NABORS INDUSTRIES LTD
Form 10-Q
May 02, 2008

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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, 2008

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 **þ** No **o**

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

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

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

The number of common shares, par value $.001 per share, outstanding as of April 25, 2008 was 281,517,543. In addition, our subsidiary, Nabors Exchangeco (Canada) Inc., had 108,980 exchangeable shares outstanding as of April 25, 2008 that are exchangeable for Nabors common shares on a one-for-one basis, and have essentially identical rights as Nabors Industries Ltd. common shares, including but not limited to voting rights and the right to receive dividends, if any.

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except per share amounts)	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,094,326	$ 531,306
Short-term investments	355,918	235,745
Accounts receivable, net	1,112,190	1,039,238
Inventory	129,611	133,786
Deferred income taxes	20,227	12,757
Other current assets	242,453	252,280
Total current assets	2,954,725	2,205,112
Long-term investments and other receivables	310,938	359,534
Property, plant and equipment, net	6,758,516	6,632,612
Goodwill	360,709	368,432
Other long-term assets	520,335	537,692
Total assets	$ 10,905,223	$ 10,103,382
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 700,000	$ 700,000
Trade accounts payable	332,732	348,524
Accrued liabilities	304,467	348,515
Income taxes payable	148,931	97,093
Total current liabilities	1,486,130	1,494,132
Long-term debt	3,881,575	3,306,433
Other long-term liabilities	258,884	246,714
Deferred income taxes	490,794	541,982
Total liabilities	6,117,383	5,589,261
Commitments and contingencies (Note 8)		
Shareholders equity:		

Common shares, par value $.001 per share:		
Authorized common shares 800,000; issued 307,391 and 305,458, respectively	307	305
Capital in excess of par value	1,717,005	1,710,036
Accumulated other comprehensive income	363,043	322,635
Retained earnings	3,589,586	3,359,080
Less: treasury shares, at cost, 26,272 and 26,122 common shares, respectively	(882,101)	(877,935)
Total shareholders equity	4,787,840	4,514,121
Total liabilities and shareholders equity	$ 10,905,223	$ 10,103,382

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31, 2008	2007
Revenues and other income:		
Operating revenues	$ 1,299,858	$ 1,236,013
Earnings (loss) from unconsolidated affiliates	(4,451)	12,441
Investment income	26,182	28,709
Total revenues and other income	1,321,589	1,277,163
Costs and other deductions:		
Direct costs	747,770	684,297
General and administrative expenses	111,321	113,897
Depreciation and amortization	135,478	103,608
Depletion	13,685	6,625
Interest expense	18,109	13,052
Losses (gains) on sales of long-lived assets, impairment charges and other expense (income), net	8,097	13,885
Total costs and other deductions	1,034,460	935,364
Income from continuing operations before income taxes	287,129	341,799
Income tax expense (benefit):		
Current	99,293	105,854
Deferred	(42,670)	(20,945)
Total income tax expense	56,623	84,909
Income from continuing operations, net of tax	230,506	256,890
Income from discontinued operations, net of tax		5,272
Net income	$ 230,506	$ 262,162
Earnings per share:		
Basic from continuing operations	$ .83	$ .93
Basic from discontinued operations		.02
Total Basic	$ .83	$ .95
Diluted from continuing operations	$ .81	$ .90
Diluted from discontinued operations		.02

Total Diluted	$ .81	$ .92
Weighted-average number of common shares outstanding:		
Basic	277,584	276,942
Diluted	283,361	284,814

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
(In thousands)	**2008**	**2007**
Cash flows from operating activities:		
Net income	$ 230,506	$ 262,162
Adjustments to net income:		
Depreciation and amortization	135,478	105,228
Depletion	13,685	6,625
Deferred income tax (benefit) expense	(42,670)	(21,668)
Deferred financing costs amortization	2,148	2,088
Pension liability amortization and adjustments	70	120
Discount amortization on long-term debt	502	486
Amortization of loss on hedges	134	137
Losses on long-lived assets, net	4,451	6,227
Losses (gains) on investments, net	(14,763)	(16,668)
Losses (gains) on derivative instruments	1,390	(35)
Share-based compensation	9,021	7,852
Foreign currency transaction (gains) losses, net	307	(1,119)
Equity in losses (earnings) of unconsolidated affiliates, net of dividends	6,606	(6,855)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(86,969)	(21,457)
Inventory	2,075	(13,535)
Other current assets	6,359	(106)
Other long-term assets	1,141	(73,494)
Trade accounts payable and accrued liabilities	(45,486)	31,823
Income taxes payable	52,951	59,016
Other long-term liabilities	3,455	29,312
Net cash provided by operating activities	280,391	356,139
Cash flows from investing activities:		
Purchases of investments	(105,725)	(157,878)
Sales and maturities of investments	151,725	89,713
Cash paid for acquisitions of businesses, net		(8,391)
Investment in unconsolidated affiliates	(15,567)	(4,644)
Capital expenditures	(327,931)	(583,211)
Proceeds from sales of assets and insurance claims	12,270	8,535
Net cash used for investing activities	(285,228)	(655,876)
Cash flows from financing activities:		
Increase in cash overdrafts	4,515	699

