SCHLUMBERGER LTD /NV/
Form S-4/A
June 17, 2010
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As filed with the Securities and Exchange Commission on June 17, 2010

Registration No. 333-166326

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-4

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

SCHLUMBERGER N.V. (SCHLUMBERGER LIMITED)

(Exact name of registrant as specified in its charter)

Netherlands Antilles	**1389**	**52-0684746**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

42, rue Saint-Dominique

Paris, France 75007

33-1-4062-1000

5599 San Felipe, 17th Floor

Houston, Texas 77056

(713) 513-2000

Parkstraat 83, The Hague

The Netherlands, 2514 JG

31-70-310-54003000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Alexander C. Juden

General Counsel and Secretary

Schlumberger Limited

5599 San Felipe, 17th Floor

Houston, Texas 77056

(713) 513-2000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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New York, New York 10019

(212) 403-1000

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective and upon completion of the merger described in the enclosed document.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ¨

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered(1)**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price(2)**	**Amount of registration fee(3)**
Common stock, par value $0.01 per share	177,642,362	N/A	$11,535,532,913	$822,484(4)

(1) Represents the maximum number of shares of common stock, par value of $0.01 per share, of Schlumberger Limited to be issuable upon the completion of the merger described herein, equal to the product of (i) 255,013,439, the number of shares of Smith International, Inc. common stock outstanding on April 21, 2010 (other than shares owned by Smith International, Inc., the registrant and any of their respective subsidiaries) or issuable pursuant to outstanding stock options and restricted stock units, multiplied by (ii) the exchange ratio of 0.6966 shares of Schlumberger Limited common stock for each share of Smith International, Inc. common stock.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act and calculated pursuant to Rules 457(f) and 457(c) under the Securities Act. The proposed maximum aggregate offering price of the registrant s common stock was calculated based upon the market value of shares of Smith International, Inc. common stock (the securities to be canceled in the merger) in accordance with Rule 457(c) and is equal to the product of (i) $45.24, the average of the high and low prices per share of Smith International, Inc. common stock on the New York Stock Exchange on April 20, 2010, multiplied by (ii) 255,013,439, the maximum number of shares of Smith International, Inc. common stock that may be canceled and exchanged in the merger as of April 21, 2010.

(3) Calculated pursuant to Section 6(b) of the Securities Act and SEC Fee Advisory #4 for Fiscal Year 2010 at a rate equal to $71.30 per $1,000,000 of the proposed maximum aggregate offering price.

(4) Previously paid in connection with the initial filing of this registration statement on April 27, 2010.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This proxy statement/prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

SUBJECT TO COMPLETION, DATED JUNE 17, 2010

MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

To the stockholders of Smith International, Inc.:

The board of directors of Schlumberger Limited (Schlumberger N.V.) and the board of directors of Smith International, Inc. have agreed to a strategic combination pursuant to an Agreement and Plan of Merger, dated as of February 21, 2010, which we refer to as the merger agreement. Upon completion of the merger of a wholly owned subsidiary of Schlumberger with and into Smith, Schlumberger will acquire Smith, and Smith will become a wholly owned subsidiary of Schlumberger.

If the merger is completed, Smith stockholders will have the right to receive 0.6966 shares of Schlumberger common stock for each share of Smith common stock, with cash paid in lieu of fractional shares. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to closing of the merger. Based on the closing price of Schlumberger common stock on the New York Stock Exchange, or the NYSE, on February 18, 2010, the last trading day before various news outlets began reporting on a possible transaction involving Smith and Schlumberger, the 0.6966 exchange ratio represented approximately $45.84 in value for each share of Smith common stock. Based on the closing price of Schlumberger common stock on [ ], 2010, the most recent practicable trading day before the date of this document, the 0.6966 exchange ratio represented approximately $[ ] in value for each share of Smith common stock.

Based on the number of shares of Smith common stock and Smith restricted stock units outstanding as of [ ], 2010, Schlumberger expects to issue approximately [ ] shares of its common stock to Smith stockholders pursuant to the merger and reserve for issuance approximately [ ] additional shares of Schlumberger common stock in connection with the exercise or conversion of Smith s outstanding equity awards. Upon completion of the merger, we estimate that current Schlumberger shareholders will own approximately 87.2% of the combined company and former Smith stockholders will own approximately 12.8% of the combined company. Schlumberger common stock and Smith common stock are both traded on the NYSE under the symbols SLB and SII, respectively.

At the annual meeting of Smith stockholders, Smith stockholders will be asked to vote on the adoption of the merger agreement. We cannot complete the merger unless the Smith stockholders approve this proposal. Your vote is very important, regardless of the number of shares you own. Whether or not you expect to attend the annual meeting in person, please vote your shares as promptly as possible by (1) accessing the internet website specified on your proxy card, (2) calling the toll-free number specified on your proxy card, or (3) signing and returning all proxy cards that you receive in the postage-paid envelope provided, so that your shares may be represented and voted at the Smith annual meeting. **Please note that a failure to vote your shares is the equivalent of a vote against the merger.**

Smith stockholders will also be asked to vote on several other proposals, including the election of three Smith directors, James Gibbs, Duane Radtke and John Yearwood; approval of Smith s 1989 Long-Term Incentive Compensation Plan, as amended and restated; the ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the fiscal year ending December 31, 2010; and approval of the adjournment of the Smith annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the annual meeting. The completion of the merger is not dependent on the outcome of any of these proposals.

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The Smith board of directors, by a unanimous vote, recommends that Smith stockholders vote FOR the proposal to adopt the merger agreement, FOR each of the director nominees and FOR the other proposals to be submitted to the stockholders at the Smith annual meeting.

The obligations of Smith and Schlumberger to complete the merger are subject to the satisfaction or waiver of several conditions set forth in the merger agreement. More information about Smith, Schlumberger and the merger is contained in this proxy statement/prospectus. Smith and Schlumberger encourage you to read this entire proxy statement/prospectus carefully, including the section entitled Risk Factors beginning on page [ ].

We at Smith look forward to the successful combination of Smith and Schlumberger.

Sincerely,

John Yearwood

Chief Executive Officer, President

and Chief Operating Officer

Smith International, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under the accompanying proxy statement/prospectus or determined that the accompanying proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The accompanying proxy statement/prospectus is dated [ ], 2010 and is first being mailed to the stockholders of Smith International, Inc. on or about [ ], 2010.

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1310 Rankin Road

Houston, Texas 77073

(281) 443-3370

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

[ ], 2010

To Our Stockholders:

The Annual Meeting of Stockholders of Smith International, Inc. will be held on [ ], [ ], 2010, at [ ] local time, at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware, to consider and take action on the following:

1. Approval of a proposal to adopt the Agreement and Plan of Merger, dated as of February 21, 2010, as it may be amended from time to time, among Schlumberger Limited, Turnberry Merger Sub Inc., and Smith International, Inc., a copy of which is attached as Annex A to the proxy statement/prospectus accompanying this notice;

2. Election of three Class III directors: James R. Gibbs, Duane C. Radtke and John Yearwood, each for a term of three years ending at the 2013 Annual Meeting of Stockholders or until their successors are duly elected and qualified;

3. Approval of the Smith International, Inc. 1989 Long-Term Incentive Compensation Plan, as amended and restated;

4. Ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the fiscal year ending December 31, 2010;

5. Approval of the adjournment of Smith s annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the annual meeting; and

6. Conducting any other business as may properly come before Smith s annual meeting or any adjournment or postponement thereof.

Please refer to the proxy statement/prospectus accompanying this notice for further information with respect to the business to be transacted at Smith s annual meeting.

Smith s board of directors unanimously recommends a vote FOR the proposal to adopt the Agreement and Plan of Merger, FOR each of the director nominees, and FOR each of the other proposals described in the proxy statement/prospectus accompanying this notice.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on [ ], 2010: This proxy statement and the Smith 2009 Annual Report to Stockholders are available on the following website: www.proxydocs.com/sii.

The Smith board of directors has fixed the close of business on [ ], 2010 as the record date for determining stockholders who are entitled to notice of and to vote at the annual meeting. Only holders of record of Smith common stock at the close of business on the record date are entitled to receive notice of, and to vote at, the Smith annual meeting.

By Order of the Board of Directors

Richard E. Chandler, Jr.

Secretary

Houston, Texas

[ ], 2010

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YOUR VOTE IS IMPORTANT.

Please vote your proxy promptly so that your shares will be represented, even if you plan to attend the annual meeting. You can vote by internet, by telephone, or by using the proxy card that is enclosed. Please see your proxy card for specific instructions on how to vote. Brokers cannot vote on Proposals 1, 2 or 3 without your instructions.

The proxy statement/prospectus accompanying this notice provides a detailed description of the merger, the Agreement and Plan of Merger and the other matters to be considered at the Smith annual meeting. You are urged to read the entire proxy statement/prospectus, including the annexes and other documents referred to therein.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SMITH ANNUAL MEETING

The following are some questions that you, as a stockholder of Smith, may have regarding the merger and the annual meeting, and brief answers to those questions. You are urged to read carefully this proxy statement/prospectus and the other documents referred to in this proxy statement/prospectus in their entirety because this section may not provide all of the information that is important to you with respect to the merger and the annual meeting. Additional important information is contained in the annexes to, and the documents incorporated by reference into, this proxy statement/prospectus.

Questions About the Merger

Q: Why am I receiving this document?

A: Schlumberger and Smith have agreed to combine under the terms of a merger agreement that is described in this proxy statement/prospectus. A copy of the merger agreement is attached as Annex A. In order to complete the merger, Smith stockholders must vote to adopt the merger agreement. Smith will submit this proposal to its stockholders at its annual meeting.

At the annual meeting, Smith stockholders will be asked to vote on several other proposals, including the election of James Gibbs, Duane Radtke and John Yearwood as directors of Smith; approval of Smith s 1989 Long-Term Incentive Compensation Plan, as amended and restated; the ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the fiscal year ending December 31, 2010; and the adjournment of the Smith annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement.

This document contains important information about the merger and the meeting of the stockholders of Smith, and you should read it carefully. The enclosed voting materials allow you to vote your shares without attending the annual meeting.

Your vote is important. We encourage you to vote as soon as possible.

Q: What will happen in the merger?

A: Schlumberger and Smith have agreed to a merger, pursuant to which Turnberry Merger Sub Inc., a wholly owned subsidiary of Schlumberger that was formed for the purpose of the merger, will be merged with and into Smith. Smith will be the surviving corporation in the merger and will be a wholly owned subsidiary of Schlumberger following completion of the merger.

In the merger, Schlumberger will issue shares of Schlumberger common stock as the consideration to be paid to holders of Smith common stock. Following the merger, Smith will cease to be a publicly held corporation and will be a wholly owned subsidiary of Schlumberger.

Q: Why am I being asked to adopt the merger agreement?

A: In order to complete the merger, Smith stockholders must vote to adopt the merger agreement. This document is being delivered to you as both a proxy statement of Smith and a prospectus of Schlumberger in connection with the merger. It is the proxy statement by which the Smith board of directors is soliciting proxies from you to vote on certain matters, including the adoption of the merger agreement, at the annual meeting or at any adjournment or postponement of the annual meeting. It is also the prospectus by which Schlumberger is offering the Schlumberger common stock to be issued to you in the merger.

Q: What will I receive in the merger?

A: If the merger is completed, each of your shares of Smith common stock will be cancelled and converted automatically into the right to receive 0.6966 shares of Schlumberger common stock. You will receive cash for any fractional shares of Schlumberger common stock that you would otherwise receive in the merger.

Based on the closing price of Schlumberger common stock on the NYSE on February 18, 2010, the last trading day before various news outlets began reporting on a possible transaction involving Smith and Schlumberger, the merger consideration represented approximately $45.84 in value for each share of Smith common stock. Based on the closing price of Schlumberger common stock on the NYSE on [ ], 2010, the most recent practicable trading day prior to the date of this proxy statement/prospectus, the merger consideration represented approximately $[ ] in value for each share of Smith common stock. The market price of Schlumberger common stock will fluctuate prior to the merger, and the market price of Schlumberger common stock when received by Smith stockholders after the merger is completed could be greater or less than the current market price of Schlumberger common stock. See Risk Factors beginning on page [ ] of this proxy statement/prospectus.

Q: What happens if the merger is not completed?

A: If the merger agreement is not adopted by Smith stockholders or if the merger is not completed for any other reason, you will not receive any payment for your shares of Smith common stock in connection with the merger. Instead, Smith will remain an independent public company and Smith common stock will continue to be listed and traded on the NYSE. If the merger agreement is terminated under specified circumstances, Smith may be required to pay Schlumberger a termination fee of $340 million, or Schlumberger may be required to pay Smith a termination fee of $615 million, as described under The Merger Agreement Termination, Amendment and Waiver Fees and Expenses beginning on page [ ] of this proxy statement/prospectus.

Q: Will I continue to receive future dividends?

A: Before completion of the merger, Smith expects to continue to pay its regular quarterly cash dividends on shares of its common stock, which currently are $0.12 per share of Smith common stock. However, Smith and Schlumberger will coordinate the timing of dividend declarations leading up to the merger so that a holder will neither receive two dividends, nor fail to receive one dividend, for any quarter. Receipt of the regular quarterly dividend will not reduce the merger consideration you receive. After completion of the merger, you will be entitled only to dividends on any shares of Schlumberger common stock you receive in the merger. Although Schlumberger provides no assurances as to the level or payment of any future dividends on shares of its common stock, and Schlumberger s board of directors has the power to modify its dividend policy at any time, Schlumberger currently pays dividends at a quarterly rate of $0.21 per share of Schlumberger common stock.

Q: Does the Smith board of directors recommend that stockholders adopt the merger agreement?

A: Yes, the Smith board of directors unanimously recommends a vote FOR the adoption of the merger agreement.

Q: What happens if I sell my shares after the record date but before the annual meeting?

A: The record date for the annual meeting is earlier than the date of the annual meeting and the date that the merger is expected to be completed. If you sell or otherwise transfer your shares of Smith common stock after the record date but before the date of the annual meeting, you will retain your right to vote at the annual meeting. However, you will not have the right to receive the merger consideration to be received by Smith stockholders in the merger. In order to receive the merger consideration, you must hold your shares through completion of the merger.

Q: Am I entitled to appraisal rights if I vote against the adoption of the merger agreement?

A:

No. Appraisal rights confer on stockholders who vote against the merger the right to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to stockholders in connection with the merger. Because Smith common stock was listed on the NYSE on the record date and will, upon the completion of the merger, be converted into the right to receive Schlumberger common stock, which will also be listed on the NYSE, Smith stockholders will not have appraisal rights in connection with the merger.

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Q: Is completion of the merger subject to any conditions?

A: Yes. In addition to the adoption of the merger agreement by Smith stockholders, completion of the merger requires the receipt of the necessary governmental and regulatory approvals and the satisfaction or, to the extent permitted by applicable law, waiver of the other conditions specified in the merger agreement.

Q When do you expect to complete the merger?

A: Smith and Schlumberger are working toward completing the merger promptly. Smith and Schlumberger currently expect to complete the merger in the second half of 2010, subject to receipt of Smith s stockholder approval, governmental and regulatory approvals and other usual and customary closing conditions. However, no assurance can be given as to when, or if, the merger will occur.

Q: Should I send in my stock certificates now?

A: No. Smith stockholders should not send in their stock certificates at this time. At the effective time of the merger, your shares of Smith common stock will be converted automatically into the right to receive the merger consideration. After completion of the merger, Schlumberger s exchange agent will send you a letter of transmittal and instructions for exchanging your shares of Smith common stock for the merger consideration. Upon surrender of the certificates or book-entry shares for cancellation along with the executed letter of transmittal and other documents, a Smith stockholder will receive the merger consideration and any unpaid dividends and distributions declared and paid in respect of Schlumberger common stock after completion of the merger. Unless you specifically request to receive Schlumberger stock certificates, the shares of Schlumberger stock you receive in the merger will be issued in book-entry form.

General Information About Voting

Q: When and where will the annual meeting be held?

A: The Smith annual meeting of stockholders will be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware, on [ ], [ ], 2010, at [ ], local time.

Q: Who may vote?

A: You are entitled to vote your shares of Smith common stock if you are a stockholder of record on [ ], 2010, the record date for the annual meeting.

Q: How many votes do I have?

A: You are entitled to one vote for each share of Smith common stock that you owned as of the record date. Each share of Smith common stock has one vote. The enclosed proxy card shows the number of shares that you are entitled to vote. As of the close of business on [ ], 2010, there were approximately [ ] outstanding shares of Smith common stock. As of that date, approximately [ ]% of the outstanding shares of common stock of Smith entitled to vote were owned by its directors and executive officers and their affiliates.

Q: How do I vote?

A: Stockholders of record of Smith as of the record date for the Smith annual meeting may vote in person by attending the stockholder meeting, or by telephone, internet or mail. If you are voting by mail, please sign, date and mail the enclosed proxy card. If you are voting by telephone or internet, please follow the instructions on the enclosed proxy card. Whether or not you plan to attend the meeting, we encourage you to vote by proxy as soon as possible. If you hold your shares in more than one type of account or your shares are registered differently, you may receive more than one proxy card. We encourage you to vote each proxy card that you receive.

If you choose to attend the meeting in person, you will be asked to present valid picture identification and, if you hold your shares through a broker, you will be asked to present a copy of your brokerage statement showing your stock ownership as of [ ], 2010, and, in order to vote at the annual meeting, a legal proxy from your broker. For directions to the meeting, contact the Hotel du Pont, Wilmington, Delaware at (302) 594-3100.

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Q: How will my shares be voted?

A: If you vote by proxy, the individuals named on the proxy card (your proxies) will vote your shares in the manner you indicate. You may specify on your proxy card whether your shares should be voted for all of the nominees for director or your vote should be withheld with respect to one or more of the nominees. You may also specify whether you approve, disapprove or abstain from the other proposals.

If you sign and return your proxy card without indicating your voting instructions, your shares will be voted FOR the adoption of the merger agreement, FOR the election of all nominees for director, FOR the approval of the Smith long-term incentive compensation plan, FOR the ratification of the appointment of Deloitte & Touche as Smith s independent registered accounting firm and, if necessary, FOR the adjournment of the Smith annual meeting.

Q: What if my shares are held by a broker?

A: If you hold your shares in a stock brokerage account or if your shares are held by a bank or nominee (that is, in street name), you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your bank or broker. Please note that you may not vote shares held in street name by returning a proxy card directly to Smith or by voting in person at the Smith annual meeting unless you provide a legal proxy, which you must obtain from your bank or broker.

If you do not instruct your broker on how to vote your shares, your broker may not give a proxy on or vote your shares on the proposals to adopt the merger agreement (which will have the same effect as a vote against adoption of the merger agreement), elect directors (which will have no effect on the election results, assuming a quorum is present) or to approve the incentive plan proposal (which will have the same effect as a vote against the approval of the incentive plan) without specific instructions from their customers, but may give a proxy on or vote your shares with respect to the other proposals to be considered at the annual meeting. We refer to matters where a proxy has been given but the broker may not vote the shares due to the lack of specific instructions as broker non-votes.

Q: May I revoke or change my vote?

A: Yes. You may revoke or change your proxy at any time before it is exercised by submitting written notice of revocation to Smith s Corporate Secretary so that he receives it before the Smith annual meeting (which, if you hold your shares in street name, you must do in accordance with instructions from your bank or broker); voting again by telephone, internet or mail; or voting in person at the Smith annual meeting.

Attendance at the Smith annual meeting will not by itself revoke a previously granted proxy. If you hold your shares in street name and you wish to change your vote at the Smith annual meeting, you will need to obtain a proxy from the broker or nominee that holds your shares.

Q: What constitutes a quorum?

A: The holders of a majority of the outstanding shares of Smith common stock entitled to vote at the meeting constitutes a quorum for the transaction of business at the annual meeting. If you have returned valid proxy instructions or attend the meeting in person and are entitled to vote your shares at the meeting, your Smith common stock will be counted for the purpose of determining whether there is a quorum, even if you wish to abstain from voting on some or all matters introduced at the meeting. Broker non-votes also count for quorum purposes.

Q: How many votes are required to approve each proposal?

A: The following votes are required to approve each proposal:

Adoption of the merger agreement requires the affirmative vote of a majority of the aggregate voting power of all of the shares of Smith common stock that are outstanding as of the record date and entitled to vote at the Smith annual meeting.

Election of each director requires the affirmative vote of a majority of the total votes cast either for or against the election of such director at the Smith annual meeting. If a nominee is not elected, he must promptly tender his resignation to the Smith board of directors, which will determine, based on a

recommendation from the nominating and corporate governance committee of the Smith board of directors, whether to accept or reject the resignation. In the event of a vacancy on the Smith board of directors, a majority of the remaining directors will appoint a successor or decrease the size of the Smith board of directors.

The approval of the 1989 Long-Term Incentive Compensation Plan requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal, provided that the total vote cast on the proposal constitutes at least a majority of the outstanding shares of Smith common stock. Shares represented at the meeting and entitled to vote on such proposal include all shares that are voted in person at the meeting or that are represented by valid proxies.

Each of the ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the 2010 fiscal year, and the approval of the adjournment of the Smith annual meeting requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal. Shares represented at the meeting and entitled to vote on such proposal include all shares that are voted in person at the meeting or that are represented by valid proxies.

Q: What will happen if I return my proxy card without indicating how to vote?

A: If you are a holder of record and you sign and return your proxy card without indicating how to vote on any particular proposal, the Smith common stock represented by your proxy will be voted as recommended by the Smith board of directors with respect to that proposal.

Q: What will happen if I fail to vote or I abstain from voting?

A: If you fail to vote, fail to instruct your broker or nominee to vote, or vote to abstain, it will have the same effect as a vote against the proposal to adopt the merger agreement. It will have no effect on the outcome of the proposal to elect directors, assuming a quorum is present. With respect to the proposal to approve the 1989 Long Term Incentive Compensation Plan, a failure to vote will have no effect on the outcome, assuming that a quorum is present and that at least a majority of the outstanding shares of Smith common stock vote on the proposal, but a failure to instruct your broker or nominee to vote or a vote to abstain will have the same effect as a vote against such proposal. With respect to the proposals to ratify the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the 2010 fiscal year or to adjourn the Smith annual meeting, a failure to vote will have no effect on the outcome of either of such proposals, assuming in each case that a quorum is present, a failure to specify your voting instructions to your broker or nominee to vote will permit your broker or nominee to vote your shares on such proposals, and a vote to abstain will have the same effect as a vote against such proposals.

Q: What other matters will be acted upon at the meeting?

A: We do not know of any other matters that will be presented at the Smith annual meeting, other than those mentioned in this proxy statement/prospectus.

Q: Who pays the cost of this proxy solicitation?

Smith will pay the cost of solicitation of proxies including preparing, printing and mailing this proxy statement/prospectus. Smith has retained MacKenzie Partners to help in soliciting proxies for a fee of $[ ], plus reasonable out-of-pocket costs and expenses. Smith will also reimburse brokers, banks and other nominees for their costs in sending proxy materials to beneficial owners of Smith common stock. Other proxy solicitation expenses that Smith will pay include those for preparation, mailing, returning and tabulating the proxies.

Q: Who may attend the annual meeting?

A: Holders of record of Smith common stock as of [ ], 2010 may attend the annual meeting. For a period of at least 10 days prior to the Smith annual meeting, a complete list of stockholders entitled to vote at the Smith annual meeting will be open to examination by any Smith stockholder during ordinary business hours at the office of the Smith Corporate Secretary at 1310 Rankin Road, Houston Texas 77073.

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Q: What do I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials for the annual meeting, including multiple copies of this proxy statement/prospectus, proxy cards and/or voting instruction forms. This can occur if you hold your shares in more than one brokerage account, if you hold shares directly as a record holder and also in street name, or otherwise through a nominee, and in certain other circumstances. If you receive more than one set of voting materials, each should be voted and/or returned separately in order to ensure that all of your shares are voted.

Q: What do I need to do now?

A: Carefully read and consider the information contained in and incorporated by reference into this proxy statement/prospectus, including its annexes. Then, please vote your shares of Smith common stock, which you may do by:

- completing, dating, signing and returning the enclosed proxy card in the accompanying postage-paid envelope;
- submitting your proxy by telephone or via the internet by following the instructions included on your proxy card; or
- attending the Smith annual meeting and voting by ballot in person.

If you hold shares through a broker or other nominee, please instruct your broker or nominee to vote your shares by following the instructions that the broker or nominee provides to you with these materials.

Q: Whom should I call with questions?

A: Smith stockholders who have questions about the merger, the election of directors or the other matters to be voted on at the Smith annual meeting or desire additional copies of this document or additional proxy cards should contact:

MacKenzie Partners, Inc.

105 Madison Avenue

New York, New York 10016

proxy@mackenziepartners.com

Call Collect: (212) 929-5500

or

Toll-Free: (800) 322-2885

SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. You are urged to read carefully the entire proxy statement/prospectus and the other documents referred to in this proxy statement/prospectus in order to fully understand the merger agreement and the proposed merger. See Where You Can Find More Information beginning on page [ ] of this proxy statement/prospectus. Each item in this summary refers to the page of this proxy statement/prospectus on which that subject is discussed in more detail.

The Companies (page [ ])

Schlumberger Limited

Founded in 1926, Schlumberger is the world s leading supplier of technology, integrated project management and information solutions to the international oil and gas exploration and production industry.

Schlumberger has principal executive offices in Paris, Houston and The Hague. Its principal executive offices in the United States are located at 5599 San Felipe, 17th Floor, Houston, Texas 77056, and its telephone number is (713) 513-2000.

Smith International, Inc.

Founded in 1902, Smith is a leading global provider of premium products and services used during the drilling, completion and production phases of oil and natural gas development activities.

Smith was incorporated in the state of California in January 1937 and reincorporated under Delaware law in May 1983. Smith s executive offices are headquartered at 1310 Rankin Road, Houston, Texas 77073, and its telephone number is (281) 443-3370.

Turnberry Merger Sub Inc.

Turnberry Merger Sub Inc., referred to as Merger Sub, is a Delaware corporation and a wholly owned subsidiary of Schlumberger. Merger Sub was formed solely for the purpose of participating in the merger and has conducted no activities other than in connection with the merger.

The Merger

The Merger Agreement (page [ ])

Schlumberger, Smith and Merger Sub have entered into an Agreement and Plan of Merger dated as of February 21, 2010, which, as it may be amended from time to time, is referred to in this proxy statement/prospectus as the merger agreement. Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, Merger Sub will be merged with and into Smith, with Smith continuing as the surviving corporation. Upon completion of this transaction, which is referred to in this proxy statement/prospectus as the merger, Smith will be a wholly owned subsidiary of Schlumberger, and Smith common stock will no longer be publicly traded. A copy of the merger agreement is attached as Annex A to this proxy statement/prospectus. **You should read the merger agreement carefully because it is the legal document that governs the merger.**

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The Merger Consideration (page [ ])

If the merger is completed, Smith stockholders will be entitled to receive in the merger, for each share of Smith common stock that they own, 0.6966 shares of Schlumberger common stock. The number of shares of Schlumberger common stock delivered in respect of each share of Smith common stock in the merger is referred to in this proxy statement/prospectus as the exchange ratio. Schlumberger will not issue any fractional shares of its common stock in the merger. Instead, the total number of shares of Schlumberger common stock that each Smith stockholder will receive in the merger will be rounded down to the nearest whole number, and each Smith stockholder will receive cash, without interest, for any fractional shares of Schlumberger common stock that he or she would otherwise receive in the merger. The amount of cash for fractional shares will be calculated by multiplying the fraction of a share of Schlumberger common stock that the Smith stockholder would otherwise be entitled to receive in the merger by the closing sale price of a share of Schlumberger common stock on the business day immediately preceding the completion of the merger. The Schlumberger common stock issuable based on the exchange ratio, together with any cash payable in lieu of fractional shares, is referred to in this proxy statement/prospectus as the merger consideration.

Example: If you currently own 100 shares of Smith common stock, you will be entitled to receive 69 shares of Schlumberger common stock and cash for the market value of 0.66 shares of Schlumberger common stock at the closing sale price of a share of Schlumberger common stock on the business day immediately preceding the completion of the merger.

The exchange ratio of 0.6966 of a share of Schlumberger common stock is fixed, which means that it will not change between now and the date of the merger, regardless of whether the market price of either Schlumberger or Smith common stock changes. Therefore, the value of the merger consideration will depend on the market price of Schlumberger common stock at the time Smith stockholders receive Schlumberger common stock in the merger. The market price of Schlumberger common stock will fluctuate prior to the merger, and the market price of Schlumberger common stock when received by Smith stockholders in connection with the merger could be greater or less than the current market price of Schlumberger common stock.

Annual Meeting of Smith Stockholders (page [ ])

Meeting

The Smith annual meeting will be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware, on [ ], 2010 at [ ], local time. At the Smith annual meeting, Smith stockholders will be asked to vote on the following proposals:

- to adopt the merger agreement;
- to elect three Class III directors: James R. Gibbs, Duane C. Radtke and John Yearwood, each for a term of three years ending at the 2013 annual meeting of stockholders or until their respective successors have been duly elected and qualified;
- to approve the Smith International, Inc. 1989 Long-Term Incentive Compensation Plan, as amended and restated;
- to ratify the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the 2010 fiscal year; and
- to adjourn the Smith annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the Smith annual meeting.

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Record Date

Only Smith stockholders of record at the close of business on [ ], 2010, which is referred to as the record date, will be entitled to notice of, and to vote at, the Smith annual meeting or any adjournments or postponements thereof.

As of the record date, there were [ ] shares of Smith common stock outstanding and entitled to vote at the Smith annual meeting. The Smith common stock is the only class of securities entitled to vote at the Smith annual meeting. Each share of Smith common stock outstanding on the record date entitles the holder thereof to one vote on each matter properly brought before the Smith annual meeting, exercisable in person or by proxy through the internet or by telephone or by a properly executed and delivered proxy with respect to the Smith annual meeting.

For a period of at least 10 days prior to the Smith annual meeting, a complete list of stockholders entitled to vote at the Smith annual meeting will be open to examination by any Smith stockholder during ordinary business hours at the office of the Smith Corporate Secretary at 1310 Rankin Road, Houston, Texas 77073.

Required Vote

To adopt the merger agreement, holders of a majority of the shares of Smith common stock outstanding on the record date must vote in favor of adoption of the merger agreement. Smith cannot complete the merger unless its stockholders adopt the merger agreement. Because approval is based on the affirmative vote of a majority of the outstanding shares of Smith common stock, a Smith stockholder s failure to vote, an abstention from voting or the failure of an Smith stockholder who holds his or her shares in street name through a broker or other nominee to give voting instructions to such broker or other nominee will all have the same effect as a vote AGAINST adoption of the merger agreement.

Election of the directors requires the affirmative vote of a majority of the votes cast either for or against the election of such director at the Smith annual meeting. An abstention does not count as a vote cast for these purposes. If a nominee is not elected, he must promptly tender his resignation to the Smith board of directors, which will determine, based on a recommendation from the nominating and corporate governance committee of the Smith board of directors, whether to accept or reject the resignation. In the event of a vacancy on the Smith board of directors, a majority of the remaining directors will appoint a successor or decrease the size of the Smith board of directors.

Approval of the 1989 Long-Term Incentive Compensation Plan, as amended and restated, requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal, provided that at least a majority of the outstanding shares of Smith common stock vote on such proposal.

Approval of each of the ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the 2010 fiscal year and the adjournment of the Smith annual meeting requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal.

Recommendation of the Smith Board of Directors

The Smith board of directors unanimously recommends that Smith stockholders vote FOR the proposal to adopt the merger agreement. For the factors considered by the Smith board of directors in reaching its decision to approve the merger agreement, see The Merger Smith s Reasons for the Merger; Recommendation of the Smith Board of Directors.

The Smith board of directors recommends that Smith stockholders vote **FOR** each of the director nominees and **FOR** all of the other proposals set forth above.

Schlumberger Stockholder Approval Is Not Required (page [ ])

Schlumberger stockholders are not required to adopt the merger agreement or approve the merger or the issuance of shares of Schlumberger common stock in connection with the merger.

Share Ownership of Smith s Directors and Executive Officers (page [ ])

As of the record date, directors and executive officers of Smith and their affiliates owned and were entitled to vote [ ] shares of Smith common stock, or approximately [ ]% of the shares of Smith common stock outstanding on that date. It is currently expected that Smith s directors and executive officers will vote their shares in favor of the adoption of the merger agreement and each of the other Smith proposals described in this proxy statement/prospectus, although none of them have entered into any agreements obligating them to do so.

Treatment of Equity Awards (page [ ])

At the effective time of the merger, all outstanding options to purchase shares of Smith common stock will be converted into options to purchase shares of Schlumberger common stock with the duration and terms of such converted options to remain the same as the original Smith option. The number of shares of Schlumberger common stock subject to each option will be determined by multiplying the number of shares of Smith common stock subject to the original Smith option by the exchange ratio, rounded down to the nearest whole share. The option exercise price per share of Schlumberger common stock will be equal to the option exercise price per share of Smith common stock under the original Smith option divided by the exchange ratio rounded up to the nearest whole cent. All converted Schlumberger options, other than those issued in respect of Smith options awarded after February 21, 2010, will be fully vested and exercisable.

At the effective time of the merger, each outstanding award of restricted stock units granted by Smith under any of its plans on or prior to February 21, 2010, will be converted into the right to receive the merger consideration based on the total number of shares of Smith common stock subject to the outstanding award. To the extent the outstanding award is for performance-based restricted stock units, the number of shares subject to the outstanding award will be calculated based on the deemed attainment of performance goals at 100% of the target performance level. Any award of restricted stock units made by Smith after February 21, 2010 will be converted into an award of Schlumberger restricted stock units in an amount equal to the product of the number of shares of Smith stock subject to the original Smith award and the exchange ratio, with any fractional units rounded to the nearest whole unit.

Opinion of Smith s Financial Advisor (page [ ])

On February 20, 2010, at a meeting of Smith s board of directors held to evaluate the proposed merger, UBS Securities LLC, referred to as UBS, delivered to Smith s board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion, dated February 20, 2010, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in its opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to holders of Smith common stock other than Schlumberger and its affiliates.

The full text of UBS opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS. A copy of this opinion is attached as Annex B hereto and is incorporated into this proxy statement/prospectus by reference. **Holders of Smith common stock are encouraged to read UBS opinion carefully in its entirety. UBS opinion was provided for the benefit of Smith s board of directors in connection with, and for the purpose of, its evaluation of the exchange ratio from a financial point of view and does not address any other aspect of the merger. The opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to Smith or Smith s underlying business decision to effect the merger. The opinion does not constitute a recommendation to any stockholder as to how to vote or act with respect to the merger.**

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Ownership of Schlumberger After the Merger (page [ ])

Based on the number of shares of Smith common stock and Smith restricted stock units outstanding as of [ ], 2010, Schlumberger expects to issue approximately [ ] shares of its common stock to Smith stockholders pursuant to the merger and reserve for issuance approximately [ ] additional shares of Schlumberger common stock in connection with the exercise or conversion of Smith s outstanding equity awards. The actual number of shares of Schlumberger common stock to be issued and reserved for issuance pursuant to the merger will be determined at the completion of the merger based on the exchange ratio of 0.6966 and the number of shares of Smith common stock, options and restricted stock units outstanding at such time. Immediately after completion of the merger, it is expected that former Smith stockholders will own approximately 12.8% of Schlumberger s outstanding common stock, based on the number of shares of Smith and Schlumberger common stock outstanding, on a fully diluted basis, as of [ ], 2010.

Interests of Smith s Directors and Officers in the Merger (page [ ])

Smith s executive officers and directors have financial interests in the merger that are different from, or in addition to, those of Smith s stockholders generally. The independent members of Smith s board of directors were aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the merger, and in recommending to Smith stockholders that the merger agreement be adopted.

Certain of Smith s executive officers, including each of its named executive officers, are party to change of control agreements with Smith that provide severance and other benefits in the case of qualifying terminations of employment in connection with or following a change of control, including completion of the merger.

Smith equity compensation plans and award agreements generally provide for the vesting of stock-based awards upon completion of the merger.

In addition, under the terms of the merger agreement, Smith may establish a retention program with a retention pool in an aggregate amount up to $74.3 million. Of this amount, up to $16 million will be allocated to persons who are executive officers of Smith or who are party to change of control employment agreements with Smith. Smith separately recently allocated approximately $18 million in retention payments to certain employees who are not executive officers, and may make additional allocations.

Please see The Merger Interests of Smith s Directors and Officers in the Merger beginning on page [ ] of this proxy statement/prospectus for additional information about those financial interests.

Listing of Schlumberger Stock and Delisting and Deregistration of Smith Stock (page [ ])

Schlumberger will apply to have the shares of its common stock to be issued in the merger approved for listing on the NYSE, where Schlumberger common stock is currently traded. If the merger is completed, Smith shares will no longer be listed on the NYSE, and will be deregistered under the Securities Exchange Act of 1934, as amended, which is referred to in this proxy statement/prospectus as the Exchange Act.

No Appraisal Rights (page [ ])

Under Delaware law, Smith stockholders will not have appraisal rights in connection with the merger.

Completion of the Merger Is Subject to Certain Conditions (page [ ])

Conditions to the Obligations of Each Party to Effect the Merger. The respective obligations of each party to effect the merger will be subject to the fulfillment of the following conditions on or prior to the closing date:

- the adoption of the merger agreement by Smith s stockholders;

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(1) the termination or expiration of any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which is referred to as the HSR Act, and (2) the issuance by the European Commission of a decision under Council Regulation No. 4064/89 of the European Community, which is referred to as the EC Merger Regulation, declaring the merger compatible with the common market;

the expiration, lapse or termination of all applicable waiting or other time periods under antitrust laws in other specified jurisdictions;

the absence of any judgment, injunction, order or decree of any governmental authority in the United States, the European Union or other specified jurisdictions prohibiting or enjoining the consummation of the merger;

the effectiveness of the registration statement that includes this prospectus, and the absence of any stop order or proceeding seeking a stop order;

the approval for listing on the NYSE of the Schlumberger common stock to be issued pursuant to the merger;

performance in all material respects by each of Schlumberger and Merger Sub, on the one hand, and Smith, on the other hand, of its respective covenants and agreements required to be performed by it under the merger agreement at or prior to the closing date;

representations and warranties of Schlumberger and Merger Sub, on the one hand, and Smith, on the other hand, contained in the merger agreement being true and correct as of the date of the merger agreement and as of the closing date, subject to certain materiality thresholds; and

receipt of an opinion by Schlumberger and Smith from their respective counsel, in form and substance reasonably satisfactory to Schlumberger and Smith, respectively, dated as of the closing date, to the effect that for U.S. federal income tax purposes (1) the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (2) each transfer of Smith stock to Schlumberger by a stockholder of Smith pursuant to the merger (other than a stockholder of Smith that is a five percent transferee shareholder of Schlumberger, as defined in Treasury regulations promulgated under Section 367(a) of the Internal Revenue Code) will not be subject to Section 367(a)(1) of the Internal Revenue Code.

Regulatory Approvals Required for the Merger (page [ ])

The merger is subject to review by the Antitrust Division of the U.S. Department of Justice, which is referred to as the Antitrust Division, under the HSR Act. Under the HSR Act, Schlumberger and Smith are required to make premerger notification filings and to await the expiration or early termination of the statutory waiting period (and any extension of the waiting period) prior to completing the merger. On March 3, 2010, Schlumberger and Smith each filed a Premerger Notification and Report Form with the Antitrust Division and the Federal Trade Commission, which is referred to as the FTC. By agreement between the two agencies, the Antitrust Division is conducting the review. Prior to the expiration of the initial 30-day waiting period, on April 2, 2010, Schlumberger and Smith each received a request for additional information and documentary material, often referred to as a second request, from the Antitrust Division. Issuance of the second request extends the statutory waiting period until 30 days after such time as each of Schlumberger and Smith has certified substantial compliance with the second request, unless the Antitrust Division provides written notice that the transaction may close prior to that time. As of June 17, 2010, neither Schlumberger nor Smith had certified substantial compliance with the second request.

The merger is also subject to antitrust review by government authorities in several foreign jurisdictions in which the companies have a sufficient market presence to require filings. As of the date of this proxy statement/

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prospectus, the parties have made certain antitrust filings in the European Union pursuant to the EC Merger Regulation, and in other jurisdictions.

Under the terms of the merger agreement, Schlumberger has the right, but not the obligation, to oppose by refusing to consent, through litigation or otherwise, any divestitures, hold-separate restrictions or other restrictions demanded by an antitrust regulator. Schlumberger is required to agree to take all actions demanded by an antitrust regulator in order to resolve any objections to the merger (including divestitures, hold-separate restrictions or other restrictions) if doing so would not exceed a specified threshold, which is referred to as the detriment limit. The detriment limit would be exceeded if the required divestitures or hold-separate restrictions affect assets other than (1) the W-H Energy Services business and corresponding Schlumberger operations and (2) other assets accounting for Schlumberger or Smith revenues of not more than $190 million in 2009, excluding from such calculation any W-H Energy Services operations and Smith s Wilson business unit. If the merger has not occurred on or before the termination date described below in Termination of the Merger Agreement due to the failure to obtain regulatory clearances, or if an order, decree or ruling permanently prohibits the merger, the merger agreement may be terminated (subject in some circumstances to payment of a termination fee, as described below).

No Solicitation by Smith (page [ ])

Under the merger agreement, Smith has agreed not to (and to direct and use its reasonable best efforts to cause its officers, directors, employees, investment bankers, consultants, attorneys, accountants, advisors, agents and other representatives not to), among other things:

- solicit, initiate, knowingly encourage or knowingly facilitate, or participate in discussions regarding, any competing acquisition proposal;

- provide nonpublic information regarding Smith or access to Smith s properties, books or records to a third party in connection with a competing acquisition proposal; or

- approve or recommend a competing acquisition proposal.

