ARGAN INC
Form DEF 14A
June 05, 2007

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

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to 240.14a-12

ARGAN, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Argan, Inc.
One Church Street, Suite 401
Rockville, Maryland 20850

May 3, 2007

To Our Stockholders:

You are cordially invited to attend the Annual Meeting of Stockholders of Argan, Inc. (the "Company"), to be held on June 19, 2007 at 11:00 a.m. local time, at the offices of Allen & Company LLC located at 711 Fifth Avenue, 9th Floor, New York, New York 10022. Enclosed are the Secretary's notice of this meeting, a proxy statement and a form of proxy.

At the Annual Meeting, you will be asked to consider and vote upon the following proposals described in the enclosed proxy statement:

1. To elect seven directors to serve for a term ending at the 2008 Annual Meeting;

2. To amend the Company’s Certificate of Incorporation, as amended, to increase the number of authorized shares of the Company’s Common Stock $0.15 par value per share (the “Common Stock”), from 12,000,000 to 30,000,000.

3. To amend the Company’s 2001 Stock Option Plan to increase the total number of shares of Common Stock reserved for issuance under the Stock Option Plan to 650,000 shares;

4. To ratify the selection of Grant Thornton LLP as the Company’s independent registered public accountants for the fiscal year ending January 31, 2008; and

5. To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

As described in the enclosed materials, the Company’s Board of Directors has approved the matters included in these proposals and believes that they are fair to, and in the best interests of, the Company and its stockholders. The Board of Directors recommends a vote "FOR" each of the proposals.

Regardless of whether you plan to attend the Annual Meeting, your vote is important. I urge you to participate by promptly completing and returning the enclosed proxy card as soon as possible. You may revoke your proxy and vote in person if you decide to attend the Annual Meeting.

Sincerely,

Rainer H. Bosselmann
Chairman of the Board

IF YOU PLAN TO ATTEND, PLEASE CONTACT US

If you plan to attend the Annual Meeting on June 19, 2007, as a courtesy to the building management at 711 Fifth Avenue, we request that you call, fax or email your intentions so that we can notify the front desk of your attendance.

Please notify Arthur Trudel by phone at 301-315-0027, by fax at 301-315-0064, or by email at atrudeljr@arganinc.com .

Argan, Inc.
One Church Street, Suite 401
Rockville, Maryland 20850
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 19, 2007

To the Stockholders of Argan, Inc:

NOTICE IS HEREBY GIVEN that an Annual Meeting of Stockholders (the "Meeting") of Argan, Inc. (the "Company") will be held on June 19, 2007 at 11:00 a.m. local time, at the offices of Allen & Company LLC located at 711 Fifth Avenue, 9th Floor, New York, New York 10022, for the following purposes:

1. To elect seven directors to serve for a term ending at the 2008 Annual Meeting;

2. To amend the Company’s Certificate of Incorporation, as amended, to increase the number of authorized shares of the Company’s Common Stock $0.15 par value per share (the “Common Stock”), from 12,000,000 to 30,000,000.

3. To amend the Company’s 2001 Stock Option Plan to increase the total number of shares of Common Stock reserved for issuance under the Stock Option Plan to 650,000 shares;

4. To ratify the selection Grant Thornton LLP as the Company’s independent registered public accountants for the fiscal year ending January 31, 2008; and

5. To transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

Only holders of record of outstanding shares of Common Stock, $0.15 par value per share, of the Company at the close of business on May 7, 2007 will be entitled to notice of, and to vote at, the Meeting or any adjournment or postponement thereof.

By Order of the Board of Directors

Arthur F. Trudel, Jr.
Corporate Secretary

Rockville, Maryland
May 3, 2007

Your vote is important. To vote your shares, please mark, sign and date the enclosed proxy card and mail it promptly in the enclosed return envelope, which requires no postage if mailed in the United States.

Argan, Inc.
One Church Street, Suite 401
Rockville, Maryland 20850
PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 19, 2007

Introduction

This Proxy Statement is being furnished to stockholders of Argan, Inc., a Delaware corporation (the "Company"), in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Stockholders to be held on Tuesday, June 19, 2007 at 11:00 a.m. local time, at the offices of Allen & Company LLC located at 711 Fifth Avenue, 9th Floor, New York, New York 10022, and any adjournment or postponement thereof (the "Meeting").

At the Meeting, stockholders will be asked to consider and vote upon four proposals: (1) the election of seven directors to serve until the 2008 Annual Meeting (the "Election of Directors"); (2) the amendment of the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock from 12,000,000 shares to 30,000,000 shares; (3) the amendment of our 2001 Stock Option Plan to increase shares of Common Stock reserved for issuance from 250,000 shares to 650,000 shares and (4) the ratification of the selection of the Company's independent registered public accountants (the "Ratification of Accountants").

This Proxy Statement is dated May 3, 2007 and is first being mailed to stockholders along with the related form of proxy on or about May 15, 2007.

If a proxy in the accompanying form is properly executed and returned to the Company in time for the Meeting and is not revoked prior to the time it is exercised, the shares represented by the proxy will be voted in accordance with the directions specified therein for the matters listed on the proxy card. Unless the proxy specifies that it is to be voted against or is an abstention on a listed matter, proxies will be voted FOR each of the four proposals set forth above and otherwise in the discretion of the proxy holders as to any other matter that may come before the Meeting.

Revocability of Proxy

Any stockholder of the Company who has given a proxy, has the power to revoke such proxy at any time before it is voted either (i) by filing a written revocation or a duly executed proxy bearing a later date with Arthur F. Trudel, Jr., Corporate Secretary of the Company, at Argan, Inc., One Church Street, Suite 401, Rockville, Maryland 20850, or (ii) by appearing at the Meeting and voting in person. Attendance at the Meeting will not in and of itself constitute the revocation of a proxy. Voting by those present during the Meeting will be by ballot.

Record Date, Outstanding Securities and Votes Required

The Board of Directors of the Company has fixed the close of business on May 7, 2007 as the record date (the "Record Date") for determining holders of outstanding shares of Common Stock, $0.15 par value per share (the "Common Stock"), who are entitled to notice of and to vote at the Meeting. As of the Record Date, there were approximately 300 stockholders of record and 11,094,012 shares of Common Stock issued and outstanding. Each share of Common Stock is entitled to one vote on each of the proposals to be voted upon.

Abstentions and broker non-votes are counted for purposes of determining the number of shares represented at the Meeting, but are deemed not to have voted on the proposals. Broker non-votes occur when a broker nominee, holding shares in street name for the beneficial owner thereof, has not received voting instructions from the beneficial owner and does not have discretionary authority to vote. The Election of Directors, the proposed increase to the Stock Option Plan and the Ratification of Auditors require the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and voting. The Amendment to the Certificate of Incorporation, which would increase the authorized number of shares of common stock, requires the affirmative vote of a majority of the outstanding shares of Common Stock. Accordingly, abstentions, broker non-votes or the failure to either return a proxy or to attend the meeting will be deemed (i) not to have voted on the Election of Directors, the proposed increase to the Stock Option Plan and the Ratification of Auditors, and (ii) as a vote against the amendment to the Certificate of Incorporation to increase the authorized number of outstanding shares.

The officers and directors of the Company will vote the shares of Common Stock beneficially owned or controlled by them (representing approximately 15% of the shares of Common Stock issued and outstanding) in favor of each of the proposals discussed above.

PROPOSAL NUMBER ONE

Election of Directors

The directors of the Company are elected annually and hold office until the next annual meeting of stockholders and until their successors have been elected and shall have been qualified. Vacancies and newly-created directorships resulting from any increase in the number of authorized directors may be filled by a majority vote of the directors then in office.

At the Meeting, stockholders of the Company are being asked to elect seven directors. Except for William F Leimkuhler, each of the nominees is currently a member of the Company’s Board of Directors. Mr. Kent Pugmire has decided not to stand for reelection to the Board of Directors.

Unless a stockholder withholds authority, the holders of proxies representing shares of Common Stock will vote FOR the election of each of the nominees listed below. The Board of Directors has no reason to believe that the nominees will decline or be unable to serve as Directors of the Company. However, if a nominee shall be unavailable for any reason, then the proxies may be voted for the election of such person as may be recommended by the Board of Directors.

Nominees for Election as Director

The following table sets forth the age and title of each nominee director, as well as descriptions of such person's additional business experience during the past five years.

Name	Age	Position
Rainer H. Bosselmann	64	Chairman of the Board, Chief Executive Officer and President
DeSoto S. Jordan	62	Director
William F. Leimkuhler	55	Director
Daniel A. Levinson	46	Director
W.G. Champion Mitchell	60	Director
James W. Quinn	49	Director
Peter L. Winslow	76	Director

Rainer H. Bosselmann . Mr. Bosselmann has been a Director and Chairman of the Board since May 2003 and President since October 2003. Mr. Bosselmann was a Director and Vice Chairman of the Board from January 2003 to May 2003. Mr. Bosselmann was Chairman of the Board, Chief Executive Officer and a Director of Arguss Communications, Inc. ("Arguss"), a telecommunications infrastructure company listed on the New York Stock Exchange, from 1996 through 2002 and President of Arguss from 1997 through 2002. Since 1996, Mr. Bosselmann has served as a principal with Holding Capital Group, Inc., a firm engaged in mid-market acquisitions and investments. From 1991 through 1995, Mr. Bosselmann served as Vice Chairman of the Board and President of Jupiter National, Inc. ("Jupiter National"), a business development company listed on the American Stock Exchange.

DeSoto S. Jordan . Mr. Jordan has been a Director of the Company since May 2003. Mr. Jordan has been Chairman of Afton Holdings, LLC, a private equity firm, since 2000. Mr. Jordan was co-founder of Perot Systems Corporation and served as an officer from 1988 to 1999 and as a Director since February 2004. Mr. Jordan was a Director of Arguss from 1999 through 2002.

William F. Leimkuhler. Mr. Leimkuhler has been General Counsel and Director of Business Development of Paice Corporation, a privately held developer of hybrid electric powertrains, since 1999. From 1994 through 1999, he held various positions with Allen & Company, a New York investment banking firm, initially serving as the firm’s General Counsel. Prior to that, Mr. Leimkuhler was a corporate partner with the New York law firm of Werbel & Carnelutti (now Heller Ehrman White & McAuliffe). Mr. Leimkuhler is a director of Speedus Corp. (NASDAQ: SPDE), Integral Systems, Inc. (NASDAQ: ISYS) and U.S. Neurosurgical, Inc. (OTCBB: USNU) and also serves on the Board of a number of privately held companies.

Daniel A. Levinson . Mr. Levinson has been a Director of the Company since May 2003. In 1997, Mr. Levinson founded Main Street Resources, a niche sponsor of private equity transactions, and has been its managing partner. Since 1998, Mr. Levinson has been President of MSR Advisors, Inc. From 1988 to 1997, Mr. Levinson was one of the principals of Holding Capital Group. Mr. Levinson was also a Director of Arguss from 2000 through 2002.

W.G. Champion Mitchell . Mr. Mitchell has been a Director of the Company since October 2003. Since January 2003, Mr. Mitchell has been Chairman of the Board and Chief Executive Officer of Network Solutions, Inc. Network Solutions is engaged in the creation, marketing and management of digital identity and web presence products. From August 2001 to 2003, Mr. Mitchell was Executive Vice President and General Manager, Mass Markets Division, of VeriSign Inc. VeriSign is a provider of critical Internet infrastructure services. From May 1999 to March 2000, Mr. Mitchell was Chairman, President and CEO of Convergence Equipment Company, a telephony switch manufacturer. From February 1997 until May 1999, Mr. Mitchell was Chairman and Chief Executive Officer of Global Exchange Carrier Co., an Internet telephone networking company.

James W. Quinn . Mr. Quinn has been a Director of the Company since May 2003. Mr. Quinn is currently a Managing Director of Allen & Company LLC, an investment banking firm. Since 1982, Mr. Quinn has served in various capacities at Allen & Company and its affiliates, including head of the Corporate Syndicate Department and Chief Financial Officer. Mr. Quinn served as a Director of Arguss from 1999 through 2002.

Peter L. Winslow . Mr. Winslow has been a Director of the Company since June 2003. Since 1992, Mr. Winslow has served in several executive capacities at Fin-Net LLC and its predecessor company Fin-Net, Inc., a financial networking company, where he currently serves as Chairman and Managing Director. Mr. Winslow was the founder and President of Winslow, Evans & Crocker, Inc., a brokerage and financial services company, and he served in several executive capacities between 1992 and 2004. Since March 2002, Mr. Winslow has been Managing Director of Family Capital Trust Company, N.A. Mr. Winslow was also a Director of Jupiter National from 1991 to 1996. Mr. Winslow served as a Director of Arguss from 1996 through 2002.

Directors' Compensation

Each non-employee director of the Company receives a $2,500 annual fee, plus $300 for each formal meeting attended. Directors are also reimbursed for reasonable expenses actually incurred in connection with attending each formal meeting of the Board of Directors or any committee thereof. Directors are also eligible for grants of stock options for shares of the Company’s common stock.

The following table summarizes the fees paid to non-employee directors for their attendance at each committee meeting:

DIRECTOR COMPENSATION
for the year ended January 31, 2007

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)	Total
Peter Winslow	$ 7,300	$ 14,200	$ 21,500
James Quinn	$ 7,300	$ 14,200	$ 21,500
DeSoto Jordan	$ 7,300	$ 14,200	$ 21,500
T. Kent Pugmire	$ 4,600	$ 14,200	$ 18,800
Dan Levinson	$ 4,300	$ 14,200	$ 18,500
Champion Mitchell	$ 4,300	$ 14,200	$ 18,500

Executive Officers who are Not Directors

The following table sets forth the age and title of each executive officer of the Company who is not a nominee director, as well as descriptions of such person's additional business experience during the past five years.

Name	Age	Position
Arthur F. Trudel	57	Senior Vice President and Chief Financial Officer

Arthur F. Trudel . Mr. Trudel has been Secretary of the Company since April 2006, Senior Vice President and Chief Financial Officer of the Company since May 2003 and a corporate officer of the Company since January 2003. From 1997 to 2002, Mr. Trudel served as Chief Financial Officer of Arguss. From 1988 to 1997, Mr. Trudel was Senior Vice President and Chief Financial Officer of JHM Capital Corporation.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who beneficially own more than 10% of the Company's common stock (collectively, the "Reporting Persons") to file with the Commission (and, if such security is listed on a national securities exchange, with such exchange), various reports as to ownership of such common stock. Based solely upon a review of copies of Section 16(a) reports and representations received by the Company from Reporting Persons, and without conducting any independent investigations of its own, the Company believes that the following Reporting Persons failed to timely file Forms 3, 4 or 5 with the Commission during the fiscal year ended January 31, 2007. Mr. Kevin Thomas and Mr. Trudel were each late with one filing, Mr. Levinson was late with two filings.

COMPENSATION DISCUSSION AND ANALYSIS

This section provides an overview and analysis of our compensation programs and policies, including a discussion of the material compensation decisions made under the programs and policies with respect to our top executive officers, and the material factors considered in making those decisions. It is intended to provide context for the detailed information provided under the heading “Executive Compensation” regarding compensation earned or paid in fiscal year 2007 to the following individuals, whom we refer to as our named executive officers:

- Rainer H. Bosselmann, our Chairman of the Board, Chief Executive Officer and President,

· Arthur F. Trudel, our Senior Vice President and Chief Financial Officer.

Principles Underlying our Compensation Program

Our goal in compensating executive officers is to attract, motivate, reward and retain executives of superior ability who are dedicated to the long-term financial interests of our stockholders. To achieve this goal, our executive compensation programs are organized around the following fundamental principles:

A significant portion of executive officer compensation should be performance-based and reward a balance of short and long-term stockholder value creation . We seek to provide our executive officers with incentives for superior performance over multiple time-frames using a combination of: *annual incentives* that measure performance relative to short-term operational and strategic objectives; and periodic equity grants that align executive officers' interests with long-term stockholder value and stock price appreciation.

Pay at risk should align with an executive officer's impact on Company performance . We seek to leverage the performance-based elements of an executive officer's compensation proportionally with his or her ability to impact the Company's performance over short-and long-term periods. Our chief executive officer has the largest portion of his total annual compensation delivered through base salary and cash bonus, however, he has substantial warrants and stock options to align him with long-term shareholder interests.

Compensation opportunities should be competitive with the marketplace. We target total compensation opportunities for our executive officers to be competitive with opportunities for similar positions at similar size companies.

Our compensation should remain flexible enough to allow for the exercise of discretion where appropriate. Our total compensation approach is not intended to be formulaic or rigid in structure. Each element of annual compensation (other than base salary) is designed to be variable based on quantitative and/or qualitative performance criteria. We regularly review our overall compensation programs and maintain flexibility to make changes in the future as appropriate. On an individual basis, we also reserve discretion to increase individual compensation or to adjust the mix of pay elements as appropriate. This flexibility allows us to effectively manage, over time, the performance of our executive officers, market competitiveness of our compensation programs, issues of internal pay equity and retention of key talent.

Role of the Compensation Committee

The Compensation Committee of our Board of Directors carries out the board's responsibilities with respect to reviewing and approving the compensation for our executive officers, overseeing the development of executive succession plans, and administering our executive compensation programs.

We seek an open relationship between the Compensation Committee and management concerning compensation matters. As a function of this relationship, the Compensation Committee consults management for analysis, details and recommendations with respect to compensation program design and compensation decisions for executives. The Compensation Committee reviews and analyzes compensation information from management and compares the information to Companies of similar size. We believe that this collaborative approach produces a more informed decision-making process and assures an objective perspective in this important governance matter.

The Compensation Committee retains the final authority to approve all of the programs under which compensation is paid or awarded to our executive officers. In determining the amount of compensation for individual executive officers, the Compensation Committee relies upon its judgment about each individual, factors surrounding each individual's role and performance, and upon compensation recommendations for each of the executive officers. For additional information regarding the Compensation Committee, see page 14 of this proxy statement.

Factors Considered in Making Compensation Decisions

Key factors affecting compensation decisions for our executive officers include the nature and scope of the executive officer's responsibilities, contribution to financial results, effectiveness in leading initiatives to increase growth, shareholder value, profitability, productivity, effective capital deployment and competitiveness. Also considered when evaluating performance are the executive officer's commitment to corporate responsibility and creating a culture of integrity.

We also consider the compensation and benefit levels by comparison to companies of similar size that are most likely to compete for the services of executive officers. This benchmarking is an input into the compensation decision-making process that helps gauge market competitiveness, but it does not weigh any greater than other considerations noted above when making compensation decisions.

Elements of our Executive Officer Compensation Structure

Periodic analysis of the design of our compensation programs allows us to maintain reasonable and competitive total compensation opportunities for each executive officer. In fiscal year 2007, we conducted a review of all elements of our executive officer compensation programs. As a result of this program review, we adjusted the base salaries of each of our executive officers and additionally, our executive officers were awarded stock options during fiscal year 2007.

The following is a description of the various elements of our total executive officer compensation structure and the purpose of each element.

- **Base Salary** . Base salary compensates executives for day-to-day responsibilities and sustained performance; consistently effective individual performance is a threshold requirement for any salary increase.

- **Bonus.** Bonuses are typically paid based upon the Company's performance from operations and/or accomplishing certain strategic goals such as the acquisition of a strategically significant new business.

  The Compensation Committee retains the final authority to evaluate and determine performance relative to the individual and corporate financial goals for annual incentives. In evaluating corporate performance, the Compensation Committee may make adjustments for the impact of unusual or non-recurring items including, but not limited to accounting pronouncements and restructuring charges.

  This discretion enables us to establish goals that align our executive officers with the Company's annual operating performance, while at the same time ensuring that unforeseen factors do not inappropriately impact the measurement of performance. Actual bonuses paid to executive officers are approved by the Compensation Committee and ratified by the Board of Directors.

Long-Term Performance: Equity Grants

During fiscal year 2007, the Compensation Committee approved and the Board of Directors ratified equity grants to our executive officers. The Compensation Committee periodically grants stock options to align our executive officers' personal financial interest with the long-term interests of our stockholders.

Fiscal Year 2007 Compensation for Named Executive Officers.

The following describes actions taken in fiscal year 2007 as it relates to named executive officer compensation and the information provided in the summary compensation table below.

Base Salary. During fiscal year 2007, the Compensation Committee approved and the Board of Directors ratified base salary increases of $50,000 for each of our named executive officers. These changes were based primarily on sustained individual performance, market levels of compensation for comparable jobs, changes in job scope and responsibilities of our named executive officers over time. The above factors plus the fact that our named executive officers respective base salaries were considerably below base salaries paid to comparable executive officers at similar sized public companies.

Bonus. During the fourth quarter of fiscal year 2007, the Compensation Committee approved and the Board ratified the payment of bonuses to our executive officers. Bonuses were in recognition of the role our executive officers played in the successful acquisition of Gemma Power Systems LLC (GPS) which is deemed to be a significant strategic acquisition. Based on the backlog of contract work as of the acquisition date, the acquisition of GPS is expected to increase the Company's revenues by more than four times.

Fiscal Year 2007 Equity Grants. In an effort to align our executive officers personal financial interests with our shareholders long-term financial interests, the Compensation Committee recommended and the Board approved the granting of stock options for 50,000 shares of the Company's common stock to each of our executive officers.

