NABORS INDUSTRIES LTD
Form 10-Q
November 02, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2016

Commission File Number: 001-32657

NABORS INDUSTRIES LTD.

(Exact name of registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	98-0363970 (I.R.S. Employer Identification No.)

Crown House

Second Floor

4 Par-la-Ville Road

Hamilton, HM08

Bermuda

(441) 292-1510

(Address of principal executive office)

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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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.

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer	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 NO

The number of common shares, par value $.001 per share, outstanding as of October 31, 2016 was 283,428,125, excluding 49,672,636 common shares held by our subsidiaries, or 333,100,761 in the aggregate.

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2016	December 31, 2015
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 177,043	$ 254,530
Short-term investments	23,607	20,059
Assets held for sale	69,436	75,678
Accounts receivable, net	503,966	784,671
Inventory	141,934	153,824
Other current assets	156,094	187,135
Total current assets	1,072,080	1,475,897
Property, plant and equipment, net	6,616,711	7,027,802
Goodwill	167,131	166,659
Investment in unconsolidated affiliates	889	415,177
Other long-term assets	567,693	452,305
Total assets	$ 8,424,504	$ 9,537,840
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt	$ 120	$ 6,508
Trade accounts payable	215,627	271,984
Accrued liabilities	548,337	686,613
Income taxes payable	23,778	41,394
Total current liabilities	787,862	1,006,499
Long-term debt	3,475,978	3,655,200
Other long-term liabilities	551,004	552,947
Deferred income taxes	10,966	29,326
Total liabilities	4,825,810	5,243,972
Commitments and contingencies (Note 7)		
Equity:		
Shareholders' equity:		
Common shares, par value $0.001 per share:		
Authorized common shares 800,000; issued 333,007 and 330,526, respectively	333	331
Capital in excess of par value	2,513,417	2,493,100
Accumulated other comprehensive income (loss)	(11,925)	(47,593)
Retained earnings	2,386,053	3,131,134
Less: treasury shares, at cost, 49,673 and 49,342 common shares, respectively	(1,295,949)	(1,294,262)

Total shareholders' equity	3,591,929	4,282,710
Noncontrolling interest	6,765	11,158
Total equity	3,598,694	4,293,868
Total liabilities and equity	$ 8,424,504	$ 9,537,840

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Revenues and other income:				
Operating revenues	$ 519,729	$ 847,553	$ 1,688,891	$ 3,125,565
Earnings (losses) from unconsolidated affiliates	2	(35,100)	(221,918)	(29,714)
Investment income (loss)	310	(22)	923	2,128
Total revenues and other income	520,041	812,431	1,467,896	3,097,979
Costs and other deductions:				
Direct costs	306,436	518,174	1,012,738	1,926,306
General and administrative expenses	56,078	72,032	175,036	263,272
Research and engineering	8,476	9,716	24,818	31,899
Depreciation and amortization	220,713	240,107	655,444	739,322
Interest expense	46,836	44,448	137,803	135,518
Other, net	10,392	259,731	267,403	205,227
Total costs and other deductions	648,931	1,144,208	2,273,242	3,301,544
Income (loss) from continuing operations before income taxes	(128,890)	(331,777)	(805,346)	(203,565)
Income tax expense (benefit):				
Current	8,600	13,735	39,323	46,682
Deferred	(39,651)	(94,633)	(163,621)	(81,840)
Total income tax expense (benefit)	(31,051)	(80,898)	(124,298)	(35,158)
Income (loss) from continuing operations, net of tax	(97,839)	(250,879)	(681,048)	(168,407)
Income (loss) from discontinued operations, net of tax	(12,187)	(45,275)	(14,097)	(41,067)
Net income (loss)	(110,026)	(296,154)	(695,145)	(209,474)
Less: Net (income) loss attributable to noncontrolling interest	(1,185)	320	990	453
Net income (loss) attributable to Nabors	$ (111,211)	$ (295,834)	$ (694,155)	$ (209,021)
Amounts attributable to Nabors:				
Net income (loss) from continuing operations	$ (99,024)	$ (250,559)	$ (680,058)	$ (167,954)
Net income (loss) from discontinued operations	(12,187)	(45,275)	(14,097)	(41,067)
Net income (loss) attributable to Nabors	$ (111,211)	$ (295,834)	$ (694,155)	$ (209,021)
Earnings (losses) per share:				
Basic from continuing operations	$ (0.35)	$ (0.86)	$ (2.41)	$ (0.57)

Basic from discontinued operations	(0.04)	(0.16)	(0.05)	(0.15)
Total Basic	$ (0.39)	$ (1.02)	$ (2.46)	$ (0.72)
Diluted from continuing operations	$ (0.35)	$ (0.86)	$ (2.41)	$ (0.57)
Diluted from discontinued operations	(0.04)	(0.16)	(0.05)	(0.15)
Total Diluted	$ (0.39)	$ (1.02)	$ (2.46)	$ (0.72)
Weighted-average number of common shares outstanding:				
Basic	276,707	284,112	276,369	285,186
Diluted	276,707	284,112	276,369	285,186

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Net income (loss) attributable to Nabors	$ (111,211)	$ (295,834)	$ (694,155)	$ (209,021)
Other comprehensive income (loss), before tax:				
Translation adjustment attributable to Nabors				
Unrealized gain (loss) on translation adjustment	(8,950)	(38,859)	27,870	(95,125)
Less: reclassification adjustment for realized loss on translation adjustment	—	—	—	5,365
Translation adjustment attributable to Nabors	(8,950)	(38,859)	27,870	(89,760)
Unrealized gains (losses) on marketable securities:				
Unrealized gains (losses) on marketable securities	1,502	(8,127)	3,551	(10,127)
Less: reclassification adjustment for (gains) losses included in net income (loss)	3,495	—	3,495	—
Unrealized gains (losses) on marketable securities	4,997	(8,127)	7,046	(10,127)
Pension liability amortization and adjustment	297	276	765	828
Unrealized gains (losses) and amortization on cash flow hedges	153	153	459	459
Other comprehensive income (loss), before tax	(3,503)	(46,557)	36,140	(98,600)
Income tax expense (benefit) related to items of other comprehensive income (loss)	172	162	472	485
Other comprehensive income (loss), net of tax	(3,675)	(46,719)	35,668	(99,085)
Comprehensive income (loss) attributable to Nabors	(114,886)	(342,553)	(658,487)	(308,106)
Net income (loss) attributable to noncontrolling interest	1,185	(320)	(990)	(453)
Translation adjustment attributable to noncontrolling interest	(90)	(476)	371	(1,194)
Comprehensive income (loss) attributable to noncontrolling interest	1,095	(796)	(619)	(1,647)
Comprehensive income (loss)	$ (113,791)	$ (343,349)	$ (659,106)	$ (309,753)

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (695,145)	$ (209,474)
Adjustments to net income (loss):		
Depreciation and amortization	657,541	741,919
Deferred income tax expense (benefit)	(168,413)	(100,751)
Impairments and other charges	45,809	62,838
Losses (gains) on debt buyback	(6,707)	—
Losses (gains) on long-lived assets, net	13,608	13,202
Impairments on equity method holdings	216,242	180,591
Share-based compensation	24,070	39,024
Foreign currency transaction losses (gains), net	5,916	7,443
Gain on merger transaction, net	—	(47,074)
Gain on acquisitions	—	(2,308)
Equity in losses of unconsolidated affiliates, net of dividends	221,918	38,909
Other	6,957	7,259
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	255,455	449,847
Inventory	14,660	9,483
Other current assets	30,192	146,123
Other long-term assets	(377)	263,582
Trade accounts payable and accrued liabilities	(187,771)	(699,765)
Income taxes payable	(22,496)	(40,756)
Other long-term liabilities	(6,691)	(255,081)
Net cash provided by operating activities	404,768	605,011
Cash flows from investing activities:		
Purchases of investments	(24)	(8)
Sales and maturities of investments	643	859
Cash paid for acquisition of businesses, net	—	(57,909)
Investment in unconsolidated affiliates	—	(445)
Capital expenditures	(284,950)	(744,047)
Proceeds from sales of assets and insurance claims	26,597	30,164
Proceeds from merger transaction	—	650,050
Other	(19)	1,700
Net cash (used for) provided by investing activities	(257,753)	(119,636)

Cash flows from financing activities:		
Increase (decrease) in cash overdrafts	5	363
Proceeds from revolving credit facilities	560,000	—
Reduction in revolving credit facilities	(260,000)	(450,000)
Proceeds from (payments for) issuance of common shares	562	1,198
Repurchase of common shares	(1,687)	(44,978)
Reduction in long-term debt	(492,625)	—
Dividends to shareholders	(33,927)	(52,489)
Proceeds from (payment for) commercial paper, net	15,000	(162,544)
Proceeds from term loan	—	300,000
Payments on term loan	—	(300,000)
Proceeds from (payments for) short-term borrowings	(6,388)	2,792
Other	(4,313)	(7,534)
Net cash (used for) provided by financing activities	(223,373)	(713,192)
Effect of exchange rate changes on cash and cash equivalents	(1,129)	(21,966)
Net increase (decrease) in cash and cash equivalents	(77,487)	(249,783)
Cash and cash equivalents, beginning of period	254,530	501,149
Cash and cash equivalents, end of period	$ 177,043	$ 251,366

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(In thousands)	Common Shares Shares	Common Shares Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Shares	Non-controlling Interest	Total Equity
As of December 31, 2014	328,196	$ 328	$ 2,452,261	$ 77,522	$ 3,573,172	$ (1,194,664)	$ 10,170	$ 4,918
Net income (loss)	—	—	—	—	(209,021)	—	(453)	(209,
Dividends to shareholders ($0.06 per share)	—	—	—	—	(52,489)	—	—	(52,4
Repurchase of treasury shares	—	—	—	—	—	(78,399)	—	(78,3
Other comprehensive income (loss), net of tax	—	—	—	(99,085)	—	—	(1,194)	(100,
Issuance of common shares for stock options exercised, net of surrender of unexercised stock options	130	—	1,198	—	—	—	—	1,198
Share-based compensation	—	—	39,024	—	—	—	—	39,02
Other	2,269	3	(7,537)	—	—	—	563	(6,97
As of September 30, 2015	330,595	$ 331	$ 2,484,946	$ (21,563)	$ 3,311,662	$ (1,273,063)	$ 9,086	$ 4,511
As of December 31, 2015	330,526	$ 331	$ 2,493,100	$ (47,593)	$ 3,131,134	$ (1,294,262)	$ 11,158	$ 4,293
Net income (loss)	—	—	—	—	(694,155)	—	(990)	(695,
Dividends to shareholders ($0.06 per	—	—	—	—	(50,926)	—	—	(50,9

share)								
Repurchase of common shares	—	—	—	—	—	(1,687)	—	(1,68
Other comprehensive income (loss), net of tax	—	—	—	35,668	—	—	371	36,03
Issuance of common shares for stock options exercised, net of surrender of unexercised stock options	57	—	562	—	—	—	—	562
Share-based compensation	—	—	24,070	—	—	—	—	24,07
Other	2,424	2	(4,315)	—	—	—	(3,774)	(8,08
As of September 30, 2016	333,007	$ 333	$ 2,513,417	$ (11,925)	$ 2,386,053	$ (1,295,949)	$ 6,765	$ 3,598

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

Unless the context requires otherwise, references in this report to “we,” “us,” “our,” “the Company,” or “Nabors” mean Nabors Industries Ltd., together with our subsidiaries where the context requires, including Nabors Industries, Inc., a Delaware corporation (“Nabors Delaware”), our wholly owned subsidiary.

We own and operate the world’s largest land-based drilling rig fleet and are a leading provider of offshore platform, workover and drilling rigs in the United States and numerous international markets. As a global provider of services for land-based and offshore oil and natural gas wells, our fleet of rigs and drilling-related equipment as of September 30, 2016 includes:

- 430 actively marketed rigs for land-based drilling operations in the United States, Canada and approximately 20 other countries throughout the world; and

- 42 actively marketed rigs for offshore drilling operations in the United States and multiple international markets.

We also provide innovative drilling technology and equipment and comprehensive well-site services including engineering, transportation and disposal, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in many of the most significant oil and gas markets in the world. In addition, we manufacture and lease or sell top drives and other rig equipment.

