NABORS INDUSTRIES LTD
Form 10-K
February 26, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2009**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission File Number 001-32657
NABORS INDUSTRIES LTD.
(Exact name of registrant as specified in its charter)

Bermuda *(State or Other Jurisdiction of Incorporation or Organization)*	**980363970** *(I.R.S. Employer Identification No.)*
Mintflower Place 8 Par-La-Ville Road Hamilton, HM08 Bermuda *(Address of principal executive offices)*	**N/A** *(Zip Code)*

(441) 292-1510
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class	Name of Each Exchange on Which Registered
Common shares, $.001 par value per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:
None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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 þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. YES þ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the 228,620,332 common shares, par value $.001 per share, held by non-affiliates of the registrant, based upon the closing price of our common shares as of the last business day of our most recently completed second fiscal quarter, June 30, 2009, of $15.58 per share as reported on the New York Stock Exchange, was $3,561,904,773. Common shares held by each officer and director and by each person who owns 5% or more of the outstanding common shares have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of common shares, par value $.001 per share, outstanding as of February 24, 2010 was 284,669,913.

DOCUMENTS INCORPORATED BY REFERENCE (to the extent indicated herein)

Specified portions of the 2010 Notice of Annual Meeting of Shareholders and the definitive Proxy Statement to be distributed in connection with the 2010 annual meeting of shareholders (Part III).

NABORS INDUSTRIES LTD.

Form 10-K Annual Report

For the Year Ended December 31, 2009

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Our internet address is www.nabors.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the SEC). In addition, a glossary of drilling terms used in this document and documents relating to our corporate governance (such as committee charters, governance guidelines and other internal policies) can be found on our website. The SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

FORWARD-LOOKING STATEMENTS

We often discuss expectations regarding our future markets, demand for our products and services, and our performance in our annual and quarterly reports, press releases, and other written and oral statements. Statements that relate to matters that are not historical facts are forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 (the Securities Act) and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). These forward-looking statements are based on an analysis of currently available competitive, financial and economic data and our operating plans. They are inherently uncertain and investors should recognize that events and actual results could turn out to be significantly different from our expectations. By way of illustration, when used in this document, words such as anticipate, believe, expect, plan, intend, estimate, project, will, should, could, may, predict and similar expressions are intended to ident forward-looking statements.

You should consider the following key factors when evaluating these forward-looking statements:

- fluctuations in worldwide prices of and demand for natural gas and oil;
- fluctuations in levels of natural gas and oil exploration and development activities;
- fluctuations in the demand for our services;
- the existence of competitors, technological changes and developments in the oilfield services industry;
- the existence of operating risks inherent in the oilfield services industry;
- the existence of regulatory and legislative uncertainties;
- the possibility of changes in tax laws;
- the possibility of political instability, war or acts of terrorism in any of the countries in which we do business; and
- general economic conditions including the capital and credit markets.

Our businesses depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Therefore, a sustained increase or decrease in the price of natural gas or oil, which could have a material impact on exploration, development and production activities, could also materially affect our financial position, results of operations and cash flows.

The above description of risks and uncertainties is by no means all-inclusive, but is designed to highlight what we believe are important factors to consider. For a more detailed description of risk factors, please refer to Part I, Item 1A. Risk Factors.

Unless the context requires otherwise, references in this report to we, us, our, the Company, or Nabors means Na Industries Ltd. and, where the context requires, includes our subsidiaries.

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PART I

ITEM 1. *BUSINESS*

Introduction

Nabors is the largest land drilling contractor in the world, with approximately 542 actively marketed land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We actively market approximately 558 rigs for land workover and well-servicing work in the United States, primarily in the southwestern and western United States, and actively market approximately 172 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 40 platform, 13 jack-up and 3 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 9 rigs in addition to the rigs we lease to the joint venture. 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 select domestic and international markets. We provide logistics services for onshore drilling in Canada using helicopters and fixed-wing 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, pipeline handling equipment and rig reporting software. We also invest in oil and gas exploration, development and production activities and have 49-50% ownership interests in joint ventures in the U.S., Canada and International areas.

Nabors was formed as a Bermuda exempt company on December 11, 2001. Through predecessors and acquired entities, Nabors has been continuously operating in the drilling sector since the early 1900s. Our principal executive offices are located at Mintflower Place, 8 Par-La-Ville Road, Hamilton, HM08, Bermuda. Our phone number at our principal executive offices is (441) 292-1510.

Our Fleet of Rigs

Land Rigs. A land-based drilling rig generally consists of engines, a drawworks, a mast (or derrick), pumps to circulate the drilling fluid (mud) under various pressures, blowout preventers, drill string and related equipment. The engines power the different pieces of equipment, including a rotary table or top drive that turns the drill string, causing the drill bit to bore through the subsurface rock layers. Rock cuttings are carried to the surface by the circulating drilling fluid. The intended well depth, bore hole diameter and drilling site conditions are the principal factors that determine the size and type of rig most suitable for a particular drilling job.