Executive Compensation

The following summary compensation table sets forth the aggregate compensation paid to or earned by the named Executive Officers, for services, for the year ended January 31, 2007 (the "Named Executive Officers").

Name And Principal Position	Fiscal Year Ended January 31	Salary ($)	Bonus ($)	Option Awards ($)	All Other Total Comp. ($) [(1)]	TOTAL
Rainer H. Bosselmann Chief Executive Officer and President	2007	$ 154,167	$ 100,000	$ 71,000	$ 900	$ 326,067
Arthur F. Trudel, Jr. Senior Vice President and Secretary	2007	$ 187,500	$ 100,000	$ 58,500	$ 1,100	$ 347,100

(1) Represents Company contributions under the Company's 401(k) Plan.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price	Option Expiration Date
Rainer Bosselmann	50,000	$ 2.65	6/21/2016
Arthur Trudel	50,000	$ 2.15	4/20/2016

For a description of certain warrants held by Named Executive Officers, see "Security Ownership of Certain Beneficial Owners and Management" below.

Description of the 2001 Stock Option Plan

In August 2001, the Board of Directors adopted and the stockholders of the Company approved the 2001 Stock Option Plan (the "Stock Option Plan"). As adopted in 2001, the Stock Option Plan authorized the issuance of options to purchase a maximum of 33,333 shares of Common Stock. In April 2003, the Board of Directors adopted and the stockholders of the Company approved an amendment to the Stock Option Plan increasing the total number of shares of Common Stock reserved for issuance under the Stock Option Plan to 250,000. That number of shares may be adjusted in certain events, such as a stock split, reorganization or recapitalization. Officers, directors and employees of the Company or its subsidiaries are eligible to receive non-qualified stock options under the Stock Option Plan. Employees (including officers and directors who are employees) of the Company or its subsidiaries are also eligible to receive incentive stock options under the Stock Option Plan. In the event incentive stock options are granted, the aggregate fair market value of the Common Stock issuable under such options for each optionee during any calendar year cannot exceed $100,000. To the extent that an incentive stock option exceeds the $100,000 threshold, the excess will be treated as a non-qualified stock option.

The Company receives no monetary consideration for the grant of options under the Stock Option Plan. In the case of an incentive stock option, the exercise price cannot be less than the fair market value (as defined in the Stock Option Plan) of the Common Stock on the date the option is granted. If the optionee is a stockholder who beneficially owns 10% or more of the outstanding Common Stock, the exercise price of incentive stock options may not be less than 110% of the fair market value of the Common Stock. The term of an incentive stock option cannot exceed ten years; provided, however, that the term of incentive options granted to owners of 10% or more of the outstanding shares of Common Stock cannot exceed five years.

The Stock Option Plan will terminate automatically and no options may be granted after July 19, 2011 (the "Termination Date"); provided, however, that Stock Option Plan may be terminated by the Board of Directors at any time prior to the Termination Date. Termination of the Stock Option Plan will not affect options that have been previously granted.

Pursuant to the terms of the Stock Option Plan, the vesting with respect to all issued and outstanding options to purchase Common Stock of the Company may accelerate and become fully exercisable upon a change in control of the Company.

As of January 31, 2007 there were 244,000 options granted under the 2001 Stock Option Plan.

Employment and Severance Agreements

On January 3, 2005, the Company entered into substantially similar employment agreements with (i) Rainer H. Bosselmann as its President and Chief Executive Officer, and (ii) Arthur F. Trudel, Jr. as its Senior Vice President and Chief Financial Officer (each, an “Executive”).

Pursuant to the employment agreements, the Company agreed to employ each Executive for an initial term of one year, which term will automatically renew for successive one year periods unless the Company or the Executive provides at least 90 days prior written notice of its or his election not to renew. The agreements provide for each Executive to receive during the employment period an annual base salary of $150,000, subject to increase (but may not be reduced) from time to time in such amounts as the Company, in its reasonable discretion, deems to be appropriate, and an annual bonus in the discretion of the Board of Directors of the Company, subject to the satisfaction of reasonable performance criteria established for the Executive with respect to such year. At January 31, 2007, Rainer H. Bosselmann and Arthur F. Trudel each had an annual base salary of $200,000. The agreements further provide that each Executive may participate in any stock option, incentive and similar plans established by the Company and shall be granted stock options and other benefits similar to options and benefits granted to other executives, subject in all cases to the satisfaction by the Executive of the terms and conditions of such plans and to the reasonable exercise by the Board of any discretion granted to it or them thereunder.

In addition, under the employment agreements, in the event that an Executive's employment is terminated for any of the reasons specified below or there occurs a "change in control", the Executive will receive as severance pay in a single lump sum payment, an amount equal to 24 months of his base salary within 30 days after the Executive's termination of employment or change of control, as the case may be, based on 12 times the Executive's final full month salary at the date the Executive's employment ceases or at the date of the change in control, as the case may be, without reduction or offset for any other monies which the Executive may thereafter earn or be paid. The reasons which cause severance pay to be paid to an Executive include:

(i) termination by the Executive because of a material diminution of the Executive's duties, authority or responsibility, or a material impairment by action of the Company of his ability to perform his duties and responsibilities, regardless of whether such diminution is accompanied by a change in the Executive's title with the Company;

(ii) termination by the Executive because of a material breach by the Company of any provision of the employment agreement, which breach continues for a period of 30 days after written notice of such breach is given by the Executive to the Company; and

(iii) termination by the Company at any time without cause, including notice of non-renewal of the agreement.

Each Executive shall also be entitled for a period of 24 months from the termination of his employment or a change in control, as the case may be, to the continuation of all benefits provided to the Executive, excluding sick and vacation time, subject to any applicable employee co-payments.

If an Executive's employment is terminated by the Company by reason of the Executive's death, disability or "for cause" or voluntarily by the Executive for any reason other than as set forth in the preceding paragraph, the Company will not be obligated to make any payments to the Executive by reason of his cessation of employment other than such amounts, if any, of his base salary that have accrued and remain unpaid and such other amounts which may then otherwise be payable to the Executive from the Company's benefit plans or reimbursement policies, if any.

Committees and Meetings of the Board of Directors and Related Matters

The Board of Directors held six regular meetings and acted by unanimous consent one other time during the fiscal year ended January 31, 2007. Each director attended at least 75% of the meetings of the Board of Directors and Board committees of which he was a member during the period he served as director.

Independent Directors

The Board of Directors has determined that the following members of the Board are independent directors, as such term is defined in Nasdaq Rule 4200(a)(15): Messrs. Quinn, Jordan, Pugmire, Winslow and Mitchell. The independent directors may meet from time to time in executive session without the other members of the Board.

Executive Committee

The Board of Directors has an Executive Committee comprised of Messrs. Bosselmann (Chairman), Jordan and Levinson. The Executive Committee, which held no meetings during fiscal year 2007, is authorized to exercise the general powers of the Board managing the business and affairs of the Company between meetings of the Board of Directors.

Nominating Committee

The Board of Directors has a Nominating Committee . During fiscal year 2007, the committee was comprised of Messrs. Winslow (Chairman), Jordan and T. Kent Pugmire. The committee was formed in April 2004 . The committee adopted a written charter, a copy of which can be found on the Company website at www.arganinc.com . The members of the committee are all independent directors under applicable Nasdaq rules. Members of the Nominating Committee are appointed by the Board of Directors.

The committee is responsible for identifying individuals qualified to become members of the Board of Directors, and recommending to the Board of Directors the persons to be nominated by the Board for election as directors at the annual meeting of stockholders and the persons to be elected by the Board of Directors to fill any vacancies on the Board.

Directors are not required to meet any specific or minimum qualifications. The committee does, however, use certain selection criteria as a guide in its selection process including the following: (i) nominees should have a reputation for integrity, honesty and adherence to high ethical standards; (ii) nominees should have demonstrated business acumen, experience and ability to exercise sound judgments in matters that relate to the current and long-term objectives of the Company and should be willing and able to contribute positively to the decision-making process of the Company; (iii) nominees should have a commitment to understand the Company and its industry and to regularly attend and participate in meetings of the Board of Directors and its committees; (iv) nominees should have the interest and ability to understand the sometimes conflicting interests of the various constituencies of the Company, which include stockholders, employees, customers, governmental units, creditors and the general public, and to act in the interests of all stockholders; (v) nominees should not have, or appear to have, a conflict of interest that would impair the nominee’s ability to represent the interests of all the Company’s stockholders and to fulfill the responsibilities of a director; and (iv) nominees shall not be discriminated against on the basis of race, religion, national origin, sex, sexual orientation, disability or any other basis proscribed by law. The committee is also responsible for reviewing with the Board of Directors, on an annual basis, the requisite skills and criteria for new Board members as well as the composition of the Board as a whole.

The committee will consider nominees for the Board of Directors recommended by stockholders. Nominations by stockholders must be in writing, must include the full name of the proposed nominee, a brief description of the proposed nominee's business experience for at least the previous five years, and a representation that the nominating stockholder is a beneficial or record owner of the Company's common stock. Any such submission must also be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as director if elected. Nominations must be delivered to the committee at the following address:

Nominating Committee
Argan, Inc.
c/o Corporate Secretary
One Church Street, Suite 401
Rockville, MD 20850

The committee is required to review the qualifications and backgrounds of all directors and nominees (without regard to whether a nominee has been recommended by stockholders), as well as the overall composition of the Board of Directors, and recommend a slate of directors to be nominated for election at the annual meeting of stockholders, or, in the case of a vacancy on the Board of Directors, recommend a director to be elected by the Board to fill such vacancy.

Audit Committee

The Board of Directors has an Audit Committee . During fiscal year 2007, the committee was comprised of Messrs. Quinn (Chairman), Jordan and Winslow. The committee held twelve meetings during fiscal year 2007. The members of the committee are all independent directors under applicable SEC and Nasdaq rules. In addition, the Board of Directors has determined that at least one of the independent directors serving on the Audit Committee, Mr. Quinn, is an audit committee financial expert, as that term has been defined by SEC rules.

Audit Committee Report

The Audit Committee of the Board of Directors of the Company is composed of three independent directors. The committee adopted a written charter, a copy of which can be found on the Company website at www.arganinc.com . The Board has made a determination that the members of the Audit Committee satisfy the independence and other requirements of applicable Nasdaq and SEC rules . The Board has also made the determination that at least one member of the Audit Committee is a "financial expert" as that term is defined in applicable SEC rules.

The responsibilities of the Audit Committee are set forth in the Charter of the Audit Committee, which was adopted by the Board of Directors of the Company in October 2003. The Audit Committee is responsible for, among other things, appointing, establishing the compensation for, supervising and, where appropriate, replacing the Company's independent public accountants; considering the qualifications and independence of the Company's independent accountants; approving all audit and non-audit services provided by the Company's independent public accountants ; and reviewing and discussing with Company management and the Company's independent public accountants the Company's financial statements. The Company's independent public accountants are required to report directly to the Audit Committee. The Audit Committee also reviews the Company's accounting policies, internal control procedures and systems and compliance activities and also reviews the Charter of the Audit Committee.

The following is a report on the Audit Committee's activities relating to fiscal year 2007.

Review of Audited Financial Statements with Management
The Audit Committee reviewed and discussed the audited financial statements with the management of the Company.

Review of Financial Statements and Other Matters with Independent Accountants

The Audit Committee has discussed with Grant Thornton LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee has received from Grant Thornton LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with Grant Thornton LLP matters relating to the firm's independence from the Company.

Recommendation that Financial Statements be Included in Annual Report

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-KSB for the fiscal year ended January 31, 2007 for filing with the Securities and Exchange Commission.

April 24, 2007

Audit Committee

James W. Quinn (Chairman)
DeSoto S. Jordan
Peter L. Winslow

Compensation Committee

The Board of Directors has a Compensation Committee . During fiscal year 2007, the committee was comprised of Messrs. Jordan (Chairman), Quinn and Winslow. The committee adopted a written charter, a copy of which can be found on the Company website at www.arganinc.com . The Committee held three meetings during fiscal year 2007. The members of the committee are all independent directors under applicable Nasdaq rules. Members of the Compensation Committee are appointed by the Board of Directors. During fiscal year 2007, all compensation decisions were ratified by the Board of Directors as a whole.

The Compensation Committee is responsible for implementing and reviewing executive compensation plans, policies and programs in an effort to ensure the attraction and retention of executive officers in a reasonable and cost-effective manner, to motivate their performance in the achievement of the Company's business objectives and to align the interests of executive officers with the long-term interests of the Company's shareholders. To that end, it is the responsibility of the committee to develop and approve periodically a general compensation policy and salary structure for executive officers of the Company which considers business and financial objectives, industry and market pay practices and/or such other information as may be deemed appropriate. It is also the responsibility of the committee to review and recommend for approval by the independent directors of the Board the compensation (salary, bonus and incentive compensation) of the Chief Executive Officer of the Company and review and approve the compensation (salary, bonus, incentive and other compensation) of the other executive officers of the Company; review and approve perquisites offered to executive officers of the Company; review and approve corporate goals and objectives relevant to the compensation of executive officers of the Company and evaluate performance in light of the goals and objectives; and review and approve all employment, retention and severance agreements for executive officers of the Company. The committee also acts on behalf of the Board in administering compensation plans approved by the Board and/or the shareholders of the Company (including the Company's 2001 Stock Option Plan), in a manner consistent with the terms of such plans; reviews and makes recommendations to the Board with respect to new compensation incentive plans and equity-based plans; and reviews and make recommendations to the Board on changes in major benefit programs of executive officers of the Company. The committee also reviews the management succession program for the Chief Executive Officer and selected executive officers of the Company.

Stockholder Communications with Directors

The Company has established a process by which stockholders can communicate with the Company's Board of Directors. Stockholders may communicate with the Board of Directors, or any of the Company's individual directors, by sending their communications to the Board of Directors, or to any individual director, at the following address:

Board of Directors of
Argan, Inc.
c/o Corporate Secretary
One Church Street, Suite 401
Rockville, MD 20850

All stockholder communications received by the Company’s Corporate Secretary will be delivered to one or more members of the Board of Directors, or, in the case of communications sent to an individual director, to such director.

Director Attendance at the Annual Meeting

Although the Company does not have a formal policy with respect to director attendance at annual meetings, the Company strongly encourages directors to attend the annual meeting. All but one of our directors attended last year’s annual meeting, and we expect that all of our directors will attend this year's annual meeting.

Compensation Committee Interlocks and Insider Participation

Decisions regarding executive compensation are principally made by the Compensation Committee. The Compensation Committee reviews and recommends for approval by the independent members of the Board of Directors the compensation (salary, bonus and other long-term incentives) of the Chief Executive Officer of the Company and reviews and approves the compensation (salary, bonus and long-term incentives) of the other executive officers of the Company . The Compensation Committee is responsible for the recommendation to the independent directors of the Company of incentive awards to the Chief Executive Officer of the Company under the plans and the approval of incentive awards to the other executive officers of the Company under the plans. No member of the Compensation Committee was an officer or employee of the Company during the fiscal year ended January 31, 2007.

Compensation Committee Report On Executive Compensation

The Compensation Committee reviews the Company 's compensation plan on a regular basis. The Compensation Committee regularly updates its assessment of various long-term incentive tools including stock options, restricted stock, performance-based equity and other alternatives that might be available.

The Company 's primary objective in developing executive compensation policies is to attract, motivate and retain highly qualified and effective leaders. The compensation policy includes various components of compensation that are intended to align management behaviors and priorities directly with the Company ’s strategic objectives and to encourage management to act in the best long-term interest of the Company and its shareholders. The Company 's executive officer compensation policy generally consists of three elements: base compensation, annual cash bonus and long-term incentive compensation.

Cash Compensation

Annual cash compensation consists of two elements: base salary and annual cash bonus. Each officer is offered a base salary that is commensurate for the role that he or she is performing. In setting compensation, the Compensation Committee strives to maintain base compensation for the Company 's executive officers at levels which the Compensation Committee, based on its experience, believes are competitive with the compensation of comparable executive officers in similarly situated companies.

Increases in base salary are based on a periodic review and evaluation of the performance of the operation or function for which the executive has responsibility, and is measured against defined performance criteria. The executive is also reviewed according to his or her competence as an effective leader in the Company , which includes an evaluation of the skills and experience required for the job, coupled with a comparison of these elements with similar elements for other executives both within and outside of the Company.

Executive officers are eligible to participate in a bonus plan. The Compensation Committee determines awards under the bonus plan. The Compensation Committee considers input of the Chief Executive Officer with respect to the bonus to be awarded to the other executive officers. The executive officers, as well as other key employees, may receive bonuses based upon meeting the performance objectives of the Company and their contributions to the Company.

The compensation paid by the Company to its Chief Executive Officer for fiscal year 2007 was based upon an agreement negotiated with Mr. Bosselmann. The Compensation Committee believes, based upon the individual experience of its members, that the compensation package for Mr. Bosselmann for fiscal year 2007 was reasonable based upon Mr. Bosselmann's experience, his level of responsibility and the contributions made and expected to be made by him to the Company.

Long -term Incentive Compensation

Each of the executive officers and all employees are eligible to receive awards under the 2001 Stock Option Plan . The 2001 Stock Option Plan will be used to align a portion of the officers' compensation with the shareholders' interest and the long-term success of the Company by encouraging the executive officers and other employees to remain with the Company , and by enabling optionees to develop and maintain a significant, long-term stock ownership position in the Company 's Common Stock . The value realizable from exercisable options is dependent upon the extent to which the Company 's performance is reflected in the market price of the Company 's Common Stock at any particular point in time.

In determining the number of options to be granted to each executive officer, the Compensation Committee considers input of the Chief Executive Officer with respect to the executive officers, other than the Chief Executive Officer. These determinations are based upon compensation surveys conducted during fiscal year 2007 of executive officers and certain key employees in comparable companies.

The members of the Compensation Committee have submitted this report.

Compensation Committee

DeSoto S. Jordan (Chairman)
James W. Quinn
Peter L. Winslow

Certain Relationships and Related Transactions

On December 8, 2006, the Company completed a private offering of 2,853,335 shares of common stock at a price of $3.75 per share for aggregate proceeds of $10.7 million. The proceeds of which were used towards the purchase of Gemma Power Systems, LLC (“GPS”). Two of the investors, MSRI SBIC, L.P. (“MSRI”) and MSR Fund II, L.P., which acquired 92,793 and 440,540 shares in the offering, respectively, are controlled by Daniel Levinson, a director of the Company. Two other investors, Allen & Company LLC and Allen SBH Investments, LLC (Allen SBH) which acquired 80,000 and 266,667 shares in the offering, respectively, are affiliates of James Quinn, a director of the Company. In addition, James Quinn acquired 26,667 shares for his own account.

On May 4, 2006, the Company completed a private offering of 760,000 shares of common stock at a price of $2.50 per share for aggregate proceeds of $1.9 million. The Company used $1.8 million of the proceeds to pay down an equal notional amount of the subordinated note due Kevin Thomas. The remainder of the proceeds were used for general corporate purposes. Allen SBH and James Quinn acquired 120,000 and 40,000 shares in the offering, respectively. In addition, MSRI acquired 240,000 shares in the offering.

On January 28, 2005, the Company sold and issued to MSRI 129,032 shares (the “Shares”) of common stock of the Company pursuant to a Subscription Agreement between the Company and MSRI (the “Subscription Agreement”). The Shares were issued at a purchase price of $7.75 per share (“Share Price”), yielding aggregate proceeds of $999,998. The Shares were issued pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

Pursuant to the Subscription Agreement, the Company agreed to issue additional shares of Common Stock to MSRI under certain conditions upon the earlier of (i) the Company’s issuance of additional shares of Common Stock having an aggregate purchase price of at least $2,500,000 for a consideration per share less than $7.75, subject to certain exclusions; or (ii) July 31, 2005. The number of shares to be issued would reduce the average purchase price of the MSRI shares to be equal to ninety percent of the average bid price of Argan’s common stock for the thirty days ended July 31, 2005 if the price was less than $7.75. Any additional shares issued would effectively reduce MSRI’s purchase price per common share as set forth in the Subscription Agreement.

The provision in the agreement which allowed MSRI to receive additional shares under certain conditions represents a derivative under FAS 133 “Accounting for Derivative Instruments and Hedging Activities.” Accordingly at January 31, 2005, $139,000 of the proceeds received upon issuance was accounted for as a liability for derivative financial instrument. This liability relates to the obligation to issue MSRI additional shares under certain conditions. The derivative financial instrument was subject to adjustment for changes in fair value subsequent to issuance. The fair value adjustment loss of $343,000 was recorded during the year ended January 31, 2006 and included in other expense and net loss. The liability aggregating $482,000 was settled in a non-cash transaction by the issuance of 95,321 shares of the Company’s common stock on August 13, 2005.

The Company retained MSRI under a consulting arrangement to assist in identifying and meeting potential equity investors. Under this consulting arrangement, the Company paid MSRI $100,000 during the year ended January 31, 2006.