Our Drilling & Rig Services business is comprised of our global land-based and offshore drilling rig operations and other rig services, consisting of equipment manufacturing, rig instrumentation, optimization software and directional drilling services. Our Drilling & Rig Services business consists of four reportable operating segments: U.S., Canada, International and Rig Services.

On March 24, 2015, we completed the merger (the “Merger”) of our Completion & Production Services business with C&J Energy Services, Inc. (“C&J Energy”). In the Merger and related transactions, our wholly-owned interest in our Completion & Production Services business was exchanged for cash and an equity interest in the combined entity,

C&J Energy Services Ltd. (“CJES”), and was accounted for as an unconsolidated affiliate as of the acquisition date through June 30, 2016. As a result of the Merger, we reported our share of the earnings (losses) of CJES through earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss). Prior to the Merger, our Completion & Production Services business conducted our operations involved in the completion, life-of-well maintenance and plugging and abandonment of wells in the United States and Canada. These services included stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management. As we no longer consolidate the results of operations from our historical Completion & Production Services business, our results of operations for the nine months ended September 30, 2015 are not directly comparable to the nine months ended September 30, 2016.

On July 20, 2016, CJES voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Based on the current reorganization plans, we no longer expect to maintain any significant influence over CJES. As a result, beginning in the third quarter of 2016, we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimate of fair value. Due to the uncertainties around the eventual outcome of the bankruptcy process, we have reduced the carrying value of our currently held shares of CJES to zero. We continue to monitor the voluntary reorganization process and defend our interests in the bankruptcy proceedings. See further discussion in Note 3 — Investments in Unconsolidated Affiliates.

On May 24, 2015, we paid $106.0 million in cash to acquire the remaining 49% equity interest in Nabors Arabia Company Limited (“Nabors Arabia”), our former joint venture in Saudi Arabia, making it a wholly owned subsidiary. The effects of the acquisition and the operating results of Nabors Arabia are included in the accompanying unaudited condensed consolidated financial statements beginning on the acquisition date, and are reflected in our International drilling segment.

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Note 2 Summary of Significant Accounting Policies

Interim Financial Information

The accompanying unaudited consolidated condensed financial statements of Nabors have been prepared in conformity with the generally accepted accounting principles in the United States (“GAAP”). Pursuant to the rules and regulations of the 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 together with our annual report on Form 10-K for the year ended December 31, 2015, as amended (“2015 Annual Report”). In management’s opinion, the unaudited condensed consolidated financial statements contain all adjustments necessary to state fairly our financial position as of September 30, 2016 and the results of operations, comprehensive income (loss), cash flows and changes in equity for the periods presented herein. Interim results for the nine months ended September 30, 2016 may not be indicative of results that will be realized for the full year ending December 31, 2016.

Principles of Consolidation

Our condensed consolidated financial statements include the accounts of Nabors, as well as all majority owned and non-majority owned subsidiaries required to be consolidated under GAAP. 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 operating and financial policies, are accounted for using the equity method. Our share of the net income (loss) of these entities is recorded as earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss). The investments in these entities are included in investment in unconsolidated affiliates in our condensed consolidated balance sheets. We have historically recorded our share of the net income (loss) of our equity method investment in CJES on a one-quarter lag, as we are not able to obtain the financial information of CJES on a timely basis. During the third quarter of 2016, CJES filed for bankruptcy, at which time we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimate of fair value. See Note 3 — Investments in Unconsolidated Affiliates.

Revenue Recognition

We recognize revenues and costs on daywork contracts daily as the work progresses. For certain contracts, we receive lump-sum payments for the mobilization of rigs and other drilling equipment. We defer revenue related to

mobilization periods and recognize the revenue over the term of the related drilling contract. At September 30, 2016 and December 31, 2015, our deferred revenues classified as other long-term liabilities were $342.5 million and $324.3 million, respectively. At September 30, 2016 and December 31, 2015, our deferred revenues classified as accrued liabilities were $269.6 million and $340.5 million, respectively.

Costs incurred related to a mobilization period for which a contract is secured are deferred and recognized over the term of the related drilling contract. Costs incurred to relocate rigs and other drilling equipment to areas in which a contract has not been secured are expensed as incurred. We defer recognition of revenue on amounts received from customers for prepayment of services until those services are provided. At September 30, 2016 and December 31, 2015, our deferred expenses classified as other current assets were $57.5 million and $79.6 million, respectively. At September 30, 2016 and December 31, 2015, our deferred expenses classified as other long-term assets were $77.7 million and $68.9 million, respectively.

We recognize revenue for top drives and instrumentation systems we manufacture when the earnings process is complete. This generally occurs when products have been shipped, title and risk of loss have been transferred, collectability is probable, and pricing is fixed and determinable.

We recognize, as operating revenue, proceeds from business interruption insurance claims in the period that the applicable proof of loss documentation is received. Proceeds from casualty insurance settlements in excess of the carrying value of damaged assets are recognized in other expense (income), net in the period that the applicable proof of loss documentation is received. Proceeds from casualty insurance settlements that are expected to be less than the

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carrying value of damaged assets are recognized at the time the loss is incurred and recorded in other expense (income), net.

We recognize reimbursements received for out-of-pocket expenses incurred as revenues and account for out-of-pocket expenses as direct costs.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out or weighted-average cost methods and includes the cost of materials, labor and manufacturing overhead. Inventory included the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
Raw materials	$ 98,072	$ 105,217
Work-in-progress	26,057	29,710
Finished goods	17,805	18,897
	$ 141,934	$ 153,824

Property, Plant and Equipment

We review our assets for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the estimated undiscounted future cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying amount of the long-lived asset to its estimated fair value. The determination of future cash flows requires the estimation of dayrates and utilization, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry.

For an asset classified as held for sale, we consider the asset impaired when its carrying amount exceeds fair value less its cost to sell. Fair value is determined in the same manner as an impaired long-lived asset that is held and used.

Significant and unanticipated changes to the assumptions could result in future impairments. A continuation of the lower oil and natural gas prices experienced over the last two years could continue to adversely affect the demand for and prices of our services. As such, we will continue to assess our asset fleet, particularly our legacy and undersized rigs. Should we continue experiencing weakening in the market for a prolonged period for any specific rig class, this could result in future impairment charges or retirements of assets. As the determination of whether impairment charges should be recorded on our long-lived assets is subject to significant management judgment, and an impairment of these assets could result in a material charge on our condensed consolidated statements of income (loss), management believes that accounting estimates related to impairment of long-lived assets are critical.

Goodwill

We review goodwill for impairment annually during the second quarter of each fiscal year or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill and intangible assets exceed their fair value. We initially assess goodwill for impairment based on qualitative factors to determine whether to perform the two-step annual goodwill impairment test, a Level 3 fair value measurement. After our qualitative assessment, step one of the impairment test compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the fair value, a second step is required to measure the goodwill impairment loss. The second step compares the implied fair value of the reporting unit's goodwill to its carrying amount. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess.

Our estimated fair values of our reporting units incorporate judgment and the use of estimates by management. Potential factors requiring assessment include a further or sustained decline in our stock price, declines in oil and natural gas prices, a variance in results of operations from forecasts, a change in operating strategy of assets and additional transactions in the oil and gas industry. Another factor in determining whether impairment has occurred is the relationship between our market capitalization and our book value. As part of our annual review, we compare the sum of our reporting units' estimated fair value, which includes the estimated fair value of non-operating assets and liabilities,

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less debt, to our market capitalization and assess the reasonableness of our estimated fair value. Any of the above-mentioned factors may cause us to re-evaluate goodwill during any quarter throughout the year.

Based on our annual review during the second quarter of 2016, we did not record a goodwill impairment. No events were noted in the current quarter that would cause us to revise our previous assessment. However, a continuation of the lower natural gas or oil prices experienced over the last two years could continue to adversely affect demand for and prices of our services. This could result in future impairment charges, particularly in our U.S. Drilling and Rig Services segments.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, relating to the revenue recognition from contracts with customers that creates a common revenue standard for GAAP and IFRS. The core principle will require recognition of revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration, including costs incurred, to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB approved a one year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017. We are currently evaluating the impact this will have on our condensed consolidated financial statements and have not made any decision on the method of adoption.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments—Overall, relating to the recognition and measurement of financial assets and liabilities. This standard enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, relating to leases to increase transparency and comparability among companies. This standard requires all leases with an initial term greater than one year be recorded on the balance sheet as an asset and a lease liability. Additionally, this standard will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for public companies for fiscal years beginning after December 15, 2018. Early application is permitted. This standard requires an entity to separate lease components from nonlease components within a contract. While the lease components would be accounted for under ASU No. 2016-02, nonlease components would be accounted for under ASU No. 2014-09. Therefore, we are evaluating ASU No. 2016-02 concurrently with the provisions of ASU No. 2014-09 and the impact this will have on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments—Equity Method and Joint Ventures, to simplify the transition to the equity method of accounting. This standard eliminates the requirement to retroactively adopt the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. Instead, the equity method investor should add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for the equity method of accounting. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation, to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows, to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our condensed consolidated financial statements.

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Note 3 Investments in Unconsolidated Affiliates

On March 24, 2015, we completed the Merger of our Completion & Production Services business with C&J Energy. We received total consideration comprised of approximately $693.5 million in cash ($650.1 million after settlement of working capital requirements) and approximately 62.5 million common shares in the combined company, CJES, representing approximately 53% of the outstanding and issued common shares of CJES as of the closing date.

On July 20, 2016, CJES voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Prior to the bankruptcy reorganization, we had significant influence over CJES, but not a controlling financial interest, and accounted for our investment in CJES under the equity method of accounting. Based on the current reorganization plans, we no longer expect to maintain any significant influence over CJES. Accordingly, beginning in the third quarter of 2016, we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimated fair value. Due to the uncertainties around the eventual outcome of the bankruptcy process, we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, and as such, there is no impact to our condensed consolidated financial statements during the third quarter as a result of the change in accounting.

Historical Treatment of the Completion & Production Services business and our investment in CJES

Prior to the Merger, we consolidated the results of our Completion & Production Services business into our operating results. As a result of the Merger, CJES became an unconsolidated affiliate and we ceased consolidating the operating results of our Completion & Production Services business. Therefore, subsequent to the closing date of the Merger, our share of the net income (loss), as adjusted for our basis difference, of our equity method investment in CJES was recorded as earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss) through June 30, 2016. Our policy was to record our share of the net income (loss) of CJES on a one-quarter lag as we are not able to obtain the financial information of CJES on a timely basis. The equity in earnings from CJES, which is reflected in earnings (losses) from unconsolidated affiliates in our condensed consolidated statement of income (loss) was as follows for the periods noted below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Nabors' share of equity method earnings (losses)	$ —(1)	$ (35,100)	$ (221,933)	$ (35,900)

(1) As we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, we did not record our share of the earnings (losses) of CJES for the three months ended June 30, 2016 as we are not

contractually responsible for losses beyond our investment.

During the first quarter of 2015, we recognized an estimated gross gain of $102.2 million in connection with the Merger based on the difference between the consideration received and the carrying value of the assets and liabilities of our Completion & Production Services business. This gain was partially offset by $49.6 million in transaction costs related to the Merger.

We recorded our investment in the equity of CJES in the investment in unconsolidated affiliates line in our condensed consolidated balance sheet. Our policy is to review our equity method investments for impairment whenever certain impairment indicators exist including the absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment. A loss in value of an investment that is other than a temporary decline should be recognized. As a result of this review, during the first quarter of 2016, we determined the carrying value of our investment was other than temporarily impaired, which resulted in an impairment charge of $153.4 million to reduce our carrying value to its estimated fair value of $93.8 million, determined principally based on the average share price over a specified period. Additionally, we recognized a $23.8 million charge to reserve certain other amounts associated with our CJES holdings including affiliate receivables.

As a result of CJES's Chapter 11 filing on July 20, 2016, we determined our investment was other than temporarily impaired and recorded a charge of $39.0 million to write off substantially all of the remaining net book value of our investment. We also recognized an additional $3.9 million in professional fees incurred in connection with our efforts to

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preserve the value of our CJES holdings in anticipation of the bankruptcy filing. These charges are reflected in other expense (income), net in our condensed consolidated statement of income (loss) for the nine months ended September 30, 2016. See Note 9 – Supplemental Balance Sheet, Income Statement and Cash Flow Information.