Special-purpose drilling rigs used to perform workover services consist of a mobile carrier, which includes an engine, drawworks and a mast, together with other standard drilling accessories and specialized equipment for servicing wells. These rigs are specially designed for major repairs and modifications of oil and gas wells, including standard drilling functions. A well-servicing rig is specially designed for periodic maintenance of oil and gas wells for which service is required to maximize the productive life of the wells. The primary function of a well-servicing rig is to act as a hoist so that pipe, sucker rods and down-hole equipment can be run into and out of a well, although they also can perform standard drilling functions. Because of size and cost considerations, these specially designed rigs are used for these operations rather than the larger drilling rigs typically used for the initial drilling job.

Land-based drilling rigs are moved between well sites and between geographic areas of operations by using our fleet of cranes, loaders and transport vehicles or those from a third-party service vendor. Well-servicing rigs are generally self-propelled; heavier capacity workover rigs are either self-propelled or trailer-mounted and include auxiliary equipment, which is either transported on trailers or moved with trucks.

Platform Rigs. Platform rigs provide offshore workover, drilling and re-entry services. Our platform rigs have drilling and/or well-servicing or workover equipment and machinery arranged in modular packages that are transported to, and assembled and installed on, fixed offshore platforms owned by the customer. Fixed offshore platforms are steel tower-like structures that either stand on the ocean floor or are moored floating structures. The top portion, or platform, sits above the water level and provides the foundation upon which the platform rig is placed.

Jack-up Rigs. Jack-up rigs are mobile, self-elevating drilling and workover platforms equipped with legs that can be lowered to the ocean floor until a foundation is established to support the hull, which contains the drilling and/or workover equipment, jacking system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, helicopter landing deck and other related equipment. The rig legs may operate independently or have a mat attached to the lower portion of the legs in order to provide a more stable foundation in soft bottom areas. Many of our jack-up rigs are of cantilever design a feature that permits the drilling platform to be extended out from the hull, allowing it to perform drilling or workover operations over adjacent, fixed platforms. Nabors shallow workover jack-up rigs generally are subject to a maximum water depth of approximately 125 feet, while some of our jack-up rigs may drill in water depths as shallow as 13 feet. Nabors also has deeper water jack-up rigs that are capable of drilling at depths between eight feet and 150 to 250 feet. The water depth limit of a particular rig is determined by the length of its legs and by the operating environment. Moving a rig from one drill site to another involves lowering the hull down into the water until it is afloat and then jacking up its legs with the hull floating. The rig is then towed to the new drilling site.

Inland Barge Rigs. One of Nabors barge rigs is a full-size drilling unit. We also own two workover inland barge rigs. These barges are designed to perform plugging and abandonment, well-service or workover services in shallow inland, coastal or offshore waters. Our barge rigs can operate at depths between three and 20 feet.

Additional information regarding the geographic markets in which we operate and our business segments can be found in Note 21 Segment Information in Part II, Item 8. Financial Statements and Supplementary Data.

Customers: Types of Drilling Contracts

Our customers include major oil and gas companies, foreign national oil and gas companies and independent oil and gas companies. No customer accounted for more than 10% of our consolidated revenues in 2009 or 2008.

On land in the U.S. Lower 48 states and Canada, we have historically been contracted on a single-well basis, with extensions subject to mutual agreement on pricing and other significant terms. Beginning in late 2004, as a result of increasing demand for drilling services, our customers started entering into longer term contracts with durations ranging from one to three years. Under these contracts, our rigs are committed to one customer over that term. Most of our recent contracts for newly constructed rigs have three-year terms. Contracts relating to offshore drilling and land drilling in Alaska and international markets generally provide for longer terms, usually from one to five years. Offshore workover projects are often on a single-well basis. We generally are awarded drilling contracts through competitive bidding, although we occasionally enter into contracts by direct negotiation. Most of our single-well contracts are subject to termination by the customer on short notice, but some can be firm for a number of wells or a period of time, and may provide for early termination compensation in certain circumstances. Contract terms and rates differ depending on a variety of factors, including competitive conditions, the geographical area, the geological formation to be drilled, the equipment and services to be supplied, the on-site drilling conditions and the anticipated duration of the work to be performed.

In recent years, all of our drilling contracts have been daywork contracts. A daywork contract generally provides for a basic rate per day when drilling (the dayrate for our providing a rig and crew) and for lower rates when the rig is moving, or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other conditions beyond our control. In addition, daywork contracts may provide for a lump sum fee for the mobilization and demobilization of the rig, which in most cases approximates our incurred costs. A daywork contract differs from a footage contract (in which the drilling contractor is paid on the basis of a rate per foot drilled) and a turnkey contract (in which the drilling contractor is paid for drilling a well to a specified depth for a fixed price).

Well-Servicing and Workover Services

Although some wells in the United States flow oil to the surface without mechanical assistance, most are in mature production areas that require pumping or some other form of artificial lift. Pumping oil wells characteristically require more maintenance than flowing wells because of the operation of the mechanical pumping equipment.

