NABORS INDUSTRIES LTD
Form 10-Q
November 09, 2011

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, 2011

Commission File Number: 001-32657

NABORS INDUSTRIES LTD.

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

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Second Floor
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Hamilton, HM08
Bermuda
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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 þ NO o

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

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer o Smaller Reporting Company o

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

The number of common shares, par value $.001 per share, outstanding as of November 4, 2011 was 287,554,937.

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 275,461	$ 641,702
Short-term investments	119,859	159,488
Assets held for sale	267,911	352,048
Accounts receivable, net	1,397,725	1,116,510
Inventory	233,298	158,836
Deferred income taxes	83,388	31,510
Other current assets	166,702	152,836
Total current assets	2,544,344	2,612,930
Long-term investments and other receivables	40,373	40,300
Property, plant and equipment, net	8,577,213	7,815,419
Goodwill	501,297	494,372
Investment in unconsolidated affiliates	323,066	267,723
Other long-term assets	332,053	415,825
Total assets	$ 12,318,346	$ 11,646,569
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 275,227	$ 1,379,018
Trade accounts payable	658,692	355,282
Accrued liabilities	459,943	394,292
Income taxes payable	21,903	25,788
Total current liabilities	1,415,765	2,154,380
Long-term debt	4,088,133	3,064,126
Other long-term liabilities	220,062	245,765
Deferred income taxes	881,659	770,247
Total liabilities	6,605,619	6,234,518
Commitments and contingencies (Note 8)		
Subsidiary preferred stock	69,188	69,188
Equity:		
Shareholders equity:		
Common shares, par value $.001 per share:		
Authorized common shares 800,000; issued 316,922 and 315,034, respectively	317	315

Capital in excess of par value	2,282,803	2,255,787
Accumulated other comprehensive income	269,155	342,052
Retained earnings	4,057,410	3,707,881
Less: treasury shares, at cost, 29,414 common shares	(977,873)	(977,873)
Total shareholders equity	5,631,812	5,328,162
Noncontrolling interest	11,727	14,701
Total equity	5,643,539	5,342,863
Total liabilities and equity	$ 12,318,346	$ 11,646,569

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues and other income:				
Operating revenues	$ 1,624,791	$ 1,069,261	$ 4,360,975	$ 2,856,636
Earnings (losses) from unconsolidated affiliates	33,723	11,842	59,304	28,329
Investment income (loss)	738	(733)	12,056	(976)
Total revenues and other income	1,659,252	1,080,370	4,432,335	2,883,989
Costs and other deductions:				
Direct costs	1,030,231	625,561	2,723,714	1,648,289
General and administrative expenses	122,372	87,194	366,478	242,957
Depreciation and amortization	234,834	198,151	686,848	545,084
Depletion	11,789	5,778	18,060	15,646
Interest expense	57,907	66,973	195,570	199,035
Losses (gains) on sales and retirements of long-lived assets and other expense (income), net	(12,157)	9,407	(556)	40,798
Impairments and other charges	98,072	123,099	98,072	123,099
Total costs and other deductions	1,543,048	1,116,163	4,088,186	2,814,908
Income (loss) from continuing operations before income taxes	116,204	(35,793)	344,149	69,081
Income tax expense (benefit):				
Current	17,698	(71,276)	42,142	(40,979)
Deferred	15,552	67,046	65,079	54,133
Total income tax expense (benefit)	33,250	(4,230)	107,221	13,154
Subsidiary preferred stock dividend	750		2,250	
Income (loss) from continuing operations, net of tax	82,204	(31,563)	234,678	55,927
Income (loss) from discontinued operations, net of tax	(7,240)	(7,591)	114,496	(12,921)
Net income (loss)	74,964	(39,154)	349,174	43,006
Less: Net (income) loss attributable to noncontrolling interest	(708)	(453)	355	1,208
Net income (loss) attributable to Nabors	$ 74,256	$ (39,607)	$ 349,529	$ 44,214

Earnings (losses) per share:								
Basic from continuing operations	$	.28	$	(.11)	$	.82	$	.21
Basic from discontinued operations		(.02)		(.03)		.40		(.05)
Total Basic	$	.26	$	(.14)	$	1.22	$	.16
Diluted from continuing operations	$	.28	$	(.11)	$	.80	$	.19
Diluted from discontinued operations		(.03)		(.03)		.39		(.04)
Total Diluted	$	.25	$	(.14)	$	1.19	$	.15
Weighted-average number of common shares outstanding:								
Basic		287,487		285,282		286,971		285,045
Diluted		291,986		285,282		292,991		289,847