However, before the adoption of the merger agreement by the Smith stockholders, Smith may, under certain circumstances, engage in negotiations with and provide information regarding Smith to a third party making an unsolicited, written acquisition proposal that Smith s board of directors concludes in good faith is reasonably likely to be superior to the merger. Under the merger agreement, Smith is required to notify Schlumberger if it receives any competing acquisition proposal or request for information in connection with such a proposal. Additionally, before the adoption of the merger agreement by the Smith stockholders, the Smith board of directors may withdraw its recommendation of the merger if it determines in good faith, after consultation with its outside legal counsel and financial advisors, that a failure to change its recommendation would be inconsistent with its fiduciary duties. To date, Smith has not received any competing acquisition proposals.

Termination of the Merger Agreement (page [ ])

The merger agreement may be terminated at any time prior to the effective time of the merger, notwithstanding the adoption of the merger agreement by Smith s stockholders:

- by mutual written agreement of Schlumberger and Smith;

- by either Schlumberger or Smith if:

  - the merger has not occurred on or before the termination date, February 21, 2011, which termination date may, subject to specified conditions, at the option of either Schlumberger or Smith, be extended to a date not later than May 31, 2011;

the Smith stockholders do not adopt the merger agreement at the annual meeting or any adjournment or postponement of the annual meeting; or

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- a court of competent jurisdiction in the United States, the European Union or other specified jurisdictions has issued a final, nonappealable order, decree or ruling permanently restraining, enjoining or otherwise prohibiting the merger;

- by Smith if:

  - Schlumberger is in breach of the merger agreement such that the conditions set forth in the merger agreement would not be satisfied and such breach is not curable prior to the termination date, or

  - Smith has received an acquisition proposal that Smith s board of directors determines in good faith to be superior to the merger and reasonably likely to be consummated and, after giving Schlumberger at least three business days notice of its intent to terminate the agreement (and at least two business days notice following any change to the financial terms of such proposal), resolves to accept such proposal and pay the termination fee described below; or

- by Schlumberger if:

  - Smith is in breach of the merger agreement such that the conditions set forth in the merger agreement would not be satisfied and such breach is not curable prior to the termination date, or

  - the Smith board of directors fails to recommend the merger to Smith stockholders or there is a change in the Smith board of directors recommendation.

Termination Fees and Expenses (page [ ])

The merger agreement provides for the payment of termination fees by one party to the other if the agreement is terminated in specified circumstances.

Smith will be obligated to pay Schlumberger a $340 million termination fee if:

- either party terminates the merger agreement because Smith s stockholder approval is not obtained and:

  - prior to such time there is a publicly announced or disclosed acquisition proposal by another bidder that has not been withdrawn, and

  - within one year after the date of termination, Smith enters into a definitive agreement with respect to, or consummates, an acquisition proposal;

- Smith terminates the merger agreement prior to obtaining the approval of Smith stockholders in order to enter into an agreement providing for a superior proposal; or

- the Smith board of directors fails to recommend its approval of the merger or there is a change in the Smith board of directors recommendation.

Schlumberger will be obligated to pay a $615 million termination fee if the merger agreement is terminated by Smith or Schlumberger as a result of an order, decree, ruling or other action prohibiting the merger under certain antitrust or competition laws or because the merger has not been

consummated on or before the termination date, and all other conditions to the merger (except for those that, by their nature, cannot be satisfied until closing but remain capable of satisfaction) have been satisfied or waived as of the date of such termination.

The merger agreement generally provides that all expenses incurred by the parties will be borne by the party that has incurred such expenses. However, under specified circumstances either party may be required to reimburse the other party for its expenses of up to $10 million.

Payment of Dividends and Stock Repurchases (page [ ])

Schlumberger

Schlumberger has paid quarterly cash dividends of $0.210 per share since the first quarter of 2008. Prior to the first quarter of 2008, Schlumberger paid quarterly cash dividends of $0.175 per share. Schlumberger is not prohibited under the terms of the merger agreement from paying quarterly dividends consistent with past practice. On April 22, 2010, Schlumberger s board of directors declared the $0.210 per share quarterly dividend, payable on July 2, 2010 to holders of record on June 2, 2010.

On April 17, 2008, the Schlumberger board of directors approved an $8 billion share repurchase program for Schlumberger common stock, to be acquired in the open market before December 31, 2011. Schlumberger is not prohibited from making repurchases under the share repurchase program by the terms of the merger agreement.

Smith

Smith makes regular quarterly distributions under a cash dividend program. The Smith board of directors declared dividends of $0.12 per share, $0.12 per share and $0.10 per share for each quarter during the years ended December 31, 2009, 2008 and 2007, respectively. Under the terms of the merger agreement, during the period before the closing of the merger, Smith is prohibited from paying any dividends other than regular quarterly dividends not exceeding $0.12 per share without the consent of Schlumberger. On April 22, 2010, Smith s board of directors declared the $0.12 per share quarterly dividend, payable on July 12, 2010 to holders of record on June 11, 2010.

The Smith board of directors approved a share repurchase program that allows for the purchase of up to 20 million shares of Smith common stock, subject to regulatory issues, market considerations and other relevant factors. Under the terms of the merger agreement, during the period before the closing of the merger, Smith is prohibited from making repurchases under the share repurchase program without the consent of Schlumberger.

Rights of Smith Stockholders Will Change as a Result of the Merger (page [ ])

Smith stockholders will have different rights once they become Schlumberger stockholders due to differences between Delaware corporate law and Netherlands Antilles law and the organizational documents of Schlumberger and Smith.

Material U.S. Federal Income Tax Consequences of the Merger (page [ ])

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and it is a condition to the completion of the merger that Smith and Schlumberger each receive a written opinion from its respective counsel, in form and substance reasonably satisfactory to Smith and Schlumberger, respectively, dated as of the date of completion of the merger, to the effect that, for U.S. federal income tax purposes, (1) the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (2) each transfer of Smith stock to Schlumberger by a stockholder of Smith pursuant to the merger (other than a stockholder of Smith that is a five percent transferee shareholder of Schlumberger, as defined in Treasury regulations promulgated under Section 367(a) of the Internal Revenue Code) will not be subject to Section 367(a)(1) of the Internal Revenue Code. Accordingly, Schlumberger and Smith expect that, for U.S. federal income tax purposes, holders of Smith common stock generally will not recognize any gain or loss on the exchange of their shares of Smith common stock for Schlumberger common stock in the merger, except with respect to any cash received in lieu of a fractional share of Schlumberger common stock.

Please refer to The Merger Material U.S. Federal Income Tax Consequences beginning on page [ ] of this proxy statement/prospectus for a description of the material U.S. federal income tax consequences of the merger. Determining the actual tax consequences of the merger to you may be complex and will depend on your specific situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

Accounting Treatment (page [ ])

In accordance with accounting principles generally accepted in the United States, Schlumberger will account for the merger as an acquisition of a business.

Litigation Relating to the Merger (page [ ])

Subsequent to the announcement of the merger, five putative class action lawsuits were commenced on behalf of stockholders of Smith against Smith and its directors, and in certain cases against Schlumberger and one of its affiliates, challenging the merger. Four of the lawsuits were filed in the District Court of Harris County, Texas, and have been consolidated into a single action in the 164th District Court of Harris County, Texas (the Texas Action), and one lawsuit is pending in the Delaware Court of Chancery (the Delaware Action, and collectively with the Texas Action, the Actions). The parties in the Texas Action and Delaware Action have agreed to an expedited discovery schedule and to the coordination of pleadings and discovery in advance of any preliminary injunction hearing, which will be heard only in the Texas Action. On April 19, 2010, the court in the Delaware Action approved the parties agreement concerning the coordination of the Texas and Delaware Actions and agreed to otherwise stay the Delaware proceedings through any preliminary injunction hearing in Texas. Plaintiffs in the Texas and Delaware Actions have served a consolidated amended petition for breach of fiduciary duty and a verified amended class action complaint, respectively. The amended pleadings are substantively similar and allege that Smith s directors breached their fiduciary duties by, among other things, causing Smith to enter into the merger agreement at an allegedly inadequate and unfair price, agreeing to transaction terms that improperly inhibit alternative transactions and failing to provide material information to Smith s stockholders in the proxy statement filed in connection with the merger. Specifically, the pleadings allege that the proxy statement omits material information relating to, among other things: the analyses performed by, and the information relied upon by, UBS; any strategic alternatives to the merger considered by UBS; UBS s involvement in the negotiations between Smith and Schlumberger; the fee to be paid to UBS in connection with the merger; and any negotiations or plans concerning the employment of Smith management after consummation of the merger. The pleadings also allege that Smith and Schlumberger aided and abetted the directors breaches of fiduciary duties. The pleadings seek, among other things, an injunction barring defendants from consummating the proposed transaction, declaratory relief and attorneys fees.

On May 28, 2010, a purported Smith stockholder filed an individual lawsuit in the United States District Court for the Southern District of Texas, Houston Division, against Smith and its directors, alleging that Smith had disseminated a false and materially misleading proxy statement in connection with the merger in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder. The lawsuit alleges that the proxy statement omits and/or misrepresents material information relating to, among other things: negotiations, if any, with other potential acquirers of Smith; any market check conducted by Smith in connection with the merger; any strategic alternatives considered by Smith s directors in connection with the merger; whether the merger consideration includes any compensation for the synergies to be achieved in the merger; the financial information and forecasts provided by Smith s directors to UBS in connection with its fairness opinion; the discounted cash flow, comparable transaction and selected companies analyses performed by UBS; and business ties between any of Smith s directors and Schlumberger. The complaint seeks, among other things, injunctive relief, compensatory damages and reasonable costs and expenses incurred in the action, including counsel fees and expert fees.

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Smith and Schlumberger believe that the lawsuits in which they are named are without merit and intend to defend the lawsuits vigorously.

Recent Developments

On April 20, 2010, a fire and explosion occurred onboard the semisubmersible drilling rig *Deepwater Horizon*, owned by Transocean Ltd. and under contract to a subsidiary of BP plc. Pursuant to a contract between M-I SWACO (a joint venture 60% owned by Smith and 40% owned by Schlumberger) and BP for the provision of certain services by M-I SWACO under the direction of BP, five employees of M-I SWACO were aboard the *Deepwater Horizon* at the time of the incident and unfortunately two of them were killed (the other three were uninjured). Several legal actions, certain of which name Schlumberger and an M-I SWACO entity as defendants, have been filed in connection with the *Deepwater Horizon* incident, and additional legal actions are likely to be filed in the future. The parties are currently investigating the incident and the liabilities that could potentially arise therefrom, and are assessing the availability of contractual indemnities and insurance coverage. However, the information currently known indicates that the amount of any potential loss that M-I SWACO could face with respect to any potential liabilities related to the incident would not be material.

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Selected Historical Consolidated Financial Data of Schlumberger

The following table sets forth Schlumberger s selected consolidated historical financial information that has been derived from Schlumberger s consolidated financial statements as of December 31, 2009, 2008, 2007, 2006 and 2005 and for the years then ended and as of March 31, 2010 and 2009 and for the three months then ended. This disclosure does not include the effects of the merger. You should read this financial information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto in Schlumberger s Annual Report on Form 10-K for the year ended December 31, 2009 and in its Quarterly Report on Form 10-Q for the three months ended March 31, 2010 incorporated by reference in this document. See also the pro forma information set forth elsewhere in this proxy statement/prospectus regarding the proposed merger with Smith. Schlumberger s historical results are not necessarily indicative of results to be expected in future periods.

	As of/For the Three Months Ended March 31,		As of/For the Years Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(In millions, except per share data)						
STATEMENT OF INCOME DATA							
Revenue	$ 5,598	$ 6,000	$ 22,702	$ 27,163	$ 23,277	$ 19,230	$ 14,309
Income from continuing operations	674	940	3,164	5,422	5,177	3,759	2,290
Diluted earnings per share from continuing operations	$ 0.56	$ 0.78	$ 2.61	$ 4.42	$ 4.20	$ 3.01	$ 1.81
BALANCE SHEET DATA							
Working capital	$ 6,311		$ 6,391	$ 4,811	$ 3,551	$ 2,731	$ 3,121
Total assets	32,883		33,465	32,094	27,853	22,832	18,077
Net debt[(1)]	75		126	1,129	1,857	2,834	532
Long-term debt	4,052		4,355	3,694	3,794	4,664	3,591
Schlumberger stockholders equity	19,428		19,120	16,862	14,876	10,420	7,592
Cash dividends declared per share	$ 0.21		$ 0.84	$ 0.84	$ 0.70	$ 0.50	$ 0.42

(1) Net debt represents gross debt less cash, short-term investments and fixed income investments, held to maturity. Management believes that net debt provides useful information regarding the level of Schlumberger s indebtedness by reflecting cash and investments that could be used to repay debt.

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Selected Historical Consolidated Financial Data of Smith

The following table sets forth Smith s selected consolidated historical financial information that has been derived from Smith s consolidated financial statements as of December 31, 2009, 2008, 2007, 2006 and 2005 and for the years then ended and as of March 31, 2010 and 2009 and for the three months then ended. This disclosure does not include the effects of the merger. You should read this financial information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto in Smith s Annual Report on Form 10-K, as amended, for the year ended December 31, 2009 and in its Quarterly Report on Form 10-Q for the three months ended March 31, 2010 incorporated by reference in this document. See also the pro forma information set forth elsewhere in this proxy statement/prospectus regarding the proposed merger with Schlumberger. Smith s historical results are not necessarily indicative of results to be expected in future periods.

	As of/For the Three Months Ended March 31,		As of/For the Years Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(In millions, except per share data)						
STATEMENTS OF OPERATIONS DATA							
Revenues	$ 2,138	$ 2,411	$ 8,219	$ 10,771	$ 8,764	$ 7,334	$ 5,579
Gross profit	$ 591	$ 692	2,250	3,429	2,856	2,344	1,685
Operating income	125	242	599	1,642	1,370	1,080	671
Net income attributable to Smith	12	97	148	767	647	502	302
Earnings per share diluted basis	$ 0.05	$ 0.44	$ 0.66	$ 3.68	$ 3.20	$ 2.49	$ 1.48
BALANCE SHEET DATA							
Working capital	$ 2,911		$ 3,404	$ 2,153	$ 2,554	$ 1,892	$ 1,504
Total assets	10,403		10,739	10,816	6,062	5,335	4,060
Long-term debt	1,317		1,814	1,441	846	801	611
Smith stockholders equity	5,416		5,441	4,549	2,595	1,987	1,579
Cash dividends declared per common share	$ 0.12		$ 0.48	$ 0.48	$ 0.40	$ 0.32	$ 0.24

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Selected Unaudited Pro Forma Condensed Combined Financial Information

The unaudited pro forma condensed combined statements of income information for the three months ended March 31, 2010 and for the year ended December 31, 2009 have been prepared to give effect to the merger as if it had occurred on January 1, 2009. The unaudited pro forma condensed combined balance sheet information of Schlumberger as of March 31, 2010 has been prepared to give effect to the merger as if it had occurred on March 31, 2010.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only. The pro forma information is not necessarily indicative of what the combined company s financial position or results of operations actually would have been had the merger been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. Future results may vary significantly from the results reflected because of various factors, including those discussed in Risk Factors. The following selected unaudited pro forma condensed combined financial information should be read in conjunction with the Unaudited Pro Forma Condensed Combined Financial Statements and related notes included elsewhere in this proxy statement/prospectus.

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
	(In millions, except per share amount)	
Pro Forma Condensed Combined Statement of Income Information:		
Revenue	$ 7,681	$ 30,711
Income from continuing operations attributable to Schlumberger/Smith	691	3,206
Diluted earnings per share from continuing operations attributable to Schlumberger/Smith	0.50	2.31

	As of March 31, 2010 (In millions)
Pro Forma Condensed Combined Balance Sheet Information:	
Total assets	$ 49,898
Total debt	7,110
Net debt	1,651
Total equity	30,873

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Comparative Per Share Data

The following table presents: (1) historical per share information for Schlumberger; (2) pro forma per share information of the combined company after giving effect to the merger; and (3) historical and equivalent pro forma per share information for Smith.

The combined company pro forma per share information was derived by combining information from the historical consolidated financial statements of Schlumberger and Smith. You should read this table together with the historical consolidated financial statements of Schlumberger and Smith that are filed with the Securities and Exchange Commission and incorporated by reference into this proxy statement/prospectus. You should not rely on the pro forma per share information as being necessarily indicative of actual results had the merger occurred on January 1, 2009 for statement of operations purposes or December 31, 2009 or March 31, 2010, as applicable, for book value per share data. The equivalent pro forma per share information was derived by multiplying the combined company pro forma per share information by the exchange ratio of 0.6966.

	Year Ended December 31, 2009			
	Schlumberger		Smith	
	Historical	Combined Company Pro Forma	Historical	Equivalent Pro Forma
Basic earnings per share from continuing operations	$ 2.63	$ 2.33	$ 0.67	$ 1.62
Diluted earnings per share from continuing operations	2.61	2.31	0.66	1.61
Cash dividends per share	0.84	0.84	0.48	0.59
Book value per share at period end	16.00		21.92	

	Three Months Ended March 31, 2010			
	Schlumberger		Smith	
	Historical	Combined Company Pro Forma	Historical	Equivalent Pro Forma
Basic earnings per share from continuing operations	$ 0.56	$ 0.50	$ 0.05	$ 0.35
Diluted earnings per share from continuing operations	0.56	0.50	0.05	0.35
Cash dividends per share	0.21	0.21	0.12	0.15
Book value per share at period end	16.28	22.37	21.80	15.58

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Comparative Per Share Market Price And Dividend Information

The following table sets forth, for the periods indicated, the intra-day high and low sales prices per share for Schlumberger and Smith common stock as reported on the NYSE, which is the principal trading market for both Schlumberger and Smith common stock, and the cash dividends declared per share of Schlumberger and Smith common stock.

	Schlumberger Common Stock			Smith Common Stock		
	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
2010						
Second Quarter (through [ ], 2010)	$ [ ]	$ [ ]	$ 0.210	$ [ ]	$ [ ]	$ 0.120
First Quarter	72.00	59.42	0.210	45.32	27.17	0.120
2009						
Fourth Quarter	$ 71.10	$ 56.00	$ 0.210	$ 34.46	$ 25.54	$ 0.120
Third Quarter	63.00	48.13	0.210	30.92	22.12	0.120
Second Quarter	63.78	39.11	0.210	32.44	20.50	0.120
First Quarter	49.25	35.05	0.210	29.45	18.43	0.120
2008						
Fourth Quarter	$ 78.00	$ 37.07	$ 0.210	$ 57.82	$ 18.23	$ 0.120
Third Quarter	111.95	75.53	0.210	88.40	54.69	0.120
Second Quarter	110.11	85.72	0.210	85.67	62.59	0.120
First Quarter	102.71	72.30	0.210	76.89	53.39	0.120
2007						
Fourth Quarter	$ 114.84	$ 87.42	$ 0.175	$ 76.99	$ 58.91	$ 0.100
Third Quarter	108.75	81.26	0.175	74.35	54.08	0.100
Second Quarter	89.20	68.25	0.175	60.82	47.68	0.100
First Quarter	71.17	55.68	0.175	49.05	36.13	0.100

The following table sets forth the closing sale price per share of Schlumberger and Smith common stock as reported on the NYSE as of February 18, 2010, the last trading day before various news outlets began reporting on a possible transaction involving Smith and Schlumberger; as of February 19, 2010, the last trading date before the public announcement of the merger; and as of [ ], 2010, the most recent practicable trading day prior to the date of this proxy statement/prospectus. The table also shows the implied value of the merger consideration proposed for each share of Smith common stock as of the same dates. This implied value was calculated by multiplying the closing sale price of Schlumberger common stock on the relevant date by the exchange ratio of 0.6966.

	Schlumberger Closing Price	Smith Closing Price	Equivalent Per Share Value
February 18, 2010	$ 65.81	$ 33.35	$ 45.84
February 19, 2010	63.90	37.70	44.51
[ ], 2010	[ ]	[ ]	[ ]

The market prices of Schlumberger and Smith common stock will fluctuate between the date of this proxy statement/prospectus and the completion of the merger. No assurance can be given concerning the market prices of Schlumberger or Smith common stock before the completion of the merger or Schlumberger common stock after the completion of the merger. Because the exchange ratio is fixed in the merger agreement, the market value of the Schlumberger common stock that Smith stockholders will receive in connection with the merger may vary significantly from the prices shown in the table above. Accordingly, Smith stockholders are advised to obtain current market quotations for Schlumberger and Smith common stock before deciding whether to vote for adoption of the merger agreement.

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RISK FACTORS

Risks Relating to the Merger

The exchange ratio is fixed and will not be adjusted in the event of any change in either Smith s or Schlumberger s stock price.

Upon the closing of the merger, each share of Smith common stock (other than shares held by Smith or its subsidiaries) will be converted into the right to receive 0.6966 shares of Schlumberger common stock, with cash paid in lieu of fractional shares. This exchange ratio was fixed in the merger agreement and will not be adjusted for changes in the market price of either Smith common stock or Schlumberger common stock. Changes in the price of Schlumberger common stock prior to the merger will affect the market value that Smith stockholders will become entitled to receive on the date of the merger. Stock price changes may result from a variety of factors (many of which are beyond Smith s or Schlumberger s control), including:

- changes in Smith s and Schlumberger s respective business, operations and prospects;
- changes in market assessments of the business, operations and prospects of either company;
- market assessments of the likelihood that the merger will be completed, including related considerations regarding regulatory approvals of the merger;
- interest rates, general market, industry and economic conditions and other factors generally affecting the price of Smith s and Schlumberger s common stock; and
- federal, state and local legislation, governmental regulation and legal developments in the businesses in which Smith and Schlumberger operate.

The price of Schlumberger common stock at the closing of the merger may vary from its price on the date the merger agreement was executed, on the date of this proxy statement/prospectus and on the date of the Smith annual meeting. As a result, the market value represented by the exchange ratio will also vary. For example, based on the range of closing prices of Schlumberger common stock during the period from February 18, 2010 (the last trading day before various news outlets began reporting on a possible transaction between Smith and Schlumberger), through [ ], 2010, the most recent practicable trading day before the date of this proxy statement/prospectus, the exchange ratio represented a market value ranging from a low of $[ ] to a high of $[ ] for each share of Smith common stock.

Because the date that the merger is completed will be later than the date of the Smith annual meeting, at the time of the Smith annual meeting, Smith stockholders will not know the exact market value of the Schlumberger common stock that they will receive upon completion of the merger.

If the price of Schlumberger common stock declines between the date of the Smith annual meeting and the effective time of the merger, including for any of the reasons described above, Smith stockholders will receive shares of Schlumberger common stock that have a market value upon completion of the merger that is less than the market value calculated pursuant to the exchange ratio on the date of the Smith annual meeting. Therefore, while the number of shares of Schlumberger common stock to be issued in the merger is fixed, Smith stockholders cannot be sure of the market value of the Schlumberger common stock they will receive upon completion of the merger or the market value of Schlumberger common stock at any time after the completion of the merger.

Smith s directors and executive officers have interests in the merger that may be different from, and in addition to, the interests of other Smith stockholders.

Smith s directors and executive officers are parties to agreements or participants in other arrangements that give them interests in the merger that may be different from, or in addition to, the interests of the other stockholders of Smith, which could create conflicts of interest in their

determinations to recommend the merger.

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Smith stockholders should consider these interests in voting on the merger. These different interests are described under The Merger Interests of Smith s Directors and Officers in the Merger.

The ability of Smith and Schlumberger to complete the merger is subject to the approval of Smith stockholders, certain closing conditions and the receipt of consents and approvals from government entities, which may impose conditions that could adversely affect Smith or Schlumberger or cause the merger to be abandoned.

The merger agreement contains certain closing conditions, including approval of the merger by Smith stockholders, the absence of injunctions or other legal restrictions and that no material adverse effect shall have occurred with respect to either company. In addition, Smith and Schlumberger will be unable to complete the merger until approvals are received from the Antitrust Division, the European Commission and various other governmental entities. Regulatory entities may impose certain requirements or obligations as conditions for their approval. The merger agreement may require Smith and/or Schlumberger to accept conditions from these regulators that could adversely impact the combined company. We can provide no assurance that the various closing conditions will be satisfied and that the necessary approvals will be obtained, or that any required conditions will not materially adversely affect the combined company following the merger. In addition, we can provide no assurance that these conditions will not result in the abandonment or delay of the merger.

Failure to complete the merger could negatively impact Smith and Schlumberger.

If the merger is not completed, the ongoing businesses and the market price of the common stock of Smith and/or Schlumberger may be adversely affected and Smith and Schlumberger will be subject to several risks, including Smith being required, under certain circumstances, to pay Schlumberger a termination fee of $340 million or Schlumberger being required, under certain circumstances, to pay Smith a termination fee of $615 million; Smith or Schlumberger having to pay certain costs relating to the merger; and diverting the focus of management from pursuing other opportunities that could be beneficial to each of Smith and Schlumberger, in each case, without realizing any of the benefits which might have resulted had the merger been completed.

The pendency of the merger could adversely affect Smith and Schlumberger.

In connection with the pending merger, some of the customers of Smith and/or Schlumberger may delay or defer purchasing decisions, which could negatively impact revenues, earnings and cash flows regardless of whether the merger is completed. Additionally, Smith and Schlumberger have each agreed in the merger agreement to refrain from taking certain actions with respect to their business and financial affairs during the pendency of the merger, which restrictions could be in place for an extended period of time if completion of the merger is delayed and could adversely impact Smith s and Schlumberger s financial condition, results of operations or cash flows.

Smith may be unable to retain key employees during the pendency of the merger.

In connection with the pending merger, current and prospective employees of Smith may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect the ability of Smith to attract and retain key personnel during the pendency of the merger. Key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the merger. Accordingly, no assurance can be given that Smith will be able to retain key employees to the same extent that Smith has been able to in the past.

Smith stockholders will have a significantly reduced ownership and voting interest after the merger and will exercise less influence over management.

Immediately after the completion of the merger, it is expected that former Smith stockholders, who collectively own 100% of Smith, will own approximately 12.8% of Schlumberger based on the number of

shares of Smith and Schlumberger common stock outstanding, on a fully diluted basis, as of [ ], 2010. Consequently, Smith stockholders will have less influence over the management and policies of Schlumberger than they currently have over the management and policies of Smith.

Multiple lawsuits have been filed against Smith challenging the merger, and an adverse ruling in any such lawsuit may prevent the merger from being completed.

Subsequent to the announcement of the merger, five putative class action lawsuits were commenced on behalf of stockholders of Smith against Smith and its directors, and in certain cases against Schlumberger and one of its affiliates, challenging the merger. See The Merger Litigation Relating to the Merger for more information about the lawsuits related to the merger that have been filed.

One of the conditions to the closing of the merger is that no law, order, injunction, judgment, decree, ruling or other similar requirement shall be in effect that prohibits the completion of the merger. Accordingly, if any of the plaintiffs is successful in obtaining an injunction prohibiting the completion of the merger, then such injunction may prevent the merger from becoming effective, or delay its becoming effective within the expected timeframe.

Risks Relating to Schlumberger Following the Merger

Schlumberger and Smith are, and following completion of the merger, the combined company will continue to be, subject to the risks described in (a) Part I, Item 1A in Schlumberger s Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on February 5, 2010, (b) Part II, Item 1A in Schlumberger s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed with the SEC on April 28, 2010, (c) Part I, Item 1A in Smith s Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 1, 2010, and (d) Part II, Item 1A in Smith s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed with the SEC on April 28, 2010, each of which is incorporated by reference into this proxy statement/prospectus. See Where You Can Find More Information beginning on page [ ] of this proxy statement/prospectus. In addition, the business and operations of the combined company may be affected by the following additional risks:

The combined company could incur substantial expenses related to the integration of Smith and Schlumberger.

Smith and Schlumberger expect that the combined company will incur substantial expenses in connection with integrating their respective businesses, policies, procedures, operations, technologies and systems. There are a large number of systems that must be integrated, including information management, purchasing, accounting and finance, sales, billing, payroll and benefits, fixed asset and lease administration systems and regulatory compliance. There are a number of factors beyond the control of either party that could affect the total amount or the timing of all of the expected integration expenses. Moreover, many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. These expenses could, particularly in the near term, exceed the savings that Schlumberger expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings and revenue enhancements related to the integration of the businesses following the completion of the merger. These integration expenses may result in the combined company taking significant charges against earnings following the completion of the merger.

Following the merger, the combined company may be unable to successfully integrate Smith s and Schlumberger s businesses and realize the anticipated benefits of the merger.

The merger involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote management attention and resources to integrating its business practices and operations. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully integrate the respective businesses of Smith and Schlumberger in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to

- result from the merger, which would result in the anticipated benefits of the merger not being realized partly or wholly in the time frame currently anticipated or at all;

- lost sales and customers as a result of certain customers of either or both of the two companies deciding not to do business with the combined company, or deciding to decrease their amount of business in order to reduce their reliance on a single company;

- integrating personnel from the two companies while maintaining focus on providing consistent, high quality products and customer service;

- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the merger; and

- performance shortfalls at one or both of the two companies as a result of the diversion of management s attention caused by completing the merger and integrating the companies operations.

Business issues currently faced by one company may be imputed to the operations of the other company.

To the extent that either Schlumberger or Smith currently has or is perceived by customers to have operational challenges, such as on-time performance, safety issues or workforce issues, those challenges may raise concerns by existing customers of the other company following the merger which may limit or impede Schlumberger s future ability to obtain additional work from those customers.

Failure to retain key employees and skilled workers could adversely affect Schlumberger following the merger.

Schlumberger s performance following the merger could be adversely affected if the combined company is unable to retain certain key employees and skilled workers of Smith. The loss of the services of one or more of these key employees and skilled workers could adversely affect Schlumberger s future operating results because of their experience and knowledge of Smith s business. In addition, current and prospective employees of Schlumberger and Smith may experience uncertainty about their future roles with the company until after the merger is completed. This may adversely affect the ability of Schlumberger and Smith to attract and retain key personnel, which could adversely affect Schlumberger s performance following the merger.

The required regulatory approvals may not be obtained or may contain materially burdensome conditions that could have an adverse effect on Schlumberger.

Completion of the merger is conditioned upon the receipt of certain governmental approvals, including, without limitation, the expiration or termination of the applicable waiting period under the HSR Act, the issuance by the European Commission of a decision under the EC Merger Regulation declaring the merger compatible with the common market and the approval of the merger by the antitrust regulators in other specified jurisdictions. Although Schlumberger and Smith have agreed in the merger agreement to use their reasonable best efforts to obtain the requisite governmental approvals, there can be no assurance that these approvals will be obtained. In addition, the governmental authorities from which these approvals are required may impose conditions on the completion of the merger or require changes to the terms of the merger. Under the terms of the merger agreement, Schlumberger is required to agree to take all actions demanded by an antitrust regulator in order to resolve any objections to the merger (including divestitures, hold-separate restrictions or other restrictions) if doing so would not exceed a specified threshold, which is referred to as the detriment limit. The detriment limit would be exceeded if the required divestitures or hold-separate restrictions affect assets other than (1) the W-H Energy Services business and corresponding Schlumberger operations and (2) other assets accounting for Schlumberger or Smith revenues of not more than $190 million in 2009, excluding from such calculation any W-H Energy Services operations and Smith s Wilson business unit. Please see The Merger Agreement Certain Additional Agreements Filings on page [ ] for more information on the calculation of the detriment limit. If Schlumberger agrees to undertake divestitures or comply with operating restrictions in

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order to obtain any approvals required to complete the merger, Schlumberger may be less able to realize anticipated benefits of the merger, and the business and results of operations of the combined company after the merger may be adversely affected.

A portion of the combined company s revenue will be dependent on the activity level of natural gas exploration and production in North America.

Upon consummation of the merger, a portion of the combined company s revenues will be derived from its North American operations. Because of the current economic environment and related decrease in demand for energy, natural gas exploration and production in North America have decreased significantly from their peak levels in the summer of 2008. Warmer than normal winters in North America, among other factors, may adversely impact demand for natural gas and, therefore, demand for oilfield services. If the economic conditions deteriorate further or do not improve, the decline in natural gas exploration and production could cause a decline in the demand for the services and products of the combined company. Such decline could result in a significant adverse effect on the operating results of the combined company and the expected benefits of the merger.

Risks Relating to Schlumberger Common Stock Following the Merger

The market value of Schlumberger common stock could decline if large amounts of its common stock are sold following the merger.

Following the merger, stockholders of Schlumberger and former stockholders of Smith will own interests in a combined company operating an expanded business with more assets and a different mix of liabilities. Current stockholders of Schlumberger and Smith may not wish to continue to invest in the combined company, or may wish to reduce their investment in the combined company, in order to comply with institutional investing guidelines, to increase diversification or to track any rebalancing of stock indices in which Schlumberger or Smith common stock is included. If, following the merger, large amounts of Schlumberger common stock are sold, the price of its common stock could decline.

The merger will likely not be accretive, and may be dilutive, to Schlumberger s earnings per share in the near term, which may negatively affect the market price of Schlumberger common stock.

Schlumberger anticipates that the merger will not be accretive, and may be dilutive, to earnings per share in the near term. This expectation is based on preliminary estimates that may materially change. In addition, future events and conditions could decrease or delay any accretion, result in dilution or cause greater dilution than is currently expected, including:

- adverse changes in energy market conditions;
- commodity prices for oil, natural gas and natural gas liquids;
- production levels;
- reserve levels;
- operating results;
- competitive conditions;
- laws and regulations affecting the energy business;

- capital expenditure obligations; and

- general economic conditions.

Any dilution of, or decrease or delay of any accretion to, Schlumberger s earnings per share could cause the price of Schlumberger s common stock to decline.

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The shares of Schlumberger common stock to be received by Smith stockholders upon the completion of the merger will have different rights from shares of Smith common stock.

Upon completion of the merger, Smith stockholders will no longer be stockholders of Smith, a Delaware corporation, but will instead become shareholders of Schlumberger, a company organized under the laws of the Netherlands Antilles, and their rights as shareholders will be governed by Netherlands Antilles law and Schlumberger s articles of incorporation and bylaws. Netherlands Antilles law and the terms of Schlumberger s articles of incorporation and bylaws may be materially different than Delaware law and the terms of Smith s restated certificate of incorporation and amended and restated bylaws, which currently govern the rights of Smith stockholders. Please see Comparison of Shareholder Rights for a discussion of the different rights associated with Schlumberger common stock.

Risks Relating to Schlumberger and Smith

The offshore oil and gas operations of the combined company could be adversely impacted by the* Deepwater Horizon *drilling rig accident and resulting oil spill.

On April 20, 2010, a fire and explosion occurred onboard the semisubmersible drilling rig *Deepwater Horizon*, owned by Transocean Ltd. and under contract to a subsidiary of BP plc. In response to this incident, the Minerals Management Service of the U.S. Department of the Interior, or MMS, issued a notice on May 30, 2010 implementing a six-month moratorium on certain drilling activities in the U.S. Gulf of Mexico. The notice also states that the MMS will not consider during the six-month moratorium period drilling permits for new wells and related activities for specified water depths. In addition, wells covered by the moratorium that are currently being drilled will be required to halt drilling and take steps to secure the well. The MMS is expected to issue new safety and environmental guidelines or regulations for drilling in the U.S. Gulf of Mexico and may take other steps that could increase the costs of exploration and production, reduce the area of operations and result in permitting delays.

Schlumberger Oilfield Services revenue attributable to the U.S. Gulf of Mexico represented approximately 3.5% of consolidated Schlumberger revenue for the year ended December 31, 2009. In addition, WesternGeco U.S. Gulf of Mexico revenue amounted to approximately 1.8% of consolidated revenue. The majority of these revenues related to the high-technology services and products deployed in deepwater operations.

At this time, neither Smith nor Schlumberger can predict what further impact, if any, the *Deepwater Horizon* incident may have on the regulation of offshore oil and gas exploration and development activity, the cost or availability of insurance coverage to cover the risks of such operations, or what actions may be taken by customers of Schlumberger or Smith or other industry participants in response to the incident. Increased costs for the operations of Schlumberger s and Smith s customers in the U.S. Gulf of Mexico, along with permitting delays, could affect the economics of currently planned activity in the area and demand for their services. A prolonged suspension of drilling activity in the U.S. Gulf of Mexico and resulting new regulations could materially adversely affect each company s financial condition, results of operations or cash flows.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus and the documents incorporated by reference herein include forward-looking statements about Schlumberger, Smith and the combined company within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995. The opinions, forecasts, projections, or other statements other than statements of historical fact, are forward-looking statements. Similarly, statements that describe future plans, objectives or goals or future revenues or other financial metrics are also forward-looking statements. Although Schlumberger and Smith believe that the expectations reflected in such forward-looking statements are reasonable, they can give no assurances that such expectations will prove to have been correct. These statements are subject to, among other things, satisfaction of the closing conditions to the merger, the risk that the contemplated merger does not occur, negative effects from the pendency of the merger, the ability to successfully integrate the merged businesses and to realize expected synergies, the risk that Schlumberger and Smith will not be able to retain key employees, expenses of the merger, and other risk factors.

Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as would, should, plans, likely, expects, anticipates, intends, believes, estimates, thinks, may and similar expressions, are forward-looking statemer following important factors, in addition to those discussed under Risk Factors and elsewhere in this proxy statement/prospectus and the documents incorporated by reference herein, could affect the future results of the energy industry in general, and Schlumberger after the merger in particular, and could cause those results to differ materially from those expressed in or implied by such forward-looking statements:

- forecasts or expectations regarding business outlook;
- overall demand for and pricing of the products and services of Schlumberger and Smith;
- growth for Schlumberger, Smith and the combined company (and for specified products or geographic areas within each business segment);
- Schlumberger s ability to integrate the operations of Smith;
- the amount and timing of any cost savings synergies or other efficiencies expected to result from the merger;
- oil and natural gas demand and production growth;
- oil and gas prices;
- operating margins;
- regulatory and operational risks arising from the international nature of Smith s and Schlumberger s operations;
- capital expenditures by the companies and the oil and gas industry;
- the business strategies of customers;

failure to retain certain key employees and skilled workers;

effects of the drilling moratorium in the Gulf of Mexico, or related changes in laws or regulations;

future global economic conditions;

expected pension and post-retirement funding;

expected stock compensation costs;

future results of operations;

political stability of oil-producing countries;

changes in laws or regulations;

the various risks and other factors considered by the respective boards of Schlumberger and Smith as described under The Merger Smith s Reasons for the Merger; Recommendation of the Smith Board of Directors and under The Merger Schlumberger s Reasons for the Merger ;

future and pro forma financial condition or results of operations and future revenues and expenses;

business strategy and other plans and objectives for future operations;

regulatory conditions which may be imposed as a condition to approval of the merger;

changes in interest rates;

unexpected liabilities, including environmental liabilities; and

loss of intellectual property rights.

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Any projection or estimate by Smith that was furnished to its financial advisor, including those statements summarized herein, was made as of a date shortly before the date of the merger agreement and spoke only as of the date furnished and has not been updated. These estimates and projections were only intended to be used by such financial advisor for analysis of the merger and are not intended to provide guidance as to future results and should not be relied upon for that purpose.

All subsequent written and oral forward-looking statements attributable to Schlumberger or Smith or to persons acting on their behalf are expressly qualified in their entirety by reference to these risks and uncertainties. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and neither Schlumberger nor Smith undertakes any obligation to publicly update or revise any forward-looking statements except as required by law.

For additional information with respect to these factors, see Where You Can Find More Information.

THE COMPANIES

Schlumberger Limited (Schlumberger N.V.)

Founded in 1926, Schlumberger is the world s leading supplier of technology, integrated project management and information solutions to the international oil and gas exploration and production industry. Having invented wireline logging as a technique for obtaining downhole data in oil and gas wells, Schlumberger today provides the industry s widest range of products and services from exploration through production. As of December 31, 2009, Schlumberger employed approximately 77,000 people of over 140 nationalities operating in approximately 80 countries. Schlumberger consists of two business segments, Schlumberger Oilfield Services and WesternGeco. Schlumberger Oilfield Services provides the industry s widest range of products and services from exploration to production, while WesternGeco is the world s most technologically advanced surface seismic acquisition and processing company.

The principal United States market for Schlumberger s common stock is the NYSE, where it is traded under the symbol SLB. Schlumberger s common stock is also traded on the Euronext Paris, Euronext Amsterdam, London and SIX Swiss stock exchanges.

Schlumberger has principal executive offices in Paris, Houston and The Hague. Its principal executive offices in the United States are located at 5599 San Felipe, 17th Floor, Houston, Texas 77056, and its telephone number is (713) 513-2000.

Smith International, Inc.

Founded in 1902, Smith is a leading global provider of premium products and services used during the drilling, completion and production phases of oil and natural gas development activities. Smith s business is segregated into three operating segments, M-I SWACO, Smith Oilfield and Distribution. Smith provides a comprehensive line of technologically-advanced products and engineering services, including drilling and completion fluid systems, solids-control and separation equipment, waste-management services, three-cone and diamond drill bits, borehole enlargement services, tubulars, directional systems, measurement-while-drilling and logging-while-drilling services, coiled tubing, cased-hole wireline and other complementary downhole tools and services. Smith also offers supply-chain management solutions through an extensive North American branch network providing pipe, valves and fittings as well as mill, safety and other maintenance products.

Smith s common stock is listed on the NYSE, where it is traded under the symbol SII.

Smith was incorporated in the state of California in January 1937 and reincorporated under Delaware law in May 1983. Smith s executive offices are headquartered at 1310 Rankin Road, Houston, Texas 77073, and its telephone number is (281) 443-3370.

Turnberry Merger Sub Inc.

Turnberry Merger Sub Inc., referred to as Merger Sub, is a Delaware corporation and a wholly owned subsidiary of Schlumberger. Merger Sub was formed solely for the purpose of participating in the merger and has conducted no activities other than in connection with the merger.

THE ANNUAL MEETING

Date, Time and Place

The annual meeting of Smith stockholders will be held on [ ], 2010, at [ ], local time, at the Hotel du Pont, located at 11th and Market Streets, Wilmington, Delaware.

