

NABORS INDUSTRIES LTD

Form 10-Q

August 03, 2007

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

**Form 10-Q**

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

**For the Quarterly Period Ended June 30, 2007**

**Commission file number: 001-32657**

**Nabors Industries Ltd.**

**Incorporated in Bermuda  
Mintflower Place  
8 Par-La-Ville Road  
Hamilton, HM08  
Bermuda  
(441) 292-1510**

**98-0363970**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

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

The number of common shares, par value \$.001 per share, outstanding as of July 27, 2007 was 282,309,214. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., has 135,036 exchangeable shares outstanding as of July 27, 2007 that are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

<b>(In thousands, except per share amounts)</b>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 608,739	\$ 700,549
Short-term investments	218,552	439,467
Accounts receivable, net	1,035,895	1,109,738
Inventory	127,368	100,487
Deferred income taxes	36,943	38,081
Other current assets	230,729	116,534
Total current assets	2,258,226	2,504,856
Long-term investments	480,341	513,269
Property, plant and equipment, net	6,298,371	5,410,101
Goodwill	388,981	362,269
Other long-term assets	486,341	351,808
Total assets	\$ 9,912,260	\$ 9,142,303

**LIABILITIES AND SHAREHOLDERS EQUITY**

Current liabilities:		
Current portion of long-term debt	\$ 700,000	\$
Trade accounts payable	508,712	459,179
Accrued liabilities	321,547	294,958
Income taxes payable	118,426	100,223
Total current liabilities	1,648,685	854,360
Long-term debt	3,305,249	4,004,074
Other long-term liabilities	295,223	208,553
Deferred income taxes	540,488	538,663
Total liabilities	5,789,645	5,605,650

Commitments and contingencies (Note 7)

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Shareholders' equity:

Common shares, par value \$.001 per share:

Authorized common shares 800,000; issued 303,940 and 299,333, respectively	304	299
Capital in excess of par value	1,721,200	1,637,204
Accumulated other comprehensive income	257,695	201,261
Retained earnings	2,918,900	2,473,373
Less: treasury shares, at cost, 22,340 common shares	(775,484)	(775,484)
Total shareholders' equity	4,122,615	3,536,653
Total liabilities and shareholders' equity	\$ 9,912,260	\$ 9,142,303

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

<b>(In thousands, except per share amounts)</b>	<b>Three Months Ended</b>		<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenues and other income:				
Operating revenues	\$ 1,162,773	\$ 1,118,000	\$ 2,423,416	\$ 2,281,926
Earnings from unconsolidated affiliates	3,436	9,370	15,877	13,769
Investment (loss) income	(9,272)	16,728	19,437	30,598
Total revenues and other income	1,156,937	1,144,098	2,458,730	2,326,293
Costs and other deductions:				
Direct costs	649,969	594,226	1,347,273	1,208,843
General and administrative expenses	100,989	87,830	215,963	176,627
Depreciation and amortization	112,988	87,946	218,216	169,335
Depletion	9,160	7,913	15,785	20,930
Interest expense	13,716	12,168	26,765	20,223
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	(39,510)	4,216	(25,472)	8,245
Total costs and other deductions	847,312	794,299	1,798,530	1,604,203
Income before income taxes	309,625	349,799	660,200	722,090
Income tax (benefit) expense:				
Current	58,828	58,549	168,909	119,974
Deferred	22,448	57,817	780	111,920
Total income tax expense	81,276	116,366	169,689	231,894
Net income	\$ 228,349	233,433	\$ 490,511	\$ 490,196
Earnings per share:				
Basic	\$ .82	.79	\$ 1.76	\$ 1.61
Diluted	\$ .79	.77	\$ 1.71	\$ 1.56
Weighted-average number of common shares outstanding:				
Basic	279,253	294,419	278,098	303,704
Diluted	287,898	304,394	286,356	314,608

The accompanying notes are an integral part of these consolidated financial statements.