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
(In thousands)	**2011**	**2010**
Cash flows from operating activities:		
Net income (loss) attributable to Nabors	$ 349,529	$ 44,214
Adjustments to net income (loss):		
Depreciation and amortization	686,820	547,399
Depletion and other exploratory expenses	31,949	24,587
Deferred income tax expense (benefit)	61,566	53,622
Deferred financing costs amortization	4,000	3,760
Pension liability amortization and adjustments	450	298
Discount amortization on long-term debt	26,546	53,818
Amortization of loss on hedges	695	464
Impairments and other charges	98,072	123,099
Losses (gains) on long-lived assets, net	(40,636)	(3,242)
Losses (gains) on investments, net	(8,567)	4,659
Losses (gains) on debt retirement, net	58	7,042
Losses (gains) on derivative instruments	267	2,473
Gain on acquisition	(12,178)	
Share-based compensation	17,249	10,602
Foreign currency transaction losses (gains), net	743	16,795
Equity in (earnings) losses of unconsolidated affiliates, net of dividends	(135,844)	(14,494)
Changes in operating assets and liabilities:		
Accounts receivable	(283,082)	(140,592)
Inventory	(76,913)	(7,779)
Other current assets	(2,623)	(117,599)
Other long-term assets	79,770	492
Trade accounts payable and accrued liabilities	331,633	40,605
Income taxes payable	(466)	43,458
Other long-term liabilities	(20,904)	(11,547)
Net cash provided by operating activities	1,108,134	682,134
Cash flows from investing activities:		
Purchases of investments	(9,567)	(27,695)
Sales and maturities of investments	24,580	32,103
Cash paid for acquisition of businesses, net	(55,459)	(680,230)
Investment in unconsolidated affiliates	(54,762)	(40,936)
Distribution of proceeds from asset sales from unconsolidated affiliates	142,984	
Capital expenditures	(1,532,597)	(640,953)
Proceeds from sales of assets and insurance claims	110,535	26,084

Net cash used for investing activities	(1,374,286)	(1,331,627)
Cash flows from financing activities:		
Increase (decrease) in cash overdrafts	5,074	(4,649)
Proceeds from issuance of long-term debt	697,578	691,281
Proceeds from issuance of common shares	12,175	5,391
Proceeds from revolving credit facilities	1,300,000	600,000
Debt issuance costs	(6,065)	(7,144)
Reduction in long-term debt	(1,404,271)	(314,353)
Reduction in revolving credit facilities	(700,000)	(600,000)
Repurchase of equity component of convertible debt	(12)	(4,712)
Settlement of call options and warrants, net		1,134
Purchase of restricted stock	(2,579)	(1,904)
Tax benefit related to share-based awards	185	(38)
Net cash (used for) provided by financing activities	(97,915)	365,006
Effect of exchange rate changes on cash and cash equivalents	(2,174)	(3,645)
Net (decrease) increase in cash and cash equivalents	(366,241)	(288,132)
Cash and cash equivalents, beginning of period	641,702	927,815
Cash and cash equivalents, end of period	$ 275,461	$ 639,683

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

		Common Shares		Capital in Excess of	Accumulated Other Comprehensive	Retained	Treasury	Non-controlling	
nds)		**Shares**	**Par Value**	**Par Value**	**Income**	**Earnings**	**Shares**	**Interest**	**E**
December 31,		315,034	$ 315	$ 2,255,787	$ 342,052	$ 3,707,881	$ (977,873)	$ 14,701	$ 5
nsive income									
e (loss) e to Nabors	$ 349,529					349,529			
n adjustment e to Nabors	(47,507)				(47,507)				
gains/(losses) ble securities, me taxes of $19	(26,053)				(26,053)				
assification for ses included in (loss), net of es of $0	(5)				(5)				
bility on, net of income 76	275				275				
gains/(losses) zation of ses on cash flow t of income tax $179	393				393				
nsive income butable to	$ 276,632								
e (loss) e to ling interest	(355)							(355)	
n adjustment e to ling interest	(460)							(460)	

nsive income butable to ling interest	(815)								
prehensive ss)	$ 275,817								
f common shares ptions exercised, ender of d stock options		1,006	1	12,174					
ns from ling interest								(2,159)	
e of equity t of convertible				(12)					
t related to d awards				185					
stock awards,		882	1	(2,580)					
d compensation				17,249					
September 30,		316,922	$ 317	$ 2,282,803	$ 269,155	$ 4,057,410	$ (977,873)	$ 11,727	$ 5

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

		Common Shares		Capital in Excess of	Accumulated Other Comprehensive	Retained	Treasury	Non-controlling	T
nds)		**Shares**	**Par Value**	**Par Value**	**Income**	**Earnings**	**Shares**	**Interest**	**E**
December 31,		313,915	$ 314	$ 2,239,323	$ 292,706	$ 3,613,186	$ (977,873)	$ 14,323	$ 5
nsive income									
e (loss) e to Nabors	$ 44,214					44,214			
n adjustment e to Nabors	19,897				19,897				
l gains/(losses) able securities, me taxes of	(30,508)				(30,508)				
assification t for ses included in e (loss), net of xes of $693	(995)				(995)				
bility on, net of income 11	189				189				
l gains/(losses) zation of ses on cash flow t of income tax $2,178	(3,294)				(3,294)				
nsive income butable to	$ 29,503								
e (loss) e to ling interest	(1,208)							(1,208)	
n adjustment e to ling interest	253							253	

nsive income butable to ling interest	(955)								
prehensive ss)	$ 28,548								
f common shares ptions exercised, ender of d stock options		459		5,391					
ns from ling interest								(867)	
ons to ling interest								437	
e of equity t of convertible				(4,712)					
of call options nts, net				1,134					
t related to d awards				(38)					
stock awards,		360		(1,904)					
ed compensation				10,602					
September 30,		314,734	$ 314	$ 2,249,796	$ 277,995	$ 3,657,400	$ (977,873)	$ 12,938	$ 5

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

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

Nabors is the largest land drilling contractor in the world and one of the largest land well-servicing and workover contractors in the United States and Canada:

We actively market approximately 491 land drilling rigs for oil and gas land drilling operations in the Lower 48 states, Alaska, Canada, South America, Mexico, the Caribbean, the Middle East, the Far East, Russia and Africa.