Well-Servicing/Maintenance Services. We provide maintenance services on the mechanical apparatus used to pump or lift oil from producing wells. These services include, among other things, repairing and replacing pumps, sucker rods and tubing. They also occasionally include drilling services. We provide the rigs, equipment and crews for these tasks, which are performed on both oil and natural gas wells, but which are more commonly required on oil wells. Maintenance services typically take less than 48 hours to complete. Rigs generally are provided to customers on a call-out basis. We are paid an hourly rate and work typically is performed five days a week during daylight hours.

Workover Services. Producing oil and natural gas wells occasionally require major repairs or modifications, called workovers. Workovers may be required to remedy failures, modify well depth and formation penetration to capture hydrocarbons from alternative formations, clean out and recomplete a well when production has declined, repair leaks or convert a depleted well to an injection well for secondary or enhanced recovery projects. Workovers normally are carried out with a rig that includes standard drilling accessories such as rotary drilling equipment, mud pumps, mud tanks and blowout preventers plus other specialized equipment for servicing rigs. A workover may last anywhere from a few days to several weeks. We are paid a daily rate and work is generally performed seven days a week, 24 hours a day.

Completion Services. The kinds of activities necessary to carry out a workover operation are essentially the same as those that are required to complete a well when it is first drilled. The completion process may involve selectively perforating the well casing at the depth of discrete producing zones, stimulating and testing these zones and installing down-hole equipment. The completion process may take a few days to several weeks. We are paid an hourly rate and work is generally performed seven days a week, 24 hours a day.

Production and Other Specialized Services. We also can provide other specialized services, including onsite temporary fluid storage; the supply, removal and disposal of specialized fluids used during certain completion and workover operations; and the removal and disposal of salt water that often accompanies the production of oil and natural gas. We also provide plugging services for wells from which the oil and natural gas has been depleted or further production has become uneconomical. We are paid an hourly or a per-unit rate, as applicable, for these services.

Oil and Gas Investments

Through our wholly owned Ramshorn business unit, we invest in oil and gas exploration, development and production operations in the United States, Canada and internationally. In addition, in 2006, we entered into an agreement with First Reserve Corporation to form select joint ventures to invest in oil and gas exploration opportunities worldwide. During 2007, three joint ventures were formed for operations in the United States, Canada and International areas. We hold a 50% ownership interest in the Canadian entity and 49.7% ownership interests in the U.S. and international entities. We account for these investments using the equity method of accounting. Each joint venture pursues development and exploration projects with both existing Nabors customers and other operators in a variety of forms, including operated and non-operated working interests, joint ventures, farm-outs and acquisitions. Our Ramshorn business unit through both wholly owned and joint venture operations is focused on the exploration for and the acquisition, development and production of natural gas, oil and natural gas liquids in Alaska, Arkansas, Louisiana, Oklahoma, Mississippi, Montana, North Dakota, Texas, Utah and Wyoming. Outside of the United States, we and our joint ventures own or have interests in the Canadian provinces of Alberta and British Columbia and in Colombia.

Additional information about recent activities for this segment can be found in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Oil and Gas.

Other Services

Canrig Drilling Technology Ltd., our drilling technologies and well services subsidiary, manufactures top drives, which are installed on both onshore and offshore drilling rigs. We market our top drives throughout the world. During the last three years, approximately 41% of our top drive sales were made to other Nabors companies. We also rent top drives and catwalks, and provide installation, repair and maintenance services to our customers. We also offer rig instrumentation equipment, including proprietary RIGWATCHtm software and computerized equipment that monitors a rig s real-time performance. Our directional drilling system, ROCKITtm, is experiencing high growth in the marketplace. In addition, we specialize in daily reporting software for drilling operations, making this data available through the internet. We also provide mudlogging services. Canrig Drilling Technology Canada Ltd., one of our Canadian subsidiaries, manufactures catwalks which are installed on both onshore and offshore drilling rigs. During the last three years, approximately 63% of our equipment sales were made to other Nabors companies. Ryan Energy Technologies, Inc., another one of our subsidiaries, manufactures and sells directional drilling and rig instrumentation equipment and provides data collection services to oil and gas exploration and service companies. Nabors has a 50% ownership interest in Peak Oilfield Service Company, a general partnership with a subsidiary of Cook Inlet Region, Inc., a leading Alaskan native corporation. Peak Oilfield Service Company provides heavy equipment to move drilling rigs, water, other fluids and construction materials, primarily on Alaska s North Slope and in the Cook Inlet region. The partnership also provides construction and maintenance for ice roads, pads, facilities, equipment, drill sites and pipelines. Nabors also has a 50% membership interest in Alaska Interstate Construction, L.L.C., a general contractor involved in the construction of roads, bridges, dams, drill sites and other facility sites, as well as the provision of mining support in Alaska; the other member of Alaska Interstate Construction, L.L.C. is a subsidiary of Cook Inlet Region, Inc. Revenues are derived from services to companies engaged in mining and public works. Nabors Blue Sky Ltd. leases aircraft used for logistics services for onshore drilling in Canada using helicopters and fixed-wing aircraft.