The following table presents summarized income statement (loss) information for CJES for each of the three months ended December 31, 2015, March 31, 2016 and June 30, 2016 and for the six months ended June 30, 2015, which is reflected in earnings (losses) from unconsolidated affiliates in our condensed consolidated statement of income (loss) for the nine months ended September 30, 2016 and 2015, respectively. As we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, we did not record our share of the earnings (losses) of CJES for the three months ended June 30, 2016 in our condensed consolidated statement of income (loss) during the three months ended September 30, 2016 as we are not contractually responsible for losses beyond our investment.

	Three Months Ended			Six Months Ended
	June 30, 2016	March 31, 2016	December 31, 2015	June 30, 2015
		(In thousands)		
Gross revenues	$ 225,168	$ 269,615	$ 409,011	$ 912,381
Gross margin	(4,603)	7,849	37,417	146,772
Net income (loss)	(291,116)	(428,412)	(321,742)	(95,784)
Nabors' share of equity method earnings (losses)	—	(54,788)	(167,145)	(35,900)

Note 4 Fair Value Measurements

Our financial assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2016 consist of available-for-sale equity and debt securities. Our debt securities could transfer into or out of a Level 1 or 2 measure depending on the availability of independent and current pricing at the end of each quarter. During the three and nine months ended September 30, 2016, there were no transfers of our financial assets between Level 1 and Level 2 measures. Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The majority of our short-term investments are categorized as Level 1 and had a fair value of $23.6 million as of September 30, 2016.

Nonrecurring Fair Value Measurements

We applied fair value measurements to our nonfinancial assets and liabilities measured on a nonrecurring basis, which consist of measurements primarily to assets held for sale, goodwill, equity method investments, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination and our pipeline contractual commitment.

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Fair Value of Financial Instruments

We estimate the fair value of our financial instruments in accordance with GAAP. The fair value of our long-term debt, revolving credit facility and commercial paper is estimated based on quoted market prices or prices quoted from third-party financial institutions. The fair value of our debt instruments is determined using Level 2 measurements. The carrying and fair values of these liabilities were as follows:

	September 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
2.35% senior notes due September 2016	$ —	$ —	$ 347,955	$ 347,708
6.15% senior notes due February 2018	828,176	864,452	921,162	935,962
9.25% senior notes due January 2019	303,489	334,217	339,607	342,575
5.00% senior notes due September 2020	669,463	662,714	683,839	617,409
4.625% senior notes due September 2021	694,808	656,850	698,628	581,630
5.10% senior notes due September 2023	346,416	336,447	349,021	280,907
Term loan facility	325,000	325,000	325,000	325,000
Revolving credit facility	300,000	300,000	—	—
Commercial paper	23,000	23,000	8,000	8,000
Other	120	120	6,508	6,508
	3,490,472	3,502,800	3,679,720	3,445,699
Less: Deferred financing costs	14,374		18,012	
	$ 3,476,098		$ 3,661,708	

The fair values of our cash equivalents, trade receivables and trade payables approximate their carrying values due to the short-term nature of these instruments.

Note 5 Debt

Debt consisted of the following:

	September 30, 2016	December 31, 2015

	(In thousands)	
2.35% senior notes due September 2016 (1)	$ —	$ 347,955
6.15% senior notes due February 2018	828,176	921,162
9.25% senior notes due January 2019	303,489	339,607
5.00% senior notes due September 2020	669,463	683,839
4.625% senior notes due September 2021	694,808	698,628
5.10% senior notes due September 2023	346,416	349,021
Term loan facility	325,000	325,000
Revolving credit facility	300,000	—
Commercial paper	23,000	8,000
Other	120	6,508
	3,490,472	3,679,720
Less: current portion	120	6,508
Less: deferred financing costs	14,374	18,012
	$ 3,475,978	$ 3,655,200

(2) The 2.35% senior notes were repaid in September 2016, primarily utilizing borrowings under our revolving credit facility, as well as cash on hand.

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During the nine months ended September 30, 2016, we repurchased $160.8 million aggregate principal amount of our senior notes (all of which is now held by a consolidated affiliate) at various maturities for approximately $156.5 million in cash, reflecting principal and approximately $3.0 million of accrued and unpaid interest. The discount represents the gain on the debt buybacks and is included in other expense (income), net in our condensed consolidated statement of income (loss) for the nine months ended September 30, 2016.

Commercial Paper Program

As of September 30, 2016, we had approximately $23.0 million of commercial paper outstanding. The weighted average interest rate on borrowings at September 30, 2016 was 1.14%. Our commercial paper borrowings are classified as long-term debt because the borrowings are fully supported by availability under our revolving credit facility, which matures as currently structured in July 2020, more than one year from now.

Revolving Credit Facility

As of September 30, 2016, we had approximately $300.0 million in borrowings outstanding and the ability to borrow up to an additional $1.9 billion from time-to-time under this facility. The revolving credit facility matures in July 2020. The weighted average interest rate on borrowings at September 30, 2016 was 1.82%. The revolving credit facility contains various covenants and restrictive provisions that limit our ability to incur additional indebtedness, make investments or loans and create liens and require us to maintain a net funded indebtedness to total capitalization ratio, as defined in the agreement. We were in compliance with all covenants under the agreement at September 30, 2016. If we fail to perform our obligations under the covenants, the revolving credit commitment could be terminated, and any outstanding borrowings under the facility could be declared immediately due and payable.

Term Loan Facility

On February 6, 2015, Nabors Delaware entered into an unsecured term loan facility for $300.0 million with a three-year maturity, which was fully and unconditionally guaranteed by us. Under the new term loan facility, we were required to prepay the loan upon the closing of the Merger, or if we otherwise disposed of assets, issued term debt, or issued equity with net proceeds of more than $70.0 million, subject to certain exceptions. The term loan agreement contained customary representations and warranties, covenants and events of default for loan facilities of this type. On March 27, 2015, we repaid the $300.0 million term loan according to the terms of the agreement, using a portion of the cash consideration received in connection with the Merger and the facility was terminated.

On September 29, 2015, Nabors Delaware entered into a new five-year unsecured term loan facility for $325.0 million, which is fully and unconditionally guaranteed by us. The term loan facility contains a mandatory prepayment of $162.5 million due in September 2018. As of September 30, 2016, we had $325.0 million of borrowings outstanding under this facility. The term loan facility matures in September 2020. The weighted average interest rate on borrowings at September 30, 2016 was 1.73%. Borrowings under this facility will bear interest for periods of one, two, three or six months, at an annual rate equal to LIBOR, plus the applicable interest margin. The interest margin is based on our long-term unsecured credit rating for debt as in effect from time to time.

Note 6 Common Shares

During the nine months ended September 30, 2016, we repurchased 0.3 million of our common shares in the open market for $1.7 million, all of which are held in treasury.

On July 29, 2016, a cash dividend of $0.06 per share was declared for shareholders of record on September 13, 2016. The dividend was paid on October 4, 2016 in the amount of $17.0 million and was charged to retained earnings in our condensed consolidated statement of changes in equity for the nine months ended September 30, 2016.

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Note 7 Commitments and Contingencies

Contingencies

Income Tax

We operate in a number of countries throughout the world and our tax returns filed in those jurisdictions are subject to review and examination by tax authorities within those jurisdictions. We do not recognize the benefit of income tax positions we believe are more likely than not to be disallowed upon challenge by a tax authority. If any tax authority successfully challenges our operational structure, intercompany pricing policies or the taxable presence of our subsidiaries in certain countries, if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure, or if we lose a material tax dispute in any country, our effective tax rate on our worldwide earnings could change substantially.

We have received an assessment from a tax authority in Latin America in connection with a 2007 income tax return. The assessment relates to the denial of depreciation expense deductions related to drilling rigs. Similar deductions were taken for tax years 2009 and 2010. Although Nabors and its tax advisors believe these deductions are appropriate and intend to continue to defend our position, we have recorded a partial reserve to account for this contingency. If we ultimately do not prevail, we estimate that we would be required to recognize additional tax expense in the range of $3 million to $8 million.

Self-Insurance

We estimate the level of our liability related to insurance and record reserves for these amounts in our condensed consolidated financial statements. Our estimates are based on the facts and circumstances specific to existing claims and our past experience with similar claims. These loss estimates and accruals recorded in our financial statements for claims have historically been reasonable in light of the actual amount of claims paid and are actuarially supported. Although we believe our insurance coverage and reserve estimates are reasonable, a significant accident or other event that is not fully covered by insurance or contractual indemnity could occur and could materially affect our financial position and results of operations for a particular period.

We self-insure for certain losses relating to workers' compensation, employers' liability, general liability, automobile liability and property damage. Effective April 1, 2016, some of our workers' compensation claims, employers' liability and marine employers' liability claims are subject to a $3.0 million per-occurrence deductible; additionally, some of our automobile liability claims are subject to a $2.5 million deductible. General liability claims remain subject to a

$5.0 million per-occurrence deductible.

In addition, we are subject to a $5.0 million deductible for land rigs and for offshore rigs. This applies to all kinds of risks of physical damage except for named windstorms in the U.S. Gulf of Mexico for which we are self-insured.

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. For matters where an unfavorable outcome is reasonably possible and significant, we disclose the nature of the matter and a range of potential exposure, unless an estimate cannot be made at the time of disclosure. 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 condensed consolidated financial position or cash flows, although they could have a material adverse effect on our results of operations for a particular reporting period.

In 2009, the Court of Ouargla entered a judgment of approximately $13.1 million (at September 30, 2016 exchange rates) against us relating to alleged customs infractions in Algeria. We believe we did not receive proper notice of the

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judicial proceedings, and that the amount of the judgment was excessive in any case. We asserted the lack of legally required notice as a basis for challenging the judgment on appeal to the Algeria Supreme Court (the "Supreme Court"). In May 2012, that court reversed the lower court and remanded the case to the Ouargla Court of Appeals for treatment consistent with the Supreme Court's ruling. In January 2013, the Ouargla Court of Appeals reinstated the judgment. We again lodged an appeal to the Supreme Court, asserting the same challenges as before. While the appeal was pending, the Hassi Messaoud customs office initiated efforts to collect the judgment prior to the Supreme Court's decision in the case. As a result, we paid approximately $3.1 million and posted security of approximately $1.33 million to suspend those collection efforts and to enter into a formal negotiations process with the customs authority. The customs authority demanded 50% of the total fine as a final settlement and seized additional funds of approximately $3.6 million. We have recorded a reserve in the amount of the posted security. The matter was heard by the Supreme Court on February 26, 2015, and on March 26, 2015, that court set aside the judgment of the Ouargla Court of Appeals and remanded the case to that court for further proceedings. A hearing was held on October 28, 2015 in the Ouargla Court of Appeals and on November 4, 2015, the court affirmed the Supreme Court's decision that we were not guilty. We have filed an application to the Conseil d'Etat in an effort to recover amounts previously paid by us. A portion of those amounts has been returned, and our efforts to recover the additional $4.4 million continue.

In March 2011, the Court of Ouargla entered a judgment of approximately $25.8 million (at September 30, 2016 exchange rates) against us relating to alleged violations of Algeria's foreign currency exchange controls, which require that goods and services provided locally be invoiced and paid in local currency. The case relates to certain foreign currency payments made to us by CEPSA, a Spanish operator, for wells drilled in 2006. Approximately $7.5 million of the total contract amount was paid offshore in foreign currency, and approximately $3.2 million was paid in local currency. The judgment includes fines and penalties of approximately four times the amount at issue. We have appealed the ruling based on our understanding that the law in question applies only to resident entities incorporated under Algerian law. An intermediate court of appeals upheld the lower court's ruling, and we appealed the matter to the Supreme Court. On September 25, 2014, the Supreme Court overturned the verdict against us, and the case was reheard by the Ouargla Court of Appeals on March 22, 2015 in light of the Supreme Court's opinion. On March 29, 2015, the Ouargla Court of Appeals reinstated the initial judgment against us. We have appealed this decision again to the Supreme Court. While our payments were consistent with our historical operations in the country, and, we believe, those of other multinational corporations there, as well as interpretations of the law by the Central Bank of Algeria, the ultimate resolution of this matter could result in a loss of up to $17.8 million in excess of amounts accrued.