On January 31, 2005, the Company entered into a Debt Subordination Agreement with Kevin Thomas (“Thomas”), the former owner of Vitarich Laboratories, Inc. (“VLI”), for the cash portion of the additional consideration aggregating $3,292,000 the Company owed Thomas. The Subordinated debt had an original maturity of August 1, 2006 and had an interest rate of 10%. On May 5, 2006, the Company entered into an extension with Thomas of the maturity date of the subordinated note to August 1, 2007. On May 8, 2006, the Company utilized $1.8 million of the proceeds from the May 2006 private placement to reduce the amount of the note. The remaining principal and interest due on this note was paid on August 31, 2006 utilizing the aforementioned $1.5 million 3 year term note.

The Company leases administrative, manufacturing and warehouse facilities from an individual who is an officer of VLI. SMC’s administrative and maintenance facilities were rented from a former officer Janet L. Weems through July 2006. The total expense under these arrangements was $195,000 and $298,000 for the years ended January 31, 2007 and 2006, respectively. Aggregate future minimum lease payments due as of January 31, 2007 is $558,000.

The Company made payments of approximately $122,000 to Kevin Thomas in connection with leasehold improvements made to the Company’s primary warehouse and manufacturing facility during the twelve months ended January 31, 2006.

AI also entered into a supply agreement with an entity owned by the former shareholder of VLI whereby the supplier committed to sell to Argan, Inc. (“AI”) and AI committed to purchase on an as-needed basis, certain organic products. VLI made $91,000 and $189,000 in purchases under the supply agreement for the years ended January 31, 2007 and 2006.

The Company also sells its products in the normal course of business to an entity in which the former owner of VLI, Kevin Thomas, has an ownership interest. VLI had approximately $543,000 and $587,000 in sales with this entity for the years ended January 31, 2007 and 2006. At January 31, 2007 and 2006, the affiliated entity owed $155,000 and $157,000, respectively, to VLI.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information as of January 31, 2007 regarding the beneficial ownership of common stock by (A) each person known by the Company to own beneficially more than five percent of the common stock, (B) each director and director nominee of the Company, (C) each of the "Named Executive Officers" (as defined in "Executive Compensation - Summary Compensation Table"), and (D) all directors and nominees, named executive officers and executive officers of the Company as a group. Unless otherwise indicated, the address of each person named in the table below is c/o Argan, Inc., One Church Street, Suite 401, Rockville, Maryland 20850.

Name	Number of Shares Beneficially Owned(1)	Percentage Beneficially Owned(1) (15)
Joel M. Canino	1,650,333(2)	14.4%
William F. Griffin, Jr.	1,650,334(3)	14.4%
Richard L. Scott	1,000,000(4)	8.7%
Kevin Thomas	515,829(5)	4.5%
MSR Advisors, Inc.	1,373,270(6)	12.0%
Rainer H. Bosselmann	372,560(7)	3.3%
DeSoto S. Jordan	15,000(8)	*
William F. Leimkuhler	—	*
Daniel A. Levinson	1,388,270(9)	12.1%
W.G. Champion Mitchell	15,000(10)	*
T. Kent Pugmire	16,400(11)	*

James W. Quinn	94,570(12)	*
Peter L. Winslow	53,640(13)	*
Arthur F. Trudel	120,000(14)	1.1%
All directors and nominees, named executive officers and executive officers as a group (8 persons) (15)		24.9%

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* Less than 1 %

(1) As used in this table, a beneficial owner of a security includes any person who, directly or indirectly, through contract, arrangement, understanding, relationship or otherwise has or shares (i) the power to vote, or direct the voting of, such security or (ii) investment power which includes the power to dispose, or to direct the disposition of, such security. In addition, a person is deemed to be the beneficial owner of a security if that person has the right to acquire beneficial ownership of such security within 60 days of the date shown above.

(2) Based upon a Schedule 13D filed with the Commission by Joel M. Canino on December 19, 2006. Mr. Canino has sole voting and sole dispositive power with respect to all of the shares.

(3) Based upon a Schedule 13D filed with the Commission by William F. Griffin, Jr. on December 19, 2006. Mr. Griffin has sole voting and sole dispositive power with respect to all of the shares.

(4) Based upon a Schedule 13D filed with the Commission by Richard L. Scott on December 18, 2006. Mr. Scott has sole voting and dispositive power with respect to all of the shares. The shares are being held in an entity wholly-owned by Mr. Scott named Argan, Investments, LLC.

(5) Based upon a Schedule 13D filed with the Commission by Kevin Thomas on January 17, 2007. Mr. Thomas has sole voting and dispositive power with respect to all of the shares.

(6) Based upon a Schedule 13D/A filed with the Commission by MSR Advisors, Inc. and certain affiliates on January 4, 2007. The filing includes 1,320,270 shares of Common Stock and warrants to purchase 50,000 shares of Common Stock beneficially owned (in the aggregate) by MSR Advisors, Inc., a Delaware corporation ("MSRA"), MSR I SBIC Partners, LLC, a Delaware limited liability company ("MSRI Partners"), MSR I SBIC, L.P., a Delaware limited partnership ("MSRI"), MSR Fund II LP, and Tri-Lev LLC, a Connecticut limited liability company ("Tri-Lev"). Of such 1,320,270 shares, MSRA has sole voting and dispositive power with respect to 50,000 warrants and shared voting and dispositive power with respect to 1,320,270 shares; MSRI Partners has sole voting and dispositive power with respect to 0 shares and shared voting and dispositive power with respect to 879,730 shares; MSRI has sole voting and dispositive power with respect to 879,730 shares and shared voting and dispositive power with respect to 0 shares; and Tri-Lev has sole voting and dispositive power with respect to 3,000 shares and shared voting and dispositive power with respect to 3,000 shares. MSR Fund II LP has sole voting and dispositive power with respect to 440,540 shares and shared voting and shared dispositive power with respect to 0 shares. MSR Fund II GP, LLC has sole voting and dispositive power with respect to 0 shares and shared voting and shared dispositive power with respect to 440,540 shares. Daniel A. Levinson, a director of the Company, is the President of MSRA and the Managing Member of MSRI Partners and MSR Fund II GP, LLC. MSRA is the Manager of Tri-Lev. MSRI Partners is the General Partner of MSRI. The business address of Mr. Levinson, MSRA, MSRI Partners, MSRI, MSR Fund II LP and Tri-Lev is 1 Post Road, Suite 101, Westport, Connecticut 06880. Each of Mr. Levinson, MSRA, MSRI Partners, MSRI, MSR Fund II LP and Tri-Lev (each an “MSRA Person”) disclaims beneficial ownership of all shares and warrants of the Company beneficially owned by the other MSRA Persons, except to the extent such person has sole voting and dispositive power with respect to such securities.

(7) Includes 238,710 shares owned by Mr. Bosselmann, 23,850 shares owned by Mr. Bosselmann's wife (of which Mr. Bosselmann disclaims beneficial ownership), and options to purchase 50,000 shares of common stock, all of which are fully vested and warrants to purchase 60,000 shares held by Mr. Bosselmann.

(8) Includes options to purchase 5,000 shares of common stock held by Mr. Jordan, all of which are fully vested.

(9) Includes options to purchase 15,000 shares of common stock held by Mr. Levinson, all of which are fully vested. Includes 1,323,270 shares and warrants to purchase 50,000 shares beneficially owned (in the aggregate) by MSRA, MSRI Partners, MSRI, MSR, Fund II GP and Tri-Lev. Mr. Levinson is the President of MSRA and the Managing Member of MSRI Partners. MSRA is the Manager of Tri-Lev. MSRI Partners is the General Partner of MSRI. The business address of Mr. Levinson is 120 Post Road West, Suite 101, Westport, Connecticut 06880. Mr. Levinson disclaims beneficial ownership of all shares and warrants of the Company beneficially owned by MSRA, MSRI Partners, MSRI and Tri-Lev.

(10) Includes options to purchase 15,000 shares of common stock held by Mr. Mitchell, all of which are fully vested.

(11) Includes options to purchase 15,000 shares of common stock held by Dr. Pugmire, all of which are fully vested.

(12) Includes options to purchase 15,000 shares of common stock held by Mr. Quinn, all of which are fully vested. Does not include 531,183 shares of common stock held by Allen & Company, Incorporated and affiliates. Mr. Quinn disclaims beneficial ownership of the shares held by Allen & Company and affiliates.

(13) Includes options to purchase 15,000 shares of common stock held by Mr. Winslow, all of which are fully vested. The 43,640 shares held by Mr. Winslow also include: 1,290 shares held by Mr. Winslow; 3,870 shares held by Mr. Winslow as Trustee for Louise Condit Trust u/d FBO Elinor Winslow; 3,200 shares held by Mr. Winslow as Trustee for Condit & EC Winslow 41 u/d Trust; 1,900 shares held by Mr. Winslow as Trustee for Sears B. Condit Trust u/w; 25,800 shares held by Mr. Winslow as Trustee for Sears B. Condit Trust u/l; and 2,580 shares held by Mr. Winslow as Trustee for Andrew N. Winslow Trust u/w.

(14) Includes 10,000 shares owned by Mr. Trudel and options to purchase 50,000 shares of Common Stock all of which are fully vested and warrants to purchase 60,000 shares held by Mr. Trudel.

(15) Includes options to purchase 50,000 shares of Common Stock held by Mr. Bosselmann and warrants to purchase 60,000 shares of Common Stock held by Mr. Bosselmann, options to purchase 50,000 shares and warrants to purchase 60,000 shares of Common Stock held by Mr. Trudel, warrants to purchase 50,000 shares of Common Stock held by MSR Advisors, Inc. (of which Mr. Levinson is President), and options to purchase 90,000 shares of Common Stock held by directors of the Company.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information concerning equity compensation plans of the Company as of January 31, 2007:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	474,000 [1]	$ 5.93	—
Equity compensation plans not approved by security holders	—	—	—
Total	474,000	$ 5.93	—

(1) Represents 244,000 shares issuable upon exercise of options granted under the 2001 Stock Option Plan as of January 31, 2007 and 230,000 shares issuable upon exercise of warrants as described below.

In connection with the Company's private placement in April 2003, the Company issued warrants to purchase shares of the Company's common stock at a price of $7.75 per share with a ten year term. 180,000 of the warrants were granted to three individuals who became executive officers of Argan, Inc. upon completion of the offering. In addition, MSR Advisors, Inc. (MSR) received warrants to purchase 50,000 shares of the Company's stock. A director of the Company is the Chief Executive Officer of MSR. The fair value of the warrants of $849,000 was recognized as offering costs. All warrants are exercisable.

PROPOSAL NUMBER TWO

Amendment to Certificate of Incorporation to Increase the Number of Authorized Shares of Common Stock

BACKGROUND

The Company is currently pursuing a strategic plan involving the diversification of its business through business acquisitions and/or other investments. Management of the company believes that this diversification strategy will provide the potential for growth and profit. In this connection, on December 8, 2007, the Company acquired Gemma Power Systems LLC and affiliates which provide a full range of development, consulting, engineering, procurement, construction, commissioning, operating and maintenance services to the power energy market for a wide range of customers, including public utilities, independent power project owners, municipalities, public institutions and private industry.

THE PROPOSAL

The Certificate of Incorporation of the Company currently authorizes the issuance of a total of 12,000,000 shares of Common Stock and 500,000 of preferred stock. The Certificate of Incorporation permits the issuance of one or more classes of Common Stock, subject to the discretion of the Company's Board of Directors.

As of May 7, 2007, the record date, 11,094,012 shares of Common Stock were issued and outstanding, 244,000 shares of Common Stock were reserved for issuance under stock options granted under the Stock Option Plan (with an additional 24,000 shares reserved for issuance under stock options granted by the Company, but subject to the proposed amendment to the Stock Option Plan disclosed in Proposal Number Three). In addition, there were 230,000 shares of Common Stock eligible for issuance under warrants awarded to executive officers of the Company and to an entity controlled by a director of the Company. At May 1, 2007, remaining authorized shares of Common Stock available for future issuance was 905,988 (which includes the aforementioned 244,000 shares reserved for issuance under stock options, 24,000 shares awaiting approval for issuance under stock options and 230,000 warrants eligible for issuance). There are no shares issued and outstanding for the preferred stock.

The Board of Directors considers the proposed increase in the number of authorized shares desirable because it would give the Board the necessary flexibility to issue Common Stock in the future in connection with acquisitions and other transactions which management believes would provide the potential for growth and profit and for other general corporate purposes. In order to accomplish these objectives, the Company is seeking to amend the Certificate of Incorporation to increase the number of authorized shares of the Company's Common Stock from 12,000,000 to 30,000,000.

DESCRIPTION OF PROPOSED AMENDMENT

On April 18, 2007, the Board of Directors unanimously adopted a resolution proposing and declaring the advisability of an amendment to Article 4 of the Certificate which would effect an increase in the number of authorized shares of Common Stock from 12,000,000 to 30,000,000. To become effective, the amendment must also be adopted by the stockholders of the Company. The resolution amending Section 4 of the Company's Certificate to increase the number of authorized shares of the Company's Common Stock is set forth on Exhibit A to this Proxy Statement.

REASONS FOR PROPOSED AMENDMENT

The Board of Directors considers the proposed increase in the number of authorized shares desirable because it would permit the Board to pursue its diversification plans on an on-going basis, and would give the Board the necessary flexibility to issue Common Stock in connection with future acquisitions, investments and transactions which management believes would provide the potential for growth and profit. However, no definitive arrangements have been entered into in connection with any future acquisitions, investments or other transactions involving the issuance by the Company of shares of its Common Stock. Notwithstanding the foregoing, with the limited number of shares currently available, it would be impractical for the Company to evaluate or seek to consummate business acquisitions or other transactions which, if they could be accomplished, might enhance stockholder value. Additional authorized shares could also be used to raise cash through sales of stock to public and private investors. If additional shares are available, transactions dependent upon the issuance of additional shares would be less likely to be undermined by delays and uncertainties occasioned by the need to obtain prior stockholder authorization. The ability to issue shares as deemed in the Company's best interests by the Board, will also permit the Company to avoid the expenses which are incurred in holding special stockholders' meetings in the future. The Company has no current plans for the use of the additional shares which would be authorized by this amendment.

CERTAIN EFFECTS OF THE PROPOSED AMENDMENT

The issuance of additional shares of Common Stock by the Company may potentially have an anti-takover effect by making it more difficult to obtain stockholder approval of various actions, such as a merger or removal of management. The amendment to the Certificate of Incorporation, if approved, could strengthen the position of management and might make the removal of management more difficult, even if removal would be generally beneficial to the Company's stockholders. The authorization to issue the additional shares of Common Stock would provide management with a capacity to negate the effects of unfriendly tender offerors through the issuance of securities to others who are friendly or desirable to management.

VOTE REQUIRED

As discussed above, to become effective, the amendment must be adopted by the Board of Directors and the stockholders. The Board already has adopted the amendment. Under Delaware law and the Company's Certificate of Incorporation, the amendment must be approved by the affirmative vote of the holders of a majority of the outstanding shares of Common Stock

The Officers and Directors of the Company will vote the shares of Common Stock beneficially owned or controlled by them (representing approximately 15% of the shares of Common Stock issued and outstanding) in favor of the proposed amendment to the Company's Certificate of Incorporation.

The Board of Directors recommends that the stockholders vote "For" the approval of the amendment to the Company's Certificate of Incorporation increasing the number of authorized shares of Common Stock to 30,000,000.

PROPOSAL NUMBER THREE

Amendment to Stock Option Plan

BACKGROUND

On April 18, 2007, the Board of Directors adopted a resolution, subject to stockholder approval, to amend the Stock Option Plan to increase the number of shares issuable thereunder from 250,000 to 650,000.

The Board of Directors believes that stock options are valuable tools for the recruitment, retention and motivation of qualified employees, including officers, and other persons who can contribute materially to the Company's success. As of April 30, 2007, none of the 250,000 shares currently available for issuance under the Stock Option Plan remained available for issuance pursuant to new option grants and, in addition, the Company has granted options for an additional 24,000 shares subject to the adoption of the proposed amendment to the Stock Option Plan.

The Company has recently acquired Gemma Power Systems LLC and affiliates. This acquisition has added management and non-management employees to the Company's existing workforce. In addition, the Company may add management and non-management employees as a result of future business acquisitions or otherwise. The Board of Directors believes that it is important to have additional shares available under the Stock Option Plan to provide adequate incentives to the Company's workforce.

The material features of the Stock Option Plan, including the proposed amendment, are outlined below. The following summary is qualified in its entirety by reference to the full text of the Stock Option Plan, a copy of which has been filed with the Securities and Exchange Commission.

PURPOSE

The purpose of the Stock Option Plan is to continue to provide an incentive to employees, directors, consultants and others who are in a position to contribute materially to the long term success of the Company, to increase such person's interest in the Company's welfare and to aid in retaining individuals with outstanding ability.

ADMINISTRATION

The Plan is administered by the Board of Directors of the Company.

ELIGIBILITY

The Stock Option Plan currently provides for the grant to employees, officers, directors and consultants of options to purchase up to 250,000 shares of Common Stock. The proposed amendment would increase the number of shares issuable upon exercise of options to 650,000. Options may be either “incentive stock options” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or non-qualified options. Incentive stock options may be granted only to employees of the Company (including directors who are employees), while non-qualified options may be issued to directors (whether or not an employee), consultants and other non-employees of the Company. The Board of Directors of the Company has the authority to determine those individuals who shall receive options, the time period during which the options may be practically or fully exercised, the number of shares of Common Stock that may be purchased under each option and the option price.

TERMS OF OPTIONS

The per share exercise price of the Common Stock subject to an incentive stock option may not be less than the fair market value of the Common Stock at the time the option is granted. The per share exercise price of the Common Stock subject to a non-qualified option may be established by the Board of Directors of the Company. The aggregate fair market value (determined as of the date the option is granted) of the Common Stock that first becomes exercisable by any employee in any one calendar year pursuant to the exercise of incentive stock options may not exceed $100,000. No person who owns, directly or indirectly, at the time of the granting of an incentive stock option to him, 10% or more of the total combined voting power of all classes of stock of the Company (a “10% Stockholder”) shall be eligible to receive any incentive stock options under the Plan unless the option price is at least 110% of the fair market value of the Common Stock subject to the option, determined on the date of grant.

Options under the Plan must be granted no later than July 19, 2011. Incentive stock options granted under the Plan cannot be exercised more than ten years from the date of grant except that incentive stock options issued to a 10% Stockholder are limited to five year terms. All options granted under the Plan provide for the payment of the exercise price in cash or by delivery to the Company of shares of Common Stock already owned by the options having a fair market value equal to the exercise price of the options being exercised, or by a combination of those methods of payment. Therefore, an optionee may be able to ender shares of Common Stock to purchase additional shares of Common Stock and may theoretically exercise all of his stock options with no additional investment other than his original shares.

TRANSFERABILITY

No stock option may be transferred by an optionee other than by will or the laws of descent and distribution, and, during the lifetime of an optionee, the option will be exercisable only by him or her.

In the event any options expire or terminate unexercised as to any shares covered thereby, the shares shall become available once again for the granting of other options under the Stock Option Plan.

FEDERAL INCOME TAX INFORMATION

Options granted under the Stock Option Plan may be either "incentive stock options," as defined in Section 422 of the Code, or nonstatutory options.

If an option granted under the Stock Option Plan is an incentive stock option, the optionee will recognize no income upon grant of the incentive stock option and incur no tax liability due to the exercise unless the optionee is subject to the alterative minimum tax. The Company will not be allowed a deduction for federal income tax purposes as a result of the exercise of an incentive stock option regardless of the applicability of the alternative minimum tax. Upon the sale or exchange of the shares at least two years after grant of the option and one year after transfer of the shares to the optionee by the Company, any gain will be treated as long-term capital gain. If these holding periods are not satisfied, the optionee will recognize ordinary income equal to the difference between the exercise price and the lower of the fair market value of the stock at the date of the option exercise of the sale of the stock. The Company will be entitled to a deduction in the same amount as the ordinary income recognized by the optionee. Any gain recognized on such a premature disposition of the shares in excess of the amount treated as ordinary income will be characterized as capital gain. Currently, the tax rate on net capital gain (net long-term capital gain minus net short-term capital loss) is capped at 28%. Capital losses are allowed in full against capital gains plus $3,000 of other income.

The Company will be entitled to a tax deduction in the same amount as the ordinary income recognized by the optionee with respect to shares acquired upon exercise of a nonstatutory option.

The foregoing is only a summary of the effect of federal income taxation upon the optionee and the Company with respect to the grant and exercise of options under the Stock Option Plan, does not purport to be complete and references should be made to the applicable provisions of the Code. In addition, this summary does not discuss the income tax laws of any municipality, state or foreign country in which an optionee may reside.

VOTE REQUIRED

To become effective, the amendment to the Stock Option Plan must be approved by the affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and voting.

The officers and directors of the Company will vote the shares of Common Stock beneficially owned or controlled by them (representing approximately 15% of the shares of Common Stock issued and outstanding) in favor of the proposed amendment to the Company's Stock Option Plan.

The Board of Directors recommends that the stockholders vote "For" the approval of the amendment to the Stock Option Plan to increase the number of authorized shares of Common Stock issuable thereunder to 650,000.