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

<b>(In thousands)</b>	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net income	\$ 490,511	\$ 490,196
Adjustments to net income:		
Depreciation and amortization	218,216	169,335
Depletion	15,785	20,930
Deferred income tax (benefit) expense	780	111,920
Deferred financing costs amortization	4,176	2,104
Pension liability amortization	240	210
Discount amortization on long-term debt	974	2,888
Amortization of loss on hedges	276	277
(Gains) losses on long-lived assets, net	(29,547)	8,111
Losses (gains) on investments, net	2,665	(7,696)
Gains on derivative instruments	(979)	(1,642)
Share-based compensation	16,285	15,150
Foreign currency transaction gains, net	(3,290)	(7)
Equity in earnings of unconsolidated affiliates, net of dividends	(4,291)	(11,336)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	88,267	(163,397)
Inventory	(24,213)	(18,028)
Other current assets	(56,644)	(13,249)
Other long-term assets	(127,262)	(24,271)
Trade accounts payable and accrued liabilities	37,710	82,112
Income taxes payable	(24,811)	57,446
Other long-term liabilities	50,537	20,513
Net cash provided by operating activities	655,385	741,566
Cash flows from investing activities:		
Purchases of investments	(203,222)	(212,682)
Sales and maturities of investments	366,239	727,741
Cash paid for acquisitions of businesses, net	(8,391)	(82,236)
Deposits released for acquisitions		35,844
Capital expenditures	(1,095,496)	(840,006)
Investment in affiliates	(8,433)	(2,433)
Proceeds from sales of assets and insurance claims	119,447	7,794
Net cash used for investing activities	(829,856)	(365,978)
Cash flows from financing activities:		
Increase (decrease) in cash overdrafts	12,042	(26,322)



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Proceeds from long-term debt		2,750,000
Reduction of long-term debt		(769,789)
Proceeds from sale of warrants		421,162
Purchase of exchangeable note hedge		(583,550)
Debt issuance costs		(27,500)
Proceeds from issuance of common shares	67,824	19,173
Repurchase and retirement of common shares	(1,811)	(1,309,102)
Tax benefit related to the exercise of stock options	784	3,954
Net cash provided by financing activities	78,839	478,026
Effect of exchange rate changes on cash and cash equivalents	3,822	645
Net (decrease) in cash and cash equivalents	(91,810)	854,259
Cash and cash equivalents, beginning of period	700,549	565,001
Cash and cash equivalents, end of period	\$ 608,739	\$ 1,419,260

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY  
(Unaudited)**

	<b>Common</b>		<b>Accumulated Other Comprehensive Income (Loss)</b>				<b>Retained</b>	<b>Treasury</b>	<b>T</b>
	<b>Shares</b>	<b>Par</b>	<b>Capital in</b>	<b>Unrealized</b>	<b>Cumulative</b>	<b>Other</b>	<b>Earnings</b>	<b>Shares</b>	<b>Share</b>
	<b>Shares</b>	<b>Value</b>	<b>Excess of</b>	<b>Gains</b>	<b>Translation</b>				<b>Equity</b>
			<b>Par Value</b>	<b>on</b>	<b>Adjustment</b>				
				<b>Marketable</b>					
				<b>Securities</b>					
December 31,	299,333	\$ 299	\$ 1,637,204	\$ 33,400	\$ 171,160	\$ (3,299)	\$ 2,473,373	\$ (775,484)	\$ 3,000,000
Comprehensive income									
Net income							490,511		
Translation adjustment					89,780				
Unrealized gains on marketable securities, net of taxes of \$452				13,476					
Classification adjustment for gains									
Change in net income, net of tax benefit of				(47,048)					
Availability of cash, net of income taxes							151		
Recognition of loss on derivatives							75		
Comprehensive income (loss)				(33,572)	89,780	226	490,511		
Net effect of FIN 48									
Balance at January 1, 2007							(44,984)		
Issuance of common shares									
Options exercised	2,982	3	67,821						
Exchange of shares									
Dividends	36								
Repurchase of exercised options			1,703						

stock awards,	1,589	2	(1,813)							
ed compensation			16,285							
	4,607	5	83,996				(44,984)			
June 30, 2007	303,940	\$ 304	\$ 1,721,200	\$ (172)	\$ 260,940	\$ (3,073)	\$ 2,918,900	\$ (775,484)	\$ 4,	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**NABORS INDUSTRIES LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES  
IN SHAREHOLDERS' EQUITY (Continued)  
(Unaudited)**