In 2012, Nabors Global Holdings II Limited ("NGH2L") signed a contract with ERG Resources, LLC ("ERG") relating to the sale of all of the Class A shares of NGH2L's wholly owned subsidiary, Ramshorn International Limited, an oil and gas exploration company. When ERG failed to meet its closing obligations, NGH2L terminated the transaction on March 19, 2012 and, as contemplated in the agreement, retained ERG's $3.0 million escrow deposit. ERG filed suit the following day in the 61st Judicial District Court of Harris County, Texas, in a case styled ERG Resources, LLC v. Nabors Global Holdings II Limited, Ramshorn International Limited, and Parex Resources, Inc.; Cause No. 2012-16446, seeking injunctive relief to halt any sale of the shares to a third party, specifically naming as defendant Parex Resources, Inc. ("Parex"). The lawsuit also seeks monetary damages of up to $750.0 million based on an alleged breach of contract by NGH2L and alleged tortious interference with contractual relations by Parex. We successfully defeated ERG's effort to obtain a temporary restraining order from the Texas court on March 20, 2012. We completed the sale of Ramshorn's Class A shares to a Parex affiliate in April 2012, which mooted ERG's application for a temporary injunction. The defendants made numerous jurisdictional challenges and on April 30, 2015, ERG filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. Accordingly, the civil actions are currently subject to the bankruptcy stay and the claims in the suit are assets of the estate. Nabors is monitoring the bankruptcy

proceeding closely to determine how it will affect the pending litigation. The lawsuit was stayed, pending further court actions, including appeals of the jurisdictional decisions. On June 17, 2016, the Texas Supreme Court issued it opinion on the jurisdictional appeal holding that jurisdiction exists in Texas for Ramshorn, but not for Parex Bermuda or Parex Canada. ERG retains its causes of action for monetary damages, but we believe the claims are foreclosed by the terms of the agreement and are without factual or legal merit. Although we are vigorously defending the lawsuit, its ultimate outcome cannot be determined at this time.

On July 30, 2014, we and Red Lion, along with C&J Energy and its board of directors, were sued in a putative shareholder class action filed in the Court of Chancery of the State of Delaware (the "Court of Chancery"). The plaintiff alleges that the members of the C&J Energy board of directors breached their fiduciary duties in connection with the Merger, and that Red Lion and C&J Energy aided and abetted these alleged breaches. The plaintiff sought to enjoin the defendants from proceeding with or consummating the Merger and the C&J Energy stockholder meeting for approval of

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the Merger and, to the extent that the Merger was completed before any relief was granted, to have the Merger rescinded. On November 10, 2014, the plaintiff filed a motion for a preliminary injunction, and, on November 24, 2014, the Court of Chancery entered a bench ruling, followed by a written order on November 25, 2014, that (i) ordered certain members of the C&J Energy board of directors to solicit for a 30 day period alternative proposals to purchase C&J Energy (or a controlling stake in C&J Energy) that were superior to the Merger, and (ii) preliminarily enjoined C&J Energy from holding its stockholder meeting until it complied with the foregoing. C&J Energy complied with the order while it simultaneously pursued an expedited appeal of the Court of Chancery's order to the Supreme Court of the State of Delaware (the "Delaware Supreme Court"). On December 19, 2014, the Delaware Supreme Court overturned the Court of Chancery's judgment and vacated the order. Nabors and the C&J Energy defendants filed a motion to dismiss that was granted by the Chancellor on August 24, 2016, including a ruling that C&J Energy could recover on the bond that was posted to support the temporary restraining order. The plaintiffs filed a Notice of Appeal on September 22, 2016 and their opening brief is due November 7, 2016.

Off-Balance Sheet Arrangements (Including Guarantees)

We are a party to some transactions, agreements or other contractual arrangements defined as "off-balance sheet arrangements" that could have a material future effect on our financial position, results of operations, liquidity and capital resources. The most significant of these off-balance sheet arrangements involve agreements and obligations under which we provide 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. In addition, we have provided indemnifications, which serve as guarantees, to some third parties. These guarantees include indemnification provided by Nabors to our share 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 guarantees issued by Nabors:

	Maximum Amount				
	2016	2017	2018	Thereafter	Total
	(In thousands)				
Financial standby letters of credit and other financial surety instruments	$ 84,167	166,330	—	—	$ 250,497

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Note 8 Earnings (Losses) Per Share

ASC 260, Earnings per Share, requires companies to treat unvested share-based payment awards that have nonforfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings (losses) per share. We have granted and expect to continue to grant to employees restricted stock grants that contain nonforfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, we are required to include these grants in the calculation of our basic earnings (losses) per share and calculate basic earnings (losses) per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings.

Basic earnings (losses) per share is computed utilizing the two-class method and is calculated based on the weighted-average number of common shares outstanding during the periods presented.

Diluted earnings (losses) per share is computed using the weighted-average number of common and common equivalent shares outstanding during the periods utilizing the two-class method for stock options and unvested restricted stock.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
BASIC EPS:				
Net income (loss) (numerator):				
Income (loss) from continuing operations, net of tax	$ (97,839)	$ (250,879)	$ (681,048)	$ (168,407)
Less: net (income) loss attributable to noncontrolling interest	(1,185)	320	990	453
Less: (earnings) losses allocated to unvested shareholders	2,698	5,834	14,683	4,523
Numerator for basic earnings per share:				
Adjusted income (loss) from continuing operations, net of tax - basic	$ (96,326)	$ (244,725)	$ (665,375)	$ (163,431)
Income (loss) from discontinued operations, net of tax	$ (12,187)	$ (45,275)	$ (14,097)	$ (41,067)
Weighted-average number of shares outstanding - basic	276,707	284,112	276,369	285,186

Earnings (losses) per share:				
Basic from continuing operations	$ (0.35)	$ (0.86)	$ (2.41)	$ (0.57)
Basic from discontinued operations	(0.04)	(0.16)	(0.05)	(0.15)
Total Basic	$ (0.39)	$ (1.02)	$ (2.46)	$ (0.72)
DILUTED EPS:				
Adjusted income (loss) from continuing operations, net of tax - basic	$ (96,326)	$ (244,725)	$ (665,375)	$ (163,431)
Add: effect of reallocating undistributed earnings of unvested shareholders	—	—	—	—
Adjusted income (loss) from continuing operations, net of tax - diluted	$ (96,326)	$ (244,725)	$ (665,375)	$ (163,431)
Income (loss) from discontinued operations, net of tax	$ (12,187)	$ (45,275)	$ (14,097)	$ (41,067)
Weighted-average number of shares outstanding - basic	276,707	284,112	276,369	285,186
Add: dilutive effect of potential common shares	—	—	—	—
Weighted-average number of shares outstanding - diluted	276,707	284,112	276,369	285,186
Earnings (losses) per share:				
Diluted from continuing operations	$ (0.35)	$ (0.86)	$ (2.41)	$ (0.57)
Diluted from discontinued operations	(0.04)	(0.16)	(0.05)	(0.15)
Total Diluted	$ (0.39)	$ (1.02)	$ (2.46)	$ (0.72)

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For all periods presented, the computation of diluted earnings (losses) per share excludes outstanding stock options with exercise prices greater than the average market price of Nabors' common shares, because their inclusion would be anti-dilutive and because they are not considered participating securities. For periods in which we experience a net loss from continuing operations, all potential common shares have been excluded from the calculation of weighted-average shares outstanding, because their inclusion would be anti-dilutive. The average number of options that were excluded from diluted earnings (losses) per share that would potentially dilute earnings per share in the future were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Potentially dilutive securities excluded as anti-dilutive	5,368,596	9,416,647	5,387,577	9,910,476

In any period during which the average market price of Nabors' common shares exceeds the exercise prices of these stock options, such stock options will be included in our diluted earnings (losses) per share computation using the if-converted method of accounting. Restricted stock is included in our basic and diluted earnings (losses) per share computation using the two-class method of accounting in all periods because such stock is considered participating securities.

Note 9 Supplemental Balance Sheet and Income Statement Information

Accrued liabilities included the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
Accrued compensation	$ 106,864	$ 120,204
Deferred revenue	269,601	340,472
Other taxes payable	28,218	39,850
Workers' compensation liabilities	37,459	37,459
Interest payable	15,372	62,776
Litigation reserves	25,776	27,097
Current liability to discontinued operations	5,539	5,197
Current liability to acquisition of KVS	22,278	22,278
Other accrued liabilities	37,230	31,280
	$ 548,337	$ 686,613

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Other expense (income), net included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Losses (gains) on sales, disposals and involuntary conversions of long-lived assets	$ 6,546	$ 20,984	$ 40,527 (1)	$ 23,709
Other-than-temporary impairment of equity security (2)	3,495	—	3,495	—
Impairment of our CJES holdings (3)	—	180,591	220,117	180,591
Merger transaction (4)	—	5,500	—	(47,074)
Provision for International operations (5)	1,128	48,279	1,128	48,279
Litigation expenses	2,327	5,522	2,651	3,578
Foreign currency transaction losses (gains)	(1,102)	(1,496)	5,916	(2,044)
Gain on debt buyback	(680)	—	(6,707)	—
Other losses (gains)	(1,322)	351	276	(1,812)
	$ 10,392	$ 259,731	$ 267,403	$ 205,227

(1) Includes charges of $22.4 million for nine months ended September 30, 2016 related to a reserve for amounts associated with our retained interest in the oil and gas properties located on the North Slope of Alaska and a $3.8 million charge to reduce the carrying value of one of our jack-up rigs, which was re-classified as held for sale at June 30, 2016, to its estimated fair value based on expected sales price.

(2) Represents an other-than-temporary impairment charge related to an equity security. Because the trading price of this security remained below our cost basis for an extended period, we determined the investment was other than temporarily impaired and it was appropriate to write down the investment's carrying value to its current estimated fair value.

(3) Represents impairment charges related to our CJES holdings. See Note 3 — Investments in Unconsolidated Affiliates.

(4) Includes the gain and transaction costs associated with the Merger. See Note 3 — Investments in Unconsolidated Affiliates.

(5) Includes $25.4 million related to assets and receivables impacted by the degradation of the overall economy and financial situation in Venezuela, which was adversely affected by the downturn in oil prices, primarily comprised of a loss of $10.0 million related to the remeasurement of our net monetary assets denominated in local currency from the official exchange rate of 6.3 Bolivares per US dollar to the SIMADI exchange rate of 199 Bolivares per US dollar as of September 30, 2015 and $15.4 million related to the write-off of a receivable balance. The balance of this provision represents an obligation associated with the decision to exit a non-core business line in the region

of $1.1 million for each of the three and nine months ended September 30, 2016 and $22.9 million for each of the three and nine months ended September 30, 2015.

The changes in accumulated other comprehensive income (loss), by component, included the following:

	Gains (losses) on cash flow hedges	Unrealized gains (losses) on available-for-sale securities	Defined benefit pension plan items	Foreign currency items	Total
	(In thousands (1))				
As of January 1, 2015	$ (2,044)	$ 14,996	$ (7,263)	$ 71,833	$ 77,522
Other comprehensive income (loss) before reclassifications	—	(10,127)	—	(95,125)	(105,252)
Amounts reclassified from accumulated other comprehensive income (loss)	280	—	522	5,365	6,167
Net other comprehensive income (loss)	280	(10,127)	522	(89,760)	(99,085)
As of September 30, 2015	$ (1,764)	$ 4,869	$ (6,741)	$ (17,927)	$ (21,563)

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(1) All amounts are net of tax.

	Gains (losses) on cash flow hedges	Unrealized gains (losses) on available-for-sale securities	Defined benefit pension plan items	Foreign currency items	Total
	(In thousands (1))				
As of January 1, 2016	$ (1,670)	$ (314)	$ (6,568)	$ (39,041)	$ (47,593)
Other comprehensive income (loss) before reclassifications	—	3,551	—	27,870	31,421
Amounts reclassified from accumulated other comprehensive income (loss)	472	3,495	280	—	4,247
Net other comprehensive income (loss)	472	7,046	280	27,870	35,668
As of September 30, 2016	$ (1,198)	$ 6,732	$ (6,288)	$ (11,171)	$ (11,925)

(1) All amounts are net of tax.