PROPOSAL NUMBER FOUR

Ratification of Independent Registered Public Accountants

The persons named in the enclosed proxy will vote to ratify the selection of Grant Thornton LLP as the Company's independent registered public accountants for the fiscal year ending January 31, 2008 unless otherwise directed by the stockholders.

Ernst & Young (E&Y) audited the Company’s financial statements for its fiscal year ended January 31, 2006. The Company dismissed E&Y as the Company's independent registered public accountants in May 2006. The decision to dismiss E&Y was approved by the Audit Committee of the Company on May 18, 2006, and E&Y was notified of the decision on May 18, 2006. The Company found no fault with the services rendered by E&Y to the Company.

During the Company's fiscal years ended January 31, 2006 and January 31, 2005, there were no disagreements with E&Y on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which, if not resolved to the satisfaction of E&Y, would have caused it to make references to the subject matter of the disagreement in connection with its report. E&Y’s reports on the Company's financial statements for fiscal years 2006 and 2005 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's fiscal years 2006 and 2005 and the subsequent interim period preceding the decision to change principal accountants, there were no reportable events as defined in Regulation S-K Item 304(a)(1)(v).

On May 19, 2006, Grant Thornton LLP was engaged as the Company's independent registered public accountants, and Grant Thornton audited the Company’s financial statements for its fiscal year ended January 31, 2007.

Representatives of Grant Thornton are expected to be present at the Meeting. If present, the representatives will have an opportunity to make a statement, and it is expected that the representatives will be available to respond to appropriate questions.

VOTE REQUIRED

To ratify the appointment of Grant Thornton, an affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and voting is required.

The officers and directors of the Company will vote the shares of Common Stock beneficially owned or controlled by them (representing approximately 15% of the shares of Common Stock issued and outstanding) in favor of the ratification of the appointment of Grant Thornton.

The Board of Directors recommends that the stockholders vote “For” the ratification of the appointment of Grant Thornton.

Fees Paid to Independent Registered Public Accountants

The following table shows the fees for professional services provided by Grant Thornton LLP for the fiscal year ended January 31, 2007 and by Ernst & Young LLP for the fiscal year ended January 31, 2006.

	2007	2006
Audit Fees	$ 305,000	$ 573,000
Audit-Related Fees	28,000	5,000
Tax Fees	56,000	38,500
All Other Fees	5,000	—
Total	$ 394,000	$ 616,500

Audit Fees . This category includes the audit of the Company’s annual financial statements, review of financial statements included in the Company’s Form 10-QSB quarterly reports and services that are normally provided by the independent auditors in connection with SEC registration statements, assistance with SEC comment letters and accounting and reporting consultation for those fiscal years.

Audit Related Fees. This category consists of professional services for due diligence in connection with proposed acquisitions.

Tax Fees . This category consists of professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees. This category consists of services related to assistance with documenting internal control policies and procedures over financial reporting.

Stockholder Proposals

In order to be considered for inclusion in the Proxy Statement relating to the 2008 Annual Meeting, any proposal by a record holder of Common Stock must be received by the Company at its principal offices in Rockville, Maryland on or before January 2, 2008. A proponent of such a proposal must comply with the proxy rules under the Securities Exchange Act of 1934, as amended.

Solicitation

All costs and expenses associated with soliciting proxies will be borne by the Company. In addition to the use of the mails, proxies may be solicited by the directors, officers and employees of the Company by personal interview, telephone, telegram, facsimile or electronic mail. Directors, officers and employees will not be additionally compensated for such solicitation but may be reimbursed for their out-of-pocket expenses. Arrangements will also be made with custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of Common Stock and the Company will reimburse custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses incurred in connection therewith.

Other Matters

As of the date of this Proxy Statement, the Board of Directors is not aware of any other business or matters to be presented for consideration at the Meeting other than as set forth in the Notice of Meeting attached to this Proxy Statement. However, if any other business shall come before the Meeting or any adjournment or postponement thereof and be voted upon, the enclosed proxy shall be deemed to confer discretionary authority on the individuals named to vote the shares represented by the proxy as to any such matters.

Annual Report on Form 10-KSB

The Company will provide without charge to each beneficial holder of its Common Stock on the Record Date, upon the written request of any such person, copies of the Company's Annual Report on Form 10-KSB for the fiscal year ended January 31, 2007, as filed with the Commission. Any such request should be made in writing to Corporate Secretary, Argan, Inc., One Church Street, Suite 401, Rockville, Maryland 20850, telephone 301-315-0027.

Exhibit A

Argan, Inc.
Board Resolution

RESOLVED , that Board of Directors declares that it is advisable to amend Article Fourth of the Certificate of Incorporation of the Company, as follows:

“Fourth. The total number of shares of common stock this Corporation is authorized to issue is 30,000,000, par value $0.15 per share; and it is further

RESOLVED , that the foregoing amendment to the Certificate of Incorporation is advisable and that the executive officers of the Company be and they are hereby authorized to present the foregoing amendment to the stockholders of the Company for their approval and if the foregoing amendment is so approved, the executive officers of the Company be and they hereby are authorized to prepare and file with the Delaware Secretary of State a Certificate of Amendment to the Certificate of Incorporation embodying the foregoing amendment and to take such other actions as they may deem appropriate to effect the purpose and intent of this and the foregoing resolution and to comply with applicable law with respect thereto.

ARGAN, INC.
One Church Street, Suite 401
Rockville, Maryland 20850
Proxy for Annual Meeting of Stockholders to be held June 19, 2006
Solicited on Behalf of the Board of Directors

The undersigned hereby appoint(s) Rainer H. Bosselmann and Arthur F. Trudel, and each of them, attorneys with full power of substitution, to vote as directed below all shares of Common Stock of Argan, Inc. registered in the name of the undersigned, or which the undersigned may be entitled to vote, at the Annual Meeting of Stockholders to be held at the offices of Allen & Company LLC located at 711 Fifth Avenue, 9th Floor, New York, New York 10022, on June 19, 2007 at 11:00 a.m. and at any adjournment or postponement thereof.

1. Election of Directors.

o FOR all nominees listed below (except as marked to the contrary below)

o WITHHOLD AUTHORITY to vote for all nominees listed below

Nominees :
Rainer H. Bosselmann
DeSoto S. Jordan
William F. Leimkuhler
Daniel A. Levinson
W.G. Champion Mitchell
James W. Quinn
Peter L. Winslow

(Instruction: To Withhold Authority to Vote for any Individual Nominee Strike a Line Through the Nominee's Name in the List Above.)

2. Amendment to Certificate of Incorporation to increase the number of authorized shares of Common Stock.

o FOR o AGAINST o ABSTAIN

3. Amendment of Stock Option Plan.

o FOR o AGAINST o ABSTAIN

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4. Approval of the Ratification of Independent Registered Public Accountants.

o FOR o AGAINST o ABSTAIN

5. As Such Proxies May in Their Discretion Determine in Respect of Any Other Business Properly to Come Before Said Meeting (The Board of Directors Knowing of No Such Other Business).

The directors recommend a vote FOR items 1, 2, 3 and 4.

This Proxy, when properly executed, will be voted in the manner directed herein. If no direction is made, this Proxy will be voted for Items 1, 2, 3 and 4 as proposed.

DATED____________________, 2007

____
signature

____
signature (if held jointly)

(Please sign exactly as name appears on this card. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership or limited liability company, please sign in partnership or limited liability company name by authorized person).

PLEASE MARK, SIGN, DATE AND RETURN PROXY CARD
PROMPTLY USING THE ENCLOSED ENVELOPE

;">

Completion and Production	$ 596	$ 564	$ 1,628	$ 1,543
Drilling and Evaluation	372	368	1,082	

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Corporate and other	(58)	(62)	(119)	(164)
Total operating income	$ 910	$ 870	$ 2,591	$ 2,322

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

Millions of dollars	September 30, 2007	December 31, 2006
Total assets:		
Completion and Production	$ 4,779	$ 3,636
Drilling and Evaluation	4,402	3,566
Shared energy services	853	1,216
Corporate and other	2,435	3,047
Discontinued operations	-	5,395
Total	$ 12,469	$ 16,860

Not all assets are associated with specific segments. Those assets specific to segments include receivables, inventories, certain identified property, plant, and equipment (including field service equipment), equity in and advances to related companies, and goodwill. The remaining assets, such as cash, are considered to be shared among the segments and are included in "Shared energy services."
As of September 30, 2007, 36% of our gross trade receivables were from customers in the United States. As of December 31, 2006, 39% of our gross trade receivables were from customers in the United States. No other country accounted for more than 10% of our gross trade receivables at these dates.

Note 5. Inventories
Inventories are stated at the lower of cost or market. In the United States, we manufacture certain finished products and have parts inventories for drill bits, completion products, bulk materials, and other tools that are recorded using the last-in, first-out method totaling $74 million at September 30, 2007 and $58 million at December 31, 2006. If the weighted average cost method was used, total inventories would have been $23 million higher than reported at September 30, 2007 and $20 million higher than reported at December 31, 2006. Inventories consisted of the following:

Millions of dollars	September 30, 2007	December 31, 2006
Finished products and parts	$ 1,050	$ 883
Raw materials and supplies	394	256
Work in process	116	96
Total	$ 1,560	$ 1,235

Finished products and parts are reported net of obsolescence reserves of $69 million at September 30, 2007 and $63 million at December 31, 2006.

Note 6. Investments
Investments in marketable securities
At September 30, 2007, we had $1.2 billion invested in marketable securities, consisting of auction-rate securities and variable-rate demand notes. Our auction-rate securities and variable-rate demand notes are classified as available-for-sale and recorded at fair value. At December 31, 2006, our investments in marketable securities were $20 million.

Restricted and committed cash

At September 30, 2007, we had restricted cash of $53 million, which primarily consisted of collateral for potential future insurance claim reimbursements, included in "Other assets." At December 31, 2006, we had restricted cash of $108 million in "Other assets," which primarily consisted of similar items. The $55 million decrease in restricted cash primarily reflects the release, due to the separation of KBR, of collateral related to potential insurance claim reimbursements.

Note 7. Debt

The stock conversion rate for the $1.2 billion of 3.125% convertible senior notes issued in June 2003 changed to 53.2993 shares of common stock per each $1,000 principal amount of the convertible senior notes in the third quarter of 2007 due to the increased quarterly dividend paid on the common stock.

On July 9, 2007, we entered into a new unsecured $1.2 billion five-year revolving credit facility that replaced our then existing unsecured $1.2 billion five-year revolving credit facility with generally similar terms and conditions except that the new facility does not contain any financial covenants. The purpose of the facility is to provide commercial paper support, general working capital, and credit for other corporate purposes. There were no cash drawings under the revolving credit facility as of September 30, 2007.

Note 8. Comprehensive Income

The components of other comprehensive income included the following:

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of dollars	2007	2006	2007	2006
Net income	$ 727	$ 611	$ 2,809	$ 1,690
Cumulative translation adjustments	–	14	–	51
Realization of (gains) losses included in net income	–	2	(24)	(14)
Net cumulative translation adjustments	–	16	(24)	37
Realized pension liability adjustments	–	–	282	–
Unrealized net gains (losses) on investments and derivatives	–	(10)	1	11
Realization of gains on investments and derivatives included in net income	–	(1)	–	(1)
Net unrealized gains (losses) on investments and derivatives	–	(11)	1	10
Total comprehensive income	$ 727	$ 616	$ 3,068	$ 1,737

Accumulated other comprehensive income consisted of the following:

Millions of dollars	September 30, 2007	December 31, 2006
Cumulative translation adjustments	$ (62)	$ (38)
Pension liability adjustments	(118)	(400)
Unrealized gains on investments and derivatives	2	1
Total accumulated other comprehensive income	$ (178)	$ (437)

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Note 9. Asbestos Insurance Recoveries

Several of our subsidiaries or former subsidiaries, particularly DII Industries LLC and Kellogg Brown & Root LLC, had been named as defendants in a large number of asbestos- and silica-related lawsuits. Effective December 31, 2004, we resolved all open and future claims in the prepackaged Chapter 11 proceedings of DII Industries LLC, Kellogg Brown & Root LLC, and our other affected subsidiaries (which were filed on December 16, 2003) when the plan of reorganization became final and nonappealable.

During 2004, we settled insurance disputes with substantially all the insurance companies for asbestos- and silica-related claims and all other claims under the applicable insurance policies and terminated all the applicable insurance policies. Under the terms of our insurance settlements, we would receive cash proceeds with a nominal amount of approximately $1.5 billion and with a then present value of approximately $1.4 billion for our asbestos- and silica-related insurance receivables. Cash payments of approximately $24 million related to these receivables were received in the first nine months of 2007. At September 30, 2007, the remaining amounts that we will receive under the terms of the settlement agreements totaled $238 million or $223 million on a present value basis, to be paid in several installments through 2010. Of the $223 million recorded at September 30, 2007, $90 million was classified as current.

Under the insurance settlements entered into as part of the resolution of our Chapter 11 proceedings, we have agreed to indemnify our insurers under certain historic general liability insurance policies in certain situations. We have concluded that the likelihood of any claims triggering the indemnity obligations is remote, and we believe any potential liability for these indemnifications will be immaterial. At September 30, 2007, we had not recorded any liability associated with these indemnifications.

Note 10. Commitments and Contingencies

Foreign Corrupt Practices Act investigations

The Securities and Exchange Commission (SEC) is conducting a formal investigation into whether improper payments were made to government officials in Nigeria through the use of agents or subcontractors in connection with the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The Department of Justice (DOJ) is also conducting a related criminal investigation. The SEC has also issued subpoenas seeking information, which we and KBR are furnishing, regarding current and former agents used in connection with multiple projects, including current and prior projects, over the past 20 years located both in and outside of Nigeria in which the Halliburton energy services business, KBR or affiliates, subsidiaries or joint ventures of Halliburton or KBR, are or were participants. In September 2006 and October 2007, the SEC and the DOJ, respectively, each requested that we enter into an agreement to extend the statute of limitations with respect to its investigation. We anticipate that we will enter into an appropriate agreement with each of the SEC and the DOJ.

TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (a subsidiary of Saipem SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root LLC (a subsidiary of KBR), each of which had an approximate 25% interest in the venture. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA of Italy).

The SEC and the DOJ have been reviewing these matters in light of the requirements of the FCPA. In addition to performing our own investigation, we have been cooperating with the SEC and the DOJ investigations and with other investigations in France, Nigeria, and Switzerland regarding the Bonny Island project. The government of Nigeria gave notice in 2004 to the French magistrate of a civil claim as an injured party in the French investigation. We are not aware of any further developments with respect to this claim. We also believe that the Serious Fraud Office in the United Kingdom is conducting an investigation relating to the Bonny Island project. Our Board of Directors has appointed a committee of independent directors to oversee and direct the FCPA investigations. Through our committee of independent directors, we will continue to oversee and direct the investigations.

The matters under investigation relating to the Bonny Island project cover an extended period of time (in some cases significantly before our 1998 acquisition of Dresser Industries and continuing through the current time period). We have produced documents to the SEC and the DOJ from the files of numerous officers and employees of Halliburton and KBR, including current and former executives of Halliburton and KBR, both voluntarily and pursuant to company subpoenas from the SEC and a grand jury, and we are making our employees and KBR is making its employees available to the SEC and the DOJ for interviews. In addition, the SEC has issued a subpoena to A. Jack Stanley, who formerly served as a consultant and chairman of Kellogg Brown & Root LLC, and to others, including certain of our former and KBR's current and former employees, former executive officers of KBR, and at least one subcontractor of KBR. We further understand that the DOJ has issued subpoenas for the purpose of obtaining information abroad, and we understand that other partners in TSKJ have provided information to the DOJ and the SEC with respect to the investigations, either voluntarily or under subpoenas.

The SEC and DOJ investigations include an examination of whether TSKJ's engagements of Tri-Star Investments as an agent and a Japanese trading company as a subcontractor to provide services to TSKJ were utilized to make improper payments to Nigerian government officials. In connection with the Bonny Island project, TSKJ entered into a series of agency agreements, including with Tri-Star Investments, of which Jeffrey Tesler is a principal, commencing in 1995 and a series of subcontracts with a Japanese trading company commencing in 1996. We understand that a French magistrate has officially placed Mr. Tesler under investigation for corruption of a foreign public official. In Nigeria, a legislative committee of the National Assembly and the Economic and Financial Crimes Commission, which is organized as part of the executive branch of the government, are also investigating these matters. Our representatives have met with the French magistrate and Nigerian officials. In October 2004, representatives of TSKJ voluntarily testified before the Nigerian legislative committee.

TSKJ suspended the receipt of services from and payments to Tri-Star Investments and the Japanese trading company and has considered instituting legal proceedings to declare all agency agreements with Tri-Star Investments terminated and to recover all amounts previously paid under those agreements. In February 2005, TSKJ notified the Attorney General of Nigeria that TSKJ would not oppose the Attorney General's efforts to have sums of money held on deposit in accounts of Tri-Star Investments in banks in Switzerland transferred to Nigeria and to have the legal ownership of such sums determined in the Nigerian courts.

As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. We have reason to believe that, based on the ongoing investigations, payments may have been made by agents of TSKJ to Nigerian officials. In addition, information uncovered in the summer of 2006 suggests that, prior to 1998, plans may have been made by employees of The M.W. Kellogg Company (a predecessor of a KBR subsidiary) to make payments to government officials in connection with the pursuit of a number of other projects in countries outside of Nigeria. We are reviewing a number of more recently discovered documents related to KBR's activities in countries outside of Nigeria with respect to agents for projects after 1998. Certain activities discussed in this paragraph involve current or former employees or persons who were or are consultants to KBR, and our investigation is continuing.

In June 2004, all relationships with Mr. Stanley and another consultant and former employee of M.W. Kellogg Limited were terminated. The terminations occurred because of Code of Business Conduct violations that allegedly involved the receipt of improper personal benefits from Mr. Tesler in connection with TSKJ's construction of the Bonny Island project.

In 2006 and 2007, KBR suspended the services of other agents in and outside of Nigeria, including one agent who, until such suspension, had worked for KBR outside of Nigeria on several current projects and on numerous older projects going back to the early 1980s. Such suspensions have occurred when possible improper conduct has been discovered or alleged or when Halliburton and KBR have been unable to confirm the agent's compliance with applicable law and the Code of Business Conduct.

The SEC and DOJ are also investigating and have issued subpoenas concerning TSKJ's use of an immigration services provider, apparently managed by a Nigerian immigration official, to which approximately $1.8 million in payments in excess of costs of visas were allegedly made between approximately 1997 and the termination of the provider in December 2004 and our 2007 reporting of this matter to the government. We understand that TSKJ terminated the immigration services provider after a KBR employee discovered the issue.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to $500,000 per violation, equitable remedies, including disgorgement (if applicable) generally of profits, including prejudgment interest on such profits, causally connected to the violation, and injunctive relief. Criminal penalties could range up to the greater of $2 million per violation or twice the gross pecuniary gain or loss from the violation, which could be substantially greater than $2 million per violation. It is possible that both the SEC and the DOJ could assert that there have been multiple violations, which could lead to multiple fines. The amount of any fines or monetary penalties that could be assessed would depend on, among other factors, the findings regarding the amount, timing, nature, and scope of any improper payments, whether any such payments were authorized by or made with knowledge of us, KBR or our or KBR's affiliates, the amount of gross pecuniary gain or loss involved, and the level of cooperation provided the government authorities during the investigations. The government has expressed concern regarding the level of our cooperation. Agreed dispositions of these types of violations also frequently result in an acknowledgement of wrongdoing by the entity and the appointment of a monitor on terms negotiated with the SEC and the DOJ to review and monitor current and future business practices, including the retention of agents, with the goal of assuring compliance with the FCPA.

These investigations could also result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages, damage to our business or reputation, loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of us or our current or former subsidiaries. In addition, we could incur costs and expenses for any monitor required by or agreed to with a governmental authority to review our continued compliance with FCPA law.

As of September 30, 2007, we are unable to estimate an amount of probable loss or a range of possible loss related to these matters as it relates to Halliburton directly. However, we provided indemnification in favor of KBR under the master separation agreement for certain contingent liabilities, including Halliburton's indemnification of KBR and any of its greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of a claim made or assessed by a governmental authority in the United States, the United Kingdom, France, Nigeria, Switzerland, and/or Algeria, or a settlement thereof, related to alleged or actual violations occurring prior to November 20, 2006 of the FCPA or particular, analogous applicable foreign statutes, laws, rules, and regulations in connection with investigations pending as of that date, including with respect to the construction and subsequent expansion by TSKJ of a natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. We recorded the estimated fair market value of this indemnity regarding FCPA matters described above upon our separation from KBR. See Note 2 for additional information.

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

In consideration of our agreement to indemnify KBR for the liabilities referred to above, KBR has agreed that we will at all times, in our sole discretion, have and maintain control over the investigation, defense and/or settlement of these FCPA matters until such time, if any, that KBR exercises its right to assume control of the investigation, defense and/or settlement of the FCPA matters as it relates to KBR. KBR has also agreed, at our expense, to assist with Halliburton's full cooperation with any governmental authority in our investigation of these FCPA matters and our investigation, defense and/or settlement of any claim made by a governmental authority or court relating to these FCPA matters, in each case even if KBR assumes control of these FCPA matters as it relates to KBR. If KBR takes control over the investigation, defense, and/or settlement of FCPA matters, refuses a settlement of FCPA matters negotiated by us, enters into a settlement of FCPA matters without our consent, or materially breaches its obligation to cooperate with respect to our investigation, defense, and/or settlement of FCPA matters, we may terminate the indemnity.