We actively market approximately 575 rigs for land well-servicing and workover work in the United States and approximately 174 rigs for land well-servicing and workover work in Canada.

We are also a leading provider of offshore platform workover and drilling rigs, and actively market 39 platform, 12 jackup and four barge rigs in the United States, including the Gulf of Mexico, and multiple international markets.

In addition to the foregoing services:

We provide pressure pumping services with over 679,000 hydraulic horsepower in key basins throughout the United States.

We offer a wide range of ancillary well-site services, including engineering, transportation and disposal, construction, maintenance, well logging, directional drilling, rig instrumentation, data collection and other support services in select U.S. and international markets.

We manufacture and lease or sell top drives for a broad range of drilling applications, directional drilling systems, rig instrumentation and data collection equipment, pipeline handling equipment and rig reporting software.

We invest in oil and gas exploration, development and production activities in the United States, Canada and Colombia through both our wholly owned subsidiaries and our oil and gas joint ventures in which we hold 49-50% ownership interests.

We have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets nine rigs in addition to the rigs we lease to the joint venture.

We also provide logistics services for onshore drilling in Canada using helicopters and fixed-wing aircraft.

The majority of our business is conducted through our various Contract Drilling operating segments, which include our drilling, well-servicing, fluid logistics and workover operations, on land and offshore. Our hydraulic fracturing and downhole surveying services are included in our Pressure Pumping operating segment. Our oil and gas exploration, development and production operations are included in our Oil and Gas operating segment. Our operating segments engaged in drilling technology and top drive manufacturing, directional drilling, rig instrumentation and software, and construction and logistics operations are aggregated in our Other Operating Segments.

On September 10, 2010, we acquired Superior Well Services, Inc. (Superior). The effects of the Superior acquisition and the related operating results are included in the accompanying unaudited consolidated financial statements beginning on the acquisition date, and are reflected in the operating segment titled Pressure Pumping.

Unless the context requires otherwise, references in this report to we, us, our, or Nabors mean Nabors Industries Lt together with our subsidiaries where the context requires, including Nabors Industries, Inc., a Delaware corporation (Nabors Delaware).

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies

Interim Financial Information

The unaudited consolidated financial statements of Nabors are prepared in conformity with accounting principles generally accepted in the United States (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 along with our annual report on Form 10-K for the year ended December 31, 2010 (2010 Annual Report). In management s opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2011 and the results of our operations for the three and nine months ended September 30, 2011 and 2010, and our cash flows and changes in equity for the nine months ended September 30, 2011 and 2010, in accordance with GAAP. Interim results for the three and nine months ended September 30, 2011 may not be indicative of results that will be realized for the full year ending December 31, 2011.

Our independent registered public accounting firm has reviewed and issued a report on these consolidated interim financial statements in accordance with standards established by the Public Company Accounting Oversight Board. Pursuant to Rule 436(c) under the Securities Act of 1933, as amended (the Securities Act), this report should not be considered a part of any registration statement prepared or certified within the meanings of Sections 7 and 11 of such Act.

Principles of Consolidation

Our 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. Our consolidated financial statements exclude majority owned entities for which we do not have either (i) the ability to control the operating and financial decisions and policies of that entity or (ii) a controlling financial interest in a variable interest entity. 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 consolidated statements of income (loss), and our investment in these entities is included as a single amount in our consolidated balance sheets. Investments in unconsolidated affiliates accounted for using the equity method totaled $320.5 million and $265.8 million and investments in unconsolidated affiliates accounted for using the cost method totaled $2.5 million and $1.9 million, respectively, as of September 30, 2011 and December 31, 2010. At September 30, 2011 and December 31, 2010, assets held for sale included investments in unconsolidated affiliates accounted for using the equity method totaling $13.6 million and $79.5 million, respectively. See Note 11 Discontinued Operations for additional information.

We have investments in offshore funds, which are classified as long-term investments and are accounted for using the equity method of accounting based on our ownership interest in each fund.

Goodwill

Goodwill represents the cost in excess of fair value of the net assets of companies acquired. We review goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying amount of the reporting unit exceeds its fair value. The

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

table below reflects the change in the carrying amount of goodwill for our various Contract Drilling segments and our other segments for the nine months ended September 30, 2011:

	Balance as of December 31, 2010	Acquisitions and Purchase Price Adjustments	Impairments	Cumulative Translation Adjustment	Balance as of September 30, 2011
			(In thousands)		
Contract Drilling:					
U.S. Lower 48 Land Drilling	$ 30,154	$	$	$	$ 30,154
U.S. Land Well-servicing	55,839	(767)			55,072
U.S. Offshore	7,296				7,296
Alaska	19,995				19,995
International	18,983				18,983
Subtotal Contract Drilling	132,267	(767)			131,500
Pressure Pumping	334,992				334,992
Other Operating Segments	27,113	8,386(1)		(694)	34,805
Total	$ 494,372	$ 7,619	$	$ (694)	$ 501,297

(1) Represents goodwill recorded during the three months ended September 30, 2011 relating to our acquisition of the remaining 50 percent equity interest of Peak Oilfield Service Company (Peak). The goodwill is attributable to Peak s workforce and the synergies and benefits expected from control of this subsidiary. The goodwill is not expected to be deductible for tax purposes. See Note 10 Supplemental Balance Sheet, Income Statement and Cash Flow Information for additional information on this acquisition.

