extinguishment of debt	—	—	(142)	—
Interest expense, net	(39)	(55)	(142)	(162)
Loss before income taxes	(360)	(156)	(1,734)	(1,181)
Income taxes	(70)	—	(589)	242
Net loss	(430)	(156)	(2,323)	(939)
Net (income) loss attributable to noncontrolling interests	1	(3)	2	3
Net loss attributable to Baker Hughes	$ (429)	$ (159)	$ (2,321)	$ (936)
Basic and diluted loss per share attributable to Baker Hughes	$ (1.00)	$ (0.36)	$ (5.31)	$ (2.13)
Cash dividends per share	$ 0.17	$ 0.17	$ 0.51	$ 0.51

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated

Consolidated Condensed Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Net loss	$ (430)	$ (156)	$ (2,323)	$ (939)
Other comprehensive income (loss):				
Foreign currency translation adjustments during the period	7	(91)	47	(182)
Pension and other postretirement benefits, net of tax	5	5	19	6
Other comprehensive income (loss)	12	(86)	66	(176)
Comprehensive loss	(418)	(242)	(2,257)	(1,115)
Comprehensive (income) loss attributable to noncontrolling interests	1	(3)	2	3
Comprehensive loss attributable to Baker Hughes	$ (417)	$ (245)	$ (2,255)	$ (1,112)

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated

Consolidated Condensed Balance Sheets

(Unaudited)

(In millions)		September 30, 2016		December 31, 2015
ASSETS				
Current assets:				
Cash and cash equivalents	$	3,736	$	2,324
Accounts receivable - less allowance for doubtful accounts (2016 - $558; 2015 - $383)		2,207		3,217
Inventories, net		1,966		2,917
Deferred income taxes		159		301
Other current assets		934		509
Total current assets		9,002		9,268
Property, plant and equipment - less accumulated depreciation (2016 - $6,759; 2015 - $7,378)		4,874		6,693
Goodwill		4,216		6,070
Intangible assets, net		407		583
Other assets		992		1,466
Total assets	$	19,491	$	24,080
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	$	951	$	1,409
Short-term debt and current portion of long-term debt		127		151
Accrued employee compensation		466		690
Income taxes payable		131		55
Other accrued liabilities		549		470
Total current liabilities		2,224		2,775
Long-term debt		2,895		3,890
Deferred income taxes and other tax liabilities		382		252
Liabilities for pensions and other postretirement benefits		631		646
Other liabilities		122		135
Commitments and contingencies				
Equity:				
Common stock, one dollar par value (shares authorized - 750; issued and outstanding: 2016 - 423; 2015 - 437)		423		437
Capital in excess of par value		6,625		7,261
Retained earnings		7,072		9,614
Accumulated other comprehensive loss		(939)		(1,005)
Treasury stock		(22)		(9)
Baker Hughes stockholders' equity		13,159		16,298
Noncontrolling interests		78		84
Total equity		13,237		16,382
Total liabilities and equity	$	19,491	$	24,080

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated
Consolidated Condensed Statements of Changes in Equity
(Unaudited)

(In millions, except per share amounts)	Baker Hughes Stockholders' Equity: Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2015	$ 437	$ 7,261	$ 9,614	$ (1,005)	$ (9)	$ 84	$ 16,382
Comprehensive loss:							
Net loss			(2,321)			(2)	(2,323)
Other comprehensive income				66			66
Activity related to stock plans	2	18			(13)		7
Repurchase and retirement of common stock	(16)	(747)					(763)
Stock-based compensation		93					93
Cash dividends ($0.51 per share)			(221)				(221)
Net activity related to noncontrolling interests						(4)	(4)
Balance at September 30, 2016	$ 423	$ 6,625	$ 7,072	$ (939)	$ (22)	$ 78	$ 13,237

(In millions, except per share amounts)	Baker Hughes Stockholders' Equity: Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2014	$ 434	$ 7,062	$ 11,878	$ (749)	$ —	$ 105	$ 18,730
Comprehensive loss:							
Net loss			(936)			(3)	(939)
Other comprehensive loss				(176)			(176)
Activity related to stock plans	2	62			(9)		55
Stock-based compensation		92					92
Cash dividends ($0.51 per share)			(222)				(222)
Net activity related to noncontrolling interests		(24)				(11)	(35)
Balance at September 30, 2015	$ 436	$ 7,192	$ 10,720	$ (925)	$ (9)	$ 91	$ 17,505

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated
Consolidated Condensed Statements of Cash Flows
(Unaudited)

(In millions)	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net loss	$ (2,323)	$ (939)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	921	1,326
Impairment of assets	1,241	265
Goodwill impairment	1,858	—
Inventory write-down	556	194
Loss on early extinguishment of debt	142	—
Provision (benefit) for deferred income taxes	292	(359)
Provision for doubtful accounts	209	160
Other noncash items	(15)	(3)
Changes in operating assets and liabilities:		
Accounts receivable	802	1,692
Inventories	408	570
Accounts payable	(457)	(1,289)
Other operating items, net	(37)	(352)
Net cash flows provided by operating activities	3,597	1,265
Cash flows from investing activities:		
Expenditures for capital assets	(226)	(751)
Proceeds from disposal of assets	199	269
Proceeds from maturities of investment securities	307	—
Purchases of investment securities	(308)	(217)
Other investing items, net	—	(14)
Net cash flows used in investing activities	(28)	(713)
Cash flows from financing activities:		
Net repayments of short-term debt and other borrowings	(57)	(38)
Repayment of long-term debt	(1,135)	—
Repurchase of common stock	(763)	—
Dividends paid	(221)	(222)
Other financing items, net	17	21
Net cash flows used in financing activities	(2,159)	(239)
Effect of foreign exchange rate changes on cash and cash equivalents	2	(10)
Increase in cash and cash equivalents	1,412	303
Cash and cash equivalents, beginning of period	2,324	1,740
Cash and cash equivalents, end of period	$ 3,736	$ 2,043
Supplemental cash flows disclosures:		
Income taxes paid, net of refunds	$ 239	$ 395
Interest paid	$ 183	$ 192
Supplemental disclosure of noncash investing activities:		
Capital expenditures included in accounts payable	$ 25	$ 52

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Baker Hughes Incorporated ("Baker Hughes," "Company," "we," "our," or "us,") is a leading supplier of oilfield services, products, technology and systems used for drilling, formation evaluation, completion and production, pressure pumping, and reservoir development in the worldwide oil and natural gas industry. We also provide products and services for other businesses including downstream chemicals, and process and pipeline services.

Basis of Presentation

Our unaudited consolidated condensed financial statements included herein have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America ("U.S.") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, certain information and disclosures normally included in our annual financial statements have been condensed or omitted. These unaudited consolidated condensed financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2015. We believe the unaudited consolidated condensed financial statements included herein reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. In the Notes to Unaudited Consolidated Condensed Financial Statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated.

Beginning in 2016, all merger and related costs are presented as a separate line item in the consolidated condensed statements of income (loss). Prior year merger and related costs were reclassified to conform to the current year presentation.

New Accounting Standards Adopted

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11, *Simplifying the Measurement of Inventory*, which requires inventory measured using average cost methods, which we utilize, to be subsequently measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We adopted this guidance as of January 1, 2016 because we believe this approach will reduce the complexity in the subsequent measurement of our inventory. The guidance stipulates that the amendments in ASU No. 2015-11 shall be adopted on a prospective basis, therefore, our adoption had no impact on prior reporting periods.

New Accounting Standards To Be Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The pronouncement is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and is to be applied retrospectively. Early adoption is permitted. We have not completed an evaluation of the impact the pronouncement will have on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet. The pronouncement is effective for annual reporting periods beginning after December 15, 2016, and may be applied either prospectively or retrospectively. Based on our current evaluation, the reclassification of deferred tax assets from current to noncurrent could be significant. We do not expect a significant reclassification for deferred tax liabilities.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, a new standard on accounting for leases. The ASU introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in the current accounting guidance as well as the FASB's new revenue recognition standard. However, the ASU eliminates the use of bright-line tests in determining lease classification as required in the current guidance. The ASU also requires additional qualitative disclosures along with specific quantitative disclosures to better enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The pronouncement is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, using a modified retrospective approach. Early adoption is permitted. We have not completed an evaluation of the impact the pronouncement will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The standard provides a new requirement to record all of the tax effects related to share-based payments at settlement (or expiration) through the income statement. This pronouncement is effective for annual reporting periods beginning after December 15, 2016. We have completed an evaluation of the pronouncement and determined that its impact upon adoption will not be material to our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification and presentation of eight specific cash flow issues that currently result in diverse practices. This pronouncement is effective for annual reporting periods beginning after December 15, 2017. The amendments in this ASU should be applied using a retrospective approach. We have not completed an evaluation of the impact the pronouncement will have on our consolidated financial statements and related disclosures, but the impact is not expected to be material.

NOTE 2. HALLIBURTON MERGER AGREEMENT

On November 16, 2014, Baker Hughes, Halliburton Company ("Halliburton") and a wholly owned subsidiary of Halliburton ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), under which Halliburton would acquire all of the outstanding shares of Baker Hughes through a merger of Baker Hughes with and into Merger Sub (the "Merger").

In accordance with the provisions of Section 9.1 of the Merger Agreement, Baker Hughes and Halliburton agreed to terminate the Merger Agreement on April 30, 2016, as a result of the failure of the Merger to occur on or before April 30, 2016 due to the inability to obtain certain specified antitrust related approvals. Halliburton paid 3.5 billion to Baker Hughes on May 4, 2016, representing the termination fee required to be paid pursuant to the Merger Agreement.

Baker Hughes incurred costs related to the Merger of $180 million and $204 million for the nine months ended September 30, 2016 and 2015, respectively, including costs under our retention programs and obligations for minimum incentive compensation costs which, based on meeting eligibility criteria, have been treated as merger and related expenses. No costs related to the Merger were incurred during the three months ended September 30, 2016, compared to $93 million for the three months ended September 30, 2015.

NOTE 3. IMPAIRMENT AND RESTRUCTURING CHARGES

IMPAIRMENT CHARGES

We conduct impairment tests on long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable based on estimated future cash flows. Although oil prices have risen since the lows reached in February 2016 and rig counts have begun to stabilize, customer spending and activity continue to remain at low levels, thus continuing lower demand for our products and services. We consider our customers' constrained capital spending budgets for 2016 and the current outlook for low activity levels to be impairment indicators and accordingly continue to evaluate our long-lived assets for impairment.

As a result of our impairment testing during the first three quarters of 2016, we have recorded impairment charges of $578 million, of which $462 million pertains to certain machinery and equipment and $116 million pertains to certain intangible assets that were written down to their estimated fair value. These assets remain in use. Specific to the third quarter of 2016, certain machinery and equipment, with an initial total carrying value of $380 million, was written down to its estimated fair value, resulting in an impairment charge of $116 million. Additionally, certain intangible assets, with an initial total carrying value of $40 million, were written down to their estimated fair values, resulting in an impairment charge of $15 million. Total impairment charges for the three months ended September 30, 2016 were $131 million. The majority of the machinery and equipment and intangible assets impaired in the third quarter of 2016 were related to our pressure pumping business in North America and Latin America. The estimated fair values for these assets were determined using discounted future cash flows. The significant Level 3 unobservable inputs used in the determination of the fair value of these assets were the estimated future cash flows and the weighted average cost of capital of 10.0% for North America and 16.0% for Latin America.

RESTRUCTURING CHARGES

We recognize restructuring charges for costs associated with workforce reductions, contract terminations, facility closures and impairments related to the permanent removal from service and disposal of excess machinery and equipment. As a result of the downturn in the industry in 2015 and its impact on our business outlook, we took actions to restructure and adjust our operations and cost structure to reflect current and expected activity levels to the extent allowable under the Merger Agreement with Halliburton. Following the termination of the Merger Agreement in the second quarter of 2016, to address ongoing industry challenges, we took additional actions to reduce costs, simplify our organization, refine and rationalize our operating strategy and adjust our capacity to meet expected levels of future demand. These actions necessitated workforce reductions, contract terminations, facility closures and the permanent removal from service and disposal of excess machinery and equipment. Depending on future market conditions and activity levels, further actions may be necessary to adjust our operations, which may result in additional charges.

During the three and nine months ended September 30, 2016 and 2015, we recorded restructuring charges as summarized below:

	Three Months Ended		Nine Months Ended	
Restructuring Charges	**September 30, 2016**	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Workforce reductions	$ 58	$ 108	$ 203	$ 416
Contract terminations	55	—	146	83
Impairment of buildings and improvements	91	—	196	82
Impairment of machinery and equipment	(31)	(10)	467	166
Total restructuring charges	$ 173	$ 98	$ 1,012	$ 747

Workforce reduction costs: During the first nine months of 2016, we initiated workforce reductions that will result in the elimination of approximately 6,400 additional positions worldwide, of which 1,400 workforce reductions were initiated during the third quarter of 2016. As a result, we recorded a charge for severance expense of $203 million for the nine months ended September 30, 2016, and made payments totaling $236 million during the same period. As of September 30, 2016, we had $42 million of accrued severance. We expect that substantially all of the accrued severance will be paid by the end of 2016.

Contract termination costs: During the first nine months of 2016, we canceled supply contracts and certain facility and equipment leases and recorded a charge of $146 million. During the same period, we made payments totaling $97 million relating to contract termination costs. As of September 30, 2016, we had accrued contract termination costs of $75 million. We expect that substantially all of the accrued contract termination costs will be paid within the next twelve months.

Impairment of buildings and improvements: During the first nine months of 2016, we consolidated and closed certain facilities and recorded related impairment charges of $196 million. The total impairment of buildings and improvements for the first nine months of 2016 reduced our segment assets as follows: North America - $130 million; Latin America - $18 million; Europe/Africa/Russia Caspian - $41 million; and Middle East/Asia Pacific - $7 million. These facilities have been taken out of service and will be disposed.

Impairment of machinery and equipment: Following the termination of the Merger Agreement with Halliburton in the second quarter of 2016, we evaluated our capacity and made adjustments to align our capacity to expected future operational levels and strategy. These actions impacted all product lines and as a result, we recognized an impairment loss of $467 million for the nine months ended September 30, 2016 relating to the cost to impair excess machinery and equipment to its net realizable value. The total machinery and equipment impairments reduced our segment assets as follows: North America - $200 million; Latin America - $82 million; Europe/Africa/Russia Caspian - $81 million; Middle East/Asia Pacific - $71 million; and Industrial Services - $33 million. We have been disposing of all excess machinery and equipment and expect to be substantially complete by the end of 2016.