	Common		Accumulated Other Comprehensive Income (Loss)				Retained	Treasury	
	Shares	Par Value	Capital in Excess of Par Value	Unearned Compensation	Unrealized Gains (Losses) on Marketable Securities	Cumulative Translation Adjustment	Earnings	Shares	
December 31,	315,393	\$ 315	\$ 1,590,968	\$ (15,649)	\$ 18,865	\$ 178,109	\$ (3,994)	\$ 1,989,526	\$
Income								490,196	
Investment on activities, net of \$667					15,752	34,353			
Translation gains					(1,408)				
Income, net expense of									
of income							132		
Loss on							75		
Dispositive				-	14,344	34,353	207	490,196	
AS 123-R non shares			(15,649)	15,649					
exercised	913	1	19,172						
eco shares	42								
Options			(583,550)						
the			421,162						
Options			211,832						

retirement									
es	(17,935)	(18)	(90,450)					(536,889)	
9,440									(681,745)
rcised									
uctions			3,954						
awards,									
	613								
mpensation			15,150						
	(16,367)	(17)	(18,379)	15,649				(536,889)	(681,745)
0, 2006	299,026	\$ 298	\$ 1,572,589	\$	\$ 33,209	\$ 212,462	\$ (3,787)	\$ 1,942,833	\$ (681,745)

The accompanying notes are an integral part of these consolidated financial statements.

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Nature of Operations**

Nabors is the largest land drilling contractor in the world, with approximately 650 land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South and Central America, the Middle East, the Far East and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We own approximately 615 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 190 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 41 platform, 14 jack-up units and 4 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 50% ownership interest in a joint venture in Saudi Arabia, which owns 18 rigs. We also offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We market 25 marine transportation and supply vessels, which provide transportation of drilling materials, supplies and crews for offshore operations. We provide logistics services for onshore drilling and well-servicing operations in Canada using helicopters and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, and rig reporting software. We also invest in oil and gas exploration, development and production activities.

The majority of our business is conducted through our various Contract Drilling operating segments, which include our drilling, workover and well-servicing operations, on land and offshore. Our oil and gas exploration, development and production operations are included in a category labeled Oil and Gas for segment reporting purposes. Our operating segments engaged in marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations are aggregated in a category labeled Other Operating Segments for segment reporting purposes.

As used in this Report, we, us, our and Nabors means Nabors Industries Ltd. and, where the context requires, includes our subsidiaries.

**Note 2 Summary of Significant Accounting Policies**

***Interim Financial Information***

The unaudited consolidated financial statements of Nabors are prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). Certain reclassifications have been made to the prior period to conform to the current period presentation, with no effect on our consolidated financial position, results of operations or cash flows. Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ), certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with our Annual Report on Form 10-K for the year ended December 31, 2006. In our management's opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of June 30, 2007 and the results of our operations and our cash flows for the three and six months ended June 30, 2007 and 2006, in accordance with GAAP. Interim results for the three and six months ended June 30, 2007 may not be indicative of results that will be realized for the full year ending December 31, 2007.

Our independent registered public accounting firm has performed a review of, and issued a report on, these consolidated interim financial statements in accordance with standards established by the Public Company Accounting Oversight Board. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of any registration statement prepared or certified within the meanings of Sections 7 and 11 of the Securities Act.

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Principles of Consolidation***

Our consolidated financial statements include the accounts of Nabors, all majority-owned subsidiaries, and all non-majority owned subsidiaries required to be consolidated under Financial Accounting Standards Board ( FASB ) Interpretation No. 46(R), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 ( FIN 46R ). All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in operating entities where we have the ability to exert significant influence, but where we do not control their operating and financial policies, are accounted for using the equity method. Our share of the net income of these entities is recorded as Earnings from unconsolidated affiliates in our consolidated statements of income and our investment in these entities is carried as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled \$111.1 million and \$98.0 million as of June 30, 2007 and December 31, 2006, respectively, and are included in other long-term assets in our consolidated balance sheets. Similarly, investments in certain offshore funds classified as non-marketable are accounted for using the equity method of accounting based on our ownership interest in each fund. Our share of the gains and losses of these funds is recorded in investment (loss) income in our consolidated statements of income and our investments in these funds are included in long-term investments in our consolidated balance sheets.

**Note 3 Share-Based Compensation**

The Company has several stock-based employee compensation plans, which are more fully described in Note 3 of our 2006 Annual Report on Form 10-K. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, ( SFAS 123-R ), using the modified prospective application method.

Total share-based compensation expense, which includes both stock options and restricted stock, totaled \$8.4 million and \$7.4 million for the three months ended June 30, 2007 and 2006, respectively, and \$16.3 million and \$15.2 million for the six months ended June 30, 2007 and 2006. Share-based compensation expense has been allocated to our various operating segments (Note 10).

During the six months ended June 30, 2007, the Company awarded 1,740,763 shares of restricted stock to its employees, directors and executive officers. These awards had an aggregate value at their date of grant of \$52.5 million and vest over a period of three to four years.

**Note 4 Long-term Debt**

Our \$700 million zero coupon senior exchangeable notes due 2023 can be put to us on June 15, 2008, June 15, 2013 and June 15, 2018 for a purchase price equal to 100% of the principal amount of the notes plus contingent interest and additional amounts, if any. Accordingly, as our \$700 million zero coupon senior exchangeable notes can be put to us on June 15, 2008, the outstanding principal amount of these notes of \$700 million has been reclassified from long-term debt to current liabilities in our balance sheet as of June 30, 2007. If these notes are not put to us on June 15, 2008, the notes will be reclassified back to long term debt at that time.

**Note 5 Income Taxes**



Effective January 1, 2007, we adopted the provisions of the FASB issued Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes. In connection with the adoption of FIN 48, the Company recognized increases of \$24 million and \$21 million to its tax reserves for uncertain tax positions and interest and penalties, respectively. These increases were accounted for as an increase to other long-term liabilities and as a reduction to retained earnings at January 1, 2007. As of January 1, 2007, the Company had approximately \$114.1 million of total gross unrecognized tax benefits, including \$29.8 million of interest and penalties, which also represents the amount of unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate in future

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**NABORS INDUSTRIES LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

periods. As of June 30, 2007, the Company had approximately \$120.1 of total gross unrecognized tax benefits, including interest and penalties, recorded as other long-term liabilities. During the three and six months ended June 30, 2007, the Company accrued and recognized estimated interest and penalties of approximately \$2.4 million and \$4.0 million, respectively.

We are subject to income taxes in the United States and numerous foreign jurisdictions. U.S. federal income tax returns for 2002 through 2005 are currently under examination. Internationally, income tax returns from 1995 through 2005 are currently under examination. Based on the number of tax years currently under audit by relevant Federal, State and foreign tax authorities, the Company anticipates that several of these audits could be finalized within 12 months. As a result, it is reasonably possible that the amount of the unrecognized benefits with respect to certain of our unrecognized tax positions will significantly increase or decrease within the next 12 months. However, based on the current status of examinations, and the protocol for finalizing audits with the relevant tax authorities, which could include formal legal proceedings, it is not possible to estimate the future impact of the amount of changes, if any, to previously recorded uncertain tax positions.

The Company continues to recognize interest and penalties related to income tax matters in the income tax expense line item in the consolidated statement of income.

**Note 6 Common Shares**

During the six months ended June 30, 2007 and 2006, our employees exercised vested options to acquire 3.0 million and .9 million of our common shares, respectively, resulting in proceeds of \$67.8 million and \$19.2 million, respectively.

During the six months ended June 30, 2006, we repurchased 37.4 million of our common shares in the open market for \$1.31 billion. We retired 17.9 million shares during the six months ended June 30, 2006 and held 19.4 million of these shares in treasury.

**Note 7 Commitments and Contingencies**

***Commitments***

***Employment Contracts***

Nabors Chairman and Chief Executive Officer, Eugene M. Isenberg, and its Deputy Chairman, President and Chief Operating Officer, Anthony G. Petrello, have employment agreements which were amended and restated effective October 1, 1996 and which currently are due to expire on September 30, 2010.