Purpose of the Smith Annual Meeting

At the Smith annual meeting, Smith stockholders will be asked to vote on the following proposals:

1. to adopt the merger agreement;

2. to elect three Class III directors to hold office until the 2013 annual meeting of stockholders or until their respective successors have been elected and qualified;

3. to approve Smith s 1989 Long-Term Incentive Compensation Plan, as amended and restated;

4. to ratify the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the 2010 fiscal year; and

5. to approve the adjournment of the Smith annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the annual meeting.

Only the approval of Proposal 1 is required for the completion of the merger.

Smith Record Date; Stock Entitled to Vote

Only Smith stockholders of record at the close of business on [ ], 2010, which is referred to as the record date, will be entitled to notice of, and to vote at, the Smith annual meeting or any adjournments or postponements thereof.

As of the record date, there were [ ] shares of Smith common stock outstanding and entitled to vote at the Smith annual meeting. The Smith common stock is the only class of securities entitled to vote at the Smith annual meeting. Each share of Smith common stock outstanding on the record date entitles the holder thereof to one vote on each matter properly brought before the Smith annual meeting, exercisable in person or by proxy through the internet or by telephone or by a properly executed and delivered proxy with respect to the Smith annual meeting.

As of the record date, directors and executive officers of Smith and their affiliates owned and were entitled to vote [ ] shares of Smith common stock, or approximately [ ]% of the shares of Smith common stock outstanding on that date. It is currently expected that Smith s directors and executive officers will vote their shares in favor of the adoption of the merger agreement and each of the other proposals described in this proxy statement/prospectus, although none of them have entered into any agreements obligating them to do so.

For a period of at least 10 days prior to the Smith annual meeting, a complete list of stockholders entitled to vote at the Smith annual meeting will be open to examination by any Smith stockholder during ordinary business hours at the office of the Smith Corporate Secretary at 1310 Rankin Road, Houston, Texas 77073.

Quorum

The holders of a majority of the outstanding shares of Smith common stock entitled to vote constitutes a quorum for the transaction of business at the Smith annual meeting. If you have returned valid proxy instructions or attend the meeting in person, your Smith common stock will be counted for the purpose of determining whether there is a quorum, even if you wish to abstain from voting on some or all matters introduced at the

meeting. Broker non-votes are included in the calculation of the number of shares considered to be present at the Smith annual meeting.

As of the record date, there were [ ] shares of Smith common stock outstanding and entitled to vote at the Smith annual meeting. Accordingly, the presence, in person or by proxy, of holders of [ ] shares of Smith common stock will be required in order to establish a quorum.

Required Vote

Adoption of the merger agreement requires the affirmative vote of a majority of the aggregate voting power of the shares of Smith common stock outstanding as of the record date and entitled to vote at the Smith annual meeting.

Election of the directors requires the affirmative vote of a majority of the votes cast either for or against the election of such director at the Smith annual meeting. An abstention does not count as a vote cast for these purposes. If a nominee is not elected, he must promptly tender his resignation to the Smith board of directors, which will determine, based on a recommendation from the nominating and corporate governance committee of the Smith board of directors, whether to accept or reject the resignation. In the event of a vacancy on the Smith board of directors, a majority of the remaining directors will appoint a successor or decrease the size of the Smith board of directors.

Approval of Smith s 1989 Long-Term Incentive Compensation Plan requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal, provided that at least a majority of the outstanding shares of Smith common stock vote on such proposal.

Ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the 2010 fiscal year requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal.

Approval of the adjournment of the Smith annual meeting requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal.

Treatment of Abstentions, Not Voting and Incomplete Proxies

For the merger proposal, an abstention or a failure to vote will have the same effect as a vote **AGAINST** such proposal.

For the election of directors, assuming a quorum is present, an abstention or a failure to vote will have no effect on the outcome of the election.

For the incentive plan proposal, assuming a quorum is present and at least a majority of the outstanding shares of Smith common stock vote on such proposal, a failure to vote will have no effect on the outcome of the vote for the proposal, while an abstention will have the same effect as a vote **AGAINST** such proposal.

For the ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accounting firm for the 2010 fiscal year, assuming a quorum is present, a failure to vote will have no effect on the outcome of the vote for the proposal, while an abstention will have the same effect as a vote **AGAINST** such proposal.

For the approval of the adjournment of the Smith annual meeting, if necessary, assuming a quorum is present, a failure to vote will have no effect on the outcome of the vote for the proposal, while an abstention will have the same effect as a vote **AGAINST** such proposal. If a proxy is received without indication as to how to vote on any particular proposal, the shares of Smith common stock represented by such proxy will be voted as recommended by the Smith board of directors with respect to that proposal.

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Voting of Proxies by Holders of Record

Giving a proxy means that a Smith stockholder authorizes the persons named in the enclosed proxy card to vote its shares at the Smith annual meeting in the manner it directs. A Smith stockholder may vote by proxy or in person at the Smith annual meeting. If you hold your shares of Smith common stock in your name as a stockholder of record, to submit a proxy, you as a Smith stockholder may use one of the following methods:

- **Submit a proxy by internet**, by accessing the website specified on the proxy card and following the instructions on the proxy card;
- **Submit a proxy by telephone**, by dialing the toll-free number specified on the proxy card and following the instructions on the proxy card; or
- **Submit a proxy by mail**, by completing and returning the proxy card in the enclosed envelope. The envelope requires no additional postage if mailed in the United States.

A signed proxy also confers discretionary authority to vote with respect to any matter presented at the Smith annual meeting, except as set forth in the proxy and except for matters proposed by a stockholder who notifies Smith not later than the close of business on the [ ] day following the day on which the Smith Notice of Annual Meeting of Stockholders was mailed. At the date hereof, management has no knowledge of any business that will be presented for consideration at the Smith annual meeting and which would be required to be set forth in this proxy statement/prospectus or the related proxy card other than the matters set forth in the Smith Notice of Annual Meeting of Stockholders. If any other matter is properly presented at the Smith annual meeting for consideration, it is intended that the persons named in the enclosed form of proxy and acting thereunder will vote in accordance with their best judgment on such matter.

Every Smith stockholder s vote is important. Accordingly, each Smith stockholder should sign, date and return the enclosed proxy card, or submit a proxy via the internet or by telephone, whether or not it plans to attend the Smith annual meeting in person. Proxies must be received by [ ], 2010.

Shares Held in Street Name

If you are a Smith stockholder and your shares are held in street name in a stock brokerage account or by a bank or nominee, you must provide the record holder of your shares with instructions on how to vote the shares. Please follow the voting instructions provided by the bank or broker. You may not vote shares held in street name by returning a proxy card directly to Smith or by voting in person at the Smith annual meeting unless you provide a legal proxy, which you must obtain from your bank or broker. Further, brokers who hold shares of Smith common stock on behalf of their customers may not give a proxy to Smith to vote those shares with respect to the merger proposal, the Smith incentive plan proposal or the election of directors without specific instructions from their customers, as brokers do not have discretionary voting power on such matters.

Therefore, if you are a Smith stockholder and you do not instruct your broker or other nominee on how to vote your shares:

- Your broker or other nominee may not vote your shares on the merger proposal, for which broker non-votes will have the same effect as a vote **AGAINST** such proposal.
- Your broker or other nominee may not vote your shares for the election of directors, for which broker non-votes will have no effect on the outcome of the election.
- Your broker or other nominee may not vote your shares on the incentive plan proposal, for which broker non-votes will have the same effect as a vote **AGAINST** such proposal.

Your broker or other nominee may vote your shares on the other Smith annual meeting matters.

Revocability of Proxies and Changes to a Smith Stockholder s Vote

As a Smith stockholder, you have the power to change your vote at any time before your shares are voted at the Smith annual meeting by:

- submitting notice in writing to Smith s Corporate Secretary at Smith International, Inc., 1310 Rankin Road, Houston, Texas 77073 that you are revoking your proxy (which, if you hold your shares in street name, you must do in accordance with instructions from your bank or broker);
- executing and delivering a later-dated proxy card or submitting a later-dated proxy by telephone or on the internet; or
- voting in person at the Smith annual meeting.

If you are a Smith stockholder of record, revocation of your proxy or voting instructions through the internet, by telephone or by mail must be received by [ ], on [ ], 2010, although you may also revoke your proxy by attending the Smith annual meeting and voting in person. **However, if your shares are held in street name by a bank or broker, you may revoke your instructions only by informing the bank or broker in accordance with any procedures it has established.**

Participants in Smith s Benefit Plans

Participants in the Smith International, Inc. 401(k) Retirement Plan, Wilson 401(k) Retirement Plan, M-I Retirement Plan or M-I L.L.C. Greybull Retirement Plan have received voting instruction cards in lieu of a proxy card. Only the trustees of these plans, in their capacity as directed trustees, can vote the plan shares at the Smith annual meeting.

Solicitation of Proxies

The solicitation of proxies from Smith stockholders is made on behalf of the Smith board of directors. Smith and Schlumberger will each bear their own costs and expenses, including with respect to printing and mailing this proxy statement/prospectus and payment of fees to the SEC. Smith will pay the costs of soliciting and obtaining proxies from Smith stockholders, including the cost of reimbursing brokers, banks and other financial institutions for forwarding proxy materials to their customers. Proxies may be solicited, without extra compensation, by Smith officers and employees by mail, telephone, fax, personal interviews or other methods of communication. Smith has engaged the firm of MacKenzie Partners, Inc. to assist Smith in the distribution and solicitation of proxies from Smith stockholders and will pay MacKenzie Partners, Inc. an estimated fee of $[ ], as well as out-of-pocket expenses for its services.

PROPOSALS

Proposal 1: Adoption of the Merger Agreement

Smith is asking its stockholders to vote on the proposal to adopt the merger agreement. For a detailed discussion of the terms and conditions of the merger, see The Merger Agreement. As discussed in the section entitled The Merger Smith s Reasons for the Merger; Recommendation of the Smith Board of Directors, after careful consideration, the Smith board of directors, by a unanimous vote of all directors, determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Smith and its stockholders, and approved the merger agreement and the transactions contemplated thereby.

Adoption of the merger agreement requires the affirmative vote of holders of a majority of the voting power of the outstanding shares of Smith common stock. For purposes of this vote, an abstention or a failure to vote or to instruct a broker or nominee to vote will have the same effect as a vote **AGAINST** the proposal.

We will vote your shares as you specify on your proxy card. If you properly execute and return your proxy card (in paper form, electronically via the internet or by telephone), but do not specify how you want your shares voted, we will vote them **FOR** the adoption of the merger agreement.

The Smith board of directors unanimously recommends that Smith stockholders vote FOR the adoption of the merger agreement.

Proposal 2: Election of Directors

At the Smith annual meeting, stockholders will elect three persons as Class III directors to hold office until the 2013 annual meeting of Smith stockholders, or until they are succeeded by other qualified directors who have been appointed or elected. The nominees are James R. Gibbs, Duane C. Radtke and John Yearwood. It is not expected that the members of the Smith board of directors will continue to serve on the board of Smith or of the combined company following the completion of the merger.

Directors must be elected by a majority of the votes cast at the meeting either for or against the election of such director. We will vote your shares as you specify on your proxy card. If you properly execute and return your proxy card (in paper form, electronically via the internet or by telephone), but do not specify how you want your shares voted, we will vote them **FOR** the election of all of the nominees listed above.

Each of the nominees is a current member of the Smith board of directors and has consented to serve if elected. Although management does not contemplate the possibility, in the event any nominee is not a candidate or is unable to serve as a director at the time of the election, the proxies will vote for any nominee who is designated by the present Smith board of directors to fill the vacancy.

The Smith board of directors recommends a vote FOR each of the director nominees named above.

Please see Election of Directors of Smith for a brief biography of all directors, including the director nominees.

Proposal 3: Approval of the 1989 Long-Term Incentive Compensation Plan, as Amended and Restated

At the Smith annual meeting, you will be asked to approve an amendment and restatement to the Smith International, Inc. 1989 Long-Term Incentive Compensation Plan (the plan), which incorporates previous amendments, increases by 5,000,000 the number of shares of Smith common stock reserved for the plan and makes other minor changes identified herein. On [ ], 2010, the last reported closing price of Smith s common stock on the New York Stock Exchange Composite Tape was $[ ].

The affirmative vote of a majority of the shares represented at the Smith annual meeting and entitled to vote will be required to approve the plan, provided that the total votes cast on the proposal represent at least a majority of the outstanding shares of Smith common stock.

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Proposal 4: Ratification of the Appointment of Deloitte & Touche LLP as Smith s Independent Registered Public Accounting Firm

The Audit Committee of the Smith board of directors has selected Deloitte & Touche LLP as its independent registered public accounting firm to audit the books and records of Smith for its fiscal year ending December 31, 2010. The services of Deloitte & Touche LLP will include the audit of the effectiveness of internal controls over financial reporting. Smith has been advised by Deloitte & Touche LLP that the firm has no relationship with Smith or its subsidiaries other than that arising from the firm s engagement as independent registered public accountants and, in limited circumstances, tax advisors. Deloitte & Touche LLP has audited Smith s financial statements since April 15, 2002.

Ratification of the appointment of Deloitte & Touche LLP as Smith s independent registered public accountants requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal. For purposes of this vote, an abstention will have the same effect as a vote **AGAINST** the proposal.

The Smith board of directors recommends a vote FOR the continued engagement of Deloitte & Touche LLP as independent registered public accounting firm to audit Smith s books and records for the fiscal year ending December 31, 2010.

Proposal 5: Approval of the Adjournment of the Smith Annual Meeting, if Necessary

Smith is asking its stockholders to vote on a proposal to approve the adjournment of the Smith annual meeting, if necessary, to solicit additional proxies if there are not sufficient votes to adopt the merger agreement at the time of the annual meeting.

Adjournment of the Smith annual meeting, if necessary, to solicit additional proxies requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on such proposal. For purposes of this vote, an abstention will have the same effect as a vote **AGAINST** the proposal.

The Smith board of directors recommends that the stockholders vote FOR approval to adjourn the Smith annual meeting, if necessary.

Other Business

The Smith board of directors does not intend to present any other business for action at the meeting, and Smith has not been advised of any other business intended to be presented by others.

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THE MERGER

Background of the Merger

Smith and Schlumberger periodically review and assess their industry and strategic alternatives available to enhance shareholder value. As leading companies in their respective lines of business, Smith and Schlumberger are generally familiar with each other s business. Smith and Schlumberger have, from time to time, discussed and engaged in both commercial and strategic transactions with each other, and meet regularly at board meetings of and otherwise with respect to the operation of M-I SWACO, a joint venture between Smith and Schlumberger since 1999, of which Smith is a 60 percent owner and Schlumberger is a 40 percent owner. The terms of the M-I SWACO joint venture include a buy/sell provision pursuant to which either Smith or Schlumberger can offer to sell to the other its entire ownership interest in M-I SWACO in exchange for a cash purchase price per percentage interest specified by the offering party. If the initiating party s offer to sell is not accepted, such party is obligated to purchase the other party s interest at the same valuation per percentage interest. In addition, the terms of the M-I SWACO joint venture agreements require a party which is undergoing a change of control to offer to sell to the other its entire ownership interest in M-I SWACO in exchange for a cash purchase price per percentage interest specified by the offering party, and the non-offering party may either accept such offer, require the offering party to purchase the non-offering party s interest at the same valuation per percentage interest or retain its ownership interest.

In late 2005, Schlumberger approached Smith and suggested that the parties discuss a potential business combination. In connection with these discussions, Smith and Schlumberger entered into a confidentiality agreement dated November 7, 2005, in which Smith and Schlumberger each agreed to a standstill provision providing that it would not, for a period of two years, acquire or seek, offer or propose to acquire any securities of the other party or undertake certain other transactions to control or influence the other party. Following the exchange of high-level due diligence information and preliminary discussions, Schlumberger proposed a business combination with consideration per share of Smith common stock consisting of 0.6824 shares of Schlumberger common stock (as adjusted for a 2006 split of the Schlumberger common stock) and $8.00 in cash. Schlumberger s offer equated to a total enterprise value of approximately $9.8 billion, including $8.5 billion for the shares of Smith common stock, based on the number of outstanding shares as of the then-most recently available filings and including all of Smith s debt and cash (including all of the debt and cash in Smith s M-I SWACO joint venture and CE Franklin Ltd. subsidiary) and the book value of the noncontrolling interests in M-I SWACO and CE Franklin Ltd. The Smith board concluded that, in light of Smith s prospects at the time and the trading multiples of each company s shares relative to their historical levels, the financial terms of the proposed transaction were not acceptable, and discussions terminated in late November 2005.

On January 13, 2006, Mr. Doug Rock, then-Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer of Smith, Mr. Loren Carroll, a Smith director, Mr. Andrew Gould, Chairman and Chief Executive Officer of Schlumberger, and Mr. Simon Ayat, currently Executive Vice President and Chief Financial Officer of Schlumberger, met to discuss a potential business combination. However, Smith and Schlumberger were unable to reach an agreement on price, and discussions were terminated prior to the parties commencing substantive discussions on other terms.

During the second and third quarter of 2007, Schlumberger and Smith engaged in discussions regarding the creation of a new joint venture that would have involved Smith s drill bits business. Among other possibilities, the parties discussed reducing Schlumberger s interest in M-I SWACO in connection with this new joint venture. Ultimately, the parties were unable to agree on the relative values of Smith Technologies and M-I SWACO and discussions terminated.

In early February 2008, Mr. Ayat approached Mr. John Yearwood, who was then a director of Smith and who had been employed by Schlumberger for more than 27 years, most recently serving as Senior Advisor to the Chief Executive Officer of Schlumberger from March 2006 until May 2008, regarding a potential business

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combination of Smith and Schlumberger. On February 8, 2008, Smith and Schlumberger entered into a new confidentiality agreement, which again provided for a standstill period extending for two years from the date of the agreement. Prior to any material discussions regarding a business combination, Schlumberger decided to pursue other business opportunities and advised Smith that it would not make a proposal to Smith.

In late January 2009, Mr. Simon Ayat, Executive Vice President and Chief Financial Officer of Schlumberger, called Mr. Yearwood, who had since been named Chief Executive Officer, President and Chief Operating Officer of Smith, and suggested that they discuss the possibility of a business combination. Mr. Ayat did not present any specific proposal. Mr. Yearwood indicated that he would discuss the matter with the Smith board.

At meetings in early February 2009, the Smith board, together with UBS Securities LLC, its financial advisor, and Wachtell, Lipton, Rosen & Katz, its legal advisor, considered the possibility of entering into business combination discussions with Schlumberger, but determined not to do so in view of Smith s need to refinance debt which had impending maturities and the dislocation in the credit markets. The Smith board, while generally acknowledging the strategic logic of the combination, believed that the timing for a negotiation of a business combination with Schlumberger was inopportune. The Smith board believed that it was not practicable for Smith at the time to attempt to conduct discussions concerning a business combination while simultaneously seeking to publicly or privately sell its debt securities. Accordingly, Mr. Yearwood met with Mr. Gould and informed him that Smith was not interested in discussing a business combination at that time.

Smith completed a public offering of $1 billion of senior notes in March 2009 to refinance certain of its impending debt maturities. Following this refinancing, Mr. Ayat again suggested to Mr. Yearwood that they discuss a business combination. On April 14, 2009, Smith and Schlumberger entered into a new confidentiality agreement, which again provided for a two-year standstill period, as well as an agreement that neither party would exercise its rights under the M-I SWACO buy/sell provisions for a period of 90 days after termination of negotiations between the parties. Following execution of the confidentiality agreement, Smith furnished due diligence information to Schlumberger and the parties conducted due diligence of Smith, which included meetings between members of Smith and Schlumberger management. Mr. Gould and Mr. Yearwood also had several discussions regarding the potential terms of a business combination.

On May 12, 2009, Schlumberger sent a letter to Smith proposing a business combination with consideration equivalent to 0.70 shares of Schlumberger common stock per share of Smith common stock, consisting of 85% in Schlumberger common stock and 15% in cash in a transaction intended to be taxable to Smith stockholders, which equated to a total enterprise value of approximately $12.4 billion, including $8.6 billion for the shares of Smith common stock, calculated on the same basis as described above.

In late May and early June 2009, the Smith board met, along with its financial and legal advisors, to consider the Schlumberger proposal, including the financial terms of the proposal, the likelihood that the transaction could be successfully completed, and potential responses to the proposal. The Smith board considered alternatives to a business combination transaction, including exercising the M-I SWACO buy/sell provisions and continuing its existing business with the buy/sell provisions remaining in place, but did not believe these alternatives compared favorably from a financial and strategic perspective to the transaction proposed by Schlumberger. The Smith board also considered approaching other potential counterparties with respect to a business combination as an alternative to a strategic transaction with Schlumberger, but believed that strategic benefits similar to those offered by the Schlumberger proposal were not readily obtainable from other parties, and believed that several of the other potentially interested parties either lacked the financial resources to make a financially more attractive offer and/or would have significant risks relating to antitrust approvals for any such business combination. Further, despite its view that a competing bid was highly unlikely, the Smith board concluded that any merger agreement should include provisions which would permit an interested party to offer a superior transaction and enable the Smith board to terminate the Schlumberger transaction upon payment of a relatively modest breakup fee in order to proceed with any such superior transaction. Following these

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discussions, Mr. Yearwood sent a letter to Mr. Gould on June 4, 2009 suggesting that Schlumberger increase the amount of the consideration to the equivalent of 0.775 shares of Schlumberger common stock per share of Smith common stock, which equated to a total enterprise value of approximately $13.8 billion, including $9.9 billion for the shares of Smith common stock, calculated on the same basis as described above. Mr. Yearwood also recommended, among other matters, that Schlumberger commit to take any actions necessary to obtain regulatory approvals and to pay a ticking fee if the transaction were not consummated by the end of 2009, and that Smith have the right to terminate the transaction to accept a superior proposal on payment of a break-up fee of 2.5% of Smith s pre-signing equity value, in which case the M-I SWACO buy/sell provisions would be suspended for two years.

On June 9, 2009, Mr. Ayat responded to Mr. Yearwood that Schlumberger was not prepared to increase the consideration or modify the provisions regarding regulatory approval, the ticking fee and the suspension of the M-I SWACO buy/sell provisions and he reiterated Schlumberger s prior proposal.

The Smith board met on June 10 and 11, 2009, along with its financial and legal advisors, to discuss the Schlumberger response, including the valuation of Smith and the allocation of risks that antitrust approvals would not be obtained. Among the methods that the Smith board considered for allocating regulatory risks were to require greater commitments by Schlumberger to make divestitures, require Schlumberger to pay a fee if the transaction were terminated for failure to obtain regulatory approvals or require Schlumberger to increase the consideration paid to Smith stockholders if the closing of the transaction were delayed. Following these discussions, the Smith board determined that it was prepared to consider a business combination with Schlumberger on revised terms, including consideration equivalent to 0.72 shares of Schlumberger common stock per share of Smith common stock in which Smith stockholders would receive 85% Schlumberger common stock and 15% cash in a fully taxable transaction, which equated to a total enterprise value of approximately $13.7 billion, including approximately $9.8 billion for the shares of Smith common stock, calculated on the same basis as described above. On June 11, 2009, Mr. Yearwood sent to Mr. Gould a letter proposing this level of consideration as well as a requirement for Schlumberger to accept regulatory requirements to divest certain assets; a reverse termination fee of $600 million payable by Schlumberger if regulatory approvals were not obtained; a one-year suspension of the M-I SWACO buy/sell provisions upon such termination; a delayed ticking fee; and a Smith right to terminate the transaction to accept a superior proposal on payment of a break-up fee of 1% of Smith s signing date equity value.

Later in the day on June 11, 2009, Mr. Gould sent to Mr. Yearwood a letter presenting what Mr. Gould characterized as Schlumberger s best and final offer, expiring at the close of business on June 12, 2009. This proposal accepted Smith s proposed consideration but increased the break-up fee payable by Smith to 3% of Smith s signing date equity value and rejected the related suspension of the M-I SWACO buy/sell provisions which Smith had proposed, limited Schlumberger s divestiture obligations to assets (other than W-H and Wilson assets) generating up to $250 million in revenues, reduced the reverse termination fee payable by Schlumberger to 3% of Smith s signing date equity value, and eliminated the ticking fee.

At a meeting on June 12, 2009, the Smith board, along with its financial and legal advisors, met to discuss Schlumberger s proposal. The Smith board reviewed each of the points in the Schlumberger letter in detail with management and its advisors. At the conclusion of its deliberations, the Smith board determined to proceed with the negotiation of a definitive merger agreement on the basis of the Schlumberger proposal. Mr. Yearwood informed Mr. Gould of the Smith board s willingness to proceed on this basis. Later that evening, Schlumberger s legal advisor, Baker Botts L.L.P., delivered a draft merger agreement to Wachtell, Lipton. Over the next week, Wachtell, Lipton, Baker Botts and members of Smith s and Schlumberger s respective management teams negotiated the terms of the merger agreement and related documentation, while Schlumberger, Smith, and their respective advisors continued their due diligence efforts.

On June 20, 2009, Mr. Gould informed Mr. Yearwood that the Schlumberger board was concerned about Smith s anticipated financial results for the second quarter of 2009 as furnished to Schlumberger on the previous day. Mr. Gould suggested that merger agreement negotiations be suspended while due diligence efforts

continued. Mr. Yearwood responded that it would not be appropriate to continue due diligence efforts if the parties were not actively pursuing a business combination, and Mr. Gould stated that Schlumberger would suspend further work on the business combination pending the expiry of at least three trading days following the announcement of Smith s second-quarter earnings.

On August 6, 2009, after Smith s July 28, 2009 earnings announcement, Mr. Gould called Mr. Yearwood to propose reengaging on the same terms as presented in the June 11, 2009 letter (including that consideration would be 85% in Schlumberger common stock and 15% in cash in a fully taxable transaction), except that consideration would be equal to a 35% premium over the average implied exchange ratio based on the closing prices of Schlumberger and Smith common stock from July 6, 2009 through the signing of the definitive merger agreement. Based on such prices through August 6, 2009, this proposal implied consideration equivalent to approximately 0.6206 shares of Schlumberger common stock per share of Smith common stock, which equated to a total enterprise value of approximately $10.9 billion, including $7.3 billion for the shares of Smith common stock, calculated on the same basis as described above.

At a meeting on August 7, 2009, the Smith board, along with its financial and legal advisors, reviewed Schlumberger s revised proposal and internal and external developments in the Smith business since June 2009. The Smith board decided to reject Schlumberger s proposal, and Mr. Yearwood sent to Mr. Gould a letter to that effect. By letters sent on September 2 and 3, 2009, Schlumberger and Smith officially terminated negotiations.

On November 23, 2009, Mr. Gould and Mr. Yearwood met in response to Mr. Gould s request to review the summer 2009 discussions and Smith s positions on issues other than valuation. During this meeting Mr. Yearwood informed Mr. Gould that, based on Schlumberger s modifications to its proposal following the Smith July 28, 2009 earnings announcement and the Smith board s rejection of that proposal, he believed that in any renewed discussions with Schlumberger, the Smith board would focus on value and certainty of closing. Following this meeting, Mr. Richard E. Chandler, Jr., Senior Vice President, General Counsel and Corporate Secretary of Smith, and Mr. Alex Juden, Secretary and General Counsel of Schlumberger, discussed regulatory approvals, the time and potential concessions that would be required to obtain such approvals and other issues related to closing certainty if discussions were to resume with Schlumberger.

In late January, in light of Mr. Yearwood s prior statements about the board s focus, Mr. Gould requested that he be permitted to make a proposal directly to the Smith board. In response to the request, Mr. Rock, Chairman of the Board of Smith, and Mr. James Gibbs, Lead Director of Smith, met with Mr. Gould to discuss a potential business combination. At this meeting, Mr. Gould expressed his view that Schlumberger was interested in renewing prior discussions with a view to quickly completing a business combination with Smith, but if an agreement was not reached as a result of these discussions, that Schlumberger would proceed with other possible transactions. Mr. Gould suggested meeting through the weekend of February 13, 2010 until midday on Thursday, February 18, 2010 to permit the presentation and discussion of a business combination proposal.

At a meeting on February 3, 2010, the Smith board was informed of the upcoming meeting with Mr. Gould and determined that in order to facilitate direct discussions between the Smith board and Schlumberger, it would be appropriate to establish a negotiation committee composed of Messrs. Rock, Carroll and Yearwood as the three members of the Smith board with the greatest knowledge regarding Smith. On February 13, 2010, Messrs. Gould and Ayat met with Messrs. Rock, Carroll and Yearwood as well as Mr. William Restrepo, Smith s Chief Financial Officer, to discuss the terms of a potential transaction. Mr. Gould proposed a transaction intended to be tax-free for U.S. federal income tax purposes for Smith stockholders, with consideration entirely in the form of Schlumberger common stock with a value equal to a 35% premium over the average closing price of Smith stock for the 10 trading days preceding the date of the definitive merger agreement, and otherwise on the same terms set forth in Schlumberger s June 11, 2009 letter. For the 10 trading days preceding February 13, 2010, this was equivalent to consideration of approximately 0.6595 shares of Schlumberger common stock per share of Smith common stock, which equated to a total enterprise value of approximately $13.1 billion, including $10.5 billion for the shares of Smith common stock, calculated on the same basis as described above. The Smith

representatives indicated that the proposed level of consideration was insufficient, and following negotiation, the Schlumberger representatives and Smith representatives reached agreement on a proposed valuation formula with a 40% premium over the 10-day trading period, which as of that day was equivalent to consideration of approximately 0.6839 shares of Schlumberger common stock per share of Smith common stock, which equated to a total enterprise value of approximately $13.5 billion, including $10.9 billion for the shares of Smith common stock, calculated on the same basis as described above. Messrs. Gould, Yearwood, Rock and Carroll then left the meeting, which was joined by Mr. Peter Pintar, Smith s Vice President Corporate Strategy and Development and Mr. Simon Farrant, Schlumberger s Portfolio Manager, Mr. Krishna Shivram, Schlumberger s Manager, Mergers & Acquisitions, and Messrs. Chandler and Juden, whereupon the parties confirmed various commercial and financial aspects of the proposed transaction in light of the agreements reached earlier in the meeting, and discussed next steps. On February 14, 2010, Messrs. Gould, Ayat, Shivram, Farrant and Juden met with Messrs. Yearwood, Restrepo, Pintar and Chandler to continue to confirm various aspects of the proposed transaction that had been discussed the previous day.

The Smith board met on February 14, 2010, along with its financial and legal advisors, to review the Schlumberger proposal. Following this discussion, the Smith board authorized Smith management and advisors to continue the negotiations with Schlumberger, including negotiation of the terms of a merger agreement. Later that evening Baker Botts delivered a draft merger agreement to Wachtell, Lipton based on the draft agreement that had been discussed in June 2009, and Smith and Schlumberger recommenced due diligence efforts.

The Smith board met again on February 16, 2010, along with its financial and legal advisors, to discuss the Schlumberger proposal in detail, including the financial aspects of the proposal, and further information from the ongoing negotiations and due diligence. The Smith board discussed the advisability of the proposed transaction, including among other things the valuation implied by the proposal, Smith s business prospects and strategy, and the strategic benefits of a combination with Schlumberger. The Smith board also discussed whether other parties were likely to be able to enter into alternative business combinations on terms more favorable to Smith stockholders and concluded that other parties were not likely to be able to do so. The Smith board considered the consequences of a premature disclosure that could endanger the Schlumberger negotiations. The Smith board also considered that the terms of the draft merger agreement allowed the Smith board to change or withdraw its recommendation or terminate the merger agreement in favor of a superior proposal. The Smith board determined to continue with negotiations. Over the next several days, Smith and Schlumberger continued their due diligence efforts, including management interviews of both Smith and Schlumberger officers, while Wachtell, Lipton and Baker Botts negotiated the terms of a merger agreement.

On February 18, 2010, the Schlumberger board met to consider the terms of the proposed transaction. Goldman, Sachs & Co., Schlumberger s financial advisor, reviewed with the Schlumberger board its preliminary financial analysis of the exchange ratio provided for in the proposed merger. Following discussion, the Schlumberger board unanimously approved the proposed merger agreement, the proposed merger, and the other agreements and transactions contemplated by the proposed merger agreement, subject to the receipt by the finance committee of the Schlumberger board of Goldman Sachs s final financial analysis of the exchange ratio provided for in the proposed merger, and the finance committee s not recommending that the Schlumberger board s approval be revised or withdrawn.

After the close of trading on February 18, 2010, media reports regarding the proposed transaction began to circulate, causing significant shifts in the trading prices of both Smith and Schlumberger common stock on February 19, 2010. The Smith board met later that day, along with its financial and legal advisors, to receive an update as to these reports and the effect on the proposed merger consideration. The Smith board authorized Mr. Yearwood to negotiate with Schlumberger adjustments to the calculation of the exchange ratio in response to these events. Mr. Yearwood and Mr. Ayat spoke later that day and agreed, in light of the media reports which had affected the trading prices of the Smith and Schlumberger common stock, to modify the proposed valuation formula by replacing the actual trading prices on February 19, 2010 with a second occurrence of the February 18, 2010 trading prices, which resulted in an exchange ratio of 0.6966 shares of Schlumberger common stock per

share of Smith common stock and which equated to a total enterprise value of approximately $14.0 billion, including $11.4 billion for the shares of Smith common stock, based on the closing price of Smith and Schlumberger common stock on February 18, 2010, calculated on the same basis as described above, and which reflected a 40.6% premium to the average implied historical exchange ratio between the shares of common stock of the two companies for the 10 trading day period ended February 18, 2010 and a 37.7% premium to the same ratio for the 10 trading day period ended February 19, 2010. The terms of the proposed merger agreement, including the proposed exchange ratio of 0.6966 shares of Schlumberger common stock per share of Smith common stock, were finalized and submitted to the Smith board and the Schlumberger board for their consideration.

On February 20, 2010, the Smith board met, along with its financial and legal advisors, to consider the terms of the proposed transaction, which had been negotiated. UBS reviewed with the Smith board its financial analysis of the exchange ratio provided for in the proposed merger. Wachtell, Lipton reviewed the legal terms of the proposed merger agreement, including the provisions relating to the allocation of regulatory risks. UBS delivered to the Smith board an oral opinion, which was confirmed by delivery of a written opinion dated February 20, 2010, attached hereto as Annex B, to the effect that, as of that date and subject to the factors and assumptions set forth in such opinion, the 0.6966 exchange ratio provided for in the proposed merger was fair, from a financial point of view, to Smith s stockholders, other than Schlumberger and its affiliates, as more fully described below under the caption Opinion of Smith s Financial Advisor. Following discussion, the board unanimously determined that the proposed merger agreement, the proposed merger, and the other agreements and transactions contemplated by the proposed merger agreement are fair to and in the best interests of Smith and its stockholders, and approved and adopted and declared to be advisable the proposed merger agreement and the transactions contemplated by the proposed merger agreement, including the proposed merger.

On February 21, 2010, the finance committee of the Schlumberger board met to consider the terms of the proposed transaction. Goldman Sachs reviewed with the finance committee its financial analysis of the exchange ratio provided for in the proposed merger. Following discussion, pursuant to the authority delegated to the committee by the Schlumberger board, the finance committee unanimously determined to proceed with the transaction.

Later in the day on February 21, 2010, the merger agreement was executed by Smith, Schlumberger and Turnberry Merger Sub Inc., and Smith and Schlumberger issued a joint press release announcing the merger agreement.

Smith s Reasons for the Merger; Recommendation of the Smith Board of Directors

In reaching its decision to approve the merger and the merger agreement and recommend adoption of the merger agreement by Smith stockholders, the Smith board of directors consulted with Smith senior management, as well as with Smith s legal and financial advisors, and considered a number of factors, including the following material factors:

- The fact that the implied value of the proposed exchange ratio, based on the closing price of Schlumberger common stock on February 18, 2010 (the last trading day before various news outlets began reporting on a possible transaction involving Smith and Schlumberger), represented a 37.5% premium to the closing price of Smith common stock on such date and a 40.6% premium to the average implied historical exchange ratio between the shares of common stock of the two companies for the 10 trading day period ended February 18, 2010.

- The fact that Smith stockholders immediately prior to the merger would own approximately 12.8% of the equity interests of Schlumberger immediately following the completion of the merger, which would give former Smith stockholders the opportunity to participate in future earnings and growth of Schlumberger and future appreciation in the value of Schlumberger s common stock following the merger should they determine to retain the Schlumberger common stock they would receive in the merger.

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The fact that the combined company would be a global leader in oil and natural gas supply and services, operating in a wide variety of areas such as drilling fluid systems, drill bits, wireline, directional drilling, tubular products, down-hole tools, coiled tubing, and waste management services, which it believed would benefit Smith and the combined company.

The fact that the combined company would be able to offer an integrated suite of products and services to its customers, including in areas outside of the fluid systems, solids-control and separation equipment, waste-management services, drill bits, downhole tools and services and supply chain management businesses which Smith currently operates, and would have enhanced capability to design and implement technological advances in equipment and operations.

The Smith board s belief that a business combination with Schlumberger offered strategic benefits as described above that would not be easily realized with other counterparties.

The fact that Smith did not receive any proposals from any party other than Schlumberger regarding a business combination with Smith at any time during the consideration of the various Schlumberger proposals.

The Smith board of directors knowledge of Smith s business, operations, financial condition, earnings and prospects and of Schlumberger s business, operations, financial condition, earnings and prospects, taking into account the results of Smith s due diligence review of Schlumberger.

The prevailing macroeconomic conditions, and the economic environment of the industries in which Smith and Schlumberger operate, including Schlumberger s strong performance in the recent challenging operating environment, which it viewed as supporting the rationale for seeking a strategic transaction that should create a global oil and natural gas supply and services company better positioned to respond to volatile macroeconomic and industry conditions than Smith on a standalone basis.

The fact that the financial profile of a combined Smith and Schlumberger would be more attractive than that of Smith as a standalone company, with a more diversified revenue base, both with respect to product/service offering and geography, and a greater free cash flow as well as the synergies anticipated to be achievable in connection with the merger.

The strong strategic fit with Schlumberger, particularly with respect to integrated design of drilling assemblies, including drill bits and drilling fluids, distribution and supply-chain services, and product development programs, and increasing demand by exploration and development companies for a single source of oilfield supplies and services.

The longstanding relationship with Schlumberger through joint ownership and operation of M-I SWACO, as well as the terms of the M-I SWACO joint venture permitting either Smith or Schlumberger to initiate a purchase or sale of the parties interests in M-I SWACO, which terms create challenges for companies other than Schlumberger which may seek to engage in a business combination with Smith unless Schlumberger supports such transaction, as well as risks that Schlumberger could select a time for the exercise of the M-I SWACO buy/sell provisions which could prove to be inopportune to Smith.

The financial analyses and presentation of UBS, and its related written opinion, dated February 20, 2010, to the effect that, as of that date and based upon and subject to the factors and assumptions set forth in its opinion (a copy of which is attached to this proxy statement/prospectus as Annex B), the exchange ratio was fair, from a financial point of view, to the holders of shares of Smith common stock, other than Schlumberger and its affiliates. See Opinion of Smith s Financial Advisor and Financial Projections.

The level of the commitments by the parties to obtain applicable regulatory approvals, which in the view of the Smith board of directors after considering the advice of counsel, made it highly likely that the merger, once announced, would be completed.

The expectation that the merger will qualify as a reorganization for U.S. federal income tax purposes and that, as a result, the exchange by Smith stockholders of their shares of Smith common stock for shares of Schlumberger common stock in the merger generally will be tax-free to Smith stockholders.

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The fact that the merger agreement allows the Smith board of directors to change or withdraw its recommendation regarding the merger proposal if a superior transaction proposal is received from a third party or in response to certain material developments or changes in circumstances, if in either case the Smith board of directors determines that a failure to change its recommendation would result in a breach of its fiduciary duties under applicable law, subject to the payment of a termination fee upon termination under certain circumstances.

The fact that the merger agreement requires payment of a termination fee by Schlumberger upon termination of the merger agreement under certain circumstances. See The Merger Agreement Termination, Amendment and Waiver.

The fact that the combined company would have a highly experienced management team with extensive industry experience in most significant facets of the oil and natural gas supply and services industry, which experience and leadership were considered beneficial to Smith and the combined company.

The Smith board of directors also considered potential risks and potentially negative factors concerning the merger in connection with its deliberations of the proposed transaction, including:

The possibility that the merger may not be completed, or that completion may be unduly delayed, for reasons beyond the control of Smith and Schlumberger.

The risk that regulatory agencies may not approve the merger or may impose terms and conditions on their approvals that would either materially impair the business operations of the combined company or adversely impact the ability of the combined company to realize the synergies that are projected to occur in connection with the merger.

The risks inherent in combining and integrating two companies, including that the companies may not be successfully integrated or that the synergies anticipated to be achievable from combining the two companies may not be realized.

The fact that the exchange ratio included in the merger agreement provides for a fixed number of shares of Schlumberger common stock, the possibility that Smith stockholders could be adversely affected by a decrease in the trading price of Schlumberger common stock before the closing of the merger, and the fact that the merger agreement does not provide Smith with a termination right based on the trading price of Schlumberger common stock or other similar protection.

The potential for diversion of management and employee attention and for increased employee attrition during the substantial period prior to the completion of the merger, and the potential effect of the merger on Smith s business and relations with customers and suppliers.

The potential impact of the restrictions imposed by the merger agreement on Smith s ability to take specified actions during the period prior to the completion of the merger (which may delay or prevent Smith from undertaking business opportunities that may arise pending completion of the merger).

The transaction costs to be incurred in connection with the merger.

The potential that the termination payment provisions of the merger agreement and the provisions of the M-I SWACO joint venture could have the effect of discouraging a bona fide alternative business combination proposal for Smith.

The possibility that the fee that Schlumberger would be required to pay under the merger agreement upon termination of the merger agreement under certain circumstances would be insufficient to compensate Smith for its costs incurred in connection with the merger agreement.

The interests of Smith executive officers and directors with respect to the merger apart from their interests as Smith stockholders, and the risk that these interests might influence their decision with respect to the merger (see Interests of Smith s Directors and Officers in the Merger).