Long-lived assets

We review our long-lived assets for impairment annually or when events or changes in circumstances indicate that the carrying amounts of property, plant and equipment may not be recoverable. An impairment loss is recorded in the period in which it is determined that the sum of estimated future cash flows, on an undiscounted basis, is less than the carrying amount of the long-lived asset. During 2011 and 2010, our annual review for long-lived asset impairment was performed during the quarter ended September 30. In addition, we review our long-lived assets for obsolence. See Note 10 Supplemental Balance Sheet, Income Statement and Cash Flow Information for additional information.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to clarify the application of some of the existing fair value measurement and disclosure requirements. These changes are effective for interim and annual periods that begin after December 15, 2011. We are currently evaluating the impact on our consolidated financial statements.

In June 2011, the FASB issued an ASU relating to the presentation of other comprehensive income (OCI). This ASU does not change the items that are reported in OCI, but does remove the option to present the components of OCI within the statement of changes in equity. In addition, this ASU will require OCI presentation on the face of the financial statements. These changes are effective for interim and annual periods that begin after December 15, 2011, and are applied retrospectively to all periods presented. Early adoption is permitted. We are currently evaluating the impact that this ASU may have on our consolidated financial statements.

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2011, the FASB issued a revised ASU relating to goodwill impairment tests. An entity is allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value is less than its carrying amount. The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We are currently evaluating the impact that this ASU may have on our consolidated financial statements.

Note 3 Cash and Cash Equivalents and Investments

Our cash and cash equivalents, short-term and long-term investments and other receivables consisted of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Cash and cash equivalents	$ 275,461	$ 641,702
Short-term investments:		
Trading equity securities	11,576	19,630
Available-for-sale equity securities	56,654	79,698
Available-for-sale debt securities	51,629	60,160
Total short-term investments	119,859	159,488
Long-term investments and other receivables	40,373	40,300
Total	$ 435,693	$ 841,490

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain information related to our cash and cash equivalents and short-term investments follows:

	September 30, 2011			December 31, 2010		
	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
	(In thousands)					
Cash and cash equivalents	$ 275,461	$	$	$ 641,702	$	$
Short-term investments:						
Trading equity securities	11,576	5,852		19,630	13,906	
Available-for-sale equity securities	56,654	16,065	(3,207)	79,698	38,176	(2,274)
Available-for-sale debt securities:						
Commercial paper and CDs	1,160			1,275		
Corporate debt securities	44,600	14,421	(2,187)	52,022	15,274	(18)
Mortgage-backed debt securities	367	19		372	16	
Mortgage-CMO debt securities	2,797	31	(3)	3,015	21	(6)
Asset-backed debt securities	2,705		(253)	3,476		(268)
Total available-for-sale debt securities	51,629	14,471	(2,443)	60,160	15,311	(292)
Total available-for-sale securities	108,283	30,536	(5,650)	139,858	53,487	(2,566)
Total short-term investments	119,859	36,388	(5,650)	159,488	67,393	(2,566)
Total cash, cash equivalents and short-term investments	$ 395,320	$ 36,388	$ (5,650)	$ 801,190	$ 67,393	$ (2,566)

Certain information related to the gross unrealized losses of our cash and cash equivalents and short-term investments follows:

As of September 30, 2011

	Less Than 12 Months		More Than 12 Months	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(In thousands)			
Available-for-sale equity securities	$ 24,874	$ 3,207	$	$
Available-for-sale debt securities:(1)				
Corporate debt securities	17,600	2,187		
Mortgage-CMO debt securities			105	3
Asset-backed debt securities			2,705	253
Total available-for-sale debt securities	17,600	2,187	2,810	256
Total	$ 42,474	$ 5,394	$ 2,810	$ 256

(1) Our unrealized losses on available-for-sale debt securities held for more than one year are comprised of various types of securities. Each of these securities has a rating ranging from A to AAA from

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Standard & Poor s and ranging from A2 to Aaa from Moody s Investors Service and is considered of high credit quality. In each case, we do not intend to sell these investments, and it is less likely than not that we will be required to sell them to satisfy our own cash flow and working capital requirements. We believe that we will be able to collect all amounts due according to the contractual terms of each investment and, therefore, did not consider the decline in value of these investments to be other-than-temporary at September 30, 2011.

The estimated fair values of our corporate, mortgage-backed, mortgage-CMO and asset-backed debt securities at September 30, 2011, classified by time to contractual maturity, are shown below. Expected maturities differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties and we may elect to sell the securities prior to the contractual maturity date.

	Estimated Fair Value September 30, 2011 (In thousands)
Debt securities:	
Due in one year or less	$ 1,160
Due after one year through five years	
Due in more than five years	50,469
Total debt securities	$ 51,629

Certain information regarding our debt and equity securities is presented below:

	Nine Months Ended September 30, (In thousands)	
	2011	2010
Available-for-sale:		
Proceeds from sales and maturities	$ 1,124	$ 12,590
Realized gains (losses), net	(5)	3,647

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Fair Value Measurements

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2011. 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 months ended September 30, 2011, there were no transfers of our financial assets and liabilities between Level 1 and 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.