Proceeds from long-term debt	575,219	
Debt issuance costs	(3,818)	
Proceeds from issuance of common shares	6,769	58,975
Repurchase of common shares	(4,166)	
Purchase of restricted stock	(9,662)	(1,698)
Tax benefit related to the exercise of stock options	828	771
Net cash provided by financing activities	569,685	58,747
Effect of exchange rate changes on cash and cash equivalents	(1,828)	1,668
Net (decrease) increase in cash and cash equivalents	563,020	(239,322)
Cash and cash equivalents, beginning of period	531,306	700,549
Cash and cash equivalents, end of period	$ 1,094,326	$ 461,227

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

	Common Shares			Accumulated Comprehensive Income (Loss)					T
			Capital in Excess of	Unrealized Gains (Losses) on Marketable	Cumulative Translation		Retained	Treasury	Share
sands)	Shares	Par Value	Par Value	Securities	Adjustment	Other	Earnings	Shares	Eq
, December 31,	305,458	$ 305	$ 1,710,036	$ 281	$ 324,647	$ (2,293)	$ 3,359,080	$ (877,935)	$ 4,5
ensive income									
me							230,506		2
on adjustment					(44,891)				
ed gains on le securities, net e taxes of $178				85,025					
lassification nt for gains in net income, net e taxes of $135				(218)					
iability ion, net of income 626						44			
ed gain and ion of sses on cash flow et of income taxes						448			
nprehensive oss)				84,807	(44,891)	492	230,506		2
of common shares options exercised	348		6,769						
se of 150 treasury								(4,166)	
t of exercised ion deductions			843						

d stock awards,	1,585	2	(9,664)						
sed compensation			9,021						
	1,933	2	6,969					(4,166)	
, March 31, 2008	307,391	$ 307	$ 1,717,005	$ 85,088	$ 279,756	$ (1,801)	$ 3,589,586	$ (882,101)	$ 4,

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued) (Unaudited)

	Common Shares			Accumulated Other Comprehensive Income (Loss)					T Share
sands)	Shares	Par Value	Capital in Excess of Par Value	Unrealized Gains (Losses) on Marketable Securities	Cumulative Translation Adjustment	Other	Retained Earnings	Treasury Shares	Eq
, December 31,	299,333	$ 299	$ 1,637,204	$ 33,400	$ 171,160	$ (3,299)	$ 2,473,373	$ (775,484)	$ 3,5
ensive income									
me							262,162		2
on adjustment					9,784				
ed gains on le securities, net e taxes of $60				1,929					
lassification nt for gains in net income, net e tax benefit of $2				(42)					
iability tion, net of income $44						76			
tion of loss on hedges						37			
nprehensive oss)				1,887	9,784	113	262,162		2
ve effect of of FIN 48 January 1, 2007							(44,984)		
of common shares options exercised	2,580	3	58,972						
xchangeco shares d	3								
t of exercised ion deductions			771						

d stock awards,									
	1,610	2	(1,700)						
sed compensation			7,852						
	4,193	5	65,895					(44,984)	
, March 31, 2007	303,526	$ 304	$ 1,703,099	$ 35,287	$ 180,944	$ (3,186)	$ 2,690,551	$ (775,484)	$ 3,8

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1   Nature of Operations

Nabors is the largest land drilling contractor in the world, with approximately 537 actively marketed land drilling rigs. We conduct oil, gas and geothermal land drilling operations in the U.S. Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa. We are also one of the largest land well-servicing and workover contractors in the United States and Canada. We actively market approximately 576 land workover and well-servicing rigs in the United States, primarily in the southwestern and western United States, and actively market approximately 171 land workover and well-servicing rigs in Canada. Nabors is a leading provider of offshore platform workover and drilling rigs, and actively markets 36 platform, 12 jack-up units and 4 barge rigs in the United States and multiple international markets. These rigs provide well-servicing, workover and drilling services. We have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 9 rigs in addition to the rigs we lease to the joint venture. We also offer a wide range of ancillary well-site services, including engineering, transportation, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in selected domestic and international markets. We provide logistics services for onshore drilling in Canada using helicopters and fixed-winged aircraft. We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, pipeline handling equipment and rig reporting software. We also invest in oil and gas exploration, development and production activities and have 49% ownership interests in joint ventures in the U.S., Canada and International areas.