Barracuda-Caratinga arbitration

We also provided indemnification in favor of KBR under the master separation agreement for all out-of-pocket cash costs and expenses (except for legal fees and other expenses of the arbitration so long as KBR controls and directs it), or cash settlements or cash arbitration awards in lieu thereof, KBR may incur after November 20, 2006 as a result of the replacement of certain subsea flowline bolts installed in connection with the Barracuda-Caratinga project. Under the master separation agreement, KBR currently controls the defense, counterclaim, and settlement of the subsea flowline bolts matter. As a condition of our indemnity, for any settlement to be binding upon us, KBR must secure our prior written consent to such settlement's terms. We have the right to terminate the indemnity in the event KBR enters into any settlement without our prior written consent. See Note 2 for additional information regarding the KBR indemnification.

At Petrobras' direction, KBR replaced certain bolts located on the subsea flowlines that failed through mid-November 2005, and KBR has informed us that additional bolts have failed thereafter, which were replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. The designation of the material to be used for the bolts was issued by Petrobras, and as such, we understand that KBR believes the cost resulting from any replacement is not KBR's responsibility. We understand Petrobras disagrees. We understand KBR believes several possible solutions may exist, including replacement of the bolts. Estimates indicate that costs of these various solutions range up to $140 million. In March 2006, Petrobras commenced arbitration against KBR claiming $220 million plus interest for the cost of monitoring and replacing the defective bolts and all related costs and expenses of the arbitration, including the cost of attorneys' fees. We understand KBR intends to vigorously defend and pursue recovery of the costs incurred to date through the arbitration process and to that end has submitted a counterclaim in the arbitration seeking the recovery of $22 million. The final arbitration hearing is expected to begin in 2008.

Securities and related litigation

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

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

In June 2004, the court entered an order preliminarily approving the settlement. Following the transfer of the case to another district judge, the court held that evidence of the settlement's fairness was inadequate, denied the motion for final approval of the settlement, and ordered the parties to mediate. The mediation was unsuccessful.

In April 2005, the court appointed new co-lead counsel and named AMSF the new lead plaintiff, directing that it file a third consolidated amended complaint and that we file our motion to dismiss. The court held oral arguments on that motion in August 2005, at which time the court took the motion under advisement. In March 2006, the court entered an order in which it granted the motion to dismiss with respect to claims arising prior to June 1999 and granted the motion with respect to certain other claims while permitting AMSF to replead some of those claims to correct deficiencies in its earlier complaint. In April 2006, AMSF filed its fourth amended consolidated complaint. We filed a motion to dismiss those portions of the complaint that had been repled. A hearing was held on that motion in July 2006, and in March 2007 the court ordered dismissal of the claims against all individual defendants other than our CEO. The court ordered that the case proceed against our CEO and Halliburton. In response to a motion by the lead plaintiff, on February 26, 2007, the court ordered the removal and replacement of their co-lead counsel. Most recently, upon becoming aware of a United States Supreme Court opinion issued near the end of its most recently completed term, the court allowed further briefing on the motion to dismiss filed on behalf of our CEO. That briefing is complete, but the court has not yet ruled. In September 2007, AMSF filed a motion for class certification. Our response to the motion is due on November 1, 2007. The case is set for trial in July 2009.

As of September 30, 2007, we had not accrued any amounts related to this matter.

Operations in Iran

We received and responded to an inquiry in mid-2001 from the Office of Foreign Assets Control (OFAC) of the United States Treasury Department with respect to operations in Iran by a Halliburton subsidiary incorporated in the Cayman Islands. The OFAC inquiry requested information with respect to compliance with the Iranian Transaction Regulations. These regulations prohibit United States citizens, including United States corporations and other United States business organizations, from engaging in commercial, financial, or trade transactions with Iran, unless authorized by OFAC or exempted by statute. Our 2001 written response to OFAC stated that we believed that we were in compliance with applicable sanction regulations. In the first quarter of 2004, we responded to a follow-up letter from OFAC requesting additional information. We understand this matter has now been referred by OFAC to the DOJ. In July 2004, we received a grand jury subpoena from an Assistant United States District Attorney requesting the production of documents. We are cooperating with the government’s investigation and responded to the subpoena by producing documents in September 2004. As of September 30, 2007, we had not accrued any amounts related to this investigation.

Separate from the OFAC inquiry, we completed a study in 2003 of our activities in Iran during 2002 and 2003 and concluded that these activities were in compliance with applicable sanction regulations. These sanction regulations require isolation of entities that conduct activities in Iran from contact with United States citizens or managers of United States companies. Notwithstanding our conclusions that our activities in Iran were not in violation of United States laws and regulations, we announced in April 2007 that all of our contractual commitments in Iran have been completed, and we are no longer working in Iran.

David Hudak and International Hydrocut Technologies Corp.

In October 2004, David Hudak and International Hydrocut Technologies Corp. (collectively, Hudak) filed suit against us in the United States District Court alleging civil Racketeer Influenced and Corporate Organizations Act violations, fraud, breach of contract, unfair trade practices, and other torts. The action arose out of Hudak’s alleged purchase from us in early 1994 of certain explosive charges that were later alleged by the DOJ to be military ordnance, the possession of which by persons not possessing the requisite licenses and registrations is unlawful. As a result of that allegation by the government, Hudak was charged with, but later acquitted of, certain criminal offenses in connection with his possession of the explosive charges. This case was settled in August 2007. The amount of the settlement was not material.

M-I, LLC antitrust litigation

On February 16, 2007, we were informed that M-I, LLC, a competitor of ours in the drilling fluids market, had sued us for allegedly attempting to monopolize the market for invert emulsion drilling fluids used in deep water and/or in cold water temperatures. The claims M-I asserted are based upon its allegation that the patent issued for our Accolade® drilling fluid was invalid as a result of its allegedly having been procured by fraud on the United States Patent and Trademark Office and that our subsequent prosecution of an infringement action against M-I amounted to predatory conduct in violation of Section 2 of the Sherman Antitrust Act. In October 2006, a federal court dismissed our infringement action based upon its holding that the claims in our patent were indefinite and the patent was, therefore, invalid. That judgment is now on appeal. M-I also alleges that we falsely advertised our Accolade® drilling fluid in violation of the Lanham Act and California law and that our earlier infringement action amounted to malicious prosecution in violation of Texas state law. M-I seeks compensatory damages, which it claims should be trebled, as well as punitive damages and injunctive relief. We believe that M-I's claims are without merit and intend to aggressively defend them. As of September 30, 2007, we had not accrued any amounts in connection with this matter.

Dirt, Inc. litigation

Dirt, Inc. has brought suit in Alabama against Bredero-Shaw (a joint venture in which we formerly held a 50% interest that we sold to the other party in the venture, ShawCor Ltd., in 2002), Halliburton Energy Services, Inc., and ShawCor Ltd., claiming that Bredero-Shaw disposed of hazardous waste in a construction materials landfill owned and operated by Dirt, Inc. Bredero-Shaw has offered to take responsibility for clean-up of the site. The plaintiff has not accepted that offer, and the amount of such clean-up cost is disputed, with expert opinions ranging from $6 million to $144 million. Our share of any award for the clean-up costs could be as much as 50%. The plaintiff is also seeking punitive damages, which under Alabama law could be an amount up to three times actual damages; we believe, however, that we have valid legal defenses to the imposition of any punitive damages against us. We are vigorously defending this action, which will be tried during the fourth quarter of 2007. We have accrued our 50% portion of an estimate of what we believe it will cost to remediate the site.

Environmental

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

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

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

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. Our accrued liabilities for environmental matters were $75 million as of September 30, 2007 and $39 million as of December 31, 2006. Our total liability related to environmental matters covers numerous properties. We have subsidiaries that have been named as potentially responsible parties along with other third parties for 11 federal and state superfund sites for which we have established a liability. As of September 30, 2007, those 11 sites accounted for approximately $11 million of our total $75 million liability. For any particular federal or state superfund site, since our estimated liability is typically within a range and our accrued liability may be the amount on the low end of that range, our actual liability could eventually be well in excess of the amount accrued. Despite attempts to resolve these superfund matters, the relevant regulatory agency may at any time bring suit against us for amounts in excess of the amount accrued. With respect to some superfund sites, we have been named a potentially responsible party by a regulatory agency; however, in each of those cases, we do not believe we have any material liability. We also could be subject to third-party claims with respect to environmental matters for which we have been named as a potentially responsible party.

Letters of credit

In the normal course of business, we have agreements with banks under which approximately $2.3 billion of letters of credit, surety bonds, or bank guarantees were outstanding as of September 30, 2007, including $1.3 billion that relate to KBR. These KBR letters of credit, surety bonds, or bank guarantees are being guaranteed by us in favor of KBR's customers and lenders. KBR has agreed to compensate us for these guarantees and indemnify us if we are required to perform under any of these guarantees. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.

Note 11. Income per Share

Basic income per share is based on the weighted average number of common shares outstanding during the period. Diluted income per share includes additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. A reconciliation of the number of shares used for the basic and diluted income per share calculations is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of shares	2007	2006	2007	2006
Basic weighted average common shares outstanding	880	1,011	925	1,021
Dilutive effect of:				
Convertible senior notes premium	30	27	28	30
Stock options	6	8	6	9
Restricted stock	1	2	2	2
Diluted weighted average common shares outstanding	917	1,048	961	1,062

Excluded from the computation of diluted income per share are options to purchase four million shares of common stock that were outstanding during the three and nine months ended September 30, 2007 and two million shares that were outstanding during the three and nine months ended September 30, 2006. These options were outstanding during these quarters but were excluded because they were antidilutive, as the option exercise price was greater than the average market price of the common shares.

Effective April 5, 2007, common shares outstanding were reduced by the 85.3 million shares of our common stock that we accepted in exchange for the shares of KBR, Inc. common stock we owned.

Note 12. Income Taxes

In the third quarter of 2007, we recorded a $133 million favorable income tax impact from our ability to recognize United States foreign tax credits we previously estimated would not be fully benefited. We now believe we can utilize these credits currently because we have generated additional taxable income for 2006 and expect to continue to generate a higher level of taxable income largely from the growth of our international operations.

Effective January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48, as amended May 2007 by FASB Staff Position FIN 48-1, "Definition of 'Settlement' in FASB Interpretation No. 48," prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As a result of the adoption of FIN 48, we recognized a decrease of $4 million in other liabilities to account for a decrease in unrecognized tax benefits and an increase of $34 million for accrued interest and penalties, which were accounted for as a net reduction of $30 million to the January 1, 2007 balance of retained earnings. Of the $30 million reduction to retained earnings, $10 million was attributable to KBR, which is now reported as discontinued operations in the condensed consolidated financial statements.

The following presents a rollforward of our unrecognized tax benefits and associated interest and penalties.

Millions of dollars	Unrecognized Tax Benefits	Interest and Penalties
Balance at January 1, 2007	$ 266	$ 47
Increase (decrease) in prior year tax positions	50	(3)
Increase in current year tax positions	10	2
Decrease related to settlements with taxing authorities	(7)	-
Decrease related to lapse of statute of limitations	(1)	-
Reclassification to discontinued operations	(24)	(13)
Balance at September 30, 2007	$ 294	$ 33

We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes on continuing operations in our condensed consolidated statements of operations.

At September 30, 2007, $50 million of tax benefits associated with United States foreign tax credits was included in the balance of unrecognized tax benefits that could be resolved within the next twelve months. A review of foreign tax documentation is currently underway and will likely be significantly progressed within the next twelve months. Also, as of September 30, 2007, a significant portion of our non-United States unrecognized tax benefits, while not individually significant, could be settled within the next twelve months. As of September 30, 2007, we estimated that the entire balance of unrecognized tax benefits, if resolved in our favor, would positively impact the effective tax rate and, therefore, be recognized as additional tax benefits in our income statement.

We file income tax returns in the United States federal jurisdiction and in various states and foreign jurisdictions. In most cases, we are no longer subject to United States federal, state, and local, or non-United States income tax examination by tax authorities for years before 1998.

Note 13. Retirement Plans

The components of net periodic benefit cost related to pension benefits for the three and nine months ended September 30, 2007 and September 30, 2006 were as follows:

	Three Months Ended September 30			
	2007		2006	
Millions of dollars	United States	International	United States	International
Components of net periodic benefit cost:				
Service cost	$ -	$ 6	$ -	$ 6
Interest cost	2	11	2	9
Expected return on plan assets	(2)	(10)	(2)	(7)
Settlements/curtailments	1	-	-	-
Recognized actuarial loss	2	3	1	1
Net periodic benefit cost	$ 3	$ 10	$ 1	$ 9

	Nine Months Ended September 30			
	2007		2006	
Millions of dollars	United States	International	United States	International
Components of net periodic benefit cost:				
Service cost	$ -	$ 18	$ -	$ 17
Interest cost	5	32	5	26
Expected return on plan assets	(5)	(28)	(5)	(21)
Settlement/curtailments	1	(1)	-	-
Recognized actuarial loss	5	7	4	5
Net periodic benefit cost	$ 6	$ 28	$ 4	$ 27

We currently expect to contribute approximately $26 million to our international pension plans in 2007. During the nine months ended September 30, 2007, we contributed $23 million to our international pension plans, and we plan to contribute $3 million in the fourth quarter of 2007. We do not have a required minimum contribution for our domestic plans; however, we made immaterial additional discretionary contributions in the third quarter of 2007. We do not expect to make additional contributions to our domestic plans in the fourth quarter of 2007.

The components of net periodic benefit cost related to other postretirement benefits for the three and nine months ended September 30, 2007 and September 30, 2006 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
Millions of dollars	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	$ 1	$ -	$ 1	$ 1
Interest cost	2	3	6	7
Net periodic benefit cost	$ 3	$ 3	$ 7	$ 8

Note 14. Common Stock

In February 2006, our Board of Directors approved a share repurchase program of up to $1.0 billion. In September 2006, our Board of Directors approved an increase to our existing common share repurchase program of up to an additional $2.0 billion. In July 2007, our Board of Directors approved an additional increase to our existing common share repurchase program of up to $2.0 billion, bringing the entire authorization to $5.0 billion. This additional authorization may be used for open market share purchases or to settle the conversion premium on our 3.125% convertible senior notes, should they be redeemed. From the inception of this program, we have repurchased approximately 77 million shares of our common stock for approximately $2.6 billion at an average price per share of $33.85. These numbers include the repurchases of approximately 37 million shares of our common stock for approximately $1.3 billion at an average price per share of $34.87 during the first nine months of 2007. As of September 30, 2007, $2.4 billion remained available under this program.

Note 15. New Accounting Standards

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force Issue No. 06-3 (EITF 06-3), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." EITF 06-3 requires a company to disclose its policy regarding the presentation of tax receipts on the face of the income statement. The scope of this guidance includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The provisions of EITF 06-3 are effective for periods beginning after December 15, 2006. Therefore, we adopted EITF 06-3 on January 1, 2007. We present taxes collected from customers on a net basis.

In September 2006, the FASB issued Staff Position (FSP) AUG AIR-1, "Accounting for Planned Major Maintenance Activities," which prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities. The provisions of this FSP are effective for the first fiscal year beginning after December 15, 2006. We did not elect early adoption and, therefore, adopted FSP AUG AIR-1 on January 1, 2007 without material impact to our financial statements.

In September 2006, the FASB issued Statement No. 157 (SFAS No. 157), "Fair Value Measurements," which is intended to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value, and expanding disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We will adopt the provisions of SFAS No. 157 beginning January 1, 2008 and are currently evaluating the impact of this statement on our financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We will adopt SFAS 159 on January 1, 2008, and are currently evaluating the impact of this statement on our financial statements.

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

EXECUTIVE OVERVIEW

During the first nine months of 2007, our continuing operations produced revenue of $11.1 billion and operating income of $2.6 billion, reflecting an operating margin of 23%. Revenue increased $1.6 billion or 17% over the first nine months of 2006. Operating income improved $269 million or 12% over the first nine months of 2006. Internationally, our operations experienced 20% revenue growth and 22% operating income growth during the first nine months of 2007 compared to the same period in 2006, most of which was derived from our eastern hemisphere operations.

Business outlook

The outlook for our business remains generally favorable. In the early months of 2007, we were negatively impacted by decreased activity in North America, particularly the well stimulation market in Canada and the United States Rocky Mountains. This decline was primarily attributable to poor weather and customer delays to certain completion and stimulation plans. However, we have seen a recovery in our United States land operations throughout the second and third quarters, particularly for our fracturing and cementing services. In the third quarter, we saw increasing downward pressure on pricing, particularly in our United States pressure pumping land operations. We are also beginning to see pricing pressures in other product lines, including fluid services, drill bits, and wireline and perforating. Seasonal restrictions during the winter months may negatively impact activity levels in our North America land operations in the fourth quarter of 2007 and early 2008. However, based on natural gas price forecasts and our customers' drilling plans, we expect activity levels to increase in 2008. While we foresee continued growth in our United States land operations, we do think there is downside risk to our operating margins if pricing continues to erode or if natural gas prices decline significantly. In such a case, any increases in North American revenue may not offset the deterioration in our North American margins and our operating income. In Canada, we experienced a seasonal recovery in the third quarter from the traditionally slow second quarter spring break-up season. Looking ahead, however, we are not expecting a significant recovery in the foreseeable future. Where appropriate, we have reduced personnel and moved equipment to higher utilization areas.

Outside of North America, our outlook remains positive. Worldwide demand for hydrocarbons continues to grow, and the reservoirs are becoming more complex. Therefore, we have been investing and will continue to invest in infrastructure, capital, and technology predominantly in the eastern hemisphere, consistent with our initiative to grow our operations in that part of the world. Outside of the seasonal impact of winter weather in Russia and the North Sea, we expect to realize continued expansion in the Middle East, Africa, Russia, the North Sea, and Asia.

For the remainder of 2007, we are focusing on:

- maintaining optimal utilization of our equipment and resources;
- leveraging our technologies to provide our customers with the ability to more efficiently drill and complete their wells and to increase their productivity. To that end, we recently opened one and have plans for two more international research and development centers with global technology and training missions;
- expanding our manufacturing capability and capacity with new manufacturing plants, such as three that opened in Mexico, Brazil, and Malaysia in the first half of 2007 and one in Singapore expected to open by year-end;
- hiring and training additional personnel to meet the increased demand for our services;
- pursuing strategic acquisitions in line with our core products and services to expand our portfolio in key geographic areas. Consistent with this objective:
- in July 2007, we acquired the United Kingdom-based PSL Energy Services Limited, a leading eastern hemisphere provider of process, pipeline, and well intervention services;
- also in July 2007, we entered into a definitive agreement to purchase the entire share capital of OOO Burservice, a leading provider of directional drilling services in Russia; and

- in September 2007, we acquired the intellectual property and substantially all of the assets and existing business of GeoSmith Consulting Group, LLC, a leading developer of software components for 3-D interpretation and geometric modeling applications; and
- increasing capital spending, primarily directed toward eastern hemisphere operations for service equipment additions and infrastructure related to recent project wins. Capital spending for 2008 is expected to be approximately $1.5 billion to $1.7 billion.

Our operating performance is described in more detail in "Business Environment and Results of Operations."

Separation of KBR, Inc.

In November 2006, KBR, Inc. (KBR) completed an initial public offering (IPO), in which it sold approximately 32 million shares of KBR, Inc. common stock. The increase in the carrying amount of our investment in KBR, Inc., resulting from the IPO, was recorded in "Paid-in capital in excess of par value" on our condensed consolidated balance sheet at December 31, 2006. On April 5, 2007, we completed the separation of KBR from us by exchanging the 135.6 million shares of KBR, Inc. common stock owned by us on that date for 85.3 million shares of our common stock. Consequently, KBR operations have been reclassified to discontinued operations in the condensed consolidated financial statements for all periods presented. Income from discontinued operations related to our 81% share of KBR's results in the first nine months of 2007 was $23 million after tax or $0.02 per share. In the second quarter of 2007, we recorded a gain on the disposition of KBR, Inc. of approximately $933 million, net of tax and the estimated fair value of the indemnities and guarantees provided to KBR as described below, which is included in income from discontinued operations on the condensed consolidated statement of operations.

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

- fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of a claim made or assessed by a governmental authority in the United States, the United Kingdom, France, Nigeria, Switzerland, and/or Algeria, or a settlement thereof, related to alleged or actual violations occurring prior to November 20, 2006 of the United States Foreign Corrupt Practices Act (FCPA) or particular, analogous applicable foreign statutes, laws, rules, and regulations in connection with investigations pending as of that date, including with respect to the construction and subsequent expansion by TSKJ of a natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria; and
- all out-of-pocket cash costs and expenses, or cash settlements or cash arbitration awards in lieu thereof, KBR may incur after the effective date of the master separation agreement as a result of the replacement of the subsea flowline bolts installed in connection with the Barracuda-Caratinga project. See Note 10 to our condensed consolidated financial statements for further discussion of these matters.