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The Smith board of directors concluded that the potentially negative factors associated with the proposed merger were outweighed by the potential benefits that it expected the Smith stockholders would achieve as a result of the merger.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Smith board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and to recommend that Smith stockholders vote for the merger proposal. In addition, individual members of the Smith board of directors may have given differing weights to different factors. The Smith board of directors conducted an overall analysis of the factors described above, including through discussions with, and questioning of, Smith management and outside legal and financial advisors regarding certain of the matters described above.

The Smith board of directors, by a unanimous vote of all directors, determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Smith and its stockholders, and approved the merger agreement and the transactions contemplated by the merger agreement.

The Smith board of directors unanimously recommends that Smith stockholders vote **FOR** the adoption of the merger agreement.

This explanation of Smith s reasons for the merger and other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors described under Cautionary Statement Regarding Forward-Looking Statements.

Schlumberger s Reasons for the Merger

Schlumberger believes the merger will create sustainable long-term value for its stockholders. Key factors considered by Schlumberger include the following:

- Smith s operations complement and strengthen Schlumberger s strategy to provide its customers with engineered drilling systems that optimize all the components of the drillstring, allowing customers to drill more economically in demanding conditions;
- by increasing its interest in M-I SWACO from 40% to 100%, Schlumberger would increase its ability to design and deploy drillings fluids to, together with its bottom-hole assembly technologies, optimize the drilling system;
- Schlumberger believes that it can leverage Wilson s core supply chain management competencies to improve Schlumberger s existing supply chain and logistics systems;
- certain Smith products fill gaps in Schlumberger s current portfolio, enabling the combined company to offer a more complete offering to customers;
- the merger is anticipated to provide Schlumberger with additional opportunities through new product development programs enabled by Smith s assets and operations;
- the continued strength of the balance sheet of the combined company post-merger in order to maintain business flexibility; and
- Schlumberger s expectation that the merger would result in meaningful cost savings and operational synergies, estimated to include approximately $160 million in 2011 and approximately $320 million in 2012.

Opinion of Smith s Financial Advisor

On February 20, 2010, at a meeting of Smith s board of directors held to evaluate the proposed merger, UBS delivered to Smith s board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion, dated February 20, 2010, to the effect that, as of that date and based on and subject to various

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assumptions, matters considered and limitations described in its opinion, the exchange ratio provided for in the merger was fair, from a financial point of view, to holders of Smith common stock other than Schlumberger and its affiliates.

The full text of UBS opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS. A copy of this opinion is attached as Annex B hereto and is incorporated into this proxy statement/prospectus by reference. **Holders of Smith common stock are encouraged to read UBS opinion carefully in its entirety. UBS opinion was provided for the benefit of Smith s board of directors in connection with, and for the purpose of, its evaluation of the exchange ratio from a financial point of view and does not address any other aspect of the merger. The opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to Smith or Smith s underlying business decision to effect the merger. The opinion does not constitute a recommendation to any stockholder as to how to vote or act with respect to the merger.** The following summary of UBS opinion is qualified in its entirety by reference to the full text of UBS opinion.

In arriving at its opinion, UBS, among other things:

- reviewed certain publicly available business and financial information relating to Smith and Schlumberger;
- reviewed certain internal financial information and other data relating to Smith s business and financial prospects that were not publicly available, including financial forecasts and estimates prepared by Smith s management that Smith s board of directors directed UBS to utilize for purposes of its analysis;
- reviewed certain financial information and other data relating to the business and financial prospects of Schlumberger that were publicly available, including Wall Street consensus financial forecasts and estimates as published by Institutional Brokers Estimate System (IBES) for 2010 (Schlumberger Street Estimates) that Smith s management directed UBS to utilize for purposes of its analysis;
- conducted discussions with members of the senior managements of Smith and Schlumberger concerning the businesses and financial prospects of Smith and Schlumberger;
- reviewed publicly available financial and stock market data with respect to certain other companies UBS believed to be generally relevant;
- compared the financial terms of the merger with the publicly available financial terms of certain other transactions UBS believed to be generally relevant;
- reviewed current and historical market prices of Smith common stock and Schlumberger common stock;
- reviewed a draft of the merger agreement; and
- conducted such other financial studies, analyses and investigations, and considered such other information, as UBS deemed necessary or appropriate.

In connection with its review, with the consent of Smith s board of directors, UBS assumed and relied upon, without independent verification, the accuracy and completeness in all material respects of the information provided to or reviewed by UBS for the purpose of its opinion. In addition, with the consent of Smith s board of directors, UBS did not make any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of Smith or Schlumberger, and was not furnished with any such evaluation or appraisal. With respect to the financial forecasts and estimates for Smith referred to above, UBS assumed, at the direction of Smith s board of directors, that such forecasts and estimates

were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Smith s management as to the future financial performance of Smith. UBS was not provided with any Schlumberger internal financial forecasts or estimates, nor with any forecasts or estimates regarding Schlumberger prepared by Smith, and therefore did not consider any such

information in connection with its analysis or its opinion. Based on UBS discussions with Smith s board of directors, UBS assumed, with the consent of Smith s board of directors, that the Schlumberger Street Estimates that UBS reviewed were a reasonable basis upon which to evaluate the future performance of Schlumberger for 2010 and UBS used such forecasts and estimates for purposes of its analysis and its opinion. UBS assumed, with the consent of Smith s board of directors, that the merger would qualify for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. UBS opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information available to UBS as of, the date of its opinion.

At the direction of Smith s board of directors, UBS was not asked to, and it did not, offer any opinion as to the terms, other than the exchange ratio to the extent expressly specified in UBS opinion, of the merger agreement or the form of the merger. In addition, UBS expressed no opinion as to the fairness of the amount or nature of any compensation to be received by any officers, directors or employees of any parties to the merger, or any class of such persons, relative to the exchange ratio. UBS expressed no opinion as to what the value of Schlumberger common stock would be when issued pursuant to the merger or the price at which Smith common stock or Schlumberger common stock would trade at any time. In rendering its opinion, UBS assumed, with the consent of Smith s board of directors, that (i) the final executed form of the merger agreement would not differ in any material respect from the draft that UBS reviewed, (ii) Smith and Schlumberger would comply with all material terms of the merger agreement and (iii) the merger would be consummated in accordance with the terms of the merger agreement without any adverse waiver or amendment of any material term or condition of the merger agreement. UBS also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger would be obtained without any material adverse effect on Smith, Schlumberger or the merger. UBS was not authorized to solicit and did not solicit indications of interest in a transaction with Smith from any party. Except as described above, Smith imposed no other instructions or limitations on UBS with respect to the investigations made or the procedures followed by UBS in rendering its opinion. The issuance of UBS opinion was approved by an authorized committee of UBS.

In connection with rendering its opinion to Smith s board of directors, UBS performed a variety of financial and comparative analyses which are summarized below. The following summary is not a complete description of all analyses performed and factors considered by UBS in connection with its opinion. The preparation of a financial opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. With respect to the selected companies analyses of Smith and Schlumberger and the selected transactions analysis summarized below, no company or transaction used as a comparison was identical to Smith, Schlumberger or the merger. These analyses necessarily involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or acquisition values of the companies concerned.

UBS believes that its analyses and the summary below must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying UBS analyses and opinion. UBS did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion, but rather arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole.

The estimates of the future performance of Smith and Schlumberger provided by Smith or derived from public sources in or underlying UBS analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, UBS considered industry performance, general business and economic conditions and other matters, many of which were beyond the control of Smith and Schlumberger. Estimates of the financial value of companies do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold or acquired.

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The exchange ratio was determined through negotiation between Smith and Schlumberger and the decision by Smith to enter into the merger agreement was solely that of Smith s board of directors. UBS opinion and financial analyses were only one of many factors considered by Smith s board of directors in its evaluation of the merger and should not be viewed as determinative of the views of Smith s board of directors or management with respect to the merger or the exchange ratio.

The following is a brief summary of the material financial analyses performed by UBS and reviewed with Smith s board of directors on February 20, 2010 in connection with its opinion relating to the proposed merger. **The financial analyses summarized below include information presented in tabular format. In order for UBS financial analyses to be fully understood, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of UBS financial analyses.** For purposes of certain analyses described below, the term implied per share value of the merger consideration refers to the implied per share value of the merger consideration based on the merger exchange ratio of 0.6966 and the closing price of Schlumberger common stock on February 19, 2010 of $63.90.

Smith Financial Analyses

Enterprise value and transaction value for Smith were calculated as the aggregate value of Smith s equity (based on, where indicated below, the unaffected market price or the implied per share value of the merger consideration) plus debt at book value and noncontrolling interests at book value, less cash and cash equivalents. Enterprise value and transaction value for Smith on a net basis were calculated as the aggregate value of Smith s equity (based on, where indicated below, the unaffected market price or the implied per share value of the merger consideration) plus debt at book value, less cash and cash equivalent, less 40% of the net debt of M-I SWACO and less 45.4% of the net debt of CE Franklin Ltd. Earnings before interest, taxes, depreciation and amortization (EBITDA) for Smith on a net basis was calculated as EBITDA, less 40% of the EBITDA of M-I SWACO and less 45.4% of the EBITDA of CE Franklin Ltd. Cash flow for Smith was calculated as net income before deducting the noncontrolling interests in such income plus depreciation and amortization, less distributions to minority holders of M-I SWACO and CE Franklin Ltd. Cash flow for Smith on a net basis was calculated as net income after deducting such noncontrolling interests plus depreciation and amortization.

Selected Companies Analysis

UBS compared selected financial and stock market data of Smith with corresponding data of the following six U.S. listed publicly traded large capitalization oilfield services companies with diversified product offerings (i.e., not focused primarily on contract drilling services):

Schlumberger

Halliburton Company

National Oilwell Varco, Inc.

Baker Hughes Incorporated

Weatherford International Ltd.

Cameron International Corporation

UBS reviewed, among other things, the enterprise values of the selected companies, calculated as equity market value based on closing stock prices on February 19, 2010 (except for that of Schlumberger, which was based on its unaffected closing price on February 18, 2010, the last trading day before various news outlets began reporting on a possible transaction involving Smith and Schlumberger), plus debt at book value, preferred stock at liquidation value and noncontrolling interests at book value, less cash and cash equivalents, as multiples of latest 12 months

(LTM) EBITDA. Historical balance sheet data were based on the most recent publicly available information as of February 19, 2010. UBS also reviewed closing stock prices of the selected companies

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on the dates referred to above as a multiple of (i) calendar years 2010 and 2011 estimated earnings per share (EPS) and (ii) calendar years 2010 and 2011 cash flow per share (CFPS). UBS then compared these multiples derived for the selected companies with corresponding multiples implied for Smith based both on the closing price of Smith common stock on February 18, 2010 and the implied per share value of the merger consideration. Financial data for the selected companies were based on IBES consensus estimates, public filings and other publicly available information. Estimated financial data for Smith were based on IBES consensus estimates and internal estimates of Smith s management, referred to as Smith Management Estimates. This analysis indicated the following implied high, mean, median and low multiples for the selected companies, as compared to corresponding multiples implied for Smith:

	Price/EPS		Price/CFPS		Enterprise Value/ EBITDA		
	2010E	2011E	2010E	2011E	LTM	2010E	2011E
High	24.1x	17.2x	14.9x	11.9x	12.5x	11.3x	9.1x
Mean	20.8x	14.7x	11.7x	9.4x	10.1x	9.0x	7.3x
Median	22.5x	14.9x	11.9x	9.4x	10.6x	8.9x	7.2x
Low	14.0x	12.0x	7.8x	5.9x	6.0x	6.8x	6.3x
IBES Consensus Estimates:							
Smith	30.6x	17.6x	13.0x	9.7x	11.4x	10.1x	7.5x
Smith @ Offer	40.8x	23.5x	17.4x	13.0x	14.4x	12.7x	9.5x
Smith Management Estimates:							
Smith	35.9x	17.7x	12.7x	9.2x	11.4x	9.8x	7.1x
Smith @ Offer	47.9x	23.7x	17.0x	12.3x	14.4x	12.3x	9.0x
Smith (Net)	35.9x	17.7x	13.8x	9.8x	13.7x	11.4x	8.1x
Smith @ Offer (Net)	47.9x	23.7x	18.5x	13.1x	17.8x	14.7x	10.5x

Selected Transactions Analysis

UBS reviewed transaction values in the following fifteen selected transactions, comprising transactions in the prior twelve years (i) for which forward looking research analyst estimates were available at the time of the announcement of the transaction, (ii) involving target companies with product offerings not focused primarily on contract drilling and (iii) with transaction values in excess of $1 billion, with the sole exception of the NATCO Group Inc. acquisition by Cameron International Corporation, which was included despite having a transaction value below $1 billion because of its pertinence due to its having occurred within the previous twelve months:

Announcement Date	Acquiror	Target
August 31, 2009	Baker Hughes Incorporated	BJ Services Company
June 1, 2009	Cameron International Corporation	NATCO Group Inc.
June 13, 2008	Candover Investments plc	Expro International Group Ltd.
June 2, 2008	Smith	W-H Energy Services, Inc.
December 19, 2007	First Reserve Corporation	Abbot Group Limited
December 17, 2007	National Oilwell Varco, Inc.	Grant Prideco, Inc.
February 5, 2007	Universal Compression, Inc.	Hanover Compressor Company
September 5, 2006	Compagnie Générale de Géophysique	Veritas DGC Inc.
June 6, 2005	Weatherford International Ltd.	Precision Drilling Corporation
August 12, 2004	National-Oilwell, Inc.	Varco International Incorporated
July 3, 2001	Technip	Coflexip Stena Offshore Group S.A.
June 19, 1998	Schlumberger	Camco International Inc.
May 11, 1998	Baker Hughes Incorporated	Western Atlas Inc.
March 4, 1998	EVI, Inc.	Weatherford Enterra, Inc.
February 26, 1998	Halliburton Company	Dresser Industries, Inc.

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UBS reviewed, among other things, transaction values in the selected transactions, calculated as the purchase price paid for the target company s equity, plus debt at book value, preferred stock at liquidation value and noncontrolling interests at book value, less cash and cash equivalents, as multiples of estimated EBITDA for the fiscal year ending after the then current fiscal year at the time of announcement (FY+1). Historical balance sheet data were based on the most recent publicly available information at the time of announcement of the relevant transaction. UBS also reviewed the purchase price paid for the target company s equity in the selected transactions as multiples of, to the extent publicly available, FY+1 estimated cash flow and FY+1 estimated net income. Estimated financial data for the targets listed in the Selected Transactions Analysis were based on IBES consensus estimates as of the time of announcement of the applicable transaction. UBS then compared these multiples derived for the selected transactions with corresponding multiples implied for Smith based on the implied per share value of the merger consideration. Multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. Estimated financial data for Smith were based on internal estimates of Smith s management. This analysis indicated the following implied high, median, mean and low multiples for the selected transactions, as compared to corresponding multiples implied for Smith:

	Equity Value/		Transaction Value/
	FY +1 Cash Flow	**FY +1 Net Income**	**FY +1 EBITDA**
High	23.1x	42.5x	14.5x
Mean	12.5x	25.8x	9.8x
Median	11.7x	23.6x	8.8x
Low	7.2x	13.4x	6.1x
IBES Consensus Estimates:			
Smith	13.0x	30.6x	10.1x
Smith @ Offer	17.4x	40.8x	12.7x
Smith Management Estimates:			
Smith	12.7x	35.9x	9.8x
Smith @ Offer	17.0x	47.9x	12.3x
Smith (Net)	13.8x	35.9x	11.4x
Smith @ Offer (Net)	18.5x	47.9x	14.7x

Discounted Cash Flow Analysis

UBS performed a discounted cash flow analysis of Smith using financial forecasts and estimates prepared by Smith s management. UBS calculated a range of implied present values (as of December 31, 2009) of the standalone unlevered, after-tax free cash flows that Smith was forecasted to generate from 2010 through 2013 using discount rates ranging from 10.5% to 12.5%, based on an estimated range of Smith s weighted average cost of capital. UBS also calculated a range of implied terminal values for Smith by applying a range of EBITDA terminal value multiples of 7.0x to 9.0x to Smith s mid-cycle EBITDA, as estimated by Smith s management that Smith s board of directors directed UBS to use for purposes of its analysis. UBS selected the range of terminal value multiples following a review of Smith s historical LTM EBITDA trading multiple over a period that included multiple oil price cycles. The implied terminal values were then discounted to present value using discount rates ranging from 10.5% to 12.5%. The discounted cash flow analysis resulted in a range of implied present values of approximately $27.50 to $37.50 per outstanding share of Smith common stock, as compared to the implied per share value of the merger consideration of $44.51.

Schlumberger Financial Analysis

Selected Companies Analysis

UBS compared selected financial and stock market data of Schlumberger with corresponding data of the selected companies referred to above under Smith Financial Analyses Selected Companies Analysis ; with the difference that Smith was included as a selected company instead of Schlumberger.

UBS reviewed, among other things, the enterprise values of the selected companies (based on closing stock prices on February 19, 2010, except for that of Smith, which was based on its unaffected closing price on February 18, 2010, the last trading day before various news outlets began reporting on a possible transaction involving Smith and Schlumberger) as multiples of LTM EBITDA, calendar year 2010 and calendar year 2011 estimated EBITDA. UBS also reviewed closing stock prices of the selected companies on the dates referred to above as a multiple of (i) calendar year 2010 and 2011 estimated EPS and (ii) calendar year 2010 and 2011 CFPS. UBS then compared these multiples derived for the selected companies with corresponding multiples implied for Schlumberger based on the closing price of Schlumberger common stock on February 18, 2010. **Financial data for the selected companies and Schlumberger were based on IBES consensus estimates, public filings and other publicly available information. This analysis indicated the following implied high, mean, median and low multiples for the selected companies, as compared to corresponding multiples implied for Schlumberger:**

	Price/EPS		Price/CFPS		EV/ EBITDA		
	2010E	2011E	2010E	2011E	LTM	2010E	2011E
High	30.6x	17.6x	14.9x	11.9x	12.0x	10.1x	7.6x
Mean	22.1x	14.8x	11.6x	9.2x	10.0x	8.8x	7.0x
Median	22.6x	14.9x	11.9x	9.4x	10.6x	8.9x	7.2x
Low	14.0x	12.0x	7.8x	5.9x	6.0x	6.8x	6.3x
IBES Consensus Estimates:							
Schlumberger	22.6x	17.2x	13.7x	11.4x	12.5x	11.3x	9.1x

Contribution Analysis

UBS reviewed the respective estimated contributions to the merger on the combined company s estimated pro forma EBITDA, cash flow, and net income for fiscal year 2010. Estimated financial data for Schlumberger were based on Schlumberger Street Estimates. Estimated financial data for Smith were based on internal estimates of Smith s management.

The analysis indicated the following relative contributions of Smith and Schlumberger to the combined company s pro forma estimated 2010 EBITDA, as compared to the enterprise values of each company, based on both the unaffected stock prices and on the implied per share value of the merger consideration:

	Relative Contributions
2010E EBITDA	
Smith	14%
Schlumberger	86%
Enterprise Value at Unaffected Prices	
Smith	12%
Schlumberger	88%
Enterprise Value at Exchange Ratio	
Smith	15%
Schlumberger	85%

UBS also reviewed the respective estimated contributions of Smith and Schlumberger to the combined company s pro forma estimated 2010 net income and cash flow, as compared to the equity values of each company, based on both the unaffected stock prices and on the exchange ratio. This analysis indicated the following relative contributions of Smith and Schlumberger:

	Relative Contributions
2010E Net Income	
Smith	6%
Schlumberger	94%
2010E Cash Flow	
Smith	10%
Schlumberger	90%
Pro Forma Ownership at Unaffected Prices	
Smith	10%
Schlumberger	90%
Pro Forma Ownership at Exchange Ratio	
Smith	13%
Schlumberger	87%

Miscellaneous

Under the terms of UBS engagement, Smith agreed to pay UBS for its financial advisory services in connection with the merger an aggregate fee currently estimated to be approximately $[29.4] million, a portion of which was payable in connection with the delivery of UBS opinion and approximately $[26.9] million of which is contingent upon consummation of the merger. In addition, Smith agreed to reimburse UBS for its reasonable expenses, including fees, disbursements and other charges of counsel, and to indemnify UBS and related parties against liabilities, including liabilities under federal securities laws, relating to, or arising out of, its engagement. In the past, UBS and its affiliates have provided investment banking services to Smith unrelated to the proposed merger, for which UBS and its affiliates received compensation. Specifically, during the past two years UBS acted as co-manager in Smith s offering of Smith common stock in 2009. In the ordinary course of business, UBS and its affiliates may hold or trade, for their own accounts and the accounts of their customers, securities of Smith and Schlumberger, and, accordingly, may at any time hold a long or short position in such securities. Smith selected UBS as its financial advisor in connection with the merger because UBS is an internationally recognized investment banking firm with substantial experience in similar transactions and because of UBS familiarity with Smith, Schlumberger and their respective businesses. UBS is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities and private placements.

Financial Projections

Smith does not, as a matter of course, publicly disclose forecasts as to future performance, earnings or other results due to the unpredictability of the underlying assumptions and estimates. However, in connection with discussions concerning the merger, Smith provided Schlumberger and its financial advisors with certain non-public unaudited prospective financial information based on estimates by Smith management. These estimates were prepared with respect to prospective financial information in connection with due diligence, and were not prepared with a view toward public disclosure or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial data, published guidelines of the SEC regarding forward-looking statements or GAAP. A summary of this information is presented below.

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While the financial forecasts were prepared in good faith, no assurance can be made regarding future events. The financial forecasts rely on a number of estimates and assumptions, including the following:

Global rig counts were estimated to increase to 2,552 in 2010, 2,650 in 2011, 2,849 in 2012 and 3,032 in 2013;

The global market was assumed to recover modestly in 2010, with a more robust recovery thereafter, as reflected in global GDP growth estimated to be 1.8% in 2010, 3.6% in 2011, 4.2% in 2012 and 4.1% in 2013;

Margins for earnings before income and taxes were assumed to recover steadily over the forecast period, returning to historical levels after 2012, and were specifically estimated to be 8.8% in 2010, 12.0% in 2011, 14.5% in 2012 and 16.5% in 2013; and

Capital expenditures per revenue dollar and effective tax rate were assumed to remain fairly consistent over the forecast period.
These and the other estimates and assumptions underlying the financial forecasts involve judgments with respect to, among other things, future economic, competitive, regulatory and financial market conditions and future business decisions that may not be realized and that are inherently subject to significant business, economic, competitive and regulatory uncertainties and contingencies, including, among other things, the inherent uncertainty of the business and economic conditions affecting the industries in which Smith and Schlumberger operate, and the risks and uncertainties described under Risk Factors and Cautionary Statement Regarding Forward-Looking Statements, all of which are difficult to predict and many of which are outside the control of Smith and Schlumberger and will be beyond the control of the combined company. There can be no assurance that the underlying assumptions will prove to be accurate or that the projected results will be realized, and actual results likely will differ, and may differ materially, from those reflected in the financial forecasts, whether or not the merger is completed. The inclusion in this proxy statement/prospectus of the unaudited prospective financial information below should not be regarded as an indication that Smith, Schlumberger, or their respective boards of directors considered, or now considers, these projections and forecasts to be a reliable predictor of future results. The financial forecasts are not fact and should not be relied upon as being necessarily indicative of future results, and readers of this proxy statement/prospectus are cautioned not to place undue reliance on this information. None of the financial forecasts reflects any impact of the merger.

All of the financial forecasts summarized in this section were prepared by the management of Smith. Deloitte & Touche LLP (Smith s independent registered public accounting firm) has not examined, compiled or otherwise performed any procedures with respect to the prospective financial information contained in these financial forecasts and, accordingly, Deloitte & Touche LLP has not expressed any opinion or given any other form of assurance with respect thereto and they assume no responsibility for the prospective financial information. The Deloitte & Touche LLP reports either incorporated by reference or included in this proxy statement/prospectus relate to the historical financial information of Smith. Such reports do not extend to the financial forecasts and should not be read to do so.

By including in this proxy statement/prospectus a summary of certain financial forecasts, neither Smith nor any of its representatives has made or makes any representation to any person regarding the ultimate performance of Smith or Schlumberger compared to the information contained in the financial forecasts. The financial forecasts summarized in this section were prepared during the periods described above and have not been updated to reflect any changes since February 2010 or the actual 2009 results of operation of Smith, as set forth herein under Selected Historical Financial Data of Smith. Neither Smith, Schlumberger, nor, after completion of the merger, the combined company undertakes any obligation, except as required by law, to update or otherwise revise the financial forecasts or financial information to reflect circumstances existing since their preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error, or to reflect changes in general economic or industry conditions.

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The summary of the financial forecasts is not included in this proxy statement/prospectus in order to induce any stockholder to vote in favor of the merger proposal or any of the other proposals to be voted on at the Smith annual meeting.

The following tables present select unaudited prospective financial data for the fiscal years ending 2010 through 2013 prepared by Smith s management.

	Fiscal Year Ended December 31,			
	2010E	2011E	2012E	2013E
	(in millions)			
EBITDA (gross) (1)(2)	$ 1,128	$ 1,541	$ 1,982	$ 2,432
EBITDA (net) (1)(3)	843	1,185	1,562	1,945
Unlevered Free Cash Flow	386	412	552	776
Revenue	8,599	9,673	10,976	12,313

(1) Earnings before interest, income taxes, depreciation and amortization (EBITDA) is a non-GAAP financial measure and should not be considered as an alternative to operating income or net income as a measure of operating performance or cash flows or as a measure of liquidity. EBITDA does not include the impact of any (i) synergies or (ii) costs related to the merger.
(2) Includes EBITDA associated with noncontrolling interests.
(3) Excludes EBITDA associated with noncontrolling interests.

Interests of Smith s Directors and Officers in the Merger

In considering the recommendation of the Smith board of directors that you vote to adopt the merger agreement, you should be aware that some of Smith s executive officers and directors have financial interests in the merger that are different from, or in addition to, those of Smith s stockholders generally. The independent members of Smith s board of directors were aware of and considered these interests, among other matters, in evaluating and negotiating the merger agreement and the merger, and in recommending to the stockholders that the merger agreement be adopted. References in this section to Smith s executive officers are to the following individuals: Malcolm W. Anderson, Richard E. Chandler, Jr., Bryan L. Dudman, John J. Kennedy, Norman A. Mckay, Peter J. Pintar, William Restrepo, Christopher I.S. Rivers, Doug Rock (who resigned as an employee of Smith effective May 12, 2010), Brian E. Taylor, Lee A. Turner, Geraldine D. Wilde and John Yearwood.

Change of Control. For purposes of all of the Smith agreements and plans described below, completion of the merger will constitute a change of control of Smith.

Equity Compensation Awards. The terms of Smith s equity compensation plans and the applicable award agreements provide that, for awards granted prior to the date of the merger agreement, on the day prior to a change of control, all restrictions and conditions on any outstanding restricted stock units lapse, and all performance-based awards become fully vested and deemed earned in full at the specified 100% target amount. Based on Smith equity compensation holdings as of May 26, 2010, and assuming a closing date of November 15, 2010, (1) the number of time-based restricted stock units in respect of Smith common stock held by each of Messrs. Rock, Yearwood, Restrepo, Rivers, Mckay and Dudman, the seven other Smith executive officers (as a group), and the six Smith non-employee directors (as a group), that would vest in connection with completion of the merger is 0, 0, 23,385, 12,453, 74,122, 12,453, 44,093 and 39,671, respectively, and (2) the number of performance-based restricted stock units in respect of Smith common stock held by each of Messrs. Rock, Yearwood, Restrepo, Rivers, Mckay, and Dudman, the seven other Smith executive officers (as a group), and the six Smith non-employee directors (as a group), that would vest in connection with completion of the merger is 0, 265,204, 27,989, 93,705, 61,555, 99,191, 161,738 and 0, respectively. In connection with Mr. Rock s retirement on May 12, 2010 as an employee of Smith, the vesting of 24,324 restricted stock units held by him accelerated.

The merger agreement provides that, upon completion of the merger, (i) each then-outstanding Smith stock option will be converted into a Schlumberger stock option and (ii) each then-outstanding Smith restricted stock unit and performance-based restricted stock unit granted prior to the date of the merger agreement will be

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cancelled and converted into the right to receive the merger consideration. With respect to performance-based restricted stock unit awards, the total number of shares of Smith common stock subject to the award will be calculated based on the deemed attainment of performance goals at 100% of the target performance level. The treatment of outstanding Smith stock options and the cash settlement of other equity awards in the merger, including treatment of awards granted subsequent to the date of the merger agreement, are discussed in greater detail under The Merger Treatment of Equity Awards.

Change of Control Employment Agreements. Smith is party to change of control employment agreements with each of Messrs. Yearwood, Anderson, Chandler, Kennedy, Restrepo, Mckay, Dudman, Pintar and Rivers. The agreements provide for change of control severance benefits in the event of certain qualifying terminations of employment in connection with or following a change of control.

Under the agreements, if Smith terminates the applicable executive s employment without cause (as defined in the agreements) or the executive terminates employment for good reason (as defined in the agreements and summarized below) at any time during the three-year period commencing upon a change of control or within the 12-month period prior to a change of control but in anticipation thereof, the executive will be eligible to receive the following payments and benefits:

- a lump sum cash payment equal to:
  - the sum of (1) the executive s annual base salary through the termination date (to the extent not already paid), (2) an annual bonus amount equal to the product of (a) the higher of (x) the highest annual bonus paid to the executive in the last three full fiscal years prior to the date of change of control and (y) the annual bonus paid for the most recently completed fiscal year during the post-change of control employment period (the Highest Annual Bonus) and (b) a fraction, the numerator of which is the number of days in the applicable fiscal year through the termination date, and the denominator of which is 365, and (3) any accrued and unpaid vacation pay;
  - an amount equal to the product of (1) the Termination Multiple (three times for a termination during the first year following a change of control, two times for a termination during the second year following a change of control and one times for a termination during the third year following a change of control), and (2) the sum of (x) the executive s annual base salary and (y) the Highest Annual Bonus; and
  - a payment equal to the excess of (1) the actuarial equivalent of the Supplemental Executive Retirement Plan (SERP) benefit that the executive would have received had the executive s employment continued for a number of years after the termination date equal to the Termination Multiple over (2) the actuarial equivalent of the executive s actual SERP benefit;
- continued coverage under Smith healthcare and life insurance plans for a number of years equal to the Termination Multiple or such longer period as may be provided by the terms of the appropriate Smith plan; and
- outplacement benefits.

For purposes of the change of control employment agreements, good reason is defined generally to include (1) certain diminutions in position, authority, duties, responsibilities, compensation, benefits, (2) certain relocations or (3) any failure by Smith to have a successor assume the agreements. Additionally, a termination by the executive for any reason during the 30-day period immediately following the first anniversary of the change of control will constitute termination for good reason for purposes of the agreements.

Retention Program. Under the terms of the merger agreement and subsequent agreements between Smith and Schlumberger, Smith is permitted to establish a retention program with a retention pool in an aggregate amount up to $74.3 million. On [ ], 2010, Smith allocated a portion of this aggregate amount to persons who are executive officers of Smith or who are party to change of control employment agreements. These allocations

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total $[ ] million in the aggregate if the merger is consummated in 2010 and $[ ] million in the aggregate if the merger is consummated in 2011. See The Merger Certain Additional Agreements Employee Matters. The individual allocations to executive officers are reflected in the table set forth in Summary of Estimated Value of Equity Awards, Retention Payments and Severance Benefits. The allocated amounts will be payable at the closing if the applicable employee is employed by Smith or its subsidiaries at such time. In addition, Smith recently allocated approximately $18 million in retention payments to certain employees who are not executive officers, and may make additional allocations.

Summary of Estimated Value of Equity Awards, Retention Payments and Severance Benefits. The chart below sets forth the number of outstanding equity awards that will vest upon consummation of the merger for Smith s executive officers and directors, as well as the estimated aggregate value of such awards. The chart also includes the amount of cash retention payments, the estimated amount of cash severance payments and the estimated value of other severance benefits that the executive officers would receive. Except with respect to the column titled Cash Retention Payments Assuming Consummation of Merger in 2011, the chart assumes that the merger is completed on November 15, 2010 and each executive officer experiences a severance-qualifying termination immediately thereafter.

	Restricted Stock Units	Estimated Value of Restricted Stock Units(1)	Cash Retention Payments Assuming Consummation of Merger in 2010	Cash Retention Payments Assuming Consummation of Merger in 2011	Estimated Cash Severance Payments(2)	Estimated Value of Other Severance Benefits(3)
Doug Rock	0	$ 0	$ [ ]	$ [ ]	$ 0	$ 0
John Yearwood	265,204	10,853,540	[ ]	[ ]	4,221,765	102,386
William Restrepo	51,374	2,102,494	[ ]	[ ]	1,615,283	102,386
Christopher I.S. Rivers	106,158	4,344,543	[ ]	[ ]	3,889,741	102,386
Norman A. Mckay	135,677	5,552,615	[ ]	[ ]	2,955,763	102,386
Bryan L. Dudman	111,644	4,569,059	[ ]	[ ]	4,254,165	102,386
Other executive officers, as a group	205,831	8,423,685	[ ]	[ ]	11,889,503	409,543
Other non-employee directors, as a group	39,671	1,623,546	0	0	0	0

(1) Based on the closing price of Schlumberger common stock as of May 26, 2010.

(2) Cash severance payments include prorated annual bonus, lump-sum cash severance payment, and the SERP equalization payment.

(3) Other severance benefits include welfare benefit continuation and outplacement benefits.

Employment Agreement with Doug Rock. Effective January 1, 2009, Smith entered into an employment agreement with Mr. Rock, which superseded a prior employment agreement and a prior change of control agreement and provides that Mr. Rock will serve as a Special Executive Advisor to the chief executive officer of Smith. The 2009 employment agreement provided for the payment of certain severance benefits in the event of termination of Mr. Rock s employment by Smith without cause (as defined in his agreement) or upon a change of control (in which case his employment terminates automatically). However, because Mr. Rock resigned from employment on May 12, 2010, Mr. Rock will not receive any change of control related benefits in connection with this transaction.

Deferred Compensation Plans. Smith currently maintains the Post-2004 Supplemental Executive Retirement Plan (the Post-2004 SERP), the Supplemental Executive Retirement Plan (the SERP) and non-qualified deferred compensation plans for, the benefit of officers and certain other eligible Smith employees. Under the terms of the plan, upon the date of an employee s separation from service, his or her account balance generally becomes distributable in the form of payment as elected by the participant. If such separation from service occurs within the 12-month period following a change of control, all distributions are automatically made in a lump sum within 30 days of the separation from service. The SERP and Post-2004 SERP benefits are paid from a rabbi trust. Upon the occurrence of a change of control, these trusts become irrevocable and must be fully funded.

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Relationship of Smith s Directors and Officers with Schlumberger. There are no agreements or arrangements between Schlumberger and any of the current directors of Smith or any of the executive officers of Smith who were involved in the merger negotiations regarding continued employment or service following the merger. Mr. Yearwood owned shares of Schlumberger common stock with an approximate market value of $2.29 million as of June 11, 2010.

No Appraisal Rights

Relevant state law may, under certain circumstances, give stockholders of a corporation appraisal or dissenters rights in connection with a proposed merger. However, Smith stockholders will not have such rights in connection with the merger.

Under Section 262 of the Delaware General Corporation Law, appraisal rights are not available for shares of stock if (1) such shares were, at the record date fixed to determine the stockholders entitled to receive notice of and to vote on the agreement of merger, either (a) listed on a national securities exchange, such as the NYSE, or (b) held of record by more than 2,000 holders, and (2) the holders of such shares will receive shares of stock of another corporation that are listed on a national securities exchange. Because Smith common stock will be listed on the NYSE on the applicable record date and will, upon the completion of the merger, be converted into the right to receive Schlumberger common stock, which will also be listed on the NYSE, Smith stockholders will not have appraisal rights in connection with the merger. The foregoing discussion is not a complete statement of law pertaining to appraisal rights under Delaware law and is qualified in its entirety by reference to Delaware law.

Listing of Schlumberger Stock and Delisting and Deregistration of Smith Stock

Schlumberger will apply to have the shares of its common stock to be issued in the merger approved for listing on the NYSE, where Schlumberger common stock is currently traded. If the merger is completed, Smith shares will no longer be listed on the NYSE, and will be deregistered under the Exchange Act.

Restrictions on Sales of Shares of Schlumberger Common Stock Received in the Merger

Shares of Schlumberger common stock issued in the merger will not be subject to any restrictions on transfer arising under the Securities Act or the Exchange Act, except for shares of Schlumberger common stock issued to any Smith stockholder who may be deemed to be an affiliate of Schlumberger after the completion of the merger. This proxy statement/prospectus does not cover resales of Schlumberger common stock received by any person upon the completion of the merger, and no person is authorized to make any use of this proxy statement/prospectus in connection with any resale.

Accounting Treatment

The merger will be accounted for as an acquisition of a business. Schlumberger will record net tangible and identifiable intangible assets acquired and liabilities assumed from Smith at their respective fair values at the date of the completion of the merger. Any excess of the purchase price, which will equal the market value at the date of the completion of the merger, of the Schlumberger common stock issued as consideration for the merger over the net fair value of such assets and liabilities will be recorded as goodwill.

The financial condition and results of operations of Schlumberger after completion of the merger will reflect Smith s balances and results after completion of the transaction but will not be restated retroactively to reflect the historical financial condition or results of operations of Smith. The earnings of Schlumberger following the completion of the merger will reflect acquisition accounting adjustments, including the effect of changes in the carrying value for assets and liabilities on depreciation and amortization expense. Goodwill will not be amortized but will be tested for impairment at least annually, and all assets including goodwill will be tested for impairment when certain indicators are present. If, in the future, Schlumberger determines that tangible or intangible assets (including goodwill) are impaired, Schlumberger would record an impairment charge at that time.

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Material U.S. Federal Income Tax Consequences

The following is a discussion of the material U.S. federal income tax consequences to U.S. holders and non-U.S. holders (each as defined below) of Smith common stock (1) of the merger and (2) related to the ownership and disposition of Schlumberger common stock received in the merger. This discussion is based on the Internal Revenue Code of 1986, as amended, which is referred to as the Code, existing and proposed Treasury regulations promulgated thereunder, judicial decisions, published rulings, administrative pronouncements and all other applicable authorities, all as in effect on the date of this proxy statement/prospectus and all of which are subject to change, possibly with retroactive effect. Any such change could affect the accuracy and conclusions set forth in this document. This discussion does not address any aspects of state, local or non-U.S. laws or federal laws other than those pertaining to U.S. federal income taxation, is not a complete analysis or description of all of the possible tax consequences of the merger or of the ownership or disposition of shares of Schlumberger common stock and does not address all tax considerations that may be relevant to a holder in light of the holder s particular circumstances. In addition, this discussion does not address the tax consequences of the ownership and disposition of Schlumberger common stock arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010. In particular, this discussion addresses only holders that hold their shares of Smith common stock and will hold their shares of Schlumberger common stock as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment) and does not address all aspects of U.S. federal income taxation that may be relevant to holders subject to special treatment under U.S. federal income tax law, including, for example, the following:

- a holder of Smith shares who, at any time within the five-year period ending on the date of the merger has owned, actually and/or constructively, 5% or more of the stock of Smith;
- any person who, immediately after the merger, owns, actually and/or constructively, at least 5% of either the total voting power or the total value of the stock of Schlumberger or who, at any time after the merger, owns, actually and/or constructively, 10% or more of the total combined voting power of all classes of stock entitled to vote of Schlumberger;
- a bank or other financial institution;
- a tax-exempt entity;
- an insurance company;
- a person holding shares as part of a straddle, hedge, constructive sale, integrated transaction, or conversion transaction ;
- a person holding shares through a partnership or other pass-through entity;
- a U.S. expatriate;
- a person who is liable for the alternative minimum tax;
- a broker-dealer or trader in securities or currencies;
- a U.S. holder whose functional currency is not the U.S. dollar;

- a regulated investment company;
- a real estate investment trust;
- a trader in securities who has elected the mark-to-market method of accounting for its securities; and
- a holder who received Smith common stock through the exercise of employee stock options, through a tax qualified retirement plan, or otherwise as compensation.

For purposes of this discussion, a U.S. holder is any beneficial owner of Smith common stock or, after the completion of the merger, Schlumberger common stock that, for U.S. federal income tax purposes, is:

- an individual citizen or resident alien of the United States;

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- a corporation or other entity taxable as a corporation organized under the laws of the United States or any state thereof or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A non-U.S. holder of Smith common stock or, after the completion of the merger, Schlumberger common stock, is a holder, other than an entity or arrangement treated as a partnership for U.S. federal income tax purposes, that is not a U.S. holder. For purposes of this discussion, holder or shareholder means either a U.S. holder or a non-U.S. holder or both, as the context may require.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of Smith common stock or Schlumberger common stock, the tax treatment of a partner in that partnership generally will depend on the status of the partner and the activities of the partnership. Holders of Smith common stock or Schlumberger common stock that are partnerships or partners in these partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them of the merger and the ownership and disposition of Schlumberger common stock.

ALL HOLDERS OF SMITH COMMON STOCK ARE ENCOURAGED TO CONSULT A TAX ADVISOR REGARDING THE PARTICULAR FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES TO THEM OF THE MERGER AND THE OWNERSHIP AND DISPOSITION OF SCHLUMBERGER COMMON STOCK RECEIVED IN THE MERGER.

Conditions to Closing

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code. It is a condition to the completion of the merger that Schlumberger receive a written opinion from its counsel, Baker Botts L.L.P., and that Smith receive a written opinion from its counsel, Wachtell, Lipton, Rosen & Katz, in form and substance reasonably satisfactory to Schlumberger and Smith, respectively, dated as of the date of completion of the merger, to the effect that (1) the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code and (2) each transfer of Smith stock to Schlumberger by a stockholder of Smith pursuant to the merger (other than a stockholder of Smith that is a five percent transferee shareholder of Schlumberger, as defined in Treasury regulations promulgated under Section 367(a) of the Code) will not be subject to Section 367(a)(1) of the Code.