The majority of our business is conducted through our various Contract Drilling operating segments, which include our drilling, workover and well-servicing operations, on land and offshore. Our oil and gas exploration, development and production operations are included in a category labeled Oil and Gas for segment reporting purposes. Our operating segments engaged in 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.

During the third quarter of 2007, we sold our Sea Mar business to an unrelated third party. Accordingly, the accompanying consolidated statements of income, and certain accompanying notes to the consolidated financial statements, have been updated to retroactively reclassify the operating results of this Sea Mar business, previously included in Other Operating Segments, as a discontinued operation for all periods presented. See Note 11 Discontinued Operation for additional discussion.

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

Note 2   Summary of Significant Accounting Policies

Interim Financial Information

The unaudited consolidated financial statements of Nabors are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain reclassifications have been made to the prior period to conform to the current period presentation, with no effect on our consolidated financial position, results of operations or cash flows. Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC), certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with our Annual Report on Form 10-K for the year ended December 31, 2007. In our management s opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of March 31, 2008 and the results of our operations and our cash flows for the three months ended March 31, 2008 and 2007, in accordance with GAAP. Interim results for the three months ended March 31, 2008 may not be indicative of results that will be realized for the full year ending December 31, 2008.

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, as amended (the Securities Act), 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 and non-majority owned subsidiaries required to be consolidated under Financial Accounting Standards Board (FASB) Interpretation No. 46(R), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46R). Our consolidated financial statements exclude majority-owned entities for which we do not have either (1) the ability to control the operating and financial decisions and policies of that entity or (2) a controlling financial interest in a variable interest entity (VIE). 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 included in other long-term assets as a single amount in our consolidated balance sheets. Investments in net assets of unconsolidated affiliates accounted for using the equity method totaled $392.0 million and $383.4 million as of March 31, 2008 and December 31, 2007, respectively. 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.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. SFAS No. 157 is effective with respect to financial assets and liabilities for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 applies prospectively to financial assets and liabilities. There is a one-year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities measured on a nonrecurring basis. Effective January 1, 2008, we adopted the provisions of SFAS No. 157 relating to financial assets and liabilities. The new disclosures regarding the level of pricing observability associated with financial instruments carried at fair value is provided in Note 3 to the accompanying unaudited consolidated financial statements. The adoption of SFAS No. 157 with respect to financial assets and liabilities did not have a material financial impact on our consolidated results of operations or financial condition. We are currently evaluating the impact of implementation with respect to nonfinancial assets and liabilities measured on a nonrecurring basis on our consolidated financial statements, which will be primarily limited to asset impairments including goodwill, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination and asset retirement obligations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007, provided the

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entity also elects to apply the provisions of SFAS No. 157. The adoption of SFAS No. 159 did not have a material impact on our consolidated results of operations or financial condition as we have not elected to apply the provisions to our financial instruments or other eligible items that are not required to be measured at fair value.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment to FASB Statement No. 133 (SFAS No. 161) . This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced qualitative and quantitative disclosures regarding derivative instruments, gains and losses on such instruments and their effects on an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact that this pronouncement may have on our consolidated financial statements.

Note 3 Financial Instruments

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, Fair Value Measurements , which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations in which there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances based on the observability of those inputs. SFAS No. 157 establishes a fair value hierarchy such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of March 31, 2008. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Recurring Fair Value Measurements

	At Fair Value as of March 31, 2008			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**

Assets:								
Short-term investments:								
Available-for-sale equity securities	$	1,218	$	101,474(1)	$		$	102,692
Available-for-sale debt securities		146,742		69,521				216,263
Trading securities				36,963(1)				36,963
Total	$	147,960	$	207,958	$		$	355,918
Liabilities:								
Derivative contracts	$		$	1,394	$		$	1,394

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Represents our investment in a public company traded on the Hong Kong Stock Exchange for which there is a six-month period of restriction for transferability. After the six-month period has lapsed, the investment will be measured using Level 1 inputs.

Note 4 Share-Based Compensation

The Company has several share-based employee compensation plans, which are more fully described in Note 3 of our Annual Report on Form 10-K for the year ended December 31, 2007.

