

NABORS INDUSTRIES LTD

Form 10-Q

May 10, 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 March 31, 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 April 28, 2006 was 310,207,011. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., has 187,760 exchangeable shares outstanding as of April 28, 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.

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**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)**

<i>(In thousands, except per share amounts)</i>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 293,302	\$ 565,001
Short-term investments	181,554	858,524
Accounts receivable, net	949,524	822,104
Inventory	58,238	51,292
Deferred income taxes	201,230	199,196
Other current assets	72,222	121,191
Total current assets	1,756,070	2,617,308
Long-term investments	250,413	222,802
Property, plant and equipment, net	4,156,554	3,886,924
Goodwill, net	359,955	341,939
Other long-term assets	167,547	161,434
Total assets	\$ 6,690,539	\$ 7,230,407
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$	\$ 767,912
Trade accounts payable	390,029	336,589
Accrued liabilities	227,717	224,336
Income taxes payable	71,219	23,619
Total current liabilities	688,965	1,352,456
Long-term debt	1,252,384	1,251,751
Other long-term liabilities	158,220	151,415
Deferred income taxes	777,820	716,645
Total liabilities	2,877,389	3,472,267

Commitments and contingencies (Note 8)

Shareholders' equity:

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

Authorized common shares 800,000; issued and outstanding 310,047 and 315,393, respectively

	309	315
Capital in excess of par value	1,560,945	1,590,968
Unearned compensation		(15,649)
Accumulated other comprehensive income	195,833	192,980
Retained earnings	2,056,063	1,989,526
Total shareholders' equity	3,813,150	3,758,140
Total liabilities and shareholders' equity	\$ 6,690,539	\$ 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)**

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended</b>	
	<b>2006</b>	<b>2005</b>
Revenues and other income:		
Operating revenues	\$ 1,163,926	\$ 783,728
Earnings from unconsolidated affiliates	4,399	2,003
Investment income	13,870	11,788
Total revenues and other income	1,182,195	797,519
Costs and other deductions:		
Direct costs	614,617	474,626
General and administrative expenses	88,797	58,641
Depreciation and amortization	81,389	68,188
Depletion	13,017	12,353
Interest expense	8,055	10,737
Losses on sales of long-lived assets, impairment charges and other expense (income), net	4,029	3,871
Total costs and other deductions	809,904	628,416
Income before income taxes	372,291	169,103
Income tax expense:		
Current	61,425	12,215
Deferred	54,103	29,474
Total income tax expense	115,528	41,689
Net income	\$ 256,763	\$ 127,414
Earnings per share:		
Basic	\$ .82	\$ .42
Diluted	\$ .79	\$ .40
Weighted-average number of common shares outstanding:		
Basic	312,990	304,330
Diluted	324,536	317,554

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





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

<i>(In thousands)</i>	<b>Three Months Ended</b>	
	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Net income	\$ 256,763	\$ 127,414
Adjustments to net income:		
Depreciation and amortization	81,389	68,188
Depletion	13,017	12,353
Deferred income tax expense	54,103	29,474
Deferred financing costs amortization	867	1,221
Pension liability amortization	105	120
Discount amortization on long-term debt	2,409	5,134
Amortization of loss on hedges	139	38
Losses on long-lived assets, net	3,173	1,888
Gains on investments, net	(5,700)	(1,448)
Gains on derivative instruments	(959)	(928)
Stock based compensation	7,700	483
Tax benefit related to the exercise of stock options	(1,815)	
Foreign currency transaction (gains) losses	(219)	271
Equity in earnings from unconsolidated affiliates, net of dividends	(4,399)	(503)
Increase (decrease) from changes in:		
Accounts receivable	(121,111)	(106,471)
Inventory	(7,016)	(3,140)
Other current assets	13,272	3,558
Other long-term assets	7,617	(227)
Trade accounts payable and accrued liabilities	40,520	14,040
Income taxes payable	48,002	9,314
Other long-term liabilities	8,109	2,395
Net cash provided by operating activities	395,966	163,174
Cash flows from investing activities:		
Purchases of investments	(38,769)	(179,700)
Sales and maturities of investments	701,158	120,740
Cash paid for acquisitions of businesses, net	(13,465)	(6,775)
Capital expenditures	(346,211)	(173,780)
Proceeds from sales of assets and insurance claims	2,416	3,203
Net cash provided by (used for) investing activities	305,129	(236,312)
Cash flows from financing activities:		

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Increase in short-term borrowings		1,684
Increase in cash overdrafts	9,898	13,376
Reduction of long-term debt	(769,789)	
Proceeds from issuance of common shares	8,263	136,938
Repurchase of common shares	(222,384)	
Tax benefit related to the exercise of stock options	1,815	
Net cash (used for) provided by financing activities	(972,197)	151,998
Effect of exchange rate changes on cash and cash equivalents	(597)	(644)
Net (decrease) increase in cash and cash equivalents	(271,699)	78,216
Cash and cash equivalents, beginning of period	565,001	384,709
Cash and cash equivalents, end of period	\$ 293,302	\$ 462,925

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)**

	Common		Accumulated Other Comprehensive Income (Loss)							Retained Earnings	Shareholders' Equity
	Shares	Par Value	Capital in Excess of Par Value	Unearned Compensation	Unrealized Gains (Losses) on Marketable Securities	Minimum Pension Liability Adjustment	Unrealized Loss on Cash Flow Hedges	Cumulative Translation Adjustment			
December 31,	315,393	\$ 315	\$ 1,590,968	\$ (15,649)	\$ 18,865	\$ (3,002)	\$ (992)	\$ 178,109	\$ 1,989,526	\$	
Net Income:											
Adjustment										256,763	
on gains on securities, net of \$406					6,042				(4,093)		
of classification for (gains) recorded in net of income of \$11					800						
of net of \$39 of loss on hedges						66					
of comprehensive								38			
of SFAS 123-R common stock options			(15,649)	15,649	6,842	66	38	(4,093)	256,763		
of change in fair value of common stock	405		8,263								
of change in fair value of common stock	29										
of change in fair value of common stock	(6,400)	(6)	(32,152)							(190,226)	



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

	Common		Accumulated Other Comprehensive Income (Loss)							Retained Earnings	S
	Shares	Par Value	Capital in Excess of Par Value	Unearned Compensation	Unrealized Gains (Losses) on Marketable Securities	Minimum Pension Liability Adjustment	Unrealized Loss on Cash Flow Hedges	Cumulative Translation Adjustment			
December 31,	299,722	\$ 300	\$ 1,358,224	\$	\$ 271	\$ (2,419)	\$ (1,143)	\$ 151,520	\$ 1,422,640	\$	
Net income:									127,414		
Adjustment on securities, net of \$643 recognition of gains net income, taxes of					6,778			(4,573)			
Provision net of of \$44 of loss on hedges					(2,281)						
Comprehensive					4,497	76	38	(4,573)	127,414		
Common stock options	15,522	16	136,922								
Angeco issued stock options	22										
Restricted stock			24,165								
			17,447	(17,447)							

of  
compensation

483

15,544      16      178,534      (16,964)

March 31,

315,266    \$ 316    \$ 1,536,758    \$ (16,964)    \$ 4,768    \$ (2,343)    \$ (1,105)    \$ 146,947    \$ 1,550,054    \$

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 almost 600 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 575 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and approximately 216 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and owns 43 platform, 20 jack-up units and 3 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 time charter a fleet of 29 marine transportation and supply vessels, which provide transportation of drilling materials, supplies and crews for offshore operations. During the first quarter of 2006, we began to offer logistics services for onshore drilling and well-servicing operations in Canada using helicopters and fixed-winged aircraft purchased from Airborne Energy Solutions Ltd. on January 3, 2006 (Note 4). 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 have also made selective investments 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 limited 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, 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, 2005. In our management's opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of March 31, 2006 and the results of our operations and our cash flows for the three months ended March 31, 2006 and 2005, in accordance with GAAP. Interim results for the three months ended March 31, 2006 may not be indicative of results that will be realized for the full year ending December 31, 2006.

On December 13, 2005, our Board of Directors approved a two-for-one stock split on our common shares to be effectuated in the form of a stock dividend. The stock dividend was distributed on April 17, 2006 to shareholders of record on March 31, 2006 (see Note 7). For all balance sheets presented, capital in excess of par value was reduced by \$.2 million and common shares were increased by \$.2 million. All common share, per share and stock option



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amounts included in the accompanying Consolidated Financial Statements and related notes have been restated to reflect the effect of the stock split.

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.

### ***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. 46R, which are not material to our financial position, results of operations or cash flows. 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 \$75.6 million and \$71.2 million as of March 31, 2006 and December 31, 2005, 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 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 9 in the Company's 2005 Annual Report on Form 10-K. Prior to January 1, 2006, we accounted for awards granted under those plans following the recognition and measurement principles of Accounting Principles Bulletin (APB) Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations. Under APB 25, no compensation expense was reflected in net income for the Company's stock options, as all options granted under those plans had an exercise price equal to the market value of the underlying common shares on the date of grant. The pro forma effects on income for stock options were instead disclosed in a footnote to the financial statements. Compensation expense was recorded in the income statement for restricted stock grants over the vesting period of the award.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standard No. 123(R), Share-Based Payments, (SFAS 123-R), using the modified prospective application method. Under this transition method, the Company is now required to record compensation expense for all stock option awards granted after the date of adoption and for the unvested portion of previously granted stock option awards that remain outstanding at the date of adoption. This amount of compensation cost recognized was based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Results for prior periods have not been restated.

As a result of adopting SFAS 123-R on January 1, 2006, Nabors' income before income taxes and net income for the three months ended March 31, 2006 were \$5.5 million, and \$4.3 million lower, respectively, than if the Company had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been \$.83 and \$.80, respectively, if the Company had not adopted

SFAS 123-R, compared to reported basic and diluted earnings per share of \$.82 and \$.79, respectively.

Compensation expense related to awards of restricted stock was recognized before the adoption of SFAS 123-R. Compensation expense for restricted stock totaled \$2.2 million and \$.5 million for the three months

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ended March 31, 2006 and 2005, respectively, and is included in direct costs and general and administrative expenses in our consolidated statements of income. Total stock-based compensation expense, which includes both stock options and restricted stock totaled \$7.7 million for the three months ended March 31, 2006. Stock-based compensation expense has been allocated to the various operating segments (Note 11).

Prior to adoption of SFAS 123-R, Nabors presented all tax benefits of deductions resulting from the exercise of options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123-R requires the cash flows resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The actual tax benefit realized from options exercised in the three months ended March 31, 2006 was \$1.8 million.

Under the provisions of SFAS 123-R, the recognition of unearned compensation, a contra-equity account representing the amount of unrecognized restricted stock expense, is no longer required. Therefore, in the first quarter of 2006, the Unearned Compensation amount that was included in our December 31, 2005 consolidated balance sheet was reduced to zero with a corresponding decrease to Capital in Excess of Par Value.

***Prior Period Pro Forma Presentation***

Under the modified prospective application method, results for prior periods have not been restated to reflect the effects of implementing SFAS 123-R. The following pro forma information, as required by SFAS No. 148 Accounting for Stock-Based Compensation an Amendment to FAS 123, is presented for comparative purposes and illustrates the effect on our net income and earnings per share if we had applied the provisions of SFAS 123-R during the quarter ended March 31, 2005:

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended March 31, 2005</b>
Net income, as reported	\$ 127,414
Add: Stock-based compensation expense, relating to restricted stock awards, included in reported net income, net of related tax effects	304
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(9,077)
Pro forma net income basic	\$ 118,641
Add: Interest expense on assumed conversion of our zero coupon senior convertible/exchangeable debentures/notes, net of tax	
Adjusted pro forma net income diluted	\$ 118,641
Earnings per share:	
Basic as reported	\$ .42
Basic pro forma	\$ .39
Diluted as reported	\$ .40
Diluted pro forma	\$ .37

***Stock Option Plans***

Stock option awards under the Company's various stock-based employee compensation plans are granted at prices equal to the fair market value of the shares on the date of the grant. Options granted under the plan generally vest in varying periodic installments after one year. In the case of certain key executives, options granted under the plans may vest immediately on the grant date. Options granted under the plan expire ten years from the date of grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions for the risk-free interest rate, volatility, dividend yield and the expected term of the options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period equal to the expected term of the option. Expected volatilities are based on implied volatilities from traded options on the Nabors common shares, historical volatility of Nabors common shares, and other factors. We use historical

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data to estimate the expected term of the options and employee terminations within the option-pricing model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of the options represents the period of time that the options granted are expected to be outstanding.

We also consider an estimated forfeiture rate when determining the fair value of each award, and we only recognize compensation cost for those shares that are expected to vest, on a straight-line basis over the requisite service period of the award, which is generally the vesting term of three to four years. The forfeiture rate for the first quarter of 2006 is based on historical experience. Estimated forfeitures will be adjusted to reflect actual forfeitures in future periods.

There were no stock options granted, and as a result, no fair value determinations were made during the three months ended March 31, 2006.

Stock option transactions under the Company's various stock-based employee compensation plans during the three months ended March 31, 2006, are presented below:

<b>Options</b> <i>(In thousands, except exercise price)</i>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Options outstanding as of December 31, 2005	38,559	\$ 21.87		
Granted				
Exercised	(405)	20.41		
Forfeited	(79)	23.79		
Options outstanding as of March 31, 2006	38,075	\$ 21.88	5.72 years	\$ 529,789
Options exercisable as of March 31, 2006	34,897	\$ 21.84	5.54 years	\$ 486,713

The total intrinsic value of options exercised during the three months ended March 31, 2006 was \$5.7 million.

As of March 31, 2006, there was \$20.1 million of total future compensation cost related to nonvested options. That cost is expected to be recognized over a weighted-average period of less than one year.

**Restricted Stock**

Under the 2003 Employee Stock Plan, restricted stock may be awarded to key officers, directors and managerial employees of Nabors and its subsidiaries. The restricted stock granted under these plans vest in varying periodic installments ranging up to 3 to 4 years.

A summary of the restricted stock transactions during the three months ended March 31, 2006, and a summary of the status of nonvested shares as of March 31, 2006 is presented below:

<b>Restricted Shares</b> <i>(In thousands, except fair values)</i>	<b>Shares</b>		<b>Weighted Average Grant-Date Fair Value</b>
Nonvested as of December 31, 2005	710	\$	28.78
Granted	743		32.37
Vested	(140)		28.71
Forfeited	(20)		28.83
Nonvested as of March 31, 2006	1,293	\$	30.85

As of March 31, 2006, there is \$37.0 million of unrecognized compensation expense related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted average period of 1.6 years.

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**Note 4 Acquisitions**

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). Nabors Blue Sky Ltd. (formerly 1183011 Alberta Ltd.) owns 29 helicopters and fixed-wing aircraft and owns and operates a fleet of heliportable well-service equipment. The purchase price has been allocated based on preliminary estimates of the fair market value of assets acquired and liabilities assumed as of the acquisition date and resulted in goodwill of approximately U.S. \$18.8 million. The purchase price allocation is subject to adjustment as additional information becomes available and will be finalized by December 31, 2006.

**Note 5 Debt**

On February 6, 2006, we redeemed 93% of our \$1.2 billion zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million; an amount equal to the issue price plus accrued original issue discount to the date of repurchase. The principal amount of these debentures outstanding subsequent to this redemption totaled \$57.0 million. The original principal amount of these debentures upon issuance was \$1.381 billion, of which \$180.8 million had been redeemed prior to 2005.

**Note 6 Income Taxes**

Our effective income tax rate was 31.0% during the three months ended March 31, 2006 compared to 24.7% during the three months ended March 31, 2005. The increase in our effective income tax rate resulted from a higher proportion of our taxable income being generated in the U.S. during the three months ended March 31, 2006 compared to the prior year quarter. Income generated in the U.S. is generally taxed at a higher rate than in international jurisdictions in which we operate.

**Note 7 Common Shares**

During the first quarter 2006, we repurchased and retired 6.4 million of our common shares in the open market for \$222.4 million.

On December 13, 2005, our Board of Directors approved a two-for-one stock split on our common shares to be effectuated in the form of a stock dividend. The stock split was subject to the approval by our shareholders of a proposal to amend our Amended and Restated Bye-Laws to increase the authorized share capital of Nabors by the creation of additional common shares. This proposal was approved by our shareholders in a Special Meeting of Shareholders on March 30, 2006. The stock dividend was distributed on April 17, 2006 to shareholders of record on March 31, 2006. For all balance sheets presented, capital in excess of par value was reduced by \$.2 million and common shares were increased by \$.2 million. All common share, per share and stock option amounts included in the accompanying Consolidated Financial Statements and related notes have been restated to reflect the effect of the stock split.

**Note 8 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.

Mr. Isenberg's employment agreement was originally negotiated with a creditors committee in 1987 in connection with the reorganization proceedings of Anglo Energy, Inc., which subsequently changed its name to Nabors. These contractual arrangements subsequently were approved by the various constituencies in those



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reorganization proceedings, including equity and debt holders, and confirmed by the United States Bankruptcy Court.

Mr. Petrello's employment agreement was first entered into effective October 1, 1991. Mr. Petrello's employment agreement was agreed upon as part of arm's length negotiations with the Board before he joined Nabors in October 1991, and was reviewed and approved by the Compensation Committee of the Board and the full Board of Directors at that time.

The employment agreements for Messrs. Isenberg and Petrello were amended in 1994 and 1996. These amendments were approved by the Compensation Committee of the Board and the full Board of Directors at that time.

The employment agreements provide for an initial term of five years with an evergreen provision which automatically extended the agreement for an additional one-year term on each anniversary date, unless Nabors provided notice to the contrary ten days prior to such anniversary. The Board of Directors in March 2006 exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello, and accordingly these agreements will expire at the end of their current term at September 30, 2010.

In addition to a base salary, the employment agreements provide for annual cash bonuses in an amount equal to 6% and 2%, for Messrs. Isenberg and Petrello, respectively, of Nabors' net cash flow (as defined in the respective employment agreements) in excess of 15% of the average shareholders' equity for each fiscal year. (Mr. Isenberg's cash bonus formula originally was set at 10% in excess of a 10% return on shareholders' equity and he has voluntarily reduced it over time to its 6% in excess of 15% level.) Mr. Petrello's bonus is subject to a minimum of \$700,000 per year. In 15 of the last 16 years, Mr. Isenberg has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package. Mr. Petrello has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package in 13 of the last 15 years. For 2005 the annual cash bonuses for Messrs. Isenberg and Petrello pursuant to the formula described in their employment agreements were \$41.2 million and \$13.7 million, respectively; but in light of their overall compensation package (including significant stock option grants and restricted stock awards), they agreed to accept cash bonuses in the amounts of \$3 million and \$1.5 million, respectively.

Mr. Isenberg voluntarily agreed to amend his employment agreement in March 2006 (the 2006 Amendment). Under the 2006 Amendment, Mr. Isenberg agreed to reduce the annual cash bonus to an amount equal to 3% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for 2006. For 2007 through the expiration date of the employment agreement, the annual cash bonus will return to 6% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for each fiscal year.

Messrs. Isenberg and Petrello also are eligible for awards under Nabors' equity plans and may participate in annual long-term incentive programs and pension and welfare plans, on the same basis as other executives; and may receive special bonuses from time to time as determined by the Board.

**Termination in the event of death, disability, or termination without cause.** In the event that either Mr. Isenberg's or Mr. Petrello's employment agreement is terminated (i) upon death or disability (as defined in the respective employment agreements), (ii) by Nabors prior to the expiration date of the employment agreement for any reason other than for Cause (as defined in the respective employment agreements) or (iii) by either individual for Constructive Termination Without Cause (as defined in the respective employment agreements), each would be entitled to receive within 30 days of the triggering event (a) all base salary which would have been payable through the expiration date of the contract or three times his then current base salary, whichever is greater; plus (b) the greater of (i) all annual cash bonuses which would have been payable through the expiration date; (ii) three times the highest

bonus (including the imputed value of grants of stock awards and stock options), paid during the last three fiscal years prior to termination; or (iii) three times the highest annual cash bonus payable for each of the three previous fiscal years, regardless of whether the amount was paid. In computing any amount due under (b)(i) and (iii) above, the calculation is made without regard to the 2006 Amendment reducing Mr. Isenberg's bonus percentage as described above. If, by way of example, these provisions had applied at March 31, 2006, Mr. Isenberg

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would have been entitled to a payment of approximately \$204 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but would not be less than approximately \$204 million. Similarly, with respect to Mr. Petrello, had these provisions applied at March 31, 2006, Mr. Petrello would have been entitled to a payment of approximately \$104 million, subject to a true-up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but would not be less than approximately \$104 million. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. In addition, the affected individual is entitled to receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Mr. Isenberg, as of March 31, 2006, the value of unvested restricted stock was approximately \$11.9 million and the value of in-the-money unvested stock options was approximately \$8.1 million. For Mr. Petrello, as of March 31, 2006, the value of unvested restricted stock was approximately \$5.7 million and the value of in-the-money unvested stock options was approximately \$4.1 million. Estimates of the cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above.

The Board of Directors in March 2006 exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello. Messrs. Isenberg and Petrello have informed the Board of Directors that they have reserved their rights under their employment agreements with respect to the notice setting the expiration dates of their employment agreements, including whether such notice could trigger an acceleration of certain payments pursuant to their employment agreements.

*Termination in the event of a Change in Control.* In the event that Messrs. Isenberg's or Petrello's termination of employment is related to a Change in Control (as defined in their respective employment agreements), they would be entitled to receive a cash amount equal to the greater of (a) one dollar less than the amount that would constitute an excess parachute payment as defined in Section 280G of the Internal Revenue Code, or (b) the cash amount that would be due in the event of a termination without cause, as described above. If, by way of example, there was a change of control event that applied on March 31, 2006, then the payments to Messrs. Isenberg and Petrello would be approximately \$204 million and \$104 million, respectively. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. In addition, they would receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Mr. Isenberg, as of March 31, 2006, the value of unvested restricted stock was approximately \$11.9 million and the value of in-the-money unvested stock options was approximately \$8.1 million. For Mr. Petrello, as of March 31, 2006, the value of unvested restricted stock was approximately \$5.7 million and the value of in-the-money unvested stock options was approximately \$4.1 million. The cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above. Also, they

would receive additional stock options immediately exercisable for 5 years to acquire a number of shares of common stock equal to the highest number of options granted during any fiscal year in the previous three fiscal years, at an option exercise price equal to the average closing price during the 20 trading days prior to the event which resulted in the change of control. If, by way of example, there was a change of control event that applied at

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March 31, 2006, Mr. Isenberg would have received 3,366,666 options valued at approximately \$44 million and Mr. Petrello would have received 1,683,332 options valued at approximately \$22 million, in each case based upon a Black Scholes analysis. Finally, in the event that an excise tax was applicable, they would receive a gross-up payment to make them whole with respect to any excise taxes imposed by Section 4999 of the Internal Revenue Code. With respect to the preceding sentence, by way of example, if there was a change of control event that applied on March 31, 2006, and assuming that the excise tax were applicable to the transaction, then the additional payments to Messrs. Isenberg and Petrello for the gross-up would be up to approximately \$93 million and \$50 million, respectively.

*Other Obligations.* In addition to salary and bonus, each of Messrs. Isenberg and Petrello receive group life insurance at an amount at least equal to three times their respective base salaries; various split-dollar life insurance policies, reimbursement of expenses, various perquisites and a personal umbrella insurance policy in the amount of \$5 million. Premiums payable under the split dollar life insurance policies were suspended as a result of the adoption of the Sarbanes Oxley Act of 2002.

***Contingencies***

*Self-Insurance Accruals*

We are self-insured for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective April 1, 2006, with our insurance renewal, certain changes have been made to our insurance coverage resulting in additional loss exposure. Such changes effective April 1, 2006 are as follows:

Domestic workers' compensation program continues to be subject to a \$1.0 million per occurrence deductible. Employers' liability and Jones Act cases are subject to a \$2.0 million deductible. Automobile liability continues at a \$.5 million deductible. We are assuming an additional \$3.0 million corridor deductible for domestic workers' compensation claims. General liability claims continue to be subject to a \$5.0 million deductible. However, as a result of insurance market conditions following hurricanes Katrina and Rita, we are now subject to higher deductibles for removal of wreck and debris and collision liability claims depending on the insured value of the individual rigs.

In addition, we are subject to a \$1.0 million deductible for all land rigs except for those located in Alaska, and a \$5.0 million deductible for all Alaska and offshore rigs. This applies to all kinds of risks of physical damage except for named windstorms in the U.S. Gulf of Mexico. The deductible for named windstorms in the U.S. Gulf of Mexico is \$25.0 million. Also, the maximum coverage for named windstorms in the U.S. Gulf of Mexico is \$50.0 million in this policy year.

*Litigation*

Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ from our estimates. In the opinion of management and based on liability accruals provided, our ultimate exposure with respect to these pending lawsuits and claims is not expected to have a material adverse effect on our consolidated financial position or cash flows, although they could have a material adverse effect on our results of operations for a particular reporting period.

One such lawsuit involves wage and hour claims relating primarily to meal periods and travel time of current and former rig-based employees in our California well-servicing business. Those claims were heard by an arbitrator during the fourth quarter of 2005. On February 6, 2006, we received an interim judgment against us in the amount of \$25.6 million (plus an undetermined amount of attorney's fees and costs), which was accrued for in our consolidated statements of income for the year ended December 31, 2005.

Additionally, on December 22, 2005, we received a grand jury subpoena from the United States Attorney's Office in Anchorage, Alaska, seeking documents and information relating to an alleged spill, discharge, overflow or

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cleanup of drilling mud or sludge involving one of our rigs during March 2003. We are cooperating with the authorities in this matter.

*Guarantees*

We enter into various agreements and obligations providing financial or performance assurance to third parties. Certain of these agreements serve as guarantees, including standby letters of credit issued on behalf of insurance carriers in conjunction with our workers' compensation insurance program and other financial surety instruments such as bonds. We have also guaranteed payment of contingent consideration in conjunction with a minor acquisition completed during the first quarter of 2005, which is based on future operating results of that business. In addition, we have provided indemnifications to certain third parties which serve as guarantees. These guarantees include indemnification provided by Nabors to our stock transfer agent and our insurance carriers. We are not able to estimate the potential future maximum payments that might be due under our indemnification guarantees.

Management believes the likelihood that we would be required to perform or otherwise incur any material losses associated with any of these guarantees is remote. The following table summarizes the total maximum amount of financial and performance guarantees issued by Nabors:

<i>(In thousands)</i>	<b>Maximum Amount</b>				<b>Total</b>
	<b>Remainder of 2006</b>	<b>2007</b>	<b>2008</b>	<b>Thereafter</b>	
Financial standby letters of credit and other financial surety instruments	\$ 63,120	\$ 18,486	\$ 1,370	\$ 125	\$ 83,101
Contingent consideration in acquisition		850	850	2,550	4,250
<b>Total</b>	<b>\$ 63,120</b>	<b>\$ 19,336</b>	<b>\$ 2,220</b>	<b>\$ 2,675</b>	<b>\$ 87,351</b>

**Note 9 Earnings Per Share**

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net income (numerator):		
Net income basic	\$ 256,763	\$ 127,414
Add interest expense on assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes, net of tax:		
\$57 million due 2021(1)		
\$700 million due 2023(2)		
<b>Adjusted net income diluted</b>	<b>\$ 256,763</b>	<b>\$ 127,414</b>

Earnings per share:				
Basic	\$	.82	\$	.42
Diluted	\$	.79	\$	.40
Shares (denominator):				
Weighted-average number of shares outstanding	basic (3)		312,990	304,330
Net effect of dilutive stock options and warrants based on the treasury stock method			10,986	13,224
Assumed conversion of our zero coupon convertible/exchangeable senior debentures/notes:				
\$57 million due 2021(1)				
\$700 million due 2023(2)			560	
Weighted-average number of shares outstanding	diluted		324,536	317,554



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- (1) Diluted earnings per share for the three months ended March 31, 2006 and 2005 excludes approximately 1.2 million potentially dilutive shares initially issuable upon the conversion of our \$57 million zero coupon convertible senior debentures. Such shares did not impact our calculation of dilutive earnings per share for those quarters as we are required to pay cash up to the principal amount of any debentures converted. We would only issue an incremental number of shares upon conversion of these debentures, and such shares would only be included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation if the price of our shares exceeded approximately \$49.
- (2) Diluted earnings per share for the three months ended March 31, 2005 does not include any incremental shares issuable upon the exchange of our \$700 million zero coupon senior exchangeable notes. The number of shares that we would be required to issue upon exchange consists of only the incremental shares that would be issued above the principal amount of the notes, as we are required to pay cash up to the principal amount of the notes exchanged. We would only issue an incremental number of shares upon exchange of these notes, and such shares are only included in the calculation of the weighted-average number of shares outstanding in our diluted earnings per share calculation, when the price of our shares exceeds \$35.05 on the last trading day of the quarter, which was the case for the quarter ended March 31, 2006.
- (3) Includes the following weighted average number of common shares of Nabors and weighted average number of exchangeable shares of Nabors Exchangeco, respectively: 312.8 million and .2 million shares for the three months ended March 31, 2006 and 304.0 million and .3 million shares for the three months ended March 31, 2005. The exchangeable shares of Nabors Exchangeco 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.

For all periods presented, the computation of diluted earnings per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of Nabors common shares, because the inclusion of such options and warrants would be anti-dilutive. The number of options and warrants that were excluded from diluted earnings per share that would potentially dilute earnings per share in the future were 1,000,750 shares during the three months ended March 31, 2006 and 1,284,502 shares during the three months ended March 31, 2005. In any period during which the average market price of Nabors common shares exceeds the exercise prices of these stock options and warrants, such stock options and warrants will be included in our diluted earnings per share computation using the treasury stock method of accounting. Restricted stock will similarly be included in our diluted earnings per share computation using the treasury stock method of accounting in any period where the amount of restricted stock to be issued in future periods exceeds the number of shares assumed repurchased in those periods.

**Note 10 Supplemental Balance Sheet Information**

Accrued liabilities include the following:

<i>(In thousands)</i>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Accrued compensation	\$ 94,906	\$ 88,071
Deferred revenue	25,196	19,542
Workers compensation liabilities	37,458	37,458
Interest payable	3,290	9,728

Litigation reserves	30,338(1)	30,182(1)
Other accrued liabilities	36,529	39,355
	\$ 227,717	\$ 224,336

- (1) This amount primarily relates to an interim judgment received against us in the amount of \$25.6 million related to a class-action arbitration hearing regarding compensation issues brought on behalf of field employees for our well-servicing unit operations in California (Note 8).

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Our cash and cash equivalents, short-term and long-term investments consist of the following:

<i>(In thousands)</i>	<b>March 31, 2006</b>	<b>December 31, 2005</b>
Cash and cash equivalents	\$ 293,302	\$ 565,001
Short-term investments	181,554	858,524
Long-term investments	250,413	222,802
Total	\$ 725,269	\$ 1,646,327

As of March 31, 2006 and December 31, 2005, our short-term investments consist entirely of investments in available-for-sale marketable debt and equity securities while our long-term investments consist entirely of investments in non-marketable securities.

**Note 11 Segment Information**

The following tables set forth certain financial information with respect to our reportable segments:

<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Operating revenues and Earnings from unconsolidated affiliates:		
Contract Drilling:(1)		
U.S. Lower 48 Land Drilling	\$ 426,350	\$ 258,990
U.S. Land Well-servicing	160,733	106,113
U.S. Offshore	43,526	38,067
Alaska	26,806	24,768
Canada	226,557	166,327
International	146,895	124,030
Subtotal Contract Drilling(2)	1,030,867	718,295
Oil and Gas(3)	29,837	15,299
Other Operating Segments(4) (5)	151,703	75,991
Other reconciling items(6)	(44,082)	(23,854)
Total	\$ 1,168,325	\$ 785,731

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<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Adjusted income (loss) derived from operating activities:(7)		
Contract Drilling:		
U.S. Lower 48 Land Drilling	\$ 179,731	\$ 73,459
U.S. Land Well-servicing	46,070	19,428
U.S. Offshore	10,454	7,011
Alaska	4,242	5,972
Canada	83,102	45,768
International	37,497	29,767
Subtotal Contract Drilling	361,096	181,405
Oil and Gas	13,436	874
Other Operating Segments	20,567	5,062
Total segment adjusted income derived from operating activities	\$ 395,099	\$ 187,341
Other reconciling items(8)	(24,594)	(15,418)
Interest expense	(8,055)	(10,737)
Investment income	13,870	11,788
Losses on sales of long-lived assets, impairment charges and other income (expense), net	(4,029)	(3,871)
Income before income taxes	\$ 372,291	\$ 169,103

<i>(In thousands)</i>	<b>March 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Total assets:		
Contract Drilling:		
U.S. Lower 48 Land Drilling	\$ 1,634,723	\$ 1,513,618
U.S. Land Well-servicing	432,567	389,002
U.S. Offshore	385,091	366,354
Alaska	205,702	202,315
Canada	1,033,093	1,109,627
International	1,546,847	1,436,234
Subtotal Contract Drilling(9)	5,238,023	5,017,150
Oil and Gas	113,192	127,834
Other Operating Segments(10)	466,011	387,422
Other reconciling items(8)	873,313	1,698,001
Total assets	\$ 6,690,539	\$ 7,230,407

- (1) These segments include our drilling, workover and well-servicing operations, on land and offshore.
- (2) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$.69 million and \$.7 million for the three months ended March 31, 2006 and 2005, respectively.
- (3) Represents our oil and gas exploration, development and production operations.
- (4) Includes our marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (5) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$3.7 million and \$1.3 million for the three months ended March 31, 2006 and 2005, respectively.

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- (6) Represents the elimination of inter-segment transactions.
- (7) Adjusted income (loss) derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under GAAP. However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income (loss) derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income before income taxes, which is a GAAP measure, is provided within the table above.
- (8) Represents the elimination of inter-segment transactions and unallocated corporate expenses and assets.
- (9) Includes \$36.0 million and \$35.3 million of investments in unconsolidated affiliates accounted for by the equity method as of March 31, 2006 and December 31, 2005, respectively.
- (10) Includes \$39.6 million and \$35.9 million of investments in unconsolidated affiliates accounted for by the equity method as of March 31, 2006 and December 31, 2005, respectively.

**Note 12 Condensed Consolidating Financial Information**

Nabors has fully and unconditionally guaranteed all of the issued public debt securities of Nabors Delaware, and Nabors and Nabors Delaware have fully and unconditionally guaranteed the \$225 million 4.875% senior notes due 2009 issued by Nabors Holdings 1, ULC, our indirect subsidiary.

The following condensed consolidating financial information is included so that separate financial statements of Nabors Delaware and Nabors Holdings are not required to be filed with the U.S. Securities and Exchange Commission. The condensed consolidating financial statements present investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of March 31, 2006 and December 31, 2005, statements of income and cash flows for each of the three month periods ended March 31, 2006 and 2005 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors and guarantor of the \$225 million 4.875% senior notes issued by Nabors Holdings, (c) Nabors Holdings, issuer of the \$225 million 4.875% senior notes, (d) the non-guarantor subsidiaries, (e) consolidating adjustments necessary to consolidate Nabors and its subsidiaries and (f) Nabors on a consolidated basis.

**Table of Contents****Condensed Consolidating Balance Sheets**

	March 31, 2006					
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Nabors Holdings (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
<i>(In thousands)</i>						
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 5,513	\$ 43	\$ 11	\$ 287,735	\$	\$ 293,302
Short-term investments				181,554		181,554
Accounts receivable, net				949,524		949,524
Inventory				58,238		58,238
Deferred income taxes				201,230		201,230
Other current assets	162	969	376	70,715		72,222
Total current assets	5,675	1,012	387	1,748,996		1,756,070
Long-term investments				250,413		250,413
Property, plant and equipment, net				4,156,554		4,156,554
Goodwill, net				359,955		359,955
Intercompany receivables	201,622	768,939		19,943	(990,504)	
Investments in affiliates	3,607,053	3,045,665	275,807	2,828,922	(9,681,835)	75,612
Other long-term assets		10,258	774	80,903		91,935
Total assets	\$ 3,814,350	\$ 3,825,874	\$ 276,968	\$ 9,445,686	\$ (10,672,339)	\$ 6,690,539
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Current liabilities:						
Current portion of long- term debt	\$	\$	\$	\$	\$	\$
Trade accounts payable		23		390,006		390,029
Accrued liabilities	1,200	1,881	1,409	223,227		227,717
Income taxes payable		8,639	1,651	60,929		71,219
Total current liabilities	1,200	10,543	3,060	674,162		688,965
Long-term debt		1,028,288	224,096			1,252,384
Other long-term liabilities				158,220		158,220
Deferred income taxes		26,115		751,705		777,820
Intercompany payable			3,109	987,395	(990,504)	
Total liabilities	1,200	1,064,946	230,265	2,571,482	(990,504)	2,877,389
Shareholders equity	3,813,150	2,760,928	46,703	6,874,204	(9,681,835)	3,813,150

Total liabilities and shareholders equity	\$ 3,814,350	\$ 3,825,874	\$ 276,968	\$ 9,445,686	\$ (10,672,339)	\$ 6,690,539
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	<b>December 31, 2005</b>					
	<b>Nabors (Parent/ Guarantor)</b>	<b>Nabors Delaware (Issuer/ Guarantor)</b>	<b>Nabors Holdings (Issuer)</b>	<b>Other Subsidiaries (Non- Guarantors)</b>	<b>Consolidating Adjustments</b>	<b>Consolidated Total</b>
<i>(In thousands)</i>						
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 527	\$ 14	\$ 11	\$ 564,449	\$	\$ 565,001
Short-term investments				858,524		858,524
Accounts receivable, net				822,104		822,104
Inventory				51,292		51,292
Deferred income taxes				199,196		199,196
Other current assets	163	959	376	119,693		121,191
Total current assets	690	973	387	2,615,258		2,617,308
Long-term investments				222,802		222,802
Property, plant and equipment, net				3,886,924		3,886,924
Goodwill, net				341,939		341,939
Intercompany receivables	545,099	766,079		522	(1,311,700)	
Investments in affiliates	3,212,605	2,539,283	270,461	1,544,222	(7,495,407)	71,164
Other long-term assets		10,295	826	79,149		90,270
Total assets	\$ 3,758,394	\$ 3,316,630	\$ 271,674	\$ 8,690,816	\$ (8,807,107)	\$ 7,230,407
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Current liabilities:						
Current portion of long-term debt	\$	\$ 767,912	\$	\$	\$	\$ 767,912
Trade accounts payable		23		336,566		336,589
Accrued liabilities	254	5,582	4,151	214,349		224,336
Income taxes payable		6,696	1,380	15,543		23,619
Total current liabilities	254	780,213	5,531	566,458		1,352,456
Long-term debt		1,027,721	224,030			1,251,751
Other long-term liabilities				151,415		151,415
Deferred income taxes		26,246		690,399		716,645
Intercompany payable			2,534	1,309,166	(1,311,700)	
Total liabilities	254	1,834,180	232,095	2,717,438	(1,311,700)	3,472,267
Shareholders equity	3,758,140	1,482,450	39,579	5,973,378	(7,495,407)	3,758,140
Total liabilities and shareholders equity	\$ 3,758,394	\$ 3,316,630	\$ 271,674	\$ 8,690,816	\$ (8,807,107)	\$ 7,230,407



**Table of Contents****Condensed Consolidating Statements of Income**

Three Months Ended March 31, 2006

	<b>Nabors (Parent/ Guarantor)</b>	<b>Nabors Delaware (Issuer/ Guarantor)</b>	<b>Nabors Holdings (Issuer)</b>	<b>Other Subsidiaries (Non- Guarantors)</b>	<b>Consolidating Adjustments</b>	<b>Consolidated Total</b>
<i>(In thousands)</i>						
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 1,163,926	\$	\$ 1,163,926
Earnings from unconsolidated affiliates				4,399		4,399
Earnings from consolidated affiliates	259,952	200,708	5,346	208,962	(674,968)	
Investment income	76	127		13,667		13,870
Intercompany interest income	986	15,792			(16,778)	
Total revenues and other income	261,014	216,627	5,346	1,390,954	(691,746)	1,182,195
Costs and other deductions:						
Direct costs				614,617		614,617
General and administrative expenses	4,032	25	2	84,783	(45)	88,797
Depreciation and amortization		150		81,239		81,389
Depletion				13,017		13,017
Interest expense		6,992	2,860	(1,797)		8,055
Intercompany interest expense	219			16,559	(16,778)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net		(959)		4,943	45	4,029
Total costs and other deductions	4,251	6,208	2,862	813,361	(16,778)	809,904
Income before income taxes	256,763	210,419	2,484	577,593	(674,968)	372,291
Income tax expense		3,593	845	111,090		115,528

Net income	\$ 256,763	\$ 206,826	\$ 1,639	\$ 466,503	\$ (674,968)	\$ 256,763
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	<b>Three Months Ended March 31, 2005</b>					
	<b>Nabors (Parent/ Guarantor)</b>	<b>Nabors Delaware (Issuer/ Guarantor)</b>	<b>Nabors Holdings (Issuer)</b>	<b>Other Subsidiaries (Non- Guarantors)</b>	<b>Consolidating Adjustments</b>	<b>Consolidated Total</b>
<i>(In thousands)</i>						
Revenues and other income:						
Operating revenues	\$	\$	\$	\$ 783,728	\$	\$ 783,728
Earnings from unconsolidated affiliates				2,003		2,003
Earnings from consolidated affiliates	124,308	71,775	4,477	78,495	(279,055)	
Investment income	4,826			6,962		11,788
Intercompany interest income	986	18,695			(19,681)	
Total revenues and other income	130,120	90,470	4,477	871,188	(298,736)	797,519
Costs and other deductions:						
Direct costs				474,626		474,626
General and administrative expenses	2,331	121		56,873	(684)	58,641
Depreciation and amortization		150		68,038		68,188
Depletion				12,353		12,353
Interest expense		8,865	2,860	(988)		10,737
Intercompany interest expense				19,681	(19,681)	
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	344	(929)		3,772	684	3,871
Total costs and other deductions	2,675	8,207	2,860	634,355	(19,681)	628,416
Income before income taxes	127,445	82,263	1,617	236,833	(279,055)	169,103
Income tax expense	31	3,881	550	37,227		41,689
Net income	\$ 127,414	\$ 78,382	\$ 1,067	\$ 199,606	\$ (279,055)	\$ 127,414

**Table of Contents****Condensed Consolidating Statements of Cash Flows**

Three Months Ended March 31, 2006

	<b>Nabors (Parent/ Guarantor)</b>	<b>Nabors Delaware (Issuer/ Guarantor)</b>	<b>Nabors Holdings (Issuer)</b>	<b>Other Subsidiaries (Non- Guarantors)</b>	<b>Consolidating Adjustments</b>	<b>Consolidated Total</b>
<i>(In thousands)</i>						
Net cash (used for) provided by operating activities	\$ 1,197,034	\$ 23,447	\$ (5,484)	\$ 53,601	\$ (872,632)	\$ 395,966
Cash flows from investing activities:						
Purchases of investments				(38,769)		(38,769)
Sales and maturities of investments				701,158		701,158
Cash paid for investments in consolidated affiliates	(977,927)	(328,566)		(1,083,572)	2,390,065	
Cash paid for acquisitions of businesses, net				(13,465)		(13,465)
Capital expenditures				(346,211)		(346,211)
Proceeds from sales of assets and insurance claims				2,416		2,416
Net cash provided by (used for) investing activities	(977,927)	(328,566)		(778,443)	2,390,065	305,129
Cash flows from financing activities:						
Increase in cash overdrafts				9,898		9,898
Reduction of long-term debt		(769,789)				(769,789)
Proceeds from issuance of common shares	8,263					8,263
Proceeds from parent contributions		1,078,088	5,484	1,306,493	(2,390,065)	
Repurchase of common shares	(222,384)					(222,384)
Tax benefit related to the exercise of stock		1,815				1,815

options						
Cash dividends paid		(4,966)		(867,666)		872,632
Net cash provided by (used for) financing activities	(214,121)	305,148	5,484	448,725	(1,517,433)	(972,197)
Effect of exchange rate changes on cash and cash equivalents				(597)		(597)
Net (decrease) increase in cash and cash equivalents	4,986	29		(276,714)		(271,699)
Cash and cash equivalents, beginning of period	527	14	11	564,449		565,001
Cash and cash equivalents, end of period	\$ 5,513	\$ 43	\$ 11	\$ 287,735	\$	293,302

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	<b>Three Months Ended March 31, 2005</b>					
	<b>Nabors Nabors (Parent/ Guarantor)</b>	<b>Nabors Delaware (Issuer/ Guarantor)</b>	<b>Nabors Holdings (Issuer)</b>	<b>Other Subsidiaries (Non- Guarantors)</b>	<b>Consolidating Adjustments</b>	<b>Consolidated Total</b>
<i>(In thousands)</i>						
Net cash (used for) provided by operating activities	\$ 52,614	\$ 5,484	\$ (5,484)	\$ 116,044	\$ (5,484)	\$ 163,174
Cash flows from investing activities:						
Purchases of investments	(60,892)			(118,808)		(179,700)
Sales and maturities of investments	27,889			92,851		120,740
Cash paid for investments in consolidated affiliates	(85,362)	(5,484)		(5,484)	96,330	
Cash paid for acquisitions of businesses, net				(6,775)		(6,775)
Capital expenditures				(173,780)		(173,780)
Proceeds from sales of assets and insurance claims				3,203		3,203
Net cash provided by (used for) investing activities	(118,365)	(5,484)		(208,793)	96,330	(236,312)
Cash flows from financing activities:						
Increase in short-term borrowings				1,684		1,684
Increase in cash overdrafts				13,376		13,376
Proceeds from issuance of common shares	2,117			134,821		136,938
Proceeds from parent contributions			5,484	90,846	(96,330)	
Cash dividends paid				(5,484)	5,484	
Net cash provided by (used for) financing activities	2,117		5,484	235,243	(90,846)	151,998
Effect of exchange rate changes on cash and cash equivalents				(644)		(644)



Net (decrease) increase in cash and cash equivalents	(63,634)		141,850		78,216
Cash and cash equivalents, beginning of period	67,584	18	317,107		384,709
Cash and cash equivalents, end of period	\$ 3,950	\$ 18	\$ 458,957	\$	\$ 462,925

**Note 13 Subsequent Events**

On April 17, 2006, we distributed a stock dividend to all shareholders of record on March 31, 2006 thereby effectuating the two-for-one stock split approved by our Board of Directors on December 13, 2005 (see Note 7).

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders  
of Nabors Industries Ltd.:

We have reviewed the accompanying consolidated balance sheet of Nabors Industries Ltd. and its subsidiaries as of March 31, 2006, and the related consolidated statements of income, of cash flows and of changes in shareholders equity for the three-month periods ended March 31, 2006 and 2005. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, of cash flows, and of changes in shareholders' equity for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2005; and in our report dated March 16, 2006, we expressed unqualified opinions thereon. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2005, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

Houston, Texas  
May 8, 2006

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

**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 and Section 21E of 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 intended to identify 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.

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 our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission under Part 1, Item 1A, Risk Factors.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to we, us, our, or Nabors means Nabors Industries Ltd. and, where the context requires, includes our subsidiaries.

**Management Overview**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand the results of our operations and our financial condition. This information is provided as a

supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to our consolidated financial statements.

Nabors is the largest land drilling contractor in the world. 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. Nabors also is one of the largest land well-servicing and workover contractors in the United States and Canada and is a leading provider of offshore platform workover and drilling rigs in the United States and multiple international markets. To further supplement and complement our primary business, we 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. During the first quarter of 2006, we began to offer logistics services for onshore drilling and well-servicing operations in Canada using helicopter and fixed-winged aircraft purchased from Airborne Energy Solutions Ltd. on January 3, 2006 (see Note 4 to our accompanying consolidated financial statements). We have also made selective investments in oil and gas exploration, development and production activities.

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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 limited 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.

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.

Natural gas prices are the primary driver of our U.S. Lower 48 Land Drilling, Canadian and U.S. Offshore (Gulf of Mexico) operations, while oil prices are the primary driver of our Alaskan, International and U.S. Land Well-servicing operations. The Henry Hub natural gas spot price (per Bloomberg) averaged \$9.19 per million cubic feet (mcf) during the period from April 1, 2005 through March 31, 2006, up from a \$6.10 per mcf average during the period from April 1, 2004 through March 31, 2005. West Texas intermediate spot oil prices (per Bloomberg) averaged \$59.89 per barrel during the period from April 1, 2005 through March 31, 2006, up from a \$45.06 per barrel average during the period from April 1, 2004 through March 31, 2005.

Operating revenues and Earnings from unconsolidated affiliates for the three months ended March 31, 2006 totaled \$1.2 billion, representing an increase of \$382.6 million, or 49%, compared to the prior year quarter. Adjusted income derived from operating activities and net income for the three months ended March 31, 2006 totaled \$370.5 million and \$256.8 million (\$.79 per diluted share), respectively, representing increases of 116% and 102%, respectively, compared to the prior year quarter.

The increase in our operating results during the three months ended March 31, 2006 resulted from higher revenues realized by essentially all of our operating segments. Revenues increased as a result of higher average dayrates and activity levels during the three months ended March 31, 2006 compared to the prior year quarter. This increase in average dayrates and activity reflects an increase in demand for our services in these markets during the three months ended March 31, 2006, which resulted from continuing higher price levels for natural gas and oil during 2005 and the first quarter of 2006.

Our operating results for 2006 are expected to increase from levels realized during 2005 as a result of:

Our current expectation of the continuation of historically high commodity prices during 2006 and the related impact on drilling and well-servicing activity, dayrates for drilling services and hourly well-servicing rates, and

Our current expectation of the impact on our overall level of drilling and well-servicing activity resulting from new or substantially new rigs to be added as part of our expanded capital program and planned reactivations of and enhancements to existing rigs.

The expansion of our rig fleet through our expanded capital program is expected to most significantly impact the results of our U.S. Lower 48 Land Drilling, U.S. Land Well-servicing, Canadian and International operations. For our existing rigs, we expect the largest increase in drilling activity and dayrates to exist in our U.S. Lower 48 Land Drilling operations as a result of strong demand for drilling services in that market driven by the sustained level of higher natural gas prices. We also expect strong demand for our drilling and well-servicing services across a number of our other markets, resulting from higher commodity prices, to improve our results of operations from existing rigs for our U.S. Land Well-servicing, Canadian, International and U.S. Offshore operations. Canadian drilling activity is

subject to substantial levels of seasonality, as activity levels typically peak in the first quarter, decline substantially in the second quarter, and then generally increase over the last half of the year. We expect that the improvement in our International operations will also be driven by multiple rig contract re-pricings, which should begin to impact our results in the second half of 2006. We expect that the improvement in our U.S. Offshore operations will also be driven by a continuing improvement in the utilization of and pricing for our workover jack-up rigs. We expect results from our operations in Alaska to be substantially unchanged during 2006 when compared to 2005, as the improvement in commodity prices has yet to result in an improvement in demand for drilling services in that market.

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The following table sets forth certain information with respect to our reportable segments and rig activity:

	<b>Three Months Ended March 31,</b>			
	<b>2006</b>	<b>2005</b>	<b>Increase (Decrease)</b>	
<i>(In thousands, except percentages and rig activity)</i>				
Reportable segments:				
Operating revenues and Earnings from unconsolidated affiliates:				
Contract Drilling:(1)				
U.S. Lower 48 Land Drilling	\$ 426,350	\$ 258,990	\$ 167,360	65%
U.S. Land Well-servicing	160,733	106,113	54,620	51%
U.S. Offshore	43,526	38,067	5,459	14%
Alaska	26,806	24,768	2,038	8%
Canada	226,557	166,327	60,230	36%
International	146,895	124,030	22,865	18%
Subtotal Contract Drilling(2)	1,030,867	718,295	312,572	44%
Oil and Gas(3)	29,837	15,299	14,538	95%
Other Operating Segments (4)(5)	151,703	75,991	75,712	100%
Other reconciling items(6)	(44,082)	(23,854)	(20,228)	(85)%
Total	\$ 1,168,325	\$ 785,731	\$ 382,594	49%
Adjusted income (loss) derived from operating activities: (7)				
Contract Drilling:				
U.S. Lower 48 Land Drilling	\$ 179,731	\$ 73,459	\$ 106,272	145%
U.S. Land Well-servicing	46,070	19,428	26,642	137%
U.S. Offshore	10,454	7,011	3,443	49%
Alaska	4,242	5,972	(1,730)	(29)%
Canada	83,102	45,768	37,334	82%
International	37,497	29,767	7,730	26%
Subtotal Contract Drilling	361,096	181,405	179,691	99%
Oil and Gas	13,436	874	12,562	N/M(8)
Other Operating Segments	20,567	5,062	15,505	306%
Other reconciling items(9)	(24,594)	(15,418)	(9,176)	(60)%
Total	\$ 370,505	\$ 171,923	\$ 198,582	116%
Interest expense	(8,055)	(10,737)	2,682	25%
Investment income	13,870	11,788	2,082	18%
(Losses) on sales of long-lived assets, impairment charges and other income (expense), net	(4,029)	(3,871)	(158)	(4)%
Income before income taxes	\$ 372,291	\$ 169,103	\$ 203,188	120%





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	<b>Three Months Ended March 31,</b>			
	<b>2006</b>	<b>2005</b>	<b>Increase (Decrease)</b>	
<i>(In thousands, except percentages and rig activity)</i>				
Rig activity:				
Rig years: (10)				
U.S. Lower 48 Land Drilling	253.4	222.4	31.0	14%
U.S. Offshore	14.9	15.6	(0.7)	(4)%
Alaska	7.2	6.7	0.5	7%
Canada	73.3	66.2	7.1	11%
International(11)	86.3	75.2	11.1	15%
<b>Total rig years</b>	<b>435.1</b>	<b>386.1</b>	<b>49.0</b>	<b>13%</b>
Rig hours: (12)				
U.S. Land Well-servicing	311,768	296,611	15,157	5%
Canadian Well-servicing	121,224	114,336	6,888	6%
<b>Total rig hours</b>	<b>432,992</b>	<b>410,947</b>	<b>22,045</b>	<b>5%</b>

- (1) These segments include our drilling, workover and well-servicing operations, on land and offshore.
- (2) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$.69 million and \$.7 million for the three months ended March 31, 2006 and 2005, respectively.
- (3) Represents our oil and gas exploration, development and production operations.
- (4) Includes our marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations.
- (5) Includes Earnings from unconsolidated affiliates, accounted for by the equity method, of \$3.7 million and \$1.3 million for the three months ended March 31, 2006 and 2005, respectively.
- (6) Represents the elimination of inter-segment transactions.
- (7) Adjusted income (loss) derived from operating activities is computed by: subtracting direct costs, general and administrative expenses, and depreciation and amortization, and depletion expense from Operating revenues and then adding Earnings from unconsolidated affiliates. Such amounts should not be used as a substitute to those amounts reported under accounting principles generally accepted in the United States of America (GAAP). However, management evaluates the performance of our business units and the consolidated company based on several criteria, including adjusted income (loss) derived from operating activities, because it believes that this financial measure is an accurate reflection of the ongoing profitability of our company. A reconciliation of this non-GAAP measure to income before income taxes, which is a GAAP measure, is provided within the table set forth immediately following the heading *Results of Operations* above.

- (8) The percentage is so large that it is not meaningful.
- (9) Represents the elimination of inter-segment transactions and unallocated corporate expenses.
- (10) Excludes well-servicing rigs, which are measured in rig hours. Rig years represents a measure of the number of equivalent rigs operating during a given period. For example, one rig operating 182.5 days during a 365-day period represents 0.5 rig years.
- (11) International rig years include our equivalent percentage ownership of rigs owned by unconsolidated affiliates which totaled 4.0 years and 3.7 years during the three months ended March 31, 2006 and 2005, respectively.
- (12) Rig hours represents the number of hours that our well-servicing rig fleet operated during the quarter.

**Table of Contents****Segment Results of Operations*****Contract Drilling***

Our Contract Drilling operating segments contain one or more of the following operations: drilling, workover and well-servicing, on land and offshore.

*U.S. Lower 48 Land Drilling.* The results of operations for this reportable segment are as follows:

	<b>Three Months Ended</b>		<b>Increase</b>	
	<b>March 31,</b>			
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages and rig activity)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 426,350	\$ 258,990	\$ 167,360	65%
Adjusted income derived from operating activities	\$ 179,731	\$ 73,459	\$ 106,272	145%
Rig years	253.4	222.4	31.0	14%

The increase in operating results during the three months ended March 31, 2006 primarily resulted from an increase in average dayrates and in drilling activity, which were driven by higher natural gas prices. The increase in drilling activity is reflected in the increase in rig years during the three months ended March 31, 2006 compared to the prior year quarter.

*U.S. Land Well-servicing.* The results of operations for this reportable segment are as follows:

	<b>Three Months Ended</b>		<b>Increase</b>	
	<b>March 31,</b>			
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages and rig activity)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 160,733	\$ 106,113	\$ 54,620	51%
Adjusted income derived from operating activities	\$ 46,070	\$ 19,428	\$ 26,642	137%
Rig hours	311,768	296,611	15,157	5%

The increase in operating results during the three months ended March 31, 2006 primarily resulted from an increase in average dayrates and from higher well-servicing hours compared to the prior year quarter. This increase in dayrates and activity resulted from higher customer demand for our services in a number of markets in which we operate, which was driven by a sustained level of higher oil prices.

*U.S. Offshore.* The results of operations for this reportable segment are as follows:

<b>Three Months Ended</b>	
<b>March 31,</b>	
<b>2006</b>	<b>2005</b>

			<b>Increase (Decrease)</b>	
<i>(In thousands, except percentages and rig activity)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 43,526	\$ 38,067	\$ 5,459	14%
Adjusted income derived from operating activities	\$ 10,454	\$ 7,011	\$ 3,443	49%
Rig years	14.9	15.6	(0.7)	(4)%

The increase in operating results during the three months ended March 31, 2006 primarily resulted from an increase in dayrates for our jack-up rigs during the three months ended March 31, 2006 compared to the prior year quarter.

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*Alaska.* The results of operations for this reportable segment are as follows:

	<b>Three Months Ended March 31,</b>		<b>Increase (Decrease)</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages and rig activity)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 26,806	\$ 24,768	\$ 2,038	8%
Adjusted income derived from operating activities	\$ 4,242	\$ 5,972	\$ (1,730)	(29)%
Rig years	7.2	6.7	0.5	7%

The increase in operating revenues and Earnings from unconsolidated affiliates during the three months ended March 31, 2006 are primarily due to increases in average dayrates and drilling activity levels as compared to prior year quarter. The decrease in overall operating results during the three months ended March 31, 2006 as compared to prior year quarter relate to increased labor and R&M costs.

*Canada.* The results of operations for this reportable segment are as follows:

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages and rig activity)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 226,557	\$ 166,327	\$ 60,230	36%
Adjusted income derived from operating activities	\$ 83,102	\$ 45,768	\$ 37,334	82%
Rig years	73.3	66.2	7.1	11%
Rig hours	121,224	114,336	6,888	6%

The increase in operating results during the three months ended March 31, 2006 primarily resulted from an overall increase in drilling and well-servicing activity and an increase in average dayrates for drilling and well-servicing operations compared to the prior year quarter. These increases were driven by increased commodity prices, which resulted in improved demand for our services in this market. Additionally, well-servicing activity improved when compared to the prior year quarter as operations for that quarter were impacted by warm weather in March 2005, which led to an earlier end to the winter season.

*International.* The results of operations for this reportable segment are as follows:

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages and rig activity)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 146,895	\$ 124,030	\$ 22,865	18%

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Adjusted income derived from operating activities	\$ 37,497	\$ 29,767	\$ 7,730	26%
Rig years	86.3	75.2	11.1	15%

The increase in operating results during the three months ended March 31, 2006 primarily resulted from an increase in operations in New Zealand, The Middle East (primarily India, Saudi Arabia, the United Arab Emirates and Yemen), and South America (primarily Argentina, Colombia, Ecuador and Venezuela), resulting from improved demand for our services and improved dayrates in these markets, partially offset by decreased operations in Mexico and loss of operations in Indonesia during the three months ended March 31, 2006 compared to the prior year quarter.

**Table of Contents****Oil and Gas**

This operating segment represents our oil and gas exploration, development and production operations. The results of operations for this reportable segment are as follows:

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 29,837	\$ 15,299	\$ 14,538	95%
Adjusted income derived from operating activities	\$ 13,436	\$ 874	\$ 12,562	N/M(1)

(1) The percentage is so large that it is not meaningful.

The increase in operating results during the three months ended March 31, 2006 primarily resulted from the sale of certain leasehold interests. Such sale resulted in additional Operating revenue totaling \$20.7 million during the three months ended March 31, 2006 and were partially offset by lower production during the three months ended March 31, 2006 resulting from the expected decline in production from our investments with El Paso Corporation and from lower production associated with our investments in other oil and gas properties.

During the three months ended March 31, 2006, we also recorded an impairment of oil and gas properties totaling approximately \$7.5 million that was recorded as depletion expense. This impairment resulted from lower than expected performance of certain asset groups as well as a significant drop in natural gas prices during the three months ended March 31, 2006.

**Other Operating Segments**

These operations include our marine transportation and supply services, drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations. The results of operations for these operating segments are as follows:

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages)</i>				
Operating revenues and Earnings from unconsolidated affiliates	\$ 151,703	\$ 75,991	\$ 75,712	100%
Adjusted income derived from operating activities	\$ 20,567	\$ 5,062	\$ 15,505	306%

The increase in our operating results during the three months ended March 31, 2006 primarily resulted from (i) increased sales of top drives driven by the strengthening of the oil and gas drilling market during the three months ended March 31, 2006, (ii) increased demand for directional drilling, rig instrumentation and data collection services, primarily driven by a strong Canadian market for directional drilling services as the number of horizontal and

directional wells drilled increased substantially during the three months ended March 31, 2006, (iii) increased margins for our marine transportation and supply services driven by higher average dayrates during the three months ended March 31, 2006, which was primarily driven by an improvement in the offshore drilling market that resulted in increased demand for our services, and (iv) increased demand for construction and logistics services.



**Table of Contents****Other Financial Information*****General and administrative expenses***

	<b>Three Months Ended March 31,</b>		<b>Increase (Decrease)</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages)</i>				
General and administrative expenses	\$ 88,797	\$ 58,641	\$ 30,156	51%
General and administrative expenses as a percentage of Operating revenues	7.6%	7.5%	(0.1)%	(1)%

General and administrative expenses increased during the three months ended March 31, 2006 primarily as a result of increases in wages and burden for a majority of our operating segments compared to the prior year quarter, which primarily resulted from an increase in the number of employees required to support the increase in activity levels and from higher wages, and increased corporate compensation expense, which primarily resulted from higher bonus accruals and non-cash compensation expenses recorded for stock options and restricted stock grants during the three months ended March 31, 2006 compared to the prior year quarter. For the three months ended March 31, 2006, general and administrative expenses, as a percentage of Operating revenues, remained comparable to the prior year quarter.

***Depreciation and amortization, and depletion expense***

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages)</i>				
Depreciation and amortization expense	\$ 81,389	\$ 68,188	\$ 13,201	19%
Depletion expense	\$ 13,017	\$ 12,353	\$ 664	5%

*Depreciation and amortization expense.* Depreciation and amortization expense increased during the three months ended March 31, 2006 compared to the prior year quarter as a result of depreciation on capital expenditures made during the last three quarters of 2005 and the first quarter of 2006 and increases in average rig years for our U.S. Lower 48 Land Drilling, Canadian land drilling and International operations during the three months ended March 31, 2006 compared to the prior year quarter.

*Depletion expense.* Depletion expense increased during the three months ended March 31, 2006 compared to the prior year quarter due to an impairment of \$7.5 million which was substantially offset by lower oil and gas production due to the payout of the El Paso Red River program in late 2005. The impairment resulted from lower than expected performance of certain asset groups as well as a significant drop in natural gas prices during the three months ended March 31, 2006.

***Interest expense***

**Three Months Ended****March 31,****2006****2005****Decrease***(In thousands, except percentages)*

Interest expense	\$ 8,055	\$ 10,737	\$ 2,682	25%
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Interest expense decreased during the three months ended March 31, 2006 compared to the prior year quarter as a result of the redemption of 93% of our zero coupon convertible senior debentures due 2021 on February 6, 2006. See further discussion of this partial redemption in Note 5 to accompanying consolidated financial statements.

**Table of Contents****Investment income**

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages)</i>				
Investment income	\$ 13,870	\$ 11,788	\$ 2,082	18%

Investment income increased during the three months ended March 31, 2006 compared to the prior year quarter primarily as a result of higher earnings on our non-marketable securities accounted for under the equity method of accounting, which was partially offset by lower gains recognized on sales on marketable debt and equity securities and earned interest decreases on investments in marketable securities due to significantly reduced balances, partially offset by significantly higher rates during the three months ended March 31, 2006.

**Gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net**

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages)</i>				
(Losses) on sales of long-lived assets, impairment charges and other income (expense), net	\$ (4,029)	\$ (3,871)	\$ 158	4%

The amounts of gains (losses) on sales of long-lived assets, impairment charges and other income (expense), net for the three months ended March 31, 2006 include losses on long-term assets of approximately \$3.2 million and minority interest of approximately \$1.4 million related to non-majority owned subsidiaries required to be consolidated under Financial Accounting Standards Board (FASB) Interpretation No. 46R ( FIN 46R ). The amounts of gains (losses) on sales and long-lived assets, impairment charges and other income (expense), net for the three months ended March 31, 2005 include losses on long-term assets of approximately \$1.1 million and minority interest of approximately \$1.1 million related to non-majority owned subsidiaries required to be consolidated under FIN 46R.

**Income tax rate**

	<b>Three Months Ended March 31,</b>		<b>Increase</b>	
	<b>2006</b>	<b>2005</b>		
<i>(In thousands, except percentages)</i>				
Effective income tax rate	31.0%	24.7%	6.3%	26%

Our effective income tax rate was 31.0% for the three months ended March 31, 2006 compared to 24.7% during the prior year quarter. The increase in our effective income tax rate resulted from a higher proportion of our taxable income being generated in the U.S. during the three months ended March 31, 2006 compared to the prior year quarter. Income generated in the U.S. is generally taxed at a higher rate than in international jurisdictions in which we operate.

In October 2004 the U.S. Congress passed and the President signed into law the American Jobs Creation Act of 2004. The Act did not impact the corporate reorganization completed by Nabors effective June 24, 2002, that made us a foreign entity. It is possible that future changes to tax laws (including tax treaties) could have an impact on our ability to realize the tax savings recorded to date as well as future tax savings as a result of our corporate reorganization, depending on any responsive action taken by Nabors. We expect our effective tax rate during 2006 to be in the 29%-31% range because we expect a higher proportion of our income to be generated in the U.S.

## **Liquidity and Capital Resources**

### *Cash Flows*

Our cash flows depend, to a large degree, on the level of spending by oil and gas companies for exploration, development and production activities. Sustained increases or decreases in the price of natural gas or oil could have a material impact on these activities, and could also materially affect our cash flows. Certain sources and uses of

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cash, such as the level of discretionary capital expenditures, purchases and sales of investments, issuances and repurchases of debt and of our common shares are within our control and are adjusted as necessary based on market conditions. The following is a discussion of our cash flows for the three months ended March 31, 2006 and 2005.

*Operating Activities.* Net cash provided by operating activities totaled \$396.0 million during the three months ended March 31, 2006, compared to net cash provided by operating activities of \$163.2 million during the prior year quarter. During the three months ended March 31, 2006 and 2005, net income was increased for non-cash items such as depreciation and amortization, and depletion, and was reduced for changes in our working capital (primarily accounts receivable) and other balance sheet accounts.

*Investing Activities.* Net cash provided by investing activities totaled \$305.1 million during the three months ended March 31, 2006, compared to net cash used for investing activities of \$236.3 million during the prior year quarter. During the three months ended March 31, 2006, cash was used for capital expenditures, which was offset by sales, net of purchases, of investments totaling \$662.4 million. During the three months ended March 31, 2005, cash was used for purchases, net of sales, of investments and for capital expenditures.

*Financing Activities.* Net cash used for financing activities totaled \$972.2 million during the three months ended March 31, 2006 compared to net cash provided by financing activities of \$152.0 million during the prior year quarter. During the three months ended March 31, 2006, cash was used for the redemption of 93% of our zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million and for repurchases of our common shares in the open market for \$222.4 million, and was provided by our receipt of proceeds totaling \$8.3 million from the exercise of options to acquire our common shares by our employees. During the three months ended March 31, 2005, cash was provided by our receipt of proceeds totaling \$136.9 million from the exercise of options to acquire our common shares by our employees.

## ***Future Cash Requirements***

As of March 31, 2006, we had long-term debt, including current maturities, of \$1.3 billion and cash and cash equivalents and investments of \$725.3 million.

On February 6, 2006, we redeemed 93% of our zero coupon senior convertible debentures due 2021 for a total redemption price of \$769.8 million. Because this portion of our zero coupon convertible senior debentures were redeemed on February 6, 2006, the outstanding principal amount of the redeemed debentures of \$767.9 million was included in current liabilities in our balance sheet as of December 31, 2005. We treat the repurchase price, including accrued original issue discount, on such debentures as a financing activity for purposes of reporting cash flows in our consolidated statements of cash flows.

Additionally, our \$700 million zero coupon senior exchangeable notes provide that upon an exchange of these notes, we will be required to pay holders of the notes, in lieu of common shares, cash up to the principal amount of the notes and, at our option, consideration in the form of either cash or our common shares for any amount above the principal amount of the notes required to be paid pursuant to the terms of the note indenture. The notes cannot be exchanged until the price for our shares exceeds approximately \$42 for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter, or in various other circumstances as described in the note indenture. If these notes are exchanged, we would be required to pay the principal amount of the notes, or \$700 million, in cash.

As of March 31, 2006, we had outstanding purchase commitments of approximately \$881.4 million, primarily for rig-related enhancing, construction and sustaining capital expenditures. Total capital expenditures over the next twelve months, including these outstanding purchase commitments, are currently expected to be at least \$1.6 billion,

including currently planned rig-related enhancing, construction and sustaining capital expenditures. This amount could change significantly based on market conditions and new business opportunities. The level of our outstanding purchase commitments and our expected level of capital expenditures over the next twelve months represent a number of capital programs that are currently underway or planned. These programs will result in an expansion in the number of drilling and well-servicing rigs that we own and operate and will consist primarily of land drilling and well-servicing rigs. The increase in capital expenditures is expected across a majority of our

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operating segments, most significantly within our U.S. Lower 48 Land Drilling, U.S. Land Well-servicing, Canadian, and International operations.

Our 2005 Annual Report on Form 10-K includes our contractual cash obligations table as of December 31, 2005. As a result of the increase in our outstanding purchase commitments discussed above, we are presenting the following table in this Report which summarizes our remaining contractual cash obligations related to purchase commitments as of March 31, 2006:

<i>(In thousands)</i>	<b>Total</b>	<b>Payment Due by Period</b>			<b>Thereafter</b>
		<b>&lt; 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	
Purchase commitments(1)	\$ 881,390	\$ 860,860	\$ 20,530	\$	\$

- (1) Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable pricing provisions; and the approximate timing of the transaction.

We have historically completed a number of acquisitions and will continue to evaluate opportunities to acquire assets or businesses to enhance our operations. Several of our previous acquisitions were funded through issuances of our common shares. Future acquisitions may be paid for using existing cash or issuance of debt or Nabors shares. Such capital expenditures and acquisitions will depend on our view of market conditions and other factors.

During 2002 our Board of Directors authorized the continuation of a share repurchase program under which we may repurchase our common shares in the open market. Under this program we are authorized to purchase up to \$400 million of our common shares. During the first quarter of 2006, we repurchased and retired 6.4 million of our common shares under this program for \$222.4 million.

See Note 8 to our accompanying consolidated financial statements for discussion of commitments and contingencies that could have a potential impact on our financial position, results of operations or cash flows in future periods.

***Financial Condition and Sources of Liquidity***

Our primary sources of liquidity are cash and cash equivalents, marketable and non-marketable securities and cash generated from operations. As of March 31, 2006, we had cash and cash equivalents and investments of \$725.3 million (including \$250.4 million of long-term investments) and working capital of \$1.1 billion. This compares to cash and cash equivalents and investments of \$1.6 billion (including \$222.8 million of long-term investments) and working capital of \$1.3 billion as of December 31, 2005.

Our funded debt to capital ratio was 0.25:1 as of March 31, 2006 and 0.35:1 as of December 31, 2005. Our net funded debt to capital ratio was 0.12:1 as of March 31, 2006 and 0.09:1 as of December 31, 2005. The funded debt to capital ratio is calculated by dividing funded debt by funded debt plus capital. Funded debt is defined as the sum of (1) short-term borrowings, (2) current portion of long-term debt and (3) long-term debt. Capital is defined as shareholders equity. The net funded debt to capital ratio nets cash and cash equivalents and marketable and non-marketable securities against funded debt. This ratio is calculated by dividing net funded debt by net funded debt plus capital. Both of these ratios are a method for calculating the amount of leverage a company has in relation to its capital. Non-marketable securities consist of investments in overseas funds investing primarily in a variety of public

and private U.S. and non-U.S. securities (including asset-backed securities and mortgage-backed securities, global structured asset securitizations, whole loan mortgages, and participations in whole loans and whole loan mortgages). These investments are classified as non-marketable, because they do not have published fair values. Our interest coverage ratio was 34.9:1 as of March 31, 2006, compared to 28.0:1 as of December 31, 2005. The interest coverage ratio is computed by calculating the sum of income before income taxes, interest expense, depreciation and amortization, and depletion expense and then dividing by interest expense. This ratio is a method for calculating the amount of cash flows available to cover interest expense.



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We have three letter of credit facilities with various banks as of March 31, 2006. Availability and borrowings under our credit facilities as of March 31, 2006 are as follows:

***(In thousands)***

Credit available	\$ 132,538
Letters of credit outstanding	78,990
Remaining availability	\$ 53,548

We have a shelf registration statement on file with the Securities and Exchange Commission to allow us to offer, from time to time, up to \$700 million in debt securities, guarantees of debt securities, preferred shares, depository shares, common shares, share purchase contracts, share purchase units and warrants. We currently have not issued any securities registered under this registration statement.

Our current cash and cash equivalents, investments in marketable and non-marketable securities and projected cash flows generated from current operations are expected to more than adequately finance our purchase commitments, our debt service requirements, and all other expected cash requirements for the next twelve months. However, as discussed under *Future Cash Requirements* above, our \$700 million zero coupon senior exchangeable notes can be exchanged when the price for our shares exceeds approximately \$42 for the required period of time, resulting in our payment of the principal amount of the notes, or \$700 million, in cash.

On April 28, 2006, the market price for our shares closed at \$37.33. If the market price threshold of \$42 were exceeded and the notes were exchanged, 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. Nabors management believes that the holders of these notes would not be likely to exchange the notes as it would be more economically beneficial to them if they sold the notes on the open market, however there can be no assurance that the holders would not exchange the notes. Further, management believes that we have the ability to access capital markets or otherwise obtain financing in order to satisfy any payment obligations that might arise upon exchange of these notes and that any cash payment due of this magnitude, in addition to our other cash obligations, will not ultimately have a material adverse impact on our liquidity or financial position. Our ability to access capital markets or to otherwise obtain sufficient financing is enhanced by our senior unsecured debt ratings as provided by Moody's Investor Service and Standard & Poor's, which are currently A3 and A-, respectively, and our historical ability to access those markets as needed.

See our discussion of the impact of changes in market conditions on our derivative financial instruments discussed under *Item 3. Quantitative and Qualitative Disclosures About Market Risk* below.

**Other Matters*****Recent Accounting Pronouncements***

The Company has several stock-based employee compensation plans, which are more fully described in Note 9 in the Company's 2005 Annual Report on Form 10-K. Prior to January 1, 2006, we accounted for awards granted under those plans following the recognition and measurement principles of Accounting Principles Bulletin (APB) Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations. Under APB 25, no compensation expense was reflected in net income for the Company's stock options, as all options granted under those plans had an

exercise price equal to the market value of the underlying common shares on the date of grant. The pro forma effects on income for stock options were instead disclosed in a footnote to the financial statements. Compensation expense was recorded in the income statement for restricted stock grants over the vesting period of the award.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standard No. 123(R), Share-Based Payments, (SFAS 123-R), using the modified prospective application method. Under this transition method, the Company is now required to record compensation expense for all stock option awards granted after the date of adoption and for the unvested portion of previously granted stock option awards that remain outstanding at the date of adoption. This amount of compensation cost recognized

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was based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Results for prior periods have not been restated.

As a result of adopting SFAS 123-R on January 1, 2006, Nabors' income before income taxes and net income for the three months ended March 31, 2006 were \$5.5 million, and \$4.3 million lower, respectively, than if the Company had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been \$.83 and \$.80, respectively, if the Company had not adopted SFAS 123-R, compared to reported basic and diluted earnings per share of \$.82 and \$.79, respectively. See the disclosures required upon adoption of SFAS 123-R in Note 3 to our accompanying consolidated financial statements.

### ***Critical Accounting Estimates***

We disclosed our critical accounting estimates in our 2005 Annual Report on Form 10-K. No significant changes have occurred to those policies.

### ***Self-Insurance Accruals***

Effective April 1, 2006, with our insurance renewal, certain changes have been made to our insurance coverage resulting in additional loss exposure. Such changes effective April 1, 2006 are as follows:

Domestic workers' compensation program continues to be subject to a \$1.0 million per occurrence deductible. Employers' liability and Jones Act cases are subject to a \$2.0 million deductible. Automobile liability continues at a \$.5 million deductible. We are assuming an additional \$3.0 million corridor deductible for domestic workers' compensation claims. General liability claims continue to be subject to a \$5.0 million deductible. However, as a result of insurance market conditions following hurricanes Katrina and Rita, we are now subject to higher deductibles for removal of wreck and debris and collision liability claims depending on the insured value of the individual rigs.

In addition, we are subject to a \$1.0 million deductible for all land rigs except for those located in Alaska, and a \$5.0 million deductible for all Alaska and offshore rigs. This applies to all kinds of risks of physical damage except for named windstorms in the U.S. Gulf of Mexico. The deductible for named windstorms in the U.S. Gulf of Mexico is \$25.0 million. Also, the maximum coverage for named windstorms in the U.S. Gulf of Mexico is \$50.0 million in this policy year.

### ***Item 3. Quantitative and Qualitative Disclosures About Market Risk***

We may be exposed to market risk through changes in interest rates and foreign currency risk due to our operations in international markets as discussed in our 2005 Annual Report on Form 10-K. Material changes in our exposure to market risk from that disclosed in our 2005 Annual Report on Form 10-K are discussed below.

On October 21, 2002, we entered into an interest rate swap transaction with a third-party financial institution to hedge our exposure to changes in the fair value of \$200 million of our fixed rate 5.375% senior notes due 2012, which has been designated as a fair value hedge under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 149. Additionally, on October 21, 2002, we purchased a LIBOR range cap and sold a LIBOR floor, in the form of a cashless collar, with the same third-party financial institution with the intention of mitigating and managing our exposure to changes in the three-month U.S. dollar LIBOR rate. This transaction does not qualify for hedge accounting treatment under SFAS 133, as amended by SFAS 149, and any change in the cumulative fair value of this transaction is reflected as a gain or loss in our consolidated statements of income. In June 2004 we unwound \$100 million of the \$200 million range cap and floor derivative instrument. During the fourth quarter of 2005, we unwound the interest rate swap resulting in a loss of \$2.7 million, which has been deferred and

will be recognized as an increase to interest expense over the remaining life of our 5.375% senior notes due 2012.

The fair value of our range cap and floor transaction recorded as a derivative asset and included in other long-term assets totaled approximately \$2.4 million and \$1.5 million as of March 31, 2006 and December 31, 2005, respectively. We recorded mark-to-market gains, included in losses (gains) on sales of long-lived assets, impairment

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charges and other expense (income), net of approximately \$1.0 million and \$.9 million during the three months ended March 31, 2006 and March 31, 2005, respectively, resulting from the change in cumulative fair value of this derivative instrument during those periods.

**Item 4. *Controls and Procedures***

(a) Disclosure Controls and Procedures. We maintain a set of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We have investments in certain unconsolidated entities that we do not control or manage. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily more limited than those we maintain with respect to our consolidated subsidiaries.

The Company's management, with the participation of the Company's Chairman and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Company's Chairman and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective, at the reasonable assurance level, in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and are effective, at the reasonable assurance level, in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chairman and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. *Legal Proceedings***

Nabors and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. We estimate the range of our liability related to pending litigation when we believe the amount and range of loss can be estimated. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits or claims. As additional information becomes available, we assess the potential liability related to our pending litigation and claims and revise our estimates. Due to uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ from our estimates. In the opinion of management and based on liability accruals provided, our ultimate exposure with respect to these pending lawsuits and claims is not expected to have a material adverse effect on our consolidated financial position or cash flows, although they could have a material adverse effect on our results of operations for a particular reporting period.

One such lawsuit involves wage and hour claims relating primarily to meal periods and travel time of current and former rig-based employees in our California well-servicing business. Those claims were heard by an arbitrator during the fourth quarter of 2005. On February 6, 2006, we received an interim judgment against us in the amount of \$25.6 million (plus an undetermined amount of attorneys' fees and costs), which has been accrued for in our

consolidated statements of income for the year ended December 31, 2005.

Additionally, on December 22, 2005, we received a grand jury subpoena from the United States Attorney's Office in Anchorage, Alaska, seeking documents and information relating to an alleged spill, discharge, overflow or

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cleanup of drilling mud or sludge involving one of our rigs during March 2003. We are cooperating with the authorities in this matter.

**Item 1A. Risk Factors**

There have been no material changes during the quarter ended March 31, 2006 in our Risk Factors as discussed in our Form 10-K for the fiscal year ended December 31, 2005.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities**

The following table provides information relating to Nabors' repurchase of common shares during the first quarter of 2006 (in thousands, except average price paid per share):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program(1)
			Purchased as Part of Publicly Announced Program	
February 1, 2006 – February 28, 2006	2,400	\$ 37.41	2,400	\$ 208,257
March 1, 2006 – March 31, 2006	4,000	\$ 33.14	4,000	\$ 75,707

(1) During 2002 our Board of Directors authorized the continuation of a share repurchase program under which we may repurchase our common shares in the open market. Under this program we are authorized to purchase up to \$400 million of our common shares. This repurchase program does not have an expiration date.

No shares were purchased during the period of January 1, 2006 – January 31, 2006.

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

At the Special Meeting of Shareholders of Nabors Industries Ltd. held on March 30, 2006, 268,118,396 shares were present in person or by proxy, constituting 85.5% of the outstanding shares of Nabors entitled to vote, which includes both common shares and the preferred share voting on behalf of holders of common shares of Nabors Exchangeco (Canada) Inc.

The matters voted upon at the Special Meeting were:

*Amendment of our Amended and Restated Bye-Laws:* The shareholders approved an amendment to our Amended and Restated Bye-Laws to increase the authorized share capital of Nabors by the creation of additional common shares:

Approval of amendment of our Amended and Restated Bye-Laws

Votes cast in favor:	246,620,242
Votes cast against:	19,862,360
Votes abstaining:	1,635,794



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**Item 6. Exhibits**

- 15 Awareness Letter of Independent Accountants.
  
- 31.1 Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 31.2 Certification of Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 32.1 Certification of Chairman and Chief Executive Officer, and Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NABORS INDUSTRIES LTD.

Date: May 10, 2006

/s/ Eugene M. Isenberg  
Eugene M. Isenberg  
Chairman and Chief Executive Officer

Date: May 10, 2006

/s/ Bruce P. Koch  
Bruce P. Koch  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

- 15 Awareness Letter of Independent Accountants
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