Our Employees

As of December 31, 2009, Nabors employed approximately 18,390 persons, of whom approximately 3,148 were employed by unconsolidated affiliates. We believe our relationship with our employees is generally good.

Some rig employees in Argentina and Australia are represented by collective bargaining units.

Seasonality

Our Canadian and Alaskan drilling and workover operations are subject to seasonal variations as a result of weather conditions and generally experience reduced levels of activity and financial results during the second quarter of each year. Global warming could lengthen these periods of reduced activity, but we cannot currently estimate to what degree. Seasonality does not materially impact the remaining portions of our business. Our overall financial results reflect the seasonal variations experienced in our Canadian and Alaskan operations.

Research and Development

Research and development constitutes a growing part of our overall business. The effective use of technology is critical to maintaining our competitive position within the drilling industry. We expect to continue developing technology internally and acquiring technology through strategic acquisitions.

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Industry/Competitive Conditions

To a large degree, Nabors businesses depend on the level of capital spending by oil and gas companies for exploration, development and production activities. A sustained increase or decrease in the price of natural gas or oil could have a material impact on exploration, development and production activities by our customers and could materially affect our financial position, results of operations and cash flows. See Part I, Item 1A. Risk Factors *Fluctuations in oil and natural gas prices could adversely affect drilling activity and our revenues, cash flows and profitability*.

Our industry remains competitive. Historically, the number of available rigs has exceeded demand in many of our markets. The land drilling, workover and well-servicing market is generally more competitive than the offshore market due to the larger number of rigs and market participants. From 2005 through most of 2008, demand was strong for drilling services driven by a sustained increase in the level of commodity prices; supply of and demand for land drilling services were in balance in the United States and international markets, with demand actually exceeding supply in some of our markets. This resulted in an increase in rates being charged for rigs across our North American, Offshore and International markets. In late 2008, falling oil prices and the declines in natural gas prices forced a curtailment of drilling-related expenditures by many companies and resulted in an oversupply of rigs in the markets where we operate. During 2009, this continued decline in drilling and related activity impacted our key markets. Although many rigs can be readily moved from one region to another in response to changes in levels of activity and many of the total available contracts are currently awarded on a bid basis, competition increases based on the price and supply of existing and new rigs across all of our markets.

In all of our geographic markets, we believe price and the availability and condition of equipment are the most significant factors in determining which drilling contractor is awarded a job. Other factors include the availability of trained personnel possessing the required specialized skills; the overall quality of service and safety record; and the ability to offer ancillary services. Increasingly, the ability to deliver rigs with new technology and features is becoming a competitive factor. In international markets, experience in operating in certain environments, as well as customer alliances have been factors in the selection of Nabors.

Certain competitors are present in more than one of Nabors operating regions, although no one competitor operates in all of these areas. In the U.S. Lower 48 states, we compete with Helmerich and Payne, Inc. and Patterson-UTI Energy, Inc., and several hundred other competitors with national, regional or local rig operations. In domestic land workover and well-servicing, we compete with Basic Energy Services, Inc., Key Energy Services, Inc., Complete Energy Services and with numerous other competitors having smaller regional or local rig operations. In Canada and Offshore, we compete with many firms of varying size, several of which have more significant operations in those areas than Nabors. Internationally, we compete directly with various contractors at each location where we operate. We believe that the market for land drilling, workover and well-servicing contracts will continue to be competitive for the foreseeable future.

Our other operating segments represent a relatively smaller part of our business, and we have numerous competitors in each area. Our Canrig Drilling Technology Ltd. subsidiary is one of the four major manufacturers of top drives. Its largest competitors in that market are National Oilwell Varco, Tesco and MH Pyramid. Its largest competitors in the manufacture of rig instrumentation systems are Pason and National Oilwell Varco s Totco subsidiary. Mudlogging services are provided by a number of entities that serve the oil and gas industry on a regional basis. In the U.S. Lower 48 states, there are hundreds of rig transportation companies in each of our operating regions. In Alaska, Peak Oilfield Service principally competes with Alaska Petroleum Contractors for road, pad and pipeline maintenance, and is one of many drill site and road construction companies, the largest of which is VECO Corporation, and Alaska Interstate Construction principally competes with Granite Construction Company, NANA and Pah River Construction for the construction of roads, bridges, dams, drill sites and other facility sites.

Our Business Strategy

Since 1987, with the installation of our current management team, we have adhered to a consistent strategy aimed at positioning Nabors to grow and prosper in times of good market conditions and to mitigate adverse effects during periods of poor market conditions. We have maintained a financial posture that allows us to capitalize on market weakness and strength by adding to our business base, thereby enhancing our upside potential. The principal elements of our strategy have been to:

- Maintain flexibility to respond to changing conditions.
- Maintain a conservative and flexible balance sheet.
- Build cost effectively a base of premium assets.
- Build and maintain low operating costs through economies of scale.
- Develop and maintain long-term, mutually attractive relationships with key customers and vendors.
- Build a diverse business in long-term, sustainable and worthwhile geographic markets.
- Recognize and seize opportunities as they arise.
- Continually improve safety, quality and efficiency.
- Implement leading-edge technology where cost effective to do so.
- Build shareholder value by expanding our oil and gas reserves and production.

Our business strategy is designed to allow us to grow and remain profitable in any market environment. The major developments in our business in recent years illustrate our implementation of this strategy and its continuing success. Beginning in 2005, we took advantage of the robust rig market in the United States and internationally to obtain a high volume of contracts for newly constructed rigs. A large proportion of these rigs are subject to long-term contracts with creditworthy customers with the most significant impact occurring in our International operations. This will not only expand our operations with the latest state-of-the-art rigs, which should better weather downturns in market activity, but eventually replace the oldest and least capable rigs in our existing fleet. However, this positive trend in the rig market slowed in the fourth quarter of 2008 and throughout much of 2009, due to the continued steady decline in natural gas and oil prices. As a result of lower commodity prices, many of our customers drilling programs were reduced and the demand for additional rigs was substantially reduced. Although we expect market conditions to remain challenging during 2010, we believe the deployment of our newer and higher margin rigs under long-term contracts will enhance our competitive position when market conditions improve.

Acquisitions and Divestitures

We have grown from a land drilling business centered in the U.S. Lower 48 states, Canada and Alaska to an international business with operations on land and offshore in many of the major oil, gas and geothermal markets in the world. At the beginning of 1990, our fleet consisted of 44 actively marketed land drilling rigs in Canada, Alaska and in various international markets. Today, our worldwide fleet of actively marketed rigs consists of approximately 542 land drilling rigs, approximately 558 rigs for land workover and well-servicing work in the United States and 172 rigs for land workover and well-servicing work in Canada, 40 offshore platform rigs, 13 jack-up units, 3 barge rigs and a large component of trucks and fluid hauling vehicles. This growth was fueled in part by strategic acquisitions. Although Nabors continues to examine opportunities, there can be no assurance that attractive rigs or other acquisition opportunities will continue to be available, that the pricing will be economical or that we will be successful in making such acquisitions in the future.

On January 3, 2006, we completed an acquisition of 1183011 Alberta Ltd., a wholly owned subsidiary of Airborne Energy Solutions Ltd., through the purchase of all common shares outstanding for cash for a total purchase price of Cdn.$41.7 million (U.S. $35.8 million). In addition, we assumed debt, net of working capital, totaling approximately Cdn.$10.0 million (U.S. $8.6 million). On this date, Nabors Blue Sky Ltd. (formerly 1183011 Alberta Ltd.) owned 42 helicopters and fixed-wing aircraft and owned and operated a fleet of heliportable well-service equipment. The purchase price was allocated based on final valuations of the fair value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. $18.8 million. During 2008 and 2009, the results of our impairment tests of goodwill and intangible assets indicated a permanent impairment to goodwill and to an intangible asset of Nabors Blue Sky Ltd. As such, the goodwill has been fully impaired as of December 31, 2009. See Note 2 Summary of Significant Accounting Policies in Part II, Item 8 Financial Statements and Supplementary Data.

On May 31, 2006, we completed an acquisition of Pragma Drilling Equipment Ltd. s business, which manufactures catwalks, iron roughnecks and other related oilfield equipment, through an asset purchase consisting primarily of intellectual property for a total purchase price of Cdn.$46.1 million (U.S. $41.5 million). The purchase price has been allocated based on final valuations of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. $10.5 million.

On August 8, 2007, we sold our Sea Mar business which had previously been included in Other Operating Segments. The assets included 20 offshore supply vessels and related assets, including a right under a vessel construction contract. The operating results of this business for all periods presented are accounted for as a discontinued operation in the accompanying audited consolidated statements of income (loss).

From time to time, we may sell a subsidiary or group of assets outside of our core markets or business, if it is economically advantageous for us to do so.

Environmental Compliance

Nabors does not currently anticipate that compliance with currently applicable environmental regulations and controls will significantly change its competitive position, capital spending or earnings during 2010. Nabors believes it is in material compliance with applicable environmental rules and regulations, and the cost of such compliance is not material to the business or financial condition of Nabors. For a more detailed description of the environmental laws and regulations applicable to Nabors operations, see Part I, Item 1A. Risk Factors *Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect Nabors results of operations.*

ITEM 1A. *RISK FACTORS*

In addition to the other information set forth elsewhere in this report, the following factors should be carefully considered when evaluating Nabors. The risks described below are not the only ones facing Nabors. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

Our business, financial condition or results of operations could be materially adversely affected by any of these risks.