Recurring Fair Value Measurements

	Fair Value as of September 30, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Short-term investments:				
Available-for-sale equity securities energy industry	$ 56,654	$	$	$ 56,654
Available-for-sale debt securities				
Commercial paper and CDs	1,160			1,160
Corporate debt securities		44,600		44,600
Mortgage-backed debt securities		367		367
Mortgage-CMO debt securities		2,797		2,797
Asset-backed debt securities	2,705			2,705
Trading securities energy industry	11,576			11,576
Total short-term investments	$ 72,095	$ 47,764	$	$ 119,859
Liabilities:				
Derivative contract	$	$ 1,900	$	$ 1,900

Nonrecurring Fair Value Measurements

Fair value measurements were applied with respect to our nonfinancial assets and liabilities measured on a nonrecurring basis, which would consist of measurements primarily to goodwill, oil and gas financing receivables, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination, and asset retirement obligations.

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Financial Instruments

The fair value of our financial instruments has been estimated in accordance with GAAP. The fair value of our long-term debt and subsidiary preferred stock is estimated based on quoted market prices or prices quoted from third-party financial institutions. The carrying and fair values of these liabilities were as follows:

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
5.375% senior notes due August 2012(1)	$ 274,448	$ 284,952	$ 273,977	$ 291,500
6.15% senior notes due February 2018	967,186	1,078,984	966,276	1,041,008
9.25% senior notes due January 2019	1,125,000	1,438,864	1,125,000	1,393,943
5.00% senior notes due September 2020	697,266	721,070	697,037	678,335
4.625% senior notes due September 2021	697,607	687,253		
0.94% senior exchangeable notes due May 2011			1,378,178	1,403,315
Subsidiary preferred stock	69,188	68,625	69,188	68,625
Revolving credit facilities	600,000	600,000		
Other	1,853	1,853	2,676	2,676
	$ 4,432,548	$ 4,881,601	$ 4,512,332	$ 4,879,402

(1) Includes $.4 million and $.7 million as of September 30, 2011 and December 31, 2010, respectively, related to the unamortized loss on an interest rate swap that was unwound during the fourth quarter of 2005.

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.

As of September 30, 2011, our short-term investments were carried at fair market value and included $108.3 million and $11.6 million in securities classified as available-for-sale and trading, respectively. As of December 31, 2010, our short-term investments were carried at fair market value and included $139.9 million and $19.6 million in securities classified as available-for-sale and trading, respectively. The carrying value of our long-term investments that are accounted for using the equity method of accounting approximates fair value. The fair value of these long-term investments totaled $6.0 million and $7.4 million as of September 30, 2011 and December 31, 2010, respectively. The carrying value of our oil and gas financing receivables included in long-term investments approximates fair value. The carrying value of our oil and gas financing receivables totaled $34.4 million and $32.9 million as of September 30, 2011 and December 31, 2010, respectively. Income and gains associated with our oil and gas financing receivables are recognized as operating revenues.

Note 5 Share-Based Compensation

We have several share-based employee compensation plans, which are more fully described in Note 6 Share-Based Compensation to the audited financial statements included in our 2010 Annual Report.

Total share-based compensation expense, which includes both stock options and restricted stock, totaled $9.0 million and $3.6 million for the three months ended September 30, 2011 and 2010, respectively, and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$17.2 million and $10.6 million for the nine months ended September 30, 2011 and 2010, respectively. Total share-based compensation is included in direct costs and general and administrative expenses in our consolidated statements of income (loss). Share-based compensation expense has been allocated to our various operating segments. See Note 12 Segment Information.

During the nine months ended September 30, 2011 and 2010, we awarded 1,049,540 and 475,667 shares of restricted stock, respectively, vesting over periods up to four years, to our employees and directors. These awards had an aggregate value at their grant date of $29.3 million and $10.6 million, respectively. The fair value of restricted stock that vested during the nine months ended September 30, 2011 and 2010 was $18.6 million and $23.0 million, respectively.

During the nine months ended September 30, 2011 and 2010, we awarded options, vesting over periods up to four years, to purchase 755,166 and 27,907, respectively, of our common shares to our employees and directors. The fair value of stock options granted during the nine months ended September 30, 2011 and 2010, respectively, was calculated using the Black-Scholes option pricing model and the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2011	**2010**
Weighted-average fair value of options granted	$ 6.53	$ 6.27
Weighted-average risk free interest rate	.66%	1.49%
Dividend yield	0%	0%
Volatility(1)	51.0%	40.62%
Expected life	4.0 years	4.0 years

(1) Expected volatilities were based on implied volatilities from publicly traded options to purchase Nabors common shares, historical volatility of Nabors common shares and other factors

The total intrinsic value of stock options exercised during the nine months ended September 30, 2011 and 2010 was $15.8 million and $4.0 million, respectively. The total fair value of stock options that vested during the nine months ended September 30, 2011 and 2010 was $5.2 million and $5.6 million, respectively.