The opinions of counsel will be based on representations and assumptions set forth or referred to in the opinions. If any such representation or assumption is inaccurate, the tax consequences of the merger to holders of Smith common stock could differ materially from those described below. An opinion of counsel represents counsel s best legal judgment and is not binding on the United States Internal Revenue Service, which is referred to as the IRS, or any court.

No ruling will be requested from the IRS on any aspect of the merger. Accordingly, there can be no assurance that the IRS will not disagree with or successfully challenge any of the conclusions described in the following discussion.

The Merger

The following is a discussion of the material U.S. federal income tax consequences of the merger to U.S. holders and non-U.S. holders of Smith common stock. Assuming that (1) the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code, and (2) the transfer of Smith stock to

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Schlumberger by a stockholder of Smith pursuant to the merger will not be subject to Section 367(a)(1) of the Code, the material U.S. federal income tax consequences of the merger to such holder of Smith common stock are, in general, as follows.

U.S. Holders

In general, a U.S. holder will not recognize gain or loss upon the exchange of shares of Smith common stock for shares of Schlumberger common stock in the merger, except with respect to cash received in lieu of a fractional share of Schlumberger common stock, as discussed below. The aggregate basis of the shares of Schlumberger common stock received in exchange for shares of Smith common stock in the merger (including any fractional share of Schlumberger common stock deemed received and exchanged for cash) will be equal to the basis of the shares of Smith common stock exchanged. The holding period of the shares of Schlumberger common stock received in exchange for shares of Smith common stock in the merger (including any fractional share of Schlumberger common stock deemed received and exchanged for cash) will include the holding period of the shares of Smith common stock exchanged. Shareholders who hold shares of Smith common stock with differing bases or holding periods should consult their tax advisors as to the determination of the bases and holding periods of the shares of Schlumberger common stock received in the merger.

A U.S. holder who receives cash in lieu of a fractional share of Schlumberger common stock generally will recognize capital gain or loss in an amount equal to the difference between the cash received and the tax basis allocated to such fractional share of Schlumberger common stock. Such capital gain or loss will be long-term capital gain or loss if, as of the date of the merger, the U.S. holder s holding period for the fractional share of Schlumberger common stock (including the holding period for the Smith common stock surrendered therefor) exceeds one year.

A U.S. holder who is a five percent transferee shareholder of Schlumberger, as defined in Treasury regulations promulgated under Section 367(a) of the Code (i.e., a U.S. holder that owns, actually and/or constructively, at least 5% of the total voting power or the total value of the stock of Schlumberger immediately after the merger), will qualify for non-recognition of gain, as described above, only if the U.S. holder files with the IRS a gain recognition agreement, as defined in such Treasury regulations. Other considerations not here described may apply to such a holder. Any such U.S. holder should consult his tax advisor concerning the decision to file a gain recognition agreement, the procedures to be followed in connection with that filing, and other applicable considerations.

Non-U.S. Holders

In general, a non-U.S. holder will not recognize gain or loss upon the exchange of shares of Smith common stock for shares of Schlumberger common stock in the merger, except with respect to cash received in lieu of a fractional share of Schlumberger common stock. The amount of a non-U.S. holder s gain or loss from the receipt of cash in lieu of a fractional share of Schlumberger common stock will be determined in the same manner as that of a U.S. holder. However, a non-U.S. holder generally will not be subject to U.S. federal income tax on any such gain unless (1) the gain is effectively connected with a U.S. trade or business of the non-U.S. holder (and, if an income tax treaty applies, is attributable to a U.S. permanent establishment), or (2) the holder is an individual who has been present in the United States for 183 days or more during the taxable year of the disposition and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Payments of cash made to a U.S. holder or non-U.S. holder of shares of Smith common stock in connection with the merger, under certain circumstances, may be subject to information reporting and backup withholding (currently, at a rate of 28%), unless such holder provides proof of an applicable exemption or furnishes its

taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules are not additional tax and may be allowed as a refund or credit against the holder s U.S. federal income tax liability, provided the required information is furnished to the IRS in a timely manner.

Ownership and Disposition of Shares of Schlumberger Common Stock Received in the Merger

The following is a discussion of the material U.S. federal income tax consequences of the ownership and disposition by U.S. holders and non-U.S. holders of Schlumberger common stock received in the merger.

U.S. Holders

Distributions

Subject to the discussion below relating to the potential application of the passive foreign investment company, or PFIC, rules, distributions, if any, made with respect to shares of Schlumberger common stock will constitute dividends for U.S. federal income tax purposes to the extent of Schlumberger s current or accumulated earnings and profits as determined for U.S. federal income tax purposes. The gross amount of dividends that a U.S. holder receives generally will be subject to U.S. federal income taxation as dividend income and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations. Subject to exceptions for short-term or hedged positions and certain other exceptions, dividends received before January 1, 2011 by U.S. holders who are individuals and certain other non-corporate U.S. holders generally will be subject to U.S. federal income taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid by Schlumberger on the Schlumberger common stock will be treated as qualified dividends as long as the Schlumberger common stock is listed on the New York Stock Exchange and Schlumberger was not, at any relevant time prior to the year in which the dividend is paid, and is not in the year in which the dividend is paid, a PFIC. As described below, Schlumberger believes that it has not been a PFIC in any prior year, will not be a PFIC for the taxable year in which the merger occurs, and will not become a PFIC in the future. U.S. holders of Schlumberger common stock should consult their own tax advisors regarding the availability to them of the reduced dividend tax rate in light of their particular circumstances.

To the extent that a distribution exceeds Schlumberger s current or accumulated earnings and profits as determined for U.S. federal income tax purposes, such distribution will be treated as a nontaxable return of capital to the extent of the U.S. holder s tax basis in the shares (with a corresponding reduction in such tax basis), and thereafter will be treated as capital gain. Such capital gain will be long-term capital gain if the U.S. holder s holding period for the Schlumberger common stock exceeds one year. Shareholders who hold shares of Smith common stock with differing bases or holding periods should consult their tax advisors as to the application of these rules to shares of Schlumberger common stock received in the merger.

Sale or Other Disposition of Schlumberger Common Stock

Subject to the discussion below relating to the potential application of the PFIC rules, upon a sale or other disposition of Schlumberger common stock, U.S. holders generally will recognize capital gain or loss in an amount equal to the difference, if any, between the amount realized on the disposition and the U.S. holder s tax basis. Such capital gain or loss will be long-term capital gain or loss if the U.S. holder s holding period for the Schlumberger shares exceeds one year. Long-term capital gain recognized by U.S. holders who are individuals and certain other non-corporate U.S. holders is generally eligible for reduced rates of U.S. federal income taxation. There are limitations on the deductibility of capital losses.

Passive Foreign Investment Company Considerations

In general, a foreign corporation, such as Schlumberger, will be classified as a PFIC for any taxable year in which either (1) 75% or more of its gross income is passive income (such as, for example, dividends, interest,

rents, royalties or gains from the disposition of investment assets) or (2) at least 50% of the average value of its assets consists of assets that produce, or that are held for the production of, passive income. For purposes of applying the tests in the preceding sentence, the foreign corporation is deemed to own its proportionate share of the assets of and to receive directly its proportionate share of the income of any other corporation in which the foreign corporation owns, directly or indirectly, at least 25% by value of the stock.

Classification of a foreign corporation as a PFIC can have various adverse consequences to the shareholders of the corporation who are United States persons, as defined in the Code. These include taxation of gain on a sale or other disposition of the stock of the corporation and taxation of distributions (including distributions that would otherwise be treated as qualified dividends) at the maximum ordinary income rates and the imposition of an interest charge on such gain and distributions.

Schlumberger believes that it has not been a PFIC in any prior taxable year, will not be a PFIC in the taxable year in which the merger occurs, and will not become a PFIC in the future. Because the tests for determining PFIC status are applied annually, and it is difficult to accurately predict future income and assets relevant to this determination, there can be no assurance that Schlumberger will not become a PFIC. U.S. holders of Schlumberger shares should consult their own tax advisors about the PFIC rules, including the availability of certain shareholder elections.

Non-U.S. Holders

In general, a non-U.S. holder of Schlumberger common stock will not be subject to U.S. federal income or, subject to the discussion below under the heading Information Reporting and Backup Withholding, withholding tax on any dividends received on Schlumberger common stock or any gain recognized on a sale or other disposition of Schlumberger common stock (including, any distribution to the extent it exceeds the adjusted basis in the non-U.S. holder s shares of Schlumberger common stock) unless:

- such dividend or gain is effectively connected with the conduct by the holder of a trade or business within the United States (and, if an income tax treaty applies, is attributable to a U.S. permanent establishment); or

- in the case of gain only, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are satisfied.

Information Reporting and Backup Withholding

Dividends paid with respect to shares of Schlumberger common stock and proceeds from a sale or other disposition of shares of Schlumberger common stock received in the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding (currently, at a rate of 28%) unless such holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules.

Any amounts withheld under the backup withholding rules are not additional tax and may be allowed as a refund or a credit against the holder s U.S. federal income tax liability, provided the required information is furnished to the IRS in a timely manner.

Regulatory Approvals Required for the Merger

Antitrust Approvals

The merger is subject to review by the Antitrust Division of the U.S. Department of Justice, which is referred to as the Antitrust Division, under the HSR Act. Under the HSR Act, Schlumberger and Smith are required to make premerger notification filings and to await the expiration or early termination of the statutory waiting period (and

any extension of the waiting period) prior to completing the merger. On March 3, 2010, Schlumberger and Smith each filed a Premerger Notification and Report Form with the Antitrust Division and the Federal Trade Commission, which is referred to as the FTC. By agreement between the two agencies, the Antitrust Division is conducting the review. Prior to the expiration of the initial 30-day waiting period, on April 2, 2010, Schlumberger and Smith each received a request for additional information and documentary material, often referred to as a second request, from the Antitrust Division. Issuance of the second request extends the statutory waiting period until 30 days after such time as each of Schlumberger and Smith has certified substantial compliance with the second request, unless the Antitrust Division provides written notice that the transaction may close prior to that time. As of June 17, 2010, neither Schlumberger nor Smith had certified substantial compliance with the second request.

The merger is also subject to antitrust review by government authorities in several foreign jurisdictions in which the companies have a sufficient market presence to require filings. As of the date of this proxy statement/ prospectus, the parties have made certain antitrust filings in the European Commission pursuant to the EC Merger Regulation, and in other jurisdictions.

Under the terms of the merger agreement, Schlumberger has the right, but not the obligation, to oppose by refusing to consent, through litigation or otherwise, any divestitures, hold-separate restrictions or other restrictions demanded by an antitrust regulator. Schlumberger is required to agree to take all actions demanded by an antitrust regulator in order to resolve any objections to the merger (including divestitures, hold-separate restrictions or other restrictions) if doing so would not exceed a specified threshold, which is referred to as the detriment limit. Please see The Merger Agreement Certain Additional Agreements Filings on page [ ] for more information about the detriment limit. If the merger has not occurred on or before the termination date due to the failure to obtain regulatory clearances, or if an order, decree or ruling permanently prohibits the merger, the merger agreement may be terminated (subject in some circumstance to payment of a termination fee, as described in The Merger Agreement Termination, Amendment and Waiver on page [ ]).

There can be no assurance that the merger will not be challenged on antitrust or competition grounds or, if a challenge is made, what the outcome would be. The Antitrust Division, the FTC, any U.S. state and other applicable U.S. or non-U.S. regulatory bodies may challenge the merger on antitrust or competition grounds at any time, including after the expiration or termination of the waiting period under the HSR Act or other applicable process, as they may deem necessary or desirable or in the public interest. Accordingly, at any time before or after the completion of the merger, any such party could take action under the antitrust laws, including, without limitation, by seeking to enjoin the effective time of the merger or permitting completion subject to regulatory concessions or conditions. Private parties may also seek to take legal action under antitrust or competition laws under certain circumstances.

Other Regulatory Procedures

The merger may be subject to certain regulatory requirements of other municipal, state and federal, domestic or foreign, governmental agencies and authorities, including those relating to the offer and sale of securities. Schlumberger and Smith are currently working to evaluate and comply in all material respects with these requirements, as appropriate, and do not currently anticipate that they will hinder, delay or restrict completion of the merger.

Litigation Relating to the Merger

Subsequent to the announcement of the merger, five putative class action lawsuits were commenced on behalf of stockholders of Smith against Smith and its directors, and in certain cases against Schlumberger and one of its affiliates, challenging the merger. Four of the lawsuits were filed in the District Court of Harris County, Texas, and have been consolidated into a single action in the 164th District Court of Harris County, Texas (the Texas Action), and one lawsuit is pending in the Delaware Court of Chancery (the Delaware Action, and collectively

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with the Texas Action, the Actions). The parties in the Texas Action and Delaware Action have agreed to an expedited discovery schedule and to the coordination of pleadings and discovery in advance of any preliminary injunction hearing, which will be heard only in the Texas Action. On April 19, 2010, the court in the Delaware Action approved the parties agreement concerning the coordination of the Texas and Delaware Actions and agreed to otherwise stay the Delaware proceedings through any preliminary injunction hearing in Texas. Plaintiffs in the Texas and Delaware Actions have served a consolidated amended petition for breach of fiduciary duty and a verified amended class action complaint, respectively. The amended pleadings are substantively similar and allege that Smith s directors breached their fiduciary duties by, among other things, causing Smith to enter into the merger agreement at an allegedly inadequate and unfair price, agreeing to transaction terms that improperly inhibit alternative transactions and failing to provide material information to Smith s stockholders in the proxy statement filed in connection with the merger. Specifically, the pleadings allege that the proxy statement omits material information relating to, among other things: the analyses performed by, and the information relied upon by, UBS; any strategic alternatives to the merger considered by UBS; UBS s involvement in the negotiations between Smith and Schlumberger; the fee to be paid to UBS in connection with the merger; and any negotiations or plans concerning the employment of Smith management after consummation of the merger. The pleadings also allege that Smith and Schlumberger aided and abetted the directors breaches of fiduciary duties. The pleadings seek, among other things, an injunction barring defendants from consummating the proposed transaction, declaratory relief and attorneys fees.

On May 28, 2010, a purported Smith stockholder filed an individual lawsuit in the United States District Court for the Southern District of Texas, Houston Division, against Smith and its directors, alleging that Smith had disseminated a false and materially misleading proxy statement in connection with the merger in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder. The lawsuit alleges that the proxy statement omits and/or misrepresents material information relating to, among other things: negotiations, if any, with other potential acquirers of Smith; any market check conducted by Smith in connection with the merger; any strategic alternatives considered by Smith s directors in connection with the merger; whether the merger consideration includes any compensation for the synergies to be achieved in the merger; the financial information and forecasts provided by Smith s directors to UBS in connection with its fairness opinion; the discounted cash flow, comparable transaction and selected companies analyses performed by UBS; and business ties between any of Smith s directors and Schlumberger. The complaint seeks, among other things, injunctive relief, compensatory damages and reasonable costs and expenses incurred in the action, including counsel fees and expert fees.

Smith and Schlumberger believe that the lawsuits in which they are named are without merit and intend to defend the lawsuits vigorously.

THE MERGER AGREEMENT

The following summary describes the material provisions of the merger agreement. The provisions of the merger agreement are complicated and not easily summarized. This summary may not contain all of the information about the merger agreement that is important to you. The merger agreement is attached to this proxy statement/prospectus as Annex A and is incorporated by reference into this proxy statement/prospectus, and you are encouraged to read it carefully in its entirety for a more complete understanding of the merger agreement.

Representations, Warranties and Covenants in the Merger Agreement Are Not Intended to Function or Be Relied on as Public Disclosures

In reviewing the merger agreement, please remember that it is included to provide you with information regarding its terms and is not intended to provide any other factual information about Schlumberger or Smith. The merger agreement contains representations and warranties by each of the parties to the merger agreement. These representations and warranties have been made solely for the benefit of the other parties to the merger agreement and:

- may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate,

- have been qualified by certain disclosures that were made to the other party in connection with the negotiation of the merger agreement, which disclosures are not reflected in the merger agreement, and

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors.

Moreover, information concerning the subject matter of the representations and warranties, which do not purport to be accurate as of the date of this proxy statement/prospectus, may have changed since the date of the merger agreement, and subsequent developments or new information qualifying a representation or warranty may have been included in or incorporated by reference into this proxy statement/prospectus.

For the foregoing reasons, the representations, warranties and covenants or any descriptions of those provisions should not be read alone or relied upon as characterizations of the actual state of facts or condition of Schlumberger, Smith or any of their respective subsidiaries or affiliates. Instead, such provisions or descriptions should be read only in conjunction with the other information provided elsewhere in this document or incorporated by reference into this proxy statement/prospectus.

Structure of the Merger

The merger agreement contemplates a merger whereby Merger Sub will be merged with and into Smith, with Smith continuing as the surviving corporation. Upon completion of the merger, Smith will be a wholly owned subsidiary of Schlumberger and Smith common stock will no longer be publicly traded. Upon effectiveness of the merger, each Smith stockholder will have the right to receive the merger consideration as described below under Merger Consideration.

Effective Time; Closing

The merger will become effective on the date a certificate of merger is filed with the Delaware Secretary of State, or at such later time as Schlumberger and Smith designate in the certificate of merger. The merger agreement provides that, unless agreed otherwise, the closing of the merger will take place on the first business day or, if Schlumberger so elects, on the third business day, after all the conditions to the closing of the merger are fulfilled or waived in accordance with the agreement.

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Merger Consideration

The merger agreement provides that at the effective time of the merger, Smith stockholders will receive, for each share of Smith common stock that they own, 0.6966 shares of Schlumberger common stock and the cash payable in lieu of any fractional shares as described under Fractional Shares. In this discussion, the number of shares of Schlumberger common stock to be received for each share of Smith common stock is referred to as the exchange ratio and the Schlumberger common stock issuable based on the exchange ratio and the cash payable in lieu of any fractional shares is referred to as the merger consideration.

Fractional Shares

No fractional shares of Schlumberger common stock will be issued to any holder of Smith common stock upon completion of the merger. For each fractional share that would otherwise be issued, Schlumberger will pay cash (without interest) in an amount equal to the fractional share multiplied by the closing price for a share of Schlumberger common stock on the NYSE Composite Transactions Tape on the business day immediately preceding the closing date.

Treatment of Equity Awards

At the effective time of the merger, all outstanding options to purchase shares of Smith common stock will be converted into options to purchase shares of Schlumberger common stock with the duration and terms of such converted options to remain the same as the original Smith option. The number of shares of Schlumberger common stock subject to each option will be determined by multiplying the number of shares of Smith common stock subject to the original Smith option by the exchange ratio, rounded down to the nearest whole share. The option exercise price per share of Schlumberger common stock will be equal to the option exercise price per share of Smith common stock under the original Smith option divided by the exchange ratio rounded up to the nearest whole cent. All converted Schlumberger options, other than those issued in respect of Smith options awarded after February 21, 2010, will be fully vested and exercisable.

At the effective time of the merger, each outstanding award of restricted stock units granted by Smith under any of its plans on or prior to February 21, 2010, will be converted into the right to receive the merger consideration based on the total number of shares of Smith common stock subject to the outstanding award. To the extent the outstanding award is for performance-based restricted stock units, the number of shares subject to the outstanding award will be calculated based on the deemed attainment of performance goals at 100% of the target performance level. Any award of restricted stock units made by Smith after February 21, 2010 will be converted into an award of Schlumberger restricted stock units in an amount equal to the product of the number of shares of Smith stock subject to the original Smith award and the exchange ratio, with any fractional units rounded to the nearest whole unit.

Equity awards granted in the ordinary course of business after February 21, 2010 may provide for accelerated vesting on a severance-qualifying termination following the effective time of the merger, but no accelerated vesting will occur for such awards made to 10 executives party to change-in-control agreements unless the executive remains employed until May 31, 2011. Upon a severance-qualifying termination of such an executive following May 31, 2011, an award held by the executive may provide for accelerated vesting with respect to the installment next scheduled to vest following such termination.

Exchange of Shares; Stock Transfer Books

The conversion of Smith common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. Schlumberger will deposit with a commercial bank or trust company, as the exchange agent for the merger, the number of shares of Schlumberger common stock to be issued pursuant to the merger agreement.

Promptly after the effective time of the merger, Schlumberger will cause the exchange agent to send to each holder of record of Smith common stock at the effective time of the merger a letter of transmittal and instructions for effecting the exchange of Smith common stock for the merger consideration the holder is entitled to receive under the merger agreement. Upon surrender of the certificates or book-entry shares for cancellation along with the executed letter of transmittal and other documents, a Smith stockholder will receive some or all of the following: (1) one or more shares of Schlumberger common stock; (2) cash in lieu of fractional shares of Schlumberger common stock; and (3) any unpaid dividends and distributions declared and paid in respect of Schlumberger common stock after completion of the merger.

Six months after the effective time of the merger, the exchange agent will return any shares of Schlumberger common stock remaining in the exchange fund and any cash that remains unclaimed. Holders of Smith common stock who have not exchanged their certificates representing such stock prior to that time may thereafter look only to Schlumberger to exchange their stock certificates or to pay amounts to which they are entitled pursuant to the merger agreement. None of Schlumberger, Smith, Merger Sub, the surviving corporation or the exchange agent will be liable to any holder of Smith common stock certificates for any merger consideration delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

Withholding Taxes

Schlumberger, the surviving corporation and the exchange agent will be entitled to deduct and withhold from consideration payable to any Smith stockholder the amounts that may be required to be withheld under any applicable tax law. Amounts withheld and paid over to a governmental entity will be treated for all purposes of the merger as having been paid to the stockholders from whom they were withheld.

Representations and Warranties

The merger agreement contains representations and warranties made by each of the parties regarding aspects of their respective businesses, financial condition and structure, as well as other facts pertinent to the merger. Smith, on the one hand, and Schlumberger and Merger Sub, on the other hand, have made representations and warranties in the merger agreement with respect to the following subject matters:

- existence, good standing and qualification to conduct business;
- requisite power and authorization to enter into and carry out the obligations of the merger agreement and the enforceability of the merger agreement;
- capitalization;
- compliance with applicable laws and permits;
- absence of any conflict or violation of organizational documents, third party agreements or laws as a result of the merger or the merger agreement;
- filings and reports with the SEC and financial information;
- absence of undisclosed liabilities;
- absence of litigation;

absence of a material adverse effect or, with respect to Smith, other specified changes or events;

internal accounting controls and disclosure controls and procedures;

absence of decrees or injunctions;

ownership of the other party s capital stock;

compliance with export controls;

compliance with Foreign Corrupt Practices Act and other anticorruption and antibribery laws; and

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- the tax treatment of the merger.

Smith has made additional representations and warranties to Schlumberger in the merger agreement with respect to the following subject matters:

- tax matters;
- employee benefit plans;
- labor matters;
- title to properties and absence of liens;
- environmental matters;
- intellectual property;
- insurance;
- fees payable to brokers, finders or investment banks in connection with the merger;
- required stockholder approval in connection with the merger;
- material contracts;
- inapplicability of Smith s stockholder rights agreement; and
- inapplicability of anti-takeover laws or certain provisions in Smith s certificate of incorporation.

Schlumberger and Merger Sub have made additional representations and warranties to Smith in the merger agreement with respect to the following subject matters:

- the accuracy of information provided for inclusion in this proxy statement/prospectus;
- no Schlumberger stockholder approval required in connection with the merger; and

the status of Merger Sub.

Certain representations and warranties of Schlumberger and Smith are qualified as to materiality or as to material adverse effect, which when used with respect to Schlumberger or Smith means, as the case may be, a material adverse effect on or material adverse change in the business, assets, liabilities, financial condition or results of operations of such party and its subsidiaries, taken as a whole, other than any effect or change relating to or resulting from:

- changes or conditions affecting the economy or financial markets in general;
- changes or conditions in the industries in which the party operates;
- the announcement or the existence of, or compliance with, or taking any action required or permitted by the merger agreement or the transactions contemplated by the merger agreement or any stockholder litigation against Smith and/or its directors or officers relating to the transactions contemplated by the merger agreement;
- taking any action by such party at the written request of Schlumberger or Merger Sub, in the case of Smith, or of Smith, in the case of Schlumberger or Merger Sub; or
- any weather-related or other force majeure event or outbreak or escalation of hostilities or acts of war or terrorism.

Conduct of Business Pending the Effective Time

Unless Schlumberger otherwise consents in writing (which consent may not be unreasonably withheld, conditioned or delayed), or as contemplated by the merger agreement or required by law, Smith has agreed that, prior to the effective time of the merger, it will:

- conduct its business in the ordinary course;

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- use reasonable best efforts to preserve its business organization intact;
- maintain existing relationships and goodwill with governmental entities, customers, suppliers, distributors, creditors, lessors, employees and business associates; and
- keep available the services of present employees and agents.

In addition, the merger agreement places specific restrictions on the ability of Smith and its subsidiaries to, among other things:

- adopt any change in, or waive any provision of, their organizational documents or Smith s stockholder rights agreement;
- merge or consolidate Smith or any of its subsidiaries with any other person, except transactions among wholly owned subsidiaries of Smith that are not obligors or guarantors of third-party indebtedness or in connection with a permitted acquisition;
- issue, sell or pledge any shares of capital stock, options, warrants, convertible securities or any other equity interest, except pursuant to stock options and current employee benefit plans;
- except to the extent required under a benefit plan existing on February 21, 2010 or as required by law:
  - increase the compensation or fringe benefits of any directors, executive officers or employees, except in the ordinary course of business to employees who are not party to change of control agreements (this limitation does not apply to ordinary course operation of the annual bonus and equity award program);
  - grant any severance or termination pay, other than nominal severance to terminated employees and except in ordinary course of business consistent with past practice;
  - make new equity awards to any director, officer or employee, except in the ordinary course of business consistent with past practice;
  - enter into or amend any employment, consulting, change-in-control or severance agreement with any director, executive officer or employee, except as contemplated by the merger agreement or in the ordinary course of business (except with respect to employees party to a change-in-control agreement or their direct reports);
  - establish or materially amend any benefit plan, except as contemplated by the merger agreement;
  - make any contribution to a benefit plan, except as required by law or in the ordinary course of business consistent with past practice;
  - make payments on performance-based awards in excess of the performance actually achieved, or amend or waive performance or vesting criteria or accelerate vesting, except as required under the applicable plan or contemplated by the merger agreement;

terminate any employee with a change-in-control agreement, other than for cause, or take any actions with respect to salary, compensation, benefits or other terms and conditions of employment that would result in the employee having good reason to terminate employment and collect severance payments and benefits pursuant to the employee s change-in-control agreement; or

execute or amend a collective bargaining agreement expect in the ordinary course of business;

declare or pay any dividend or other distributions, except for certain intercompany distributions, pro rata dividends from the M-I SWACO joint venture, regular quarterly dividends on shares of Smith common stock not exceeding $0.12 per share per quarter, required dividends or dividends paid by certain Smith subsidiaries;

redeem or purchase any of Smith s or its subsidiaries stock, except for transactions pursuant to benefit plans and cashless exercises thereunder, and intercompany transactions;

sell, encumber or dispose of any assets or properties having a value in excess of $10 million for one asset, and $50 million in the aggregate in 2010 and $25 million in the aggregate in 2011, except for sales of surplus or obsolete equipment, inventory sales and intercompany transactions;

acquire any business, entity or division (1) for consideration in excess of $30 million for one acquisition or $100 million in the aggregate in 2010 and $30 million in the aggregate in 2011, or (2) where an antitrust or competition filing is required;

enter into a joint venture, partnership or similar arrangement or make a loan or other investment in any other person in excess of $20 million individually, or $50 million in the aggregate in 2010 and $15 million in the aggregate in 2011;

sell, transfer, license or modify any rights to any material intellectual property, or distribute, license or co-promote products or services;

change accounting policies or procedures, except as required by changes in GAAP or applicable law;

except as required by applicable law, take specified actions with respect to tax matters if any such action would have an adverse effect on Smith and its subsidiaries that is material;

settle or waive any claim, litigation or controversy for amounts in excess of $5 million individually, or $25 million in the aggregate in 2010 and $12.5 million in the aggregate in 2011;

incur any indebtedness except (1) for borrowings under Smith s existing credit facilities, (2) other debt not in excess of $50 million in the aggregate in 2010 and $25 million in the aggregate in 2011 and (3) intercompany debt in the ordinary course of business;

repurchase or repay any debt, except in the ordinary course of business, for mortgage indebtedness in accordance with its terms and for intercompany debt in the ordinary course of business;

mortgage or encumber any material asset or property;

make any unbudgeted capital expenditures exceeding $25 million in the aggregate in 2010 and $12.5 million in the aggregate in 2011;

enter into, materially amend or terminate material contracts, except in the ordinary course of business;

enter into, renew or extend any agreements restricting the ability to compete in any line of business or geographic area;

adopt or implement a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization;

adjust, reclassify, combine, split or subdivide, or redeem, purchase or otherwise acquire, directly or indirectly, any of Smith s capital stock or purchase any of Schlumberger s capital stock;

release any person from, waive any right under, fail to enforce any provision of, or grant any consent or make any election under, any confidentiality, standstill or similar agreement or take any action to exempt any person other than Merger Sub and its affiliates from the restrictions on business combinations contained in the Delaware General Corporation Law or the effects set forth in Smith s shareholder rights plan;

take any action that would, or would reasonably be expected to, result in the failure of certain conditions to the merger or prevent, materially delay or materially impede the merger;

take any action that would reasonably be expected to delay materially or adversely affect the ability to obtain any consent, authorization, order or approval of any governmental entity or the expiration of any waiting period under antitrust laws; or

agree or commit to do any of the foregoing.

Unless Smith otherwise consents in writing (which consent may not be unreasonably withheld, conditioned or delayed), or as contemplated by the merger agreement or required by law, prior to the effective time of the merger, the merger agreement places specific restrictions on the ability of Schlumberger, its subsidiaries and Merger Sub to, among other things:

- adopt any change in, or waive any provision of, their organizational documents;
- acquire any equity or assets where an antitrust filing would be required and would reasonably be expected to prevent or materially delay the acquisition of Smith;
- adjust, reclassify, split, combine, subdivide or redeem any shares of Schlumberger capital stock or adopt or implement a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization, except as would not disproportionately adversely affect a holder of Smith common stock relative to a holder of Schlumberger common stock or delay or impede the merger;
- declare or pay any dividend or other distribution except for quarterly dividends with declaration, record and payment dates reasonably consistent with Schlumberger s past practice; or
- take any action that would, or would reasonably be expected to, result in the failure of any condition to the transaction, or prevent, materially delay or materially impede the merger;
- take any action that would reasonably be expected to delay materially or adversely affect the ability to obtain any consent, authorization, order or approval of any governmental entity or the expiration of any waiting period under antitrust laws; or
- agree or commit to do any of the foregoing.

Certain Additional Agreements

Stockholders Meeting. Unless the merger agreement is earlier terminated, the Smith board of directors must submit the merger agreement for approval at the Smith stockholders meeting, even if it changes its recommendation with regard to the merger agreement.

No Solicitation; Recommendation. Smith and its subsidiaries will not, and Smith and its subsidiaries will direct their respective officers, directors, employees, investment bankers, consultants, attorneys, accountants, advisors, agents and other representatives not to, directly or indirectly:

- solicit, initiate, knowingly encourage or knowingly facilitate any inquiry or the making, submission or announcement of any acquisition proposal (as defined below);
- participate, engage in or continue discussions or negotiations with, or furnish any non-public information relating to Smith or any of its subsidiaries or afford access to the properties, books or records of Smith or any of its subsidiaries to, any person that has made an acquisition proposal or to any person considering an acquisition proposal;

approve or recommend, or propose to approve or recommend, or enter into any letter of intent, agreement in principle, merger agreement or other agreement relating to an acquisition proposal; or

propose publicly or agree to do anything described in the preceding three bullets.

In the event Smith receives an acquisition proposal, or any request for nonpublic information relating to Smith or for access to its properties, books or records by any person that has made or, to the knowledge of Smith, would reasonably be expected to make, an acquisition proposal, Smith will promptly (and in no event later than 24 hours after receipt of any acquisition proposal or request) notify Schlumberger of the identity of the person making the request and of its material terms and keep Schlumberger informed of the status and material terms of the acquisition proposal or request. From the date of the merger agreement until the date of this proxy statement/prospectus, Smith has not received any acquisition proposal or request for nonpublic information by a person that would reasonably be expected to make an acquisition proposal.

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The term acquisition proposal means any bona fide written offer or proposal for, or any bona fide written indication of interest in, any (1) direct or indirect acquisition or purchase of any business or assets of Smith or any of its subsidiaries that, individually or in the aggregate, constitutes 20% or more of the net revenues, net income or assets of Smith and its subsidiaries, taken as a whole, (2) direct or indirect acquisition or purchase of 20% or more of any class of equity securities of Smith, (3) tender offer or exchange offer that, if consummated, would result in any person beneficially owning 20% or more of any class of equity securities of Smith, (4) merger, consolidation, business combination, joint venture, partnership, recapitalization, liquidation, dissolution or similar transaction involving Smith or any of its subsidiaries whose business constitutes 20% or more of the net revenue, net income or assets of Smith and its subsidiaries, taken as a whole, or (5) the declaration or payment of an extraordinary dividend (whether in cash or in property) by Smith, other than the transactions contemplated by the merger agreement.

Prior to obtaining stockholder approval of the merger, however, Smith or its representatives may (1) furnish information and access, but only in response to a written request, to any person making an acquisition proposal that was not solicited, initiated, knowingly encouraged or knowingly facilitated by Smith or any of its subsidiaries, affiliates or representatives on or after February 21, 2010 and (2) participate in discussions and negotiate with such person concerning an unsolicited acquisition proposal, in each case if:

- Smith has not materially breached the non-solicitation provisions of the merger agreement with respect to the acquisition proposal;
- the Smith board of directors concludes in good faith (after receipt of advice of a financial advisor of nationally recognized reputation) that such proposal is reasonably likely to result in a superior proposal (as defined below); and
- Smith receives from such person an executed confidentiality agreement the material provisions of which are materially no less favorable to Smith and no less restrictive to such person as those contained in the confidentiality agreement between Smith and Schlumberger.

In addition, the Smith board of directors may not effect a recommendation change (as defined below) unless the change occurs before stockholder approval of the merger and only if:

- the Smith board of directors determines in good faith (after consultation with its outside legal counsel) that failure to make a recommendation change would be inconsistent with the directors fiduciary duties to Smith stockholders under applicable law; and
- before taking any such action, Smith gives Schlumberger three business days written notice.

The term superior proposal means any bona fide written acquisition proposal for or in respect of at least a majority of the outstanding shares of Smith common stock or all or substantially all of Smith s and its subsidiaries assets (1) on terms that the Smith board of directors determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation) are more favorable to Smith and its stockholders than the merger and (2) that constitutes a transaction that is reasonably likely to be consummated on the terms so proposed, taking into account all legal, financial, regulatory and other aspects of such proposal.

A recommendation change would occur if the Smith board of directors fails to make, withdraws, modifies or qualifies, or proposes publicly to withhold, withdraw, modify or qualify, in any manner adverse to Schlumberger or its affiliates, the merger or approval of the merger agreement, or approves, endorses, or recommends, or publicly proposes to approve, endorse or recommend, an acquisition proposal.

Coordination of Dividends. Smith will coordinate with Schlumberger to designate the record dates for Smith s quarterly dividends to coincide with the record dates for Schlumberger s quarterly dividends.

Rights Agreement. Prior to the effective time of the merger, the Smith board of directors will take any action necessary to prevent the merger and the merger agreement from causing the rights granted under Smith s

stockholder rights agreement from becoming exercisable. Smith may extend the expiration of its stockholder rights agreement, or replace the plan prior to its expiration, and will do so upon Schlumberger s request. On June 8, 2010, Smith amended its stockholder rights agreement at Schlumberger s request to extend the expiration date of the rights to May 31, 2011.

Indemnification. After the effective time of the merger, Schlumberger and the surviving corporation will (1) indemnify each director, officer or employee of Smith or its subsidiaries against all expenses and liability reasonably incurred as a result of such person s service to Smith or its subsidiaries, to the fullest extent permitted by law, and (2) advance expenses incurred to the same extent.

Prior to the effective time of the merger, Smith may purchase a tail directors and officers liability insurance policy for at least six years after the effective time of the merger. If Smith does not purchase such a policy, then for a period of six years after the effective time of the merger, the surviving corporation will maintain directors and officers liability insurance policies with terms substantially no less advantageous to the indemnified parties than Smith s existing policies. The surviving corporation will not be required to spend more than 300% of what Smith currently spends to maintain current insurance coverage.

Filings. Each of Schlumberger and Smith has agreed to:

- make its respective required filings under the HSR Act, the EC Merger Regulation and any other competition laws;

- use its reasonable best efforts to cooperate with the other party to determine which filings, consents, approvals, permits and authorizations are required to be made or obtained from any governmental entity prior to the effective time of the merger, and to timely make such filings;

- promptly notify the other party of any communication concerning the merger agreement or the merger from any governmental entity and to consult with and permit the other party to review in advance any proposed communication concerning the merger agreement or the merger to any governmental entity;

- not agree to participate in any meeting or substantive discussion with any governmental entity related to any filings or investigation concerning the merger agreement or the merger unless it consults with the other party in advance and, unless prohibited by the governmental entity, invites the other party to attend;

- furnish to the other party draft copies prior to submission of all correspondence, filings and communications that it intends to submit to any governmental entity;

- furnish to the other party such necessary information and reasonable assistance as such other party may reasonably request in connection with its preparation of necessary filings, registrations or submissions of information to any governmental entity; and

- deliver to the other party s outside counsel complete copies of all documents furnished to any governmental entity as part of any filing.

The parties have also agreed that Schlumberger will be entitled to direct the antitrust defense of the transaction contemplated by the merger agreement or litigation by or negotiations with any governmental entity.

Under the terms of the merger agreement, Schlumberger has the right, but not the obligation, to oppose by refusing to consent, through litigation or otherwise any divestitures, hold-separate restrictions or other restrictions demanded by an antitrust regulator. Schlumberger is required to agree to take all actions demanded by an antitrust regulator in order to resolve any objections to the merger (including divestitures, hold-separate restrictions or other restrictions) if doing so would not exceed a specified threshold, which is referred to as the detriment limit. The detriment limit would be exceeded if the required divestitures or hold-separate restrictions affect assets other than (1) the W-H Energy Services business and corresponding Schlumberger operations and (2) other assets accounting for Schlumberger or Smith revenues of not more than $190 million

in 2009, excluding from such calculation any W-H Energy Services operations and Smith s Wilson business unit. In calculating revenue of Schlumberger or Smith for purposes of the detriment limit, the lower of Schlumberger s or Smith s

revenues from the overlapping assets, business or product line will be used, regardless of which overlapping assets, business or product line Schlumberger actually divests or holds separate. If the merger has not occurred on or before the termination date due to the failure to obtain regulatory clearances, or if an order, decree or ruling permanently prohibits the merger, the merger agreement may be terminated (subject in some circumstances to payment of a termination fee). Please see The Merger Agreement Termination, Amendment and Waiver for more information on the termination date and termination fee.

Employee Matters. After the effective time of the merger, Schlumberger and its subsidiaries will honor all Smith benefit plans and compensation arrangements in accordance with their terms as in effect immediately prior to the effective time of the merger. For a period of one year after the effective time of the merger, Schlumberger will provide to each current and former employee of Smith and its subsidiaries:

- compensation and benefits that are no less favorable, in the aggregate, than the compensation and benefits provided to each such employee immediately prior to the effective time of the merger, excluding for purposes of comparison any equity-based compensation (so long as Schlumberger provides equity compensation substantially comparable to similarly situated employees of Schlumberger);

- severance benefits to terminated employees in accordance with the applicable severance plans and arrangements of Smith in effect immediately prior to the effective time of the merger with full service credit for years of service with Smith and its subsidiaries; and

- for those Smith employees who are eligible for retiree welfare benefits immediately prior to the effective time of the merger, retiree welfare benefits that are no less favorable than those provided pursuant to the arrangements of Smith in effect immediately prior to the effective time of the merger.

For purposes of vesting, eligibility to participate and benefit accrual (other than for purposes of benefit accrual under any defined benefit pension plan, severance plan or eligibility under a retiree welfare plan sponsored by Schlumberger or its subsidiaries) under the employee benefit plans of Schlumberger, Smith employees will be credited with their years of service with Smith prior to the effective time of the merger to the same extent the Smith employee was entitled to such credited service prior to the effective time of the merger under the corresponding Smith plans. Following the first anniversary of the effective time of the merger, Smith employees will be treated as new hires as of the effective time of the merger in any retiree medical arrangement made available to them by Schlumberger. Over the four-year period commencing on the first anniversary of the effective time of the merger, the severance benefits of Smith employees will transition to the Schlumberger severance plan. Specifically, between the first and third anniversary of the effective time of the merger, Smith employees will be eligible for severance based on the sum of the amounts payable under the Smith severance plan (with respect to service prior to the effective time of the merger) and the Schlumberger severance plan (with respect to service on or after the effective the of the merger). From and after the third anniversary of the effective time of the merger, Smith employees will be transitioned over a two-year period to severance based on full past service credit under a Schlumberger severance plan, with full past service credit in place as of the fifth anniversary of the effective time of the merger.

Smith employees will be eligible to participate in the surviving corporation s medical, dental, pharmaceutical and/or vision plans without any waiting period or pre-existing condition exclusions, except to the extent such waiting period or exclusion applied in the applicable Smith plan. Smith employees will receive credit for amounts paid under the Smith medical plans in the year in which the merger occurs for satisfying deductibles, coinsurance and maximum out of pocket requirements under the surviving corporation s plans.

During the period prior to the effective date of the merger, Smith may set and pay performance-based short-term incentive bonuses in the ordinary course of business consistent with past practice. If a short-term incentive bonus participant incurs a severance-qualifying termination prior to the end of the performance period, such participant shall receive a pro-rata bonus to be paid at the same time the bonus for the performance period is generally paid.