Total share-based compensation expense, which includes both stock options and restricted stock, totaled $9.0 million and $7.9 million for the three months ended March 31, 2008 and 2007, respectively. Share-based compensation expense has been allocated to our various operating segments (Note 12).

During the three months ended March 31, 2008, the Company awarded 1,987,631 shares of restricted stock to its employees, directors and executive officers. These awards had an aggregate value at their date of grant of $62.0 million and vest over a period of three to five years.

Note 5 Debt

Our $700 million zero coupon senior exchangeable notes due 2023 can be put to us on June 15, 2008, June 15, 2013 and June 15, 2018 for a purchase price equal to 100% of the principal amount of the notes plus contingent interest and additional amounts, if any. We may redeem some or all of the notes for a price equal to the principal amount of the notes to be redeemed, plus accrued interest and additional amounts, if any, to the redemption date at any time on or after June 15, 2008. Accordingly, as our $700 million zero coupon senior exchangeable notes can be put to us on June 15, 2008, the outstanding principal amount of these notes of $700 million were classified as current liabilities in our balance sheet as of June 30, 2007. If these notes are not put to us on June 15, 2008 or we do not redeem the notes, the notes will be reclassified back to long-term debt at that time.

On February 20, 2008, Nabors Industries, Inc. (Nabors Delaware), our wholly-owned subsidiary, completed a private placement of $575 million aggregate principal amount of 6.15% senior notes due 2018 with registration rights, which are unsecured and are fully and unconditionally guaranteed by us. The issue of senior notes was resold by a placement agent to qualified institutional buyers under Rule 144A of the Securities Act. The notes bear interest at a rate of 6.15% per year, payable semiannually on February 15 and August 15 of each year, beginning August 15, 2008.

We intend to file a registration statement with the SEC with respect to an offer to exchange the notes for registered notes with substantially identical terms pursuant to a registration rights agreement, within 90 days following the original issue date of the notes.

The $575 million senior notes are unsecured and are effectively junior in right of payment to any of Nabors Delaware s future secured debt. The senior notes rank equally with any of Nabors Delaware s other existing and future unsubordinated debt and are senior in right of payment to any of Nabors Delaware s future senior subordinated debt. Our guarantee of the senior notes is unsecured and ranks equal in right of payments to all of our unsecured and unsubordinated indebtedness from time to time outstanding. The notes are subject to redemption by us, in whole or in part, at any time at a redemption price equal to the greater of (i) 100% of the principal amount of the notes then outstanding to be redeemed; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest, determined in the manner set forth in the indenture. In the event of a change in control, as defined, the holders of notes may require us to purchase all or any part of each note in cash equal to 101% of the principal amount plus acrrued and unpaid interest, if any, to the date of purchase, except to the extent we have exercised our right to redeem the notes.

We intend to use the proceeds of the offering for general corporate purposes, including the repayment of debt.

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Income Taxes

Effective January 1, 2007, we adopted the provisions of the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. In connection with the adoption of FIN 48, the Company recognized increases to its tax reserves for uncertain tax positions and interest and penalties which was accounted for as an increase to other long-term liabilities and as a reduction to retained earnings at January 1, 2007. We recognize interest and penalties related to income tax matters in the income tax expense line item in our consolidated statements of income.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Internationally, income tax returns from 1995 through 2005 are currently under examination. The Company anticipates that several of these audits could be finalized within 12 months. It is reasonably possible that the amount of the unrecognized benefits with respect to certain of our unrecognized tax positions could significantly increase or decrease within 12 months. However, based on the current status of examinations, and the protocol for finalizing audits with the relevant tax authorities, which could include formal legal proceedings, it is not possible to estimate the future impact of the amount of changes, if any, to recorded uncertain tax positions at March 31, 2008.

The Company has recorded a deferred tax asset of approximately $99.0 million relating to net operating loss carryforwards that have an indefinite life in one foreign jurisdiction. A valuation allowance of approximately $94.2 million has been recognized because the Company believes it is more likely than not that substantially all of the deferred tax asset will not be realized.

Note 7 Common Shares

During the three months ended March 31, 2008 and 2007, our employees exercised vested options to acquire .3 million and 2.6 million of our common shares, respectively, resulting in proceeds of $6.8 million and $59.0 million, respectively.

During the three months ended March 31, 2008, we repurchased .15 million of our common shares in the open market for $4.2 million. During the three months ended March 31, 2007, there were no repurchases of common shares in the open market.

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 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.

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The employment agreements for Messrs. Isenberg and Petrello were amended i