Nabors Industries Ltd. and Subsidiaries

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Note 6 Debt

Long-term debt consists of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
5.375% senior notes due August 2012	$ 274,448	$ 273,977
6.15% senior notes due February 2018	967,186	966,276
9.25% senior notes due January 2019	1,125,000	1,125,000
5.00% senior notes due September 2020	697,266	697,037
4.625% senior notes due September 2021	697,607	
0.94% senior exchangeable notes due May 2011		1,378,178
Revolving credit facilities	600,000	
Other	1,853	2,676
	4,363,360	4,443,144
Less: current portion	275,227	1,379,018
	$ 4,088,133	$ 3,064,126

$700 million Senior Notes due September 2021

On August 23, 2011, Nabors Delaware completed a private placement of $700 million aggregate principal amount of 4.625% senior notes due 2021, which are unsecured and fully and unconditionally guaranteed by us. The notes are subject to registration rights. The notes were resold by the initial purchasers to qualified institutional buyers under Rule 144A and to certain investors outside of the United States under Regulation S of the Securities Act. The notes pay interest semiannually on March 15 and September 15, beginning on March 15, 2012, and will mature on September 15, 2021.

The notes rank equal in right of payment to all of Nabors Delaware s other existing and future senior unsubordinated indebtedness, and senior in right of payment to all of Nabors Delaware s existing and future senior subordinated and subordinated indebtedness. Our guarantee of the notes is unsecured and ranks equal in right of payments to all of our unsecured and unsubordinated indebtedness from time to time outstanding. The indenture governing the notes includes covenants customary for transactions of this type that, subject to significant exceptions, limit the ability of us and our subsidiaries to, among other things, incur certain liens and enter into sale and leaseback transactions. In the event of a change of control triggering event, as defined in the indenture, the holders of the notes may require Nabors Delaware to purchase all or a portion of the notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any. The notes are redeemable in whole or in part at any time at the option of Nabors Delaware at a redemption price, plus accrued and unpaid interest, as specified in the indenture. Nabors Delaware used a portion of the proceeds to pay back borrowings on our revolving credit facilities and for other general corporate purposes.

Senior Exchangeable Notes

On May 16, 2011, the remaining aggregate principal amount of $1.4 billion of our 0.94% senior exchangeable notes matured and we redeemed them with $1.2 billion of borrowings under our revolving credit facilities and available cash.

Revolving Credit Facilities

As of September 30, 2011, we had $800 million of remaining availability from a combined total of $1.4 billion under our existing revolving credit facilities. The existing revolving credit facilities mature in

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 2014, and can be used for general corporate purposes, including capital expenditures and working capital. The weighted average interest rate on current borrowings was 1.8%. We fully and unconditionally guarantee the obligations under all of these credit facilities.

Nabors Delaware has two senior unsecured revolving credit facilities, which total $1.35 billion, and, as of September 30, 2011, $550 million had been utilized. A third unsecured revolving credit facility for $50 million exists with one of our other subsidiaries and, as of September 30, 2011, had been fully utilized. We have the option to increase the aggregate principal amount of commitments by an additional $200 million by either adding new lenders to these facilities or by requesting existing lenders under the facilities to increase their commitments (in each case with the consent of the new lenders or the increasing lenders).

Borrowings under the senior unsecured revolving credit facilities bear interest, at Nabors Delaware s option, for either (x) the Base Rate (as defined below) plus the applicable interest margin, calculated on the basis of the actual number of days elapsed in a year of 365 days and payable quarterly in arrears or (y) interest periods of one, two, three or six months at an annual rate equal to the LIBOR for the corresponding deposits of U.S. dollars, plus the applicable interest margin. The Base Rate is defined, for any day, as a fluctuating rate per annum equal to the highest of (i) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of 1%, (ii) the prime commercial lending rate of the administrative agent, as established from time to time and (iii) LIBOR for an interest period of one month beginning on such day plus 1%.

The revolving credit facilities contain various covenants and restrictive provisions which 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 each agreement. We were in compliance with all covenants under the agreement at September 30, 2011. If we should 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.

Note 7 Common Shares

During the nine months ended September 30, 2011 and 2010, our employees exercised vested options to acquire 1.0 million and .5 million of our common shares, resulting in proceeds of $12.2 million and $5.4 million, respectively. For the each of the nine months ended September 30, 2011 and 2010, we withheld .1 million of our common shares with a fair value of $2.6 million and $1.9 million, respectively, to satisfy tax withholding obligations in connection with the vesting of stock awards.

During the nine months ended September 30, 2010, our outstanding share count increased by 103,925 due to share settlements of stock options exercised by our Chairman and then Chief Executive Officer, Eugene M. Isenberg, and our Deputy Chairman, President and then Chief Operating Officer, Anthony G. Petrello. As part of these transactions, unexercised vested stock options were surrendered to Nabors with a value of approximately $5.9 million to satisfy the option exercise price and related income taxes.

Note 8 Commitments and Contingencies

Commitments

Employment Contracts

The employment agreements for each of Messrs. Isenberg and Petrello provide for an extension of the employment term through March 30, 2013, with automatic one-year extensions beginning April 1, 2011, unless either party gives notice of nonrenewal.