Uncertain or negative global economic conditions could continue to adversely affect our results of operations

The recent and substantial volatility and extended declines in oil and natural gas prices in response to a weakened global economic environment has adversely affected our results of operations. In addition, economic conditions have resulted in substantial uncertainty in the capital markets and both access to and terms of available financing. Many of our customers have curtailed their drilling programs, which, in many cases, has resulted in a decrease in demand for drilling rigs and a reduction in dayrates and utilization. Additionally, some customers have terminated drilling contracts prior to the expiration of their terms. A prolonged period of lower oil and natural gas prices could continue to impact our industry and our business, including our future operating results and the ability to recover our assets, including goodwill, at their stated values. In addition, some of our customers could experience an inability to pay suppliers, including us, in the event they are unable to access the capital markets to fund their business operations. Likewise, our suppliers may be unable to sustain their current level of operations, fulfill their commitments and/or fund future operations and obligations. Each of these could adversely affect our operations.

Fluctuations in oil and natural gas prices could adversely affect drilling activity and our revenues, cash flows and profitability

Our operations depend on the level of spending by oil and gas companies for exploration, development and production activities. Both short-term and long-term trends in oil and natural gas prices affect these levels. Oil and natural gas prices, as well as the level of drilling, exploration and production activity, can be highly volatile. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, affect both the demand for, and the supply of, oil and natural gas. Weather conditions, governmental regulation (both in the United States and elsewhere), levels of consumer demand, the availability of pipeline capacity, and other factors beyond our control may also affect the supply of and demand for oil and natural gas. Recent volatility and the effects of recent declines in oil and natural gas prices are likely to continue in the near future, especially given the general contraction in the world s economy that began during 2008. We believe that any prolonged suppression of oil and natural gas prices could continue to depress the level of exploration and production activity. Lower oil and natural gas prices have also caused some of our customers to seek to terminate, renegotiate or fail to honor our drilling contracts and affected the fair market value of our rig fleet, which in turn has resulted in impairments of our assets. A prolonged period of lower oil and natural gas prices could affect our ability to retain skilled rig personnel and affect our ability to access capital to finance and grow our business. There can be no assurances as to the future level of demand for our services or future conditions in the oil and natural gas and oilfield services industries.

We have a substantial amount of debt outstanding

As of December 31, 2009, we had long-term debt outstanding of approximately $3.9 billion, including $.2 million in current maturities and $1.6 billion in long-term debt that matures in May 2011, and cash and cash equivalents and investments of $1.2 billion, including $100.9 million of long-term investments and other receivables. Long-term investments and other receivables include $92.5 million in oil and gas financing receivables. Our ability to service our debt obligations depends in large part upon the level of cash flows generated by our subsidiaries operations and our access to capital markets. If our 0.94% senior exchangeable notes were exchanged before their maturity in May 2011, the required cash payment could have a significant impact on our level of cash and cash equivalents and investments available to meet our other cash obligations. We calculate our leverage in relation to our capital (i.e., shareholders equity) utilizing two commonly used ratios:

Gross funded debt to capital ratio, which is calculated by dividing (x) funded debt by (y) funded debt *plus* deferred tax liabilities (net of deferred tax assets) *plus* capital. Funded debt is the sum of (1) short-term borrowings, (2) the current portions of long-term debt and (3) long-term debt; and

Net funded debt to capital ratio, which is calculated by dividing (x) net funded debt by (y) net funded debt *plus* deferred tax liabilities (net of deferred tax assets) *plus* capital. Net funded debt is funded debt *minus* the sum of cash and cash equivalents and short-term and long-term investments and other receivables.

At December 31, 2009, our gross funded debt to capital ratio was 0.41:1 and our net funded debt to capital ratio was 0.33:1.

As a holding company, we depend on our subsidiaries to meet our financial obligations

We are a holding company with no significant assets other than the stock of our subsidiaries. In order to meet our financial needs, we rely exclusively on repayments of interest and principal on intercompany loans that we have made to our operating subsidiaries and income from dividends and other cash flow from our subsidiaries. There can be no assurance that our operating subsidiaries will generate sufficient net income to pay us dividends or sufficient cash flow to make payments of interest and principal to us. In addition, from time to time, our operating subsidiaries may enter into financing arrangements that contractually restrict or prohibit these types of upstream payments to us. There can also be adverse tax consequences associated with paying dividends.

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Our access to borrowing capacity could be affected by the recent instability in the global financial markets

Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by Fitch Ratings, Moody s Investor Service and Standard & Poor s, which are currently BBB+, Baa1 and BBB+ , respectively, and our historical ability to access those markets as needed. Standard & Poor s recently affirmed its BBB+ credit rating on Nabors, but revised its outlook to negative from stable in early 2009 due primarily to worsening industry conditions. A credit downgrade may impact our future ability to access credit markets, which is important for purposes of both meeting our financial obligations and funding capital requirements to finance and grow our businesses.

We operate in a highly competitive industry with excess drilling capacity, which may adversely affect our results of operations

The oilfield services industry is very competitive. Contract drilling companies compete primarily on a regional basis, and competition may vary significantly from region to region at any particular time. Many drilling, workover and well-servicing rigs can be moved from one region to another in response to changes in levels of activity and market conditions, which may result in an oversupply of rigs in an area. In many markets in which we operate, the number of rigs available for use exceeds the demand for rigs, resulting in price competition. Most drilling and workover contracts are awarded on the basis of competitive bids, which also results in price competition. The land drilling market generally is more competitive than the offshore drilling market because there are larger numbers of rigs and competitors.

The nature of our operations presents inherent risks of loss that, if not insured or indemnified against, could adversely affect our results of operations

Our operations are subject to many hazards inherent in the drilling, workover and well-servicing industries, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage and damage to the property of others. Our offshore operations are also subject to the hazards of marine operations including capsizing, grounding, collision, damage from hurricanes and heavy weather or sea conditions and unsound ocean bottom conditions. In addition, our international operations are subject to risks of war, civil disturbances or other political events. Generally, drilling contracts provide for the division of responsibilities between a drilling company and its customer, and we seek to obtain indemnification from our customers by contract for some of these risks. To the extent that we are unable to transfer these risks to customers by contract or indemnification agreements, we seek protection through insurance. However, there is no assurance that our insurance or indemnification agreements will adequately protect us against liability from all of the consequences of the hazards described above. The occurrence of an event not fully insured or indemnified against, or the failure or inability of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses. In addition, there can be no assurance that insurance will be available to cover any or all of these risks. Even if available, insurance may be inadequate or insurance premiums or other costs may rise significantly in the future making insurance prohibitively expensive. We expect to continue to face upward pressure in our insurance renewals; our premiums and deductibles may be higher, and some insurance coverage may either be unavailable or more expensive than it has been in the past. Moreover, our insurance coverage generally provides that we assume a portion of the risk in the form of a deductible. We may choose to increase the levels of deductibles (and thus assume a greater degree of risk) from time to time in order to minimize our overall costs.

Future price declines may result in a writedown of our oil and gas asset carrying values

We follow the successful-efforts method of accounting for our consolidated subsidiaries oil and gas activities. Under the successful-efforts method, lease acquisition costs and all development costs are capitalized. Our provision for depletion is based on these capitalized costs and is determined on a property-by-property basis using the units-of-production method. Proved property acquisition costs are amortized over total proved reserves. Costs of wells and related equipment and facilities are amortized over the life of proved developed reserves. Proved oil and gas properties are reviewed when circumstances suggest the need for such a review and are written down to their estimated fair value, if required. Unproved properties are reviewed periodically to determine if there has been impairment of the carrying value; any impairment is expensed in that period. The estimated fair value of our proved reserves generally declines when there is a significant and sustained decline in oil and natural gas prices. During 2009, 2008 and 2007, our impairment tests on the oil and gas-related assets of our wholly owned Ramshorn business unit resulted in impairment charges of $205.9 million, $21.5 million and $41.0 million, respectively. Any sustained further decline in oil and natural gas prices or reserve quantities could require further writedown of the value of our proved oil and gas properties if the estimated fair value of these properties falls below their net book value.

Our unconsolidated oil and gas joint ventures, which we account for under the equity method of accounting, utilize the full-cost method of accounting for costs related to oil and natural gas properties. Under this method, all of these costs (for both productive and nonproductive properties) are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the units-of-production method. However, these capitalized costs are subject to a ceiling test which limits the costs to the aggregate of (i) the present value of future net revenues attributable to proved oil and natural gas reserves, discounted at 10%, plus (ii) the lower of cost or market value of unproved properties. The full-cost ceiling was evaluated at December 31, 2009 using the 12-month average price, whereas during 2008 and 2007, the full-cost ceiling was evaluated using year-end prices. During 2009 and 2008, our unconsolidated oil and gas joint ventures recorded full-cost ceiling test writedowns, of which $237.1 million and $228.3 million, respectively, represented our proportionate share. During 2007, our joint ventures did not record full-cost ceiling test writedowns. Any sustained further decline in oil and natural gas prices, or other factors, without other mitigating circumstances, could cause other future writedowns of capitalized costs and asset impairments that could adversely affect our results of operations.

The profitability of our operations outside the United States could be adversely affected by war, civil disturbance, or political or economic turmoil, fluctuation in currency exchange rates and local import and export controls

We derive a significant portion of our business from international markets, including major operations in Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. These operations are subject to various risks, including the risk of war, civil disturbances and governmental activities that may limit or disrupt markets, restrict the movement of funds or result in the deprivation of contract rights or the taking of property without fair compensation. In certain countries, our operations may be subject to the additional risk of fluctuating currency values and exchange controls, such as the recent foreign currency devaluation in Venezuela. In the international markets where we operate, we are subject to various laws and regulations that govern the operation and taxation of our business and the import and export of our equipment from country to country, the imposition, application and interpretation of which can prove to be uncertain.