OTHER CHARGES

During the nine months ended September 30, 2016, in connection with the evaluation of our current inventory levels and expected future demand and to align with our future strategy, we recorded charges of $587 million, including $31 million of disposal costs, of which $194 million is reported in cost of sales and $393 million is reported in cost of services, to write off the carrying value of inventory deemed excess. These actions impacted all product lines. The amount of the inventory write-off recorded by segment is as follows: North America - $200 million; Latin America - $84 million; Europe/Africa/Russia Caspian - $143 million; Middle East/Asia Pacific - $117 million; and Industrial Services - $43 million. We have been disposing of the excess inventory, and were substantially completed by the end of the third quarter of 2016. During the first nine months of 2015, we recorded charges of $194 million, of which $37 million is reported in cost of sales and $157 million is reported in cost of services, to write down the carrying value of certain inventory. The product lines impacted were primarily pressure pumping and drilling and completion fluids.

The second quarter of 2016 was benefited by a reversal of a loss on a firm purchase commitment of $51 million that was recorded in cost of service in the first quarter of 2016 as the contract was settled in the second quarter of 2016.

NOTE 4. SEGMENT INFORMATION

We are a supplier of oilfield services, products, technology and systems used in the worldwide oil and natural gas business, referred to as oilfield operations, which are managed through operating segments that are aligned with our geographic regions. We also provide services and products to the downstream chemicals, and process and pipeline services, referred to as Industrial Services.

The performance of our operating segments is evaluated based on operating profit (loss) before tax, which is defined as income (loss) before income taxes and before the following: net interest expense, corporate expenses, impairment and restructuring charges, goodwill impairment charges, the merger termination fee, and certain gains and losses not allocated to the operating segments.

Beginning in 2016, we excluded merger and related costs from our operating segments. These costs are now presented as a separate line item in the consolidated condensed statement of income (loss). Prior year merger and related costs have been reclassified to conform to the current year presentation.

Summarized financial information is shown in the following tables:

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
Segments	**Revenue**	**Operating Profit (Loss) Before Tax**	**Revenue**	**Operating Profit (Loss) Before Tax**
North America	$ 674	$ (65)	$ 1,368	$ (153)
Latin America	243	20	439	51
Europe/Africa/Russia Caspian	519	22	791	98
Middle East/Asia Pacific	649	71	849	76
Industrial Services	268	30	339	44
Total Operations	2,353	78	3,786	116
Corporate	—	(78)	—	(26)
Interest expense, net	—	(39)	—	(55)
Impairment and restructuring charges	—	(304)	—	(98)
Goodwill impairment	—	(17)	—	—
Merger and related costs	—	—	—	(93)
Total	$ 2,353	$ (360)	$ 3,786	$ (156)

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Segments	**Revenue**	**Operating Profit (Loss) Before Tax**	**Revenue**	**Operating Profit (Loss) Before Tax**
North America	$ 2,161	$ (601)	$ 4,872	$ (512)
Latin America	755	(289)	1,371	129
Europe/Africa/Russia Caspian	1,711	(254)	2,555	135
Middle East/Asia Pacific	2,018	(22)	2,621	198
Industrial Services	786	(17)	929	86
Total Operations	7,431	(1,183)	12,348	36
Corporate	—	(139)	—	(104)
Loss on early extinguishment of debt	—	(142)	—	—
Interest expense, net	—	(142)	—	(162)
Impairment and restructuring charges	—	(1,590)	—	(747)
Goodwill impairment	—	(1,858)	—	—
Merger and related costs	—	(180)	—	(204)
Merger termination fee	—	3,500	—	—
Total	$ 7,431	$ (1,734)	$ 12,348	$ (1,181)

The following table presents total assets by segment at September 30, 2016 and December 31, 2015:

Segments	September 30, 2016 Assets		December 31, 2015 Assets	
North America	$	3,541	$	6,599
Latin America		1,595		2,323
Europe/Africa/Russia Caspian		2,488		3,077
Middle East/Asia Pacific		2,867		3,441
Industrial Services		678		1,106
Shared assets		5,314		5,613
Total Operations		16,483		22,159
Corporate		3,008		1,921
Total	$	19,491	$	24,080

Shared assets consist primarily of the assets carried at the enterprise level and include assets related to our supply chain, product line technology and information technology organizations. These assets are used to support our operating segments and consist primarily of manufacturing inventory, property, plant and equipment used in manufacturing and information technology, intangible assets related to technology, and certain deferred tax assets. All costs and expenses from these organizations, including depreciation and amortization, are allocated to our operating segments as these enterprise organizations support our global operations. Corporate assets include cash, certain facilities, and certain other noncurrent assets related to certain employee retirement plans.

NOTE 5. INCOME TAXES

For the three months ended September 30, 2016, total income tax expense was $70 million on a loss before income taxes of $360 million, resulting in a negative effective tax rate of 19.4%. The negative effective tax rate is due primarily to the geographical mix of earnings and losses such that taxes in certain jurisdictions, including withholding and deemed profit taxes, exceed the tax benefit from the losses in other jurisdictions due to valuation allowances provided in most loss jurisdictions.

In the third quarter of 2016, we filed a carryback claim for the 2015 U.S. Net Operating Loss ("NOL") to prior tax years. As a result, a $370 million current income tax receivable is reflected in other current assets in the balance sheet as of September 30, 2016.

NOTE 6. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average common shares outstanding for basic and diluted loss per share	430	439	437	438
Anti-dilutive shares excluded from diluted loss per share (1)	1	1	1	2
Future potentially dilutive shares excluded from diluted loss per share (2)	3	3	5	3

(1) The calculation of diluted loss per share for both the three and nine months ended September 30, 2016 excludes shares potentially issuable under stock-based incentive compensation plans and the employee stock purchase plan, as their effect, if included, would have been anti-dilutive.

(2) Options where the exercise price exceeds the average market price are excluded from the calculation of diluted net loss or earnings per share because their effect would be anti-dilutive.

NOTE 7. INVENTORIES

Inventories, net of reserves of $128 million at September 30, 2016 and $278 million at December 31, 2015, are comprised of the following:

	September 30, 2016	December 31, 2015
Finished goods	$ 1,744	$ 2,649
Work in process	117	132
Raw materials	105	136
Total inventories	$ 1,966	$ 2,917

In the first nine months of 2016, we wrote off the carrying value of certain excess inventory resulting in a charge of $556 million, net of existing reserves of $260 million. In addition, we accrued $31 million of related disposal costs. See Note 3. "Impairment and Restructuring Charges" for further discussion. We have been disposing of the excess inventory, and were substantially completed by the end of the third quarter of 2016.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of the following at September 30, 2016 and December 31, 2015:

	Useful Life	September 30, 2016	December 31, 2015
Land		$ 241	$ 263
Buildings and improvements	5 - 30 years	2,440	2,624
Machinery, equipment and other	1 - 20 years	8,952	11,184
Subtotal		11,633	14,071
Less: Accumulated depreciation		6,759	7,378
Total property, plant and equipment		$ 4,874	$ 6,693

During the first nine months of 2016, we recorded impairment charges relating to property, plant and equipment totaling approximately $1,125 million. See Note 3. "Impairment and Restructuring Charges" for further discussion.

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are detailed below by segment.

	North America	Latin America	Europe/ Africa/ Russia Caspian	Middle East/ Asia Pacific	Industrial Services	Total Goodwill
Balance at December 31, 2015	$ 3,097	$ 584	$ 1,068	$ 819	$ 502	$ 6,070
Impairments	(1,549)	—	—	—	(309)	(1,858)
Currency translation adjustments	3	3	(1)	—	(1)	4
Balance at September 30, 2016	$ 1,551	$ 587	$ 1,067	$ 819	$ 192	$ 4,216

We perform an annual impairment test of goodwill on a qualitative or quantitative basis for each of our reporting units as of October 1 of each year, or more frequently when circumstances indicate an impairment may exist at the reporting unit level. During the second quarter of 2016, as a result of the termination of the Merger Agreement with Halliburton, we concluded it was necessary to conduct a quantitative goodwill impairment review. Our reporting units are the same as our five reportable segments. Goodwill is tested for impairment using a two-step approach. In the first step, the fair value of each reporting unit is determined and compared to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit is less than its carrying value, the second step of the goodwill impairment test is performed to measure the amount of impairment, if any. In the second step, the fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit as if it had been acquired in a business combination and the purchase price was equivalent to the fair value of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared to the actual carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized for the difference.

We determined the fair value of our reporting units using a combination of techniques including discounted cash flows derived from our long-term plans and a market approach that provides value indications through a comparison with guideline public companies. The inputs used to determine the fair values were classified as Level 3 in the fair value hierarchy. Based on the results of our impairment test during the second quarter of 2016, we determined that goodwill of two of our reporting units was impaired, and we commenced the second step of the goodwill impairment test. We substantially completed all actions necessary in the determination of the implied fair value of goodwill in the second quarter of 2016; however, some of the estimated fair values and allocations were subject to adjustment once the valuations and other computations were completed. Accordingly, in the second quarter of 2016, we recorded an estimate of the goodwill impairment loss of $1,841 million, which consisted of $1,530 million for the North America segment and $311 million for the Industrial Services segment. During the third quarter of 2016, we finalized all valuations and computations, which resulted in an immaterial adjustment. The total impairment is reflected in the table above. The volatility that currently exists in the oil and natural gas industry and further declines in future commodity prices and customer spending could negatively impact our forecasted profitability and operating cash flows, necessitating a future goodwill impairment review. Depending on the changes in our business outlook and other assumptions underlying the fair value measurements of our reporting units, we may be required to recognize additional goodwill impairments.

Intangible assets are comprised of the following:

	September 30, 2016			December 31, 2015		
	Gross Carrying Amount	Less: Accumulated Amortization	Net	Gross Carrying Amount	Less: Accumulated Amortization	Net
Technology	$ 792	$ 439	$ 353	$ 866	$ 452	$ 414
Customer relationships	67	28	39	251	106	145
Trade names	90	78	12	108	89	19
Other	16	13	3	18	13	5
Total intangible assets	$ 965	$ 558	$ 407	$ 1,243	$ 660	$ 583

During the first nine months of 2016, we recorded impairments relating to various intangible assets totaling $116 million. See Note 3. "Impairment and Restructuring Charges" for further discussion.

Intangible assets are generally amortized on a straight-line basis with estimated useful lives ranging from 3 to 30 years. Amortization expense for the three and nine months ended September 30, 2016 was $17 million and $59 million, respectively, as compared to $26 million and $77 million reported in 2015 for the same periods.

Amortization expense of these intangibles over the remainder of 2016 and for each of the subsequent five fiscal years is expected to be as follows:

Year	Estimated Amortization Expense
Remainder of 2016	$ 17
2017	65
2018	60
2019	57
2020	48
2021	43

NOTE 10. INDEBTEDNESS

Total debt consisted of the following at September 30, 2016, net of unamortized discount and debt issuance cost:

	September 30, 2016	December 31, 2015
6.0% Notes due June 2018	$ 200	$ 255
7.5% Senior Notes due November 2018	524	747
3.2% Senior Notes due August 2021	511	746
8.55% Debentures due June 2024	112	149
6.875% Notes due January 2029	301	394
5.125% Notes due September 2040	1,132	1,482
Other debt	242	268
Total debt	3,022	4,041
Less: short-term debt and current portion of long-term debt	127	151
Total long-term debt	$ 2,895	$ 3,890

The estimated fair value of total debt at September 30, 2016 and December 31, 2015 was $3,404 million and $4,321 million, respectively, which differs from the carrying amounts of $3,022 million and $4,041 million, respectively, included in our unaudited consolidated condensed balance sheets. The fair value was determined using quoted period end market prices.

In June 2016, we purchased $1.0 billion of the aggregate outstanding principal amount associated with our long-term outstanding notes and debentures, which included portions of each tranche of notes and debentures. Pursuant to a cash tender offer, the purchases resulted in the payment of an early-tender premium, including various fees, of $135 million and a pre-tax loss on the early extinguishment of debt of $142 million, which includes the premium and the write-off of a portion of the remaining original debt issue costs and debt discounts or premiums.

On July 13, 2016, we entered into a new five-year $2.5 billion committed revolving credit facility (the "2016 Credit Agreement") with commercial banks maturing in July 2021, which replaced our existing credit facility of $2.5 billion, but maintained the existing commercial paper program. The previous credit facility had a maturity date in September of 2016. The maximum combined borrowing at any time under both the 2016 Credit Agreement and the commercial paper program is $2.5 billion. The 2016 Credit Agreement contains certain covenants, which, among other things, require the maintenance of a total debt-to-total capitalization ratio, 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 2016 Credit Agreement may be accelerated. Such events of default include payment defaults to lenders under the 2016 Credit Agreement, covenant defaults and other customary defaults. To the extent we have outstanding commercial paper, the aggregate ability to borrow under the 2016 Credit Agreement is reduced.

During the first nine months of 2016, there were no direct borrowings under either the previous credit facility or the 2016 Credit Agreement, and we were in compliance with all of the covenants under both credit facilities. Under the commercial paper program, we may issue from time to time up to $2.5 billion in commercial paper with maturities of no more than 270 days. The amount available to borrow under the credit facility would be reduced by the amount of any commercial paper outstanding. At September 30, 2016, we had no borrowings outstanding under the commercial paper program.

NOTE 11. FINANCIAL INSTRUMENTS

Our financial instruments include cash and cash equivalents, accounts receivable, investments, accounts payable, short and long-term debt and derivative financial instruments. Except for long-term debt, the estimated fair value of our financial instruments at September 30, 2016 and December 31, 2015 approximates their carrying value as reflected in our unaudited consolidated condensed balance sheets. For further information on the fair value of our debt, see Note 10. "Indebtedness."

NOTE 12. EMPLOYEE BENEFIT PLANS

We have both funded and unfunded noncontributory defined benefit pension plans ("Pension Benefits") covering certain employees primarily in the U.S., the United Kingdom, Germany and Canada. We also provide certain postretirement health care benefits ("Other Postretirement Benefits"), through an unfunded plan, to a closed group of U.S. employees who, when they retire, have met certain age and service requirements.