In the event of Mr. Isenberg s Termination Without Cause (including in the event of a change of control), or his death or disability, either he or his estate would be entitled to receive a payment of $100 million within 30 days thereafter.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the event of Mr. Petrello s death or disability, either he or his estate would be entitled to receive a payment of $50 million within 30 days; if he experienced a Termination Without Cause (a change of control) or Constructive Termination Without Cause, either he or his estate would be entitled to a payment equal to three times the average of his base salary and annual bonus (calculated as though the bonus formula under his employment agreement as amended in April 2009 had been in effect) during the three fiscal years preceding the termination. If, by way of example, Mr. Petrello were Terminated Without Cause subsequent to September 30, 2011, his payment would be approximately $34 million. The formula will be further reduced to two times the average stated above effective April 1, 2015.

As of September 30, 2011, we do not have insurance to cover, and we have not recorded an expense or accrued a liability relating to, these potential obligations. See Note 17 Commitments and Contingencies to our 2010 Annual Report for additional discussion and description of Messrs. Isenberg and Petrello s employment agreements. See Note 14 Subsequent Event for discussion of recent developments related to the potential obligation to Mr. Isenberg.

Contingencies

Income Tax Contingencies

We are subject to income taxes in the United States and numerous other jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are regularly audited by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than what is reflected in income tax provisions and accruals. An audit or litigation could materially affect our financial position, income tax provision, net income, or cash flows in the period or periods challenged.

It is possible that future changes to tax laws (including tax treaties) could impact our ability to realize the tax savings recorded to date as well as future tax savings, resulting from our 2002 corporate reorganization. See Note 12 Income Taxes to our 2010 Annual Report for additional discussion.

On September 14, 2006, Nabors Drilling International Limited, one of our wholly owned Bermuda subsidiaries (NDIL), received a Notice of Assessment from Mexico s federal tax authorities in connection with the audit of NDIL s Mexico branch for 2003. The notice proposes to deny depreciation expense deductions relating to drilling rigs operating in Mexico in 2003. The notice also proposes to deny a deduction for payments made to an affiliated company for the procurement of labor services in Mexico. The amount assessed was approximately $19.8 million (including interest and penalties). Nabors and its tax advisors previously concluded that the deductions were appropriate and more recently that the government s position lacks merit. NDIL s Mexico branch took similar deductions for depreciation and labor expenses from 2004 to 2008. On June 30, 2009, the government proposed similar assessments against the Mexico branch of another wholly owned Bermuda subsidiary, Nabors Drilling International II Ltd. (NDIL II) for 2006. We anticipate that a similar assessment will eventually be proposed against NDIL for 2005 through 2008 and against NDIL II for 2007 to 2010. We believe that the potential assessments will range from $6 million to $26 million per year for the period from 2005 to 2009, and in the aggregate, would be approximately $90 million to $95 million. Although we believe that any assessments related to the 2003 and 2005 to 2010 years lack merit, a reserve has been recorded in accordance with GAAP. The statute of limitations for NDIL s

2004 tax year expired. Accordingly, during the fourth quarter of 2010, we released $7.4 million from our tax reserves, which represented the reserve recorded for that tax year. If these additional assessments were made and we ultimately did not prevail, we would be required to recognize additional tax for the amount in excess of the current reserve.

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Self-Insurance

We estimate the level of our liability related to insurance and record reserves for these amounts in our 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. 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.

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 reasonably 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 consolidated financial position or cash flows, although they could have a material adverse effect on our results of operations for a particular reporting period.

On July 5, 2007, we received an inquiry from the U.S. Department of Justice relating to its investigation of one of our vendors and compliance with the Foreign Corrupt Practices Act. The inquiry relates to transactions with and involving Panalpina, which provided freight forwarding and customs clearance services to some of our affiliates. To date, the inquiry has focused on transactions in Kazakhstan, Saudi Arabia, Algeria and Nigeria. The Audit Committee of our Board of Directors has engaged outside counsel to review some of our transactions with this vendor, has received periodic updates at its regularly scheduled meetings, and the Chairman of the Audit Committee has received updates between meetings as circumstances warrant. The investigation includes a review of certain amounts paid to and by Panalpina in connection with obtaining permits for the temporary importation of equipment and clearance of goods and materials through customs. Both the SEC and the Department of Justice have been advised of our investigation. The ultimate outcome of this investigation or the effect of implementing any further measures that may be necessary to ensure full compliance with applicable laws cannot be determined at this time.

A court in Algeria entered a judgment of approximately $19.7 million against us related to alleged customs infractions in 2009. We believe we did not receive proper notice of the judicial proceedings, and that the amount of the judgment is excessive. We have asserted the lack of legally required notice as a basis for challenging the judgment on appeal to the Algeria Supreme Court. Based upon our understanding of applicable law and precedent, we believe that this challenge will be successful. We do not believe that a loss is probable and have not accrued any amounts related to this matter. However, the ultimate resolution and the timing thereof are uncertain. If we are ultimately required to pay a fine or judgment related to this matter, the amount of the loss could range from approximately $140,000 to $19.7 million.

In August 2010, Nabors and its wholly owned subsidiary, Diamond Acquisition Corp. (Diamond), were sued in three putative shareholder class actions relating to the Superior acquisition. The complaints sought injunctive relief, including an injunction against the consummation of the Superior acquisition, monetary damages, and attorney s fees and costs. Two of the cases were dismissed. The remaining case, *Jordan Denney,*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Individually and on Behalf of All Others Similarly Situated v. David E. Wallace, et al., Civil Action No. 10-1154, in the United States District Court for the Western District of Pennsylvania, was settled, and the Court approved the settlement in September 2011. Superior s insurers paid $475,000 in attorneys fees in full settlement.