The loss of key executives could reduce our competitiveness and prospects for future success

The successful execution of our strategies central to our future success will depend, in part, on a few of our key executive officers. We have entered into employment agreements with our Chairman and Chief Executive Officer, Mr. Eugene M. Isenberg and our Deputy Chairman, President and Chief Operating Officer, Mr. Anthony G. Petrello, with terms through March 30, 2013. If either Mr. Isenberg s or Mr. Petrello s employment is terminated in the event of death or disability, or without cause or in the event of a change in control, significant cash payments up to $100 million and $50 million, respectively, would be made by the Company. We do not carry significant amounts of key man insurance. The loss of Mr. Isenberg or Mr. Petrello could have an adverse effect on our financial condition or results of operations.

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Changes to or noncompliance with governmental regulation or exposure to environmental liabilities could adversely affect our results of operations

The drilling of oil and gas wells is subject to various federal, state and local laws, rules and regulations. Our cost of compliance with these laws, rules and regulations may be substantial. For example, federal law imposes on responsible parties a variety of regulations related to the prevention of oil spills, and liability for damages from such spills. As an owner and operator of onshore and offshore rigs and transportation equipment, we may be deemed to be a responsible party under federal law. In addition, our well-servicing, workover and production services operations routinely involve the handling of significant amounts of waste materials, some of which are classified as hazardous substances. Various state and federal laws govern the containment and disposal of hazardous substances, oilfield waste and other waste materials, the use of underground storage tanks and the use of underground injection wells.

We employ personnel responsible for monitoring environmental compliance and arranging for remedial actions that may be required from time to time and also use consultants to advise on and assist with our environmental compliance efforts. Liabilities are recorded when the need for environmental assessments and/or remedial efforts become known or probable and the cost can be reasonably estimated.

The scope of laws protecting the environment has expanded, particularly outside the U.S., and this trend is expected to continue. The violation of environmental laws and regulations can lead to the imposition of administrative, civil or criminal penalties, remedial obligations, and in some cases injunctive relief. Violations may also result in liabilities for personal injuries, property damage and other costs and claims. We generally require customers to assume responsibility for environmental liabilities. However, we are not always successful in allocating all of these risks to customers, and there is no assurance that customers who assume the risks will be financially able to bear them.

Under the Comprehensive Environmental Response, Compensation and Liability Act, also known as CERCLA or Superfund, and similar state laws and regulations, liability for release of a hazardous substance into the environment can be imposed jointly on the entire group of responsible parties or separately on any one of the responsible parties, without regard to fault or the legality of the original conduct of any party that contributed to the release. Liability under CERCLA may include costs of cleaning up the hazardous substances that have been released into the environment and damages to natural resources.

Changes in U.S. federal and state environmental regulations may also negatively impact oil and natural gas exploration and production companies, which in turn could have an adverse effect on us. For example, legislation has been proposed from time to time in the U.S. Congress that would reclassify some oil and natural gas production wastes as hazardous wastes, which would make the reclassified wastes subject to more stringent handling, disposal and clean-up requirements. Also, regulators in the United States and other jurisdictions in which we operate are increasingly focused on restricting the emission of carbon dioxide, methane and other greenhouse gases that may contribute to warming of the Earth s atmosphere, including the United Nations Framework Convention on Climate Change, also known as the Kyoto Protocol (an internationally applied protocol of which the United States is not a participating member), the Regional Greenhouse Gas Initiative in the Northeastern United States, the Western Regional Climate Action Initiative in the Western United States, and the 2007 U.S. Supreme Court decision in *Massachusetts, et al. v. EPA* that greenhouse gases are an air pollutant under the federal Clean Air Act and thus subject to future regulation. The enactment of such hazardous waste legislation or future or more stringent regulation of greenhouse gases could dramatically increase operating costs for oil and natural gas companies and could reduce the market for our services by making many wells and/or oilfields uneconomical to operate.

The U.S. Oil Pollution Act of 1990, as amended, contains provisions specifying responsibility for removal costs and damages resulting from discharges of oil into navigable waters or onto the adjoining shorelines. In addition, the Outer Continental Shelf Lands Act provides the federal government with broad discretion in regulating the leasing of offshore oil and gas production sites.

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Because our option, warrant and convertible securities holders have a considerable number of common shares available for issuance and resale, significant issuances or resales in the future could adversely affect the market price of our common shares

As of February 24, 2010, we had 800,000,000 authorized common shares, of which 284,669,913 shares were outstanding. In addition, 40,641,861 common shares were reserved for issuance pursuant to option and employee benefit plans, and 78,013,925 shares were reserved for issuance upon conversion or repurchase of outstanding senior exchangeable notes. The sale, or availability for sale, of substantial amounts of our common shares in the public market, whether directly by us or resulting from the exercise of warrants or options (and, where applicable, sales pursuant to Rule 144 under the Securities Act) or the conversion into common shares, or repurchase of debentures and notes using common shares, would be dilutive to existing security holders, could adversely affect the prevailing market price of our common shares and could impair our ability to raise additional capital through the sale of equity securities.

Provisions in our organizational documents and executive contracts may deter a change of control transaction and decrease the likelihood of a shareholder receiving a change of control premium