The line items that were reclassified to net income included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Interest expense	$ 153	$ 153	459	459
General and administrative expenses	297	276	765	828
Other expense (income), net	3,495	—	3,495	5,365
Total income (loss) from continuing operations before income tax	(3,945)	(429)	(4,719)	(6,652)
Tax expense (benefit)	(172)	(162)	(472)	(485)
Reclassification adjustment for (gains)/ losses included in net income (loss)	$ (3,773)	$ (267)	$ (4,247)	$ (6,167)

Note 10 Assets Held for Sale and Discontinued Operations

Assets Held for Sale

Assets held for sale as of September 30, 2016 and December 31, 2015 was $69.4 million and $75.7 million, respectively. These assets consisted primarily of our oil and gas holdings which are mainly in the Horn River basin in western Canada of $62.0 million and $73.6 million, respectively, as of the periods noted above and the operating results have been reflected in discontinued operations. The remainder represents assets that meet the criteria to be classified as assets held for sale, but do not represent a disposal of a component of an entity or a group of components of an entity representing a strategic shift that has or will have a major effect on the entity's operations and financial results.

We have contracts with pipeline companies to pay specified fees based on committed volumes for gas transport and processing with respect to our oil and gas properties classified as discontinued operations. At September 30, 2016, our undiscounted contractual commitments for these contracts approximated $19.4 million and we had liabilities of $13.9 million, $5.5 million of which were classified as current and were included in accrued liabilities. At December 31, 2015, our undiscounted contractual commitments for these contracts approximated $23.3 million and we had liabilities of $16.1 million, $5.2 million of which were classified as current and were included in accrued liabilities. These amounts represent our best estimate of the fair value of the excess capacity of the pipeline commitments calculated using a discounted cash flow model, when considering our disposal plan, current production levels, natural gas prices and expected utilization of the pipeline over the remaining contractual term. Decreases in actual production or natural gas prices could result in future charges related to excess pipeline commitments.

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Discontinued Operations

Our condensed statements of income (loss) from discontinued operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Operating revenues (1)	$ 688	$ 432	$ 1,449	$ 2,737
Income (loss) from Oil & Gas discontinued operations:				
Income (loss) from discontinued operations	$ (836)	$ (1,388)	$ (3,501)	$ (3,903)
Less: Impairment charges or other (gains) and losses on sale of wholly owned assets (2)	15,392	55,044	15,388	56,075
Less: Income tax expense (benefit)	(4,041)	(11,157)	(4,792)	(18,911)
Income (loss) from Oil and Gas discontinued operations, net of tax	$ (12,187)	$ (45,275)	$ (14,097)	$ (41,067)

(1) Reflects operating revenues of our historical oil and gas operating segment.

(2) Reflects impairment charges of $15.4 million and $51.0 million during each of the three and nine months ended September 30, 2016 and 2015, respectively, due to the deterioration of economic conditions in the dry gas market in western Canada as well as an impairment charge for a note receivable of $4.0 million remaining from the sale of one of our former Canada subsidiaries that provided logistics services during the three and nine-months ended September 30, 2015.

Note 11 Segment Information

The following table sets forth financial information with respect to our reportable operating segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Operating revenues: (1)				
Drilling & Rig Services:				

U.S.	$ 116,095	$ 259,939	$ 405,113	$ 1,034,929
Canada	10,444	29,929	34,555	109,182
International	363,552	516,180	1,165,631	1,413,886
Rig Services (2)	58,950	73,521	152,051	318,204
Subtotal Drilling & Rig Services	549,041	879,569	1,757,350	2,876,201
Completion & Production Services:				
Completion Services	—	—	—	207,860
Production Services	—	—	—	158,512
Subtotal Completion & Production Services	—	—	—	366,372
Other reconciling items (3)	(29,312)	(32,016)	(68,459)	(117,008)
Total	$ 519,729	$ 847,553	$ 1,688,891	$ 3,125,565

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Adjusted operating income (loss): (1) (4)				
Drilling & Rig Services:				
U.S.	$ (58,876)	$ (14,034)	$ (154,763)	$ 94,449
Canada	(10,156)	(4,085)	(28,265)	(5,995)
International	43,595	74,039	144,326	256,412
Rig Services (2)	(12,937)	(10,434)	(43,238)	864
Subtotal Drilling & Rig Services	(38,374)	45,486	(81,940)	345,730
Completion & Production Services:				
Completion Services	—	—	—	(55,243)
Production Services	—	—	—	(3,559)
Subtotal Completion & Production Services	—	—	—	(58,802)
Other reconciling items (5)	(33,600)	(37,962)	(97,205)	(122,162)
Total	$ (71,974)	$ 7,524	$ (179,145)	$ 164,766
Earnings (losses) from unconsolidated affiliates (6)	$ 2	$ (35,100)	$ (221,918)	$ (29,714)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Reconciliation of adjusted operating income (loss) to net income (loss) from continuing operations before income taxes:				
Total adjusted operating income (loss) (4)	$ (71,974)	$ 7,524	$ (179,145)	$ 164,766
Earnings (losses) from unconsolidated affiliates (6)	2	(35,100)	(221,918)	(29,714)
Investment income (loss)	310	(22)	923	2,128
Interest expense	(46,836)	(44,448)	(137,803)	(135,518)
Other, net	(10,392)	(259,731)	(267,403)	(205,227)
Income (loss) from continuing operations before income taxes	$ (128,890)	$ (331,777)	$ (805,346)	$ (203,565)

	September 30, 2016	December 31, 2015

	(In thousands)	
Total assets:		
Drilling & Rig Services:		
U.S.	$ 3,391,585	$ 3,654,216
Canada	352,771	371,151
International	3,694,029	4,108,416
Rig Services	380,241	430,319
Subtotal Drilling & Rig Services	7,818,626	8,564,102
Investment in unconsolidated affiliates (7)	889	415,177
Other reconciling items (5)	604,989	558,561
Total	$ 8,424,504	$ 9,537,840

(1) All periods present the operating activities of most of our wholly owned oil and gas businesses as discontinued operations.

(2) Includes our other services comprised of our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software services.

(3) Represents the elimination of inter-segment transactions.

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(4) Adjusted operating income (loss) is computed by subtracting the sum of direct costs, general and administrative expenses, research and engineering expenses and depreciation and amortization from operating revenues. Adjusted operating income (loss) is a non-GAAP financial measure and should not be used in isolation or as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our operating segments and the company's consolidated results based on several criteria, including adjusted operating income (loss) and adjusted EBITDA, because it believes that these financial measures reflect our ongoing profitability and performance. In addition, securities analysts and investors use this measure as one of the metrics on which they analyze our performance. Other companies in our industry may compute these measures differently. A reconciliation of this non-GAAP measure to income (loss) from continuing operations before income taxes, which is the most closely comparable GAAP measure, is provided in the above table.

(5) Represents the elimination of inter-segment transactions and unallocated corporate expenses, assets and capital expenditures

(6) Represents our share of the net income (loss), as adjusted for our basis difference, of our unconsolidated affiliates accounted for by the equity method including a loss of $221.9 million for the nine months ended September 30, 2016, and losses of $35.1 million and $35.9 million for the three and nine months ended September 30, 2015, respectively, related to our share of the net loss of CJES, which we reported on a one-quarter lag through June 30, 2016. Beginning in the third quarter of 2016, we ceased accounting for our investment in CJES under the equity method of accounting.

(7) Represents our investments in unconsolidated affiliates accounted for using the equity method as of September 30, 2016 and December 31, 2015, respectively.

Note 12 Condensed Consolidating Financial Information

Nabors has fully and unconditionally guaranteed all of the issued public debt securities of Nabors Delaware, a wholly owned subsidiary. The following condensed consolidating financial information is included so that separate financial statements of Nabors Delaware are not required to be filed with the SEC. 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 September 30, 2016 and December 31, 2015, statements of income (loss) and statements of other comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, and statements of cash flows for the nine months ended September 30, 2016 and 2015 of (a) Nabors, parent/guarantor, (b) Nabors Delaware, issuer of public debt securities guaranteed by Nabors, (c) the non-guarantor subsidiaries, (d) consolidating adjustments

necessary to consolidate Nabors and its subsidiaries and (e) Nabors on a consolidated basis.

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Condensed Consolidating Balance Sheets

	September 30, 2016				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
	ASSETS				
Current assets:					
Cash and cash equivalents	$ 1,055	$ 8	$ 175,980	$ —	$ 177,043
Short-term investments	—	—	23,607	—	23,607
Assets held for sale	—	—	69,436	—	69,436
Accounts receivable, net	—	—	503,966	—	503,966
Inventory	—	—	141,934	—	141,934
Other current assets	50	6,694	149,350	—	156,094
Total current assets	1,105	6,702	1,064,273	—	1,072,080
Property, plant and equipment, net	—	—	6,616,711	—	6,616,711
Goodwill	—	—	167,131	—	167,131
Intercompany receivables	136,195	11,000	1,442,201	(1,589,396)	—
Investment in consolidated affiliates	3,541,138	4,891,538	1,178,531	(9,611,207)	—
Investment in unconsolidated affiliates	—	—	889	—	889
Deferred tax assets	—	423,166	—	(423,166)	—
Other long-term assets	—	413	784,550	(217,270)	567,693
Total assets	$ 3,678,438	$ 5,332,819	$ 11,254,286	$ (11,841,039)	$ 8,424,504
	LIABILITIES AND EQUITY				
Current liabilities:					
Current debt	$ —	$ —	$ 120	$ —	$ 120
Trade accounts payable	110	114	215,403	—	215,627
Accrued liabilities	20,399	18,239	509,699	—	548,337
Income taxes payable	—	—	23,778	—	23,778
Total current liabilities	20,509	18,353	749,000	—	787,862
Long-term debt	—	3,693,248	—	(217,270)	3,475,978
Other long-term liabilities	—	22,606	528,398	—	551,004
Deferred income taxes	—	—	434,132	(423,166)	10,966
Intercompany payable	66,000	1,523,396	—	(1,589,396)	—
Total liabilities	86,509	5,257,603	1,711,530	(2,229,832)	4,825,810
Shareholders' equity	3,591,929	75,216	9,535,991	(9,611,207)	3,591,929
Noncontrolling interest	—	—	6,765	—	6,765
Total equity	3,591,929	75,216	9,542,756	(9,611,207)	3,598,694
Total liabilities and equity	$ 3,678,438	$ 5,332,819	$ 11,254,286	$ (11,841,039)	$ 8,424,504

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Condensed Consolidating Balance Sheets

	December 31, 2015				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
	ASSETS				
Current assets:					
Cash and cash equivalents	$ 873	$ 10	$ 253,647	$ —	$ 254,530
Short-term investments	—	—	20,059	—	20,059
Assets held for sale	—	—	75,678	—	75,678
Accounts receivable, net	—	—	784,671	—	784,671
Inventory	—	—	153,824	—	153,824
Other current assets	50	9,016	178,069	—	187,135
Total current assets	923	9,026	1,465,948	—	1,475,897
Property, plant and equipment, net	—	—	7,027,802	—	7,027,802
Goodwill	—	—	166,659	—	166,659
Intercompany receivables	139,366	11,000	1,260,310	(1,410,676)	—
Investment in consolidated affiliates	4,183,362	4,973,327	1,284,225	(10,440,914)	—
Investment in unconsolidated affiliates	—	—	415,177	—	415,177
Deferred tax assets	—	366,818	—	(366,818)	—
Other long-term assets	—	12,907	507,336	(67,938)	452,305
Total assets	$ 4,323,651	$ 5,373,078	$ 12,127,457	$ (12,286,346)	$ 9,537,840
	LIABILITIES AND EQUITY				
Current liabilities:					
Current debt	$ —	$ —	$ 6,508	$ —	$ 6,508
Trade accounts payable	71	3	271,910	—	271,984
Accrued liabilities	370	64,550	621,693	—	686,613
Income taxes payable	—	—	41,394	—	41,394
Total current liabilities	441	64,553	941,505	—	1,006,499
Long-term debt	—	3,723,138	—	(67,938)	3,655,200
Other long-term liabilities	—	35,086	517,861	—	552,947
Deferred income taxes	—	—	396,144	(366,818)	29,326
Intercompany payable	40,500	1,370,176	—	(1,410,676)	—
Total liabilities	40,941	5,192,953	1,855,510	(1,845,432)	5,243,972
Shareholders' equity	4,282,710	180,125	10,260,789	(10,440,914)	4,282,710
Noncontrolling interest	—	—	11,158	—	11,158
Total equity	4,282,710	180,125	10,271,947	(10,440,914)	4,293,868