The components of net periodic cost (benefit) are as follows for the three months ended September 30:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015	2016	2015
Service cost	$ 13	$ 15	$ 4	$ 4	$ 1	$ 1
Interest cost	7	6	7	7	1	1
Expected return on plan assets	(10)	(12)	(9)	(12)	—	—
Amortization of prior service credit	—	—	—	—	(2)	(2)
Amortization of net actuarial loss	3	3	1	2	—	—
Curtailment gain	—	—	—	—	—	(2)
Other	3	8	—	—	—	—
Net periodic cost (benefit)	$ 16	$ 20	$ 3	$ 1	$ —	$ (2)

The components of net periodic cost (benefit) are as follows for the nine months ended September 30:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015	2016	2015
Service cost	$ 39	$ 49	$ 11	$ 12	$ 3	$ 3
Interest cost	21	20	21	23	3	3
Expected return on plan assets	(30)	(37)	(27)	(36)	—	—
Amortization of prior service credit	—	—	—	—	(6)	(8)
Amortization of net actuarial loss	8	7	4	4	—	2
Curtailment gain	—	—	—	—	—	(11)
Other	3	8	—	—	—	—
Net periodic cost (benefit)	$ 41	$ 47	$ 9	$ 3	$ —	$ (11)

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. During the nine months ended September 30, 2016, we contributed approximately $77 million to our defined benefit and other postretirement plans. We expect to contribute between $4 million and $5 million to our funded and unfunded pension plans and to make payments of between $3 million and $4 million related to other postretirement benefits in the fourth quarter of 2016.

We contributed approximately $76 million to our defined contribution plans during the nine months ended September 30, 2016. Effective April 2016, employer contributions to certain plans were suspended indefinitely. We estimate we will contribute between $11 million and $12 million to other defined contribution plans in the fourth quarter of 2016.

NOTE 13. COMMITMENTS AND CONTINGENCIES

LITIGATION

We are subject to a number of lawsuits and claims arising out of the conduct of our business. The ability to predict the ultimate outcome of such matters involves judgments, estimates and inherent uncertainties. We record a liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, including accruals for self-insured losses which are calculated based on historical claim data, specific loss development factors and other information. A range of total possible losses for all litigation matters cannot be reasonably estimated. Based on a consideration of all relevant facts and circumstances, we do not expect the ultimate outcome of any currently pending lawsuits or claims against us will have a material adverse effect on our financial position, results of operations or cash flows; however, there can be no assurance as to the ultimate outcome of these matters.

We insure against risks arising from our business 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 or future legal proceedings or other claims. Most of our 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 following lawsuits were filed in Delaware in connection with our Merger with Halliburton. Subsequent to the filing of the lawsuits, on April 30, 2016, the Merger Agreement with Halliburton was terminated as described in Note 2. "Halliburton Merger Agreement."

- On November 24, 2014, Gary Molenda, a purported shareholder of the Company, filed a class action lawsuit in the Court of Chancery of the State of Delaware ("Delaware Chancery Court") against Baker Hughes, the Company’s Board of Directors, Halliburton, and Red Tiger LLC, a wholly owned subsidiary of Halliburton ("Red Tiger" and together with all defendants, "Defendants") styled *Gary R. Molenda v. Baker Hughes, Inc., et al.*, Case No. 10390-CB.
- On November 26, 2014, a second purported shareholder of the Company, Booth Family Trust, filed a substantially similar class action lawsuit in Delaware Chancery Court.
- On December 1, 2014, New Jersey Building Laborers Annuity Fund and James Rice, two additional purported shareholders of the Company, filed substantially similar class action lawsuits in Delaware Chancery Court.
- On December 10, 2014, a fifth purported shareholder of the Company, Iron Workers Mid-South Pension Fund, filed another substantially similar class action lawsuit in the Delaware Chancery Court.
- On December 24, 2014, a sixth purported shareholder of the Company, Annette Shipp, filed another substantially similar class action lawsuit in the Delaware Chancery Court.

All of the lawsuits make substantially similar claims. The plaintiffs generally allege that the members of the Company’s Board of Directors breached their fiduciary duties to our shareholders in connection with the Merger negotiations by entering into the Merger Agreement and by approving the Merger, and that the Company, Halliburton, and Red Tiger aided and abetted the purported breaches of fiduciary duties. More specifically, the lawsuits allege that the Merger Agreement provides inadequate consideration to our shareholders, that the process resulting in the Merger Agreement was flawed, that the Company’s directors engaged in self-dealing, and that certain provisions of the Merger Agreement improperly favor Halliburton and Red Tiger, precluding or impeding third parties from submitting potentially superior proposals, among other things. The lawsuit filed by Annette Shipp also alleges that our Board of Directors failed to disclose material information concerning the proposed Merger in the preliminary registration statement on Form S-4. On January 7, 2015, James Rice amended his complaint, adding similar allegations regarding the disclosures in the preliminary registration statement on Form S-4. The lawsuits seek unspecified damages, injunctive relief enjoining the Merger, and rescission of the Merger Agreement, among other relief. On January 23, 2015, the Delaware lawsuits were consolidated under the caption *In re Baker Hughes Inc. Stockholders Litigation, Consolidated C.A.* No. 10390-CB (the "Consolidated Case"). Pursuant to the Court’s consolidation order, plaintiffs filed a consolidated complaint on February 4, 2015, which alleges substantially similar claims and seeks substantially similar relief to that raised in the six individual complaints, except that while Baker Hughes is named as a defendant, no claims are asserted against the Company.

On March 18, 2015, the parties reached an agreement in principle to settle the Consolidated Case in exchange for the Company making certain additional disclosures. Those disclosures were contained in a Form 8-K filed with the SEC on March 18, 2015. The settlement was made subject to certain conditions, including consummation of the Merger, final documentation, and court approval. With the termination of the Merger Agreement with Halliburton, the March 18, 2015 settlement agreement is rendered null and void. On May 31, 2016, the Consolidated Case and the claims asserted therein were dismissed, save and except for plaintiffs counsel's Fee and Expense Application to the Delaware Chancery Court. On October 13, 2016, the Delaware Chancery Court ruled on plaintiffs counsel's Fee and Expense Application. The amount awarded does not have a material impact on our financial position, results of operations or cash flows.

On October 9, 2014, one of our subsidiaries filed a Request for Arbitration against a customer before the London Court of International Arbitration, pursuing claims for the non-payment of invoices for goods and services provided in an amount provisionally quantified to exceed $67.9 million. In our Request for Arbitration, we also noted that invoices in an amount exceeding $57 million had been issued to the customer, and would be added to the claim in the event that they became overdue. On November 6, 2014, the customer filed its Response and Counterclaim, denying liability and counterclaiming damages for breach of contract of approximately $182 million. On March 31, 2016, the parties agreed to a settlement principally involving the purchase by the customer of certain inventory held by our subsidiary, with all other claims and counterclaims being released and discharged by each party, and the arbitral proceedings being discontinued. On April 18, 2016, all claims and counterclaims filed in the London Court of International Arbitration were released and discontinued. The settlement did not have a material impact on our financial position, results of operations or cash flows.

During 2014, we received customer notifications related to a possible equipment failure in a natural gas storage system in Northern Germany, which includes certain of our products. We are currently investigating the cause of the possible failure and, if necessary, possible repair and replacement options for our products. Similar products were utilized in other natural gas storage systems for this and other customers. The customer initiated arbitral proceedings against us on June 19, 2015, under the rules of the German Institute of Arbitration e.V. (DIS). On August 3, 2016, the customer amended its claims and now alleges damages of approximately $224 million plus interest at an annual rate of prime + 5%. The hearing before the arbitration panel is scheduled to commence on January 16, 2017. In addition, on September 21, 2015, TRIUVA Kapitalverwaltungsgesellschaft mbH filed a lawsuit in the United States District Court for the Southern District of Texas, Houston Division against the Company and Baker Hughes Oilfield Operations, Inc. alleging that the plaintiff is the owner of gas storage caverns in Etzel, Germany in which the Company provided certain equipment in connection with the development of the gas storage caverns. The plaintiff further alleges that the Company supplied equipment that was either defectively designed or failed to warn of risks that the equipment posed, and that these alleged defects caused damage to the plaintiff’s property. The plaintiff seeks recovery of alleged compensatory and punitive damages of an unspecified amount, in addition to reasonable attorneys’ fees, court costs and pre-judgment and post-judgment interest. The allegations in this lawsuit are related to the claims made in the June 19, 2015 German arbitration referenced above. At this time, we are not able to predict the outcome of these claims or whether either will have any material impact on our financial position, results of operations or cash flows.

On August 31, 2015, a customer of one of the Company’s subsidiaries issued a Letter of Claim pursuant to a Construction and Engineering Contract. The customer had claimed $369 million plus loss of production resulting from a breach of contract related to five electric submersible pumps installed by the subsidiary in Europe. On January 29, 2016, the Customer served its Statement of Claim, Case No. CL-2015-00584, in the Commercial Court Queen's Bench Division of the High Court of Justice. On September 20, 2016, the parties entered a settlement agreement by which all claims were released and discharged by each party. On October 6, 2016, the Commercial Court entered a Consent Order dismissing all claims in the litigation. The settlement did not have a material impact on our financial position, results of operations or cash flows.

On October 30, 2015, Chieftain Sand and Proppant Barron, LLC initiated arbitration against our subsidiary, Baker Hughes Oilfield Operations, Inc., in the American Arbitration Association. The Claimant alleged that the Company failed to purchase the required sand tonnage for the contract year 2014-2015 and further alleged that the

Company repudiated its yearly purchase obligations over the remaining contract term. The Claimant alleged damages of approximately $110 million plus interest, attorneys' fees and costs. On June 2, 2016, the parties agreed to a settlement of all claims and counterclaims asserted in the Arbitration. The settlement did not have a material impact on our financial position, results of operations or cash flows.

On April 30, 2015, a class and collective action lawsuit alleging that we failed to pay a nationwide class of workers overtime in compliance with the Fair Labor Standards Act and North Dakota law was filed titled *Williams et al. v. Baker Hughes Oilfield Operations, Inc.* in the U.S. District Court for the District of North Dakota. On February 8, 2016, the Court conditionally certified certain subclasses of employees for collective action treatment. We are evaluating the background facts and at this time cannot predict the outcome of this lawsuit and are not able to reasonably estimate the potential impact, if any, such outcome would have on our financial position, results of operations or cash flows.

On July 31, 2015, Rapid Completions LLC filed a lawsuit in federal court in the Eastern District of Texas against Baker Hughes Incorporated, Baker Hughes Oilfield Operations, Inc., and others claiming infringement of U.S. Patent Nos. 6,907,936; 7,134,505; 7,543,634; 7,861,774; and 8,657,009. On August 6, 2015, Rapid Completions amended its complaint to allege infringement of U.S. Patent No. 9,074,451. On September 17, 2015, Rapid Completions and Packers Plus Energy Services Inc., sued Baker Hughes Canada Company in the Canada Federal Court on related Canadian patent 2,412,072. On April 1, 2016, Rapid Completions removed U.S. Patent No. 6,907,936 from its claims in the lawsuit. On April 5, 2016, Rapid Completions filed a second lawsuit in federal court in the Eastern District of Texas against Baker Hughes Incorporated, Baker Hughes Oilfield Operations, Inc. and others claiming infringement of U.S. Patent No. 9,303,501. These patents relate primarily to certain specific downhole completions equipment. The plaintiff has requested a permanent injunction against further alleged infringement, damages in an unspecified amount, supplemental and enhanced damages, and additional relief such as attorney's fees and costs. During August and September 2016, the United States Patent and Trademark office agreed to institute an inter-partes review of U.S. Patent Nos 7,861,774; 7,134,505; 7,534,634; 6,907,936; 8,657,009; and 9,074,451. At this time, we are not able to predict the outcome of these claims or whether they will have a material impact on our financial position, results of operations or cash flows.

On April 6, 2016, a civil Complaint against Baker Hughes Incorporated and Halliburton Company was filed by the United States of America seeking a permanent injunction restraining Baker Hughes and Halliburton from carrying out the planned acquisition of Baker Hughes by Halliburton or any other transaction that would combine the two companies. The lawsuit is styled *United States of America v. Halliburton Co. and Baker Hughes Inc.*, in the U.S. District Court for the District of Delaware, Case No. 1:16-cv-00233-UNA. The Complaint alleges that the proposed transaction between Halliburton and Baker Hughes would violate Section 7 of the Clayton Act. Subsequent to the filing of the Complaint, on April 30, 2016, the Merger Agreement with Halliburton was terminated as described in Note 2. "Halliburton Merger Agreement." On May 4, 2016, the United States filed a Notice of Voluntary Dismissal of the Complaint.

On May 30, 2013, we received a Civil Investigative Demand ("CID") from the U.S. Department of Justice ("DOJ") pursuant to the Antitrust Civil Process Act. The CID sought documents and information from us for the period from May 29, 2011 through the date of the CID in connection with a DOJ investigation related to pressure pumping services in the U.S. On May 18, 2016, we received notice from the DOJ that they have closed the investigation with no further action requested of the Company.

OTHER

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, such as surety bonds for performance, letters of credit and other bank issued guarantees, which totaled approximately $1.0 billion at September 30, 2016. 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 financial position, results of operations or cash flows.

NOTE 14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables present the changes in accumulated other comprehensive loss, net of tax:

	Pensions and Other Postretirement Benefits	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at December 31, 2015	$ (261)	$ (744)	$ (1,005)
Other comprehensive income before reclassifications	14	47	61
Amounts reclassified from accumulated other comprehensive loss	6	—	6
Deferred taxes	(1)	—	(1)
Balance at September 30, 2016	$ (242)	$ (697)	$ (939)

	Pensions and Other Postretirement Benefits	Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Loss
Balance at December 31, 2014	$ (246)	$ (503)	$ (749)
Other comprehensive income (loss) before reclassifications	9	(182)	(173)
Amounts reclassified from accumulated other comprehensive loss	(6)	—	(6)
Deferred taxes	3	—	3
Balance at September 30, 2015	$ (240)	$ (685)	$ (925)

The amounts reclassified from accumulated other comprehensive loss during the nine months ended September 30, 2016 and 2015 represent the amortization of prior service credit, net actuarial loss, curtailment gain and certain other items which are included in the computation of net periodic cost (benefit). See Note 12. "Employee Benefit Plans" for additional details. Net periodic cost (benefit) is recorded in cost of sales and services, research and engineering, and marketing, general and administrative expenses.

ITEM 2. 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 unaudited consolidated condensed financial statements and the related notes included in Item 1 thereto, as well as our Annual Report on Form 10-K/A for the year ended December 31, 2015 ("2015 Annual Report").

EXECUTIVE SUMMARY

Baker Hughes is a leading supplier of oilfield services, products, technology and systems used in the worldwide oil and natural gas industry, referred to as our oilfield operations. We manage our oilfield operations through four geographic segments consisting of North America, Latin America, Europe/Africa/Russia Caspian ("EARC"), and Middle East/Asia Pacific ("MEAP"). Our Industrial Services businesses are reported in a fifth segment. As of September 30, 2016, Baker Hughes had approximately 34,000 employees compared to approximately 43,000 employees as of December 31, 2015.

Within our oilfield operations, the primary driver of our businesses is our customers’ capital and operating expenditures dedicated to oil and natural gas exploration, field development and production. The main products and services provided by oilfield operations fall into one of two categories, Drilling and Evaluation or Completion and Production. This classification is based on the two major phases of constructing an oil and/or natural gas well, the drilling phase and the completion phase, and how our products and services are utilized in each phase. We also provide products and services to the downstream chemicals, and process and pipeline services, referred to as Industrial Services.

During the second quarter, following the termination of the merger with Halliburton, we announced a series of actions to reduce costs and simplify our business, enhance our commercial strategy and optimize our capital structure by paying down debt and buying back shares. More specifically, we have restructured the company to remove significant costs and create a more efficient organization which aligns with our operational strategy to take our products and technology to market faster and more efficiently and through a broader set of sales channels. In an effort to improve our return on invested capital, we have conducted an analysis of our product offerings and as a result of that review, we have begun the process of reducing certain product offerings in specific markets based on our objectives of profitable growth. While these potential reductions will have a minimal impact on our current revenue, they are expected to have a positive impact on operating profitability. We expect to have two-thirds of these product exits completed by the end of 2016, with the balance achieved in 2017. Additionally, we have decided to retain a selective footprint in our North America onshore pressure pumping business, and are considering a range of ownership models that will allow us to participate in this market while mitigating the resource requirements and capital intensity that are inherent in this particular business.

In the first nine months of 2016, we continued to face difficult industry conditions. Activity declined across the globe as reflected by the worldwide rig count, which decreased 36% compared to the same period last year, resulting in additional pricing deterioration for our products and services in many markets. The steady decline in U.S. oil production, along with the initial announcement by the Organization of Petroleum Exporting Countries ("OPEC") in late September to re-establish a production ceiling, drove oil prices higher resulting in more than a 30% increase in oil prices in the first nine months of the year. Despite this improvement in oil prices, customer spending continued to decline as most operators are looking for a sustainable rebalancing of the oil market before increasing activity. As a result, we continued to experience a significant decline in demand as well as increased pricing pressure for our products and services throughout the third quarter of 2016.

Financial Results

In the third quarter of 2016, we generated revenue of $2.35 billion, a decrease of $1.43 billion, or 38%, compared to the third quarter of 2015, generally consistent with the 30% drop in the worldwide rig count. In the first nine months of 2016, revenue totaled $7.43 billion, a decline of $4.92 billion, or 40%, compared to the same period in the prior year, with a 36% drop in the worldwide rig count over the same time frame. All geographic segments experienced revenue declines in the third quarter and first nine months of 2016 driven by reduced customer spending. North America was the largest contributor to the year-over-year revenue decline in both the quarter and nine months ended September 30, 2016, driven by the drop in the onshore and inland water rig count. As a result, we continued to experience reduced activity, an oversupply of equipment and an unfavorable pricing environment in this segment. Additionally, the decision to minimize our operational footprint in the onshore pressure pumping business in North America has resulted in share reductions in this product line. Revenue was also negatively impacted by an unfavorable change in exchange rates of several currencies relative to the U.S. Dollar, predominately in the EARC segment.

Loss before income tax was $360 million and $1.73 billion for the third quarter and first nine months of 2016, respectively, and included impairment and restructuring charges of $304 million and $1.59 billion, respectively. These charges were recorded primarily as a result of the recent downturn in the oil and natural gas market brought about by the decline in commodity prices. Throughout this downturn, we took actions to reduce costs and adjust our operational cost structure, within the limitations of the Merger Agreement, to reflect current and expected near-term activity levels. As described above, following the termination of the Merger Agreement in the second quarter of 2016, we took additional actions to reduce costs, simplify the organization, and rationalize our operating structure to address the ongoing industry challenges and to support our future operational strategy. These restructuring activities included workforce reductions, contract terminations, facility closures and the removal of excess machinery and equipment. Additionally, we incurred costs of $587 million in the first nine months of 2016 to write off the carrying value of certain inventory deemed excess. For the third quarter and first nine months of 2015, loss before income tax was $156 million and $1.18 billion, respectively, which also included impairment and restructuring charges of $98 million and $747 million, respectively. Further, we incurred $194 million in the first nine months of 2015 to write down the carrying value of certain inventory.

Also during the first nine months of 2016, we recorded a loss due to the impairment of goodwill for the North America and Industrial Services segments totaling $1.86 billion. This charge is excluded from the results of our operating segments as well.

Halliburton Merger Agreement

On November 16, 2014, Baker Hughes and Halliburton Company ("Halliburton") entered into a definitive agreement and plan of merger (the "Merger Agreement") under which Halliburton would acquire all outstanding shares of Baker Hughes in a stock and cash transaction (the "Merger"). In accordance with the provisions of Section 9.1 of the Merger Agreement, Baker Hughes and Halliburton agreed to terminate the Merger Agreement on April 30, 2016, as a result of the failure of the Merger to occur on or before April 30, 2016 due to the inability to obtain certain specified antitrust related approvals. Halliburton paid $3.5 billion to Baker Hughes on May 4, 2016, representing the antitrust termination fee required to be paid pursuant to the Merger Agreement.

Outlook

While oil prices have started to rebound as a result of the U.S. production edging down and the initial announcement by OPEC in late September to re-establish a production ceiling, the uncertainty from the lack of critical details regarding production cuts and the various country exclusions, has limited the confidence that it could lead to a more sustainable improvement in oil prices, and in turn, to a more material increase in exploration and production companies' spending.

We continue to believe that oil prices in the mid-to upper-$50s are required for a sustainable recovery in North America. As we previously projected, the North American market has been continuing to climb slowly upward, and we expect that to continue. In order for a broader recovery to take place, a series of milestones need to be reached before the market can respond in a predictable way. First, supply and demand surplus has to rebalance allowing commodity prices to improve. Second, commodity prices need to stabilize for confidence in the customer community to improve and investment to accelerate. Third, activity needs to increase meaningfully before service capacity can be substantially absorbed and pricing recovery takes place. Until then, we will continue to see the dislocation we have today in the relationship between commodity prices and service pricing. We expect a slow ramp up of customer spending driven by a measured increase in U.S. onshore activity as well as increased seasonal activity in Canada. Despite this expected gradual improvement in the North American environment, we believe pricing will continue to remain challenging. As a result, we expect only modest growth in North America in the fourth quarter of 2016.

Internationally, we expect continued activity declines and pricing pressure in the near term due to customers continuing to restrict spending. We don’t expect year-end, seasonal product sales to significantly offset those declines. In markets where lifting costs are higher, such as deepwater, we expect that those activity declines will be even steeper. In conventional markets, such as the Middle East and North Africa, we believe there could be modest growth given the lower lifting costs. Despite these market dynamics, we continue to see opportunities for our capabilities and product innovations. Our products and services help our customers maximize production and lower overall costs allowing for improvements in our growth and profitability.

BUSINESS ENVIRONMENT

We operate in more than 80 countries helping customers find, evaluate, drill, produce, transport and process hydrocarbon resources. Our revenue is predominately generated from the sale of products and services to major, national, and independent oil and natural gas companies worldwide, and is dependent on spending by our customers for oil and natural gas exploration, field development and production. This spending is driven by a number of factors, including our customers’ forecasts of future energy demand and supply, their access to resources to develop and produce oil and natural gas, their ability to fund their capital programs, the impact of new government regulations and most importantly, their expectations for oil and natural gas prices as a key driver of their cash flows.

Oil and Natural Gas Prices

Oil and natural gas prices are summarized in the table below as averages of the daily closing prices during each of the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Brent oil price ($/Bbl) (1)	$ 45.82	$ 50.17	$ 42.13	$ 55.36
WTI oil price ($/Bbl) (2)	44.88	46.48	41.40	50.94
Natural gas price ($/mmBtu) (3)	2.85	2.75	2.32	2.78

(1) Bloomberg Dated Brent ("Brent") Oil Spot Price per Barrel
(2) Bloomberg West Texas Intermediate ("WTI") Cushing Crude Oil Spot Price per Barrel
(3) Bloomberg Henry Hub Natural Gas Spot Price per million British Thermal Unit

In North America, customer spending is highly driven by WTI oil prices, which began the third quarter of 2016 at $48.99/Bbl, declined to $39.51/Bbl in early August 2016, and then rebounded to $48.24/Bbl by the end of the quarter due to peak summer demand for crude oil. According to the September 2016 Oil Market Report published by the International Energy Agency, global oil demand growth is slowing at a faster pace than initially predicted. Forecasted oil demand growth for 2016 is now only 1.3 mb/d compared to 1.4 mb/d at the end of the second quarter of 2016. Further, oil demand growth for 2017 is expected to ease further to 1.2 mb/d as underlying macroeconomic conditions remain uncertain.

Outside North America, customer spending is most heavily influenced by Brent oil prices, which experienced a similar trend as WTI throughout the quarter, exiting at $47.71/Bbl. Brent oil price fluctuations were driven by the same factors as WTI.

Overall, WTI and Brent oil prices in the first nine months of 2016 averaged lower than the prior year by 19% and 24%, respectively. Although oil prices have rebounded more than 80% from the previous twelve-year-low of $26/Bbl reached earlier this year to near $48/Bbl at the end of the quarter, there has yet to be any material change in customer behavior to suggest a significant near-term improvement in activity levels.

In North America, natural gas prices, as measured by the Henry Hub Natural Gas Spot Price, remained fairly stable during the third quarter of 2016, exiting the quarter at $2.84/mmBtu, relatively unchanged from where it began the quarter. Compared to the same quarter in the prior year, natural gas prices increased 4%, driven by expectations of a colder than usual winter season. For the nine months ending September 30, 2016, natural gas prices declined by 17% as a result of higher storage levels. According to the U.S. Department of Energy ("DOE"), working natural gas in storage at the end of the third quarter of 2016 was 3,680 Bcf, which is 3% higher than the previous five-year (2011-2015) average, and 4%, or 142 Bcf, above the corresponding week in 2015.

Baker Hughes Rig Count

The Baker Hughes rig counts are an important business barometer for the drilling industry and its suppliers. When drilling rigs are active they consume products and services produced by the oil service industry. Rig count trends are driven by the exploration and development spending by oil and natural gas companies, which in turn is influenced by current and future price expectations for oil and natural gas. The counts may reflect the relative strength and stability of energy prices and overall market activity; however, these counts should not be solely relied on as other specific and pervasive conditions may exist that affect overall energy prices and market activity.

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 other outside sources as necessary. We base the classification of a well as either oil or natural gas primarily upon filings made by operators in the relevant jurisdiction. This data is then compiled and distributed to various wire services and trade associations and is published on our website. We believe the counting process and resulting data is reliable; however, it is subject to our ability to obtain accurate and timely information. Rig counts are compiled weekly for the U.S. and Canada and monthly for all international rigs. Published international rig counts do not include rigs drilling in certain locations, such as Russia, the Caspian region, Iran and onshore China because this information is not readily available.

Rigs in the U.S. and Canada 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. In international areas, rigs are counted on a weekly basis and deemed active if drilling activities occurred during the majority of the week. The weekly results are then averaged for the month and published accordingly. 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.

The rig counts are summarized in the table below as averages for each of the periods indicated.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
U.S. - land and inland waters	461	833	(45%)	465	1,021	(54%)
U.S. - offshore	18	32	(44%)	23	38	(39%)
Canada	121	190	(36%)	112	200	(44%)
North America	600	1,055	(43%)	600	1,259	(52%)
Latin America	187	318	(41%)	203	331	(39%)
North Sea	29	37	(22%)	29	39	(26%)
Continental Europe	65	72	(10%)	68	80	(15%)
Africa	80	95	(16%)	87	111	(22%)
Middle East	385	393	(2%)	392	403	(3%)
Asia Pacific	190	217	(12%)	187	224	(17%)
Outside North America	936	1,132	(17%)	966	1,188	(19%)
Worldwide	1,536	2,187	(30%)	1,566	2,447	(36%)

The rig count in North America decreased 43% in the third quarter of 2016 compared to the same period last year, as a consequence of reduced spending from our customers as they continue to operate in a lower commodity price environment. Reduced cash flows over the last two years have prompted many companies to scale back investment programs, deferring new drilling projects until a sustained price recovery occurs. Also, higher interest rates and tighter lending conditions have limited the availability of capital for many smaller producers, giving rise to distressed asset sales and consolidation of acreage holdings by firms that are more financially sound. The oil-directed drilling rig count, which represents approximately 80% of the North America rig count, experienced a 39% decline as the steep drop in oil prices over the last year resulted in a reduction in exploration and production spending across the region, especially in the U.S. onshore and Canadian oil sands. The natural gas-directed rig count experienced a 53% decrease compared to the same period a year ago as a result of lower natural gas prices. In the U.S., natural gas prices remain below levels that are considered to be economic for new investments in many natural gas fields. In Canada, the reduction in the natural gas-directed rig count was primarily related to lower drilling activity levels in condensate rich zones in Alberta to service oil sands.

Outside North America, the rig count in the third quarter of 2016 decreased 17% compared to the same period a year ago. In Latin America, the rig count declined 41% as a consequence of customer spending reductions throughout the entire region, but most notably in Argentina, Brazil, Venezuela, Colombia, Mexico and Ecuador. In Europe, the rig count in the North Sea decreased 22%, primarily due to a reduction in offshore drilling activity in the United Kingdom, and in Continental Europe the rig count declined by 10% driven by lower onshore drilling activity primarily in Romania, Serbia and Lithuania. In Africa, the rig count decreased 16% primarily due to reduced drilling activity across the region, mainly in Nigeria, Gabon, Angola, Cameroon and Kenya. The rig count decreased 2% in the Middle East due to lower drilling activity in Egypt and Iraq, partially offset by increased drilling activity in Abu Dhabi and Kuwait. In Asia Pacific, the rig count declined 12% as a result of reduced drilling activity in Australia, Indonesia, Malaysia, and Thailand.