Schlumberger agreed to consider in good faith, and to consult with Smith in good faith in respect of, design alternatives with respect to equitable treatment under (x) the retiree medical programs of Schlumberger of Smith employees who have turned 40 prior to the effective time of the merger, and (y) the defined benefit pension plans of Schlumberger of Smith employees who were previously employed by Schlumberger participated in such plans.

Schlumberger and Smith acknowledge that a change in control will occur for purposes of Smith s benefit plans at the time of the merger.

Under the merger agreement, Smith may establish a retention program with a retention pool of up to $50 million for Smith employees who are not executive officers. The parties have since agreed to increase the maximum size of this pool to approximately $58.3 million. Retention bonuses will be allocated by Smith s CEO in consultation with Schlumberger s CEO. Half of each employee s award generally will be payable at the effective time of the merger, and half will be payable on the first anniversary of such date. Forfeited retention awards may be reallocated to other employees. In addition, Smith may establish a retention program for Smith executive officers or employees with change of control agreements with a retention pool of up to $16 million. Any such retention bonuses will be allocated by Smith s lead independent director in consultation with Schlumberger s CEO. All amounts payable under the executive officer pool will be payable at the effective time of the merger.

Reorganization. Schlumberger and Smith have agreed not to take any action that would (1) prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code or (2) cause the stockholders to recognize gain pursuant to Section 367(a) of the Internal Revenue Code.

Reasonable Best Efforts. Schlumberger and Smith have agreed to use their reasonable best efforts to take all actions and to assist and cooperate to promptly consummate the merger, including the obtaining of authorizations, clearances, consents and approvals from governmental entities or third parties, the defending of lawsuits challenging the merger, the delivery of officer s certificates to tax counsel to support any tax opinion, and the execution and delivery of additional instruments necessary to consummate the merger.

Listing Application. Schlumberger will use its reasonable best efforts to cause the shares of Schlumberger common stock to be issued in the merger and to be reserved for issuance upon exercise of options on Smith common stock to be approved for listing on the NYSE, subject to official notice of issuance, prior to the effective time of the merger.

Inspection. Until the effective time of the merger, each party to the transaction has agreed to allow designated officers, attorneys, accountants and other representatives of the other party access to the records and files, correspondence, audits and properties, as well as to all information relating to commitments, contracts, titles and financial position, or otherwise pertaining to its business and affairs.

Publicity. Schlumberger and Smith have agreed to consult with each other before issuing any press release or public statement with respect to the merger. In addition, neither Schlumberger nor Smith will issue any press release or otherwise make any public statement or disclosure concerning the other party or the other party s business, financial condition or results of operations without the consent of the other party.

Stockholder Litigation. Smith has agreed to give Schlumberger the opportunity to participate in the defense or settlement of any stockholder litigation against Smith and/or its directors or officers relating to the transactions contemplated by the merger agreement. Smith has further agreed that it will not settle or offer to settle any litigation against Smith or any of its directors or officers by any stockholder of Smith relating to the merger without the prior written consent of Schlumberger (not to be unreasonably withheld, conditioned or delayed).

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Conditions to the Merger

The respective obligations of each party to effect the merger will be subject to the fulfillment of the following conditions on or prior to the closing date:

- the adoption of the merger agreement by Smith s stockholders;
- (1) the termination or expiration of any waiting period under the HSR Act and (2) the issuance by the European Commission of a decision under the EC Merger Regulation declaring the merger compatible with the common market;
- the expiration, lapse or termination of all applicable waiting or other time periods under antitrust laws in other specified jurisdictions, except as would not reasonably be expected to have a material adverse effect;
- the absence of any judgment, injunction, order or decree of any governmental authority in the United States, the European Union or other specified jurisdictions prohibiting or enjoining the consummation of the merger;
- the effectiveness of the registration statement of which this proxy statement/prospectus is a part, and the absence of any stop order or proceeding seeking a stop order relating to such effectiveness; and
- the approval for listing on the NYSE of the Schlumberger common stock to be issued pursuant to the merger.

Additional Conditions to the Obligations of Smith. Unless waived by Smith, the obligation of Smith to effect the merger is subject to the satisfaction on or prior to the closing date of the following additional conditions:

- performance in all material respects by each of Schlumberger and Merger Sub of its respective covenants and agreements required to be performed by it under the merger agreement at or prior to the closing date;
- certain representations and warranties of Schlumberger and Merger Sub contained in the merger agreement that are qualified as to a material adverse effect being true and correct as of the date of the merger agreement and as of the closing date;
- other representations and warranties of Schlumberger and Merger Sub contained in the merger agreement that are not qualified as to a material adverse effect being true and correct as of the date of the merger agreement and as of the closing date, except where the failure of any such representations and warranties to be so true and correct would not, individually or in the aggregate, have a material adverse effect;
- receipt by Smith of a certificate signed on behalf of Schlumberger by an executive officer to the effect that the conditions specified in the preceding three bullets have been satisfied; and
- receipt of an opinion by Smith from its counsel, in form and substance reasonably satisfactory to Smith, dated as of the closing date, to the effect that for federal income tax purposes (1) the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (2) each transfer of Smith stock to Schlumberger by a stockholder of Smith pursuant to the merger

(other than certain 5% shareholders of Schlumberger) will not be subject to Section 367(a)(1) of the Internal Revenue Code.

Additional Conditions to the Obligations of Schlumberger. Unless waived by Schlumberger, the obligations of Schlumberger and Merger Sub to effect the merger are subject to the satisfaction on or prior to the closing date of the following additional conditions:

performance in all material respects by Smith of all of its covenants and agreements required to be performed by it under the merger agreement at or prior to the closing date;

certain representations and warranties of Smith contained in the merger agreement that are qualified as to a material adverse effect being true and correct as of the date of the merger agreement and as of the closing date;

other representations and warranties of Smith contained in the merger agreement that are not qualified as to a material adverse effect being true and correct as of the date of the merger agreement and as of the closing date, except where the failure of any such representations and warranties to be so true and correct would not, individually or in the aggregate, have a material adverse effect;

receipt by Schlumberger of a certificate signed on behalf of Smith by an executive officer to the effect that the conditions specified in the preceding three bullets have been satisfied; and

the receipt of an opinion by Schlumberger from its counsel, in form and substance reasonably satisfactory to Schlumberger, dated as of the closing date, to the effect that for federal income tax purposes (1) the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (2) each transfer of Smith stock to Schlumberger by a stockholder of Smith pursuant to the merger (other than certain 5% shareholders of Schlumberger) will not be subject to Section 367(a)(1) of the Internal Revenue Code.

Termination, Amendment and Waiver

Termination. The merger agreement may be terminated at any time prior to the effective time of the merger, notwithstanding the adoption of the merger agreement by Smith s stockholders:

by mutual written agreement of Schlumberger and Smith;

by either Schlumberger or Smith if:

the merger has not occurred on or before the termination date, February 21, 2011, which termination date may, if certain other conditions are satisfied and at the option of either Schlumberger or Smith, be extended to a date not later than May 31, 2011; however, neither party may terminate the merger agreement under this provision if that party s breach of any provision of the merger agreement has been the cause of, or resulted in, the failure of the merger to occur on or before the termination date;

the Smith stockholders do not adopt the merger agreement at the annual meeting or any adjournment or postponement of the annual meeting; or

a court of competent jurisdiction in the United States, the European Union or other specified jurisdictions has issued a final, nonappealable order, decree or ruling permanently restraining, enjoining or otherwise prohibiting the merger;

by Smith if:

Schlumberger is in breach of the merger agreement such that the conditions set forth in the merger agreement would not be satisfied and such breach is not curable prior to the termination date; provided, that Smith will have no right to terminate the merger agreement under this provision if Smith is then similarly in breach of the merger agreement; or

Smith has received an acquisition proposal that Smith s board of directors determines in good faith to be a superior proposal and reasonably likely to be consummated and, after giving Schlumberger at least three business days notice of its intent to terminate the agreement (and at least two business days notice following any change to the financial terms of such proposal), resolves to accept such proposal and pay the termination fee described below; or

by Schlumberger if:

Smith is in breach of the merger agreement such that the conditions set forth in the merger agreement would not be satisfied and such breach is not curable prior to the termination date; *provided*, that Schlumberger will have no right to terminate the merger agreement under this provision if Schlumberger is then similarly in breach of the merger agreement; or

the Smith board of directors fails to recommend the merger to Smith stockholders or withdraws, modifies or qualifies (or publicly proposes to do any of the foregoing) its recommendation.

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Fees and Expenses. The merger agreement provides for the payment of termination fees by one party to the other if the agreement is terminated in specified circumstances.

Smith will be obligated to pay Schlumberger a $340 million termination fee (net of any expense reimbursement as described below) if:

- either party terminates the merger agreement because Smith s stockholder approval is not obtained and:
  - prior to such time there is a publicly announced or disclosed acquisition proposal by another bidder that has not been withdrawn; and
  - within one year after the date of termination, Smith enters into a definitive agreement with respect to, or consummates, an acquisition proposal;
- Smith terminates the merger agreement prior to obtaining the approval of Smith s stockholders in order to enter into an agreement providing for a superior proposal; or
- the Smith board of directors fails to recommend its approval of the merger or withdraws, modifies or qualifies (or publicly proposes to do any of the foregoing) its recommendation.

Schlumberger will be obligated to pay Smith a $615 million termination fee if the merger agreement is terminated by Smith or Schlumberger as a result of an order, decree, ruling or other action prohibiting the merger under certain antitrust or competition laws or because the merger has not been consummated on or before the termination date, and all other conditions to the merger (except for those that, by their nature, cannot be satisfied until closing) have been satisfied or waived as of the date of such termination.

The merger agreement provides that all expenses incurred by the parties will be borne by the party that has incurred such expenses; however, Smith will be required to reimburse Schlumberger for its expenses of up to $10 million if:

- the agreement is terminated because Smith s stockholders do not adopt the merger agreement at the annual meeting or any adjournment or postponement of the annual meeting, and no termination fee is yet payable by Smith, and
- the merger agreement is terminated by Schlumberger because Smith has willfully and materially breached the agreement.

If the merger agreement is terminated by Smith because Schlumberger has willfully and materially breached the merger agreement, then Schlumberger will reimburse Smith for its expenses of up to $10 million.

Amendment. The merger agreement may be amended in writing at any time by action of the parties respective boards of directors. However, if the merger agreement has been approved by Smith s stockholders, then no amendment can be made that by law requires the further approval of stockholders without receipt of such further approval.

Waiver. At any time prior to the effective time of the merger, each of Schlumberger and Smith may:

- extend the time for the performance of any obligations of the other party;
- waive any inaccuracies in the representations and warranties of the other party; and

waive compliance with any agreement or condition for the benefit of that party.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined statements of income for the three months ended March 31, 2010 and for the year ended December 31, 2009 combines the historical consolidated statements of income of Schlumberger and Smith, giving effect to the merger as if it had occurred on January 1, 2009. The unaudited pro forma condensed combined balance sheet as of March 31, 2010 combines the historical consolidated balance sheets of Schlumberger and Smith, giving effect to the merger as if it had occurred on March 31, 2010. The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statement of income, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the:

- Separate historical financial statements of Schlumberger as of and for the year ended December 31, 2009 and the related notes included in Schlumberger s Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated by reference into this proxy statement/prospectus;

- Separate historical financial statements of Smith as of and for the year ended December 31, 2009 and the related notes included in Smith s Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated by reference into this proxy statement/prospectus;

- Separate historical financial statements of Schlumberger as of and for the three months ended March 31, 2010 and the related notes included in Schlumberger s Quarterly Report on Form 10-Q for the period ended March 31, 2010, which is incorporated by reference in this proxy statement/prospectus; and

- Separate historical financial statements of Smith as of and for the three months ended March 31, 2010 and the related notes included in Smith s Quarterly Report on Form 10-Q for the period ended March 31, 2010, which is incorporated by reference in this proxy statement/prospectus.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only. The pro forma information is not necessarily indicative of what the combined company s financial position or results of operations actually would have been had the merger been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under U.S. generally accepted accounting principles, and the regulations of the SEC. All material transactions between Schlumberger and Smith during the periods presented in the unaudited pro forma condensed combined financial statement have been eliminated. Schlumberger has been treated as the acquirer in the merger for accounting purposes. The acquisition accounting is dependent upon certain valuations and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing this unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting will occur, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company s future results of operations and financial position.

The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the merger, the costs to integrate the operations of Schlumberger and Smith, or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of March 31, 2010

(In millions)

	Schlumberger	Smith	Pro Forma Adjustments		Pro Forma Combined
ASSETS					
Current Assets					
Cash and short-term investments	$ 4,203	$ 548			$ 4,751
Receivables, net	5,972	1,918	$ (50)	(A)	7,840
Inventories	1,851	1,824	290	(B)	3,965
Deferred taxes	154	72			226
Other current assets	885	144			1,029
	13,065	4,506	240		17,811
Fixed Income Investments, held to maturity	708				708
Investments in Affiliated Companies	2,360	87	(1,446)	(C)	1,001
Fixed Assets, net	9,545	1,922	150	(D)	11,617
Multiclient Seismic Data	333				333
Goodwill	5,397	3,075	(3,075)	(E)	11,108
			5,711	(F)	
Intangible Assets	840	593	(593)	(G)	6,465
			5,625	(H)	
Deferred Taxes	301				301
Other Assets	334	220			554
	$ 32,883	$ 10,403	$ 6,612		$ 49,898
LIABILITIES AND EQUITY					
Accounts payable and accrued liabilities	$ 4,705	$ 989	$ (50)	(A)	$ 5,724
			80	(I)	
Estimated liability for taxes on income	865	90			955
Dividend payable	250	30			280
Convertible debentures	299				299
Short-term borrowings and current portion of long-term debt	635	486			1,121
	6,754	1,595	30		8,379
Long-term Debt	4,052	1,317	322	(J)	5,691
Postretirement Benefits	1,623				1,623
Deferred Tax Liabilities		506	(289)	(K)	2,265
			2,010	(L)	
			38	(M)	
Other Liabilities	915	152			1,067
	13,344	3,570	2,111		19,025
Equity					
Common stock	4,841	2,987	(2,987)	(N)	14,743
			9,902	(O)	

Treasury stock	(5,221)	(484)	484	(N)	(5,221)
Retained earnings	22,440	2,907	(2,907)	(N)	23,715
			(80)	(I)	
			1,355	(M)	
Accumulated other comprehensive income/(loss)	(2,632)	6	(6)	(N)	(2,609)
			23	(M)	
Schlumberger/Smith stockholders equity	19,428	5,416	5,784		30,628
Noncontrolling interests	111	1,417	(1,283)	(P)	245
	19,539	6,833	4,501		30,873
	$ 32,883	$ 10,403	$ 6,612		$ 49,898

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

For the three months ended March 31, 2010

(In millions, except per share amounts)

	Schlumberger	Smith	Reclassifications (AA)	Pro Forma Adjustments	Pro Forma Combined
Revenue	$ 5,598	$ 2,138		$ (55)(BB)	$ 7,681
Interest and other income	64	1	$ 7	(30)(CC)	42
Expenses:					
Cost of revenue	4,343	1,547	377	(55)(BB)	6,261
				(14)(DD)	
				60 (EE)	
				3 (FF)	
Research & engineering	207		37		244
General & administrative	144		44		188
Selling, general & administrative		466	(466)		
Merger & integration	35		15	(32)(GG)	18
Interest	45	38		(11)(HH)	72
Income from Continuing Operations before taxes	888	88		(36)	940
Taxes on income	214	41		7 (CC)	249
				(13)(II)	
Income from Continuing Operations	674	47		(30)	691
Income attributable to noncontrolling interests	(2)	(35)		37 (CC)	
Income from Continuing Operations Attributable to Schlumberger/Smith	$ 672	$ 12	$	$ 7	$ 691
Income from continuing operations per share attributable to Schlumberger/Smith:					
Basic earnings per share	$ 0.56	$ 0.05			$ 0.50
Diluted earnings per share	$ 0.56	$ 0.05			$ 0.50
Average shares outstanding:					
Basic	1,195	248			1,371(JJ)
Assuming dilution	1,215	250			1,391(JJ)

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

For the year ended December 31, 2009

(In millions, except per share amounts)

	Schlumberger	Smith	Reclassifications (AA)	Pro Forma Adjustments	Pro Forma Combined
Revenue	$ 22,702	$ 8,218		$ (209)(BB)	$ 30,711
Interest and other income	273	3	$ 27	(131)(CC)	172
Expenses:					
Cost of revenue	17,483	5,969	1,321	(209)(BB)	24,760
				(52)(DD)	
				238 (EE)	
				10 (FF)	
Research & engineering	802		141		943
General & administrative	535		216		751
Selling, general & administrative		1,651	(1,651)		
Interest	221	150		(45)(HH)	326
Income from Continuing Operations before taxes	3,934	451		(282)	4,103
Taxes on income	770	139		19 (CC)	875
				(53)(II)	
Income from Continuing Operations	3,164	312		(248)	3,228
Income attributable to noncontrolling interests	(8)	(164)		150 (CC)	(22)
Income from Continuing Operations Attributable to Schlumberger/Smith	$ 3,156	$ 148	$	$ (98)	$ 3,206
Income from continuing operations per share attributable to Schlumberger/Smith:					
Basic earnings per share	$ 2.63	$ 0.67			$ 2.33
Diluted earnings per share	$ 2.61	$ 0.66			$ 2.31
Average shares outstanding:					
Basic	1,198	222			1,374(JJ)
Assuming dilution	1,214	223			1,390(JJ)

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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Note 1: Description of Transaction

On February 21, 2010, Schlumberger and Smith entered into a merger agreement pursuant to which, subject to the terms and conditions set forth in the merger agreement, Smith will become a wholly owned subsidiary of Schlumberger. At the effective time of the merger, shares of Smith common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.6966 shares of Schlumberger common stock, with cash paid in lieu of fractional shares.

At the effective time of the merger, each outstanding option to purchase Smith common stock will be converted pursuant to the merger agreement into a stock option to acquire shares of Schlumberger common stock on the same terms and conditions as were in effect immediately prior to the completion of the merger. The number of shares of Schlumberger common stock underlying each converted Smith stock option will be determined by multiplying the number of shares of Smith common stock underlying such Smith stock options by the 0.6966 exchange ratio, and rounding down to the nearest whole share. The exercise price per share of each converted Smith stock option will be determined by dividing the per share exercise price of such stock option by the 0.6966 exchange ratio, and rounding up to the nearest whole cent (each option, as so adjusted, an adjusted option).

Smith stock options, whether or not then vested and exercisable, will become fully vested and exercisable (except for options granted between the date of the merger agreement and closing, which will not automatically vest) and assumed by Schlumberger at the effective date of the merger in accordance with preexisting change-in-control provisions. Smith stock options granted between the date of the merger agreement and closing will continue to vest and become exercisable for Schlumberger common stock according to their original terms, subject to the adjustments described in the paragraph above. The fair value of the adjusted options, whether vested or unvested, will be recorded as part of the purchase consideration transferred, to the extent that pre-acquisition services have been rendered. The remainder of the fair value of the unvested options, if any, will be recorded as compensation expense over the future vesting period in the periods following the merger completion date.

At the effective time of the merger, Smith restricted stock units, whether or not then vested, will become fully vested (except for grants between the date of the merger agreement and closing, which will not automatically vest) and converted into shares of Schlumberger common stock in connection with the merger, in an amount determined by multiplying the number of shares of Smith common stock subject to each award by the 0.6966 exchange ratio, rounded to the nearest whole share (assuming, in the case of performance-based Smith restricted stock unit awards, the deemed attainment of the performance goals under the award at the target level). To the extent the fair value is attributable to pre-acquisition services, it will be recorded as part of the purchase consideration transferred, and the remainder, if any, will be recorded as compensation expense over the future vesting period in the periods following the merger completion date.

Note 2: Basis of Presentation

The merger is reflected in the unaudited pro forma condensed combined financial statements as being accounted for under the acquisition method of accounting. Under the acquisition method, the total estimated purchase price as described in Note 3 will be measured at the closing date of the merger using the market price of Schlumberger common stock at that time. Therefore, this may result in a per-share equity value that is different from that assumed for purposes of preparing these unaudited pro forma condensed combined financial statements. The assets and liabilities of Smith have been measured at fair value based on various preliminary estimates using assumptions that Schlumberger management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. There are limitations on the type of information that can be exchanged between Schlumberger and Smith at this time. Until the merger is complete, Schlumberger will not have complete access to all relevant information.

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The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows. The excess of the purchase price over the estimated amounts of identifiable assets and liabilities of Smith as of the effective date of the merger will be allocated to goodwill. The purchase price allocation is subject to finalization of Schlumberger s analysis of the fair value of the assets and liabilities of Smith as of the effective date of the merger. Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation. Such adjustments could be material.

In accordance with the SEC s rules and regulations, the unaudited pro forma condensed combined financial statements do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the merger or the costs to integrate the operations of Schlumberger and Smith or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

Upon completion of the merger, Schlumberger will perform a detailed review of Smith s accounting policies. As a result of that review, Schlumberger may identify differences between the accounting policies of the two companies that, when conformed, could have a material impact on the consolidated financial statements of the combined company.

Certain reclassifications have been made to the historical presentation of Smith to conform to the presentation used in the unaudited pro forma condensed combined statement of income. Upon consummation of the merger, further review of Smith s financial statements may result in additional revisions to Smith s classifications to conform to Schlumberger s presentation.

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Note 3: Estimate of Consideration Expected to be Transferred

The following is a preliminary estimate of the consideration expected to be transferred to effect the acquisition of Smith.

(In millions, except exchange ratio and per share amounts)	
Number of shares of Smith common stock outstanding as of March 31, 2010	248
Number of Smith unvested restricted stock units outstanding as of March 31, 2010	4
	252
Multiplied by the exchange ratio	0.6966
Equivalent new Schlumberger shares of common stock to be issued	176
Schlumberger common stock share price on May 28, 2010	$ 56.15
Common stock equity consideration	$ 9,882
Fair value of Schlumberger equivalent stock options to be issued (a)	$ 20
Estimate of consideration expected to be transferred (b)	$ 9,902

(a) Generally accepted accounting principles require that the fair value of replacement stock option awards attributable to pre-merger services be included in the consideration transferred. The fair value of the Schlumberger equivalent stock options was estimated as of May 28, 2010 using the Black-Scholes valuation model utilizing the following assumptions:

Stock price	$56.15
Post-conversion exercise price	$16.87-$55.68
Expected volatility	37%
Dividend yield	1.25%
Risk-free interest rate	0.40%
Expected term	1 year
Black-Scholes weighted average fair value per option	$27.36

(b) The estimated consideration expected to be transferred reflected in these unaudited pro forma condensed combined financial statements does not purport to represent what the actual consideration transferred will be when the merger is completed. The fair value of equity securities issued as part of the consideration transferred is required to be measured on the closing date of the merger at the then-current market price. This requirement will likely result in a per-share equity component different from what has been assumed in these unaudited pro forma condensed combined financial statements and that difference may be material.

Assuming a $1.00 change in Schlumberger s closing common stock price, the estimated consideration transferred would increase or decrease by approximately $176 million, which would be reflected in these unaudited pro forma condensed combined financial statements as an increase or decrease to goodwill. Furthermore, for every 10% change in Schlumberger s stock price, the estimated consideration transferred would increase or decrease by approximately $1.0 billion, which would result in a corresponding increase or decrease in goodwill.

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Note 4: Estimate of Assets to be Acquired and Liabilities to be Assumed

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed by Schlumberger in the merger, reconciled to the estimate of consideration expected to be transferred (in millions):

Book value of net assets acquired at March 31, 2010		$ 6,833
Less: Smith noncontrolling interest balance relating to M-I SWACO		(1,283)
Less: Smith historical goodwill		(3,075)
Less: Smith historical intangible assets		(593)
Add: Smith historical deferred tax liabilities relating to intangible assets		289
Less: Surviving postcombination noncontrolling interests		(134)
Adjusted book value of net assets acquired		2,037
Fair value adjustments to:		
Increase the value of inventory	$ 290	
Increase the value of fixed assets	150	
Intangible assets	5,625	
Increase the book value of long-term debt	(322)	
Deferred tax liabilities	(2,010)	
Goodwill	5,711	
Total fair value adjustments		9,444
Gain on investment in affiliate		(1,416)
Other		(163)
Estimate of consideration expected to be transferred		$ 9,902

The following is a discussion of the adjustments made to Smith s assets and liabilities in connection with the preparation of these unaudited pro forma condensed combined financial statements.

Inventory: The estimated adjustment to write up inventories to fair value is comprised of two components, approximately $115 million for inventories carried at FIFO cost and $175 million for inventories carried at LIFO cost. With regard to the $115 million adjustment to FIFO inventories, cost of revenue will reflect this increased valuation as this inventory is sold. Accordingly, Schlumberger margins will be temporarily reduced in the initial periods subsequent to merger. With regard to the $175 million adjustment to LIFO inventories, such adjustment will only be reflected in cost of revenues when Schlumberger begins to liquidate this new LIFO layer. The impact of both of these inventory adjustments is not reflected in the unaudited pro forma condensed combined statement of income because they will not have a continuing impact.

Fixed Assets: For purposes of these unaudited pro forma condensed combined financial statements, Schlumberger has estimated that the fair value adjustment to increase fixed assets to their fair value would approximate $150 million. This estimate of fair value is preliminary and subject to change once Schlumberger has sufficient information as to the specific types, nature, age, condition and location of Smith s fixed assets.

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Intangible Assets: The fair value of identifiable intangible assets is determined primarily using the income approach, which requires a forecast of all of the expected future cash flows either through the use of the relief-from-royalty method or the multi-period excess earnings method. Some of the more significant assumptions inherent in the development of intangible asset values include: the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows, and the assessment of the asset s life cycle, as well as other factors. However, for purposes of these unaudited pro forma condensed combined financial statements, using certain high-level assumptions, the fair value of the identifiable intangible assets, the related amortization expense and their weighted-average useful lives have been estimated as follows:

	Estimated Fair Value (in millions)	Weighted Average Estimated Useful Life (in years)	Amortization Expense Year Ended December 31, 2009 (in millions)	Amortization Expense Three Months Ended March 31, 2010 (in millions)
Customer Relationships	$ 2,470	28.5	$ 87	$ 22
Technology / Technical Know-How	2,300	18.8	122	31
Tradenames / Trademarks	855	30.0	29	7
	$ 5,625		$ 238	$ 60

These preliminary estimates of fair value and estimated useful life will likely be different from the final acquisition accounting, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements. A 10% change in the valuation of intangible assets would cause a corresponding increase or decrease in annual amortization expense of approximately $20 million, assuming an overall weighted-average useful life of 24 years. Once Schlumberger has full access to the specifics of Smith s intangible assets, additional insight will be gained that could impact: (i) the estimated total value assigned to intangible assets and (ii) the estimated weighted average useful life of each category of intangible assets. The estimated intangible asset values and their useful lives could be impacted by a variety of factors that may become known to Schlumberger only upon access to the additional information and/or changes in such factors that may occur prior to the effective time of the merger.

Long-term debt: The carrying value of Smith s long-term debt will be remeasured to its fair value as of the closing of the merger. The ultimate adjustment of the fair value of long-term debt may vary significantly at the merger completion date based on market conditions at that time.

Deferred tax liabilities: As of the effective date of the merger, adjustments will be made for deferred taxes as part of the accounting for the acquisition. This adjustment reflects the estimated deferred tax liability impact of the acquisition on the balance sheet, primarily relating to estimated fair value adjustments for acquired inventory, fixed assets, intangible assets and long-term debt. For purposes of these unaudited pro forma condensed combined financial statements, deferred taxes are provided at the 35% U.S. federal statutory income tax rate.

Gain on investment in affiliate: Represents a pro forma adjustment to record Schlumberger s gain as a result of remeasuring its previously held equity interest in M-I SWACO, a drilling fluids joint venture that is 40% owned by Schlumberger and 60% owned by Smith. Generally accepted accounting principles require that an acquirer remeasure its previously held equity interest in an acquiree at its acquisition date fair value and recognize the resulting gain or loss in earnings. The gain is calculated based upon the acquisition date fair value of M-I SWACO, and will be impacted by transactional activity such as equity income and dividends, up until the date the merger is completed. Because this pro forma adjustment will not have a continuing impact, it is excluded from the unaudited pro forma condensed combined statement of income, but is reflected as an adjustment to goodwill and retained earnings in the unaudited pro forma condensed combined balance sheet.

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Goodwill: Goodwill is calculated as the difference between the acquisition date fair value of the consideration expected to be transferred and the values assigned to the identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but rather is subject to impairment testing on at least an annual basis.

Other: Represents a difference in basis between Smith s noncontrolling interest balance relating to M-I SWACO and Schlumberger s equity investment in M-I SWACO.

Note 5: Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

(A) Reflects the elimination of accounts receivable and accounts payable in connection with Smith revenue relating to Schlumberger.

(B) To adjust acquired inventory to an estimate of fair value. Schlumberger s cost of revenue will reflect the increased valuation of Smith s inventory as the acquired inventory is sold. This adjustment does not have a continuing impact on the combined operating results and as such, it is not included in the unaudited pro forma condensed combined statement of income.

(C) To eliminate Schlumberger s investment in M-I SWACO.

(D) To adjust for the estimated differences between the carrying value and fair value of the fixed assets. See Note 4 for further details.

(E) To eliminate Smith s historical goodwill.

(F) To record the estimated goodwill created as a result of this transaction. See Note 4 for detailed calculation.

(G) To eliminate Smith s historical intangible assets.

(H) To record the estimated fair value of identifiable intangible assets. See Note 4 for further details.

(I) Reflects an estimate of Schlumberger s remaining merger-related transaction costs to be incurred, including advisory and legal fees as well as amounts relating to employee benefits such as change in control payments. These amounts will be expensed as incurred and are not reflected in the unaudited pro forma condensed combined statement of income because they will not have a continuing impact. No adjustment has been made for merger-related costs to be incurred by Smith, which are estimated to be approximately $55 million.

(J) Reflects an adjustment to increase the carrying value of Smith s long-term debt to its estimated fair value.

(K) Represents an adjustment to eliminate deferred tax liabilities associated with Smith s preacquisition intangible assets and goodwill.

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(L) The adjustment to deferred tax liabilities represents the estimated deferred tax liability based on the U.S. federal statutory tax rate of 35% multiplied by the fair value adjustments made to assets acquired and liabilities assumed, excluding goodwill, as calculated below:

Establish deferred tax liabilities (assets) for the following (in millions):	
Identified intangible assets	$ 5,625
Increase in the basis of inventory	290
Increase in the basis of fixed assets	150
Increase in the basis of long-term debt	(322)
	5,743
U.S. federal statutory tax rate	35%
	$ 2,010

(M) Represents the preliminary fair value adjustment associated with Schlumberger s previously held equity interest in the M-I SWACO joint venture, resulting in an estimated after-tax gain of $1.378 billion, net of deferred taxes of $38 million. Because this adjustment will not have a continuing impact, it is excluded from the unaudited pro forma condensed combined statement of income. See Note 4 for further details.

(N) Reflects adjustments to eliminate Smith s historical equity balances.

(O) To record merger consideration at fair value.

(P) To eliminate Smith s noncontrolling interest balance relating to the M-I SWACO joint venture with Schlumberger.

Note 6: Adjustments to Unaudited Pro Forma Condensed Combined Income Statement

(AA) Certain reclassifications have been made to Smith s historical statement of income to conform to Schlumberger s presentation, primarily relating to selling and research and engineering expenses.

(BB) Reflects the elimination of revenue and cost of revenue in connection with Smith sales to Schlumberger.

(CC) Reflects the elimination of Schlumberger s equity earnings relating to the M-I SWACO joint venture as well as Smith s corresponding noncontrolling interest in the net income of the venture, respectively. This joint venture is structured as a partnership in the U.S. Smith consolidates the results of M-I SWACO and, as such, has reflected the pretax income of the entire joint venture (including the U.S. partnership), and has appropriately not recorded income taxes associated with Schlumberger s 40% interest in the U.S. partnership. Therefore, an adjustment is required to reclassify these additional taxes which were previously reflected as a component of Schlumberger s equity income.

(DD) To eliminate Smith s historical intangible asset amortization expense.

(EE) Reflects amortization expense associated with intangible assets recorded in this transaction. See Note 4 for further details.

(FF) Represents incremental depreciation expense associated with the estimated fair value adjustment related to Smith s fixed assets over the estimated remaining useful life of 15 years.

(GG) Reflects merger related advisory and legal fees incurred by both Schlumberger and Smith during the three months ended March 31, 2010 which do not have a continuing impact and therefore are not reflected in the unaudited pro forma condensed combined statement of income.

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(HH) Represents the amortization associated with the fair value adjustment to increase Smith s fixed rate long-term debt, over the weighted-average remaining term of the obligations.

(II) Schlumberger has assumed a 35% tax rate when estimating the tax impacts of the appropriate pro forma adjustments, which represents the U.S. federal statutory tax rate. The effective tax rate of the combined company could be significantly different from what is presented in these unaudited pro forma condensed combined financial statements for a variety of reasons, including post-merger activities.

The tax impact of the pro forma adjustments has been calculated as follows (in millions):

	Year Ended December 31, 2009	Three Months Ended March 31, 2010
Elimination of Smith's historical amortization expense	$ (52)	$ (14)
Amortization expense associated with intangible assets	238	60
Depreciation expense relating to fixed asset fair value adjustment	10	3
Amortization of debt fair value adjustment	(45)	(11)
Pro forma incremental expenses	151	38
U.S. federal statutory tax rate	35%	35%
Tax benefit relating to pro forma incremental expenses	$ 53	$ 13

(JJ) Represents the adjusted weighted-average shares outstanding calculated as follows (in millions):

	Year Ended December 31, 2009		Three Months Ended March 31, 2010	
	Basic	Assuming Dilution	Basic	Assuming Dilution
Schlumberger historical shares outstanding	1,198	1,214	1,195	1,215
New Schlumberger shares of common stock to be issued	176	176	176	176
	1,374	1,390	1,371	1,391

The dilutive effect of Smith stock options that will be converted into Schlumberger stock options is not significant.

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COMPARISON OF STOCKHOLDER RIGHTS

As a result of the merger, holders of Smith common stock will become stockholders of Schlumberger, and the rights of the former stockholders of Smith will thereafter be governed by Schlumberger s articles of incorporation and amended and restated bylaws and the Commercial Code of the Netherlands Antilles, which is referred to in this discussion as Netherlands Antilles law. The rights of Smith stockholders are currently governed by Smith s restated certificate of incorporation and amended and restated bylaws and the Delaware General Corporation Law, which is referred to in this discussion as Delaware law.

The following summarizes certain differences between the current rights of Smith stockholders and the current rights of Schlumberger stockholders. These differences arise in part from the differences between Netherlands Antilles law and Delaware law. Additional differences arise from the governing instruments of the two companies.

Although it is impracticable to compare all of the aspects in which Netherlands Antilles law and Delaware law and Schlumberger s and Smith s governing instruments differ with respect to stockholder rights, the following discussion summarizes the material differences between them. This summary is not intended to be complete, and it is qualified in its entirety by reference to Netherlands Antilles law, Delaware law, Schlumberger s articles of incorporation and amended and restated bylaws and Smith s restated certificate of incorporation and amended and restated bylaws. You are encouraged to carefully read this entire proxy statement/prospectus, the relevant provisions of Netherlands Antilles law and Delaware law and the other documents to which Schlumberger and Smith refer in this proxy statement/prospectus for a more complete understanding of the differences between the rights of a Schlumberger stockholder and the rights of a Smith stockholder. Schlumberger and Smith have filed with the Securities and Exchange Commission their respective governing documents referenced in this comparison of shareholder rights. See Where You Can Find More Information.

	Smith Stockholder Rights	Schlumberger Stockholder Rights
Authorized Stock	The authorized capital stock of Smith consists of (a) 500,000,000 shares of Smith common stock and (b) 5,000,000 shares of preferred stock.	Schlumberger may issue (a) 3,000,000,000 shares of Schlumberger common stock and (b) 200,000,000 shares of preferred stock.
	Smith s board of directors has the authority to issue shares of preferred stock in one or more classes or series and to fix (a) the designations, powers, preferences privileges, (b) the relative participating, optional or special rights and (c) the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences of any series of preferred stock.	Schlumberger s board of directors has the authority to issue shares of preferred stock in one or more series and to fix (a) the designations, (b) the annual dividend rate on such series (subject to limitations on such rate set forth in Schlumberger s articles of incorporation), (c) whether such dividends will be paid annually or in installments, (d) any rights of holders of such series to convert their shares into other series of Schlumberger capital stock, (e) any rights of Schlumberger to redeem such shares or of holders to require Schlumberger to purchase such shares, (f) any sinking fund provisions and (g) other terms that are not inconsistent with Schlumberger s articles of incorporation and Netherlands Antilles law.

	Smith Stockholder Rights	Schlumberger Stockholder Rights
	As of the date of this proxy statement/prospectus, there were no shares of preferred stock outstanding.	As of the date of this proxy statement/prospectus, there were no shares of preferred stock outstanding.
Voting Rights	Smith stockholders are entitled to one vote for each share of Smith common stock they hold.	Schlumberger stockholders are entitled to one vote for each share of Schlumberger common or preferred stock they hold.
Stockholder Meetings	Smith s bylaws provide that general meetings of stockholders can be held wherever the Smith board of directors dictates and, pursuant to Delaware law, a stockholder meeting must be held no more than 13 months from the date of the last stockholder meeting.	Schlumberger s articles of incorporation and Netherlands Antilles law provide that all general meetings of Schlumberger stockholders must be held in the Netherlands Antilles, and a general stockholder meeting is required to be held once a year under Netherlands Antilles law.
	Smith s bylaws provide that special meetings of stockholders may be called by a majority of the board of directors, the Chairman of the board of directors, the Chief Executive Officer, the President, the Secretary or any two other officers of Smith.	Special general meetings of Schlumberger stockholders may be called at any time upon the direction of the Chairman of the board of directors, the Vice Chairman of the board of directors, the Chief Executive Officer, the President or the Board of Directors. Special general meetings of stockholders may also be called by one or more Schlumberger stockholders representing at least 10% of the votes that can be cast on the topics they wish to be addressed at such meeting and that have a reasonable interest in having such meeting convened, by one or more holders of shares representing in the aggregate a majority of shares then outstanding and, in certain circumstances if all of the directors are prevented from or incapable of serving, by any person or persons holding in the aggregate at least 5% of the outstanding shares of Schlumberger common stock for the purpose of electing a board of directors.
Stockholder Action By Written Consent	Smith s certificate of incorporation specifically denies stockholders the right to act by written consent.	Under Netherlands Antilles law, stockholders may not act by written consent without a meeting, unless all stockholders entitled to vote on the matter have cast a vote.
Board of Directors	Under Smith s certificate of incorporation, the Smith board of directors is divided into three classes, only one of which stands for reelection each year.	Under Schlumberger s articles of incorporation, Schlumberger s entire Board of Directors stands for reelection each year.

	Smith Stockholder Rights	Schlumberger Stockholder Rights
	Under Smith s bylaws, in uncontested elections, directors are elected by a majority of the votes cast at a meeting for the election of each director. A majority of the votes cast is defined in Smith s bylaws to mean that the number of shares voted for a director s election exceeds 50% of the number of votes cast with respect to that director s election. Votes cast includes votes to withhold authority in each case and excludes abstentions with respect to that director s election. In contested elections, directors are elected by a plurality of the votes cast.	Under Schlumberger s articles of incorporation, directors are elected at a general meeting of stockholders by a majority of votes cast by stockholders entitled to vote.
	The number of directors on Smith s board of directors is set at between six and 15 by Smith s certificate of incorporation.	The number of directors on Schlumberger s board is set at between five and 24 by Schlumberger s articles of incorporation.
	Smith s certificate of incorporation provides that a director may be removed only for cause, by holders of a majority of shares entitled to vote on the election of directors.	Schlumberger s articles of incorporation and Netherlands Antilles law provide that a director may be removed at any general meeting of stockholders by a majority vote of the votes cast at that meeting.
	Under Smith s certificate of incorporation, the board of directors has the authority to appoint directors to fill any vacancies on the board to hold office until the expiration of the term of the class of directors to which such director is appointed.	Under Schlumberger s articles of incorporation, the board of directors generally has the authority to appoint directors to fill any vacancies on the board to hold office until the next general meeting of Schlumberger s stockholders.
Notice of Stockholder Proposals or Nominations of Director Candidates by Stockholders	Smith s bylaws generally permit stockholders to nominate director candidates or propose other proper business if the stockholder intending to make such nomination or proposal gives timely notice thereof in writing in proper form. To be timely, Smith s bylaws require, subject to certain limited exceptions, that written notice of an intention to nominate a director candidate or to propose other proper business be received by Smith s Secretary not earlier than 90 days and not later than 60 days prior to the first anniversary of the previous year s annual meeting.	None of Schlumberger s articles of incorporation and bylaws, nor Netherlands Antilles law contain any specific provisions that govern the submission of director nominations or other proposals by stockholders. As described above, special general meetings of stockholders may be called by one or more Schlumberger stockholders representing at least 10% of the votes that can be cast on the topics they wish addressed at such meeting.
Amendment of Governing Documents	Under Smith s certificate of incorporation, a vote of 75% or more of the outstanding voting stock of Smith is	None of Schlumberger s articles of incorporation and bylaws nor Netherlands Antilles law require a supermajority vote

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	Smith Stockholder Rights	Schlumberger Stockholder Rights
	necessary to amend Smith s certificate of incorporation to change the provisions of Smith s certificate of incorporation described under Special Vote Required for Certain Combinations with Interested Stockholders, unless such change is recommended by the board of directors, all of whom would be continuing directors under Smith s certificate of incorporation. All other amendments to Smith s certificate of incorporation require a vote of 50% or more of the outstanding voting stock of Smith under Delaware law.	to approve such transactions. The vote of a majority of the outstanding voting stock will suffice to approve such transactions.
	Smith s bylaws may be amended by either an 75% stockholder vote or the vote of a majority of the board of directors.	Schlumberger s bylaws may be amended only by the vote of a majority of the board of directors.
Financial Statements; Dividends	Smith is not required to seek stockholder approval for financial statements or proposed dividends.	Under Netherlands Antilles law and Schlumberger s articles of incorporation, Schlumberger is required to present annually its financial statements and proposed dividends to its stockholders for inspection and approval.
Change of Domicile	Under Delaware law, approval of all stockholders is required in connection with a change in a corporation s domicile from Delaware or conversion of the corporation into a legal entity under the laws of another jurisdiction. However, a Delaware corporation may effectively change its domicile with the approval of a majority of its stockholders by merging with a subsidiary incorporated under the laws of another jurisdiction.	Under Schlumberger s articles of incorporation, Schlumberger s board of directors may move its corporate seat to, or convert Schlumberger into a legal entity under the laws of, another jurisdiction, and may change Schlumberger s corporate domicile from the Netherlands Antilles to another jurisdiction to the extent allowed by applicable law. In certain cases, stockholder approval of such action may not be required under applicable law.
Short-Form Merger; Buy-Out	Under Delaware law, the owner of 90% of a corporation s outstanding equity may effect a short-form merger without the vote of the acquired corporation s board of directors or shareholders.	Under Schlumberger s articles of incorporation, any one person, or any two or more legal entities belonging to the same group, holding shares representing at least 90% of Schlumberger s equity can require the remaining stockholders to transfer their shares as provided by and in accordance with the provisions of Netherlands Antilles law. In order to effect a compulsory share transfer, the owner or owners of 90% of Schlumberger s outstanding equity would have to institute an action in a

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	Smith Stockholder Rights	Schlumberger Stockholder Rights
		Netherlands Antilles court and pay the transferring stockholders the value of the shares to be transferred as determined by the judge (based on the advice of one or three experts). A judge can deny a request for a compulsory share transfer if a stockholder would suffer serious material damage through the transfer.
Special Vote Required for Certain Combinations with Interested Stockholders	Smith is subject to the provisions of Section 203 of the Delaware General Corporation Law. Under Section 203, Smith generally would be prohibited from engaging in any business combination with any interested stockholder for a period of three years following the time that the stockholder became an interested stockholder unless: prior to this time, the Smith board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of Smith s voting stock outstanding at the time the transaction commenced, excluding shares owned by persons who are directors and also officers, and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or at or subsequent to such time, the business combination is approved by the Smith board of directors and authorized at an annual or special meeting of Smith stockholders, and not by written consent, by the affirmative vote of at least 662/3% of the outstanding voting stock that is not owned by the interested stockholder.	Schlumberger is not subject to such a provision.

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	Smith Stockholder Rights	Schlumberger Stockholder Rights
	Under Section 203, a business combination includes:	
	any merger or consolidation involving the corporation and the interested stockholder;	
	any sale, transfer, pledge or other disposition of 10% or more of a corporation s assets involving the interested stockholder;	
	any transaction that results in the issuance or transfer by the corporation of any of its stock to the interested stockholder, subject to limited exceptions;	
	any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation s capital stock beneficially owned by the interested stockholder; or	
	the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.	
	In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the corporation s outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.	
Limitation of Liability and Indemnification	Smith s certificate of incorporation provides that a director of Smith will not be personally liable to Smith or its stockholders for monetary damages for breach of any fiduciary duty as a director, except:	Schlumberger s bylaws provide that to the fullest extent permitted by applicable law, Schlumberger shall indemnify any current or former director or officer who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of Schlumberger) by reason of the fact that such person is or was a director or officer, of Schlumberger, if such person acted in good faith and in a manner such person reasonably believed
	for any breach of the director s duty of loyalty to the corporation or its stockholders;	

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

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Smith Stockholder Rights	Schlumberger Stockholder Rights
for liability of directors for unlawful payment of dividends or unlawful stock purchases or redemptions; or	to be in or not opposed to the best interest of Schlumberger and with respect to any criminal action or proceeding, had no reasonable cause to believe that such person s conduct was unlawful.
for any transaction from which a director derived an improper personal benefit.	Netherlands Antilles law enables a corporation to indemnify a director as provided for in Schlumberger s bylaws.
Smith s certificate of incorporation and bylaws provide for indemnification of its directors and officers to the fullest extent permitted by Delaware law.	Schlumberger s articles of incorporation permits (but do not require) the indemnification of its directors, officers, employees and agents, except that indemnification is mandatory with respect to a present or former officer or director in the event of a change of control or if such present or former officer or director has been successful on the merits or otherwise in the defense of any action, suit or proceeding. Schlumberger s bylaws contain mandatory indemnification for current and former directors and officers.
Delaware law provides that a corporation may indemnify any persons, including officers and directors, who are, or are threatened to be made, parties to any threatened, pending or completed legal action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was a director, officer, employee or agent of such corporation or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such director, officer, employee or agent acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no	To the fullest extent permitted by Netherlands Antilles law, Schlumberger will indemnify any current or former director or officer who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of Schlumberger) by reason of the fact that he or she is or was a director or officer of Schlumberger, or is or was serving at the request of the company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or entity, against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of Schlumberger, and, with respect to any criminal action or proceeding, had no reasonable cause to

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	Smith Stockholder Rights	Schlumberger Stockholder Rights
	reasonable cause to believe that the person s conduct was unlawful. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him against the expenses that such officer or director actually and reasonably incurred.	believe that such person s conduct was unlawful. The Registrant is required to indemnify any present or former officer or director of the Registrant to the fullest extent allowed by the preceding paragraphs in the event of a change of control of Schlumberger (as defined in the articles of incorporation).
	A Delaware corporation may indemnify officers and directors in an action by or in the right of the corporation under the same conditions, except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation.	To the fullest extent permitted by applicable law, Schlumberger will indemnify any current or former director or officer in an action in the right of the company to procure a judgment in Schlumberger s favor under the same conditions, except that no indemnification may be made in respect of any claim, issue or matter as to which such person has been finally adjudged to be liable to Schlumberger for improper conduct unless and only to the extent that the court in which that action or suit was brought or any other court having appropriate jurisdiction determines upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for those expenses, judgments, fines and amounts paid in settlement which the court in which the action or suit was brought or such other court having appropriate jurisdiction deems proper. Schlumberger is required to indemnify any present or former officer or director to the fullest extent allowed by this paragraph in the event of a change of control.
	The indemnification permitted under Delaware law is not exclusive, and a corporation is empowered to purchase and maintain insurance against liabilities, whether or not indemnification would be permitted by statute. Smith maintains liability insurance for its directors and officers.	The indemnification permitted under Schlumberger s bylaws is not exclusive, and Schlumberger may purchase and maintain insurance against liabilities, whether or not indemnification would be permitted by its bylaws. Schlumberger maintains liability insurance for its directors and officers.
Shareholder Rights Plan	Smith has a shareholder rights plan.	Schlumberger has no such rights plan.

Table of ContentsThe Company s real estate investments are leased under noncancelable triple-net operating leases. Under the provisions of the leases, the Company receives fixed minimum monthly rentals, generally with annual increases, and the operators are responsible for the payment of all operating expenses, including repairs and maintenance, insurance, and real estate taxes of the property throughout the term of the leases.

At December 31, 2013, future minimum annual rentals to be received under the noncancelable lease terms are as follows (in thousands):

2014	$ 151,552
2015	154,863
2016	155,336
2017	153,792
2018	145,824
Thereafter	587,764
	$ 1,349,131

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8. Debt

The Company s secured loans, unsecured notes payable and line of credit consisted of the following (in thousands):

	December 31, 2013	December 31, 2012
HUD loan (interest rate of 5.00% on December 31, 2013 and 2012, respectively), inclusive of a $2.4 million and $2.5 million premium balance at December 31, 2013 and 2012, respectively)	$ 13,654	$ 13,882
2019 Notes (interest rate of 7.75% on December 31, 2013 and 2012, respectively), inclusive of $2.8 million and $3.2 million net premium balance, respectively	402,752	403,180
2021 Notes (interest rate of 6.00% on December 31, 2013)	250,000	
Revolving Credit Facility (interest rate of 2.52% at December 31, 2013)	20,000	
Term Loan (interest rate of 5.75% on December 31, 2012)		192,212
Acquisition Credit Line (interest rate of 5.75% on December 31, 2012)		18,925
2016 Revolver (interest rate of 5.25% on December 31, 2012)		69,369
Acquisition loans (interest rate of 6.00% on December 31, 2012)		7,585
Total	$ 686,406	$ 705,153

In conjunction with the IPO on March 26, 2013, the Company under Aviv Financing I repaid the outstanding balance of the Term Loan and the Acquisition Credit Line and under Aviv Financing V repaid the outstanding balance of the 2016 Revolver in the amounts of $191.2 million, $18.9 million, and $94.4 million, respectively. The Company paid $2.2 million in prepayment penalties which is included in loss on extinguishment of debt on the consolidated statements of operations and comprehensive income for the year ended December 31, 2013.

2019 Notes

On February 4, 2011, April 5, 2011, and March 28, 2012 Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation (the Issuers) issued $200 million, $100 million and $100 million of 7 3/4% Senior Notes due in 2019 (the 2019 Notes), respectively. The REIT is a guarantor of the Issuers 2019 Notes. The 2019 Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019, and bear interest at a rate of 7.75% per annum, payable semiannually to holders of record at the close of business on the February 1 or the August 1 immediately preceding the interest payment date on February 15 and August 15 of each year, commencing August 15, 2011. A premium of approximately $2.75 million and $1.0 million was associated with the offering of the $100 million of 2019 Notes on April 5, 2011 and the $100 million of 2019 Notes on March 28, 2012, respectively. The premium will be amortized as an adjustment to the yield on the 2019 Notes over their term. The Company used

the proceeds, amongst other things, to pay down approximately $87.7 million of the Acquisition Credit Line, $5.5 million of the 2016 Revolver and $6.1 million of other indebtedness during 2012.

2021 Notes

On October 16, 2013, the Issuers issued $250 million of 6% Senior Notes due in 2021 (2021 Notes). The REIT is a guarantor of the Issuers 2021 Notes. The 2021 Notes are unsecured senior obligations of the Issuers and will mature on October 16, 2021, and bear interest at a rate of 6.00% per annum, payable semiannually to holders of record at the close of business on the April 1 or the October 1 immediately preceding the interest payment date on April 15 and October 15 of each year, commencing April 15, 2014. The Company used the net proceeds, amongst other things, to pay down approximately $135.0 million of the outstanding indebtedness under the Revolving Credit Facility during 2013.

Revolving Credit Facility

On March 26, 2013, the Company, under Aviv Financing IV, entered into a $300 million secured revolving credit facility and $100 million term loan with Bank of America (collectively, the Revolving Credit Facility). On April 16, 2013, the Company converted the entire $100 million term loan into a secured revolving credit facility, thereby terminating the term loan and any availability thereunder and increasing the amount available under the secured revolving credit facility from $300 million to $400 million. On each payment date, the Company pays interest only in arrears on any outstanding principal balance. The interest rate is based on LIBOR plus a margin of 235 basis points to 300 basis points depending on the Company s leverage ratio. The interest rate at December 31, 2013 was 2.52%. Additionally, an unused fee equal to 50 basis points per annum of the daily unused balance on the Revolving Credit Facility is payable quarterly in arrears. The initial term expires in March 2016 with a one year extension option, subject to certain conditions.

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Other Loans

On November 1, 2010, a subsidiary of Aviv Financing III entered into two acquisition loan agreements on the same terms that provided for borrowings of $7.8 million. Principal and interest payments are due monthly beginning on December 1, 2010 through the maturity date of December 1, 2015. Interest is a fixed rate of 6.00%. These loans are collateralized by a skilled nursing facility controlled by Aviv Financing III. These acquisition loans were paid off in full on May 15, 2013.

On June 15, 2012, a subsidiary of Aviv Financing III assumed a HUD loan with a balance of approximately $11.5 million. Interest is at a fixed rate of 5.00%. The loan originated in November 2009 with a maturity date of October 1, 2044, and is based on a 35-year amortization schedule. The Company is obligated to pay the remaining principal and interest payments of the loan. A premium of $2.5 million was associated with the assumption of debt and will be amortized as an adjustment to interest expense on the HUD loan over its term.

Future annual maturities of all debt obligations for five fiscal years subsequent to December 31, 2013 and thereafter, are as follows (in thousands):

2014	$ 157
2015	165
2016	20,174
2017	183
2018	192
Thereafter	660,367
	681,238
Debt premiums	5,168
	$ 686,406

9. Related Party Receivables and Payables

Related party receivables and payables represent amounts due from/to various affiliates of the Company. An officer of the Company funded approximately $2.0 million at December 31, 2012 in connection with the distribution settlement (see Footnote 11). The amount is recognized as part of other liabilities as of December 31, 2012, and was subsequently distributed. There are no other related party receivables or payables as of December 31, 2013 and 2012.

10. Derivatives

During the periods presented, the Company was party to two interest rate swaps, with identical terms of $100.0 million each, which were purchased to fix the variable interest rate on the denoted notional amount under the Term Loan. On March 26, 2013, in connection with the pay down of the Term Loan, the Company settled all interest rate swaps at a fair value of $3.6 million and such amount previously recorded in accumulated other comprehensive income (loss) was recorded within loss on extinguishment of debt in the consolidated statements of operations and comprehensive income. The interest rate swaps qualified for hedge accounting and as such the amounts previously recorded in accumulated other comprehensive income in the consolidated statement of changes in equity were reversed. For presentational purposes they are shown as one derivative due to the identical nature of their economic

terms (in thousands).

Total notional amount	$ 200,000
Fixed rates	6.49% (1.99% effective swap base rate plus 4.5% spread per credit agreement)
Floor rate	1.25%
Effective date	November 9, 2010
Termination date	September 17, 2015
Liability balance at December 31, 2012 (included in other liabilities)	$ (3,773)

The derivative positions were valued using models developed by the respective counterparty that used as their basis readily observable market parameters (such as forward yield curves) and were classified within Level 2 of the valuation hierarchy. The Company considered its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. As of December 31, 2013, there are no derivative instruments outstanding.

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11. Commitments and Contingencies

The Company had a contractual arrangement with an operator to reimburse quality assurance fees levied by the California Department of Health Care Services from August 1, 2005 through July 31, 2008. The Company was obligated to reimburse the fees to the operator if and when the state withheld these fees from the operator s Medi-Cal reimbursements associated with five facilities that were formerly leased to Trinity Health Systems. The total possible obligation for these fees was $1.4 million, which the Company has paid. Judicial proceedings initiated by the Company seeking declaratory relief for these fees were settled on July 24, 2012 which provided for recovery of such amounts from the State of California. The approximate settlement of $756,000 is recognized in interest and other income for the year ended December 31, 2012.

During 2011, the Company entered into a contractual arrangement with an operator in one of its facilities to reimburse any liabilities, obligations or claims of any kind or nature resulting from the actions of the former operator in such facility, Brighten Health Care Group. The Company is obligated to reimburse the fees to the operator if and when the operator incurs such expenses associated with certain Indemnified Events, as defined therein. The total possible obligation for these fees is estimated to be $2.3 million, of which approximately $1.9 million has been paid to date. The remaining $0.4 million was accrued as a component of other liabilities in the consolidated balance sheets.

In late 2011, after a dispute with certain of its limited partners, the Partnership filed a declaratory judgment motion in the Delaware Chancery Court seeking confirmation that an adjustment to the distributions of cash flows of the Partnership was made in accordance with the partnership agreement following the investment in the Partnership by the Company and related financing transactions. The dispute relates to the relative distributions among classes of limited partners that existed prior to the investment by the Company. In November 2012, certain limited partners (including Ari Ryan, one of our former directors, and other members of the estate of Zev Karkomi, one of our co-founders) filed suit in the Circuit Court of Cook County, Illinois against the REIT, the Partnership and Mr. Bernfield alleging that the adjustment described above was improper and adding certain fiduciary duty claims against the Company and Mr. Bernfield in connection with the adjustment and certain equity incentive programs implemented in connection with the investment in the Partnership by the REIT, the terms of which were approved by several of the plaintiffs in the Illinois action. In January 2013, the Company reached a settlement with the defendant in the Delaware action and the plaintiffs in the Illinois action. The settlement releases the REIT, the Partnership and Mr. Bernfield in exchange for a partial reallocation of relative distributions among classes of limited partners, which reallocation was funded by the limited partners that previously received such distributions or offset against distributions otherwise due. No additional amounts are payable by the REIT, the Partnership or Mr. Bernfield and, accordingly, the settlement is not expected to have a material impact on the REIT or the Partnership.

The Company has purchase options with one of its tenants that are not exercisable by the tenant until January 1, 2017 for five properties and January 1, 2019 for two properties. If the 2017 pool is not exercised, the tenant loses the right to exercise the 2019 option. The purchase options call for the purchase price, as defined, to be determined at a future date. In addition, the Company has purchase options with four tenants on five properties that are exercisable by the applicable tenant at various times during the terms of the respective leases. Two of such options are exercisable at a predetermined purchase price and the remaining three call for a purchase price to be determined at a future date.

The Company is involved in various unresolved legal actions and proceedings, which arise in the normal course of our business. Although the outcome of a particular proceeding can never be predicted, we do not believe that the result of any of these other matters will have a material adverse effect on our business, operating results, liquidity or financial position.

12. Noncontrolling Interests Operating Partnership / Partnership Units

Noncontrolling interests operating partnership, as presented on AVIV s consolidated balance sheets, represent the OP units held by individuals and entities other than AVIV. Accordingly, the following discussion related to noncontrolling interests operating partnership of the REIT refers equally to partnership units of the Partnership.

Holders of OP units are entitled to receive distributions in a per unit amount equal to the per share dividends made with respect to each share of AVIV s common stock, if and when AVIV s Board of Directors declares such a dividend. Holders of OP units have the right to tender their units for redemption, in an amount equal to the fair market value of AVIV s common stock. AVIV may elect to redeem tendered OP units for cash or for shares of AVIV s common stock. During the year ended December 31, 2013, OP unitholders redeemed a total of 322,137 OP units in exchange for an equal number of shares of common stock of AVIV.

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13. Stockholders Equity of the REIT and Partners Capital of the Partnership

Distributions accrued in accordance with declaration to the Partnership s partners are summarized as follows for the years ended December 31 (in thousands):

	Class A	Class B	Class C	Class D	Class F	OP Units	REIT Shares
2013	$ 2,797	$ 97	$ 146	$	$ 554	$ 13,064	$ 60,276
2012	$ 9,002	$ 1,879	$ 2,541	$	$ 2,215	$	$ 27,955
2011	$ 6,734	$ 2,894	$ 7,041	$	$ 2,215	$	$ 23,163

In connection with the IPO, Class A through F Units were converted into OP units and are no longer outstanding as of December 31, 2013. The weighted-average Units outstanding are summarized as follows for the years ended December 31:

	Class A	Class B	Class C	Class D	Class F	OP Units	REIT Shares
2013	3,136,203	1,053,335		1,875	625,251	9,091,974	33,700,834
2012	13,467,223	4,523,145	2	8,050	2,684,900		20,006,538
2011	13,467,223	4,523,145	2	8,050	2,684,900		14,487,565

In connection with the IPO each class of limited partnership units of the Partnership were converted into an aggregate of 21,653,813 OP units held by the REIT and 11,938,420 OP units held by limited partners of the Partnership. As a result, the Partnership has a single class of OP units as of March 26, 2013. As noted above, the OP units held by limited partners of the Partnership are redeemable for cash or, at the REIT s election, unregistered shares of the REIT s common stock on a one-for-one basis.

During the years ended December 31, 2013, 2012 and 2011:

AVIV issued an aggregate of 70,500, 0, and 0 shares of common stock in connection with the Company s annual grant of unrestricted and restricted stock to its Board of Directors;

AVIV reserved for issuance an aggregate of 226,585, 0, and 0 shares of common stock in connection with the Company s annual grant of restricted stock to employees, the hiring of new employees and grants and retainers for its Board of Directors. During the year ended December 31, 2013, 17,470 shares reserved for restricted stock were forfeited;

AVIV also issued 15,180,000 shares in connection with the IPO on March 26, 2013 that resulted in proceeds to the Company, net of underwriting discounts, commissions, advisory fees and other offering costs of $282.3 million; and

OP unitholders redeemed a total of 322,137, 0, and 0 OP units in exchange for an equal number of shares of AVIV s common stock.

For the year ended December 31, 2013, AVIV declared and paid the following cash dividends totaling $1.40 per share on its common stock, of which the Partnership paid equivalent distributions on OP units:

Record Date	**Payment Date**	**Cash Dividend**	**Ordinary Taxable Dividend (unaudited)**	**Nontaxable Return of Capital Distributions (unaudited)**
3/25/2013	3/29/2013	$ 0.30	$ 0.024	$ 0.276
6/3/2013	6/17/2013	0.38	0.065	0.319
8/30/2013	9/16/2013	0.36	0.061	0.299
1/3/2014	1/17/2014	0.36	0.000	0.000
		$ 1.40	$ 0.150	$ 0.894

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Of the $0.36 dividend paid in January 2014, $0.36 will be included in 2014 taxable common dividends.

14. Equity Compensation Plan

Prior to September 2010, the Partnership had established an officer incentive program linked to its future value. Awards vest annually over a five-year period assuming continuing employment by the recipient. The awards settled on December 31, 2012 in Class C Units or, at the Company s discretion, cash. For accounting purposes, expense recognition under the program commenced in 2008, and the related expense for the years ended December 31, 2013, 2012 and 2011 was $0, $0.4 million, and $0.4 million, respectively.

Class D units were periodically granted to employees of Aviv Asset Management (AAM), a subsidiary of the Operating Partnership. Part of the Class D Units are defined as performance-based awards under ASC 718 and require employment of the recipient on the date of sale, disposition, or refinancing (Liquidity Event). If the employee is no longer employed on such date, the award is forfeited. The remainder of the Class D Units were time-based awards under ASC 718 and such fair value determined on the grant date was recognized over the vesting period. During 2013, 2012, and 2011 0, 0 and 3,220 of the time-based Class D Units vested, respectively resulting in the recognition of approximately $0, $0, and $0.4 million, respectively, in expense. On March 26, 2013, the performance component Class D Units were converted to OP units in connection with the IPO, and $0.9 million of expense was recognized.

Restricted Stock Grants

On March 26, 2013 the Company adopted the Aviv REIT, Inc. 2013 Long-Term Incentive Plan (the LTIP). The purpose of the LTIP is to attract and retain qualified persons upon who, in large measure, the Company s sustained progress, growth and profitability depend, to motivate the participants to achieve long-term Company goals and to align the participants interests with those of other stockholders by providing them with a proprietary interest in the Company s growth and performance. The Company s executive officers, employees, consultants and non-employee directors are eligible to participate in the LTIP. Under the plan, 2,000,000 shares of the Company s common stock are available for issuance. The shares can be issued as restricted stock awards (RSAs) or as restricted stock units (RSUs).

During 2013, the Company issued 70,500 RSAs, of which 23,250 shares were issued, vested, and are unrestricted and 47,250 shares were issued and are subject to a vesting period. Additionally, the Company issued 226,585 RSUs, of which 17,470 were subsequently forfeited prior to the year ended December 31, 2013. Some of these RSUs are subject to time vesting and some are subject to performance vesting. The time-based equity RSUs generally vest over a period of two to three years, subject to the employee s continued employment with the Company. The performance-based RSUs vest on the basis of Total Shareholder Return TSR on the Company s stock compared to the TSR of its peer companies, as defined. The first installment of the performance based RSUs are based on the companies comprising the NAREIT Equity Index and the companies comprising the Bloomberg Healthcare REIT Index for the performance period beginning on the date of the IPO and ending December 31, 2014. The second installment is based on the companies comprising the NAREIT Equity Index and the companies comprising the Bloomberg Healthcare REIT Index for the performance period beginning on the date of the IPO and ending December 31, 2015. If the service and performance conditions are met, approximately half of the RSUs will vest on December 31, 2014 and the remaining will vest on December 31, 2015. The RSUs carry dividend equivalent rights and are subject to the same vesting terms as the underlying RSUs.

For the year ended December 31, 2013, the Company recognized total non-cash stock-based compensation expense related to the LTIP of $1.9 million.

Restricted stock awards vest over specified periods of time as long as the employee remains with the Company. The following table sets forth the number of unvested shares of restricted stock and the weighted average fair value of these shares at the date of grant:

	Shares of Restricted Stock		Weighted Average Fair Value of Date of Grant	
Unvested balance at January 1, 2013	$		$	
Granted		273,835	$	30.47
Vested			$	
Forfeited		(17,470)	$	39.14
Unvested balance at December 31, 2013	$	256,365	$	29.93

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As of December 31, 2013, total unearned compensation on restricted stock was $6.2 million, and the weighted average vesting period was 1.94 years.

Option Awards

On September 17, 2010, the Company adopted the 2010 Management Incentive Plan (the MIP), which provides for the grant of option awards. Two thirds of the options granted under the MIP were performance based awards whose criteria for vesting is tied to a future liquidity event (as defined) and also contingent upon meeting certain return thresholds (as defined). The grant date fair value associated with all performance-based award options of the Company aggregated to approximately $7.4 million at the time of the IPO. One third of the options granted under the MIP were time based awards and the service period for these options is four years with shares vesting at a rate of 25% ratably from the grant date.

In connection with the IPO, all options outstanding under the MIP, representing options to purchase 5,870,138 shares with a weighted average exercise price of $17.47 per share, became fully-vested. In addition, recipients were entitled to receive dividend equivalents on their options awarded under the MIP. Dividend equivalents were paid on time-based options on (i) the date of vesting, with respect to any portion of a time-based option that was unvested on the date the dividend equivalent was accrued, and (ii) the last day of the calendar quarter in which such dividends were paid to stockholders, with respect to any portion of a time-based option vested as of the date the dividend equivalent was accrued. Dividend equivalents accrued and unpaid prior to the consummation of the IPO in the approximate amount of $14.8 million were paid in shares of common stock, net of applicable withholding of approximately $6.8 million, in an amount based on the IPO price of common stock. No dividend equivalents will be paid for any MIP options with respect to periods after the date of the IPO by the Company.

In connection with the IPO, the holders of option awards under the MIP received a new class of units of LG Aviv L.P., the legal entity through which Lindsay Goldberg holds its interest in the REIT, equal to the number of options held by such persons immediately prior to the consummation of the IPO. Under the limited partnership agreement of LG Aviv L.P., the units are entitled to receive an aggregate distribution amount equal to 14.9% of the dividend distributions declared and received by LG Aviv L.P. after the consummation of the IPO in respect of its shares of common stock. The distribution amount will be paid by LG Aviv L.P. ratably to each holder of such units on the distribution date in the proportion that the total number of units held by such holder bears to the total outstanding units of the same class. Any unit payments will be paid, if at all, on the earlier of (i) the last day of the calendar quarter in which dividends were paid to the Company stockholders and (ii) three business days following the holder s termination of employment with the Company. For the year ended December 31, 2013, $2.4 million was paid by LG Aviv L.P. to the holders of such units.

The following table represents the time and performance-based option awards activity for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Outstanding at January 1	1,956,805	1,417,228	1,320,041
Granted		701,550	97,187
Awards vested at IPO	3,913,333		
Cancelled/Forfeited		(161,973)	
Outstanding at December 31	5,870,138	1,956,805	1,417,228

Options exercisable at end of period			
Weighted average fair value of options granted	$ 2.20	$ 2.20	$ 1.87

The following table represents the time and performance based option awards outstanding cumulatively life-to-date for the years ended December 31, 2013, 2012, and 2011 as well as other MIP data:

	2013	2012	2011
Range of exercise prices	$ 16.56 - $18.87	$ 16.56 - $18.87	$ 16.56 - $18.87
Outstanding	5,870,138	1,956,805	1,417,228
Remaining contractual life (years)	7.06	8.06	8.78
Weighted average exercise price	$ 17.47	$ 17.42	$ 16.75

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The Company has used the Black-Scholes option pricing model to estimate the grant date fair value of the options. In connection with the IPO, all options outstanding under the MIP became fully-vested and the plan was retired. There were no options awarded in 2013. The following table includes the assumptions that were made in estimating the grant date fair value for options awarded in 2012 and 2011.

	2012 Grants	2011 Grants
Weighted average dividend yield	7.54%	8.13%
Weighted average risk-free interest rate	1.31%	2.02%
Weighted average expected life	7 years	7 years
Weighted average estimated volatility	38.24%	38.10%
Weighted average exercise price	$ 18.78	$ 18.80
Weighted average fair value of options granted (per option)	$ 2.88	$ 2.78

The Company recorded non-cash compensation expenses of approximately $9.0 million, $1.3 million and $1.1 million for the years ended December 31, 2013, 2012 and 2011, related to the time and performance based stock options accounted for as equity awards, as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income, respectively.

At December 31, 2013, the total compensation cost related to outstanding, non-vested time based equity option awards that are expected to be recognized as compensation cost in the future aggregates to approximately $0.

Dividend equivalent rights associated with the Plan that became payable upon vesting amounted to $15.4 million, $2.3 million, and $2.2 million for the years ended December 31, 2013, 2012, and 2011, respectively.

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15. Earnings Per Common Share of the REIT

The following table shows the amounts used in computing the basic and diluted earnings per common share (in thousands except for share and per share amounts).

	For the Year Ended December 31,		
	2013	**2012**	**2011**
Numerator for earnings per share basic:			
Income from continuing operations	$ 23,071	$ 4,007	$ 11,547
Income from continuing operations allocable to noncontrolling interests	(6,010)	(1,611)	(5,213)
Income from continuing operations allocable to common stockholders, net of noncontrolling interests	17,061	2,396	6,334
Discontinued operations, net of noncontrolling interests		2,742	(128)
Numerator for earnings per share basic	$ 17,061	$ 5,138	$ 6,206
Numerator for earnings per share diluted:			
Numerator for earnings per share basic	$ 17,061	$ 2,396	$ 6,334
Income from continuing operations allocable to noncontrolling interests OP Units	4,610		
Subtotal	21,671	2,396	6,334
Discontinued operations, net of noncontrolling interests		2,742	(128)
Numerator for earnings per share diluted	$ 21,671	$ 5,138	$ 6,206
Denominator for earnings per share basic and diluted:			
Denominator for earnings per share basic	33,700,834	20,006,538	14,487,565
Effect of dilutive securities:			
Noncontrolling interests OP Units	9,091,974		
Stock options	1,518,838	129,151	145,789
Restricted stock units	12,568		
Denominator for earnings per share diluted	44,324,214	20,135,689	14,633,354

Basic earnings per share

Income from continuing operations allocable to common stockholders	$	0.51	$	0.12	$	0.44
Discontinued operations, net of noncontrolling interests				0.14		(0.01)
Net income allocable to common stockholders	$	0.51	$	0.26	$	0.43
Diluted earnings per share						
Income from continuing operations allocable to common stockholders	$	0.49	$	0.12	$	0.43
Discontinued operations, net of noncontrolling interests				0.14		(0.01)
Net income allocable to common stockholders	$	0.49	$	0.26	$	0.42

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16. Earnings Per Unit of the Partnership

The following table shows the amounts used in computing the basic and diluted earnings per unit (in thousands except for unit and per unit amounts).

	For the Year Ended December 31,		
	2013	2012	2011
Numerator for earnings per unit basic:			
Income from continuing operations	$ 23,071	$ 4,007	$ 11,547
Income from continuing operations allocable to limited partners	(1,400)	(1,611)	(5,213)
Income from continuing operations allocable to units	21,671	2,396	6,334
Discontinued operations		2,742	(128)
Numerator for earnings per unit basic:	$ 21,671	$ 5,138	$ 6,206
Numerator for earnings per unit diluted:			
Income from continuing operations allocable to units	$ 21,671	$ 2,396	$ 6,334
Discontinued operations		2,742	(128)
Numerator for earnings per unit diluted	$ 21,671	$ 5,138	$ 6,206
Denominator for earnings per unit basic and diluted:			
Denominator for basic earnings per unit basic	42,792,808	20,006,538	14,487,565
Effective dilutive securities:			
Stock options	1,518,838	129,151	145,789
Restricted stock units	12,568		
Denominator for earnings per unit diluted	44,324,214	20,135,689	14,633,354
Basic earnings per unit:			
Income from continuing operations allocable to units	$ 0.51	$ 0.12	$ 0.44
Discontinued operations		0.14	(0.01)
Net income allocable to units	$ 0.51	$ 0.26	$ 0.43
Diluted earnings per unit:			
	$ 0.49	$ 0.12	$ 0.43

Income from continuing operations allocable to units						
Discontinued operations				0.14		(0.01)
Net income allocable to units	$	0.49	$	0.26	$	0.42

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17. Discontinued Operations

ASC 205-20 requires that the operations and associated gains and/or losses from the sale or planned disposition of components of an entity, as defined, be reclassified and presented as discontinued operations in the Company s consolidated financial statements for all periods presented. In April 2012, the Company sold three properties in Arkansas and one property in Massachusetts to unrelated third parties. All other sales were immaterial to the consolidated financial statements. Below is a summary of the components of the discontinued operations for the respective periods:

	Year Ended December 31,		
	2013	2012	2011
		(in thousands)	
Total revenues	$	$ 270	$ 1,261
Expenses:			
Interest expense incurred		(27)	
Amortization of deferred financing costs		(2)	(8)
Depreciation and amortization		(34)	(575)
Gain on sale of assets, net		4,425	
Loss on extinguishment of debt		(13)	
Other expenses		(33)	(912)
Total gains (expenses)		4,316	(1,495)
Discontinued operations		4,586	(234)
Discontinued operations allocation to noncontrolling interests		1,844	(106)
Discontinued operations allocation to controlling interests	$	$ 2,742	$ (128)

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18. Quarterly Results of Operations (Unaudited)

The following is a summary of our unaudited quarterly results of operations for the years ended December 31, 2013 and 2012 (in thousands) including the effects of discontinued operations. The sum of individual quarterly amounts may not agree to the annual amounts included in the consolidated statements of income due to rounding.

	Year Ended December 31, 2013			
	1 st Quarter(1)	2 nd Quarter	3 rd Quarter(2)	4 th Quarter
Total revenues	$ 34,700	$ 35,033	$ 32,873	$ 38,461
Net income	$ (11,440)	$ 13,405	$ 10,067	$ 11,039
Net income allocable to stockholders	$ (7,477)	$ 10,147	$ 7,621	$ 6,770
Earnings per common share allocable to stockholders				
Basic	$ (0.33)	$ 0.27	$ 0.20	$ 0.22
Diluted	$ (0.33)	$ 0.26	$ 0.20	$ 0.22

	Year Ended December 31, 2012			
	1 st Quarter(3)	2 nd Quarter(4)	3 rd Quarter(5)	4 th Quarter(6)
Total revenues	$ 29,268	$ 32,813	$ 32,273	$ 32,618
Income (loss) from continuing operations	$ 5,847	$ (804)	$ 1,767	$ (2,803)
Net income	$ 6,016	$ 3,613	$ 1,767	$ (2,803)
Net income allocable to stockholders	$ 3,560	$ 2,255	$ 1,130	$ (1,807)
Earnings per common share allocable to stockholders				
Basic	$ 0.18	$ 0.11	$ 0.05	$ (0.08)
Diluted	$ 0.18	$ 0.11	$ 0.05	$ (0.08)

(1) The results include $11.0 million loss on extinguishment of debt and $9.9 million of non-cash stock-based compensation as a result of the IPO in the first quarter.
(2) The results include $2.9 million of straight-line rent receivable write-offs due to early termination of leases and replacement of operators in the third quarter.
(3) The results include $0.7 million of impairment in the first quarter.
(4) The results include $3.7 million of impairment in the second quarter.
(5) The results include $1.8 million of impairment and $2.8 million of reserve for uncollectible loan receivables in the third quarter.
(6)

The results include $5.0 million of impairment and $0.2 million of reserve for uncollectible loan receivables in the fourth quarter.

19. Subsequent Events

On January 1, 2014, the Company acquired three properties in Minnesota for a purchase price of $40.0 million from an unrelated third party. The Company used available cash to fund this acquisition.

On January 31, 2014, the Company acquired a property in Texas for a purchase price of $15.9 million from an unrelated third party. The Company used available cash to fund this acquisition.

The following table illustrates the effect on total revenues and net income as if the Company had consummated the above acquisition, as well as those noted in Footnote 3, as of January 1, 2012 (in thousands, unaudited):

	For the Year Ended December 31,	
	2013	**2012**
Total revenues	$ 161,699	$ 154,165
Net income	39,580	28,895

The Company s $1,000,000,000 universal shelf registration statement was declared effective by the SEC on January 28, 2014. The registration includes shares that may become issuable as a result of redemptions of 5,450,576 of the 11,616,283 OP units outstanding as of December 31, 2013.

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20. Condensed Consolidating Information

AVIV and certain of the Partnership s direct and indirect wholly owned subsidiaries (the Unencumbered Subsidiary Guarantors and Encumbered Subsidiary Guarantors) fully and unconditionally guaranteed, on a joint and several basis, the obligation to pay principal and interest with respect to our 2019 Notes and 2021 Notes issued in February 2011, April 2011, March 2012 and October 2013. The 2019 Notes and 2021 Notes were issued by Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation. Separate financial statements of the guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by and the operations of the respective guarantor and non-guarantor subsidiaries. Other wholly owned subsidiaries (Non-Guarantor Subsidiaries) that were not included among the Unencumbered Subsidiary Guarantors or Encumbered Subsidiary Guarantors were not obligated with respect to the 2019 Notes and 2021 Notes. The Non-Guarantor Subsidiaries are subject to mortgages. The following summarizes the Partnership s condensed consolidating information as of December 31, 2013, and 2012 and for the years ended December 31, 2013, 2012, and 2011.

CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2013

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Net rental properties	$ 55	$ 712,443	$ 192,489	$ 258,501	$	$ 1,163,488
Cash and cash equivalents	50,709	(600)	(69)	724		50,764
Deferred financing costs, net	12,681		3,948	14		16,643
Other	25,260	50,520	19,353	4,405		99,538
Investment in and due from related parties, net	1,168,729				(1,168,729)	
Total assets	$ 1,257,434	$ 762,363	$ 215,721	$ 263,644	$ (1,168,729)	$ 1,330,433
Liabilities and equity						
Secured loan	$	$	$	$ 13,654	$	$ 13,654
Unsecured notes payable	652,752					652,752
Line of credit			20,000			20,000
Accrued Interest Payable	14,750		487	47		15,284
Dividends	17,694					17,694
Accounts payable and accrued expenses	2,082	3,056	3,547	1,870		10,555
Tenant security and escrow deposits	765	13,115	3,625	4,081		21,586
Other liabilities	946	7,520	1,132	865		10,463
Total liabilities	688,989	23,691	28,791	20,517		761,988
Total equity	568,445	738,672	186,930	243,127	(1,168,729)	568,445

Total liabilities and equity	$ 1,257,434	$ 762,363	$ 215,721	$ 263,644	$ (1,168,729)	$ 1,330,433

CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2012

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Net rental properties	$ 54	$ 731,036	$ 197,221	$ 55,150	$	$ 983,461
Cash and cash equivalents	16,869	(1,746)	(68)	479		15,534
Deferred financing costs, net	8,965		5,673	13		14,651
Other	15,738	50,373	14,121	3,309		83,541
Investment in and due from related parties, net	711,028				(711,028)	
Total assets	$ 752,654	$ 779,663	$ 216,947	$ 58,951	$ (711,028)	$ 1,097,187
Liabilities and equity						
Secured loan	$	$	$ 192,212	$ 21,467	$	$ 213,679
Unsecured notes payable	403,180					403,180
Line of credit			88,294			88,294
Accrued Interest Payable	11,625		1,593	47		13,265
Dividends	13,687					13,687
Accounts payable and accrued expenses	2,077	6,153	2,396	317		10,943
Tenant security and escrow deposits	50	14,203	3,560	465		18,278
Other liabilities	1,534	9,090	4,735			15,359
Total liabilities	432,153	29,446	292,790	22,296		776,685
Total equity	320,501	750,217	(75,843)	36,655	(711,028)	320,502
Total liabilities and equity	$ 752,654	$ 779,663	$ 216,947	$ 58,951	$ (711,028)	$ 1,097,187

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the Year Ended December 31, 2013

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Rental income	$	$ 96,532	$ 29,234	$ 10,747	$	$ 136,513
Interest on secured loans and financing lease	1,104	3,008	288			4,400
Interest and other income	5	116	33			154
Total revenues	1,109	99,656	29,555	10,747		141,067
Expenses						
Interest Expense	33,390		6,617	778		40,785
Amortization of deferred financing costs	1,592		1,867			3,459
Depreciation and amortization	6	24,629	5,840	2,751		33,226
General and administrative	15,662	172	10,937	115		26,886
Transaction costs	832	458	516	1,308		3,114
Loss on impairment		500				500
Reserve for uncollectible secured loan receivables and other receivables	(10)	(11)	89			68
Gain on sale of assets, net		(1,016)				(1,016)
Loss on extinguishment of debt			10,974			10,974
Total expenses	51,472	24,732	36,840	4,952		117,996
Net (loss) income	(50,363)	74,924	(7,285)	5,795		23,071
Equity in income (loss) of subsidiaries	73,434				(73,434)	
Net income (loss) allocable to units	$ 23,071	$ 74,924	$ (7,285)	$ 5,795	$ (73,434)	$ 23,071

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the Year Ended December 31, 2012

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Rental income	$	$ 89,971	$ 28,295	$ 2,944	$	$ 121,210
Interest on secured loans and financing lease	1,490	2,802	341			4,633
Interest and other income	4	963	162			1,129
Total revenues	1,494	93,736	28,798	2,944		126,972
Expenses						
Interest Expense	28,734		17,981	725		47,440
Amortization of deferred financing costs	1,375		2,168			3,543
Depreciation and amortization		20,554	5,600	738		26,892
General and administrative	6,434	361	9,111	49		15,955
Transaction costs	4,171	1,665	1,040	383		7,259
Loss on impairment		11,117				11,117
Reserve for uncollectible secured loan receivables and other receivables	6,532	3,643	156			10,331
Loss on extinguishment of debt			28			28
Other expenses			400			400
Total expenses	47,246	37,340	36,484	1,895		122,965
(Loss) income from continuing operations	(45,752)	56,396	(7,686)	1,049		4,007
Discontinued operations		332		4,254		4,586
Net (loss) income	(45,752)	56,728	(7,686)	5,303		8,593
Equity in income (loss) of subsidiaries	54,345				(54,345)	
Net income (loss) allocable to units	$ 8,593	$ 56,728	$ (7,686)	$ 5,303	$ (54,345)	$ 8,593
Unrealized loss on derivative instruments			(476)			(476)
Total comprehensive income allocable to units	$ 8,593	$ 56,728	$ (8,162)	$ 5,303	$ (54,345)	$ 8,117

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the Year Ended December 31, 2011

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Rental income	$	$ 70,128	$ 19,578	$ 1,385	$	$ 91,091
Interest on secured loans and financing lease	2,234	2,652	307			5,193
Interest and other income	18	818	8			844
Total revenues	2,252	73,598	19,893	1,385		97,128
Expenses						
Interest Expense	19,543		16,003	464		36,010
Amortization of deferred financing costs	916		1,741			2,657
Depreciation and amortization		16,111	3,833	328		20,272
General and administrative	4,117	192	7,109	4		11,422
Transaction costs	1,399	2,968	1,126			5,493
Loss on impairment		5,233				5,233
Reserve for uncollectible secured loan receivables and other receivables	1,505	86				1,591
Gain on sale of assets, net		(1,171)				(1,171)
Loss on extinguishment of debt			3,807			3,807
Other expenses			267			267
Total expenses	27,480	23,419	33,886	796		85,581
(Loss) income from continuing operations	(25,228)	50,179	(13,993)	589		11,547
Discontinued operations		(84)		(150)		(234)
Net (loss) income	(25,228)	50,095	(13,993)	439		11,313
Equity in income (loss) of subsidiaries	36,541				(36,541)	
Net income (loss) allocable to units	$ 11,313	$ 50,095	$ (13,993)	$ 439	$ (36,541)	$ 11,313
			(7,392)			(7,392)

Unrealized loss on derivative instruments						
Total comprehensive income allocable to units	$ 11,313	$ 50,095	$ (21,385)	$ 439	$ (36,541)	$ 3,921

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	$ (59,358)	$ 8,938	$ (92,735)	$ 212,850	$	$ 69,695
Investing activities						
Purchase of real estate investments				(197,389)		(197,389)
Sale of real estate investments		15,549				15,549
Capital improvements	(8)	(10,104)	(1,086)	(805)		(12,003)
Development Projects		(12,290)	(51)	(6,397)		(18,738)
Secured loan receivables received from others	2,446	1,235	354	52		4,087
Secured loan receivables funded to others	(7,739)	(2,182)	(156)	(330)		(10,407)
Net used in investing activities	(5,301)	(7,792)	(939)	(204,869)		(218,901)
Financing activities						
Borrowings of debt	250,000		220,000			470,000
Repayment of debt			(480,506)	(7,735)		(488,241)
Payment of financing costs	(5,145)		(5,302)	(1)		(10,448)
Capital contributions	575					575
Initial Public Offering	303,600					303,600
Cost of raising capital	(385,310)		359,481			(25,829)
Cash distributions to partners	(65,221)					(65,221)
Net cash provided by (used in) financing activities	98,499		93,673	(7,736)		184,436
Net (decrease) increase in cash and cash equivalents	33,840	1,146	(1)	245		35,230
Cash and cash equivalents:						
Beginning of period	16,869	(1,746)	(68)	479		15,534
End of period	$ 50,709	$ (600)	$ (69)	$ 724	$	$ 50,764

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2012

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	$ (152,298)	$ 157,728	$ 16,305	$ 22,056	$	$ 43,791
Investing activities						
Purchase of real estate investments		(135,796)	(4,800)	(32,177)		(172,773)
Sale of real estate investments		14,775		17,158		31,933
Capital improvements	(54)	(8,095)	(5,342)	(67)		(13,558)
Development Projects		(25,473)	(334)	(2,260)		(28,067)
Secured loan receivables received from others	12,754	1,426	452			14,632
Secured loan receivables funded to others	(13,065)	(3,436)	(356)			(16,857)
Net cash used in investing activities	(365)	(156,599)	(10,380)	(17,346)		(184,690)
Financing activities						
Borrowings of debt	101,000		164,224	2,537		267,761
Repayment of debt			(167,878)	(6,249)		(174,127)
Payment of financing costs	(2,562)		(2,581)			(5,143)
Payment of swap termination						
Capital contributions	109,000					109,000
Deferred contributions	(35,000)					(35,000)
Cash distributions to partners	(45,262)					(45,262)
Net cash provided by (used in) financing activities	127,176		(6,235)	(3,712)		117,229
Net decrease in cash and cash equivalents	(25,487)	1,129	(310)	998		(23,670)
Cash and cash equivalents:						
Beginning of period	42,356	(2,875)	242	(519)		39,204
End of period	$ 16,869	$ (1,746)	$ (68)	$ 479	$	$ 15,534

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

(in thousands)

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	$ (300,872)	$ 114,901	$ 236,140	$ 262	$	$ 50,431
Investing activities						
Purchase of real estate investments		(98,048)	(83,166)			(181,214)
Sale of real estate investments		1,510				1,510
Capital improvements		(5,303)	(4,061)			(9,364)
Development Projects		(15,990)		(5,416)		(21,406)
Secured loan receivables received from others	7,332	6,552	454			14,338
Secured loan receivables funded to others	(2,700)	(7,357)	(863)			(10,920)
Net cash provided by (used in) investing activities	4,632	(118,636)	(87,636)	(5,416)		(207,056)
Financing activities						
Borrowings of debt	302,750		97,417	4,761		404,928
Repayment of debt			(244,727)	(105)		(244,832)
Payment of financing costs	(8,594)		(1,000)	(14)		(9,608)
Capital contributions	40,420					40,420
Deferred contributions	35,000					35,000
Cash distributions to partners	(43,107)					(43,107)
Net cash provided by (used in) financing activities	326,469		(148,310)	4,642		182,801
Net decrease in cash and cash equivalents	30,229	(3,735)	194	(512)		26,176
Cash and cash equivalents:						
Beginning of period	12,127	860	48	(7)		13,028
End of period	$ 42,356	$ (2,875)	$ 242	$ (519)	$	$ 39,204

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Accounts Receivable and Secured Loans Receivable Allowance for Doubtful Accounts (in thousands)

	Balance at Beginning of Year	Charged to (Recovered from) Costs and Expenses	Deductions and Write-offs	Balance at End of Year
Allowance for uncollectible accounts receivable				
Year ended December 31, 2013	$ 803	$ 57	$ (534)	$ 326
Year ended December 31, 2012	80	3,948	(3,225)	803
Year ended December 31, 2011		80		80
Allowance for uncollectible secured loan receivable				
Year ended December 31, 2013	$ 317	$ 11	$ (328)	$
Year ended December 31, 2012	2,176	6,532	(8,391)	317
Year ended December 31, 2011	750	1,512	(86)	2,176

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SCHEDULE III

Real Estate and Investments (in thousands)

				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)				
Type of Asset	Encumbrances	City	State	Land	Buildings & Improvements	Improvements/ Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction
	(1)	Chicago	IL	$	$	$ 62	$	$	$ 62	$ (6)	$ 56	
						62			62	(6)	56	
(a)	(2)	Methuen	MA	31	496		(527)					1910
(a)	(2)	Lawrence	MA	63	959	21	(225)	63	755	(367)	451	1963
(c)	(2)	Fall River	MA	91	1,309	(1)	(1,399)					
(a)	(2)	Lowell	MA	82	1,211		(253)	82	958	(479)	561	1964
(a)	(2)	Worchester	MA	42	664	489	(664)	42	489	(250)	281	1965
(a)	(2)	North Reading	MA	113	1,567	151	(253)	113	1,465	(657)	921	1966
(c)	(2)	Quincy	MA	66	1,052		(1,118)					
(a)	(2)	Fall River	MA	32	513	1	(284)	13	249	(184)	78	1882
(a)	(2)	Oxford	MA	64	941	556	(193)	64	1,304	(459)	909	1966
(a)	(2)	Worchester	MA	71	1,031	75	(205)	71	901	(413)	559	1960
(c)	(2)	Lawrence	MA	90	1,306	(1)	(1,395)					
(a)	(2)	Lawrence	MA	61	946		(235)	61	711	(356)	416	1965
(c)	(2)	Worchester	MA	93	1,375	(1)	(1,467)					
(a)	(2)	South Haven	MI	221	4,239	13		221	4,252	(1,080)	3,393	1975
(a)	(2)	Pepin	WI	318	1,570	333		318	1,903	(424)	1,797	1978

(a)	(2)	Highland	IL	190	1,724			190	1,724	(475)	1,440	1963
(a)	(2)	Omaha	NE	211	6,695		(2)	209	6,695	(1,917)	4,987	1971
(a)	(2)	Santa Fe	NM	1,030	2,692	772		1,030	3,464	(938)	3,556	1985
(a)	(2)	Clayton	NM	41	790	35		41	825	(297)	569	1960
(a)	(2)	Hobbs	NM	9	672			9	672	(292)	389	1963
(a)	(2)	Bloomfield	NM	344	4,736	19		344	4,755	(1,250)	3,849	1985

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Type of Asset	Encumbrances	City	State	Initial Cost to Company: Land	Initial Cost to Company: Buildings & Improvements	Costs Capitalized Subsequent to Acquisition: Improvements/Adjustments	Costs Capitalized Subsequent to Acquisition: Impairment / Dispositions	Amount Carried at December 31, 2013 (c): Land	Amount Carried at December 31, 2013 (c): Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction	Date Acquired
(a)	(2)	Espanola	NM	216	4,143	17		216	4,160	(1,200)	3,176	1984	2005
(a)	(2)	Lordsburg	NM	57	1,882			57	1,882	(459)	1,480	1972	2005
(a)	(2)	Silver City	NM	305	5,844			305	5,844	(1,496)	4,653	1984	2005
(a)	(2)	Bonham	TX	63	2,583			63	2,583	(703)	1,943	1970	2005
(a)	(2)	Cooper	TX	96	2,727	8		96	2,735	(729)	2,102	1966	2005
(a)	(2)	Wolfe City	TX	49	1,010	(8)		49	1,002	(309)	742	1946	2005
(a)	(2)	Clifton	TX	125	2,975			125	2,975	(865)	2,235	1995	2005
(a)	(2)	Stanton	TX	261	1,018	11		261	1,029	(301)	989	1972	2005
(a)	(2)	Valley Mills	TX	34	1,091	(9)		34	1,082	(305)	811	1971	2005
(a)	(2)	Moody	TX	13	328		(341)						2005
(a)	(2)	Bellingham	WA	61	491	1,984		61	2,475	(416)	2,120	1965	2005
(a)	(2)	Orange	TX	98	1,948	18		98	1,966	(550)	1,514	1973	2005
(a)	(2)	Orange	TX	99	2,072	23		99	2,095	(605)	1,589	1955	2005
(a)	(2)	Wheeler	TX	17	1,369			17	1,369	(407)	979	1982	2005
(a)	(2)	Harrisonville	MO	144	1,922	226		144	2,148	(512)	1,780	1970	2005

(a)	(2)	Harrisonville	MO	189	2,532	221	189	2,753	(638)	2,304	1977	2005
(a)	(2)	Rayton	MO	252	3,376	245	252	3,621	(931)	2,942	1978	2005
(a)	(2)	Monett	MO	259	3,470	23	259	3,493	(899)	2,853	1976	2005
(a)	(2)	Lee s Summit	MO	292	3,915	50	292	3,965	(1,005)	3,252	1986	2005
(a)	(2)	Lewiston	ID	201	4,319	506	201	4,825	(1,380)	3,646	1958	2005
(a)	(2)	Payette	ID	179	3,166	(27)	179	3,139	(728)	2,590	1964	2005
(b)	(2)	Wendell	ID	177	405	1,006	177	1,411	(241)	1,347	1911	2005

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				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)					
pe ... et	Encumbrances	City	State	Land	Buildings & Improvements	Improvements / Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction	Date Acquired
	(2)	McCall	ID	213	676	(6)	(883)					1965	2005
	(2)	Portland	OR	112	2,205	221		112	2,426	(757)	1,781	1959	2005
	(2)	Burlington	WA	115	1,170	86		115	1,256	(315)	1,056	1930	2005
	(2)	Cathlamet	WA	49	505		(554)					1965	2005
	(2)	Grandview	WA	19	1,155	15		19	1,170	(438)	751	1964	2005
	(2)	Sunnyside	WA	102	1,639	6,895		102	8,534	(972)	7,664	1970	2005
	(2)	Hot Springs	MT	104	1,943	19		104	1,962	(504)	1,562	1963	2005
	(2)	Polson	MT	121	2,358	(20)		121	2,338	(644)	1,815	1971	2005
	(2)	The Dalles	OR	200	3,832	92		200	3,924	(951)	3,173	1964	2005
	(2)	LaGrande	OR	281	4,784	248		281	5,032	(1,167)	4,146	1961	2005
	(2)	Colfax	WA	231	6,271	38		231	6,309	(1,455)	5,085	1985	2005
	(2)	Youngtown	AZ	101	1,940	170	(2,211)					1971	2005
	(2)	Gilmer	TX	257	2,993	367		257	3,360	(826)	2,791	1967	2005
	(2)	Columbus	WI	352	3,477	302		352	3,779	(869)	3,262	1950	2005

(2)	Faribault	MN	70	1,485	102		70	1,587	(467)	1,190	1958	2005
(2)	Owatonna	MN	125	2,321	(19)		125	2,302	(615)	1,812	1963	2005
(2)	Wilmar	MN	70	1,341	20		70	1,361	(396)	1,035	1998	2005
(2)	Omaha	NE	413	3,516	4	(3,933)					1999	2005
(2)	Ogden	UT	234	4,478	601		234	5,079	(1,161)	4,152	1977	2005
(2)	Prescott	AR	44	1,462	209		44	1,671	(553)	1,162	1965	2005
(2)	Star City	AR	28	1,069	80		28	1,149	(304)	873	1969	2005
(2)	Peabody	KS	22	502	140		22	642	(139)	525	1963	2005
(2)	Benton Harbor	MI	166	3,185	457	(3,808)			(0)	(0)	1971	2005
(2)	Marysville	CA	281	1,320		(1,601)						2005
(2)	Yuba City	CA	177	2,130		(2,307)						2005
(2)	Lexington	MO	151	2,943	325		151	3,268	(886)	2,533	1970	2005

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			Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)					
Encumbrances	City	State	Land	Buildings & Improvements	Improvements / Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction	Da Acqu
(2)	Twin Falls	ID	448	5,145			448	5,145	(1,313)	4,280	1961	20
(2)	Fullerton	CA	2,982	3,648			2,982	3,648	(916)	5,714	1966	20
(2)	Baldwin Park	CA	868	1,748	7		868	1,755	(510)	2,113	1938	20
(2)	Long Beach	CA	140	767	(1)	(906)						20
(2)	Oakland	CA	246	685	11		246	696	(183)	759	1961	20
(2)	Oakland	CA	246	1,416	45		246	1,461	(499)	1,208	1960	20
(2)	Ponoma	CA	1,393	2,426			1,393	2,426	(627)	3,192	1964	20
(2)	Hutchinson	KS	180	2,547	92		180	2,639	(708)	2,111	1963	20
(2)	Little Rock	AR	270	4,006		(4,276)					1979	20
(2)	Little Rock	AR	1,411		7,330	(8,741)					2008	20
(2)	St. Charles	MO	1,300	10,777	14		1,300	10,791	(2,154)	9,937	1994	20
(2)	St. Louis	MO	1,600	9,525	51		1,600	9,576	(1,971)	9,205	1979	20
(2)	Rolla	MO	1,200	7,841	2,507		1,200	10,348	(1,628)	9,920	1993	20
(2)	Ballwin	MO	550	3,995	66		550	4,061	(836)	3,775	2004	20
(2)	Olney	IL	350	2,484			350	2,484	(578)	2,256	2004	20
(2)	Bonham	TX	76	1,130			76	1,130	(233)	973	1969	20
(2)	Columbus	TX	150	1,809		(1,959)					1974	20
(2)	Denison	TX	178	1,945			178	1,945	(404)	1,719	1958	20

(2)	Falfurias	TX	92	1,065		92	1,065	(241)	916	1974	20
(2)	Kingsville	TX	315	3,689	2,732	315	6,421	(832)	5,904	1947	20
(2)	Mount Vernon	TX	180	1,971		180	1,971	(482)	1,669	2004	20
(2)	Clarkston	WA	162	7,038	5,518	162	12,556	(2,055)	10,663	1970	20
(2)	Camas	WA	593	3,921	6,277	593	10,198	(1,580)	9,211	1970	20

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				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)					
e t	Encumbrances	City	State	Land	Buildings & Improvements	Improvements / Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction	I Ac
	(2)	Richland	WA	693	9,307	153		693	9,460	(1,824)	8,329	2004	2
	(2)	Milton Freewater	OR	700	5,404			700	5,404	(1,129)	4,975	1965	2
	(2)	Yorkville	IL	560	3,074	(1)	(3)	560	3,070	(697)	2,933	1963	2
	(2)	Zion	IL	147	5,235	131	(5,513)					1970	2
	(2)	Irving	TX	1,746	11,419	114	(143)	1,746	11,390	(2,279)	10,857	1964	2
	(2)	Madison	WI	480	1,861	6		480	1,867	(462)	1,885	1974	2
	(2)	Cincinnati	OH	125	6,278	448	(340)	123	6,388	(1,542)	4,969	1969	2
	(2)	West Chester	OH	375	5,663	369	(6,407)					1965	2
	(2)	Willmington	OH	125	6,078	673		125	6,751	(1,551)	5,325	1951	2
	(2)	Riverside	CA	1,091	5,647	(1)	(26)	1,091	5,620	(1,711)	5,000	1967	2
	(2)	Monterey Park	CA	1,586	9,274		(23)	1,586	9,251	(2,495)	8,342	1965	2
	(2)	Santa Ana	CA	1,076	5,984	596		1,076	6,580	(1,325)	6,331	1967	2
	(2)	Tujunga	CA	614	5,031		(25)	614	5,006	(1,206)	4,414	1967	2
	(2)	Medford	MA	2,366	6,613	291	(9,270)					1978	2
	(2)	Ambler	PA	370	5,112	(653)		370	4,459	(824)	4,005	1963	2
	(2)	Broomall	PA	608	3,930	591		608	4,521	(922)	4,207	1955	2
	(2)	Bryn Mawr	PA	708	6,352	1,469		708	7,821	(1,428)	7,101	1972	2

(2)	Lake Ariel	PA	369	7,560	730		369	8,290	(1,585)	7,074	1980	2
(2)	Avon	OH	394	8,856	456		394	9,312	(1,854)	7,852	1964	2
(2)	Belleville	IL	670	3,431			670	3,431	(625)	3,476	1978	2
(2)		TX	345	4,353	6		345	4,358	(796)	3,908		2
(2)	Searcy	AR	773	2,413	132	(2,398)	25	895	(420)	500	1961	2
(2)	Arvin	CA	900	4,765	784		1,029	5,420	(860)	5,589	1984	2
(2)	Bakersfield	CA	1,000	12,154	1,839		1,153	13,840	(1,979)	13,014	1987	2

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			Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)					
ncumbrances	City	State	Land	Buildings & Improvements	Improvements/ Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction	D Acq
(2)	Lakeport	CA	1,100	5,237	877		1,257	5,957	(967)	6,247	1987	20
(2)	Tracy	CA	1,900	10,294	1,687		2,172	11,709	(1,707)	12,174	1987	20
(2)	Oroville	CA	800	8,609	2,298		922	10,785	(1,579)	10,128	1987	20
(2)	Chico	CA	1,300	8,398	1,394		1,488	9,604	(1,523)	9,569	1988	20
(2)	LaGrande	OR	1,400	808	307		1,591	924	(186)	2,329	1975	20
(2)	Bremerton	WA	650	1,366		(2,016)					1969	20
(2)	Belleville	IL	989	5,007			989	5,007	(714)	5,282	1972	20
(2)	Little Rock	AR	751	4,421	1,614		751	6,035	(931)	5,855	1969	20
(2)	Jonesboro	AR	417	7,007	148		417	7,155	(1,116)	6,456	1973	20
(2)	Benton	AR	250	3,170	313		250	3,483	(555)	3,178	1968	20
(2)	Trumann	AR	167	3,587	104		167	3,691	(565)	3,293	1971	20
(2)	McPherson	KS	92	1,875	148		92	2,023	(282)	1,833	1970	20
(2)	Riverside	CA	230	1,210			230	1,210	(187)	1,253	1957	20
(2)	Searcy	AR		10,213	630		630	10,213	(1,531)	9,312	2009	20

(2)	Mount Pleasant	TN	67	3,313		67	3,313	(315)	3,065	1979	20
(2)	Portageville	MO	224	3,089		224	3,089	(283)	3,030	1995	20
(2)	Greenville	MO	119	2,219		119	2,219	(208)	2,130	1990	20
(2)	Senath	MO	109	2,773	266	109	3,039	(284)	2,864	1980	20
(2)	Senath	MO	73	1,855		73	1,855	(177)	1,751	1980	20
(2)	Lynchburg	VA	706	4,294		706	4,294	(359)	4,641	1994	20
(2)	Arma	KS	57	2,898		57	2,898	(258)	2,697	1970	20
(2)	Yates	KS	54	2,990		54	2,990	(265)	2,779	1967	20
(2)	Great Bend	KS	111	4,589	299	111	4,888	(528)	4,471	1965	20

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Encumbrances	City	State	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)				Year of Construction	Date Acquir
			Land	Buildings & Improvements	Improvements / Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net		
(2)	Norwalk	CT	1,590	1,010	15,793		1,590	16,803	(545)	17,848	1983	2010
(2)	Carrizo Springs	TX	45	1,955			45	1,955	(189)	1,811	1965	2010
(2)	Wellington	KS			2,000			2,000	(236)	1,764	1957	2010
(2)	Carrabelle	FL	1,144	8,856			1,144	8,856	(788)	9,212	2009	2011
(2)	Cleveland	OH	886	8,695			886	8,695	(674)	8,907	1982	2011
(2)	Grand Rapids	OH	288	1,517			288	1,517	(121)	1,684	1993	2011
(2)	Bellevue	OH	282	3,440			282	3,440	(253)	3,469	1988	2011
(2)	Bellevue	OH	282	3,440			282	3,440	(253)	3,469	1998	2011
(2)	Conroe	TX	577	2,091	280		577	2,371	(216)	2,732	1975	2011
(2)	Fredericksburg	TX	327	3,046	30		327	3,076	(237)	3,166	1970	2011
(2)	Jasper	TX	113	2,554	29		113	2,583	(187)	2,509	1972	2011
(2)	Peabody	KS	33	1,267	463		33	1,730	(104)	1,659	1963	2011
(2)	Commerce	TX	225	1,868	444		225	2,312	(184)	2,353	1963	2011
(2)	Moberly	MO	913	4,557	6		913	4,563	(357)	5,119	1987	2011

(2)	Gettysburg	PA	242	5,858	347	242	6,205	(427)	6,020	1950	2011
(2)	Darien	CT	2,430	3,070	12,263	2,430	15,333	(601)	17,162	2012	2011
(2)	Scranton	PA	1,120	5,537		1,120	5,537	(314)	6,343	2002	2011
(2)	Davis	OK	80	3,220		80	3,220	(186)	3,114	1969	2011
(2)	Santa Ana	CA	220	1,129		220	1,129	(74)	1,275	1989	2011
(2)	La Habra	CA	200	1,339		200	1,339	(86)	1,453	1990	2011
(2)	Oxnard	CA	100	1,219		100	1,219	(80)	1,239	1994	2011
(2)	Fairfax	CA	320	2,149		320	2,149	(131)	2,338	2000	2011
(2)	Artesia	CA	180	1,389		180	1,389	(89)	1,480	2002	2011
(2)	Las Vegas	NV	760	7,776	324	760	8,100	(463)	8,397	2004	2011

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				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)					
ype of sset	Encumbrances	City	State	Land	Buildings & Improvements	Improvements/ Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction	Date Acquired
	(2)	Cuyahoga Falls	OH									2013	2012
(a)	(2)	Germantown	OH	330	2,170	278		330	2,448	(138)	2,640	1996	2012
)/(b)	(2)	North Platte	NE	237	2,129	77		237	2,206	(158)	2,285	1984	2012
(b)	(2)	Shenandoah	IA	68	402			68	402	(21)	449	1997	2012
(a)	(2)	Creston	IA	72	1,467	117		72	1,584	(84)	1,572	1964	2012
(b)	(2)	Rock Rapids	IA	83	2,282			83	2,282	(119)	2,246	1998	2012
(a)	(2)	Rock Rapids	IA	113	2,349	151		113	2,500	(127)	2,486	1976	2012
)/(b)	(2)	Onawa	IA	227	1,733	190		227	1,923	(114)	2,036	1961	2012
(a)	(2)	Rockwell City	IA	62	2,092			62	2,092	(110)	2,044	1966	2012
(a)	(2)	New Hampton	IA	144	2,739	31		144	2,770	(155)	2,759	1967	2012
(a)	(2)	Austin	TX	770	5,230			770	5,230	(275)	5,725	1964	2012
(a)	(2)	Bastrop	TX	480	3,120			480	3,120	(205)	3,395	1987	2012
(a)	(2)	Beaumont	TX	300	700			300	700	(45)	955	1969	2012
(a)	(2)	Boerne	TX	480	3,470	300		780	3,470	(216)	4,034	1994	2012
(a)	(2)	Karnes City	TX	420	3,130			420	3,130	(206)	3,344	1994	2012
(a)	(2)	Denton	TX	240	2,060			240	2,060	(119)	2,181	1969	2012
(a)	(2)	Floresville	TX	780	6,120			780	6,120	(365)	6,535	1995	2012
(a)	(2)	DeLeon	TX	200	2,800			200	2,800	(154)	2,846	1974	2012
(a)	(2)	Lampasas	TX	360	4,640			360	4,640	(268)	4,732	1990	2012
(a)	(2)	Levelland	TX	300	3,800			300	3,800	(245)	3,855	1990	2012
(a)	(2)	Odessa	TX	350	8,050			350	8,050	(417)	7,983	1974	2012
(a)	(2)	Odessa	TX	280	8,420	140		280	8,560	(444)	8,396	1975	2012
(a)	(2)	Midland	TX	440	5,860			440	5,860	(332)	5,968	1975	2012
(a)	(2)	Lake Worth	TX	650	4,610			650	4,610	(267)	4,993	1977	2012
(a)	(2)	Sweetwater	TX	190	4,210			190	4,210	(274)	4,126	2010	2012
(b)	(2)	Bradenton	FL	390	4,546	180		390	4,726	(233)	4,883	1985	2012

(b)	(2)	Eau Claire	WI	1,040	1,460	352	1,040	1,812	(93)	2,759	1930	2012
(a)	(2)	Louisville	KY	441	9,484	127	441	9,611	(381)	9,671	1977	2012
(a)	(2)	Glendale	WI	1,620	5,980		1,620	5,980	(202)	7,398	1994	2012
(a)	(2)	Seguin	TX	600	4,400		600	4,400	(168)	4,832	1958	2012
(b)	(2)	Dunnellon, FL	FL	690	3,510	285	690	3,795	(127)	4,358	1993	2012
(b)	(2)	Ocala, FL	FL	500	2,800	37	500	2,837	(93)	3,244	1984	2012

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			Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)				
cumbrances	City	State	Land	Buildings & Improvements	Improvements/ Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Constructio
(2)	Dunnellon, FL	FL	490	2,610	98		490	2,708	(88)	3,110	1991
(2)	Ormond Beach, FL	FL	630	2,870	80		630	2,950	(107)	3,473	1996
(2)	Hot Springs	AR			166			166	(5)	161	2007
(2)	Little Rock	AR	465	3,012	55	(3,532)					1969
			81,604	675,605	94,612	(69,437)	75,217	707,167	(110,868)	671,517	
(3)	Raton	NM	128	1,509	47		128	1,556	(544)	1,140	1985
(3)	Gallup	NM	329	3,953	17		329	3,970	(1,101)	3,198	1978
(3)	Dayton	TX	18	436	9		18	445	(140)	323	1964
(3)	Ft. Worth	TX	137	1,147	(9)		137	1,138	(373)	902	1963
(3)	San Antonio	TX	342	1,931	971		342	2,902	(762)	2,482	1969
(3)	Ft. Worth	TX	88	1,764		(1,852)					
(3)	Garland	TX	57	1,058	1,358		57	2,416	(452)	2,021	1964
(3)	Wylie	TX	210	2,684	528		210	3,212	(750)	2,672	1975
(3)	Mansfield	TX	487	2,143	(18)		487	2,125	(615)	1,997	1964
(3)	Lancaster	TX	626	1,848	(16)		626	1,832	(570)	1,888	1973
(3)	Brownwood	TX	140	3,464	1,502		140	4,966	(1,002)	4,104	1968
(3)	Irving	TX	137	1,248	(10)		137	1,238	(376)	999	1972

(3)	Watauga	TX	1,061	3,846			1,061	3,846	(996)	3,911	1999
(3)	Phoenix	AZ	500	4,538			500	4,538	(1,515)	3,523	1997
(3)	Sun City	AZ	476	5,698	60		476	5,758	(1,566)	4,668	1985
(3)	Mesa	AZ	123	1,641	(14)		123	1,627	(424)	1,326	1974
(3)	Mesa	AZ	466	6,231	(47)	(615)	466	5,569	(1,724)	4,311	1973

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Encumbrances	City	State	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)				Year of Construction	Da Acqu
			Land	Buildings & Improvements	Improvements / Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net		
(3)	Anacortes	WA	625	1,185	2,041		625	3,226	(853)	2,998	1965	200
(3)	Ponoma	CA	403	955			403	955	(279)	1,079	1959	200
(3)	Baldwin Park	CA	1,308	486			1,308	486	(165)	1,629	1963	200
(3)	Effingham	IL	317	3,462			317	3,462	(913)	2,866	1974	200
(3)	Salem	IL	125	4,664	900		125	5,564	(1,288)	4,401	1972	200
(3)	Willis	TX	212	2,407			212	2,407	(526)	2,093	1975	200
(3)	Matoon	IL	250	2,391	1,292	(13)	250	3,670	(569)	3,351	1963	200
(3)	San Diego	CA	1,425	9,653	65	(57)	1,425	9,661	(2,015)	9,071	1994	200
(3)	Austin	TX	1,501	4,505	2,319		1,501	6,824	(960)	7,365	2007	200
(3)	Hamilton	TX	58	5,781			58	5,781	(1,026)	4,813	1998	200
(3)	Petaluma	CA	749	2,460			749	2,460	(463)	2,746	1969	200
(3)	Carson City	NV	3,455	5,942			3,455	5,942	(804)	8,593	1977	200
(3)	Orange	CT	1,134	11,155	2,132		1,134	13,287	(1,108)	13,313	1999	201

(3)	Pratt	KS	19	503	312	19	815	(59)	775	1964	201
(3)	Wichita	KS	94	897	151	94	1,048	(96)	1,046	1977	201
(3)	Haviland	KS	112	649	16	112	665	(63)	714	1971	201
(3)	Newtown	CT	4,942	7,058	3,333	6,314	9,019	(719)	14,614	2000	201
(3)	Cleveland	OH	120	3,080		120	3,080	(192)	3,008	1994	201
(3)	New Philadelphia	PA	451	3,264		451	3,264	(188)	3,527	1962	201
(3)	Coroapolis	PA	1,546	10,018		1,546	10,018	(578)	10,986	1983	201

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			Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)				
umbrances	City	State	Land	Buildings & Improvements	Improvements / Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction
(3)	Dunmore	PA	398	6,813			398	6,813	(397)	6,814	2002
(3)	West Union	OH	1,056	5,774	20		1,056	5,794	(335)	6,515	1981
(3)	New Castle	PA	393	8,246			393	8,246	(482)	8,157	1982
(3)	Euclid	OH	853	8,425			853	8,425	(486)	8,792	1989
(3)	Marysville	OH	736	2,169			736	2,169	(128)	2,777	1968
(3)	Colby	KS	569	2,799			569	2,799	(158)	3,210	1974
(3)	Kensington	KS	280	1,419			280	1,419	(85)	1,614	1967
(3)	Onaga	KS	87	2,866			87	2,866	(162)	2,791	1959
(3)	Oswego	KS	183	840			183	840	(52)	971	1960
(3)	Smith Center	KS	106	1,650			106	1,650	(96)	1,660	1960
(3)	Little Rock	AR	1,040	3,710	866		1,040	4,576	(295)	5,321	1996

(3)	Gardnerville	NV	1,238	3,562			1,238	3,562	(191)	4,609	2000
(3)	Chicago	IL			1,209			1,209	(410)	799	
			31,110	173,927	19,034	(2,537)	32,394	189,140	(29,048)	192,486	
(4)	Little Rock	AR	471	4,779	7,613	(12,863)					1971
(4)	Riverside	CA	1,648	9,852			1,648	9,852	(1,039)	10,461	1965
(4)	Mishawaka	IN	328	8,072			328	8,072	(374)	8,026	1991
(4)	Pocatello	ID	470	5,530	835		470	6,365	(267)	6,568	1970
(4)	Pleasanton	CA	411	751	1,475		411	2,226	(59)	2,578	2012
(4)	Inola	OK	520	2,480			520	2,480	(88)	2,913	1990
(4)	Pryor	OK	100	400			100	400	(12)	489	2000

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pe f set	Encumbrances	City	State	Initial Cost to Company: Land	Initial Cost to Company: Buildings & Improvements	Costs Capitalized Subsequent to Acquisition: Improvements / Adjustments	Costs Capitalized Subsequent to Acquisition: Impairment / Dispositions	Amount Carried at December 31, 2013 (c): Land	Amount Carried at December 31, 2013 (c): Buildings & Improvements	Accumulated Depreciation	Net	Year of Construction	Date Acquired
)	(4)	Ravenna	OH	660	6,940			660	6,940	(217)	7,383	2000	2012
)	(4)	Gonzales	TX	560	1,840	182		560	2,022	(41)	2,541	1963	2013
)	(4)	Knox	IN	137	1,063			137	1,063	(18)	1,182	2008	2013
)	(4)	North Royalton	OH	1,330	13,020			1,330	13,020	(242)	14,108	1979	2013
)	(4)	Oklahoma City	OK	580	2,420			580	2,420	(50)	2,950	1971	2013
)	(4)	Oklahoma City	OK	370	2,830			370	2,830	(61)	3,139	1967	2013
)	(4)	Louisville	KY	880	8,120			880	8,120	(104)	8,896	1960	2013
)	(4)	Luling	TX	272	3,178			272	3,178	(38)	3,412	1972	2013
)	(4)	Haines City	FL	510	2,990			510	2,990	(22)	3,478	1954	2013
)	(4)	Lakeland	FL	330	2,270			330	2,270	(17)	2,583	1980	2013
)	(4)	Brooksville	FL	702	6,198			702	6,198	(45)	6,855	1925	2013
)	(4)	Hamilton	OH	1,066	8,862			1,066	8,862	(68)	9,860	1971	2013
)	(4)	New Albany	IN	1,152	15,578			1,152	15,578	(113)	16,617	1999	2013

)	(4)	Dayton	OH	1,158	3,455		1,158	3,455	(28)	4,585	1966	2013
)	(4)	Cincinnati	OH	1,287	3,341		1,287	3,341	(27)	4,601	1929	2013
)	(4)	Pickerington	OH	550	9,810		550	9,810	(49)	10,311	1978	2013
)	(4)	Cincinnati	OH	530	12,260		530	12,260	(63)	12,727	1967	2013
)	(4)	Edgerton	OH	390	5,050		390	5,050	(26)	5,414	1920	2013
)	(4)	Columbus	OH	2,070	10,340		2,070	10,340	(55)	12,355	1964	2013
)	(4)	Ola	AR	78	1,085		78	1,085	(6)	1,157	1965	2013
)	(4)	Bremen	IN	400	8,900		400	8,900	(19)	9,281	1988	2013
)	(4)	Chardon	OH	1,650	13,865		1,650	13,865	(34)	15,481	1955	2013
)	(4)	Chardon	OH	630	9,585		630	9,585	(22)	10,193	1999	2013
)	(4)	Chardon	OH	1,100	8,770		1,100	8,770	(19)	9,851	1955	2013
)	(4)	Richardson	TX	1,470	11,530		1,470	11,530		13,000	1980	2013

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City	State	Initial Cost to Company: Land	Initial Cost to Company: Buildings & Improvements	Costs Capitalized Subsequent to Acquisition: Improvements/ Adjustments	Costs Capitalized Subsequent to Acquisition: Impairment / Dispositions	Amount Carried at December 31, 2013 (c): Land	Amount Carried at December 31, 2013 (c): Buildings & Improvements	Accumulated Depreciation	Net	C
Champaign	IL	350	2,450			350	2,450		2,800	
Energy	IL	100	3,300			100	3,300		3,400	
West Frankfort	IL	50	750			50	750		800	
Fort Stockton	TX	480	2,870			480	2,870		3,350	
Seattle	WA		360		(360)					
North Richland Hills	TX	980		5,068	(6,048)					
Mt. Vernon	WA			422	(422)					
		25,770	214,894	15,595	(19,693)	24,319	212,247	(3,222)	233,344	
Danbury	CT	1,919	14,081			1,919	14,081	(625)	15,375	
		1,919	14,081			1,919	14,081	(625)	15,375	
		$ 140,403	$ 1,078,507	$ 129,303	$ (91,667)	$ 133,849	$ 1,122,697	$ (143,769)	$ 1,112,778	

irect financing leases

Type of Asset	Encumbrances	City	State	Initial Cost to Company	Accretion/ Amortization	Impairment/ Dispositions	Assets Under Direct Financing Leases	Net	Year o Construc
(a)	(2)	Hot Springs	AR	10,419	756		$ 11,175	11,175	2007
				$ 10,419	$ 756	$	$ 11,175	$ 11,175	

				Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)						
pe et	Encumbrances	City	State	Land	Buildings & Improvements	Improvements/ Adjustments	Construction in Progress	Land	Buildings & Improvements	Accumulated Depreciation	Construction in Progress and Land Held for Development	Net	Year of Construction	Da Acqu
	(2)	Houston	TX	228	2,452		88	228	2,452	(508)	88	2,260	1976	20
	(2)	Mansfield	OH	146	2,686	20	160	146	2,706	(523)	160	2,489	1980	20
	(2)	Chatham	PA	203	1,997		9,734	203	1,997	(1,997)	9,734	9,937	1873	20
	(2)	Escondido	CA	170	1,139		51	170	1,139	(76)	51	1,284	1990	20
	(2)	Fresno	CA	270	1,709		50	270	1,709	(109)	50	1,920	1990	20
	(2)	Elk Grove	CA	220	1,649		84	220	1,649	(106)	84	1,847	1992	20

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			Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)						
s	City	State	Land	Buildings & Improvements	Adjustments	Construction in Progress	Land	Buildings & Improvements		Accumulated Depreciation	Construction in Progress and Land Held for Development	Net	C
	Silverado	CA	550	1,039		51	550	1,039		(76)	51	1,564	
	Gilroy	CA	1,089	1,759		58	1,089	1,759		(112)	58	2,794	
	Eagle Lake	TX	93			5,565					5,658	5,658	
	Granite Bay	CA	540	435		624	540	435		(14)	624	1,585	
	Bethel	CT	2,400			3,415					5,815	5,815	
	Chatsworth	CA	416	281		364	416	281		(5)	364	1,056	
	Northridge	CA	469	310		555	469	310		(6)	555	1,328	
			$ 6,794	$ 15,457	$ 20	$ 20,799	$ 4,301	$ 15,476		$ (3,533)	$ 23,292	$ 39,536	
						GRAND TOTAL	$ 138,150	$ 1,138,173	$ 11,175	$ (147,302)	$ 23,292	$ 1,163,488	

(a) Skilled Nursing Facilities (SNFs)
(b) Assisted Living Facilities (ALFs)
(c) Vacant Land
(d) Assets relating to corporate office space
(e) Devlopmental asset
(f) Includes six properties all located in Texas
(g) The aggregate cost for federal income tax purposes of the real estate as of December 31, 2013 is $1.1 billion (unaudited).
(h) Traumatic Brain Injury Center (TBIs)
(i) Long Term Acute Care
(j) Medical Office Building
(k) Hospital

Encumbrances:

(1) Issuer
(2) Unencumbered guarantors
(3) Encumbered guarantors
(4) Non guarantors
(5) Non guarantor, HUD loan

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	For the Years Ended December 31,		
	2013	2012	2011
Reconciliation of real estate:			
Carrying cost:			
Balance at beginning of period	$ 1,102,832	$ 919,383	$ 703,049
Additions during the period:			
Acquisitions	199,789	184,326	186,078
Development of rental properties and capital expenditures	28,415	42,448	36,687
Dispositions:			
Sale of assets	(19,746)	(32,208)	(339)
Impairment (i)	(500)	(11,117)	(6,092)
Balance at end of period	$ 1,310,790	$ 1,102,832	$ 919,383
Accumulated depreciation:			
Balance at beginning of period	$ 119,371	$ 96,796	75,949
Additions during the period:			
Depreciation expense	33,144	26,810	20,847
Dispositions:			
Sale of assets	(5,213)	(4,235)	
Balance at end of period	$ 147,302	$ 119,371	$ 96,796

(i) Represents the write-down of carrying cost and accumulated depreciation on assets where impairment charges were taken.