Total liabilities and equity	$ 4,323,651	$ 5,373,078	$ 12,127,457	$ (12,286,346)	$ 9,537,840

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Condensed Consolidating Statements of Income (Loss)

	Three Months Ended September 30, 2016				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Revenues and other income:					
Operating revenues	$ —	$ —	$ 519,729	$ —	$ 519,729
Earnings (losses) from unconsolidated affiliates	—	—	2	—	2
Earnings (losses) from consolidated affiliates	(107,229)	(45,527)	(77,423)	230,179	—
Investment income (loss)	—	—	3,291	(2,981)	310
Intercompany interest income	(9)	162	—	(153)	—
Total revenues and other income	(107,238)	(45,365)	445,599	227,045	520,041
Costs and other deductions:					
Direct costs	—	—	306,436	—	306,436
General and administrative expenses	3,053	182	53,010	(167)	56,078
Research and engineering	—	—	8,476	—	8,476
Depreciation and amortization	—	31	220,682	—	220,713
Interest expense	—	50,595	(3,759)	—	46,836
Other, net	929	(18)	9,314	167	10,392
Intercompany interest expense	(9)	—	162	(153)	—
Total costs and other deductions	3,973	50,790	594,321	(153)	648,931
Income (loss) from continuing operations before income taxes	(111,211)	(96,155)	(148,722)	227,198	(128,890)
Income tax expense (benefit)	—	(18,732)	(12,319)	—	(31,051)
Income (loss) from continuing operations, net of tax	(111,211)	(77,423)	(136,403)	227,198	(97,839)
Income (loss) from discontinued operations, net of tax	—	—	(12,187)	—	(12,187)
Net income (loss)	(111,211)	(77,423)	(148,590)	227,198	(110,026)
Less: Net (income) loss attributable to noncontrolling interest	—	—	(1,185)	—	(1,185)
Net income (loss) attributable to Nabors	$ (111,211)	$ (77,423)	$ (149,775)	$ 227,198	$ (111,211)

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Condensed Consolidating Statements of Income (Loss)

	Three Months Ended September 30, 2015				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Revenues and other income:					
Operating revenues	$ —	$ —	$ 847,553	$ —	$ 847,553
Earnings from unconsolidated affiliates	—	—	(35,100)	—	(35,100)
Earnings (losses) from consolidated affiliates	(293,510)	(47,522)	(78,151)	419,183	—
Investment income (loss)	—	—	2,305	(2,327)	(22)
Intercompany interest income	—	913	—	(913)	—
Total revenues and other income	(293,510)	(46,609)	736,607	415,943	812,431
Costs and other deductions:					
Direct costs	—	—	518,174	—	518,174
General and administrative expenses	2,216	180	69,771	(135)	72,032
Research and engineering	—	—	9,716	—	9,716
Depreciation and amortization	—	31	240,076	—	240,107
Interest expense	—	49,320	(4,872)	—	44,448
Other, net	109	—	259,487	135	259,731
Intercompany interest expense	(1)	—	914	(913)	—
Total costs and other deductions	2,324	49,531	1,093,266	(913)	1,144,208
Income (loss) from continuing operations before income taxes	(295,834)	(96,140)	(356,659)	416,856	(331,777)
Income tax expense (benefit)	—	(17,989)	(62,909)	—	(80,898)
Income (loss) from continuing operations, net of tax	(295,834)	(78,151)	(293,750)	416,856	(250,879)
Income (loss) from discontinued operations, net of tax	—	—	(45,275)	—	(45,275)
Net income (loss)	(295,834)	(78,151)	(339,025)	416,856	(296,154)
Less: Net (income) loss attributable to noncontrolling interest	—	—	320	—	320
Net income (loss) attributable to Nabors	$ (295,834)	$ (78,151)	$ (338,705)	$ 416,856	$ (295,834)

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Condensed Consolidating Statements of Income (Loss)

	Nine Months Ended September 30, 2016				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Revenues and other income:					
Operating revenues	$ —	$ —	$ 1,688,891	$ —	$ 1,688,891
Earnings (losses) from unconsolidated affiliates	—	—	(221,918)	—	(221,918)
Earnings (losses) from consolidated affiliates	(685,148)	(168,639)	(264,583)	1,118,370	—
Investment income (loss)	1	132	9,733	(8,943)	923
Intercompany interest income	—	417	—	(417)	—
Total revenues and other income	(685,147)	(168,090)	1,212,123	1,109,010	1,467,896
Costs and other deductions:					
Direct costs	—	—	1,012,738	—	1,012,738
General and administrative expenses	7,767	448	167,302	(481)	175,036
Research and engineering	—	—	24,818	—	24,818
Depreciation and amortization	—	93	655,351	—	655,444
Interest expense	—	152,318	(14,515)	—	137,803
Other, net	1,245	(18)	265,695	481	267,403
Intercompany interest expense	(4)	—	421	(417)	—
Total costs and other deductions	9,008	152,841	2,111,810	(417)	2,273,242
Income (loss) from continuing operations before income taxes	(694,155)	(320,931)	(899,687)	1,109,427	(805,346)
Income tax expense (benefit)	—	(56,348)	(67,950)	—	(124,298)
Income (loss) from continuing operations, net of tax	(694,155)	(264,583)	(831,737)	1,109,427	(681,048)
Income (loss) from discontinued operations, net of tax	—	—	(14,097)	—	(14,097)
Net income (loss)	(694,155)	(264,583)	(845,834)	1,109,427	(695,145)
Less: Net (income) loss attributable to noncontrolling interest	—	—	990	—	990
Net income (loss) attributable to Nabors	$ (694,155)	$ (264,583)	$ (844,844)	$ 1,109,427	$ (694,155)

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Condensed Consolidating Statements of Income (Loss)

	Nine Months Ended September 30, 2015				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Revenues and other income:					
Operating revenues	$ —	$ —	$ 3,125,565	$ —	$ 3,125,565
Earnings from unconsolidated affiliates	—	—	(29,714)	—	(29,714)
Earnings (losses) from consolidated affiliates	(189,624)	(40,029)	(131,838)	361,491	—
Investment income (loss)	—	560	8,549	(6,981)	2,128
Intercompany interest income	—	5,539	—	(5,539)	—
Total revenues and other income	(189,624)	(33,930)	2,972,562	348,971	3,097,979
Costs and other deductions:					
Direct costs	—	—	1,926,306	—	1,926,306
General and administrative expenses	7,047	(143)	256,787	(419)	263,272
Research and engineering	—	—	31,899	—	31,899
Depreciation and amortization	—	674	738,648	—	739,322
Interest expense	(1)	151,297	(15,778)	—	135,518
Other, net	12,328	—	192,480	419	205,227
Intercompany interest expense	23	—	5,516	(5,539)	—
Total costs and other deductions	19,397	151,828	3,135,858	(5,539)	3,301,544
Income (loss) from continuing operations before income taxes	(209,021)	(185,758)	(163,296)	354,510	(203,565)
Income tax expense (benefit)	—	(53,920)	18,762	—	(35,158)
Income (loss) from continuing operations, net of tax	(209,021)	(131,838)	(182,058)	354,510	(168,407)
Income (loss) from discontinued operations, net of tax	—	—	(41,067)	—	(41,067)
Net income (loss)	(209,021)	(131,838)	(223,125)	354,510	(209,474)
Less: Net (income) loss attributable to noncontrolling interest	—	—	453	—	453
Net income (loss) attributable to Nabors	$ (209,021)	$ (131,838)	$ (222,672)	$ 354,510	$ (209,021)

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Condensed Consolidating Statements of Comprehensive Income (Loss)

	Three Months Ended September 30, 2016				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Net income (loss) attributable to Nabors	$ (111,211)	$ (77,423)	$ (149,775)	$ 227,198	$ (111,211)
Other comprehensive income (loss) before tax:					
Translation adjustment attributable to Nabors					
Unrealized loss on translation adjustment	(8,950)	12	(8,938)	8,926	(8,950)
Less: reclassification adjustment for realized loss on translation adjustment	—	—	—	—	—
Translation adjustment attributable to Nabors	(8,950)	12	(8,938)	8,926	(8,950)
Unrealized gains (losses) on marketable securities:					
Unrealized gains (losses) on marketable securities	1,502	—	2,782	(2,782)	1,502
Less: reclassification adjustment for (gains) losses included in net income (loss)	3,495	—	3,495	(3,495)	3,495
Unrealized gains (losses) on marketable securities	4,997	—	6,277	(6,277)	4,997
Pension liability amortization and adjustment	297	297	594	(891)	297
Unrealized gains (losses) and amortization on cash flow hedges	153	153	153	(306)	153
Other comprehensive income (loss) before tax	(3,503)	462	(1,914)	1,452	(3,503)
Income tax expense (benefit) related to items of other comprehensive income (loss)	172	172	284	(456)	172
Other comprehensive income (loss), net of tax	(3,675)	290	(2,198)	1,908	(3,675)
Comprehensive income (loss) attributable to Nabors	(114,886)	(77,133)	(151,973)	229,106	(114,886)
Net income (loss) attributable to noncontrolling interest	—	—	1,185	—	1,185
	—	—	(90)	—	(90)

Translation adjustment attributable to noncontrolling interest					
Comprehensive income (loss) attributable to noncontrolling interest	—	—	1,095	—	1,095
Comprehensive income (loss)	$ (114,886)	$ (77,133)	$ (150,878)	$ 229,106	$ (113,791)

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Condensed Consolidating Statements of Comprehensive Income (Loss)

	Three Months Ended September 30, 2015				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Net income (loss) attributable to Nabors	$ (295,834)	$ (78,151)	$ (338,705)	$ 416,856	$ (295,834)
Other comprehensive income (loss) before tax:					
Translation adjustment attributable to Nabors					
Unrealized loss on translation adjustment	(38,859)	—	(38,859)	38,859	(38,859)
Less: reclassification adjustment for realized loss on translation adjustment	—	—	—	—	—
Translation adjustment attributable to Nabors	(38,859)	—	(38,859)	38,859	(38,859)
Unrealized gains (losses) on marketable securities:					
Unrealized gains (losses) on marketable securities	(8,127)	—	(8,127)	8,127	(8,127)
Less: reclassification adjustment for (gains) losses included in net income (loss)	—	—	—	—	—
Unrealized gains (losses) on marketable securities	(8,127)	—	(8,127)	8,127	(8,127)
Pension liability amortization and adjustment	276	276	552	(828)	276
Unrealized gains (losses) and amortization on cash flow hedges	153	153	153	(306)	153
Other comprehensive income (loss) before tax	(46,557)	429	(46,281)	45,852	(46,557)
Income tax expense (benefit) related to items of other comprehensive income (loss)	162	162	264	(426)	162
Other comprehensive income (loss), net of tax	(46,719)	267	(46,545)	46,278	(46,719)
Comprehensive income (loss) attributable to Nabors	(342,553)	(77,884)	(385,250)	463,134	(342,553)
	—	—	(320)	—	(320)

Net income (loss) attributable to noncontrolling interest					
Translation adjustment attributable to noncontrolling interest	—	—	(476)	—	(476)
Comprehensive income (loss) attributable to noncontrolling interest	—	—	(796)	—	(796)
Comprehensive income (loss)	$ (342,553)	$ (77,884)	$ (386,046)	$ 463,134	$ (343,349)

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Condensed Consolidating Statements of Comprehensive Income (Loss)