Additionally, the Halliburton performance guarantees, surety bond guarantees, and letter of credit guarantees that are currently in place in favor of KBR's customers or lenders will continue until these guarantees expire at the earlier of: (1) the termination of the underlying project contract or KBR obligations thereunder or (2) the expiration of the relevant credit support instrument in accordance with its terms or release of such instrument by the customer. Further, KBR and we have agreed that, until December 31, 2009, we will issue additional guarantees, indemnification, and reimbursement commitments for KBR's benefit in connection with (a) letters of credit necessary to comply with KBR's Egypt Basic Industries Corporation ammonia plant contract, KBR's Allenby & Connaught project, and all other KBR contracts that were in place as of December 15, 2005; (b) surety bonds issued to support new task orders pursuant to the Allenby & Connaught project, two job order contracts for KBR's Government and Infrastructure segment, and all other KBR contracts that were in place as of December 15, 2005; and (c) performance guarantees in support of these contracts. KBR will compensate Halliburton for these guarantees and indemnify Halliburton if Halliburton is required to perform under any of these guarantees.

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As a result of these agreements, we recorded $190 million, as a reduction of the gain on the disposition of KBR, to reflect the estimated fair value of the above indemnities and guarantees, net of the associated estimated future tax benefit. The estimated fair value of these indemnities and guarantees are primarily included in "Other liabilities" on the condensed consolidated balance sheet.

The tax sharing agreement provides for allocations of United States and certain other jurisdiction tax liabilities between us and KBR. Under the transition services agreements, we continue to provide various interim corporate support services to KBR, and KBR continues to provide various interim corporate support services to us. The fees are determined on a basis generally intended to approximate the fully allocated direct and indirect costs of providing the services, without any profit. Under an employee matters agreement, Halliburton and KBR have allocated liabilities and responsibilities related to current and former employees and their participation in certain benefit plans. Among other items, the employee matters agreement provided for the conversion, which occurred upon completion of the separation of KBR, of stock options and restricted stock awards (with restrictions that had not yet lapsed as of the final separation date) granted to KBR employees under our 1993 Stock and Incentive Plan (1993 Plan) to options and restricted stock awards covering KBR common stock. As of April 5, 2007, these awards consisted of 1.2 million options with a weighted average exercise price per share of $15.01 and approximately 600,000 restricted shares with a weighted average grant-date fair value per share of $17.95 under our 1993 Plan.

See Note 10 to our condensed consolidated financial statements for further information.

Foreign Corrupt Practices Act investigations

The Securities and Exchange Commission (SEC) is conducting a formal investigation into whether improper payments were made to government officials in Nigeria through the use of agents or subcontractors in connection with the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The Department of Justice (DOJ) is also conducting a related criminal investigation. The SEC has also issued subpoenas seeking information, which we and KBR are furnishing, regarding current and former agents used in connection with multiple projects, including current and prior projects, over the past 20 years located both in and outside of Nigeria in which the Halliburton energy services business, KBR or affiliates, subsidiaries or joint ventures of Halliburton or KBR, are or were participants. In September 2006 and October 2007, the SEC and the DOJ, respectively, each requested that we enter into an agreement to extend the statute of limitations with respect to its investigation. We anticipate that we will enter into an appropriate agreement with each of the SEC and the DOJ.

TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (a subsidiary of Saipem SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root LLC (a subsidiary of KBR), each of which had an approximate 25% interest in the venture. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA of Italy).

The SEC and the DOJ have been reviewing these matters in light of the requirements of the FCPA. In addition to performing our own investigation, we have been cooperating with the SEC and the DOJ investigations and with other investigations in France, Nigeria, and Switzerland regarding the Bonny Island project. The government of Nigeria gave notice in 2004 to the French magistrate of a civil claim as an injured party in the French investigation. We are not aware of any further developments with respect to this claim. We also believe that the Serious Fraud Office in the United Kingdom is conducting an investigation relating to the Bonny Island project. Our Board of Directors has appointed a committee of independent directors to oversee and direct the FCPA investigations. Through our committee of independent directors, we will continue to oversee and direct the investigations.

The matters under investigation relating to the Bonny Island project cover an extended period of time (in some cases significantly before our 1998 acquisition of Dresser Industries and continuing through the current time period). We have produced documents to the SEC and the DOJ from the files of numerous officers and employees of Halliburton and KBR, including current and former executives of Halliburton and KBR, both voluntarily and pursuant to company subpoenas from the SEC and a grand jury, and we are making our employees and KBR is making its employees available to the SEC and the DOJ for interviews. In addition, the SEC has issued a subpoena to A. Jack Stanley, who formerly served as a consultant and chairman of Kellogg Brown & Root LLC, and to others, including certain of our former and KBR's current and former employees, former executive officers of KBR, and at least one subcontractor of KBR. We further understand that the DOJ has issued subpoenas for the purpose of obtaining information abroad, and we understand that other partners in TSKJ have provided information to the DOJ and the SEC with respect to the investigations, either voluntarily or under subpoenas.

The SEC and DOJ investigations include an examination of whether TSKJ's engagements of Tri-Star Investments as an agent and a Japanese trading company as a subcontractor to provide services to TSKJ were utilized to make improper payments to Nigerian government officials. In connection with the Bonny Island project, TSKJ entered into a series of agency agreements, including with Tri-Star Investments, of which Jeffrey Tesler is a principal, commencing in 1995 and a series of subcontracts with a Japanese trading company commencing in 1996. We understand that a French magistrate has officially placed Mr. Tesler under investigation for corruption of a foreign public official. In Nigeria, a legislative committee of the National Assembly and the Economic and Financial Crimes Commission, which is organized as part of the executive branch of the government, are also investigating these matters. Our representatives have met with the French magistrate and Nigerian officials. In October 2004, representatives of TSKJ voluntarily testified before the Nigerian legislative committee.

TSKJ suspended the receipt of services from and payments to Tri-Star Investments and the Japanese trading company and has considered instituting legal proceedings to declare all agency agreements with Tri-Star Investments terminated and to recover all amounts previously paid under those agreements. In February 2005, TSKJ notified the Attorney General of Nigeria that TSKJ would not oppose the Attorney General's efforts to have sums of money held on deposit in accounts of Tri-Star Investments in banks in Switzerland transferred to Nigeria and to have the legal ownership of such sums determined in the Nigerian courts.

As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. We have reason to believe that, based on the ongoing investigations, payments may have been made by agents of TSKJ to Nigerian officials. In addition, information uncovered in the summer of 2006 suggests that, prior to 1998, plans may have been made by employees of The M.W. Kellogg Company (a predecessor of a KBR subsidiary) to make payments to government officials in connection with the pursuit of a number of other projects in countries outside of Nigeria. We are reviewing a number of more recently discovered documents related to KBR's activities in countries outside of Nigeria with respect to agents for projects after 1998. Certain activities discussed in this paragraph involve current or former employees or persons who were or are consultants to KBR, and our investigation is continuing.

In June 2004, all relationships with Mr. Stanley and another consultant and former employee of M.W. Kellogg Limited were terminated. The terminations occurred because of Code of Business Conduct violations that allegedly involved the receipt of improper personal benefits from Mr. Tesler in connection with TSKJ's construction of the Bonny Island project.

In 2006 and 2007, KBR suspended the services of other agents in and outside of Nigeria, including one agent who, until such suspension, had worked for KBR outside of Nigeria on several current projects and on numerous older projects going back to the early 1980s. Such suspensions have occurred when possible improper conduct has been discovered or alleged or when Halliburton and KBR have been unable to confirm the agent's compliance with applicable law and the Code of Business Conduct.

The SEC and DOJ are also investigating and have issued subpoenas concerning TSKJ's use of an immigration services provider, apparently managed by a Nigerian immigration official, to which approximately $1.8 million in payments in excess of costs of visas were allegedly made between approximately 1997 and the termination of the provider in December 2004 and our 2007 reporting of this matter to the government. We understand that TSKJ terminated the immigration services provider after a KBR employee discovered the issue.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to $500,000 per violation, equitable remedies, including disgorgement (if applicable) generally of profits, including prejudgment interest on such profits, causally connected to the violation, and injunctive relief. Criminal penalties could range up to the greater of $2 million per violation or twice the gross pecuniary gain or loss from the violation, which could be substantially greater than $2 million per violation. It is possible that both the SEC and the DOJ could assert that there have been multiple violations, which could lead to multiple fines. The amount of any fines or monetary penalties that could be assessed would depend on, among other factors, the findings regarding the amount, timing, nature, and scope of any improper payments, whether any such payments were authorized by or made with knowledge of us, KBR or our or KBR's affiliates, the amount of gross pecuniary gain or loss involved, and the level of cooperation provided the government authorities during the investigations. The government has expressed concern regarding the level of our cooperation. Agreed dispositions of these types of violations also frequently result in an acknowledgement of wrongdoing by the entity and the appointment of a monitor on terms negotiated with the SEC and the DOJ to review and monitor current and future business practices, including the retention of agents, with the goal of assuring compliance with the FCPA.

These investigations could also result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages, damage to our business or reputation, loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of us or our current or former subsidiaries. In addition, we could incur costs and expenses for any monitor required by or agreed to with a governmental authority to review our continued compliance with FCPA law.

As of September 30, 2007, we are unable to estimate an amount of probable loss or a range of possible loss related to these matters as it relates to Halliburton directly. However, we provided indemnification in favor of KBR under the master separation agreement for certain contingent liabilities, including Halliburton's indemnification of KBR and any of its greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of a claim made or assessed by a governmental authority in the United States, the United Kingdom, France, Nigeria, Switzerland, and/or Algeria, or a settlement thereof, related to alleged or actual violations occurring prior to November 20, 2006 of the FCPA or particular, analogous applicable foreign statutes, laws, rules, and regulations in connection with investigations pending as of that date, including with respect to the construction and subsequent expansion by TSKJ of a natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. We recorded the estimated fair market value of this indemnity regarding FCPA matters described above upon our separation from KBR. See Note 2 to our condensed consolidated financial statements for additional information.

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

In consideration of our agreement to indemnify KBR for the liabilities referred to above, KBR has agreed that we will at all times, in our sole discretion, have and maintain control over the investigation, defense and/or settlement of these FCPA matters until such time, if any, that KBR exercises its right to assume control of the investigation, defense and/or settlement of the FCPA matters as it relates to KBR. KBR has also agreed, at our expense, to assist with Halliburton's full cooperation with any governmental authority in our investigation of these FCPA matters and our investigation, defense and/or settlement of any claim made by a governmental authority or court relating to these FCPA matters, in each case even if KBR assumes control of these FCPA matters as it relates to KBR. If KBR takes control over the investigation, defense, and/or settlement of FCPA matters, refuses a settlement of FCPA matters negotiated by us, enters into a settlement of FCPA matters without our consent, or materially breaches its obligation to cooperate with respect to our investigation, defense, and/or settlement of FCPA matters, we may terminate the indemnity.

Other corporate matters
Subsequent to the KBR separation, in the third quarter of 2007, we realigned our products and services to improve operational and cost management efficiencies, better serve our customers, and become better aligned with the process of exploring for and producing from oil and natural gas wells. We now operate under two divisions, which form the basis for the two operating segments we now report: the Completion and Production segment and the Drilling and Evaluation segment.
In May 2007, the Board of Directors increased the quarterly dividend by $0.015 per common share, or 20%, to $0.09 per share.
In February 2006, our Board of Directors approved a share repurchase program of up to $1.0 billion. In September 2006, our Board of Directors approved an increase to our existing common share repurchase program of up to an additional $2.0 billion. In July 2007, our Board of Directors approved an additional increase to our existing common share repurchase program of up to $2.0 billion, bringing the entire authorization to $5.0 billion. This additional authorization may be used for open market share purchases or to settle the conversion premium on our 3.125% convertible senior notes, should they be redeemed. From the inception of this program, we have repurchased approximately 77 million shares of our common stock for approximately $2.6 billion at an average price per share of $33.85. These numbers include the repurchases of approximately 37 million shares of our common stock for approximately $1.3 billion at an average price per share of $34.87 during the first nine months of 2007. As of September 30, 2007, $2.4 billion remained available under this program.

LIQUIDITY AND CAPITAL RESOURCES

We ended the third quarter of 2007 with cash and equivalents of $735 million compared to $2.9 billion at December 31, 2006. The decrease in cash and equivalents was primarily because we repurchased 37 million shares of our common stock at a cost of $1.3 billion under our share repurchase program and invested $1.1 billion in various marketable securities in the first nine months of 2007, consisting of auction-rate securities, variable-rate demand notes, and municipal bonds.
Significant sources of cash
Cash flows from operations contributed $1.8 billion to cash in the first nine months of 2007. This included $55 million in cash outflows related to discontinued operations.
In May 2007, we sold our remaining interest in Dresser, Ltd. for $70 million in cash.
We received approximately $24 million in asbestos- and silica-related insurance proceeds in the first nine months of 2007 and expect to receive additional amounts as follows:

Millions of dollars		
October 1 through December 31, 2007	$	23
2008		67
2009		132
2010		16
Total	$	238

Further available sources of cash. On July 9, 2007, we entered into a new unsecured $1.2 billion five-year revolving credit facility that replaced our then existing unsecured $1.2 billion five-year revolving credit facility. The purpose of the new facility is to provide commercial paper support, general working capital, and credit for other corporate purposes. There were no cash drawings under the facility as of September 30, 2007.
Significant uses of cash
Capital expenditures were $1.1 billion in the first nine months of 2007.
During the first nine months of 2007, we invested in approximately $1.1 billion of marketable securities, consisting of auction-rate securities, variable-rate demand notes, and municipal bonds.

In January 2007, we acquired all of the intellectual property, current assets, and existing wireline services business associated with Ultraline Services Corporation, a division of Savanna Energy Services Corp., for approximately $178 million.
In the third quarter of 2007, we purchased the entire share capital of PSL Energy Services Limited (PSLES), a leading eastern hemisphere provider of process, pipeline, and well intervention services, for $316 million.
In July 2007, the Board of Directors declared a dividend of $0.09 per common share for the third quarter of 2007, payable on September 25, 2007 to shareholders of record at the close of business on September 3, 2007. We paid $235 million in dividends to our shareholders in the first nine months of 2007.
During the first nine months of 2007, we repurchased approximately 37 million shares of our common stock at a cost of approximately $1.3 billion at an average price per share of $34.87, under our share repurchase program.
During the first nine months of 2007, we invested approximately $242 million in technology, including $216 million for company-sponsored research and development.
Future uses of cash. Capital spending for 2007 is expected to be approximately $1.5 billion. The capital expenditures forecast for 2007 is primarily directed toward our drilling services, wireline and perforating, production enhancement, and cementing operations. Capital spending for 2008 is expected to be approximately $1.5 billion to $1.7 billion.
In October 2007, the Board of Directors declared a dividend of $0.09 per common share for the fourth quarter of 2007, payable on December 20, 2007 to shareholders of record at the close of business on December 3, 2007. Thus, we expect to pay dividends of approximately $80 million in the fourth quarter of 2007.
In July 2007, our Board of Directors approved an increase to our existing common share repurchase program of up to an additional $2.0 billion, bringing the entire authorization to $5.0 billion. This additional authorization may be used for open market share purchases or to settle the conversion premium over the face amount of our 3.125% convertible senior notes, should they be redeemed. As of September 30, 2007, $2.4 billion remained available under this program.
Other factors affecting liquidity
Letters of credit. In the normal course of business, we have agreements with banks under which approximately $2.3 billion of letters of credit, surety bonds, or bank guarantees were outstanding as of September 30, 2007, including $1.3 billion that relate to KBR. These KBR letters of credit, surety bonds, or bank guarantees are being guaranteed by us in favor of KBR's customers and lenders. KBR has agreed to compensate us for these guarantees and indemnify us if we are required to perform under any of these guarantees. Some of the outstanding letters of credit have triggering events that would entitle a bank to require cash collateralization.
Credit ratings. The credit ratings for our long-term debt are A2 with Moody's Investors Service and A with Standard and Poor's. Our Moody's rating became effective May 1, 2007, and was an upward revision from our previous Moody's rating of Baa1, which had been in effect since December 2005. Our Standard and Poor's rating became effective August 20, 2007, and was an upward revision from our previous Standard and Poor's rating of BBB+, which had been in effect since May 2006. The credit ratings on our short-term debt are P1 with Moody's Investors Service and A1 with Standard and Poor's.

BUSINESS ENVIRONMENT AND RESULTS OF OPERATIONS

We operate in nearly 70 countries throughout the world to provide a comprehensive range of discrete and integrated services and products to the energy industry. The majority of our consolidated revenue is derived from the sale of services and products to major, national, and independent oil and gas companies worldwide. We serve the upstream oil and gas industry throughout the lifecycle of the reservoir: from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production through the life of the field. Our two business segments are the Completion and Production segment and the Drilling and Evaluation segment. The two KBR segments have been reclassified to discontinued operations as a result of the separation of KBR.

The industries we serve are highly competitive with many substantial competitors in each segment. In the first nine months of 2007, based upon the location of the services provided and products sold, 45% of our consolidated revenue was from the United States. In the first nine months of 2006, 46% of our consolidated revenue was from the United States. No other country accounted for more than 10% of our revenue during these periods.

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

Activity levels within our business segments are significantly impacted by spending on upstream exploration, development, and production programs by major, national, and independent oil and gas companies. Also impacting our activity is the status of the global economy, which impacts oil and gas consumption.

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

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

	Three Months Ended September 30		Year Ended December 31
Average Oil Prices (dollars per barrel)	2007	2006	2006
West Texas Intermediate	$ 75.16	$ 70.80	$ 66.17
United Kingdom Brent	74.62	70.03	65.35
Average United States Gas Prices (dollars per million British thermal units, or mmBtu)			
Henry Hub	$ 6.00	$ 6.35	$ 6.81

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

	Three Months Ended September 30		Nine Months Ended September 30	
Land vs. Offshore	2007	2006	2007	2006
United States:				
Land	1,716	1,624	1,682	1,533
Offshore	72	95	78	91
Total	1,788	1,719	1,760	1,624
Canada:				
Land	346	490	337	477
Offshore	2	4	3	3
Total	348	494	340	480
International (excluding Canada):				
Land	733	671	714	648
Offshore	287	270	287	269
Total	1,020	941	1,001	917
Worldwide total	3,156	3,154	3,101	3,021
Land total	2,795	2,785	2,733	2,658
Offshore total	361	369	368	363

Oil vs. Gas	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
United States:				
Oil	298	306	285	269
Gas	1,490	1,413	1,475	1,355
Total	1,788	1,719	1,760	1,624
Canada:				
Oil	122	122	127	104
Gas	226	372	213	376
Total	348	494	340	480
International (excluding Canada):				
Oil	798	720	780	703
Gas	222	221	221	214
Total	1,020	941	1,001	917
Worldwide total	3,156	3,154	3,101	3,021
Oil total	1,218	1,148	1,192	1,076
Gas total	1,938	2,006	1,909	1,945

Our customers' cash flows, in many instances, depend upon the revenue they generate from the sale of oil and gas. Higher oil and gas prices usually translate into higher exploration and production budgets. Higher prices also improve the economic attractiveness of marginal exploration areas. This promotes additional investment by our customers in the sector. The opposite is true for lower oil and gas prices.

After declining from record highs during the third and fourth quarters of 2006, WTI oil spot prices were expected to average $68.84 per barrel in 2007 and $73.50 per barrel in 2008 per the Energy Information Administration (EIA). Between mid-December 2006 and mid-January 2007, the WTI crude oil price fell about $12 per barrel to a low of $50.51 per barrel, as warm weather reduced demand for heating fuels throughout most of the United States. However, the WTI price recovered to over $66 per barrel by the end of March 2007, as the weather turned colder than normal and geopolitical tensions intensified. Crude oil prices have continued to rise to record levels over the $80 per barrel mark throughout the second and third quarters of 2007 due to a tight world oil supply and demand balance. We expect that oil prices will remain at these historically high levels due to a combination of the following factors:

- continued growth in worldwide petroleum demand, despite high oil prices;
- projected production growth in non-Organization of Petroleum Exporting Countries (non-OPEC) supplies is not expected to accommodate world wide demand growth;
- OPEC's commitment to control production;
- modest increases in OPEC's current and forecasted production capacity; and
- geopolitical tensions in major oil-exporting nations.

According to the International Energy Agency's (IEA) October 2007 "Oil Market Report," the outlook for world oil demand remains strong, with China, the Middle East, and North America accounting for approximately 84% of the expected demand growth in 2007. Excess oil production capacity is expected to remain constrained and that, along with increased demand, is expected to keep supplies tight. Thus, any unexpected supply disruption or change in demand could lead to fluctuating prices. The IEA forecasts world petroleum demand growth in 2007 to increase 2% over 2006.