RESULTS OF OPERATIONS

The discussions below relating to significant line items from our unaudited consolidated condensed statements of income (loss) 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 reasonably practicable, have quantified the impact of such items. In addition, the discussions below for revenue and cost of revenue are on a total basis as the business drivers for product sales and services are similar. All dollar amounts in tabulations in this section are in millions of dollars, unless otherwise stated.

Revenue and Operating Profit (Loss) Before Tax

Revenue and operating profit (loss) before tax for each of our five operating segments is provided below. The performance of our operating segments is evaluated based on operating profit (loss) before tax, which is defined as income (loss) before income taxes and before the following: net interest expense, corporate expenses, impairment and restructuring charges, goodwill impairment charges, the merger termination fee, and certain gains and losses not allocated to the operating segments. Beginning in 2016, we excluded merger and related costs from our operating segments. These costs are now presented as a separate line item in the consolidated condensed statement of income (loss). Prior year merger and related costs have been reclassified to conform to the current year presentation.

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	$ Change	% Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	$ Change	% Change
Revenue:								
North America	$ 674	$ 1,368	$ (694)	(51%)	$ 2,161	$ 4,872	$ (2,711)	(56%)
Latin America	243	439	(196)	(45%)	755	1,371	(616)	(45%)
Europe/Africa/Russia Caspian	519	791	(272)	(34%)	1,711	2,555	(844)	(33%)
Middle East/Asia Pacific	649	849	(200)	(24%)	2,018	2,621	(603)	(23%)
Industrial Services	268	339	(71)	(21%)	786	929	(143)	(15%)
Total	$ 2,353	$ 3,786	$ (1,433)	(38%)	$ 7,431	$ 12,348	$ (4,917)	(40%)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	$ Change	% Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	$ Change	% Change
Operating Profit (Loss) Before Tax:								
North America	$ (65)	$ (153)	$ 88	58%	$ (601)	$ (512)	$ (89)	(17%)
Latin America	20	51	(31)	(61%)	(289)	129	(418)	(324%)
Europe/Africa/Russia Caspian	22	98	(76)	(78%)	(254)	135	(389)	(288%)
Middle East/Asia Pacific	71	76	(5)	(7%)	(22)	198	(220)	(111%)
Industrial Services	30	44	(14)	(32%)	(17)	86	(103)	(120%)
Total Operations	78	116	(38)	(33%)	(1,183)	36	(1,219)	N/M
Corporate	(78)	(26)	(52)	200%	(139)	(104)	(35)	34%
Loss on early extinguishment of debt	—	—	—	N/M	(142)	—	(142)	N/M
Interest expense, net	(39)	(55)	16	(29%)	(142)	(162)	20	(12%)
Impairment and restructuring charges	(304)	(98)	(206)	210%	(1,590)	(747)	(843)	113%
Goodwill impairment	(17)	—	(17)	N/M	(1,858)	—	(1,858)	N/M
Merger and related costs	—	(93)	93	(100%)	(180)	(204)	24	(12%)
Merger termination fee	—	—	—	N/M	3,500	—	3,500	N/M
Loss Before Income Taxes	$ (360)	$ (156)	$ (204)	(131%)	$ (1,734)	$ (1,181)	$ (553)	(47%)

"N/M" represents not meaningful.

Third Quarter of 2016 Compared to the Third Quarter of 2015

North America

North America revenue decreased $694 million, or 51%, in the third quarter of 2016 compared to the third quarter of 2015 primarily as a result of the steep drop in activity, as reflected in the 43% year-over-year rig count decline, and to a lesser extent, deteriorating pricing conditions as operators further reduced their spending levels in 2016. All product lines have been unfavorably impacted by the activity drop, most notably in pressure pumping and completion systems. Our production chemicals, deepwater operations, and artificial lift product lines showed the most resilience. Revenue has also been impacted by onshore pressure pumping share reductions, driven by efforts to reduce losses and improve cash flow in a market where pricing remains unsustainable.

North America operating loss before tax was $65 million in the third quarter of 2016 compared to $153 million in the third quarter of 2015. Although operating results were negatively impacted by the sharp reduction in activity and an increasingly unfavorable pricing environment, actions taken in the past year to reduce our workforce, close and consolidate facilities and improve commercial terms with vendors resulted in lower operating costs. These actions to restructure our North American operations to operate in a lower activity and pricing environment, combined with the reduction of depreciation and amortization from asset impairments, helped mitigate the impact of the ongoing decline in revenue experienced since early 2015.

Latin America

Latin America revenue decreased $196 million, or 45%, in the third quarter of 2016 compared to the third quarter of 2015 primarily driven by reduced activity, as evident in the 41% rig count drop, and to a lesser extent lower pricing. Activity has declined swiftly across the entire segment and all product lines, with the Andean area and Mexico experiencing the largest decline as reflected by the year-over-year decline in the rig count of 71% and 41%, respectively.

Latin America operating profit before tax was $20 million in the third quarter of 2016 compared to $51 million in the third quarter of 2015. The decrease in profitability primarily due to lower revenue was mitigated by reduced operating costs resulting from our efforts to structurally align the segment to reflect current and expected near-term activity levels. Profitability was improved due to lower provisions for doubtful accounts in Ecuador as a result of $21 million of provisions recorded in the third quarter of 2015 that did not repeat in the current quarter.

Europe/Africa/Russia Caspian

EARC revenue decreased $272 million, or 34%, in the third quarter of 2016 compared to the third quarter of 2015. The decrease in revenue can be attributed to activity reductions across all markets and all product lines, but most notably the completion systems product line in West Africa and the drilling services product line in the United Kingdom. Price deterioration throughout the region also negatively impacted revenue. The unfavorable change in exchange rates, mainly for the British Pound and Nigerian Naira, accounted for more than 10% of the decline in revenue.

EARC operating profit before tax was $22 million in the third quarter of 2016 compared to $98 million in the third quarter of 2015. The decline in operating profit driven by the decline in revenue was partially offset by the benefit of implemented cost reduction measures, lower depreciation and amortization from asset impairments, and reduced foreign exchange losses in Angola and Russia.

Middle East/Asia Pacific

MEAP revenue decreased $200 million, or 24%, in the third quarter of 2016 compared to the third quarter of 2015. The decrease in revenue was largely due to reduced activity in Asia Pacific and Iraq, and significant pricing pressure across the region, most meaningfully in Asia Pacific. While all product lines have been negatively impacted by the continued downturn, our production-related product lines have shown some resiliency in the region.

MEAP operating profit before tax was $71 million in the third quarter of 2016 compared to $76 million in the third quarter of 2015. The reduction in profitability driven primarily by the decline in revenue was partially offset by operating cost reductions and lower depreciation and amortization from asset impairments. Also, in the third quarter of 2015, we incurred charges in Iraq related to our integrated operations that did not repeat in the third quarter of 2016.

*Industrial Servi*ces

For Industrial Services, revenue decreased $71 million and profitability decreased $14 million in the third quarter of 2016 compared to the third quarter of 2015 due to activity reductions as customers reduced spending and delayed projects including several major pipeline construction and maintenance projects. Revenue and profitability were also negatively impacted by pricing deterioration in the market. The impact on profitability from decreased activity and price deterioration was lessened by reduced operating costs and lower depreciation and amortization expense from asset impairments.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Revenue for the nine months ended September 30, 2016 decreased $4.92 billion, or 40%, compared to the nine months ended September 30, 2015, in line with the 36% decline in the global rig count year-over-year. Revenue decreased in all segments, with the steepest drop seen in North America where the average rig count declined 52% for the first nine months of 2016 compared to the same period a year ago. Reduced activity, unfavorable pricing and foreign exchange rates negatively impacted our revenue from foreign operations.

Operating loss before tax for the nine months ended September 30, 2016 was $1.18 billion, compared to operating profit before tax of $36 million for the same period a year ago. In all regions, margins were negatively impacted by the continued reduction in activity and an increasingly unfavorable pricing environment. During the first nine months of 2016, we recorded $587 million in charges to write off and dispose of inventory considered excess, and $209 million in provisions for doubtful accounts. In comparison, operating loss before tax for the first nine months of 2015 included $194 million in charges to write down the carrying value of certain inventory, and $160 million in provisions for doubtful accounts. Actions taken across all segments to reduce our workforce, close and consolidate facilities and improve commercial terms with vendors partially offset these unfavorable market conditions.

Costs and Expenses

The table below details certain unaudited consolidated condensed statement of income (loss) data and as a percentage of revenue.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	$	%	$	%	$	%	$	%
Revenue	$ 2,353	100%	$ 3,786	100%	$ 7,431	100 %	$ 12,348	100%
Cost of revenue	2,059	88%	3,375	89%	7,829	105 %	11,301	92%
Research and engineering	91	4%	110	3%	292	4 %	366	3%
Marketing, general and administrative	203	9%	211	6%	632	9 %	749	6%
Impairment and restructuring charges	304	13%	98	3%	1,590	21 %	747	6%
Goodwill Impairment	17	1%	—	—%	1,858	25 %	—	—%
Merger and related costs	—	—%	93	2%	180	2 %	204	2%
Merger termination fee	—	—%	—	—%	(3,500)	(47)%	—	—%

Cost of Revenue

Cost of revenue as a percentage of revenue was 88% and 89% for the three months ended September 30, 2016 and 2015, respectively, and 105% and 92% for the nine months ended September 30, 2016 and 2015, respectively. Cost of revenue for the first nine months of 2016 was negatively impacted by a charge of $587 million to write off and dispose of certain excess inventory compared to a write-down of $194 million in the prior year. The increase in cost of revenue as a percentage of revenue is due mainly to deteriorating pricing conditions as operators reduce their spending, partially offset by the benefit of implemented cost reduction measures and lower depreciation and amortization from asset impairments. Additionally, cost of revenue was negatively impacted by an increase in provisions for doubtful accounts of $49 million for the nine months ended September 30, 2016 compared to the prior year.

Research and Engineering

Research and engineering expenses declined by $19 million and $74 million for the three and nine months ended September 30, 2016, respectively, compared to the prior year, primarily as a result of cost reduction measures.

Marketing, General and Administrative

Marketing, general and administrative ("MG&A") expenses declined by $8 million and $117 million for the three and nine months ended September 30, 2016, respectively, compared to the same period a year ago. The decline in MG&A expenses for the three and nine months ended September 30, 2016 is primarily a result of workforce reductions, lower spending and reduced foreign exchange losses, partially offset by costs related to litigation settlements of $41 million.

Impairment and Restructuring Charges

During the three and nine months ended September 30, 2016, we recorded restructuring charges of $304 million and $1.59 billion, respectively. The year-to-date restructuring charge consisted of $203 million for workforce reduction costs, $146 million for contract termination costs and $1.24 billion for asset impairments related to excess machinery and equipment, facilities and intangible assets. Total cash paid during 2016 related to workforce reductions and contract terminations was $333 million.

During the three and nine months ended September 30, 2015, we recorded restructuring charges of $98 million and $747 million, respectively. The year-to-date restructuring charge consisted of $416 million for workforce reduction costs, $83 million for contract termination costs and $248 million for asset impairments related to excess machinery and equipment and facilities. Total cash paid during the nine months ended September 30, 2015 related to these charges was $338 million. For further discussion of these charges, see Note 3. "Impairment and Restructuring Charges" of the Notes to Unaudited Consolidated Condensed Financial Statements in Item 1 of Part 1 herein.

The reduction in costs from eliminated depreciation, reduced employee expenses, and reduced interest expense on long-term debt in the three months ended September 30, 2016 is approximately $150 million, and is expected to be approximately $800 million on an annualized basis, $650 million, of which is related to actions taken post merger.

Goodwill Impairment

In the second quarter of 2016, we determined the fair value of our reporting units using a combination of techniques including the present value of future cash flows derived from our long-term plans and historical experience, and multiples of competitors. Based on the results of our impairment test, we determined that goodwill of two of our reporting units was impaired, and we commenced the second step of the goodwill impairment test. We substantially completed all actions necessary in the determination of the implied fair value of goodwill in the second quarter of 2016; however, some of the estimated fair values and allocations were subject to adjustment once the valuations and other computations were completed. Accordingly, in the second quarter of 2016, we recorded an estimate of the goodwill impairment loss of $1.84 billion, which consisted of $1.53 billion for the North America segment and $311 million for the Industrial Services segment. During the third quarter of 2016, we finalized all valuations and computations, and adjusted our final goodwill impairment loss for the first nine months of 2016 to $1.86 billion, consisting of $1.55 billion for the North America segment and $309 million for the Industrial Services segment.

Merger and Related Costs and Merger Termination Fee

We incurred costs related to the Merger of $180 million and $204 million for the nine months ended September 30, 2016 and 2015, respectively, including costs under our retention programs and obligations for minimum incentive compensation costs which, based on meeting eligibility criteria, have been treated as merger and related expenses. No costs related to the Merger were incurred during the three months ended September 30, 2016, compared to $93 million for the three months ended September 30, 2015. On April 30, 2016, the Merger Agreement with Halliburton was terminated and as a result, Halliburton paid us $3.5 billion on May 4, 2016, which represents the termination fee required to be paid pursuant to the Merger Agreement.

Income Taxes

For the three months ended September 30, 2016, total income tax expense was $70 million on a loss before income taxes of $360 million, resulting in a negative effective tax rate of 19.4%. The negative effective tax rate is due primarily to the geographical mix of earnings and losses such that taxes in certain jurisdictions, including withholding and deemed profit taxes, exceed the tax benefit from the losses in other jurisdictions due to valuation allowances provided in most loss jurisdictions.

In the third quarter of 2016, we filed a carryback claim for the 2015 U.S. Net Operating Loss ("NOL") to prior tax years. As a result, a $370 million current income tax receivable is reflected in other current assets in the balance sheet as of September 30, 2016. We expect to receive the refund by December 31, 2016.

As a result of the geographic mix of earnings and losses, including the goodwill impairment, asset impairment, and restructuring charges, and other discrete tax items, our tax rate has been and will continue to be volatile until the market stabilizes.

LIQUIDITY AND CAPITAL RESOURCES

Our objective in financing our business is to maintain sufficient liquidity, adequate financial resources and financial flexibility in order to fund the requirements of our business. At September 30, 2016, we had cash and cash equivalents of $3.74 billion compared to $2.32 billion of cash and cash equivalents held at December 31, 2015. As a result of the failure of the Merger, Halliburton paid us $3.5 billion on May 4, 2016, which represents the termination fee required to be paid pursuant to the Merger Agreement. Part of the proceeds received were used to purchase $1.0 billion face value of our long-term notes and debentures, which included portions of each tranche of notes and debentures, and $763 million of our common stock.

At September 30, 2016, approximately $2.3 billion of our cash and cash equivalents was held by foreign subsidiaries compared to approximately $2.01 billion at December 31, 2015. A substantial portion of the cash held by foreign subsidiaries at September 30, 2016 was reinvested in our international operations as our intent is to use this cash to, among other things, fund the operations of our foreign subsidiaries. If we decide at a later date to repatriate those funds to the U.S., we may be required to provide taxes on certain of those funds based on applicable U.S. tax rates net of foreign tax credits. We have a committed revolving credit facility ("credit facility") with commercial banks and a related commercial paper program under which the maximum combined borrowing at any time under both the credit facility and the commercial paper program is $2.5 billion. At September 30, 2016, we had no commercial paper outstanding; therefore, the amount available for borrowing under the credit facility as of September 30, 2016 was $2.5 billion. During the nine months ended September 30, 2016, we used cash to fund a variety of activities including certain working capital needs and restructuring costs, capital expenditures, repurchases of long-term debt and common stock, and the payment of dividends. We believe that cash on hand, cash flows generated from operations and the available credit facility, including the issuance of commercial paper, will provide sufficient liquidity to manage our global cash needs.

Cash Flows

Cash flows provided by (used in) each type of activity were as follows for the nine months ended September 30:

(In millions)	**2016**	**2015**
Operating activities	$ 3,597	$ 1,265
Investing activities	(28)	(713)
Financing activities	(2,159)	(239)

Operating Activities

Cash flows from operating activities provided cash of $3.6 billion in the nine months ended September 30, 2016, due primarily to the receipt of the $3.5 billion merger termination fee. Included in our cash flows from operating activities for the nine months ended September 30, 2016, are payments of $333 million made for employee severance and contract termination costs as a result of our restructuring activities initiated in 2015 and continuing through the first nine months of 2016.

Investing Activities

Our principal recurring investing activity is the funding of capital expenditures to ensure that we have the appropriate levels and types of machinery and equipment in place to generate revenue from operations. Expenditures for capital assets totaled $226 million in the nine months ended September 30, 2016.

Proceeds from the disposal of assets were $199 million in the nine months ended September 30, 2016, which related primarily to equipment that was lost-in-hole, and to a lesser extent, property, machinery and equipment no longer used in operations that was sold throughout the period.

We had proceeds from maturities of investment securities of $307 million and purchases of investment securities of $308 million in the nine months ended September 30, 2016.

Financing Activities

We had net repayments of short-term debt and other borrowings of $57 million in the nine months ended September 30, 2016. Total debt outstanding at September 30, 2016 was $3.02 billion, a decrease of $1.02 billion compared to December 31, 2015. The total debt-to-capital (defined as total debt plus equity) ratio was 0.19 at September 30, 2016 and 0.20 at December 31, 2015.

Upon termination of the Merger Agreement, on April 30, 2016, our Board of Directors authorized the purchase of debt of up to $1.0 billion and approved an increase to the share repurchase program authorization from $1.05 billion to $2.0 billion.

In June 2016, we purchased $1.0 billion of the aggregate outstanding principal amount associated with our long-term outstanding notes and debentures, which included portions of each tranche of notes and debentures. Pursuant to a cash tender offer, the purchases resulted in the payment of an early-tender premium, including various fees, of $135 million and a pre-tax loss on the early extinguishment of debt of $142 million, which includes the premium and the write-off of a portion of the remaining original debt issue costs and debt discounts or premiums. The bond purchases will result in $55 million of annualized interest savings and $632 million of interest savings over the life of the bonds.

Beginning in May 2016, following the termination of the Merger, through September 30, 2016, we repurchased 16.2 million shares of our common stock at an average price of $47.09 per share, for a total of $763 million. We had authorization remaining to repurchase approximately $1.24 billion in common stock at September 30, 2016. We may continue to repurchase our common stock subject to market conditions, our liquidity and other considerations.

We paid dividends of $221 million in the nine months ended September 30, 2016.

Available Credit Facility

On July 13, 2016, we entered into a new five-year $2.5 billion committed revolving credit facility (the "2016 Credit Agreement") with commercial banks maturing in July 2021, which replaced our existing credit facility of $2.5 billion, but maintained the existing commercial paper program. The previous credit facility had a maturity date in September of 2016. The maximum combined borrowing at any time under both the 2016 Credit Agreement and the commercial paper program is $2.5 billion. The 2016 Credit Agreement contains certain covenants, which, among other things, require the maintenance of a total debt-to-total capitalization ratio, 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 2016 Credit Agreement may be accelerated. Such events of default include payment defaults to lenders under the 2016 Credit Agreement, covenant defaults and other customary defaults. To the extent we have outstanding commercial paper, the aggregate ability to borrow under the 2016 Credit Agreement is reduced.

During the first nine months of 2016, there were no direct borrowings under either the previous credit facility or the 2016 Credit Agreement, and we were in compliance with all of the covenants under both credit facilities. Under the commercial paper program, we may issue from time to time up to $2.5 billion in commercial paper with maturities of no more than 270 days. The amount available to borrow under the credit facility would be reduced by the amount of any commercial paper outstanding. At September 30, 2016, we had no borrowings outstanding under the commercial paper program.

If market conditions were to change and our revenue was reduced significantly 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 facility. However, a downgrade in our credit ratings could increase the cost of borrowings under the facility 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 credit facility. We believe our current credit ratings would allow us to obtain interim financing over and above our existing credit facility for any currently unforeseen significant needs.

Cash Requirements

For 2016, we believe cash on hand, cash flows from operating activities and the available credit facility will provide us with sufficient capital resources and liquidity to manage our working capital needs, meet contractual obligations, fund capital expenditures and dividends, and support the development of our short-term and long-term operating strategies. If necessary, 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.

For 2016, we expect our capital expenditures to be between $300 million and $400 million, excluding any amount related to 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 and managed by us to match market demand and activity levels.

As a result of carrying back the 2015 NOL, we have revised our estimate for global income tax payments and refunds and now anticipate receiving refunds, net of income tax payments, of up to $75 million for 2016.

During the nine months ended September 30, 2016, we contributed approximately $153 million to our defined benefit, defined contribution and other postretirement plans. Effective April 2016, employer contributions to certain defined contribution plans were suspended indefinitely. We expect we will make additional contributions to other plans in the range of $18 million to $21 million in the fourth quarter of 2016.

We may repurchase our common stock depending on market conditions, applicable legal requirements, our liquidity and other considerations. We currently anticipate paying dividends in the range of $285 million to $295 million for 2016.

FORWARD-LOOKING STATEMENTS

MD&A and certain statements in the Notes to Unaudited Consolidated Condensed Financial Statements, includes 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," "potential," "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 transactions that could occur. 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, tax rates, strategies for our operations, the impact of any common stock or debt repurchases or exchanges, oil and natural gas market conditions, the business plans of our customers, market share and contract terms, costs and availability of resources, legal, economic and regulatory conditions, 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 "Part II, Item 1A. Risk Factors" section contained herein, as well as the risk factors described in our 2015 Annual Report, this filing 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 ("EDGAR") system at http://www.sec.gov.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the nine months ended September 30, 2016, does not differ materially from that discussed under Part II, Item 7(a), "Quantitative and Qualitative Disclosures About Market Risk," in our 2015 Annual Report on Form 10-K/A.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly 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 September 30, 2016, our disclosure controls and procedures, as defined by Rule 13a-15(e) of the Exchange Act, were not effective.

During the quarter ended March 31, 2016, we identified a material weakness in our controls related to the determination of valuation allowances for deferred tax assets. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Our identified weakness had no impact on any amounts reported in the financial statements for the quarter ended March 31, 2016 or for any previous period. We have evaluated the controls associated with valuation allowances for deferred tax assets and have designed a remediation plan to address identified weaknesses and to strengthen controls over this process. During the second and third quarters of 2016, we implemented certain control enhancements as part of the remediation plan. This weakness will not be considered remediated until the enhanced controls have been tested and determined to be designed and operating effectively, which we currently expect to occur as of December 31, 2016.

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 Quarterly 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.

Changes in Internal Controls Over Financial Reporting

Except as discussed immediately above in the Evaluation of Disclosure Controls and Procedures, there has been no change in our internal controls over financial reporting during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussion of legal proceedings in Note 13 of the Notes to Unaudited Consolidated Condensed Financial Statements in this Quarterly Report, Item 3 of Part I of our 2015 Annual Report and Note 13 of the Notes to Consolidated Financial Statements included in Item 8 of our 2015 Annual Report.

ITEM 1A. RISK FACTORS

As of the date of this filing, the Company and its operations continue to be subject to the risk factors previously disclosed in our "Risk Factors" contained in the 2015 Annual Report and our Quarterly Report on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table contains information about our purchases of equity securities during the three months ended September 30, 2016.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share(2)	Total Number of Shares Purchased as Part of a Publicly Announced Program (3)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program (4)
July 1-31, 2016	13,153	$ 44.90	—	$ 1,500,000,083
August 1-31, 2016	4,472,579	$ 49.76	4,472,579	$ 1,277,461,564
September 1-30, 2016	812,353	$ 49.61	812,353	$ 1,237,161,230
Total	5,298,085	$ 49.72	5,284,932	

(1) Represents shares purchased from employees to satisfy the tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock units and shares purchased in the open market under our publicly announced purchase program.

(2) Average price paid includes commissions for shares purchased in the open market under our publicly announced purchase program.

(3) On April 30, 2016, our Board of Directors approved an increase to the share repurchase program authorization from $1.05 billion to $2.0 billion. Repurchases during the quarter were made under our previously announced purchase program under a Letter Agreement with an agent that complied with the requirements of Rule 10b-18 of the Exchange Act (the "Agreement"). Shares were repurchased under the Agreement by the agent at the prevailing market prices, in open market transactions.

(4) During the three months ended September 30, 2016, we repurchased 5.3 million shares of our common stock at an average price of $49.73 per share (including commissions), for a total of $263 million. We had authorization remaining to repurchase up to a total of approximately $1.24 billion of our common stock as of September 30, 2016.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Our barite mining operations, in support of our drilling fluids products and services business, are subject to regulation by the federal Mine Safety and Health Administration under the Federal Mine Safety and Health Act of 1977. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Quarterly Report.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Each exhibit identified below is filed as a part of this report. Exhibits designated with an "*" are filed as an exhibit to this Quarterly Report on Form 10-Q and Exhibits designated with an "**" are furnished as an exhibit to this Quarterly Report on Form 10-Q. Exhibits designated with an "+" are identified as management contracts or compensatory plans or arrangements.

3.1	Certificate of Amendment dated April 22, 2010 and the Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2010.)
3.2	Restated Bylaws of Baker Hughes Incorporated effective as of June 5, 2014 (filed as Exhibit 3.1 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on June 6, 2010).
4.1	Certificate of Amendment dated April 22, 2010 and the Restated Certificate of Incorporate (filed as Exhibit 3.1 to the Quarterly Report of Baker Hughes Incorporated on Form 10-Q for the quarter ended March 31, 2010).
4.2	Restated Bylaws of Baker Hughes Incorporated effective as of June 5, 2014 (filed as Exhibit 3.1 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on June 6, 2010).
10.1 * +	Letter Agreement, dated as of July 29, 2016, between Baker Hughes Incorporated and Alan R. Crain, Jr., Senior Vice President, Chief Legal and Governance Officer
10.2 +	Form of Baker Hughes Incorporated Restricted Stock Unit Award Agreement and Terms and Conditions for officers with a three-year cliff vest pursuant to the 2002 Director & Officer Long-Term Incentive Plan (filed as Exhibit 10.1 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on July 29, 2016).
10.3 +	Form of Baker Hughes Incorporated Restricted Stock Unit Award Agreement and Terms and Conditions for officers with a three-year graded vest pursuant to the 2002 Director & Officer Long-Term Incentive Plan (filed as Exhibit 10.2 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on July 29, 2016).
10.4	Credit Agreement, dated as of July 13, 2016, among Baker Hughes Incorporated, as Borrower, JP Morgan Chase Bank, N.A., as Administrative Agent, and the other agents and lenders identified therein (filed as Exhibit 10.1 to the Current Report of Baker Hughes Incorporated on Form 8-K filed on July 14, 2016).
31.1*	Certification of Martin S. Craighead, Chairman and Chief Executive Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Kimberly A. Ross, Chief Financial Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32**	Statement of Martin S. Craighead, Chairman and Chief Executive Officer, and Kimberly A. Ross, Chief Financial Officer, furnished pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended.
95*	Mine Safety Disclosure.
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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		BAKER HUGHES INCORPORATED **(Registrant)**	
Date:	October 25, 2016	By:	/s/ KIMBERLY A. ROSS
		Kimberly A. Ross Senior Vice President and Chief Financial Officer	
Date:	October 25, 2016	By:	/s/ KELLY C. JANZEN
		Kelly C. Janzen Vice President, Controller and Chief Accounting Officer	

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Houston, Texas 77019-2118
Tel 713 439-8600
Fax 713 439-8699
www.bakerhughes.com

July 29, 2016

Mr. Alan R. Crain, Jr.
3620 Del Monte Dr.
Houston, TX 77019

Dear Alan:

Baker Hughes Incorporated (hereinafter referred to as the "Company") and you desire to set forth in this letter agreement ("Agreement") certain agreements and understandings regarding, among other things:

- Your retirement;
- Your terms of continued employment pending retirement;
- Certain benefits the Company has agreed to provide to you upon the termination of your employment;
- Your agreement to certain obligations of noncompetition, confidentiality and cooperation; and
- The mutual release of any and all claims by you and the Company.

When you and the Company have signed this Agreement, it will constitute a complete agreement on all of these issues.

RETIREMENT:

We have agreed that you will retire and resign your employment as Senior Vice President, Chief Legal and Governance Officer of the Company and all other positions with the Company and its subsidiaries on December 29, 2016 (the "Anticipated Retirement Date"). Unless your employment terminates earlier than the Anticipated Retirement Date, your employment will terminate on the Anticipated Retirement Date. The actual date of the termination of your employment is referred to in this Agreement as the "Effective Date." You will resign from all positions with the Company upon the Effective Date without any further action on your part.

PENDING RETIREMENT:

For the period preceding the Effective Date, (i) you will continue to receive your base salary, in accordance with the Company's executive payroll practices, which base salary will be $62,500.00 per calendar month for 2016, (ii) you will continue to be eligible to participate in the Company's benefit plans, programs and policies as provided to other senior executives in accordance with their provisions, as the same may be in effect from time to time, except as otherwise specifically provided in this Agreement, (iii) you will continue to have the same title, and (iv) in anticipation of your retirement you will endeavor to assist in the seamless transition of your authorities, duties, and responsibilities to your successor.

SEPARATION BENEFITS:

As you know, the Company maintains a number of employee benefit plans and compensatory arrangements in which you participate. Set forth below is description of the impact of your separation from service under these employee benefit plans and compensatory arrangements. Except as expressly provided otherwise in this Agreement, the terms of the applicable employee benefit plans and compensatory arrangements will govern and control your entitlement to employee benefits and compensation.

Health and Welfare Benefits – If you are participating in medical, dental, and/or vision coverage for yourself and any eligible dependent(s), all such active coverages will end as of the Effective Date. The Benefits Center will send you a packet regarding continuation of benefits under the Consolidated Omnibus Benefits Reconciliation Act (COBRA), and you and/or your eligible dependent(s) may elect to continue coverage for an additional 18 months, provided you timely enroll for coverage and make the required premium payments. If you wish, you may enroll in retiree health coverage under the Baker Hughes Incorporated Retiree Welfare Benefits Plan in accordance with its terms. If you enroll in the Company's Retiree Health Reimbursement Arrangement ("RHRA"), the aggregate amount of funds in your Retiree Medical Account as of the Effective Date will be available to you pursuant to the RHRA to be applied towards the cost of obtaining individual health insurance coverage in accordance with the terms of the RHRA. All other health and welfare benefits will be governed by their applicable terms as affected by your termination of employment as of the Effective Date. You may contact the Benefits Center directly at 1-866-244-3539 for more information and to answer any questions.

Thrift Plan; Pension Plan and Supplemental Retirement Plan – You have the option of leaving your money in the Baker Hughes Incorporated Thrift Plan, or you may request a distribution of your account balance after the Effective Date. You have the option of leaving your money in the Baker Hughes Incorporated Pension Plan, or you may request a distribution of your Pension Plan benefit after the Effective Date. Your vested account balance under the Baker Hughes Incorporated Supplemental Retirement Plan ("SRP") will be paid out according to your elections previously submitted and the terms of the SRP.

Short-Term Performance Bonuses – You will be eligible for a bonus for the first six months of the 2016 performance period under both the Baker Hughes Incorporated Annual Incentive Compensation Plan for Employees as in effect on the date hereof ("ICP") and the performance scorecard bonus program. For the first six months of 2016, the ICP and the performance scorecard bonus have been "guaranteed" in the aggregate fixed amount of $300,000 (the "2016 H1 Bonus"). So long as (i) you do not voluntarily retire prior to the Anticipated Retirement Date (or such earlier date as the Company may agree or is otherwise provided for herein) and (ii) your employment with the Company is not terminated for Cause (as defined in the Baker Hughes Incorporated 2002 Director

& Officer Long-Term Incentive Plan as in effect on the date hereof (the "2002 D&O Plan")), you will be paid the 2016 H1 Bonus at the same time as bonuses for the 2016 performance period are paid to other ICP and performance scorecard bonus program participants (subject to any applicable deferral election under the SRP), you will be deemed to have retired (within the meaning of the ICP), and there will be no requirement that you remain employed until the date on which the 2016 H1 Bonus is paid.

You will not be eligible for a bonus under either the ICP or the traditional discretionary bonus program (the performance scorecard bonus program) for the second six months of 2016 but you will be eligible for a short-term performance bonus paid outside the ICP (the "2016 Second Half Bonus"). You will earn the 2016 Second Half Bonus if (1) you do not resign with an effective date of resignation that is prior to the Anticipated Retirement Date (or such earlier date as the Company may agree or is otherwise provided for herein), (2) your employment with the Company is not terminated for Cause (as defined in the 2002 D&O Plan) prior to the Anticipated Retirement Date and (3) you reasonably assist in the transitioning of your successor. The amount of the 2016 Second Half Bonus will be equal to $300,000. The Company will pay you the 2016 Second Half Bonus on the Effective Date.

Other than the bonuses discussed above, you will receive no further short-term performance bonuses or retention incentive bonuses.

Performance Unit Awards – For purposes of your Performance Unit Awards previously granted to you under the 2002 D&O Plan, so long as (i) you do not resign with an effective date of resignation that is prior to the Anticipated Retirement Date (or such earlier date as the Company may agree or is otherwise provided for herein) and (ii) your employment with the Company is not terminated for Cause (as defined in the 2002 D&O Plan) prior to the Anticipated Retirement Date, you will receive payouts of the Performance Unit Awards on the March 2017 payment date specified in the related terms and conditions of the Performance Unit Award Agreement (the "PUAA") based on actual performance results as defined in the terms and conditions of the PUAA, without any pro-ration due to the termination of your employment prior to the end of the applicable performance period.

Restricted Stock Unit Awards – All outstanding Restricted Stock Unit Awards previously granted to you shall be fully vested as of the Effective Date and will be paid to you in shares of the Company's Common Stock so long as (i) you do not resign with an effective date of resignation that is prior to the Anticipated Retirement Date (or such earlier date as the Company may agree or is otherwise provided for herein), and (ii) your employment with the Company is not terminated for Cause (as defined in the 2002 D&O Plan) prior to the Anticipated Retirement Date. You will receive payouts of such Restricted Stock Unit Awards on the Effective Date, except that the payout of the Restricted Stock Unit Award granted to you on January 22, 2014 (the "2014 RSU Award") will be paid to you on January 22, 2017, the payment date specified in the related terms and conditions of the Restricted Stock Unit Award Agreement applicable to such award.

Stock Options – You are already fully vested in all previously granted stock options and they may be exercised in accordance with the terms and conditions of the Option Agreements as if you are deemed to have retired upon the Effective Date.

Future Grants of Long-Term Incentive Compensation Awards - After the date of this Agreement, you will not be entitled to receive any additional grants of PSU Awards, Restricted Stock Awards, Restricted Stock Unit Awards or Stock Options.

Expenses – The Company agrees to reimburse you for all outstanding business expenses in accordance with Company policy. You will prepare and submit an expense account reimbursement request for expenses incurred prior to the Effective Date. Such an expense account reimbursement request will be reviewed and paid in accordance with Company policy. Should you incur any expenses in connection with providing services as described in the "Cooperation and Assistance" paragraph below, you will be reimbursed for all such expenses in accordance with Company policy.

Indemnification Rights – You will be entitled to all indemnification rights provided for (i) under that certain Indemnification Agreement by and between you and the Company as in effect on the date hereof and as may be expanded by contract for other senior executives of the Company (the "Indemnification Agreement"), and (ii) as otherwise are provided to other senior executives of the Company (whether insured, by contract, by resolution, pursuant to Company organization or governance documents, under applicable law or otherwise) as in effect as of the Effective Date inuring to your benefit as a result of your employment with the Company (except as may be limited by law). Such indemnification rights shall survive after the Effective Date in accordance with their applicable terms, and shall apply to any acts or omissions occurring in connection with your providing services as described in the "Cooperation and Assistance" paragraph below.

Separation Payment – On the date that is six months following the date of your separation from service, the Company will pay you a lump sum cash separation payment in an amount equal to $1,170,000 so long as (i) you do not resign with an effective date of resignation that is prior to the Anticipated Retirement Date (or such earlier date as the Company may agree or is otherwise provided for herein), and (ii) your employment with the Company is not terminated for Cause (as defined in the 2002 D&O Plan) prior to the Anticipated Retirement Date. In addition, if your employment terminates prior to the Anticipated Retirement Date due to your death, on the Effective Date, the Company shall pay your surviving spouse, in a cash lump sum payment, an additional amount equal to $ 45,000.

Additional Payment – On the Effective Date, the Company will pay you a lump sum cash payment in an amount equal to $375,000 (the "Additional Payment") in consideration of your agreement to not compete set forth below.

Vacation – You will be paid for any accrued but unused vacation in accordance with the terms of the Company's vacation pay policy as in effect on the date hereof.

Miscellaneous – Notwithstanding any other provision of this Agreement, except as specified in Section 17.14 of the 2002 D&O Plan (as in effect on the date hereof) and the related terms and conditions of award agreements governing your awards granted under the 2002 D&O Plan (as in effect on the date hereof), in the event the Company adopts a policy after the date of this Agreement related to executive compensation that could adversely affect your rights or entitlements under this Agreement, such policy will not apply to you unless otherwise required by applicable law.

Disclosures – Except to the extent otherwise required by law, the Company shall confer with you regarding any public disclosure, including, without limitation, any statement to the media or filing with the SEC or internal disclosure to a broad audience, concerning this Agreement or your employment with or separation from the Company, and shall obtain your approval of the wording of any such disclosure prior to making such disclosure.

Death – If your employment terminates on or prior to the Anticipated Retirement Date as a result of your death, all payments and benefits payable or to be provided to you hereunder (other than payments and benefits under broad-based employee benefit programs) will be paid or provided to your surviving spouse, or if you do not have a surviving spouse, to your estate. Except as otherwise provided herein, such payment and benefits shall be provided within 30 days after your death. The benefits, if any, to be provided following your death under broad-based employee benefit plans of the Company will be determined by the terms of such employee benefit plans.

For the avoidance of doubt, you will not be entitled to severance benefits under (i) the Baker Hughes Incorporated Executive Severance Plan or (ii) any change in control arrangement.

COVENANTS:

Cooperation and Assistance

Following the Effective Date, and for a period of one year thereafter, you shall:

(i) make yourself reasonably available to the Company to respond to requests by the Company for information pertaining to or relating to the Company, and its affiliates, subsidiaries, agents, officers, directors, fiduciaries, or employees, which may be within your knowledge;

(ii) reasonably cooperate with the Company in connection with any and all existing or future litigations or investigations brought by or against the Company or any of its past or present affiliates, agents, officers, directors, fiduciaries, or employees, whether administrative, civil or criminal in nature, with respect to such matters as were within your knowledge while employed by the Company; and

(iii) upon the request of the Chairman & CEO, the Vice President & General Counsel, or the Lead Director of the board of directors of the Company, provide such advice and perform such other services as you may mutually agree in connection with any existing or future issue, matter, project or undertaking of the Company, including working to arrange meetings with third parties and travelling to meet with such individuals, as may be necessary or appropriate to support the objectives of the Company.

Non-Solicitation

Following the Effective Date, and for a period of one (1) year thereafter, you shall not, directly or indirectly:

(i) interfere with the relationship of the Company or any affiliate with, or endeavor to entice away from the Company or any affiliate, any individual or entity who is at the time, or has been within the prior 90 days, a material customer or material supplier of, or who has (or within the prior 90 days has had) a material business relationship with, the Company or its affiliates;

(ii) establish a business with, or cause or attempt to cause others to establish, a business with, any employee or agent of the Company or any of its affiliates, if such business is or will compete with the Company or any of its affiliates; or

(iii) employ, engage as a consultant or adviser, or solicit the employment, engagement as a consultant or adviser, of any employee or agent of the Company or any of its affiliates, or cause or attempt to cause any individual or entity to do any of the foregoing.

Confidentiality

During the course of your employment with the Company, you have had access and received confidential information. You are obligated to keep confidential all such confidential information for a period of one (1) year following the Effective Date. Moreover, you understand and acknowledge that your obligation to maintain the confidentiality of trade secrets and other intellectual property is unending. As an exception to this confidentiality obligation you may disclose the confidential information (i) in connection with enforcing your rights under this Agreement or any plan relevant to the terms of this Agreement, or if compelled by law or legal process, and in either case, you shall provide written notice to the Company prior to the disclosure or (ii) if the Company provides written consent prior to the disclosure.

Agreement to Return Company Property

Except for your computer and the files, records and documents you reasonably determine are necessary or appropriate to carry out your agreement to provide Cooperation and Assistance as set forth above or as otherwise mutually agreed by you and the Company, you will, prior to the Effective Date, return to the Company (i) all Company property in your possession and (ii) all proprietary or confidential information, files, records or documents of the Company, in whatever medium and of whatever kind or type, relating to the business and affairs of the Company and its affiliates. Except as otherwise mutually agreed by you and the Company, immediately following the expiration of your Cooperation and Assistance period you will return to the Company your computer and the files, records and documents that you reasonably determined were necessary or appropriate to carry out your agreement to provide Cooperation and Assistance.

Non-Disparagement

You further agree that you will not engage in any act that is intended or may reasonably be expected to materially harm the reputation, business prospects, or operations of the Company and/or affiliates. The Company likewise agrees that it and its representatives and agents will not engage in any act that is intended or may reasonably be expected to materially harm your reputation, business prospects or relationships. For the avoidance of doubt, this non-disparagement provision is not intended to restrict or otherwise interfere with the duties and responsibilities of any future employment or advisory position you may hold.

Non-Competition Agreement

For a period of two years immediately following the Effective Date, you agree that you will not be employed by or perform services for Halliburton Company, National Oilwell Varco Incorporated, Schlumberger Limited or Weatherford International Ltd. or any of their majority-owned affiliates that compete with the Company or any of its affiliates. Your agreement contained in this paragraph is a precondition for the Additional Payment and should you violate this paragraph, your right to the Additional Payment shall be forfeited and you will be required to return to the Company the gross amount of the Additional Payment (unreduced for tax withholdings) to the extent the Additional Payment has been paid to you. You shall bear sole responsibility for the amount of any taxes paid by you with respect to the Additional Payment, notwithstanding any subsequent recoupment of the Additional Payment or any amount thereof by the Company pursuant to the terms of this paragraph.

MISCELLANEOUS:

Entire Agreement – This Agreement sets forth the entire agreement between you and the Company with respect to each and every issue addressed in this Agreement, and, except for (i) the Indemnification Agreement, (ii) the other agreements, plans and arrangements referenced herein, and (iii) any of the Company's other compensation or benefit plans in which you have participated as an employee and officer of the Company, this entire, integrated Agreement fully supersedes any and all prior agreements or understandings, oral or written, between you and the Company pertaining to the subject matter of this Agreement.

Exclusive Choice of Law and Arbitration Agreement – This Agreement constitutes an agreement that has been executed and delivered in the State of Texas, and the validity, interpretation, performance, and enforcement of this Agreement shall be governed by the laws of that State. In the event of any dispute or controversy arising out of or under this Agreement, or concerning the substance, interpretation, performance, or enforcement of this Agreement, or in any way relating to this Agreement (including issues relating to the formation of the agreement and the validity of this arbitration clause), the Company and you agree to resolve that dispute or controversy, fully and completely, through the use of final, binding arbitration. This arbitration agreement applies to any disputes arising under (i) the common law, (ii) federal or state statutes, laws or regulations, and also to (iii) any dispute about the arbitrability of any claim or controversy. The Company and you further agree to hold knowledge of the existence of any dispute or controversy subject to this Agreement to arbitrate completely confidential (except in your case as to members of your immediate family, potential witnesses and your tax and legal advisors and in the case of the Company, as to its legal advisors, witnesses and members of its board of directors). The Company and you understand and agree that this confidentiality obligation extends to information concerning the fact of any request for arbitration, any ongoing arbitration, as well as all matters discussed, discovered, or divulged, (whether voluntarily or by compulsion) during the course of such arbitration proceeding. Any arbitration pursuant to this arbitration provision shall be conducted, except as otherwise expressly provided herein, in accordance with the rules governing employment disputes then in effect of the American Arbitration Association (the “AAA”), including those rules applicable to the selection of a neutral single arbitrator to hear the dispute. The arbitrator shall issue his or her written decision (including a statement of finding of facts) within 30 days from the date of the close of the arbitration hearing. The decision of the arbitrator selected hereunder will be final and binding on both parties. The Company shall pay all administrative costs associated with the arbitration, including the arbitrator’s fees. This arbitration provision is expressly made pursuant to and shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1-16 (or replacement or successor statute). Pursuant to Section 9 of the Federal Arbitration Act, the Company and you agree that a judgment of the United States District Court for the Southern District of Texas, Houston Division may be entered upon the award made pursuant to the arbitration. This arbitration agreement does not limit your right to file an administrative charge concerning the validity of the release of claims executed by you as provided for in this Agreement with any appropriate state or federal agency.

<u>Tax Withholding</u> – The Company may withhold from all payments made pursuant to this Agreement all federal, state, local, and other taxes and withholdings as may be required pursuant to any law or governmental regulation or ruling.

<u>Compliance with Section 409A</u> –The following provisions of this Agreement are included for purposes of complying with, and clarifying the impact of, section 409A of the Internal Revenue Code of 1986, as amended and the rules and regulations issued thereunder by the Department of Treasury and the Internal Revenue Service (collectively, “Section 409A”). For purposes of this Agreement “separation from service” has the meaning ascribed to that term in Section 409A. It is intended that the date of your separation from service will be the Effective Date. The outstanding Restricted Stock Unit Awards (other than the 2014 RSU Award) and the Additional Payment are intended to constitute “short-term deferrals” exempt from Section 409A. Provisions of this Agreement to the contrary notwithstanding, you will not receive any benefit under this Agreement to which you were not entitled otherwise than pursuant to this Agreement unless (i) you have signed and delivered to the Company (and have not revoked) a release agreement substantially in the form attached hereto as <u>Exhibit A</u> (the “Release Agreement”) and (ii) the period for revoking the Release Agreement shall have expired, in both cases prior to the scheduled date of payment of such benefit.

<u>Agreement Not an Employment Contract</u> – This Agreement is not a contract between the Company and you that gives you the right to be retained in the employment of the Company. Likewise, this Agreement is not intended to interfere with the rights of the Company to terminate your employment at any time and with or without cause or to interfere with your right to terminate your employment at any time. For the avoidance of doubt, however, should the Company initiate the termination of

your employment other than for Cause (as defined in the 2002 D&O Plan), including as a result of your death or Disability (as defined in the 2002 D&O Plan), at any time prior to the Anticipated Retirement Date, then such termination shall be treated as a "retirement" for purposes of your right to receive all payments and benefits provided for in this Agreement. For the avoidance of doubt, payments and benefits not otherwise affected by this Agreement (such as retiree health and life benefits) shall be subject to their applicable terms and conditions.

Severability and Headings – The invalidity or unenforceability of a term or provision of this Agreement shall not affect the validity or enforceability of any other term or provision of this Agreement, which shall remain in full force and effect. Any titles or headings in this Agreement are for convenience only and shall have no bearing on any interpretation of this Agreement.

ENTERED INTO in Houston, Texas as of the 29th day of July 2016.

BAKER HUGHES INCORPORATED

By: /s/ Martin S. Craighead
Martin S. Craighead
Chairman of the Board, President and Chief Executive Officer

ENTERED INTO in Houston, Texas as of the 29th day of July 2016.

ALAN R. CRAIN, JR.

/s/ Alan R. Crain, Jr.

EXHIBIT A

RELEASE AGREEMENT

This Release Agreement is between Alan R. Crain, Jr. and Baker Hughes Incorporated ("BHI") and its subsidiaries and affiliate companies, and each of their successors, assigns, officers, directors, fiduciaries, insurers, agents and employees, shareholders, employees and representatives or other affiliated persons or entities (collectively referred to as the "Company").

1.**Payment of Benefits**. In consideration for your signing and delivering this Release Agreement, the Company agrees to pay you those benefits under the agreement between you and Baker Hughes Incorporated dated July 29, 2016 (the "Agreement") to which you would not have been entitled absent the Agreement.

2. **General Release.** In exchange for the benefits described in paragraph 1, and except as otherwise provided for in the Agreement and this Release Agreement, you are waiving and releasing all known or unknown claims and causes of action you have or may have, as of the day you sign this Release Agreement, against the Company arising out of your employment, including your separation from employment. The claims you are releasing include, but are not limited to, any and all allegations that the Company:

(a) has discriminated against you in violation of the Age Discrimination in Employment Act ("ADEA"), including the Older Workers' Benefit Protection Act, or on the basis of race, color, sex (including sexual harassment), national origin, ancestry, disability, religion, sexual orientation, marital status, parental status, veteran status, source of income, entitlement to benefits, union activities, or any other status protected by local, state, provincial or federal laws, constitutions, regulations, ordinances or executive orders; or

(b) has violated its personnel policies, procedures, handbooks, any covenant of good faith and fair dealing, or any express or implied contract of any kind; or

(c) has violated public policy, statutory or common law, including claims for: personal injury; invasion of privacy; retaliatory discharge; negligent hiring, retention or supervision; defamation; intentional or negligent infliction of emotional distress and/or mental anguish; intentional interference with contract; negligence; detrimental reliance; loss of consortium to you or any member of your family; and/or promissory estoppel; or

(d) is in any way obligated for any reason to pay you damages, expenses, litigation costs (including attorneys' fees), backpay, frontpay, disability or other benefits, compensatory damages, punitive damages, and/or interest.

3. **Exclusions from General Release.** Excluded from the General Release above are any claims or rights which arise after the day you sign this Release Agreement which cannot be waived by law. Also excluded are claims or rights that you may have arising out of vested rights under the applicable terms of any benefit plan, program or policy of the Company or claims or rights to benefits expressly set forth in the Agreement or this Release Agreement. Also excluded from the General Release is your right to file a charge with an administrative agency or participate in any agency investigation. You are, however, waiving your right to any recovery of money in connection with such a charge or investigation. You are also waiving your right to recover money in connection with a charge filed by any other individual or by the Equal Employment Opportunity Commission ("EEOC") or any other federal or state agency.

4. **Covenant Not To Sue.** A "covenant not to sue" is a legal term which means you promise not to file a lawsuit in court. It is different from the General Release of claims contained in paragraph 2 above. Besides waiving and releasing the claims covered by paragraph 2 above (as modified by paragraph 3 above), you further agree never to sue the Company in any forum for any reason respecting claims, laws or theories covered by the General Release language in paragraph 2 above (as modified by paragraph 3 above). Notwithstanding this Covenant Not To Sue, you may bring a claim against the Company to enforce the Agreement or this Release Agreement or to challenge the validity of this Release Agreement under the ADEA. However, any claim brought by you against the Company to enforce the Agreement or this Release Agreement or to challenge the validity of this Release Agreement under the ADEA must be brought in arbitration, not in a court.

5. **Additional Employee Acknowledgments.** You also agree that:

(a) you have read this entire Release Agreement, understand it, and are entering into this Release Agreement knowingly and voluntarily; and

(b) this is an important legal document and you are being advised by this Release Agreement to consult with an attorney before signing this Release Agreement; and

(c) you understand you may take up to 21 days to consider this Release Agreement before signing it; and

(d) you are not otherwise entitled to the benefits described in paragraph 1 absent the Agreement; and

(e) the Agreement and this Release Agreement (and the agreements, plans and programs referenced in the Agreement and this Release Agreement) constitute the entire agreement between you and the Company regarding the termination of your employment with the Company. You are entering into this Release Agreement based solely on the written terms of the Agreement and this Release Agreement and are not relying on any other representations by the Company in entering into this Release Agreement.

6. **Revocation.** After you sign this Release Agreement, you will have 7 days to revoke it. This Release Agreement shall not be effective or enforceable until the revocation period has expired. If you want to revoke this Release Agreement you should deliver a written revocation by letter addressed to the Vice President & General Counsel, Baker Hughes

Incorporated, Suite 2100, 2929 Allen Parkway, Houston, TX 77019-2118 within 7 days after you signed it.

7. **Policy Violations.** You affirm you have disclosed any misconduct you are aware of, including violations of Company policies, including but not limited to the Business Code of Conduct, Business Travel and Expense Reimbursement Policy, Equal Employment and Anti-Harassment Policy and the Foreign Corrupt Practices Policy.

8. **Release and Covenant Not to Sue by the Company.** In further consideration of your acceptance of the terms of the Agreement and this Release Agreement, the Company hereby waives and releases you from all claims, demands and causes of action for damages or other remedies, whether known or unknown, and whether based on contract, statutory or common law, or other rules or principles of law, arising out of or relating in any way to your employment with the Company, including but not limited to any actions or omissions on your part related to such employment. The Company further agrees never to sue you in any forum for any reason respecting claims, laws or theories described in the preceding sentence; provided, however, that nothing in this sentence shall limit the Company's rights to enforce the Agreement or this Release Agreement through arbitration in accordance with the arbitration provisions set forth in the Agreement.

9. **Non-Admissions.** The fact and terms of this Release Agreement are not an admission by either the Company or you of liability or other wrongdoing under any federal, state or local law.

10. **Governing Law and Agreed Forum.** This Release Agreement shall be construed and interpreted in accordance with the laws of the State of Texas, exclusive of its choice of law provisions. Any dispute between the parties arising under this Release Agreement shall be resolved in accordance with the arbitration provisions set forth in the Agreement. Should any part of this Release Agreement be found to be void, that determination will not affect the remainder of this Release Agreement. Additionally, the parties agree that this Release Agreement may be used as evidence in a subsequent proceeding in which any of the parties allege a breach of this Release Agreement or as a complete defense to any claim brought by either party. Other than this exception, the parties agree that this Release Agreement will not be introduced as evidence in any proceedings or in any lawsuit.

11. **Severability and Headings.** The invalidity or unenforceability of a term or provision of this Release Agreement shall not affect the validity or enforceability of any other term or provision of this Release Agreement, which shall remain in full force and effect. Any titles or headings in this Release Agreement are for convenience only and shall have no bearing on any interpretation of this Release Agreement.

[Remainder of Page Intentionally Blank;
Signature Page Follows]

ENTERED INTO in Houston, Texas as of the 29th day of July 2016.

BAKER HUGHES INCORPORATED

By: /s/ Martin S. Craighead
Martin S. Craighead
Chairman of the Board, President and Chief Executive Officer

ENTERED INTO in Houston, Texas as of the 29th day of July 2016.

ALAN R. CRAIN, JR.

/s/ Alan R. Crain Jr.

Exhibit 31.1

CERTIFICATION

I, Martin S. Craighead, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	October 25, 2016	By:	/s/ Martin S. Craighead
			Martin S. Craighead
			Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Kimberly A. Ross, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baker Hughes Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	October 25, 2016	By:	/s/ Kimberly A. Ross
			Kimberly A. Ross
			Senior Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Baker Hughes Incorporated (the “Company”) on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Martin S. Craighead, Chairman and Chief Executive Officer of the Company, and Kimberly A. Ross, the Chief Financial Officer of the Company, each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

The certification is given to the knowledge of the undersigned.

	/s/ Martin S. Craighead
Name:	Martin S. Craighead
Title:	Chairman and Chief Executive Officer
Date:	October 25, 2016
	/s/ Kimberly A. Ross
Name:	Kimberly A. Ross
Title:	Senior Vice President and Chief Financial Officer
Date:	October 25, 2016

Exhibit 95

Mine Safety Disclosure

The following disclosures are provided pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K, which require certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977.

The table that follows reflects citations, orders, violations and proposed assessments issued by the Mine Safety and Health Administration (the "MSHA") for each mine of which Baker Hughes and/or its subsidiaries is an operator. The disclosure is with respect to the three months ended September 30, 2016. Due to timing and other factors, the data may not agree with the mine data retrieval system maintained by the MSHA at www.MSHA.gov.

Three Months Ended September 30, 2016

Mine or Operating Name/MSHA Identification Number	Section 104 S&S Citations	Section 104(b) Orders	Section 104(d) Citations and Orders	Section 110(b)(2) Violations	Section 107(a) Orders	Proposed MSHA Assessments (1)	Mining Related Fatalities	Received Notice of Pattern of Violations Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period	Legal Actions Initiated During Period	Legal Actions Resolved During Period
Morgan City Grinding Plant/1601357	0	0	0	0	0	$ —	0	N	N	0	0	0
Argenta Mine and Mill/2601152	0	0	0	0	0	$ 848	0	N	N	0	0	0
Corpus Christi Grinding Plant/4103112	0	0	0	0	0	$ —	0	N	N	0	0	0

(1) Amounts included are the total dollar value of proposed assessments received from MSHA during the three months ended September 30, 2016, regardless of whether the assessment has been challenged or appealed. Citations and orders can be contested and appealed, and as part of that process, are sometimes reduced in severity and amount, and sometimes dismissed. The number of citations, orders, and proposed assessments vary by inspector and also vary depending on the size and type of the operation.