	Nine Months Ended September 30, 2016				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Net income (loss) attributable to Nabors	$ (694,155)	$ (264,583)	$ (844,844)	$ 1,109,427	$ (694,155)
Other comprehensive income (loss) before tax					
Translation adjustment attributable to Nabors:					
Unrealized loss on translation adjustment	27,870	(39)	27,870	(27,831)	27,870
Less: reclassification adjustment for realized loss on translation adjustment	—	—	—	—	—
Translation adjustment attributable to Nabors	27,870	(39)	27,870	(27,831)	27,870
Unrealized gains (losses) on marketable securities:					
Unrealized gains (losses) on marketable securities	3,551	—	3,551	(3,551)	3,551
Less: reclassification adjustment for (gains) losses included in net income (loss)	3,495	—	3,495	(3,495)	3,495
Unrealized gains (losses) on marketable securities	7,046	—	7,046	(7,046)	7,046
Pension liability amortization and adjustment	765	765	1,530	(2,295)	765
Unrealized gains (losses) and amortization on cash flow hedges	459	459	459	(918)	459
Other comprehensive income (loss) before tax	36,140	1,185	36,905	(38,090)	36,140
Income tax expense (benefit) related to items of other comprehensive income (loss)	472	472	765	(1,237)	472
Other comprehensive income (loss), net of tax	35,668	713	36,140	(36,853)	35,668
Comprehensive income (loss) attributable to Nabors	(658,487)	(263,870)	(808,704)	1,072,574	(658,487)
Net income (loss) attributable to noncontrolling interest	—	—	(990)	—	(990)
	—	—	371	—	371

Translation adjustment attributable to noncontrolling interest					
Comprehensive income (loss) attributable to noncontrolling interest	—	—	(619)	—	(619)
Comprehensive income (loss)	$ (658,487)	$ (263,870)	$ (809,323)	$ 1,072,574	$ (659,106)

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Condensed Consolidating Statements of Comprehensive Income (Loss)

	Nine Months Ended September 30, 2015				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Net income (loss) attributable to Nabors	$ (209,021)	$ (131,838)	$ (222,672)	$ 354,510	$ (209,021)
Other comprehensive income (loss) before tax					
Translation adjustment attributable to Nabors:					
Unrealized loss on translation adjustment	(95,125)	51	(95,074)	95,023	(95,125)
Less: reclassification adjustment for realized loss on translation adjustment	5,365	—	5,365	(5,365)	5,365
Translation adjustment attributable to Nabors	(89,760)	51	(89,709)	89,658	(89,760)
Unrealized gains (losses) on marketable securities:					
Unrealized gains (losses) on marketable securities	(10,127)	—	(10,127)	10,127	(10,127)
Less: reclassification adjustment for (gains) losses included in net income (loss)	—	—	—	—	—
Unrealized gains (losses) on marketable securities	(10,127)	—	(10,127)	10,127	(10,127)
Pension liability amortization and adjustment	828	828	1,656	(2,484)	828
Unrealized gains (losses) and amortization on cash flow hedges	459	459	459	(918)	459
Other comprehensive income (loss) before tax	(98,600)	1,338	(97,721)	96,383	(98,600)
Income tax expense (benefit) related to items of other comprehensive income (loss)	485	485	791	(1,276)	485
Other comprehensive income (loss), net of tax	(99,085)	853	(98,512)	97,659	(99,085)
Comprehensive income (loss) attributable to Nabors	(308,106)	(130,985)	(321,184)	452,169	(308,106)
Net income (loss) attributable to noncontrolling interest	—	—	(453)	—	(453)
	—	—	(1,194)	—	(1,194)

Translation adjustment attributable to noncontrolling interest					
Comprehensive income (loss) attributable to noncontrolling interest	—	—	(1,647)	—	(1,647)
Comprehensive income (loss)	$ (308,106)	$ (130,985)	$ (322,831)	$ 452,169	$ (309,753)

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Condensed Consolidating Statements Cash Flows

	Nine Months Ended September 30, 2016				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Net cash provided by (used for) operating activities	$ 18,320	$ (276,655)	$ 669,063	$ (5,960)	$ 404,768
Cash flows from investing activities:					
Purchases of investments	—	—	(24)	—	(24)
Sales and maturities of investments	—	—	643	—	643
Cash paid for investments in consolidated affiliates	—	(86,459)	(159,000)	245,459	—
Capital expenditures	—	—	(284,950)	—	(284,950)
Proceeds from sales of assets and insurance claims	—	—	26,597	—	26,597
Change in intercompany balances	—	239,112	(239,112)	—	—
Other	—	—	(19)	—	(19)
Net cash provided by (used for) investing activities	—	152,653	(655,865)	245,459	(257,753)
Cash flows from financing activities:					
Increase (decrease) in cash overdrafts	—	—	5	—	5
Proceeds from revolving credit facilities	—	560,000	—	—	560,000
Reduction in revolving credit facilities	—	(260,000)	—	—	(260,000)
Proceeds from (payments for) issuance of common shares	562	—	—	—	562
Repurchase of common shares	—	—	(1,687)	—	(1,687)
Reduction in long-term debt	—	(350,000)	(142,625)	—	(492,625)
Dividends to shareholders	(39,887)	—	—	5,960	(33,927)
Proceeds from (payments for) commercial paper, net	—	15,000	—	—	15,000
Proceeds from parent contributions	—	159,000	86,459	(245,459)	—
Proceeds from (payments for) short-term borrowings	—	—	(6,388)	—	(6,388)
Proceeds from issuance of intercompany debt	25,500	—	(25,500)	—	—
Other	(4,313)	—	—	—	(4,313)

Net cash (used for) provided by financing activities	(18,138)	124,000	(89,736)	(239,499)	(223,373)
Effect of exchange rate changes on cash and cash equivalents	—	—	(1,129)	—	(1,129)
Net increase (decrease) in cash and cash equivalents	182	(2)	(77,667)	—	(77,487)
Cash and cash equivalents, beginning of period	873	10	253,647	—	254,530
Cash and cash equivalents, end of period	$ 1,055	$ 8	$ 175,980	$ —	$ 177,043

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Condensed Consolidating Statements Cash Flows

	Nine Months Ended September 30, 2015				
	Nabors (Parent/ Guarantor)	Nabors Delaware (Issuer/ Guarantor)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Total
	(In thousands)				
Net cash provided by (used for) operating activities	$ 39,956	(188,781)	782,139	(28,303)	605,011
Cash flows from investing activities:					
Purchases of investments	—	—	(8)	—	(8)
Sales and maturities of investments	—	—	859	—	859
Cash paid for acquisitions of businesses, net	—	—	(57,909)	—	(57,909)
Investments in unconsolidated affiliates	—	—	(445)	—	(445)
Proceeds from merger transaction	5,500	646,078	(1,528)	—	650,050
Capital expenditures	—	—	(744,047)	—	(744,047)
Proceeds from sale of assets and insurance claims	—	—	30,164	—	30,164
Other	—	—	1,700	—	1,700
Change in intercompany balances	—	67,194	(67,194)	—	—
Net cash provided by (used for) investing activities	5,500	713,272	(838,408)	—	(119,636)
Cash flows from financing activities:					
Increase (decrease) in cash overdrafts	—	—	363	—	363
Proceeds from (payments for) issuance of parent common shares to affiliates	1,198	—	—	—	1,198
Dividends to shareholders	(59,470)	—	—	6,981	(52,489)
Proceeds from (payments for) commercial paper, net	—	(162,544)	—	—	(162,544)
Proceeds from issuance of intercompany debt	47,000	88,058	(135,058)	—	—
Reduction in revolving credit facilities	—	(450,000)	—	—	(450,000)
Proceeds from term loan	—	300,000	—	—	300,000
Payments on term loan	—	(300,000)	—	—	(300,000)
Purchase of treasury stock	—	—	(44,978)	—	(44,978)
Proceeds from short-term borrowings	—	—	2,792	—	2,792
Paydown of intercompany debt	(27,000)	—	27,000	—	—

Payments on parent (Equity or N/P)	—	—	(21,322)	21,322	—
Other	(7,534)	—	—	—	(7,534)
Net cash (used for) provided by financing activities	(45,806)	(524,486)	(171,203)	28,303	(713,192)
Effect of exchange rate changes on cash and cash equivalents	—	—	(21,966)	—	(21,966)
Net increase (decrease) in cash and cash equivalents	(350)	5	(249,438)	—	(249,783)
Cash and cash equivalents, beginning of period	1,170	7	499,972	—	501,149
Cash and cash equivalents, end of period	$ 820	$ 12	$ 250,534	$ —	$ 251,366

Note 13 Subsequent Events

On October 28, 2016, our Board of Directors declared a cash dividend of $0.06 per common share, which will be paid on January 4, 2017 to shareholders of record at the close of business on December 14, 2016.

On October 31, 2016, we entered into an agreement with Saudi Arabian Development Company (“Saudi Aramco”), a wholly-owned subsidiary of Saudi Arabian Oil Company, to form a new joint venture to own, manage and operate onshore drilling rigs in The Kingdom of Saudi Arabia. The total initial value of the investment through January 2019 of each party in the joint venture is expected to approach $500.0 million in exchange for an equal interest.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We often discuss expectations regarding our the performance of our industry, our future markets, demand for our products and services, and our performance in our annual, quarterly and current reports, press releases, and other written and oral statements. Statements relating 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 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These "forward-looking statements" are based on an analysis of currently available competitive, financial and economic data and our operating plans. They are inherently uncertain and investors should recognize that events and actual results could turn out to be significantly different from our expectations. By way of illustration, when used in this document, words such as "anticipate," "believe," "expect," "plan," "intend," "estimate," "project," "will," "should," "could," "may," "predict" and similar expressions are intended to identify forward-looking statements.

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

- fluctuations and volatility in worldwide prices of and demand for oil and natural gas;
- fluctuations in levels of oil and natural gas exploration and development activities;
- fluctuations in the demand for our services;
- competitive and technological changes and other developments in the oil and gas and oilfield services industries;
- changes in the market value of and other events affecting our investments accounted for using the equity method of accounting;
- our ability to complete, and realize the expected benefits of, strategic transactions;
- the existence of operating risks inherent in the oil and gas and oilfield services industries;
- the possibility of changes in tax and other laws and regulations;
- the possibility of political or economic instability, civil disturbance, war or acts of terrorism in any of the countries in which we do business; and

- general economic conditions, including the capital and credit markets.

The above description of risks and uncertainties is not all-inclusive, but highlights certain factors that we believe are important for your consideration. For a more detailed description of risk factors that may affect us or our industry, please refer to Part I, Item 1A. — Risk Factors in our 2015 Annual Report on Form 10-K.

Management Overview

This section is intended to help you understand our results of operations and our financial condition. This information is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying notes thereto.

We own and operate the world's largest land-based drilling rig fleet and are a leading provider of offshore platform, workover and drilling rigs in the United States and multiple international markets. Our Drilling & Rig Services business is comprised of our global land-based and offshore drilling rig operations and other rig services, consisting of equipment manufacturing, rig instrumentation, optimization software and directional drilling services. Our Drilling & Rig Services business consists of four reportable operating segments: U.S., Canada, International and Rig Services.

On March 24, 2015, we completed the Merger of our Completion & Production Services business with C&J Energy. In the Merger and related transactions, our wholly-owned interest in our Completion & Production Service business was

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exchanged for cash and an equity interest in the combined entity, CJES, and was accounted for as an unconsolidated affiliate as of the acquisition date through June 30, 2016. CJES provides well construction, well completions, well support and other complementary oilfield services to oil and gas exploration and production companies primarily in North America. As we no longer consolidate the results of operations from our historical Completion & Production Services business, our results of operations for the nine months ended September 30, 2015 are not directly comparable to the nine months ended September 30, 2016.

As a result of the Merger, we had reported our share of the earnings (losses) of CJES through earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of income (loss) until June 30, 2016. On July 20, 2016, CJES filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas, Houston Division, under the caption In re CJ Holdings Co., et al., Case No. 16-33590 (DRJ). Based on the current reorganization plans, we no longer expect to maintain any significant influence over CJES. As a result, beginning in the third quarter of 2016, we ceased accounting for our investment in CJES as an equity method investment and now report this investment at our estimated fair value. Due to the uncertainties around the eventual outcome of the bankruptcy process, we wrote off the remaining carrying value of our investment in CJES during the second quarter of 2016, and as such, there is no impact to our condensed consolidated financial statements during the third quarter as a result of the change in accounting. We continue to monitor the voluntary reorganization process and defend our interests in the bankruptcy proceedings, and we cannot predict what recovery, if any, we will receive upon CJES' emergence from bankruptcy. See further discussion in Note 3—Investments in Unconsolidated Affiliates.

On May 24, 2015, we paid $106.0 million in cash to acquire the remaining 49% equity interest in Nabors Arabia, our joint venture in Saudi Arabia, making it a wholly owned subsidiary. The effects of the acquisition and the operating results of Nabors Arabia are included in the accompanying unaudited condensed consolidated financial statements beginning on the acquisition date, and are reflected in our International drilling segment.

Financial Results

Operating revenues for the three months ended September 30, 2016 totaled $519.7 million, a decrease of $327.8 million, or 39%, as compared to the three months ended September 30, 2015. Operating revenues totaled $1.7 billion for the nine months ended September 30, 2016, a decrease of $1.4 billion, or 46%, as compared to the nine months ended September 30, 2015. Net loss from continuing operations for the three months ended September 30, 2016 totaled $97.8 million ($0.35 per diluted share), an increase of $153.0 million compared to the three months ended September 30, 2015. Net loss from continuing operations for the nine months ended September 30, 2016 totaled $681.0 million ($2.41 per diluted share), a decrease of $512.6 million compared to the nine months ended September 30, 2015.

Persistently low oil and gas prices have had a significant impact on the number of rigs working, particularly in our U.S. and Canada segments although our International Drilling segment has also felt the effect. The decline in global

oil prices, and the extended duration of lower prices for both oil and gas, have resulted in dramatic reductions in capital spending on the part of our customers. Together, these trends led to continued reductions in the level of drilling activity in the oil and gas industries on a worldwide basis and had a corresponding adverse impact on our results of operations. In the U.S., our customers' reaction to the decrease in commodity prices resulted in significant decreases in both the number of rigs that are working and the dayrates that we can obtain. We believe the U.S. market has started to stabilize, as evidenced by a slight uptick in rig counts during the third quarter of 2016 as a result of the relative stability in oil prices. However, we believe our customers will continue to react cautiously to the environment throughout the remainder of 2016 and into early 2017. Internationally, spending cuts have resulted in lower activity levels, as reflected by a reduction in the number of rigs working and resulted in lower operating results for the quarter when compared to the same quarter last year. We anticipate International markets to remain challenged by the current environment throughout the remainder of 2016, however we are seeing early signs of activity increases. Demand for certain of our asset classes may differ coming out of this downturn, compared to leading into the downturn. As such, we will continue to assess our asset fleet, particularly our legacy and undersized rigs. Should we continue experiencing weakening in the market for a prolonged period for any specific rig class, this could result in future impairment charges or retirements of assets.

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The following tables set forth certain information with respect to our reportable segments and rig activity:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	Increase/(Decrease)		2016	2015	Increase/(Decrease)	
	(In thousands, except percentages)							
Operating revenues: (1)								
Drilling & Rig Services:								
U.S.	$ 116,095	$ 259,939	$ (143,844)	(55) %	$ 405,113	$ 1,034,929	$ (629,816)	(61
Canada	10,444	29,929	(19,485)	(65) %	34,555	109,182	(74,627)	(68
International	363,552	516,180	(152,628)	(30) %	1,165,631	1,413,886	(248,255)	(18
Rig Services (2)	58,950	73,521	(14,571)	(20) %	152,051	318,204	(166,153)	(52
Subtotal Drilling & Rig Services	549,041	879,569	(330,528)	(38) %	1,757,350	2,876,201	(1,118,851)	(39
Completion & Production Services:								
Completion Services	—	—	—	— %	—	207,860	(207,860)	(10
Production Services	—	—	—	— %	—	158,512	(158,512)	(10
Subtotal Completion & Production Services	—	—	—	— %	—	366,372	(366,372)	(10
Other reconciling items (3)	(29,312)	(32,016)	2,704	8 %	(68,459)	(117,008)	48,549	41
Total	$ 519,729	$ 847,553	$ (327,824)	(39) %	$ 1,688,891	$ 3,125,565	$ (1,436,674)	(46

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase/(Decrease)	2016	2015	Increase/(Decrease)
	(In thousands, except percentages)					
Adjusted EBITDA:						

(1) (4)								
Drilling & Rig Services:								
U.S.	$ 37,299	$ 94,505	$ (57,206)	(61) %	$ 141,412	$ 418,749	$ (277,337)	(66) %
Canada	196	7,516	(7,320)	(97) %	2,678	29,716	(27,038)	(91) %
International	148,833	186,451	(37,618)	(20) %	447,760	558,550	(110,790)	(20) %
Rig Services (2)	(4,334)	(2,455)	(1,879)	(77) %	(16,248)	25,469	(41,717)	(164) %
Subtotal Drilling & Rig Services	181,994	286,017	(104,023)	(36) %	575,602	1,032,484	(456,882)	(44) %
Completion & Production Services:								
Completion Services	—	—	—	— %	—	(28,110)	28,110	100 %
Production Services	—	—	—	— %	—	23,043	(23,043)	(100) %
Subtotal Completion & Production Services	—	—	—	— %	—	(5,067)	5,067	100 %
Other reconciling items (5)	(33,255)	(38,386)	5,131	13 %	(99,303)	(123,329)	24,026	19 %
Total	$ 148,739	$ 247,631	$ (98,892)	(40) %	$ 476,299	$ 904,088	$ (427,789)	(47) %

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	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	Increase/(Decrease)		2016	2015	Increase/(Decrease	
	(In thousands, except percentages)							
Adjusted operating income (loss): (1) (6)								
Drilling & Rig Services:								
U.S.	$ (58,876)	$ (14,034)	$ (44,842)	n/m (10)	$ (154,763)	$ 94,449	$ (249,212)	n/n
Canada	(10,156)	(4,085)	(6,071)	(149) %	(28,265)	(5,995)	(22,270)	n/n
International	43,595	74,039	(30,444)	(41) %	144,326	256,412	(112,086)	(44
Rig Services (2)	(12,937)	(10,434)	(2,503)	(24) %	(43,238)	864	(44,102)	n/n
Subtotal Drilling & Rig Services	(38,374)	45,486	(83,860)	(184) %	(81,940)	345,730	(427,670)	(12
Completion & Production Services:								
Completion Services	—	—	—	— %	—	(55,243)	55,243	100
Production Services	—	—	—	— %	—	(3,559)	3,559	100
Subtotal Completion & Production Services	—	—	—	— %	—	(58,802)	58,802	100
Other reconciling items (5)	(33,600)	(37,962)	4,362	11 %	(97,205)	(122,162)	24,957	20
Total	$ (71,974)	$ 7,524	$ (79,498)	n/m (10)	$ (179,145)	$ 164,766	$ (343,911)	(20
Earnings (losses) from unconsolidated affiliates (7)	$ 2	$ (35,100)	$ 35,102	n/m (10)	$ (221,918)	$ (29,714)	$ (192,204)	n/n

	Three Months Ended September 30,				Nine Months Ended September 30,		
	2016	2015	Increase/(Decrease)		2016	2015	Increase/(Decre
	(In thousands, except percentages)						
Reconciliation of adjusted EBITDA and adjusted operating income (loss) to income (loss) from continuing operations before income taxes:							
Total adjusted EBITDA (4)	$ 148,739	$ 247,631	$ (98,892)	(40) %	$ 476,299	$ 904,088	$ (427,789)
Depreciation and amortization	(220,713)	(240,107)	(19,394)	(8) %	(655,444)	(739,322)	(83,878)
Total adjusted operating income (loss) (6)	(71,974)	7,524	(79,498)	n/m (10)	(179,145)	164,766	(343,911)
Earnings (losses) from unconsolidated affiliates (7)	2	(35,100)	35,102	100 %	(221,918)	(29,714)	(192,204)
Investment income (loss)	310	(22)	332	n/m (10)	923	2,128	(1,205)
Interest expense	(46,836)	(44,448)	2,388	5 %	(137,803)	(135,518)	2,285
Other, net	(10,392)	(259,731)	(249,339)	(96) %	(267,403)	(205,227)	62,176
Income (loss) from continuing operations before income taxes	$ (128,890)	$ (331,777)	$ 202,887	61 %	$ (805,346)	$ (203,565)	$ (601,781)

	Three Months Ended September 30,				Nine Months Ended September 30,		
	2016	2015	Increase/(Decrease)		2016	2015	Increase/(Decre
	(In thousands, except percentages)						
Rig activity:							
Rig years: (8)							
U.S.	57.3	103.0	(45.7)	(44) %	58.6	129.8	(71.2)

Canada	8.8	17.2	(8.4)	(49) %	8.5	17.5	(9.0)
International	97.4	121.3	(23.9)	(20) %	103.0	126.1	(23.1)
Total rig years	163.5	241.5	(78.0)	(32) %	170.1	273.4	(103.3)
Rig hours: (9)							
U.S.							
Production Services	—	—	—	— %	—	129,652	(129,652)
Canada							
Production Services	—	—	—	— %	—	23,947	(23,947)
Total rig hours	—	—	—	— %	—	153,599	(153,599)

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(1) All periods present the operating activities of most of our wholly owned oil and gas businesses as discontinued operations.

(2) Includes our other services comprised of our drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software services.

(3) Represents the elimination of inter-segment transactions.

(4) Adjusted EBITDA is computed by subtracting the sum of direct costs, general and administrative expenses and research and engineering expenses from operating revenues. Adjusted EBITDA is a non-GAAP financial measure and should not be used in isolation or as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our operating segments and the company's consolidated results based on several criteria, including adjusted EBITDA and adjusted operating income (loss), because it believes that these financial measures reflect our ongoing profitability and performance. In addition, securities analysts and investors use this measure as one of the metrics on which they analyze our performance. Other companies in our industry may compute these measures differently. A reconciliation of adjusted EBITDA to income (loss) from continuing operations before income taxes, which is the most closely comparable GAAP measure, is provided in the table above.

(5) Represents the elimination of inter-segment transactions and unallocated corporate expenses.

(6) Adjusted operating income (loss) is computed by subtracting the sum of direct costs, general and administrative expenses, research and engineering expenses and depreciation and amortization from operating revenues. Adjusted operating income (loss) is a non-GAAP financial measure and should not be used in isolation or as a substitute for the amounts reported in accordance with GAAP. However, management evaluates the performance of our operating segments and the company's consolidated results based on several criteria, including adjusted EBITDA and adjusted operating income (loss), because it believes that these financial measures reflect our ongoing profitability and performance. In addition, securities analysts and investors use this measure as one of the metrics on which they analyze our performance. Other companies in our industry may compute these measures differently. A reconciliation of adjusted operating income (loss) to income (loss) from continuing operations before income taxes, which is the most closely comparable GAAP measure, is provided in the table above.

(7) Represents our share of the net income (loss), as adjusted for our basis difference, of our unconsolidated affiliates accounted for by the equity method, including a loss of $221.9 million for the nine months ended September 30, 2016, and losses of $35.1 million and $35.9 million for the three and nine months ended September 30, 2015, respectively, related to our share of the net loss of CJES, which we reported on a one-quarter lag through June 30, 2016. Beginning in the third quarter of 2016, we ceased accounting for our investment in CJES under the equity method of accounting.

(8)

Excludes well-servicing rigs, which are measured in rig hours. Includes our equivalent percentage ownership of rigs owned by unconsolidated affiliates. Rig years represent a measure of the number of equivalent rigs operating during a given period. For example, one rig operating 45 days during a quarterly period represents 0.5 rig years.

(9) Rig hours represents the number of hours that our well-servicing rig fleet operated during the year. This fleet was included in the Completion & Production Services business that was merged with C&J Energy in March 2015 and we will therefore no longer report this performance metric.

(10) The number is so large that it is not meaningful.

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Segment Results of Operations

Drilling & Rig Services

Our Drilling & Rig Services business line is comprised of four operating segments: U.S., Canada, International and Rig Services. For a description of this business line, see Management Overview above. The following table presents our revenues, adjusted EBITDA, adjusted income (loss) and rig years by operating segment, as applicable, for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	Increase/(Decrease)		2016	2015	Increase/(Decrease)	
	(In thousands, except percentages and rig activity)							
U.S.								
Operating revenues	$ 116,095	$ 259,939	$ (143,844)	(55)%	$ 405,113	$ 1,034,929	$ (629,816)	(61)%