Volatility in natural gas prices has the potential to impact our customers' drilling and production activities, particularly in the United States. In the first quarter of 2007, we experienced lower than anticipated customer activity in North America, particularly the pressure pumping market in Canada and the United States Rockies. Some of this activity decline was attributable to poor weather, including an early spring break-up season in Canada and severe weather early in 2007 in the United States Rockies and mid-continent regions. In addition, the unusually warm start to the United States 2006/2007 winter caused concern about natural gas storage levels, which negatively impacted the price of natural gas. This uncertainty made many of our customers more cautious about their drilling and production plans in the early part of 2007. The second and third quarters of 2007 were characterized by increased activity for our United States customers and growth in the eastern hemisphere. Despite recovery from a traditionally slow second quarter spring break-up season, Canada has experienced a significant decline in activity as compared to 2006. Beginning in late 2006, we began moving equipment and personnel from Canada to the United States and Latin America to address the anticipated slowdown. In October 2007, the EIA projected that the Henry Hub spot price will average $7.21 per thousand cubic feet (mcf) in 2007 and $7.86 per mcf in 2008.

It is common practice in the United States oilfield services industry to sell services and products based on a price book and then apply discounts to the price book based upon a variety of factors. The discounts applied typically increase to partially offset price book increases. We are currently experiencing increased pricing pressure from our customers in the North American market, particularly in Canada and in our United States well stimulation operations. We have also begun to experience some pricing pressures in the United States in several other product lines, including cementing, fluid services, drill bits, and wireline and perforating.

Focus on international growth. Consistent with our strategy to grow our international operations, we expect to continue to invest capital and increase manufacturing capacity to bring new tools online to serve the high demand for our services. Following is a brief discussion of some of our recent initiatives:

- we have opened a corporate office in Dubai, United Arab Emirates, allowing us to focus more attention on customer relationships in that part of the world, particularly with national oil companies;
- in order to continue to supply our customers with leading-edge services and products, we have increased our technology spending during 2007 as compared to the prior year. Our plans are progressing for new international research and development centers with global technology and training missions. We opened one in Pune, India in the third quarter of 2007, and a second facility, which will be in Singapore, is expected to open by year-end;
- we are expanding our manufacturing capability and capacity during 2007 to meet the increasing demands for our services and products. In the first nine months of 2007, we opened manufacturing plants in Mexico, Brazil, and Malaysia, and we plan to open an additional plant in Singapore by year-end. Having manufacturing facilities closer to our worksites will allow us to more efficiently deploy equipment to our field operations, as well as increase our use of local people and materials;
- as our workforce becomes more global, the need for regional training centers increases. To meet the increasing need for technical training, we opened a new training center in Tyumen, Russia during the first quarter of 2007. We have also recently expanded training centers in Malaysia, Egypt, and Mexico; and
- part of our growth strategy includes select acquisitions that will enhance or augment our current portfolio of products and services, including those with unique technologies or distribution networks in areas where we do not already have large operations;
- in January 2007, we acquired Ultraline Services Company, a provider of wireline services in Canada. Prior to this acquisition, we did not have meaningful wireline and perforating operations in Canada;
- in May 2007, we acquired the intellectual property, assets, and existing business associated with Vector Magnetics LLC's active ranging technology for steam-assisted gravity drainage applications;

- in July 2007, we acquired PSL Energy Services Limited, a leading eastern hemisphere provider of process, pipeline, and well intervention services. This acquisition will increase our eastern hemisphere production enhancement operations significantly, putting us in a strong position in pipeline processing services both in the eastern hemisphere and globally;
- in July 2007, we entered into a definitive agreement to purchase the entire share capital of OOO Burservice, a leading provider of directional drilling services in Russia; and
- in September 2007, we acquired the intellectual property and substantially all of the assets and existing business of GeoSmith Consulting Group, LLC, a leading developer of software components for 3-D interpretation and geometric modeling applications.

Recent contract wins are positioning us to grow our international operations over the coming years. Examples include:

- a contract to provide hydraulic fracturing services on the Right Bank of the Priobskye field in Siberia. The scope of work includes providing services for 327 wells;
- a multiservices contract for work in the Tyumen region of Russia. We will be providing drilling fluids, waste management, cementing, drill bits, directional drilling, and logging-while-drilling services;
- a contract to provide acidizing, acid fracturing, water control, and nitrogen stimulation services for a customer in the Bay of Campeche, Mexico;
- a contract to provide deepwater sand control completion technology in two offshore fields of India;
- a contract to provide completion products and services to a group of energy companies for operations throughout Malaysia for a term of five years;
- a contract to provide exploration and development testing services in high pressure, high temperature environments in Latin America;
- a five-year contract for sand control completions for over 200 wells in offshore China;
- a three-year contract to provide a full range of subsurface services, including drilling and formation evaluation, slickline, fluids, cementing services and production enhancement in Papua New Guinea; and
- a contract to provide completion products and services in Indonesia.

RESULTS OF OPERATIONS IN 2007 COMPARED TO 2006

Three Months Ended September 30, 2007 Compared with Three Months Ended September 30, 2006

REVENUE: *Millions of dollars*	Three Months Ended September 30 2007	2006	Increase (Decrease)	Percentage Change
Completion and Production	$ 2,187	$ 1,896	$ 291	15%
Drilling and Evaluation	1,741	1,496	245	16
Total revenue	$ 3,928	$ 3,392	$ 536	16%
By geographic region:				
Completion and Production:				
North America	$ 1,227	$ 1,159	$ 68	6%
Latin America	193	152	41	27
Europe/Africa/CIS	439	352	87	25
Middle East/Asia	328	233	95	41
Total	2,187	1,896	291	15
Drilling and Evaluation:				
North America	620	579	41	7
Latin America	263	238	25	11
Europe/Africa/CIS	493	369	124	34
Middle East/Asia	365	310	55	18
Total	1,741	1,496	245	16
Total revenue by region:				
North America	1,847	1,738	109	6
Latin America	456	390	66	17
Europe/Africa/CIS	932	721	211	29
Middle East/Asia	693	543	150	28

OPERATING INCOME (LOSS): *Millions of dollars*	Three Months Ended September 30 2007	2006	Increase (Decrease)	Percentage Change
Completion and Production	$ 596	$ 564	$ 32	6%
Drilling and Evaluation	372	368	4	1
Corporate and other	(58)	(62)	4	7
Total operating income	$ 910	$ 870	$ 40	5%
By geographic region:				
Completion and Production:				
North America	$ 387	$ 411	$ (24)	(6)%
Latin America	34	37	(3)	(8)
Europe/Africa/CIS	92	66	26	39
Middle East/Asia	83	50	33	66
Total	596	564	32	6
Drilling and Evaluation:				
North America	110	162	(52)	(32)
Latin America	48	45	3	7
Europe/Africa/CIS	115	72	43	60
Middle East/Asia	99	89	10	11
Total	372	368	4	1
Total operating income by region (excluding Corporate and other):				
North America	497	573	(76)	(13)
Latin America	82	82	-	-
Europe/Africa/CIS	207	138	69	50
Middle East/Asia	182	139	43	31

Note 1 All periods presented reflect the new segment structure and the reclassification of certain amounts between the segments/regions and "Corporate and other."

The increase in consolidated revenue in the third quarter of 2007 compared to the third quarter of 2006 was attributable to higher worldwide activity, particularly in the United States, Africa, and Europe. Approximately $17 million in estimated revenue was lost during the third quarter of 2007 due to Gulf of Mexico hurricanes. International revenue was 56% of consolidated revenue in the third quarter of 2007 and 54% of consolidated revenue in the third quarter of 2006.

The increase in consolidated operating income stems from a 40% increase in the eastern hemisphere and was due to increased customer activity, pricing gains, and new contracts primarily in Europe, Africa, and Asia Pacific. Partially offsetting the increase in operating income was $32 million in charges for environmental reserves in the third quarter of 2007.

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

Completion and Production increase in revenue compared to the third quarter of 2006 was led by a 30% increase in revenue from completion tools sales and services. Increased completion tool sales and services primarily resulted from a large completion tools sale in Asia Pacific, increased activity in our WellDynamics joint venture in Africa, and increased completions in the United States. Production enhancement services revenue grew 10% largely driven by higher utilization of fracturing crews and equipment in the United States, better prices and increased fracturing activity in Mexico, and the recent acquisition of PSLES in Europe. Partially offsetting production enhancement services revenue was a decline in Canada's activity. Cementing services revenue increased 17%, which stemmed from increased activity in the United States, new contracts, increased activity, and better prices in Latin America, and increased activity in Eurasia. International revenue was 46% of total segment revenue in the third quarter of 2007 and

44% of total segment revenue in the third quarter of 2006.

The Completion and Production segment operating income improvement compared to the third quarter of 2006 was led by completion tools sales. Completion tools sales and services operating income grew 58%, with eastern hemisphere operating income increasing 63%. The completion tools operating income increase was led by a large completion tool sale in Asia, increased activity in our WellDynamics joint venture in Africa, and increased completion activity in the United States. Cementing operating income increased 10% compared to the prior year third quarter with improved pricing and increased activity in Europe and additional contracts in Latin America. Production enhancement services operating income declined 7% from lower margins in the United States and reduced activity in Canada.

Drilling and Evaluation revenue increase for the third quarter of 2007 compared to the third quarter of 2006 was driven by 21% growth in drilling services revenue. Drilling services revenue increased primarily from higher utilization of assets in the United States, new contracts and improved pricing in Europe, and increased activity in Africa. Wireline and perforating services revenue improved 23% on a large direct sale in Asia and improved pricing and increased activity in Latin America. Drill bits revenue increased 8% due to revenue growth in the United States and the North Sea. Fluid services revenue, which grew 15%, benefited from improved sales in the North Sea. Landmark revenue increased 16%, with growth in all four regions, due to stronger software sales and consulting services. Project management services revenue declined 14% due to the completion of a project in Mexico. International revenue was 68% of total segment revenue in the third quarter of 2007 and 66% of total segment revenue in the third quarter of 2006.

The increase in segment operating income was predominantly due to a 14% increase in drilling services operating income in Europe, new contracts and improved asset utilization in Russia, and increased activity in Africa. Wireline and perforating services operating income increased 22%, with the eastern hemisphere contributing 67% of the increase. The wireline and perforating services increase was primarily due to favorable pricing in Latin America and increased direct sales in Asia Pacific. Fluid services operating income declined 46%, primarily from recording an additional reserve related to a North America environmental matter in the third quarter of 2007. Drill bits operating income improved 12% over the prior year third quarter benefiting from high specification work in the North Sea, including successful runs of the XR™ Reamer hole enlargement tool, and improved fixed cutter bit sales in the United States. Landmark's year-over-year operating income grew 39% with increases in all four regions on improved sales of software and consulting services. Project management's operating income fell 29% from the prior year quarter due to the completion of a project in Mexico.

Corporate and other expenses were $58 million in the third quarter of 2007 compared to $62 million in the third quarter of 2006. The decrease was primarily due to reduced legal fees. Also, third quarter of 2007 included charges for additional reserves related to environmental matters.

NONOPERATING ITEMS

Interest income decreased $10 million compared to the third quarter of 2006 due to lower cash balances.

Provision for income taxes from continuing operations of $152 million in the third quarter of 2007 resulted in an effective tax rate of 17% compared to an effective tax rate of 30% in the third quarter of 2006. The provision for income taxes in the third quarter of 2007 included a $133 million favorable income tax impact from the ability to recognize foreign tax credits previously estimated not to be fully utilizable. We now believe we can utilize these credits currently because we have generated additional taxable income for 2006 and expect to continue to generate a higher level of taxable income largely from the growth of our international operations.

Minority interest in net income of subsidiaries increased $15 million compared to the third quarter of 2006 related primarily to our joint ventures in Egypt, Malaysia, and Saudi Arabia.

Income from discontinued operations, net of income tax in the third quarter of 2006 primarily consisted of the results of KBR, Inc.

RESULTS OF OPERATIONS IN 2007 COMPARED TO 2006

Nine Months Ended September 30, 2007 Compared with Nine Months Ended September 30, 2006

REVENUE: *Millions of dollars*	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006	Increase (Decrease)	Percentage Change
Completion and Production	$ 6,097	$ 5,279	$ 818	15%
Drilling and Evaluation	4,988	4,167	821	20
Total revenue	$ 11,085	$ 9,446	$ 1,639	17%
By geographic region:				
Completion and Production:				
North America	$ 3,449	$ 3,171	$ 278	9%
Latin America	551	424	127	30
Europe/Africa/CIS	1,259	1,009	250	25
Middle East/Asia	838	675	163	24
Total	6,097	5,279	818	15
Drilling and Evaluation:				
North America	1,816	1,621	195	12
Latin America	757	672	85	13
Europe/Africa/CIS	1,382	1,013	369	36
Middle East/Asia	1,033	861	172	20
Total	4,988	4,167	821	20
Total revenue by region:				
North America	5,265	4,792	473	10
Latin America	1,308	1,096	212	19
Europe/Africa/CIS	2,641	2,022	619	31
Middle East/Asia	1,871	1,536	335	22

OPERATING INCOME (LOSS):	Nine Months Ended September 30		Increase	Percentage
Millions of dollars	2007	2006	(Decrease)	Change
Completion and Production	$ 1,628	$ 1,543	$ 85	6%
Drilling and Evaluation	1,082	943	139	15
Corporate and other	(119)	(164)	45	27
Total operating income	$ 2,591	$ 2,322	$ 269	12%
By geographic region:				
Completion and Production:				
North America	$ 1,069	$ 1,108	$ (39)	(4)%
Latin America	122	93	29	31
Europe/Africa/CIS	240	187	53	28
Middle East/Asia	197	155	42	27
Total	1,628	1,543	85	6
Drilling and Evaluation:				
North America	390	428	(38)	(9)
Latin America	129	112	17	15
Europe/Africa/CIS	297	186	111	60
Middle East/Asia	266	217	49	23
Total	1,082	943	139	15
Total operating income by region				
(excluding Corporate and other):				
North America	1,459	1,536	(77)	(5)
Latin America	251	205	46	22
Europe/Africa/CIS	537	373	164	44
Middle East/Asia	463	372	91	24

Note 1 – All periods presented reflect the new segment structure and the reclassification of certain amounts between the segments/regions and "Corporate and other."

The increase in consolidated revenue in the first nine months of 2007 compared to the first nine months of 2006 spanned all four regions and was attributable to higher worldwide activity, particularly in Europe, Africa, and the United States. Revenue derived from the eastern hemisphere contributed 58% to the total revenue increase. International revenue was 55% of consolidated revenue in the first nine months of 2007 and 54% of consolidated revenue in the first nine months of 2006.

The increase in consolidated operating income in the first nine months of 2007 compared to the first nine months of 2006 spanned all regions except North America and was predominantly due to the operating income increase in the eastern hemisphere, which increased 34% compared to the first nine months of 2006. Operating income in the first nine months of 2007 was positively impacted by a $49 million gain recorded on the sale of our remaining interest in Dresser, Ltd. and was negatively impacted by $44 million in charges for environmental reserves.

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

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Completion and Production revenue increase compared to the first nine months of 2006 was driven by an 11% increase in revenue from production enhancement services. Production enhancement services revenue benefited from increased resources and improved weather conditions in the United States, increased stimulation activity in Mexico, additional projects in the North Sea, and higher utilization of equipment in Angola. The production enhancement services revenue improvement was partially offset by decreased activity in Canada. Sales of completion tools and services grew 28% due to increased testing activity and increased activity in our intelligent well completions joint venture in Africa, increased completion product sales in Asia, increased testing activity in Brazil, and increases in the United States. Cementing services revenue increased 17% compared to the first nine months of 2006 due primarily to new contracts in the Middle East, new contracts and improved pricing in Latin America, and increased activity and pricing gains in the United States. International revenue was 46% of total segment revenue in the first nine months of 2007 and 45% of total segment revenue in the first nine months of 2006.

The increase in segment operating income in the first nine months of 2007 compared to the first nine months of 2006 was led by completion tools sales and services operating income, which increased 54% and spanned all regions. Contributing to the completion tools sales and services increase were increased product sales in Asia, increased testing activity and improved product mix in Africa, and increased completion product sales in the Gulf of Mexico. Cementing services grew 10% from new technology and improved pricing in Latin America and increased activity and improved pricing in the North Sea. Production enhancement services operating income declined 6% compared to the first nine months of 2006 due to decreased activity in Canada, the United States, and Russia. Partially offsetting the decline in production enhancement services operating income were increased fracturing activity in Africa and additional projects in the North Sea.

Drilling and Evaluation revenue increase compared to the first nine months of 2006 was driven by a 26% increase in drilling services revenue, which spanned all four regions. The increase in drilling services revenue was primarily the result of additional contract awards in the United States, the Middle East, and Asia Pacific. Also contributing to drilling services revenue improvement was increased drilling activity in Eurasia. Wireline and perforating services revenue grew 23% benefiting from new projects in Africa, increased rig count in the United States, and a new contract in Asia Pacific. Fluid services revenue increased 20% compared to the first nine months of 2006 on increased land rig activity in the United States, new contracts in the North Sea, and increased activity in Africa. Increased United States rig count and fixed cutter activity in the United States and Europe contributed to the 13% increase in drill bits revenue. Landmark revenue grew 17%, which spanned all four regions, with the largest increases occurring in Latin America and Eurasia due to stronger software sales and consulting services. Project management revenue declined 21% due to the completion of a project in Mexico. International revenue was 67% of total segment revenue in the first nine months of 2007 and 66% of total segment revenue in the first nine months of 2006.

The increase in segment operating income in the first nine months of 2007 compared to the first nine months of 2006 came from all geographic regions except North America. Drilling services operating income grew 33% over the first nine months of 2006 primarily from increased drilling activity in United States land operations, Europe, Eurasia, and the Middle East. Wireline and perforating services operating income improved 17% from new projects in Africa and increased activity in Latin America. Partially offsetting wireline and perforating services operating income was the slowdown in Canada. Fluid services operating income fell 18% compared to the first nine months of 2006 primarily due to an additional provision recorded for an environmental exposure in North America and decreased activity in Canada and Latin America. Drill bits operating income increased 23% compared to the first nine months of 2006 due primarily to increased rig count and fixed cutter activity in the United States. Landmark operating income increased 36% compared to the first nine months of 2006 from stronger software sales and consulting services. Project management operating income declined 21% due to lower gas production in the Gulf of Mexico.

Corporate and other expenses were $119 million in the first nine months of 2007 and $164 million in the first nine months of 2006. The first nine months of 2007 included a $49 million gain recorded on the sale of our remaining interest in Dresser, Ltd.

NONOPERATING ITEMS

Interest expense decreased $6 million in the first nine months of 2007 compared to the first nine months of 2006 due to the repayment in August 2006 of our $275 million 6.0% medium-term notes.

Interest income increased $6 million in the first nine months of 2007 compared to the first nine months of 2006 due to higher interest-rate-driven earnings on higher balances of cash and marketable investments.

Other, net in the first nine months of 2007 primarily included losses on the Canadian dollar and the Indonesian rupiah.

Provision for income taxes from continuing operations of $695 million in the first nine months of 2007 resulted in an effective tax rate of 27% compared to an effective tax rate of 32% in the first nine months of 2006. The provision for income taxes in 2007 included a $133 million favorable income tax impact from the ability to recognize foreign tax credits previously estimated not to be fully utilizable. We now believe we can utilize these credits currently because we have generated additional taxable income for 2006 and expect to continue to generate a higher level of taxable income largely from the growth of our international operations.

Minority interest in net income of subsidiaries increased $7 million compared to the first nine months of 2006 related primarily to our joint ventures in Egypt, Malaysia, and Saudi Arabia.

Income from discontinued operations, net of income tax in the first nine months of 2007 primarily consisted of the approximate $933 million net gain recorded on the disposition of KBR, Inc.

ENVIRONMENTAL MATTERS

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

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

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

We do not expect costs related to these remediation requirements to have a material adverse effect on our consolidated financial position or our results of operations. Our accrued liabilities for environmental matters were $75 million as of September 30, 2007 and $39 million as of December 31, 2006. Our total liability related to environmental matters covers numerous properties. We have subsidiaries that have been named as potentially responsible parties along with other third parties for 11 federal and state superfund sites for which we have established a liability. As of September 30, 2007, those 11 sites accounted for approximately $11 million of our total $75 million liability. For any particular federal or state superfund site, since our estimated liability is typically within a range and our accrued liability may be the amount on the low end of that range, our actual liability could eventually be well in excess of the amount accrued. Despite attempts to resolve these superfund matters, the relevant regulatory agency may at any time bring suit against us for amounts in excess of the amount accrued. With respect to some superfund sites, we have been named a potentially responsible party by a regulatory agency; however, in each of those cases, we do not believe we have any material liability. We also could be subject to third-party claims with respect to environmental matters for which we have been named as a potentially responsible party.

NEW ACCOUNTING STANDARDS

Effective January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48, as amended May 2007 by FASB Staff Position FIN 48-1, "Definition of 'settlement' in FASB Interpretation No. 48," prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As a result of the adoption of FIN 48, we recognized a decrease of $4 million in other liabilities to account for a decrease in unrecognized tax benefits and an increase of $34 million for accrued interest and penalties, which were accounted for as a net reduction of $30 million to the January 1, 2007 balance of retained earnings. Of the $30 million reduction to retained earnings, $10 million was attributable to KBR, which is now reported as discontinued operations in the condensed consolidated financial statements. See Note 12 to our condensed consolidated financial statements for further information.

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force Issue No 06-3 (EITF 06-3), "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." EITF 06-3 requires a company to disclose its policy regarding the presentation of tax receipts on the face of the income statement. The scope of this guidance includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. The provisions of EITF 06-3 are effective for periods beginning after December 15, 2006. Therefore, we adopted EITF 06-3 on January 1, 2007. We present taxes collected from customers on a net basis.

In September 2006, the FASB issued Staff Position (FSP) AUG AIR-1, "Accounting for Planned Major Maintenance Activities," which prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities. The provisions of this FSP are effective for the first fiscal year beginning after December 15, 2006. We did not elect early adoption and, therefore, adopted FSP AUG AIR-1 on January 1, 2007 without material impact to our financial statements.

In September 2006, the FASB issued Statement No. 157 (SFAS No. 157), "Fair Value Measurements," which is intended to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value, and expanding disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We will adopt the provisions of SFAS No. 157 beginning January 1, 2008 and are currently evaluating the impact of this statement on our financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 permits entities to measure eligible assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We will adopt SFAS 159 on January 1, 2008, and are currently evaluating the impact of this statement on our financial statements.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides safe harbor provisions for forward-looking information. Forward-looking information is based on projections and estimates, not historical information. Some statements in this Form 10-Q are forward-looking and use words like "may," "may not," "believes," "do not believe," "expects "do not expect," "anticipates," "do not anticipate," and other expressions. We may also provide oral or written forward-looking information in other materials we release to the public. Forward-looking information involves risk and uncertainties and reflects our best judgment based on current information. Our results of operations can be affected by inaccurate assumptions we make or by known or unknown risks and uncertainties. In addition, other

factors may affect the accuracy of our forward-looking information. As a result, no forward-looking information can be guaranteed. Actual events and the results of operations may vary materially.

We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events, or for any other reason. You should review any additional disclosures we make in our press releases and Forms 10-K, 10-Q, and 8-K filed with or furnished to the SEC. We also suggest that you listen to our quarterly earnings release conference calls with financial analysts.
While it is not possible to identify all factors, we continue to face many risks and uncertainties that could cause actual results to differ from our forward-looking statements and potentially materially and adversely affect our financial condition and results of operations.
Due to the separation of KBR, Inc., a number of risk factors previously disclosed in our 2006 annual report on Form 10-K are no longer applicable to our continuing business operations, including: "United States Government Contract Work," "Bidding practices investigation," "Possible Algerian investigation," "Risk related to award of new gas monetization and upstream projects," "Government spending," "Risks related to contracts," and "Other KBR risks."
The risk factors discussed below update the remaining risk factors previously disclosed in our 2006 annual report on Form 10-K.

RISK FACTORS

Foreign Corrupt Practices Act Investigations
The Securities and Exchange Commission (SEC) is conducting a formal investigation into whether improper payments were made to government officials in Nigeria through the use of agents or subcontractors in connection with the construction and subsequent expansion by TSKJ of a multibillion dollar natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. The Department of Justice (DOJ) is also conducting a related criminal investigation. The SEC has also issued subpoenas seeking information, which we and KBR are furnishing, regarding current and former agents used in connection with multiple projects, including current and prior projects, over the past 20 years located both in and outside of Nigeria in which the Halliburton energy services business, KBR or affiliates, subsidiaries or joint ventures of Halliburton or KBR, are or were participants. In September 2006 and October 2007, the SEC and the DOJ, respectively, each requested that we enter into an agreement to extend the statute of limitations with respect to its investigation. We anticipate that we will enter into an appropriate agreement with each of the SEC and the DOJ.
TSKJ is a private limited liability company registered in Madeira, Portugal whose members are Technip SA of France, Snamprogetti Netherlands B.V. (a subsidiary of Saipem SpA of Italy), JGC Corporation of Japan, and Kellogg Brown & Root LLC (a subsidiary of KBR), each of which had an approximate 25% interest in the venture. TSKJ and other similarly owned entities entered into various contracts to build and expand the liquefied natural gas project for Nigeria LNG Limited, which is owned by the Nigerian National Petroleum Corporation, Shell Gas B.V., Cleag Limited (an affiliate of Total), and Agip International B.V. (an affiliate of ENI SpA of Italy).
The SEC and the DOJ have been reviewing these matters in light of the requirements of the FCPA. In addition to performing our own investigation, we have been cooperating with the SEC and the DOJ investigations and with other investigations in France, Nigeria, and Switzerland regarding the Bonny Island project. The government of Nigeria gave notice in 2004 to the French magistrate of a civil claim as an injured party in the French investigation. We are not aware of any further developments with respect to this claim. We also believe that the Serious Fraud Office in the United Kingdom is conducting an investigation relating to the Bonny Island project. Our Board of Directors has appointed a committee of independent directors to oversee and direct the FCPA investigations. Through our committee of independent directors, we will continue to oversee and direct the investigations.

The matters under investigation relating to the Bonny Island project cover an extended period of time (in some cases significantly before our 1998 acquisition of Dresser Industries and continuing through the current time period). We have produced documents to the SEC and the DOJ from the files of numerous officers and employees of Halliburton and KBR, including current and former executives of Halliburton and KBR, both voluntarily and pursuant to company subpoenas from the SEC and a grand jury, and we are making our employees and KBR is making its employees available to the SEC and the DOJ for interviews. In addition, the SEC has issued a subpoena to A. Jack Stanley, who formerly served as a consultant and chairman of Kellogg Brown & Root LLC, and to others, including certain of our former and KBR's current and former employees, former executive officers of KBR, and at least one subcontractor of KBR. We further understand that the DOJ has issued subpoenas for the purpose of obtaining information abroad, and we understand that other partners in TSKJ have provided information to the DOJ and the SEC with respect to the investigations, either voluntarily or under subpoenas.

The SEC and DOJ investigations include an examination of whether TSKJ's engagements of Tri-Star Investments as an agent and a Japanese trading company as a subcontractor to provide services to TSKJ were utilized to make improper payments to Nigerian government officials. In connection with the Bonny Island project, TSKJ entered into a series of agency agreements, including with Tri-Star Investments, of which Jeffrey Tesler is a principal, commencing in 1995 and a series of subcontracts with a Japanese trading company commencing in 1996. We understand that a French magistrate has officially placed Mr. Tesler under investigation for corruption of a foreign public official. In Nigeria, a legislative committee of the National Assembly and the Economic and Financial Crimes Commission, which is organized as part of the executive branch of the government, are also investigating these matters. Our representatives have met with the French magistrate and Nigerian officials. In October 2004, representatives of TSKJ voluntarily testified before the Nigerian legislative committee.

TSKJ suspended the receipt of services from and payments to Tri-Star Investments and the Japanese trading company and has considered instituting legal proceedings to declare all agency agreements with Tri-Star Investments terminated and to recover all amounts previously paid under those agreements. In February 2005, TSKJ notified the Attorney General of Nigeria that TSKJ would not oppose the Attorney General's efforts to have sums of money held on deposit in accounts of Tri-Star Investments in banks in Switzerland transferred to Nigeria and to have the legal ownership of such sums determined in the Nigerian courts.

As a result of these investigations, information has been uncovered suggesting that, commencing at least 10 years ago, members of TSKJ planned payments to Nigerian officials. We have reason to believe that, based on the ongoing investigations, payments may have been made by agents of TSKJ to Nigerian officials. In addition, information uncovered in the summer of 2006 suggests that, prior to 1998, plans may have been made by employees of The M.W. Kellogg Company (a predecessor of a KBR subsidiary) to make payments to government officials in connection with the pursuit of a number of other projects in countries outside of Nigeria. We are reviewing a number of more recently discovered documents related to KBR's activities in countries outside of Nigeria with respect to agents for projects after 1998. Certain activities discussed in this paragraph involve current or former employees or persons who were or are consultants to KBR, and our investigation is continuing.

In June 2004, all relationships with Mr. Stanley and another consultant and former employee of M.W. Kellogg Limited were terminated. The terminations occurred because of Code of Business Conduct violations that allegedly involved the receipt of improper personal benefits from Mr. Tesler in connection with TSKJ's construction of the Bonny Island project.

In 2006 and 2007, KBR suspended the services of other agents in and outside of Nigeria, including one agent who, until such suspension, had worked for KBR outside of Nigeria on several current projects and on numerous older projects going back to the early 1980s. Such suspensions have occurred when possible improper conduct has been discovered or alleged or when Halliburton and KBR have been unable to confirm the agent's compliance with applicable law and the Code of Business Conduct.

The SEC and DOJ are also investigating and have issued subpoenas concerning TSKJ's use of an immigration services provider, apparently managed by a Nigerian immigration official, to which approximately $1.8 million in payments in excess of costs of visas were allegedly made between approximately 1997 and the termination of the provider in December 2004 and our 2007 reporting of this matter to the government. We understand that TSKJ terminated the immigration services provider after a KBR employee discovered the issue.

If violations of the FCPA were found, a person or entity found in violation could be subject to fines, civil penalties of up to $500,000 per violation, equitable remedies, including disgorgement (if applicable) generally of profits, including prejudgment interest on such profits, causally connected to the violation, and injunctive relief. Criminal penalties could range up to the greater of $2 million per violation or twice the gross pecuniary gain or loss from the violation, which could be substantially greater than $2 million per violation. It is possible that both the SEC and the DOJ could assert that there have been multiple violations, which could lead to multiple fines. The amount of any fines or monetary penalties that could be assessed would depend on, among other factors, the findings regarding the amount, timing, nature, and scope of any improper payments, whether any such payments were authorized by or made with knowledge of us, KBR or our or KBR's affiliates, the amount of gross pecuniary gain or loss involved, and the level of cooperation provided the government authorities during the investigations. The government has expressed concern regarding the level of our cooperation. Agreed dispositions of these types of violations also frequently result in an acknowledgement of wrongdoing by the entity and the appointment of a monitor on terms negotiated with the SEC and the DOJ to review and monitor current and future business practices, including the retention of agents, with the goal of assuring compliance with the FCPA.

These investigations could also result in third-party claims against us, which may include claims for special, indirect, derivative or consequential damages, damage to our business or reputation, loss of, or adverse effect on, cash flow, assets, goodwill, results of operations, business prospects, profits or business value or claims by directors, officers, employees, affiliates, advisors, attorneys, agents, debt holders, or other interest holders or constituents of us or our current or former subsidiaries. In addition, we could incur costs and expenses for any monitor required by or agreed to with a governmental authority to review our continued compliance with FCPA law.

As of September 30, 2007, we are unable to estimate an amount of probable loss or a range of possible loss related to these matters as it relates to Halliburton directly. However, we provided indemnification in favor of KBR under the master separation agreement for certain contingent liabilities, including Halliburton's indemnification of KBR and any of its greater than 50%-owned subsidiaries as of November 20, 2006, the date of the master separation agreement, for fines or other monetary penalties or direct monetary damages, including disgorgement, as a result of a claim made or assessed by a governmental authority in the United States, the United Kingdom, France, Nigeria, Switzerland, and/or Algeria, or a settlement thereof, related to alleged or actual violations occurring prior to November 20, 2006 of the FCPA or particular, analogous applicable foreign statutes, laws, rules, and regulations in connection with investigations pending as of that date, including with respect to the construction and subsequent expansion by TSKJ of a natural gas liquefaction complex and related facilities at Bonny Island in Rivers State, Nigeria. We recorded the estimated fair market value of this indemnity regarding FCPA matters described above upon our separation from KBR. See Note 2 to our condensed consolidated financial statements for additional information.

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

In consideration of our agreement to indemnify KBR for the liabilities referred to above, KBR has agreed that we will at all times, in our sole discretion, have and maintain control over the investigation, defense and/or settlement of these FCPA matters until such time, if any, that KBR exercises its right to assume control of the investigation, defense and/or settlement of the FCPA matters as it relates to KBR. KBR has also agreed, at our expense, to assist with Halliburton's full cooperation with any governmental authority in our investigation of these FCPA matters and our investigation, defense and/or settlement of any claim made by a governmental authority or court relating to these FCPA matters, in each case even if KBR assumes control of these FCPA matters as it relates to KBR. If KBR takes control over the investigation, defense, and/or settlement of FCPA matters, refuses a settlement of FCPA matters negotiated by us, enters into a settlement of FCPA matters without our consent, or materially breaches its obligation to cooperate with respect to our investigation, defense, and/or settlement of FCPA matters, we may terminate the indemnity.

Operations in Iran

We received and responded to an inquiry in mid-2001 from the Office of Foreign Assets Control (OFAC) of the United States Treasury Department with respect to operations in Iran by a Halliburton subsidiary incorporated in the Cayman Islands. The OFAC inquiry requested information with respect to compliance with the Iranian Transaction Regulations. These regulations prohibit United States citizens, including United States corporations and other United States business organizations, from engaging in commercial, financial, or trade transactions with Iran, unless authorized by OFAC or exempted by statute. Our 2001 written response to OFAC stated that we believed that we were in compliance with applicable sanction regulations. In the first quarter of 2004, we responded to a follow-up letter from OFAC requesting additional information. We understand this matter has now been referred by OFAC to the DOJ. In July 2004, we received a grand jury subpoena from an Assistant United States District Attorney requesting the production of documents. We are cooperating with the government's investigation and responded to the subpoena by producing documents in September 2004.

Separate from the OFAC inquiry, we completed a study in 2003 of our activities in Iran during 2002 and 2003 and concluded that these activities were in compliance with applicable sanction regulations. These sanction regulations require isolation of entities that conduct activities in Iran from contact with United States citizens or managers of United States companies. Notwithstanding our conclusions that our activities in Iran were not in violation of United States laws and regulations, we announced in April 2007 that all of our contractual commitments in Iran have been completed, and we are no longer working in Iran.

Barracuda-Caratinga Arbitration

We also provided indemnification in favor of KBR under the master separation agreement for all out-of-pocket cash costs and expenses (except for legal fees and other expenses of the arbitration so long as KBR controls and directs it), or cash settlements or cash arbitration awards in lieu thereof, KBR may incur after November 20, 2006 as a result of the replacement of certain subsea flowline bolts installed in connection with the Barracuda-Caratinga project. Under the master separation agreement, KBR currently controls the defense, counterclaim, and settlement of the subsea flowline bolts matter. As a condition of our indemnity, for any settlement to be binding upon us, KBR must secure our prior written consent to such settlement's terms. We have the right to terminate the indemnity in the event KBR enters into any settlement without our prior written consent. See Note 2 to our condensed consolidated financial statements for additional information regarding the KBR indemnification.

At Petrobras' direction, KBR replaced certain bolts located on the subsea flowlines that failed through mid-November 2005, and KBR has informed us that additional bolts have failed thereafter, which were replaced by Petrobras. These failed bolts were identified by Petrobras when it conducted inspections of the bolts. The designation of the material to be used for the bolts was issued by Petrobras, and as such, we understand that KBR believes the cost resulting from any replacement is not KBR's responsibility. We understand Petrobras disagrees. We understand KBR believes several possible solutions may exist, including replacement of the bolts. Estimates indicate that costs of these various solutions range up to $140 million. In March 2006, Petrobras commenced arbitration against KBR claiming $220 million plus interest for the cost of monitoring and replacing the defective bolts and all related costs and expenses of the arbitration, including the cost of attorneys' fees. We understand KBR intends to vigorously defend and pursue recovery of the costs incurred to date through the arbitration process and to that end has submitted a counterclaim in the arbitration seeking the recovery of $22 million. The final arbitration hearing is expected to begin in 2008.

Impairment of Oil and Gas Properties
We have interests in oil and gas properties totaling $126 million, net of accumulated depletion, which we account for under the successful efforts method. The majority of this amount is related to one property in Bangladesh. These oil and gas properties are assessed for impairment whenever changes in facts and circumstances indicate that the properties' carrying amounts may not be recoverable. The expected future cash flows used for impairment reviews and related fair-value calculations are based on judgmental assessments of future production volumes, prices, and costs, considering all available information at the date of review. We are currently engaged in a drilling program on two prospects in Bangladesh. If the results of the program are unsuccessful, this could result in the write-off of our drilling costs and a portion of the carrying value of the leasehold.
A downward trend in estimates of production volumes or prices or an upward trend in costs could result in an impairment of our oil and gas properties, which in turn could have a material and adverse effect on our results of operations.

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

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

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

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

Failure on our part to comply with applicable environmental requirements could have a material adverse effect on our consolidated financial condition. We are also exposed to costs arising from environmental compliance, including compliance with changes in or expansion of environmental requirements, which could have a material adverse effect on our business, financial condition, operating results, or cash flows.
We are exposed to claims under environmental requirements and, from time to time, such claims have been made against us. In the United States, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations we could be exposed to liability for cleanup costs, natural resource damages, and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties. Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our consolidated results of operations.
We are periodically notified of potential liabilities at state and federal superfund sites. These potential liabilities may arise from both historical Halliburton operations and the historical operations of companies that we have acquired. Our exposure at these sites may be materially impacted by unforeseen adverse developments both in the final remediation costs and with respect to the final allocation among the various parties involved at the sites. For any particular federal or state superfund site, since our estimated liability is typically within a range and our accrued liability may be the amount on the low end of that range, our actual liability could eventually be well in excess of the amount accrued. The relevant regulatory agency may bring suit against us for amounts in excess of what we have accrued and what we believe is our proportionate share of remediation costs at any superfund site. We also could be subject to third-party claims, including punitive damages, with respect to environmental matters for which we have been named as a potentially responsible party.

Changes in environmental requirements may negatively impact demand for our services. For example, oil and natural gas exploration and production may decline as a result of environmental requirements (including land use policies responsive to environmental concerns). A decline in exploration and production, in turn, could materially and adversely affect us.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial instrument market risk from changes in foreign currency exchange rates, interest rates, and, to a limited extent, commodity prices. We selectively manage these exposures through the use of derivative instruments to mitigate our market risk from these exposures. The objective of our risk management is to protect our cash flows related to sales or purchases of goods or services from market fluctuations in currency rates. Our use of derivative instruments includes the following types of market risk:

- volatility of the currency rates;
- time horizon of the derivative instruments;
- market cycles; and
- the type of derivative instruments used.

We do not use derivative instruments for trading purposes. We do not consider any of these risk management activities to be material.

Item 4. Controls and Procedures

In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2007 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during the three months ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information related to various commitments and contingencies is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations," in "Forward-Looking Information" and "Risk Factors," and in Notes 2, 9, and 10 to the condensed consolidated financial statements.

Item 1(a). Risk Factors

Information related to risk factors is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Forward-Looking Information" and "Risk Factors."

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Following is a summary of our repurchases of our common stock during the three-month period ended September 30, 2007.

Period	Total Number Of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)
July 1-31	1,286,042	$ 36.48	1,231,495
August 1-31	9,391,655	$ 33.28	9,382,335
September 1-30	500,124	$ 34.93	486,800
Total	11,177,821	$ 33.72	11,100,630

(a) Of the 11,177,821 shares purchased during the three-month period ended September 30, 2007, 77,191 shares were acquired from employees in connection with the settlement of income tax and related benefit withholding obligations arising from vesting in restricted stock grants. These shares were not part of a publicly announced program to purchase common shares.

(b) In July 2007, our Board of Directors approved an additional increase to our existing common share repurchase program of up to $2.0 billion, bringing the entire authorization to $5.0 billion. This additional authorization may be used for open market share purchases or to settle the conversion premium on our 3.125% convertible senior notes, should they be redeemed. From the inception of this program, we have repurchased approximately 77 million shares of our common stock for approximately $2.6 billion at an average price per share of $33.85. These numbers include the repurchases of approximately 37 million shares of our common stock for approximately $1.3 billion at an average price per share of $34.87 during the first nine months of 2007. As of September 30, 2007, $2.4 billion remained available under this program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

10.1 Form of Indemnification Agreement for Officers (incorporated by reference to Exhibit 10.1 to Halliburton's Form 8-K filed August 3, 2007, File No. 1-3492).

10.2 Form of Indemnification Agreement for Directors (incorporated by reference to Exhibit 10.2 to Halliburton's Form 8-K filed August 3, 2007, File No. 1-3492).

* 10.3 2008 Halliburton Elective Deferral Plan, as amended and restated effective January 1, 2008.

* 10.4 Halliburton Company Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2008.

* 10.5 Halliburton Company Benefit Restoration Plan, as amended and restated effective January 1, 2008.

* 10.6 Halliburton Annual Performance Pay Plan, as amended and restated effective January 1, 2007.

* 10.7 Halliburton Management Performance Plan, as amended and restated effective January 1, 2007.

* 10.8 Halliburton Company Pension Equalizer Plan, as amended and restated effective March 1, 2007.

* 10.9 Halliburton Company Directors' Deferred Compensation Plan, as amended and restated effective January 1, 2007.

* 10.10 Retirement Plan for the Directors of Halliburton Company, as amended and restated effective July 1, 2007.

* 10.11 First Amendment to the Retirement Plan for the Directors of Halliburton Company, effective September 1, 2007.

* 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act

of 2002.

**	32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**	32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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SIGNATURES

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

HALLIBURTON COMPANY

/s/ C. Christopher Gaut	/s/ Mark A. McCollum
C. Christopher Gaut	Mark A. McCollum
Executive Vice President and	Senior Vice President and
Chief Financial Officer	Chief Accounting Officer

Date: October 26, 2007

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