In March 2011, the Court of Ouargla (in Algeria), sitting at first instance, entered a judgment of approximately $39.1 million against NDIL 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 NDIL 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, and is not payable pending appeal. 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 has upheld the lower court s ruling, and we have appealed the matter to the Algeria Supreme Court. While our payments were consistent with our historical operations in the country, and, we believe, those of other multinational corporations there, and interpretations of the law by the Central Bank of Algeria, the ultimate resolution of this matter could result in a loss of up to $31.1 million in excess of amounts accrued.

On September 21, 2011, we received an informal inquiry from the SEC related to perquisites and personal benefits received by the officers and directors of Nabors, including their use of non-commercial aircraft. Our Audit Committee and Board of Directors have been apprised of this inquiry and we are cooperating with the SEC. The ultimate outcome of this process cannot be determined at this time.

Off-Balance Sheet Arrangements (Including Guarantees)

We are a party to 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				
	Remainder of 2011	2012	2013	Thereafter	Total
	(In thousands)				
	$ 35,563	$ 78,009	$	$	$ 113,572

Financial standby letters of credit and other financial surety instruments

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Note 9 Earnings (Losses) Per Share

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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(In thousands, except per share amounts)			
Net income (loss) (numerator):				
Income (loss) from continuing operations, net of tax	$ 82,204	$ (31,563)	$ 234,678	$ 55,927
Less: net (income) loss attributable to noncontrolling interest	(708)	(453)	355	1,208
Adjusted income (loss) from continuing operations, net of tax basic	81,496	(32,016)	235,033	57,135
Add: interest expense on assumed conversion of our 0.94% senior exchangeable notes due 2011, net of tax(1)				
Adjusted net income (loss) from continuing operations, net of tax diluted	$ 81,496	$ (32,016)	$ 235,033	$ 57,135
Earnings (losses) per share:				
Basic from continuing operations	$ .28	$ (.11)	$ .82	$ .21
Diluted from continuing operations	$ .28	$ (.11)	$ .80	$ .19
Income (loss) from discontinued operations, net of tax	$ (7,240)	$ (7,591)	$ 114,496	$ (12,921)
Earnings (losses) per share:				
Basic from discontinued operations	$ (.02)	$ (.03)	$ .40	$ (.05)
Diluted from discontinued operations	$ (.03)	$ (.03)	$ .39	$ (.04)
Shares (denominator):				
Weighted-average number of shares outstanding basic	287,487	285,282	286,971	285,045
Net effect of dilutive stock options, warrants and restricted stock awards based on the if-converted method	4,499		6,020	4,802
Assumed conversion of our 0.94% senior exchangeable notes due 2011(1)				

Weighted-average number of shares outstanding diluted	291,986	285,282	292,991	289,847

(1) In May 2011, the remaining aggregate principal amount of our 0.94% senior exchangeable notes matured and we redeemed them with $1.2 billion of borrowings under our revolving credit facilities and available cash. Diluted earnings (losses) per share for the three and nine months ended September 30, 2010 exclude any incremental shares that would have been issuable upon exchange of these notes based on a calculation using our stock price. Our stock price did not exceed the threshold during the period ending September 30, 2010.

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For all periods presented, the computation of diluted earnings (losses) per share excludes outstanding stock options and warrants with exercise prices greater than the average market price of our common shares, because their inclusion would be anti-dilutive and because they are not considered participating securities. The average number of options and warrants that were excluded from diluted earnings (losses) per share that would potentially dilute earnings per share in the future was 10,271,673 and 32,543,395 shares during the three months ended September 30, 2011 and 2010, respectively, and 7,678,536 and 14,108,644 shares during the nine months ended September 30, 2011 and 2010, respectively. In any period during which the average market price of our common shares exceeds the exercise prices of these stock options and warrants, such stock options and warrants will be included in our diluted earnings (losses) per share computation using the if-converted method of accounting. Restricted stock will be 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 10 Supplemental Balance Sheet, Income Statement and Cash Flow Information

Accrued liabilities include the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Accrued compensation	$ 147,122	$ 116,680
Deferred revenue	131,695	88,389
Other taxes payable	67,222	25,227
Workers compensation liabilities	21,489	31,944
Interest payable	39,456	89,276
Due to joint venture partners	6,041	6,030
Warranty accrual	4,422	3,376
Litigation reserves	24,513	12,301
Professional fees	5,567	3,222
Current deferred tax liability		1,027
Other accrued liabilities	12,416	16,820
	$ 459,943	$ 394,292

Investment income (loss) includes the following:

	Nine Months Ended September 30, 2011	2010
	(In thousands)	

Interest and dividend income	$ 5,338	$ 5,525
Gains (losses) on investments, net(1)	6,718(2)	(6,501)
	$ 12,056	$ (976)

(1) Includes unrealized losses of $8.1 million and $10.1 million, respectively, from our trading securities.

(2) Includes $12.9 million realized gain related to one of our overseas fund investments classified as long-term investments, partially offset by unrealized losses discussed above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Losses (gains) on sales and retirements of long-lived assets and other expense (income), net includes the following: