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 June 30, 2012

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.)
2929 Allen Parkway, Suite 2100, Houston, Texas	**77019-2118**
(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 July 23, 2012, the registrant has outstanding 439,558,000 shares of Common Stock, $1 par value per share.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Baker Hughes Incorporated

Consolidated Condensed Statements of Income

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
Sales	$ 1,811	$ 1,557	$ 3,540	$ 2,990
Services	3,515	3,184	7,141	6,276
Total revenue	5,326	4,741	10,681	9,266
Costs and expenses:				
Cost of sales	1,404	1,266	2,772	2,432
Cost of services	2,850	2,452	5,747	4,783
Research and engineering	128	114	252	220
Marketing, general and administrative	305	292	644	574
Total costs and expenses	4,687	4,124	9,415	8,009
Operating income	639	617	1,266	1,257
Interest expense, net	(50)	(54)	(104)	(106)
Income before income taxes	589	563	1,162	1,151
Income taxes	(151)	(228)	(344)	(432)
Net income	438	335	818	719
Net loss attributable to noncontrolling interests	1	3	—	—
Net income attributable to Baker Hughes	$ 439	$ 338	$ 818	$ 719
Basic earnings per share attributable to Baker Hughes	$ 1.00	$ 0.78	$ 1.86	$ 1.65
Diluted earnings per share attributable to Baker Hughes	$ 1.00	$ 0.77	$ 1.86	$ 1.64
Cash dividends per share	$ 0.15	$ 0.15	$ 0.30	$ 0.30

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated

Consolidated Condensed Statements of Comprehensive Income

(In millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net Income	$ 438	$ 335	$ 818	$ 719
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments during the period	(57)	17	(2)	83
Pension and other postretirement benefits	6	1	19	—
Net gain on hedge transactions	1	—	1	—
Other comprehensive income (loss), net of tax	(50)	18	18	83
Comprehensive income	388	353	836	802
Comprehensive loss attributable to noncontrolling interests	1	3	—	—
Comprehensive income attributable to Baker Hughes	$ 389	$ 356	$ 836	$ 802

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated
Consolidated Condensed Balance Sheets
(In millions)
(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 792	$ 1,050
Accounts receivable - less allowance for doubtful accounts (2012 - $223; 2011 - $229)	4,985	4,878
Inventories, net	3,811	3,222
Deferred income taxes	265	251
Other current assets	594	396
Total current assets	10,447	9,797
Property, plant and equipment - less accumulated depreciation (2012 - $5,733; 2011 - $5,251)	8,111	7,415
Goodwill	5,957	5,956
Intangible assets, net	1,076	1,143
Other assets	597	536
Total assets	$ 26,188	$ 24,847
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 1,859	$ 1,810
Short-term debt and current portion of long-term debt	1,191	224
Accrued employee compensation	535	704
Income taxes payable	232	289
Other accrued liabilities	420	475
Total current liabilities	4,237	3,502
Long-term debt	3,841	3,845
Deferred income taxes and other tax liabilities	667	810
Liabilities for pensions and other postretirement benefits	550	578
Other liabilities	134	148
Commitments and contingencies		
Equity:		
Common stock	439	437
Capital in excess of par value	7,415	7,303
Retained earnings	9,248	8,561
Accumulated other comprehensive loss	(537)	(555)
Baker Hughes stockholders' equity	16,565	15,746
Noncontrolling interests	194	218
Total equity	16,759	15,964
Total liabilities and equity	$ 26,188	$ 24,847

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated

Consolidated Condensed Statements of Equity

(In millions)

(Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2011	$ 437	$ 7,303	$ 8,561	$ (555)	$ 218	$ 15,964
Comprehensive income:						
Net income			818			818
Other comprehensive income				18		18
Activity related to stock plans	2	29				31
Stock-based compensation cost		61				61
Cash dividends ($0.30 per share)			(131)			(131)
Net activity related to noncontrolling interests		22			(24)	(2)
Balance at June 30, 2012	$ 439	$ 7,415	$ 9,248	$ (537)	$ 194	$ 16,759

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance at December 31, 2010	$ 432	$ 7,005	$ 7,083	$ (420)	$ 186	$ 14,286
Comprehensive income:						
Net income			719			719
Other comprehensive income				83		83
Activity related to stock plans	4	110				114
Stock-based compensation cost		53				53
Cash dividends ($0.30 per share)			(130)			(130)
Net activity related to noncontrolling interests		(1)			66	65
Balance at June 30, 2011	$ 436	$ 7,167	$ 7,672	$ (337)	$ 252	$ 15,190

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated

Consolidated Condensed Statements of Cash Flows

(In millions)

(Unaudited)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities:		
Net income	$ 818	$ 719
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	743	646
Benefit for deferred income taxes	(147)	(52)
Gain on disposal of assets	(115)	(90)
Stock-based compensation cost	61	53
Provision for doubtful accounts	1	76
Changes in operating assets and liabilities:		
Accounts receivable	(130)	(512)
Inventories	(597)	(314)
Accounts payable	60	57
Accrued employee compensation and other accrued liabilities	(178)	(25)
Income taxes payable	(84)	(160)
Other operating items, net	(308)	(1)
Net cash flows from operating activities	124	397
Cash flows from investing activities:		
Expenditures for capital assets	(1,442)	(1,023)
Proceeds from maturities of short-term investments	—	250
Proceeds from disposal of assets	203	142
Acquisition of businesses, net of cash acquired	—	(5)
Net cash flows from investing activities	(1,239)	(636)
Cash flows from financing activities:		
Net proceeds (payments) of commercial paper and other short-term debt	962	(21)
Repayment of long-term debt	—	(250)
Proceeds from issuance of common stock	39	115
Dividends paid	(131)	(130)
Other financing items, net	(15)	(9)
Net cash flows from financing activities	855	(295)
Effect of foreign exchange rate changes on cash	2	15
Decrease in cash and cash equivalents	(258)	(519)
Cash and cash equivalents, beginning of period	1,050	1,456
Cash and cash equivalents, end of period	$ 792	$ 937
Supplemental cash flows disclosures:		
Income taxes paid, net of refunds	$ 697	$ 647
Interest paid	$ 119	$ 121
Supplemental disclosure of noncash investing activities:		
Capital expenditures included in accounts payable	$ 146	$ 33

See accompanying Notes to Unaudited Consolidated Condensed Financial Statements.

Baker Hughes Incorporated

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 to the downstream refining and process and pipeline industries.

Basis of Presentation

Our unaudited consolidated condensed financial statements included herein have been prepared in accordance with generally accepted accounting principles in the United States of America 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 for the year ended December 31, 2011 ("2011 Annual Report"). 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 the unaudited consolidated condensed financial statements, all dollar and share amounts in tabulations are in millions of dollars and shares, respectively, unless otherwise indicated.

New Accounting Standards Updates

In June 2011, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standards Codification ("ASC") 220, *Comprehensive Income*. This Accounting Standards Update ("ASU") requires entities to present components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements that would include reclassification adjustments by component for items that are reclassified from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued an update to this ASU indefinitely deferring the implementation of the reclassification adjustments by component requirement of the ASU issued in June 2011. We adopted the new presentation requirement in the first quarter of 2012. We elected the two-statement approach presenting other comprehensive income in a separate statement immediately following the unaudited consolidated condensed statement of income.

In September 2011, the FASB issued an update to ASC 350, *Intangibles - Goodwill and Other.* This ASU amends the guidance in ASC 350-20 on testing for goodwill impairment. The revised guidance allows entities testing for goodwill impairment to have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. The ASU does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test annually for impairment. The ASU is limited to goodwill and does not amend the annual requirement for testing other indefinite-lived intangible assets for impairment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this ASU effective January 1, 2012, with no impact to our unaudited consolidated condensed financial statements.

NOTE 2. EARNINGS PER SHARE

A reconciliation of the number of shares used for the basic and diluted earnings per share ("EPS") computations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Weighted average common shares outstanding for basic EPS	439	436	439	435
Effect of dilutive securities - stock plans	1	2	1	3
Adjusted weighted average common shares outstanding for diluted EPS	440	438	440	438
Future potentially dilutive shares excluded from diluted EPS:				
Options with an exercise price greater than the average market price for the period	8	2	8	3

NOTE 3. INVENTORIES

Inventories, net of reserves, are comprised of the following:

	June 30, 2012	December 31, 2011
Finished goods	$ 3,385	$ 2,830
Work in process	242	231
Raw materials	184	161
Total	$ 3,811	$ 3,222

NOTE 4. INTANGIBLE ASSETS

Intangible assets are comprised of the following:

	June 30, 2012			December 31, 2011		
	Gross Carrying Amount	Less: Accumulated Amortization	Net	Gross Carrying Amount	Less: Accumulated Amortization	Net
Definite lived intangibles:						
Technology	$ 760	$ 253	$ 507	$ 755	$ 231	$ 524
Contract-based	16	9	7	17	9	8
Trade names	121	38	83	121	16	105
Customer relationships	497	97	400	497	77	420
Subtotal	1,394	397	997	1,390	333	1,057
Indefinite lived intangibles:						
In-process research and development	79	—	79	86	—	86
Total	$ 1,473	$ 397	$ 1,076	$ 1,476	$ 333	$ 1,143

Intangible assets are generally amortized on a straight-line basis with estimated useful lives ranging from 2 to 20 years. Amortization expense included in net income for the three months and six months ended June 30, 2012 was $34 million and $68 million, respectively, and is estimated to be $68 million for the remainder of fiscal year 2012. Estimated amortization expense for each of the subsequent five fiscal years is expected to be as follows: 2013 - $112 million; 2014 - $96 million; 2015 - $89 million; 2016 - $88 million; and 2017 - $85 million.

NOTE 5. FINANCIAL INSTRUMENTS

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, debt and foreign currency forward contracts. Except as described below, the estimated fair value of such financial instruments at June 30, 2012 and December 31, 2011 approximates their carrying value as reflected in our unaudited consolidated condensed balance sheets.

The estimated fair value of total debt at June 30, 2012 and December 31, 2011 was $5,893 million and $4,910 million, respectively, which differs from the carrying amounts of $5,032 million and $4,069 million, respectively, included in our unaudited consolidated condensed balance sheets. The fair value was determined using Level 2 inputs including quoted period end market prices.

NOTE 6. SEGMENT INFORMATION

We conduct our business primarily through operating segments that are aligned with our geographic regions, which have been aggregated into five reportable segments. We aggregate our operating segments within each reportable segment because they have similar economic characteristics and because the long-term financial performance of the segments is affected by similar economic conditions. The performance of our operating segments is evaluated based on profit before tax, which is defined as income before income taxes and before the following: net interest expense, corporate expenses, and certain gains and losses not allocated to the segments.

Prior to 2012, our reservoir development services business ("RDS"), consisting of consulting services provided to third parties and internal support to our oilfield operations, was included within the Industrial Services segment. Beginning in the first quarter of 2012, we changed our reporting structure to include the RDS business within our four oilfield geographic segments. All prior period segment disclosures for revenue and profit before tax have been reclassified to reflect this new presentation. The impact of this change to the Industrial Services segment was to reduce revenue by $29 million and $52 million, respectively, for the three months and six months ended June 30, 2011; and increase profit before tax by $10 million and $19 million, respectively, for the three months and six months ended June 30, 2011.

Summarized financial information is shown in the following table.

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011	
Segments	**Revenue**	**Profit (Loss)**	**Revenue**	**Profit (Loss)**
North America	$ 2,672	$ 357	$ 2,372	$ 434
Latin America	604	77	544	71
Europe/Africa/Russia Caspian	925	156	817	44
Middle East/Asia Pacific	804	87	713	87
Industrial Services	321	44	295	44
Total Operations	5,326	721	4,741	680
Corporate and Other	—	(82)	—	(63)
Interest Expense, net	—	(50)	—	(54)
Total	$ 5,326	$ 589	$ 4,741	$ 563

Baker Hughes Incorporated

Notes to Unaudited Consolidated Condensed Financial Statements

Segments	Six Months Ended June 30, 2012 Revenue	Six Months Ended June 30, 2012 Profit (Loss)	Six Months Ended June 30, 2011 Revenue	Six Months Ended June 30, 2011 Profit (Loss)
North America	$ 5,535	$ 758	$ 4,730	$ 889
Latin America	1,177	144	1,018	133
Europe/Africa/Russia Caspian	1,818	309	1,599	132
Middle East/Asia Pacific	1,549	162	1,377	166
Industrial Services	602	66	542	67
Total Operations	10,681	1,439	9,266	1,387
Corporate and Other	—	(173)	—	(130)
Interest Expense, net	—	(104)	—	(106)
Total	$ 10,681	$ 1,162	$ 9,266	$ 1,151

NOTE 7. EMPLOYEE BENEFIT PLANS

We have both funded and unfunded noncontributory defined benefit pension plans covering certain employees primarily in the U.S., the U.K., Germany and Canada. We also provide certain postretirement health care benefits (“other postretirement benefits”), through an unfunded plan, to substantially all U.S. employees who retire and have met certain age and service requirements.

The components of net periodic cost are as follows for the three months ended June 30:

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Service cost	$ 16	$ 9	$ 2	$ 2	$ 3	$ 2
Interest cost	5	5	8	8	2	2
Expected return on plan assets	(9)	(8)	(9)	(8)	—	—
Amortization of prior service benefit	—	—	—	—	(1)	(1)
Amortization of net loss	4	2	2	1	—	—
Net periodic cost	$ 16	$ 8	$ 3	$ 3	$ 4	$ 3

The components of net periodic cost are as follows for the six months ended June 30:

	U.S. Pension Plans		Non-U.S. Pension Plans		Other Postretirement Benefits	
	2012	2011	2012	2011	2012	2011
Service cost	$ 32	$ 18	$ 4	$ 4	$ 6	$ 4
Interest cost	10	10	16	16	4	4
Expected return on plan assets	(18)	(16)	(18)	(16)	—	—
Amortization of prior service benefit	—	—	—	—	(2)	(2)
Amortization of net loss	8	4	3	2	1	—
Benefit settlement	—	—	6	—	—	—
Net periodic cost	$ 32	$ 16	$ 11	$ 6	$ 9	$ 6

We invest the assets of our U.S. and Non-U.S. pension plans in investments according to the policies developed by our investment committees. The majority of these assets are in investments whose fair values are determined using Level 2 observable inputs. The changes in the fair value of pension plan assets that were determined by using Level 3 unobservable inputs for the three months and six months ended June 30, 2012 were as follows:

	Three Months Ended June 30, 2012					
	U.S. Private Equity Fund	U.S. Property Fund	U.S. Hedge Funds	Non-U.S. Property Fund	Non-U.S. Insurance Contracts	Total
Ending balance at March 31, 2012	$ —	$ 5	$ 165	$ 19	$ 15	$ 204
Unrealized gains	—	—	1	—	—	1
Unrealized losses	—	—	(3)	—	—	(3)
Purchases	17	1	—	—	—	18
Ending balance at June 30, 2012	$ 17	$ 6	$ 163	$ 19	$ 15	$ 220

	Six Months Ended June 30, 2012					
	U.S. Private Equity Fund	U.S. Property Fund	U.S. Hedge Funds	Non-U.S. Property Fund	Non-U.S. Insurance Contracts	Total
Ending balance at December 31, 2011	$ —	$ 5	$ 110	$ 19	$ 15	$ 149
Unrealized gains	—	—	4	—	—	4
Unrealized losses	—	—	(3)	—	—	(3)
Purchases	17	1	52	—	—	70
Ending balance at June 30, 2012	$ 17	$ 6	$ 163	$ 19	$ 15	$ 220

NOTE 8. INCOME TAXES

Our effective tax rate on income before income taxes for the three months and six months ended June 30, 2012 was 25.6% and 29.6%, respectively, which is lower than the U.S. statutory income tax rate of 35% primarily due to the reversal of certain tax reserves arising from tax audit settlements and the expiration of statutes of limitations partially offset by state income taxes.

NOTE 9. COMMITMENTS AND CONTINGENCIES

LITIGATION

We are involved in litigation or proceedings that have arisen in our ordinary business activities. We insure against these risks to the extent deemed prudent by our management and to the extent insurance is available, but no assurance can be given that the nature and amount of that insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. In determining the amount of self-insurance, it is our policy to self-insure those losses that are predictable, measurable and recurring in nature, such as claims for automobile liability, general liability and workers compensation. The accruals for losses are calculated by estimating losses for claims using historical claim data, specific loss development factors and other information as necessary.

OTHER

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, including surety bonds for performance, letters of credit and other bank guarantees, which totaled approximately $1.4 billion at June 30, 2012. 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 unaudited consolidated condensed financial statements.

NOTE 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

Total accumulated other comprehensive loss, net of tax, consisted of the following:

	June 30, 2012	December 31, 2011
Foreign currency translation adjustments	$ (306)	$ (304)
Pension and other postretirement benefits	(232)	(251)
Net gain on hedge transactions	1	—
Total accumulated other comprehensive loss	$ (537)	$ (555)

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 thereto, as well as our Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Annual Report"). Phrases such as "Company," "we," "our" and "us" intend to refer to Baker Hughes Incorporated when used.

EXECUTIVE SUMMARY

Baker Hughes is a leading supplier of oilfield services, products, technology and systems to the worldwide oil and natural gas industry. We provide products and services for:

- drilling and evaluation of oil and natural gas wells;
- completion and production of oil and natural gas wells; and
- other industries, including downstream refining and process and pipeline industries.

We operate our business primarily through geographic regions that have been aggregated into five reportable segments: North America, Latin America, Europe/Africa/Russia Caspian, Middle East/Asia Pacific and Industrial Services. The four geographical segments represent our oilfield operations.

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. Our business is cyclical and is dependent upon our customers' expectations for future oil and natural gas prices, economic growth, hydrocarbon demand and estimates of current and future oil and natural gas production.

For the second quarter of 2012, we generated revenue of $5.33 billion, an increase of $585 million or 12% compared to the same quarter a year ago. For the first six months of 2012, we generated revenue of $10.68 billion, an increase of $1.42 billion or 15% compared to the first six months of 2011. North America oilfield revenue for the second quarter of 2012 was $2.67 billion, an increase of 13% compared to the same quarter a year ago. North America oilfield revenue for the first six months of 2012 was $5.54 billion, an increase of 17% compared to the first six months of 2011. The increases in North America are primarily due to the increase in activity and service intensity in U.S. Land and Gulf of Mexico, driven by oil-directed drilling mainly in unconventional reservoirs. Oilfield revenue outside of North America for the second quarter of 2012 was $2.33 billion, an increase of 12% compared to the same quarter a year ago. Oilfield revenue outside of North America for the first six months of 2012 was $4.54 billion, an increase of 14% compared to the first six months of 2011. The increases outside of North America are primarily due to the increase in activity in Europe, Africa and the Middle East. Industrial Services revenue for the second quarter of 2012 was $321 million, an increase of 9% compared to the same quarter a year ago. Industrial Services revenue for the first six months of 2012 was $602 million, an increase of 11% compared to the first six months of 2011.

Net income attributable to Baker Hughes was $439 million for the second quarter of 2012 compared to $338 million for the same quarter a year ago. Profitability in North America was adversely impacted by the continued volatility related to our pressure pumping product line including both pricing pressure, as a result of the increasing supply of pressure pumping capacity in the market, and increased personnel and raw material costs. Our other product lines in U.S. Land, particularly drilling services, upstream chemicals, artificial lift and completions, experienced increased demand in the second quarter of 2012 compared to the same quarter a year ago, as well as sequentially. International profitability increased in the second quarter of 2012 compared to the same quarter a year ago driven primarily by activity increases in Europe, Africa and the Middle East.

As of June 30, 2012, we had approximately 58,500 employees compared to approximately 57,700 employees as of December 31, 2011.

BUSINESS ENVIRONMENT

In North America, despite a reduction in customer spending for natural gas projects, increased customer spending for oil projects resulted in a 7% increase in the North America rig count in the second quarter of 2012 compared to the same period a year ago. Oil-directed drilling increased 42% in the second quarter of 2012 compared to the same period a year ago, reflecting an energy equivalent premium relative to natural gas in North America. Natural gas-directed drilling activity declined 32% in the second quarter of 2012 compared to the same period a year ago, as mild winter conditions and increased production in unconventional natural gas shale plays contributed to high natural gas working inventories. As the supply of natural gas has exceeded demand, the resulting decline in natural gas prices has rapidly shifted customer spending away from natural gas-directed drilling.

Outside of North America, customer spending is most heavily influenced by Brent oil prices. Brent oil prices decreased 7% in the second quarter of 2012 compared to the same period a year ago as Europe's economic concerns increased, growth in China showed signs of contraction and global oil supplies increased. However, compared to the second quarter of 2011, our customers’ activity and spending levels have increased. Due to the long term planning cycles associated with many international projects, customers do not tend to react to short-term movements in oil prices.

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Brent oil prices ($/Bbl) (1)	$ 108.95	$ 116.81	$ 113.74	$ 110.96
WTI oil prices ($/Bbl) (2)	93.42	102.34	98.14	98.50
Natural gas prices ($/mmBtu) (3)	2.29	4.38	2.37	4.29

(1) Bloomberg Dated Brent (“Brent”)
(2) Bloomberg West Texas Intermediate (“WTI”) Cushing Crude Oil Spot Price
(3) Bloomberg Henry Hub Natural Gas Spot Price

Brent oil prices averaged $108.95/Bbl in the second quarter of 2012. Oil prices decreased throughout the second quarter of 2012 primarily due to the deepening economic crisis in Europe, growing concerns over a slowing Chinese economy, and rising global oil supplies. Prices ranged from a high of $125.60/Bbl at the beginning of April 2012 to a low of $88.74/Bbl in June 2012. The oil price did rebound moderately, back to $97.00/Bbl at the close of June 2012. The International Energy Agency (“IEA”) estimated in its July 2012 Oil Market Report that worldwide demand would increase 0.8 million barrels per day, or 0.9%, to 89.9 million barrels per day in 2012, up from 89.1 million barrels per day in 2011.

WTI oil prices averaged $93.42/Bbl in the second quarter of 2012. Similar to the Brent oil prices, WTI oil prices declined throughout the second quarter of 2012. Prices ranged from a high of $106.16/Bbl in May 2012 to a low of $77.69/Bbl in late June 2012. The WTI oil price rebounded to $84.96/Bbl at the close of June 2012.

Natural gas prices averaged $2.29/mmBtu in the second quarter of 2012. Natural gas prices, which have been low since late 2011, started to rebound during the quarter as warm weather in key consuming regions of the United States increased demand. Further, natural gas rig counts, which continued to decline during the quarter, resulted in lower natural gas storage injections relative to expectations and ultimately higher prices. During the quarter, prices ranged from a low of $1.84/mmBtu in April 2012 to a high of $2.87/mmBtu in June 2012. According to the U.S. Department of Energy (“DOE”), working natural gas in storage at the end of the second quarter of 2012 was 3,102/Bcf, which was 28% or 670/Bcf above the corresponding week in 2011.

Rig Counts

Baker Hughes has been providing rig counts to the public since 1944. We gather all relevant data through our field service personnel, who obtain the necessary data from routine visits to the various rigs, customers, contractors and/or other outside sources. This data is then compiled and distributed to various wire services and trade associations and is published on our website. 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, Iran and onshore China because this information is not readily available. Baker Hughes resumed publication in June 2012 of the rig count in Iraq for the first time since August 1990.

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 June 30,			Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
U.S. - land and inland waters	1,924	1,795	7 %	1,935	1,745	11 %
U.S. - offshore	47	31	52 %	45	28	61 %
Canada	177	187	(5)%	380	379	— %
North America	2,148	2,013	7 %	2,360	2,152	10 %
Latin America	438	417	5 %	435	413	5 %
North Sea	41	38	8 %	39	41	(5)%
Continental Europe	76	74	3 %	76	74	3 %
Africa	90	76	18 %	86	79	9 %
Middle East	343	291	18 %	327	287	14 %
Asia Pacific	241	251	(4)%	246	262	(6)%
Outside North America	1,229	1,147	7 %	1,209	1,156	5 %
Worldwide	3,377	3,160	7 %	3,569	3,308	8 %

Second Quarter of 2012 Compared to the Second Quarter of 2011

The rig count in North America increased 7% reflecting a 46% increase in the U.S. oil-directed rig count and a 9% increase in the Canadian oil-directed rig count, partially offset by a 33% decrease in the U.S. natural gas-directed rig count, and a 28% decrease in the Canadian natural gas-directed rig count. The growth in oil-directed drilling was primarily a result of strong oil prices and the industry's ability to apply drilling and completion techniques to unconventional oil reservoirs that were originally applied to similar natural gas reservoirs. Natural gas-directed drilling was negatively impacted by the continued weakness in U.S. natural gas prices, which discouraged new investment in natural gas fields.

Outside North America, the rig count increased 7%. In general, the international rig count increased as operators responded to relatively strong oil prices that were well above the level considered economical to develop new reserves in the primary hydrocarbon basins of the world. The rig count in Latin America increased primarily due to higher rig activity in Mexico and Brazil, partially offset by decreased rig activity in Colombia and Venezuela. The rig count in the North Sea increased primarily due to higher rig activity in the United Kingdom. The rig count in Continental Europe was relatively flat. The rig count increased in Africa primarily due to resumption of drilling activities in Libya, and higher activity in Angola, particularly offshore. The rig count increased in the Middle East due to higher activity in Saudi Arabia, Oman and Egypt, as well as the inclusion of Iraq in the June 2012 monthly rig count for the first time since August 1990. In the month of June 2012, 79 rigs were reported, which equates to a monthly average of 26 rigs for the quarter. In Asia Pacific, the rig count decreased as a result of decreased activity in offshore China, Indonesia, and Vietnam, while activity increased in Australia.

RESULTS OF OPERATIONS

The discussions below relating to significant line items from our unaudited consolidated condensed statements of income are based on available information and represent our analysis of significant changes or events that impact the comparability of reported amounts. Where appropriate, we have identified specific events and changes that affect comparability or trends and, where possible and practical, have quantified the impact of such items. In addition, the discussions below for revenue and cost of revenue are on a total basis as the business drivers for the individual components of product sales and services are similar.

All dollar amounts in tabulations in this section are in millions of dollars, unless otherwise stated.

We conduct our business primarily through operating segments that are aligned with our geographic regions, which have been aggregated into five reportable segments. Prior to 2012, our reservoir development services business (“RDS”), consisting of consulting services provided to third parties and internal support to our oilfield operations, was included within the Industrial Services segment. Beginning in the first quarter of 2012, we changed our reporting structure to include the RDS business within our four oilfield geographic segments. All prior period segment disclosures for revenue and profit before tax have been reclassified to reflect this new presentation. The impact of this change to the Industrial Services segment was to reduce revenue by $29 million and $52 million, respectively, for the three and six months ended June 30, 2011; and increase profit before tax (as defined below) by $10 million and $19 million, respectively, for the three and six months ended June 30, 2011.

Revenue and Profit Before Tax

The performance of our operating segments is evaluated based on profit before tax, which is defined as income before income taxes and before the following: net interest expense, corporate expenses, and certain gains and losses not allocated to the segments.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012	2011	$ Change	% Change	2012	2011	$ Change	% Change
Revenue:								
North America	$ 2,672	$ 2,372	$ 300	13%	$ 5,535	$ 4,730	$ 805	17 %
Latin America	604	544	60	11%	1,177	1,018	159	16 %
Europe/Africa/ Russia Caspian	925	817	108	13%	1,818	1,599	219	14 %
Middle East/ Asia Pacific	804	713	91	13%	1,549	1,377	172	12 %
Industrial Services	321	295	26	9%	602	542	60	11 %
Total	$ 5,326	$ 4,741	$ 585	12%	$ 10,681	$ 9,266	$ 1,415	15 %

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012	2011	$ Change	% Change	2012	2011	$ Change	% Change
Profit Before Tax:								
North America	$ 357	$ 434	$ (77)	(18%)	$ 758	$ 889	$ (131)	(15)%
Latin America	77	71	6	8%	144	133	11	8 %
Europe/Africa/ Russia Caspian	156	44	112	255%	309	132	177	134 %
Middle East/ Asia Pacific	87	87	—	—%	162	166	(4)	(2)%
Industrial Services	44	44	—	—%	66	67	(1)	(1)%
Total Operations	721	680	41	6%	1,439	1,387	52	4 %
Corporate and Other	(82)	(63)	(19)	30%	(173)	(130)	(43)	33 %
Interest Expense, net	(50)	(54)	4	(7%)	(104)	(106)	2	(2)%
Total	$ 589	$ 563	$ 26	5%	$ 1,162	$ 1,151	$ 11	1 %

Second Quarter of 2012 Compared to the Second Quarter of 2011

Revenue for the second quarter of 2012 increased $585 million or 12% compared to the second quarter of 2011, driven by increased activity across all segments, particularly in the North America, Europe/Africa/Russia Caspian (“EARC”), and Middle East/Asia Pacific (“MEAP”) segments.

Profit before tax for the second quarter of 2012 increased $26 million or 5% compared to the second quarter of 2011. Despite the increase in revenue, our profit before tax was significantly impacted by increased personnel and raw material costs in our pressure pumping business in North America as well as higher corporate expenses related to worldwide integration efforts and increased amortization. Profit before tax was also favorably impacted by the improving market conditions internationally, particularly in the EARC segment.

North America

North America revenue increased 13% in the second quarter of 2012 compared to the second quarter of 2011. Revenue increases were supported by an 8% increase in the U.S. rig count, offset by a 5% reduction in the Canada rig count, which has seasonally low activity during the second quarter due to the spring break-up. The primary catalysts for the growth seen in North America include sustained high oil prices during the second quarter of 2012 compared to historical prices; improved rig activity in the offshore Gulf of Mexico; and a continuing shift of drilling activities from the natural gas-directed unconventional reservoirs to the oil-directed reservoirs in U.S. Land. The oil-directed unconventional reservoirs on land require a substantially higher proportion of services from Baker Hughes across all product lines. In the second quarter of 2012, there were significant increases in completions systems, drilling services, artificial lift, upstream chemicals and drilling fluids activities. In Canada, despite the normal activity declines following the spring break-up, higher pressure pumping activity on key projects favorably impacted revenue. Revenue in the Gulf of Mexico increased 28% in the second quarter of 2012 compared to the second quarter of 2011 as rig counts increased 52%, particularly in deepwater as permitting continued to increase.

North America profit before tax was $357 million in the second quarter of 2012, a decrease of $77 million compared to the second quarter of 2011. Despite higher revenue, profits in U.S. Land and Canada declined due to decreased fleet utilization and lower pricing. Also contributing were higher personnel costs, increased costs for critical raw materials, and increased freight and demurrage costs primarily in our pressure pumping business. Offsetting these reductions are improved profits in the Gulf of Mexico, where both revenues and profit margins have returned to pre-moratorium levels as activity levels have increased substantially.

Latin America

Latin America revenue increased 11% in the second quarter of 2012 compared to the second quarter of 2011. The primary drivers of the increase were higher activity benefiting nearly all of our product lines in the Andean area and Venezuela. In Brazil, continued deepwater growth through the use of our drilling services and artificial lift product lines also contributed.

Latin America profit before tax increased 8% in the second quarter of 2012 compared to the second quarter of 2011. While increased revenue was the primary contributor to the increased profitability, profits were negatively impacted by unfavorable currency fluctuations in Brazil, as well as higher personnel costs.

Europe/Africa/Russia Caspian

EARC revenue increased 13% in the second quarter of 2012 compared to the second quarter of 2011. The primary drivers of the increase were increased activity for artificial lift, drilling services, and wireline services in Norway; increased completion systems and drilling fluids activity in Continental Europe; increased drilling services activity in Nigeria, Angola and Mozambique; and improving market conditions for wireline services and completions systems in Russia.

EARC profit before tax increased 255% in the second quarter of 2012 compared to the second quarter of 2011 primarily as a result of a $70 million non-recurring charge related to Libya recorded in the second quarter of 2011. The increase in overall revenue within the segment due to increased activity in Norway, Continental Europe, Nigeria, Sub Sahara Africa, and Russia also contributed to profitability. Further, the favorable sales mix in Sub Sahara Africa and Russia improved margins and increased profitability.

Middle East/Asia Pacific

MEAP revenue increased 13% in the second quarter of 2012 compared to the second quarter of 2011. The increase in this segment was attributable to new integrated operations contracts in Iraq; higher demand for drilling services, drilling fluids, and completions systems in Saudi Arabia; and improved demand for completions systems and drilling fluids in Australia. Increased pressure pumping, wireline services and upstream chemicals activity in Southeast Asia also contributed.

MEAP profit before tax remained relatively flat in the second quarter of 2012 compared to the second quarter of 2011. While revenue increased, profit before tax was offset by start-up and third party costs associated with the new integrated operations activities in Iraq. Higher operating expenses in certain areas within the region also offset profit before tax.

Industrial Services

Industrial Services revenue increased 9% and profit before tax remained relatively flat in the second quarter of 2012 compared to the second quarter of 2011. The increase in revenue was driven by increased polymer activity. Despite the increase in revenue, profit before tax was impacted by an overall increase in cost of goods and services sold.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Revenue for the six months ended June 30, 2012 increased $1.42 billion or 15% compared to the six months ended June 30, 2011, driven by increased activity across all segments, particularly in the North America and EARC segments.

Profit before tax for the six months ended June 30, 2012 increased $11 million or 1% compared to the six months ended June 30, 2011. Improving market conditions, cost management, and a $70 million non-recurring charge related to Libya recorded in the second quarter of 2011 resulted in a comparatively higher profit before tax in our EARC segment. This is offset by our North America segment where despite the increase in revenue, profit before tax was significantly impacted by increased personnel costs, raw materials costs, and freight and demurrage costs in our pressure pumping business. Higher corporate expenses related to worldwide integration efforts and increased amortization also impacted profitability.

Costs and Expenses

The table below details certain unaudited consolidated condensed statement of income data and their percentage of revenue.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	$	%	$	%	$	%	$	%
Revenue	$ 5,326	100%	$ 4,741	100%	$ 10,681	100%	$ 9,266	100%
Cost of revenue	4,254	80%	3,718	78%	8,519	80%	7,215	78%
Research and engineering	128	2%	114	2%	252	2%	220	2%
Marketing, general and administrative	305	6%	292	6%	644	6%	574	6%

Cost of Revenue

Cost of revenue as a percentage of revenue was 80% for the three months and six months ended June 30, 2012, and 78% for the three months and six months ended June 30, 2011. The increase in cost of revenue as a percentage of revenue for the three and six months was due primarily to lower pricing and higher personnel, raw materials, logistics and repairs and maintenance costs with respect to our pressure pumping product line in North America, start-up and third party costs associated with the new integrated operations activities in Iraq, as well as increased expenses related to amortization.

Research and Engineering

Research and engineering expenses increased 12% and 15% for the three months and six months ended June 30, 2012, respectively, compared to the same periods a year ago. The increase in research and engineering expenses was primarily driven by an increase in research materials and personnel costs associated with the opening and staffing of technology centers in Brazil and Saudi Arabia, and increased costs related to patents.

Marketing, General and Administrative

Marketing, general and administrative ("MG&A") expenses increased 4% and 12% for the three months and six months ended June 30, 2012, respectively, compared to the same periods a year ago. The increase in expenses resulted from ongoing activities to further improve productivity and efficiency through the coordination and integration of our worldwide operations, including software implementations, offset by decreased personnel costs.

Income Taxes

Total income tax expense was $151 million and $344 million for the three months and six months ended June 30, 2012, respectively. Our effective tax rate on income before income taxes for the three months and six months ended June 30, 2012 was 25.6% and 29.6%, respectively, which is lower than the U.S. statutory income tax rate of 35% primarily due to the reversal of certain tax reserves arising from tax audit settlements and the expiration of statutes of limitations partially offset by state income taxes.

OUTLOOK

This section should be read in conjunction with the factors described in “Part II, Item 1A. Risk Factors” and in the “Forward-Looking Statements” section in this Part I, Item 2, both contained herein. These factors could impact, either positively or negatively, our expectation for: oil and natural gas demand; oil and natural gas prices; exploration and development spending and drilling activity; and production spending.

Our industry is cyclical, and past cycles have been driven primarily by alternating periods of ample supply or shortage of oil and natural gas relative to demand. As an oilfield services company, our revenue is dependent on spending by our customers for oil and natural gas exploration, field development and production. This spending is dependent on a number of factors, including our customers’ forecasts of future energy demand, their expectations for future energy prices, their access to resources to develop and produce oil and natural gas, their ability to fund their capital programs, and the impact of new government regulations.

Our outlook for exploration and development spending is based upon our expectations for customer spending in the markets in which we operate, and is driven primarily by our perception of industry expectations for oil and natural gas prices and their likely impact on customer capital and operating budgets as well as other factors that could impact the economic return that oil and natural gas companies expect for developing oil and natural gas reserves. Our forecasts are based on evaluating a number of external sources as well as our internal estimates. External sources include publications by the IEA, Organization of Petroleum Exporting Countries (“OPEC”), Energy Information Administration (“EIA”), and the Organization for Economic Cooperation and Development (“OECD”). We acknowledge that there is a substantial amount of uncertainty regarding these forecasts, thus, while we have internal estimates regarding economic expansion, hydrocarbon demand and overall oilfield activity, we position ourselves to be flexible and responsive to a wide range of potential outcomes.

The primary drivers impacting the 2012 business environment include the following:

- Worldwide Economic Growth - In general there is a strong linkage between overall economic activity, growth and the demand for hydrocarbons. Although we continue to see modest economic growth across the OECD countries and relatively strong growth among many developing economies, there is substantial concern regarding the economic outlook throughout 2012. These concerns are primarily fueled by a concern over sovereign debt issues in Europe and a slowdown in the Chinese economy. The European sovereign debt crisis poses substantial risk to the worldwide economy as any substantial reduction in economic activity in Europe is likely to impact other major economies such as China, India and the U.S. Although steps are being taken to resolve this issue, there is still concern in the financial and equity markets that European economic activity will continue to slow in 2012. China’s rapid economic growth and industrialization has been a major factor in driving up world-wide economic growth since the recession of 2008/2009. It is expected that China will continue to grow at a meaningful pace, however, there is concern that the Chinese central bank’s efforts to limit inflation may temper growth prospects. In the U.S., there has been a slow recovery from the recession of 2008/2009 as the economy continues to deal with the effects of the financial crisis, and the expectation is for modest economic growth in the U.S. throughout 2012. However, weakness or deterioration of the global economy, particularly in China, India and Europe, could curtail U.S. economic growth from current estimates.

- Demand for Hydrocarbons - In its July 2012 Oil Market Report, the IEA maintained its forecasts that it expects global demand for oil to increase 0.8 million barrels per day in 2012 relative to 2011. The expected increase in demand for hydrocarbons should support increased spending to develop oil. Natural gas is an increasingly important hydrocarbon to meet the world’s energy needs, and recent innovations in the U.S. have substantially improved the production of natural gas in the U.S. As a result, natural gas demand remains near all-time highs in the U.S. Further, Europe and Asia are increasing their demand for natural gas as production from major gas fields in the Middle East, Africa and Asia Pacific are imported into the consuming regions.

- Oil Production - Global spare oil production capacity is relatively limited and is proving to be inadequate to decouple oil prices from geopolitical supply disruptions throughout North Africa and the Middle East. Several key OPEC countries have announced plans to increase their exploration and development efforts to develop resources to offset reduced supplies from Iran and meet the expected increase in global demand. Sustained higher oil prices have led non-OPEC producers, particularly in the U.S., to increase capital spending and apply new technology to increase oil production. Although this is a positive trend for the U.S. that is expected to continue for many years to come, it will provide only a modest offset to any potential supply disruption across the rest of the world.

- Natural Gas Production - Worldwide natural gas production continues to grow as a result of the emergence of the unconventional shale plays in North America as well as an abundance of large conventional fields in the Middle East, Asia and Latin America. Low natural gas prices in the U.S. have driven a reduction in the natural gas-directed rig activity in the U.S., which has begun to impact natural gas production, though not enough to result in a substantial increase in prices. Worldwide natural gas production will tend to be more stable as high natural gas prices in places such as Europe and Asia encourage natural gas production at current levels.

- Oil and Natural Gas Prices - With WTI oil prices trading between $77.69/Bbl and $109.49/Bbl during the first six months of 2012, we believe most unconventional oil plays in the U.S. as well as most conventional oil developments internationally will provide adequate returns to encourage incremental investment. Internationally, most oil developments are based on Brent oil prices which have also been at a high enough level to justify further investment in field development. Based on the tightness of the oil supply and the anticipated modest economic growth, we would expect oil prices to remain relatively strong throughout 2012 barring a major macro-economic event. Currently oil prices are somewhat elevated from levels seen early in the second quarter 2012 due to concern over geopolitical uncertainty in Iran and labor disputes in the North Sea. In North America, natural gas prices are particularly low when compared to oil on a BTU equivalent basis. This low price is driven by a combination of far more efficient production from the unconventional plays in the U.S. as well as a particularly warm winter. Although industrial demand, a warm summer in the U.S. thus far, and power generation are gradually increasing and demanding more natural gas, it is not enough to offset the increase in production from the unconventional plays. As a result, the expectation is that natural gas prices will remain particularly low throughout 2012.

Activity and Spending Outlook for North America - Overall customer spending in North America is expected to increase in 2012 compared to 2011, with the average annual rig count increasing 3%. Unconventional plays with crude oil and natural gas liquids content have been attracting incremental investment, resulting in increased oil rig counts through June 2012. However, due to recent volatility in oil prices, customer spending is expected to hold at current levels in the near term, resulting in a flat oil rig count for the remainder of the year. In the unconventional dry gas plays, while investment has declined throughout the year due to historically low natural gas pricing levels, we expect the reductions in rig counts will slow going forward as gas prices rebounded moderately and U.S. inventory injections declined in the second quarter. Overall service intensity has increased in North America during the year as customers are demanding key technologies, such as advanced directional drilling, more complex completion systems and pressure pumping to develop the unconventional plays. The demand for these products has grown faster than the industry’s ability to supply them resulting in support for higher prices. However, due to the rapid shift from natural gas to oil and liquids rich drilling in North America, combined with new pressure pumping capacity in the market, pricing has declined in some basins, particularly for hydraulic fracturing. In the Gulf of Mexico, the active rig count has recently increased to near pre-moratorium levels. Activity on the continental shelf has been strong, and we have seen a steady increase in deepwater permits and subsequently deepwater drilling. We expect that exploration drilling activity in the Gulf of Mexico will continue to increase throughout the remainder of 2012, with additional deepwater rigs being added.

Activity and Spending Outlook Outside North America - International activity is driven primarily by the price of oil which is high enough to provide attractive economic returns in almost every region. Customers are expected to increase spending to develop new resources and offset declines from existing developed resources. Areas that are expected to see increased spending throughout the rest of the year include: the Middle East, in particular Iraq and Saudi Arabia; Latin America, with the largest growth coming from Brazil, Mexico, and Colombia; Africa, including Libya, Angola and Mozambique; and Russia.

Capital Expenditures - Our capital expenditures, excluding acquisitions, are expected to be between $2.7 billion and $2.9 billion for 2012. A portion of our planned capital expenditures can be adjusted to reflect changes in our expectations for future customer spending.

LIQUIDITY AND CAPITAL RESOURCES

Our objective in financing our business is to maintain adequate financial resources and access to sufficient liquidity. At June 30, 2012, we had cash and cash equivalents of $792 million, of which substantially all was held by foreign subsidiaries. A substantial portion of the cash held by foreign subsidiaries at June 30, 2012 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 taxes. In addition, we have a $2.5 billion committed revolving credit facility with commercial banks and a commercial paper program under which we may issue up to $2.5 billion. The maximum combined borrowing at any time under both the credit facility and commercial paper program is $2.5 billion. We had $1.09 billion of outstanding commercial paper at June 30, 2012. We believe that cash on hand and the available credit facility, including the issuance of commercial paper, will provide sufficient liquidity to manage our global cash needs.

Our capital planning process is focused on utilizing cash flows generated from operations in ways that enhance the value of our Company. In the six months ended June 30, 2012, we used cash to pay for a variety of activities including working capital needs, capital expenditures, and payment of dividends.

Cash Flows

Cash flows provided (used) by continuing operations, by type of activity, were as follows for the six months ended June 30:

(In millions)	2012	2011
Operating activities	$ 124	$ 397
Investing activities	(1,239)	(636)
Financing activities	855	(295)

Operating Activities

Cash flows from operating activities provided $124 million and $397 million in the six months ended June 30, 2012 and 2011, respectively. This decrease in cash flows of $273 million is primarily due to the change in net operating assets and liabilities, which used more cash in the six months ended June 30, 2012 compared to the same period in 2011.

The underlying drivers of the changes in operating assets and liabilities are as follows:

- An increase in accounts receivable used cash of $130 million and $512 million in the six months ended June 30, 2012 and 2011, respectively. The change in accounts receivable was primarily due to an increase in activity and an increase in days sales outstanding (defined as the average number of days our net trade receivables are outstanding based on quarterly revenue) of approximately 2 days and 4 days for the six months ended June 30, 2012 and 2011, respectively.
- An increase in inventory used cash of $597 million and $314 million in the six months ended June 30, 2012 and 2011, respectively, driven by an increase in production of finished goods due to continued high activity levels.
- Accrued employee compensation and other accrued liabilities used $178 million and $25 million in cash in the six months ended June 30, 2012 and 2011, respectively. The increase in cash used was due primarily to an increase in payments in 2012 compared to 2011 related to employee bonuses earned in 2011 but paid in 2012.
- Other operating items used cash of $308 million and $1 million in the six months ended June 30, 2012 and 2011, respectively. The increase was primarily due to an increase in payments for pensions and other postretirement benefits and an increase in prepaid assets.

Investing Activities

Our principal recurring investing activity was 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 $1,442 million and $1,023 million in the six months ended June 30, 2012 and 2011, respectively. While the majority of these expenditures were for machinery and equipment, we have continued our spending on new facilities, expansions of existing facilities and other infrastructure projects.

Proceeds from the disposal of assets were $203 million and $142 million in the six months ended June 30, 2012 and 2011, respectively. These disposals related to equipment that was lost-in-hole, and property, machinery, and equipment no longer used in operations that were sold throughout the period.

We received proceeds from maturities of short-term investments consisting of $250 million in U.S. Treasury Bills that matured in May 2011.

Financing Activities

We had net proceeds from borrowings of $962 million as compared to net repayments of $21 million related to commercial paper and other short-term debt in the six months ended June 30, 2012 and 2011, respectively. Total debt outstanding at June 30, 2012 was $5.03 billion, an increase of $963 million compared to December 31, 2011. The total debt to total capitalization (defined as total debt plus equity) ratio was 0.23 at June 30, 2012 and 0.20 at December 31, 2011.

In March 2012, we filed a registration statement with the SEC pursuant to which we offered to exchange our unregistered 3.2% senior notes that were issued in a private placement for registered notes with substantially identical terms pursuant to a registration rights agreement. In April 2012, upon the registration statement being declared effective by the SEC, we commenced an exchange offer, which provided holders of our 3.2% senior notes the opportunity to exchange their unregistered notes for registered notes with substantially identical terms without the existing transfer restrictions. The offer closed in May 2012 with all notes exchanged. This exchange had no impact to our financial statements or cash flows.

We received proceeds of $39 million and $115 million in the six months ended June 30, 2012 and 2011, respectively, from the issuance of common stock through the exercise of stock options and the employee stock purchase plan.

Our Board of Directors has authorized a program to repurchase our common stock from time to time. In the six months ended June 30, 2012 and 2011, we did not repurchase any shares of common stock. At June 30, 2012, we had authorization remaining to repurchase approximately $1.2 billion in common stock.

We paid dividends of $131 million and $130 million in the six months ended June 30, 2012 and 2011, respectively.

Available Credit Facility

We have a $2.5 billion committed revolving credit facility with commercial banks that matures in September 2016, and at June 30, 2012, we were in compliance with all of the facility’s covenants. There were no direct borrowings under the committed credit facility during the quarter ended June 30, 2012. We also have an outstanding commercial paper program under which we may issue from time to time up to $2.5 billion in commercial paper with maturity of no more than 270 days. The maximum combined borrowing at any point in time under both the commercial paper program and the credit facility is $2.5 billion. At June 30, 2012, we had $1.09 billion of commercial paper outstanding.

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 facility.

We believe our current credit ratings would allow us to obtain additional financing over and above our existing credit facility for any currently unforeseen significant needs or growth opportunities. We also believe that such additional financing could be funded with subsequent issuances of long-term debt or equity, if necessary.

Cash Requirements

In 2012, we believe cash on hand, commercial paper borrowings, 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 support the development of our short-term and long-term operating strategies.

In 2012, we expect our capital expenditures to be between approximately $2.7 billion to $2.9 billion, 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 based on future activity of our customers. We will manage our capital expenditures to match market demand. In 2012, we also expect to make interest payments of between $225 million and $240 million, based on debt levels as of June 30, 2012. We anticipate making income tax payments of between $1.2 billion and $1.3 billion in 2012.

We may repurchase our common stock depending on market conditions, applicable legal requirements, our liquidity and other considerations. We anticipate paying dividends of between $259 million and $269 million in 2012; however, the Board of Directors can change the dividend policy at any time.

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. In 2012, we expect to contribute between $92 million and $102 million to our defined benefit pension plans. In 2012, we also expect to make benefit payments related to postretirement welfare plans of between $16 million and $18 million, and we estimate we will contribute between $240 million and $266 million to our defined contribution plans.

New Accounting Standards Updates

In June 2011, the Financial Accounting Standards Board (“FASB”) issued an update to Accounting Standards Codification (“ASC”) 220, *Comprehensive Income*. This Accounting Standards Update (“ASU”) requires entities to present components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements that would include reclassification adjustments by component for items that are reclassified from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued an update to this ASU indefinitely deferring the implementation of the reclassification adjustments by component requirement of the ASU issued in June 2011. We adopted the new presentation requirement in the first quarter of 2012. We elected the two-statement approach presenting other comprehensive income in a separate statement immediately following the unaudited consolidated condensed statement of income.

In September 2011, the FASB issued an update to ASC 350, *Intangibles - Goodwill and Other.* This ASU amends the guidance in ASC 350-20 on testing for goodwill impairment. The revised guidance allows entities testing for goodwill impairment to have the option of performing a qualitative assessment before calculating the fair value of the reporting unit. The ASU does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test annually for impairment. The ASU is limited to goodwill and does not amend the annual requirement for testing other indefinite-lived intangible assets for impairment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this ASU effective January 1, 2012, with no impact to our unaudited consolidated condensed financial statements.

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 transaction 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, strategies for our operations, impact of any common stock repurchases, 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 2011 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 System (“EDGAR”) at http://www.sec.gov.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risks for the six months ended June 30, 2012, does not differ materially from that discussed under Part II, Item 7(a), “Quantitative and Qualitative Disclosures About Market Risk,” in our 2011 Annual Report on Form 10-K.

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 June 30, 2012, our disclosure controls and procedures, as defined by Rule 13a-15(e) of the Exchange Act, are effective at a reasonable assurance level. There has been no change in our internal controls over financial reporting during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See a further discussion of legal matters in Note 9 of Notes to Unaudited Consolidated Condensed Financial Statements.

For additional discussion of legal proceedings see also, Item 3 of Part I of our 2011 Annual Report, Note 13 of the Notes to Consolidated Financial Statements included in Item 8 of our 2011 Annual Report and Item 1 of Part II of our Form 10-Q for the quarter ended March 31, 2012.

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" in the 2011 Annual Report.

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 June 30, 2012.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of a Publicly Announced Program (2)	Average Price Paid Per Share (2)	Total Number of Shares Purchased in the Aggregate	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program (3)
April 1-30, 2012	31,615	$ 41.67	—	$ —	31,615	$ —
May 1-31, 2012	2,093	43.85	—	—	2,093	—
June 1-30, 2012	—	—	—	—	—	—
Total	33,708	$ 41.81	—	$ —	33,708	$ 1,197,127,803

(1) Represents shares purchased from employees to pay the option exercise price related to stock-for-stock exchanges in option exercises or to satisfy the tax withholding obligations in connection with the vesting of restricted stock awards and restricted stock units.
(2) There were no share repurchases during the three months ended June 30, 2012 as part of a publicly announced program.
(3) Our Board of Directors has authorized a program to repurchase our common stock from time to time. During the three months ended June 30, 2012, we did not repurchase any shares of our common stock under the program. We had authorization remaining to repurchase up to a total of approximately $1.2 billion of our common stock.

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

On July 16, 2012, the Board of Directors of the Company approved a form of Change in Control Agreement to be used for all newly hired eligible executive officers, which is filed as Exhibit 10.1 to this quarterly report.

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. Exhibits designated with a "+" are identified as management contracts or compensatory plans or arrangements. Exhibits previously filed as indicated below are incorporated by reference.

3.1	Restated Bylaws of Baker Hughes Incorporated effective as of May 21, 2012 (filed as Exhibit 3.1 to Current Report of Baker Hughes Incorporated on Form 8-K filed May 21, 2012).
10.1* +	Form of Change in Control Agreement between Baker Hughes Incorporated and certain of its executive officers effective July 16, 2012.
31.1*	Certification of Martin S. Craighead, President and Chief Executive Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Peter A. Ragauss, Chief Financial Officer, furnished pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32*	Statement of Martin S. Craighead, President and Chief Executive Officer, and Peter A. Ragauss, 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: July 26, 2012	By:	/s/ PETER A. RAGAUSS
		Peter A. Ragauss
		Senior Vice President and Chief Financial Officer
Date: July 26, 2012	By:	/s/ ALAN J. KEIFER
		Alan J. Keifer
		Vice President and Controller

CHANGE IN CONTROL AGREEMENT

THIS AGREEMENT (this “*Agreement*”) is entered into by and between BAKER HUGHES INCORPORATED, a Delaware corporation (the "*Company*"), and ____________(the"*Executive*") effective as of .

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continued employment of key management personnel; and

WHEREAS, the Company recognizes that, as is the case with many publicly-held corporations, the possibility of a change in control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Company has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Definitions and Interpretation Rules.

1.1 Defined Terms. For purposes of this Agreement, the following terms shall have the meanings indicated below:

“*Affiliate***”** means any entity which is a member of (i) the same controlled group of corporations within the meaning of section 414(b) of the Code with Baker Hughes, (ii) a trade or business (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code) with Baker Hughes or (iii) an affiliated service group (within the meaning of section 414(m) of the Code) with Baker Hughes.

“*Annual Incentive Plan***”** means the Baker Hughes Incorporated Annual Incentive Compensation Plan, as amended and/or restated from time to time, any guidelines issued pursuant to such plan, and any other annual incentive bonus plans adopted by the Company from time to time which are in replacement of such plan.

“*Assets***”** means assets of any kind owned by Baker Hughes, including but not limited to securities of Baker Hughes' direct and indirect subsidiaries and Affiliates.

“*Baker Hughes***”** means Baker Hughes Incorporated, a Delaware corporation, and any successor by merger or otherwise.

“*Base Compensation***”** means the Executive's base salary or wages (as defined in section 3401(a) of the Code for purposes of federal income tax withholding) from the Company, modified by *including* any portion thereof that such Executive could have received in cash in lieu of any elective deferrals made by the Executive pursuant to the Supplemental Retirement Plan (other than deferrals of bonuses) or pursuant to a qualified cash or deferred arrangement described in section 401(k) of the Code and any elective contributions under a cafeteria plan described in section 125 of the Code, and modified further by *excluding* any bonus, incentive compensation (including but not limited to equity-based compensation), commissions, expense reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation (other than elective deferrals by the Executive under a qualified cash or deferred arrangement described in section 401(k) of the Code or the Supplemental Retirement Plan that are expressly included in "*Base Compensation*" under the foregoing provisions of this definition), welfare benefits as defined in ERISA, overtime pay, special performance compensation amounts and severance compensation.

"*Beneficial Owner***"** or "*Beneficial Ownership*" shall have the meaning ascribed to those terms in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

"*Board***"** means the Board of Directors of Baker Hughes or other governing body of Baker Hughes or its direct or indirect parent.

"*Bonus Amount***"** means the sum of (a) the amount of the annual incentive bonus, if any, paid in cash by the Company under the Annual Incentive Plan to or for the benefit of the Executive for services rendered or labor performed during a fiscal year of the Company and (b) the amount of the discretionary bonus or other bonus paid outside of the Annual Incentive Plan, if any, paid in cash by the Company to or for the benefit of the Executive for services rendered or labor performed during the same fiscal year of the Company. The Executive's Bonus Amount shall be determined by including any portion thereof that such Executive could have received in cash in lieu of (i) any elective deferrals made by such Executive pursuant to the Supplemental Retirement Plan or (ii) elective contributions made on such Executive's behalf by the Company pursuant to a qualified cash or deferred arrangement (as defined in section 401(k) of the Code) or pursuant to a plan maintained under section 125 of the Code.

"*Cause***"** means (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by the Board (or by a delegate appointed by the Board), which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company or any of its Affiliates, monetarily or otherwise. For purposes of Sections (i) and (ii) of this definition, (A) no act, or failure to act, on the Executive's part shall be deemed "willful" if done, or omitted to be done, by the Executive in good faith and with reasonable belief that the act, or failure to act, was in the best interest of the Company and (B) in the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists.

"*Change in Control***"** means the occurrence of any of the following events:

(a) the individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Board;

(b) the consummation of a Merger of Baker Hughes or an Affiliate of Baker Hughes with another Entity, unless the individuals and Entities who were the Beneficial Owners of the Voting Securities of Baker Hughes outstanding immediately prior to such Merger own, directly or indirectly, at least fifty percent (50%) of the combined voting power of the Voting Securities of any of Baker Hughes, the surviving Entity or the parent of the surviving Entity outstanding immediately after such Merger;

(c) any Person, other than a Specified Owner, becomes a Beneficial Owner, directly or indirectly, of securities of Baker Hughes representing thirty percent (30%) or more of the combined voting power of Baker Hughes' then outstanding Voting Securities;

(d) a sale, transfer, lease or other disposition of all or substantially all of Baker Hughes' Assets is consummated (an "*Asset Sale*"), *unless*:

(1) the individuals and Entities who were the Beneficial Owners of the Voting Securities of Baker Hughes immediately prior to such Asset Sale own, directly or indirectly, 50 percent or more of the combined voting power of the Voting Securities of the Entity that acquires such Assets in such Asset Sale or its parent immediately after such Asset Sale in substantially the same proportions as their ownership of Baker Hughes' Voting Securities immediately prior to such Asset Sale; or

(2) the individuals who comprise the Board immediately prior to such Asset Sale constitute a majority of the board of directors or other governing body of either the Entity that acquired such Assets in such Asset Sale or its parent (or a majority plus one member where such board or other governing body is comprised of an odd number of directors); or

(e) The stockholders of Baker Hughes approve a plan of complete liquidation or dissolution of Baker Hughes.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any successor act.

"*Committee*" means, prior to a Change in Control, the Compensation Committee of the Board. After a Change in Control, "*Committee*" means (i) the individuals (not fewer than three (3) in number) who, on the date six (6) months prior to the Change in Control constitute the Compensation Committee of the Board, plus, (ii) in the event that fewer than three (3) individuals are available from the group specified in clause (i) above for any reason, such individuals as may be appointed by the individual or individuals so available (including for this purpose any individual or individuals previously so appointed under this clause (ii)); *provided*, *however*, that the maximum number of individuals constituting the Committee after a Change in Control shall not exceed six (6).

"*Company*" means Baker Hughes. In the event that the Executive's employer is a subsidiary of Baker Hughes, the term "Company" shall include the Executive's employer where appropriate and Baker Hughes will cause the Executive's employer to take any actions necessary to satisfy the obligations of the Company under this Agreement.

"*Disability*" means the Executive's incapacity due to physical or mental illness that has caused the Executive to be absent from full-time performance of his duties with the Company for a period of six (6) consecutive months.

"*Effective Date*" means the date identified in the introduction of this Agreement.

"*Employment Termination Date*" means the date as of which the Executive incurs a Termination of Employment determined in accordance with the provisions of Section 5.2.

"*Entity*" means any corporation, partnership, association, joint-stock company, limited liability company, trust, unincorporated organization or other business entity.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended, or any successor act.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, or any successor act.

“Executive” means the employee identified in the introduction of this Agreement.

“Expiration Date” shall have the meaning specified in Section 2.

“Good Reason” for termination by the Executive of his employment means the occurrence (without the Executive's express written consent) after any Change in Control, of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in paragraph (a), (e), (f) or (g) below, such act or failure to act is corrected prior to the effective date of the Executive's termination for Good Reason:

(a) the assignment to the Executive of any duties or responsibilities which are substantially diminished as compared to the Executive's duties and responsibilities immediately prior to a Change in Control or a material change in the Executive's reporting responsibilities, titles or offices as an executive and as in effect immediately prior to the Change in Control;

(b) a reduction by the Company in the Executive's annual Base Compensation as in effect on the date hereof or as the same may be increased from time to time, except for across-the-board salary reductions similarly affecting all individuals having a similar level of authority and responsibility with the Company and all individuals having a similar level of authority and responsibility with any Person in control of the Company;

(c) the relocation of the Executive's principal place of employment to a location outside of a 50-mile radius from the Executive's principal place of employment immediately prior to the Change in Control or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's business travel obligations immediately prior to a Change in Control;

(d) the failure by the Company to pay to the Executive any portion of the Executive's current compensation except pursuant to an across-the-board compensation deferral similarly affecting all individuals having a similar level of authority and responsibility with the Company and all individuals having a similar level of authority and responsibility with any Person in control of the Company, or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;

(e) the failure by the Company to continue in effect any compensation plan in which the Executive participates immediately prior to the Change in Control which is material to the Executive's total compensation, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other Baker Hughes executives, as existed immediately prior to the Change in Control;

(f) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, health and accident, or disability plans in which the Executive was participating immediately prior to the Change in Control (except for across the board changes similarly affecting all individuals having a similar level of authority and responsibility with the Company and all individuals having a similar level of authority and responsibility with any Person in control of the Company), the taking of any other action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit or Perquisite enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect immediately prior to the time of the Change in Control; or

(g) any purported termination of the Executive's employment which is not effected pursuant to a notice of termination satisfying the requirements of Section 5.1.

The Executive shall have the right to terminate his employment for Good Reason even if he becomes incapacitated due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of any rights with respect to, any act or failure to act constituting Good Reason hereunder.

For purposes of any determination regarding the existence of Good Reason, any claim by the Executive that Good Reason exists shall be presumed to be correct unless the Company establishes to the Committee by clear and convincing evidence that Good Reason does not exist. The Committee's determination regarding the existence of Good Reason shall be conclusive and binding upon all parties unless the Committee's determination is arbitrary and capricious.

"*Highest Base Compensation***"** means the Executive's annualized Base Compensation in effect immediately prior to (a) a Change in Control, (b) the first event or circumstance constituting Good Reason, or (c) the Executive's Termination of Employment, whichever is greatest.

"Highest Bonus Amount" means the average of the three highest Bonus Amounts received by the Executive with respect to the five fiscal years of the Company immediately preceding the Executive's Employment Termination Date.

*"Incumbent Director***"** means -

(a) a member of the Board on the Effective Date; or

(b) an individual-

(1) who becomes a member of the Board after the Effective Date;

(2) whose appointment or election by the Board or nomination for election by Baker Hughes' stockholders is approved or recommended by a vote of at least two-thirds of the then serving *Incumbent Directors* (as defined herein); and

(3) whose initial assumption of service on the Board is not in connection with an actual or threatened election contest.

"Interest Amount" has the meaning specified in Section 3.3(i).

"*Merger***"** means a merger, consolidation or similar transaction.

"*Pension Plan***"** means the Baker Hughes Incorporated Pension Plan, as amended from time to time.

“*Person*” shall have the meaning ascribed to the term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof, except that the term shall not include (a) the Company or any of its Affiliates, (b) a trustee or other fiduciary holding Company securities under an employee benefit plan of the Company or any of its Affiliates, (c) an underwriter temporarily holding securities pursuant to an offering of those securities or (d) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

“*Renewal Date*” shall have the meaning specified in Section 2.

“*Section 409A*” means section 409A of the Code and the regulations issued by the IRS and the Department of Treasury thereunder.

“*Separation From Service*” shall have the meaning specified in Section 409A.

“*Specified Employee*” means a person who is, as of the date of the person's Separation From Service a “specified employee” within the meaning of Section 409A, taking into account the elections made and procedures established in resolutions adopted by the Administrative Committee of Baker Hughes.

“*Specified Owner*” means any of the following:

(a) Baker Hughes;

(b) an Affiliate of Baker Hughes;

(c) an employee benefit plan (or related trust) sponsored or maintained by Baker Hughes or any Affiliate of Baker Hughes;

(d) a Person that becomes a Beneficial Owner of Baker Hughes' outstanding Voting Securities representing 30 percent or more of the combined voting power of Baker Hughes' then outstanding Voting Securities as a result of the acquisition of securities directly from Baker Hughes and/or its Affiliates; or

(e) a Person that becomes a Beneficial Owner of Baker Hughes' outstanding Voting Securities representing 30 percent or more of the combined voting power of Baker Hughes' then outstanding Voting Securities as a result of a Merger if the individuals and Entities who were the Beneficial Owners of the Voting Securities of Baker Hughes outstanding immediately prior to such Merger own, directly or indirectly, at least 50 percent of the combined voting power of the Voting Securities of any of Baker Hughes, the surviving Entity or the parent of the surviving Entity outstanding immediately after such Merger in substantially the same proportions as their ownership of the Voting Securities of Baker Hughes outstanding immediately prior to such Merger.

“*Supplemental Retirement Plan*” means the Baker Hughes Incorporated Supplemental Retirement Plan, as amended from time to time.

“*Termination of Employment*” means the termination of the Executive's employment relationship with the Company (a) by the Company without Cause after a Change in Control occurs, or (b) by the Executive for Good Reason after a Change in Control occurs.

For purposes of this definition, the Executive's employment shall be deemed to have been terminated after a Change in Control, if (a) the Executive's employment is terminated by the Company without Cause prior to a Change in Control (whether or not a Change in Control ever occurs) and such termination was at the request or direction of a Person who has entered into an agreement with the Company, the consummation of which would constitute a Change in Control; (b) the Executive terminates his employment for Good Reason prior to a Change in Control (whether or not a Change in Control ever occurs) and the circumstance or event which constitutes Good Reason occurs at the request or direction of a Person who has entered into an agreement with the Company, the consummation of which would constitute a Change in Control; or (c) the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason and such termination or the circumstance or event which constitutes Good Reason is otherwise in connection with or in anticipation of a Change in Control (whether or not a Change in Control ever occurs). For purposes of any determination regarding the applicability of the immediately preceding sentence, any position taken by the Executive shall be presumed to be correct unless the Company establishes to the Committee by clear and convincing evidence that such position is not correct.

"Termination of Employment" does not include (a) a termination of employment due to the Executive's death or Disability, or (b) a termination of employment by the Executive without Good Reason.

"Thrift Plan" means the Baker Hughes Incorporated Thrift Plan, as amended from time to time.

"Voting Securities" means the outstanding securities entitled to vote generally in the election of directors or other governing body.

1.2 Number and Gender. As used in this Agreement, unless the context otherwise expressly requires to the contrary, references to the singular include the plural, and vice versa; references to the masculine include the feminine and neuter; references to "including" mean "including (without limitation)"; and references to Sections and clauses mean the sections and clauses of this Agreement.

2. Term of Agreement.

2.1 The "*Term*" of this Agreement shall commence on the Effective Date and end on (a) the last day of the three-year period beginning on the Effective Date if no Change in Control shall have occurred during that three-year period (such last day being the "*Expiration Date*"); or (b) if a Change in Control shall have occurred during (i) the three-year period beginning on the Effective Date or (ii) any period for which the Term of this Agreement shall have been automatically extended pursuant Section 2.2, the last day of the two-year period beginning on the date on which the Change in Control occurred.

2.2 After the expiration of the time period described in subsection (a) of Section 2.1, and in the absence of a Change in Control (as described in subsection (b) of Section 2.1) the "Term" of this Agreement shall be automatically extended for successive two-year periods beginning on the day immediately following the Expiration Date (the beginning date of each successive two-year period being a "*Renewal Date*"), unless, not later than 18 months prior to the Expiration Date or applicable Renewal Date, the Company shall give notice to Executive that the Term of this Agreement will not be extended.

3. Compensation Other Than Severance Payments.

3.1 Equity Based Compensation. Upon the occurrence of a Change in Control, all options to acquire Baker Hughes stock, all shares of restricted Baker Hughes stock, and all stock appreciation rights the value of which is determined by reference to or based upon the value of Baker Hughes stock, held by the Executive under any plan of the Company shall become immediately vested, exercisable and nonforfeitable and all conditions thereof (including, but not limited to, any required holding periods) shall be deemed to have been satisfied. The effect, if any, of a Change in Control on any other equity incentives and other awards the value of which is determined by reference to or based upon the value of Baker Hughes stock shall be determined in accordance with the terms of the applicable award agreement and any terms and conditions issued by the Compensation Committee of the Board that are applicable to the award.

3.2 Compensation and Benefits During Incapacity and Prior to Termination of Employment. Following a Change in Control and during the Term of this Agreement, for any period during which the Executive fails to perform the Executive's full-time duties with the Company as a result of incapacity due to physical or mental illness, the Company shall pay to the Executive, at the time specified in Section 4, the Executive's full salary at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period, until the Executive's employment is terminated by the Company for Disability.

3.3 Benefits Following Termination of Employment. If the Executive incurs a Termination of Employment during the Term of this Agreement, the Company shall provide the Executive the benefits described below.

(a) Severance Payment. The Company will pay the Executive a cash severance benefit in an amount equal to the product of three times the sum of (i) an amount equal to the Executive's Highest Base Compensation plus (ii) the greater of (A) the Executive's Highest Bonus Amount or (B) an amount equal to _______ percent (____%) of the Executive's Highest Base Compensation. The Executive's severance payment under this paragraph (a) will be paid in accordance with the provisions of Section 4.

(b) Prorated Bonus. The Company will pay the Executive a cash severance benefit in an amount equal to the product of (A) the Executive's Highest Bonus Amount and (B) a fraction, the numerator of which is the number of days in the Company's fiscal year in which occurs the Executive's Employment Termination Date through the Executive's Employment Termination Date and the denominator of which is three hundred sixty-five (365). However, if the Executive's Employment Termination Date occurs during the same calendar year in which a Change in Control occurs, the pro-rata bonus payment described in the preceding sentence shall be offset by any payments received by the Executive under the Baker Hughes Incorporated Annual Incentive Compensation Plan (as amended and/or restated) in connection with the Change in Control. The Executive's severance payment under this paragraph (b) will be paid in accordance with the provisions of Section 4.

(c) Outplacement. The Company will pay the Executive a cash payment in the amount of $30,000.00. Such cash payment will be paid in accordance with the provisions of Section 4.

(d) Pension, Thrift and Supplemental Retirement Plans. In addition to the retirement benefits to which the Executive is entitled under the Thrift Plan, the Pension Plan and the Supplemental Retirement Plan, the Company shall pay the Executive a single sum cash payment in an amount equal to the undiscounted value of (A) the employer-provided accruals under the Pension Plan that the Executive would have earned and (B) the employer contributions the Company would have made to the Thrift Plan and the Supplemental Retirement Plan (including but not limited to matching and base contributions) on behalf of the Executive had the Executive continued in the employ of the Company for a period of three years after the Employment Termination Date, assuming for this purpose that (i) the Executive's earned compensation per year during that three year period of time is the sum of (1) the Executive's Highest Base Compensation and (2) the Executive's Highest Bonus Amount; and (ii) contribution, deferral, credit and accrual percentages made under the Pension Plan, the Thrift Plan and the Supplemental Retirement Plan, by and on behalf of the Executive during the three year period, are the same percentages in effect on the date of the Change in Control or the Executive's Employment Termination Date, whichever is more favorable for the Executive. The payment required under this paragraph (d) will be made in accordance with the provisions of Section 4.

(e) Accident and Health Insurance Benefits. For three years following the Executive's Employment Termination Date (the "*Continuation Period*"), the Company shall arrange to provide the Executive and his dependents accident and health insurance benefits, in each case, substantially similar to those provided to the Executive and his dependents immediately prior to the Employment Termination Date or, if more favorable to the Executive, those provided to the Executive and his dependents immediately prior to the first occurrence of an event or circumstance constituting Good Reason, at no greater cost to the Executive than the cost to the Executive immediately prior to such date or occurrence. Benefits otherwise receivable by the Executive pursuant to this Section 3.3(e) shall be reduced to the extent benefits of the same type are received by the Executive during the Continuation Period (and any such benefits received by the Executive shall be reported to the Company by the Executive). To the extent that the accident or health insurance benefits specified in this Section 3.3(e) are not provided through an arrangement that is fully insured by a third party the following provisions shall apply to the reimbursement of such benefits. The amount of accident and health insurance expenses eligible for reimbursement during Executive's taxable year will not affect the expenses eligible for reimbursement in any other taxable year (with the exception of applicable lifetime maximums specified in the plans). The Executive's right to reimbursement is not subject to liquidation or exchange for another benefit. To the extent that the benefits provided to the Executive pursuant to this Section 3.3(e) are taxable to the Executive and not otherwise exempt from Section 409A, any amounts to which the Executive would otherwise be entitled under this Section 3.3(e) during the first six months following the date of the Executive's Separation From Service shall be accumulated and paid to the Executive on the date that is six months following the date of his Separation From Service.

(f) Life Insurance. The Executive shall be entitled to a single sum cash payment in an amount equivalent to thirty-six (36) monthly basic life insurance premiums applicable to the Executive's basic life insurance coverage on his Employment Termination Date. The single sum cash payment will be made in accordance with the provisions of Section 4. The Executive may, at his option, convert his basic life insurance coverage to an individual policy after his Employment Termination Date by completing the forms required by the Company.

(g) Retiree Medical. If the Executive would have become entitled to benefits under the Company's post-retirement health care insurance plans, as in effect immediately prior to the Employment Termination Date or, if more favorable to the Executive as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, had the Executive's employment terminated at any time during the period of thirty-six (36) months after the Employment Termination Date, the Company shall provide such post-retirement health care insurance benefits to the Executive and the Executive's dependents commencing on the later of (i) the date on which such coverage would have first become available and (ii) the date on which the applicable benefits described in paragraph (e) of this Section 3.3 terminate. Except for any reimbursements under the applicable group health plan that are subject to a limitation on reimbursements during a specified period, the amount of expenses eligible for reimbursement under this Section 3.3(g), or in-kind benefits provided, during the Executive's taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year of the Executive. The Executive's right to reimbursement or in-kind benefits pursuant to this Section 3.3(g) shall not be subject to liquidation or exchange for another benefit. To the extent that the benefits provided to the Executive pursuant to this Section 3.3(g) are taxable to the Executive and are not otherwise exempt from Section 409A, any amounts to which the Executive would otherwise be entitled under this Section 3.3(g) during the first six months following the date of the Executive's Separation From Service shall be accumulated and paid to the Executive on the date that is six months following the date of his Separation From Service.

(h) Interest Amount. If the Executive is a Specified Employee, the Company shall pay to the Executive, on the date that is six (6) months following the Executive's Separation From Service, an amount equal to the amount of interest that would be earned on the amounts specified in Sections 3.3(a), 3.3(b), 3.3(c), 3.3(d) and 3.3(f) and, to the extent subject to a mandatory six-month delay in payment, the amounts specified in Sections 3(e), 3(g) and 3.5, for the period commencing on the date of the Executive's Separation From Service until the date of payment of such amounts, calculated using an interest rate equal to the six month London Interbank Offered Rate in effect on the date of the Executive's Separation From Service plus two percentage points (the *"Interest Amount"*).

3.4 Legal Fees. The Company shall pay all legal fees and expenses incurred by the Executive (i) in disputing in good faith any issue relating to the Executive's termination of employment, or (ii) in seeking in good faith to obtain or enforce any benefit or right provided under this Agreement in accordance with Section 11.5. Such payments shall be made within ten (10) business days after the delivery of the Executive's written request for the payment accompanied by such evidence of fees and expenses incurred as the Company may reasonably require. The Company shall pay the Executive all legal fees and expenses incurred by the Executive in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit under this Agreement. Such payments shall be made within ten (10) business days after delivery of the Executive's written request for payment accompanied with such evidence of fees and expenses incurred as the Company may reasonably require. The parties intend and agree that the foregoing ten (10) business day deadline is not to be extended as a result of the following sentence which is included solely for the purpose of complying with Section 409A. The Company shall make a payment to reimburse the Executive in an amount equal to all legal fees and expenses incurred due to a tax audit or litigation relating to the application of section 4999 of the Code to any payment or benefit under this Agreement by the end of the Executive's taxable year following the Executive's taxable year in which the taxes that are the subject of the audit or litigation are remitted to the taxing authority, or where as a result of such audit or litigation no taxes are remitted, by the end of the Executive's taxable year following the Executive's taxable year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation. The legal fees or expenses that are subject to reimbursement pursuant to this Section 3.5 shall not be limited as a result of when the fees or expenses are incurred. The amount of legal fees or expenses that is eligible for reimbursement pursuant to this Section 3.5 during a given taxable year of the Executive shall not affect the amount of expenses eligible for reimbursement in any other taxable year of the Executive. The right to reimbursement pursuant to this Section 3.5 is not subject to liquidation or exchange for another benefit. Notwithstanding any provision of this Agreement to the contrary, if the Executive is a Specified Employee, any amount to which the Executive would otherwise be entitled under this Section 3.5 during the first six months following the date of the Executive's Separation From Service shall be accumulated and paid to the Executive on the date that is six months following the date of his Separation From Service.

4. Time of Benefits Payments. The Company shall pay the Executive any cash benefits described in paragraphs (a), (b), (c), (d) and (f) of Section 3.3 in a single sum cash payment on the date that is six (6) months following the date of the Executive's Separation From Service if he is a Specified Employee or ten (10) days following his Separation From Service if he is not a Specified Employee. Any salary or compensation described in Section 3.2 or 5.4 for periods prior to the Executive's Separation From Service shall be paid to the Executive by the Company on the regularly scheduled payroll dates or on the dates specified in the applicable benefit programs. Any unpaid salary described in Section 3.2 or Section 5.4 for periods following the Executive's Separation From Service shall be paid to the Executive by the Company in a single sum cash payment on the date that is six (6) months following the date of the Executive's Separation From Service if he is a Specified Employee or ten (10) days following his Separation From Service if he is not a Specified Employee.

5. Termination Procedures And Compensation During Dispute.

5.1 Notice of Termination. After a Change in Control and during the Term of this Agreement, any purported termination of the Executive's employment by the Company shall be communicated by the Company by a written Notice of Termination to the Executive in accordance with Section 11.8. For purposes of this Agreement, a "*Notice of Termination*" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail. No purported termination of the Executive's employment by the Company after a Change in Control and during the Term of this Agreement shall be effective unless the Company complies with the procedures set forth in this Section.

5.2 Employment Termination Date. "*Employment Termination Date*," with respect to any purported termination of the Executive's employment after a Change in Control and during the Term of this Agreement, shall mean (i) if the Executive's employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the full-time performance of the Executive's duties during such thirty (30) day period), and (ii) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days (except in the case of a termination for Cause) and, in the case of a termination by the Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

5.3 Dispute Concerning Termination. If within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Employment Termination Date (as determined without regard to this Section), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Employment Termination Date shall be extended until the earlier of (i) the date on which the Term of this Agreement ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Employment Termination Date shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence.

5.4 Compensation During Dispute. If a purported termination of employment occurs following a Change in Control and during the Term of this Agreement and the Employment Termination Date is extended in accordance with Section 5.3, the Company shall pay the Executive, at the time specified in Section 4, the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given or those plans in which the Executive was participating immediately prior to the first occurrence of an event or circumstance giving rise to the Notice of Termination, if more favorable to the Executive, until the Employment Termination Date, as determined in accordance with Section 5.3. Amounts paid under this Section are in addition to all other amounts due under this Agreement (other than those due under Section 3.2) and shall not be offset against or reduce any other amounts due under this Agreement.

6. Withholding. The Company may withhold from any benefits paid under this Agreement all income, employment, and other taxes required to be withheld under applicable law.

7. Death of the Executive. If the Executive dies after his Employment Termination Date but before the Executive receives full payment of the benefits to which he is entitled, any unpaid benefits will be paid to the Executive's surviving spouse, or if the Executive does not have a surviving spouse, to the Executive's estate.

8. Amendment. This Agreement may not be amended except pursuant to a written instrument that is authorized by the Committee and agreed to in writing and signed by the Executive.

9. Disputed Payments And Failures To Pay. If the Company fails to make a payment in whole or in part as of the payment deadline specified in this Agreement, either intentionally or unintentionally, other than with the consent of the Executive, the Executive shall make prompt and reasonable good faith efforts to collect the remaining portion of the payment. The Company shall pay any such unpaid benefits due to the Executive, together with interest on the unpaid benefits from the date of the payment deadline specified in this Agreement at the annual rate of 120 percent of the rate specified in section 1274(b)(2)(B) of the Code within ten (10) business days of discovering that the additional monies are due and payable.

10. Funding. The Executive shall have no right, title, or interest whatsoever in or to any assets of the Company or any investments which the Company may make to aid it in meeting its obligations under this Agreement. The Executive's right to receive payments under this Agreement shall be no greater than the right of an unsecured general creditor of the Company. Immediately prior to a Change in Control, the Company shall create an irrevocable grantor trust (the "*Rabbi Trust*") which shall be subject to the claims of creditors of the Company. In the event that the Executive is a Specified Employee at the time he incurs a Separation From Service or at the time the Company determines that it is reasonably likely that the Executive will incur a Separation From Service in connection with a Change in Control, then immediately upon the Executive's Separation From Service or, if earlier, the date on which the Company makes a determination that the Executive is reasonably likely to incur a Separation From Service in connection with a Change in Control, the Company shall transfer to the Rabbi Trust cash sufficient (on an undiscounted basis) to pay the cash amounts specified in Section 3.3, and the Interest Amount. The cash amounts specified in Section 3.3 and the Interest Amount shall be paid from the Rabbi Trust on the dates specified in Sections 3.3(i) and 4 herein, provided that the Company shall remain liable to pay any such amounts which for any reason are not paid from the Rabbi Trust. The trustee of the Rabbi Trust shall be a bank or trust company selected by the Company prior to the Change in Control.

11. Certain Tax Matters.

(a) Notwithstanding any other provision of this Agreement or any benefit program or other agreement to the contrary, if any payment or benefit by or from the Company or any of its affiliates to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise would be subject to the Excise Tax (as hereinafter defined) (all such payments and benefits being collectively referred to herein as the "*Payments*"), then except as otherwise provided in Section 11(b), the Payments shall be reduced (but not below zero) or eliminated (as further provided for in Section 11(c)) to the extent the Independent Tax Advisor (as hereinafter defined) shall reasonably determine is necessary so that no portion of the Payments shall be subject to the Excise Tax.

(b) Notwithstanding the provisions of Section 11(a), if the Independent Tax Advisor reasonably determines that Executive would receive, in the aggregate, a greater amount of the Payments on an after-tax basis (including all applicable federal, state, and local income, employment and other applicable taxes and the Excise Tax) if the Payments were not reduced or eliminated pursuant to Section 11(a), then no such reduction shall be made notwithstanding that all or any portion of the Payments may be subject to the Excise Tax.

(c) For purposes of determining which of Section 11(a) and Section 11(b) shall be given effect, the determination of which Payments shall be reduced or eliminated to avoid the Excise Tax shall be made by the Independent Tax Advisor, provided that the Independent Tax Advisor shall reduce or eliminate, as the case may be, the Payments in the following order (and within the category described in each of the following clauses (1) through (5) of this Section 11(c), in reverse order beginning with the Payments which are to be paid farthest in time except as otherwise provided in Section 11(d):

(1) by first reducing or eliminating the portion of the Payment otherwise due under Section 3.3(c);

(2) then by reducing or eliminating the portion of the Payment otherwise due under Section 3.3(f);

(3) then by reducing or eliminating the portion of the Payment otherwise due under Section 3.3(h);

(4) then by reducing or eliminating the portion of the Payment otherwise due under Section 3.3(b);

(5) then by reducing or eliminating the portion of the Payment otherwise due under Section 3.3(a);

(6) then by reducing or eliminating the portion of the Payments otherwise due under Section 3.3(d);

(7) then by reducing or eliminating the portion of the Payments that represent performance unit awards, such reduction or elimination to be made in reverse chronological order with the most recent performance unit awards reduced first;

(8) then by reducing or eliminating the portion of the Payments that represent performance restricted stock awards, such reduction or elimination to be made in reverse chronological order with the most recent restricted stock awards reduced first;

(9) then by reducing or eliminating the portion of the Payments that represent stock options, such reduction or elimination to be made in reverse chronological order with the most recent stock options reduced first;

(10) then by reducing or eliminating the portion of the Payments that represent equity-based compensation not described above, such reduction or elimination to be made in reverse chronological order with the most recent such awards reduced first;

(11) then by reducing or eliminating the portion of the Payments otherwise due

under Section 3.3(e); and

(12) then by reducing or eliminating the portion of the Payments otherwise due under Section 3.3(g).

(d) The Independent Tax Advisor shall provide its determinations, together with detailed supporting calculations and documentation, to the Company and Executive for their review no later than ten (10) days after the Date of Termination. The determinations of the Independent Tax Advisor under this Section 11 shall, after due consideration of the Company's and Executive's comments with respect to such determinations and the interpretation and application of this Section 11, be final and binding on all parties hereto absent manifest error. The Company and Executive shall furnish to the Independent Tax Advisor such information and documents as the Independent Tax Advisor may reasonably request in order to make the determinations required under this Section 11.

(e) For purposes of this Section 11, "*Independent Tax Advisor*" shall mean a lawyer with a nationally recognized law firm, a certified public accountant with a nationally recognized accounting firm, or a compensation consultant with a nationally recognized actuarial and benefits consulting firm, in each case with expertise in the area of executive compensation tax law, who shall be selected by the Company and shall be acceptable to Executive (Executive's acceptance not to be unreasonably withheld), and all of whose fees and disbursements shall be paid by the Company.

(f) As used in this Agreement, the term "*Excise Tax*" means, collectively, the excise tax imposed by Section 4999 of the Code, together with any interest thereon, any penalties, additions to tax, or additional amounts with respect to such excise tax, and any interest in respect of such penalties, additions to tax or additional amounts.

12. Miscellaneous.

12.1 Agreement Not an Employment Contract. This Agreement is not an employment contract between the Company and Executive and gives Executive no right to retain his employment. This Agreement is not intended to interfere with the rights of the Company to terminate the Executive's employment at any time with or without notice and with or without cause or to interfere with the Executive's right to terminate his employment at any time.

12.2 Alienation Prohibited. No benefits hereunder shall be subject to anticipation or assignment by the Executive, to attachment by, interference with, or control of any creditor of the Executive, or to being taken or reached by any legal or equitable process in satisfaction of any debt or liability of the Executive prior to its actual receipt by the Executive. Any attempted conveyance, transfer, assignment, mortgage, pledge, or encumbrance of the benefits hereunder prior to payment thereof shall be void.

12.3 Severability. Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

12.4 Binding Effect. This Agreement shall be binding upon any successor of the Company. Further, the Board shall not authorize a Change in Control that is a merger or a sale transaction unless the purchaser or the Company's successor agrees to take such actions as are necessary to cause the Executive to be paid or provided all benefits due under the terms of this Agreement as in effect immediately prior to the Change in Control.

12.5 Settlement of Disputes Concerning Benefits Under this Agreement; Arbitration. All claims by Executive for benefits under this Agreement shall be directed to and determined by the Committee and shall be in writing. Any denial by the Committee of a claim for benefits under this Agreement shall be delivered to the Executive in writing within thirty (30) days after written notice of the claim is provided to the Company in accordance with Section 11.8 and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Committee shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Committee a decision of the Committee within sixty (60) days after notification by the Committee that the Executive's claim has been denied. Any further dispute or controversy arising out of or relating to this Agreement, including without limitation, any and all disputes, claims (whether in tort, contract, statutory or otherwise) or disagreements concerning the interpretation or application of the provisions of this Agreement shall be resolved by arbitration in accordance with the rules of the American Arbitration Association (the "*AAA*") then in effect. Within ten (10) business days of the initiation of an arbitration hereunder, the Company and the Executive will each separately designate an arbitrator, and within twenty (20) business days of selection, the appointed arbitrators will appoint a neutral arbitrator from the AAA Panel of Commercial Arbitrators. The arbitrators shall issue their written decision (including a statement of finding of facts) within thirty (30) days from the date of the close of the arbitration hearing. The decision of the arbitrators selected hereunder will be final and binding on both parties. 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 the Executive agree that a judgment of the United States District Court for the District in which the headquarters of Baker Hughes is located at the time of initiation of an arbitration hereunder may be entered upon the award made pursuant to the arbitration.

12.6 No Mitigation. The Company agrees that if the Executive's employment with the Company terminates during the Term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to this Agreement. Further, except as expressly provided otherwise herein, the amount of any payment or benefit provided for in this Agreement (other than Section 3.3(e)) shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

12.7 Other Amounts Due. Except as expressly provided otherwise herein, the payments and benefits provided for in this Agreement are in addition to and not in lieu of amounts and benefits that are earned by the Executive prior to his Termination of Employment. The Company shall pay the Executive any compensation earned through the Employment Termination Date but not previously paid the Executive. Further the Executive shall be entitled to any other amounts or benefits due the Executive in accordance with any contract, plan, program or policy of the Company or any of its Affiliates. Amounts that the Executive is entitled to receive under any plan, program, contract or policy of the Company or any of its Affiliates at or subsequent to the Executive's Termination of Employment shall be payable or otherwise provided in accordance with such plan, program, contract or policy, except as expressly modified herein. For the avoidance of doubt, the Executive's benefits under the Baker Hughes Incorporated Pension Plan and the Baker Hughes Incorporated Thrift Plan shall not be subject to a mandatory six-month delay in payment pursuant to Section 409A as such plans are exempt from Section 409A.

12.8 Notices. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be given in person or by United States registered mail, return receipt requested (with evidence of receipt by the party to whom the notice is given), postage prepaid, addressed, if to the Executive, to the address listed on the signature page of this Agreement and, if to the Company, to 2929 Allen Parkway, Suite 2100; Houston, Texas 77019; Attention: General Counsel, or to such other address as either party may have furnished to the other in writing in accordance herewith. For purposes of this agreement notice to a party shall be effective only upon actual receipt of the notice by the party with written evidence of receipt by the party to whom the notice is given.

12.9 <u>Governing Law</u>. All provisions of this Agreement shall be construed in accordance with the laws of Texas, except to the extent preempted by federal law and except to the extent that the conflicts of laws provisions of the State of Texas would require the application of the relevant law of another jurisdiction, in which event the relevant law of the State of Texas will nonetheless apply, with venue for litigation being in Houston, Texas.

12.10 <u>Compliance With Section 409A</u>**.** It is intended that this Agreement shall comply with Section 409A. The provisions of this Agreement shall be interpreted and administered in a manner that complies with Section 409A.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date above first written.

BAKER HUGHES INCORPORATED

By: ______________________________________

Martin S. Craighead
President and Chief Executive Officer

Date: _______________________________________

EXECUTIVE

By: ______________________________________

Address: ________________________________

____________________, Texas _____

Date: ____

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:	July 26, 2012	By:	/s/ Martin S. Craighead
			Martin S. Craighead
			President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Peter A. Ragauss, 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:	July 26, 2012	By:	/s/ Peter A. Ragauss
			Peter A. Ragauss
			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 June 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Martin S. Craighead, President and Chief Executive Officer of the Company, and Peter A. Ragauss, 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:	President and Chief Executive Officer
Date:	July 26, 2012

	/s/ Peter A. Ragauss
Name:	Peter A. Ragauss
Title:	Chief Financial Officer
Date:	July 26, 2012

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 June 30, 2012. 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 June 30, 2012

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 (2) (3)	2	0	0	0	0	$ 1,199	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 June 30, 2012, 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.

(2) Amount includes one Section 104 S&S citation issued to an independent contractor (who is not a subsidiary of Baker Hughes) who is working at the Argenta Mine and Mill.

(3) Assessment proposed by MSHA relates to citations and orders issued during the three months ended March 31, 2012, to independent contractors (who are not subsidiaries of Baker Hughes) who are working at the Argenta Mine and Mill. As of June 30, 2012, MSHA had not yet proposed assessments on some citations relating to this site.