

NABORS INDUSTRIES LTD

Form 10-Q

November 02, 2006

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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 September 30, 2006

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 October 26, 2006 was 299,173,034. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., has 173,588 exchangeable shares outstanding as of October 26, 2006 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)**

	September 30, 2006	December 31, 2005
(In thousands, except per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 360,206	\$ 565,001
Short-term investments	913,216	858,524
Accounts receivable, net	1,098,818	822,104
Inventory	98,769	51,292
Deferred income taxes	204,140	199,196
Other current assets	115,514	121,191
Total current assets	2,790,663	2,617,308
Long-term investments	491,404	222,802
Property, plant and equipment, net	4,975,081	3,886,924
Goodwill, net	369,978	341,939
Other long-term assets	301,702	161,434
Total assets	\$ 8,928,828	\$ 7,230,407

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Current portion of long-term debt	\$	\$ 767,912
Trade accounts payable	417,026	336,589
Accrued liabilities	289,067	224,336
Income taxes payable	41,081	23,619
Total current liabilities	747,174	1,352,456
Long-term debt	4,003,545	1,251,751
Other long-term liabilities	174,361	151,415
Deferred income taxes	720,616	716,645
Total liabilities	5,645,696	3,472,267

Commitments and contingencies (Note 8)

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Shareholders' equity:

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

Authorized common shares 800,000; issued 299,143 and 315,393, respectively	298	315
Capital in excess of par value	1,587,376	1,590,968
Unearned compensation		(15,649)
Accumulated other comprehensive income	232,429	192,980
Retained earnings	2,235,583	1,989,526
Less treasury shares, at cost, 22,240 common shares	(772,554)	
Total shareholders' equity	3,283,132	3,758,140
Total liabilities and shareholders' equity	\$ 8,928,828	\$ 7,230,407

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)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
(In thousands, except per share amounts)				
Revenues and other income:				
Operating revenues	\$ 1,244,478	\$ 893,254	\$ 3,526,404	\$ 2,442,319
Earnings from unconsolidated affiliates	5,706	91	19,475	7,298
Investment income	37,155	27,178	67,753	54,544
Total revenues and other income	1,287,339	920,523	3,613,632	2,504,161
Costs and other deductions:				
Direct costs	670,326	500,552	1,879,169	1,429,762
General and administrative expenses	93,769	65,879	270,396	184,325
Depreciation and amortization	97,556	73,673	266,891	212,843
Depletion	7,731	11,349	28,661	35,045
Interest expense	13,735	11,195	33,958	33,265
Losses (Gains) on sales of long-lived assets, impairment charges and other expense (income), net	4,284	15,684	12,529	23,778
Total costs and other deductions	887,401	678,332	2,491,604	1,919,018
Income before income taxes	399,938	242,191	1,122,028	585,143
Income tax expense:				
Current	20,377	10,153	140,351	24,271
Deferred	86,810	53,181	198,730	122,796
Total income tax expense	107,187	63,334	339,081	147,067
Net income	\$ 292,751	\$ 178,857	\$ 782,947	\$ 438,076
Earnings per share:				
Basic	\$ 1.05	\$.57	\$ 2.65	\$ 1.41
Diluted	\$ 1.02	\$.55	\$ 2.57	\$ 1.36
Weighted-average number of common shares outstanding:				
Basic	277,553	314,419	294,987	311,210
Diluted	286,544	323,700	305,066	321,228

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)

	Nine Months Ended	
	September 30,	
	2006	2005
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 782,947	\$ 438,076
Adjustments to net income:		
Depreciation and amortization	266,891	212,843
Depletion	28,661	35,045
Deferred income tax expense	198,730	122,796
Deferred financing costs amortization	4,168	3,661
Pension liability amortization	315	360
Discount amortization on long-term debt	3,370	15,500
Amortization of loss on hedges	416	113
Losses on long-lived assets, net	10,394	11,542
Gains on investments, net	(26,421)	(23,452)
Gains (losses) on derivative instruments	(850)	(708)
Share based compensation	22,601	3,354
Foreign currency transaction (gains) losses	556	970
Equity in earnings from unconsolidated affiliates, net of dividends	(17,041)	(4,798)
Increase (decrease) from changes in:		
Accounts receivable	(254,403)	(188,619)
Inventory	(46,047)	(13,043)
Other current assets	(26,720)	(39,508)
Other long-term assets	(52,922)	4,575
Trade accounts payable and accrued liabilities	107,081	68,422
Income taxes payable	12,634	10,700
Other long-term liabilities	25,179	7,545
Net cash provided by operating activities	1,039,539	665,374
Cash flows from investing activities:		
Purchases of investments	(1,087,987)	(454,625)
Sales and maturities of investments	799,713	468,271
Cash paid for acquisitions of businesses, net	(46,510)	(46,201)
Investment in affiliates	(2,433)	
Capital expenditures	(1,344,682)	(577,844)
Proceeds from sales of assets and insurance claims	10,322	19,989
Net cash used for investing activities	(1,671,577)	(590,410)
Cash flows from financing activities:		
Proceeds from sale of warrants	421,162	

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Purchase of exchangeable note hedge	(583,550)	
(Decrease) increase in cash overdrafts	(15,845)	3,857
Proceeds from long-term debt	2,750,000	
Reduction of long-term debt	(769,789)	(424)
Debt issuance costs	(27,972)	
Proceeds from issuance of common shares	21,925	186,717
Repurchase of common shares	(1,373,334)	(80,572)
Tax benefit related to the exercise of stock options	4,315	
Net cash provided by financing activities	426,912	109,578
Effect of exchange rate changes on cash and cash equivalents	331	6,317
Net (decrease) increase in cash and cash equivalents	(204,795)	190,859
Cash and cash equivalents, beginning of period	565,001	384,709
Cash and cash equivalents, end of period	\$ 360,206	\$ 575,568

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS EQUITY**

(Unaudited)

Common Shares	Capital in	Unrealized Gains (Losses) on	Accumulated Other Comprehensive Income (Loss) Cumulative
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