NABORS INDUSTRIES LTD
Form 10-Q
November 10, 2014

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, 2014

Commission File Number: 001-32657

NABORS INDUSTRIES LTD.

(Exact name of registrant as specified in its charter)

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

Crown House

Second Floor

4 Par-la-Ville Road

Hamilton, HM08

Bermuda

(Address of principal executive office)

(441) 292-1510

(Registrant s telephone number, including area code)

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 x NO o

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 x 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 x	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 x

The number of common shares, par value $.001 per share, outstanding as of November 5, 2014 was 289,439,033.

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

Index

2

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 404,453	$ 389,915
Short-term investments	60,365	117,218
Assets held for sale	158,327	243,264
Accounts receivable, net	1,624,441	1,399,543
Inventory	242,876	209,793
Deferred income taxes	91,837	121,316
Other current assets	210,172	272,781
Total current assets	2,792,471	2,753,830
Long-term investments and other receivables	2,568	3,236
Property, plant and equipment, net	9,016,508	8,597,813
Goodwill	512,203	512,964
Investment in unconsolidated affiliates	60,451	64,260
Other long-term assets	235,139	227,708
Total assets	$ 12,619,340	$ 12,159,811
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt	$ 196	$ 10,185
Trade accounts payable	693,931	545,512
Accrued liabilities	702,508	697,093
Income taxes payable	18,946	58,634
Total current liabilities	1,415,581	1,311,424
Long-term debt	4,255,136	3,904,117
Other long-term liabilities	596,968	377,744
Deferred income taxes	478,421	516,161
Total liabilities	6,746,106	6,109,446
Commitments and contingencies (Note 9)		
Subsidiary preferred stock		69,188
Equity:		
Shareholders equity:		
Common shares, par value $0.001 per share:		
Authorized common shares 800,000; issued 328,230 and 323,711, respectively	328	324
Capital in excess of par value	2,443,381	2,392,585
Accumulated other comprehensive income (Revised)	132,222	216,140

Retained earnings (Revised)		4,481,606		4,304,664
Less: treasury shares, at cost, 38,788 and 28,414 common shares, respectively		(1,194,664)		(944,627)
Total shareholders equity		5,862,873		5,969,086
Noncontrolling interest		10,361		12,091
Total equity		5,873,234		5,981,177
Total liabilities and equity	$	12,619,340	$	12,159,811

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

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

(In thousands, except per share amounts)	**Three Months Ended September 30, 2014**	**2013**	**Nine Months Ended September 30, 2014**	**2013**
Revenues and other income:				
Operating revenues	$ 1,813,762	$ 1,551,593	$ 5,020,361	$ 4,545,037
Earnings (losses) from unconsolidated affiliates	(2,851)	(2,628)	(5,872)	1,627
Investment income (loss)	2,189	1,229	10,235	95,471
Total revenues and other income	1,813,100	1,550,194	5,024,724	4,642,135
Costs and other deductions:				
Direct costs	1,181,986	981,685	3,310,220	2,948,987
General and administrative expenses	138,967	127,943	406,863	390,023
Depreciation and amortization	286,581	273,444	851,528	809,019
Interest expense	43,138	56,059	134,251	176,343
Losses (gains) on sales and disposals of long-lived assets and other expense (income), net	(1,513)	3,266	16,467	27,245
Impairments and other charges		242,241		287,241
Total costs and other deductions	1,649,159	1,684,638	4,719,329	4,638,858
Income (loss) from continuing operations before income tax	163,941	(134,444)	305,395	3,277
Income tax expense (benefit):				
Current	72,371	(32,316)	93,606	(2,106)
Deferred	(10,860)	(12,368)	(7,331)	(26,692)
Total income tax expense (benefit)	61,511	(44,684)	86,275	(28,798)
Subsidiary preferred stock dividend		750	1,984	2,250
Income (loss) from continuing operations, net of tax	102,430	(90,510)	217,136	29,825
Income (loss) from discontinued operations, net of tax	4,005	(14,430)	4,488	(34,292)
Net income (loss)	106,435	(104,940)	221,624	(4,467)
Less: Net (income) loss attributable to noncontrolling interest	(387)	(441)	(1,213)	(6,154)
Net income (loss) attributable to Nabors	$ 106,048	$ (105,381)	$ 220,411	$ (10,621)
Earnings (losses) per share:				
Basic from continuing operations	$ 0.34	$ (0.30)	$ 0.72	$ 0.08
Basic from discontinued operations	0.02	(0.05)	0.02	(0.11)
Total Basic	$ 0.36	$ (0.35)	$ 0.74	$ (0.03)
Diluted from continuing operations	$ 0.34	$ (0.30)	$ 0.71	$ 0.08
Diluted from discontinued operations	0.01	(0.05)	0.02	(0.11)
Total Diluted	$ 0.35	$ (0.35)	$ 0.73	$ (0.03)
Weighted-average number of common shares outstanding:				
Basic	292,621	295,076	292,613	293,837
Diluted	295,005	295,076	295,353	296,208

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

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)	**Three Months Ended September 30, 2014**	**2013**	**Nine Months Ended September 30, 2014**	**2013**
Net income (loss) attributable to Nabors	$ 106,048	$ (105,381)	$ 220,411	$ (10,621)
Other comprehensive income (loss), before tax:				
Translation adjustment attributable to Nabors	(41,713)	15,716	(46,052)	(36,853)
Unrealized gains/(losses) on marketable securities:				
Unrealized gains/(losses) on marketable securities	(15,054)	(3,416)	(34,587)	1,586
Less: reclassification adjustment for (gains)/losses on marketable securities	267	(2)	(4,636)	(88,159)
Unrealized gains/(losses) on marketable securities	(14,787)	(3,418)	(39,223)	(86,573)
Pension liability amortization and adjustment	123	280	369	842
Unrealized gains/(losses) and amortization of cash flow hedges	153	153	459	459
Other comprehensive income (loss), before tax	(56,224)	12,731	(84,447)	(122,125)
Income tax expense (benefit) related to items of other comprehensive income (loss)	107	116	(529)	(2,161)
Other comprehensive income (loss), net of tax	(56,331)	12,615	(83,918)	(119,964)
Comprehensive income (loss) attributable to Nabors	49,717	(92,766)	136,493	(130,585)
Net income (loss) attributable to noncontrolling interest	387	441	1,213	6,154
Translation adjustment attributable to noncontrolling interest	(522)	229	(624)	(572)
Comprehensive income (loss) attributable to noncontrolling interest	(135)	670	589	5,582
Comprehensive income (loss)	$ 49,582	$ (92,096)	$ 137,082	$ (125,003)

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

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 221,624	$ (4,467)
Adjustments to net income (loss):		
Depreciation and amortization	851,605	820,898
Depletion and other oil and gas expense	2,110	22,235
Deferred income tax expense (benefit)	(4,888)	(31,535)
Impairment and other charges		71,322
Losses on debt extinguishment	3,212	211,981
Losses (gains) on long-lived assets, net	(12,066)	12,254
Losses (gains) on investments, net	(4,930)	(90,635)
Share-based compensation	28,141	45,898
Foreign currency transaction losses (gains), net	3,416	7,021
Equity in (earnings) losses of unconsolidated affiliates, net of dividends	3,527	(1,263)
Other	(2,924)	(1,188)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(229,161)	(21,568)
Inventory	(34,987)	20,220
Other current assets	74,249	5,572
Other long-term assets	8,791	34,435
Trade accounts payable and accrued liabilities	168,801	11,271
Income taxes payable	(50,904)	(53,846)
Other long-term liabilities	218,728	(83,890)
Net cash provided by operating activities	1,244,344	974,715
Cash flows from investing activities:		
Purchases of investments	(319)	
Sales and maturities of investments	23,580	163,944
Proceeds from sales of unconsolidated affiliate		10,000
Cash paid for acquisition of businesses, net	(10,200)	(37,516)
Investment in unconsolidated affiliates	(2,061)	(5,967)
Capital expenditures	(1,344,222)	(780,711)
Proceeds from sales of assets and insurance claims	129,825	139,254
Other	(3,931)	(7)
Net cash used for investing activities	(1,207,328)	(511,003)
Cash flows from financing activities:		
Increase (decrease) in cash overdrafts	(3,867)	(7,497)
Proceeds from (payments for) issuance of common shares	30,240	4,375
Dividends paid to shareholders	(41,781)	(35,357)
Proceeds from long-term debt	15,000	710,086
Reduction in short-term debt	(10,000)	
Debt issuance costs		(3,505)
Reduction in long-term debt	(40,098)	(994,181)
Proceeds from (payment for) commercial paper, net	441,530	332,250
Purchase of preferred stock	(70,875)	
Purchase of treasury stock	(250,037)	

Reduction in revolving credit facilities		(70,000)		(590,000)
Other		(7,581)		(3,096)
Net cash used for financing activities		(7,469)		(586,925)
Effect of exchange rate changes on cash and cash equivalents		(15,009)		(5,786)
Net increase (decrease) in cash and cash equivalents		14,538		(128,999)
Cash and cash equivalents, beginning of period		389,915		524,922
Cash and cash equivalents, end of period	$	404,453	$	395,923

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

Table of Contents

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN 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, 2012 (As previously reported)	318,813	$ 319	$ 2,337,244	$ 431,595	$ 4,120,398	$ (944,627)	$ 12,188	$ 5,957,117
Revision (Note 2)				(91,452)	91,452			
As of December 31, 2012 (Revised)	318,813	319	2,337,244	340,143	4,211,850	(944,627)	12,188	5,957,117
Net income (loss)					(10,621)		6,154	(4,467)
Dividends to shareholders					(35,357)			(35,357)
Other comprehensive income (loss), net of tax				(119,964)			(572)	(120,536)
Issuance of common shares for stock options exercised	470		4,375					4,375
Deconsolidation of noncontrolling interest							(2,899)	(2,899)
Share-based compensation	4,251	4	45,898					45,902
Other			(3,096)				(3,446)	(6,542)
As of September 30, 2013	323,534	$ 323	$ 2,384,421	$ 220,179	$ 4,165,872	$ (944,627)	$ 11,425	$ 5,837,593
As of December 31, 2013 (As previously reported)	323,711	$ 324	$ 2,392,585	$ 307,592	$ 4,213,212	$ (944,627)	$ 12,091	$ 5,981,177
Revision (Note 2)				(91,452)	91,452			
As of December 31, 2013 (Revised)	323,711	324	2,392,585	216,140	4,304,664	(944,627)	12,091	5,981,177
Net income (loss)					220,411		1,213	221,624
Dividends to shareholders					(41,781)			(41,781)
Redemption of subsidiary preferred stock					(1,688)			(1,688)
Repurchase of treasury shares						(250,037)		(250,037)
Other comprehensive income (loss), net of tax				(83,918)			(624)	(84,542)
Issuance of common shares for stock options exercised	3,034	3	30,237					30,240
Share-based compensation			28,141					28,141
Other	1,485	1	(7,582)				(2,319)	(9,900)
As of September 30, 2014	328,230	$ 328	$ 2,443,381	$ 132,222	$ 4,481,606	$ (1,194,664)	$ 10,361	$ 5,873,234

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

Table of Contents

Nabors Industries Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

Nabors has grown from a land drilling business centered in the United States and Canada to a global business aimed at optimizing the entire well life cycle, with operations on land and offshore in most of the major oil and gas markets in the world. The majority of our business is conducted through two business lines:

Drilling & Rig Services

This business line is comprised of our global drilling rig operations and drilling-related services, which primarily consists of equipment manufacturing, instrumentation optimization software and directional drilling services.

Completion & Production Services

This business line is comprised of our operations involved in the completion, life-of-well maintenance and eventual plugging and abandonment of a well. These services include stimulation, coiled-tubing, cementing, wireline, workover, well-servicing and fluids management.

As a global provider of services for land-based and offshore oil and natural gas wells, Nabors fleet of rigs and equipment includes:

- 501 actively marketed land drilling rigs for oil and gas land drilling operations in the United States, Canada and over 20 other countries throughout the world.

- 444 actively marketed rigs for land well-servicing and workover services in the United States and approximately 98 rigs for land well-servicing and workover services in Canada.

- 37 platform and 7 jackup rigs actively marketed in the United States and multiple international markets.

- Approximately 805,000 hydraulic horsepower for hydraulic fracturing, cementing, nitrogen and acid pressure pumping services in key basins throughout the United States.

In addition:

- 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 have a 51% ownership interest in a joint venture in Saudi Arabia, which owns and actively markets 5 rigs in addition to the rigs we lease to the joint venture.

In June 2014, we along with certain of our subsidiaries, including Nabors Red Lion Limited (Red Lion), signed a definitive agreement to merge our completion and production services businesses with C&J Energy Services, Inc. (NYSE: CJES), an independent oilfield services and manufacturing company. Following the completion of this transaction, we will own approximately 53 percent of the combined company. Our expectation is to complete the transaction in the fiscal fourth quarter of 2014, but could extend into 2015. Following completion of the transaction, we expect to account for our investment in the combined company using the equity method of accounting.

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.

Table of Contents

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, 2013 (2013 Annual Report). In management s opinion, the consolidated financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2014, as well as the results of our operations and comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013, and cash flows and changes in equity for the nine months ended September 30, 2014 and 2013, in accordance with GAAP. Interim results for the nine months ended September 30, 2014 may not be indicative of results that will be realized for the full year ending December 31, 2014.

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), their 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.

Prior Period Revision

During the first quarter of 2014, we determined that we had incorrectly applied certain aspects of ASC 830 - Foreign Currency Matters with respect to the recording of foreign currency gains or losses on certain intercompany transactions. GAAP requires the recognition of foreign currency gains or losses on U.S. dollar denominated intercompany balances of our subsidiaries that have a functional currency other than the U.S. dollar. The impact was primarily related to the periods between 2002 and 2009, which is the period over which a series of intercompany loans were outstanding between our Canadian subsidiary, whose functional currency is the Canadian dollar, and other subsidiaries whose functional currencies are the U.S. dollar.

The net effect understated net income for periods before 2009 by approximately $91.5 million, due to foreign currency gains that should have been recorded through net income, rather than through Cumulative Translation Adjustment (a component of Accumulated Other Comprehensive Income). The correction of this error resulted in a revision to increase the beginning Retained Earnings at January 1, 2010 by approximately $91.5 million with the offset being a decrease to Accumulated Other Comprehensive Income, both of which are components of Shareholders Equity. There was no material impact to our assets, liabilities, cash flows or profit and loss for any periods presented, and we do not consider this revision material to any period.

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. 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). The investments in these entities are included in investment in unconsolidated affiliates in our Consolidated Balance Sheets.

Inventory

Inventory is stated at the lower of cost or market. 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, 2014	December 31, 2013
	(In thousands)	
Raw materials	$ 153,229	$ 128,606
Work-in-progress	40,550	26,762
Finished goods	49,097	54,425
	$ 242,876	$ 209,793

Table of Contents

Goodwill

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 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

The fair values calculated in these impairment tests were determined using discounted cash flow models involving assumptions based on our utilization of rigs or other oil and gas service equipment, revenues and earnings from affiliates, as well as direct costs, general and administrative costs, depreciation, applicable income taxes, capital expenditures and working capital requirements. Our discounted cash flow projections for each reporting unit were based on financial forecasts. The future cash flows were discounted to present value using discount rates determined to be appropriate for each reporting unit. Terminal values for each reporting unit were calculated using a Gordon Growth methodology with a long-term growth rate of 3%.

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, 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 compared the sum of our reporting units estimated fair value, which included the estimated fair value of non-operating assets and liabilities, less debt, to our market capitalization and assessed 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 review, there was no goodwill impairment for the third quarter of 2014.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) relating to the reporting of discontinued operations and the disclosures related to disposals of components of an entity. The new standard addresses the question around whether the disposal represents a strategic shift, if the operations and cash flows can be clearly distinguished and continuing involvement will no longer preclude a disposal from being presented as discontinued operations. These changes are effective for interim and annual periods that begin after December 15, 2014. Early application is permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In May 2014, the FASB issued an ASU relating to the revenue recognition from contracts with customers that creates a common revenue standard for GAAP and IFRS. The new standard will require recognition of revenue when promised goods are transferred or services to customers are performed 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. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. These changes are effective for interim and annual periods that begin after December 15,

2016. Early application is not permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In June 2014, the FASB issued an ASU relating to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The new standard will require the reporting entity to apply existing guidance in Topic 718-Compensation-Stock Compensation relating to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. These changes are effective for interim and annual periods that begin after December 15, 2015. Early application is permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

Table of Contents

Note 3 Cash and Cash Equivalents and Short-term Investments

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

	September 30, 2014			December 31, 2013		
	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	$ 404,453	$	$	$ 389,915	$	$
Short-term investments:						
Available-for-sale equity securities	60,346	33,021		96,942	68,395	
Available-for-sale debt securities:						
Corporate debt securities				19,388	4,122	
Mortgage-backed debt securities				210	11	
Mortgage-CMO debt securities	19			20		(2)
Asset-backed debt securities				658	2	(54)
Total available-for-sale debt securities	19			20,276	4,135	(56)
Total available-for-sale securities	60,365	33,021		117,218	72,530	(56)
Total short-term investments	60,365	33,021		117,218	72,530	(56)
Total cash, cash equivalents and short-term investments	$ 464,818	$ 33,021	$	$ 507,133	$ 72,530	$ (56)

Table of Contents

Certain information regarding our available-for-sale debt and equity securities is presented below:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
Available-for-sale				
Proceeds from sales and maturities	$	$ 408	$ 22,313	$ 107,361
Realized gains (losses), net	$ (267)	$ 2	$ 4,636	$ 88,159

Note 4 Fair Value Measurements

The following table sets forth, by level within the fair value hierarchy, our financial assets that are accounted for at fair value on a recurring basis as of September 30, 2014. Our debt securities could transfer into or out of a Level 1 or 2 measures depending on the availability of independent and current pricing at the end of each quarter. During the three and nine months ended September 30, 2014, there were no transfers of our financial assets between Level 1 and Level 2 measures. Additionally, there were no transfers in or out of Level 3. Our financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Short-term investments:				
Available-for-sale equity securities (energy industry)	$ 60,006	$ 340	$	$ 60,346
Available-for-sale debt securities:				
Mortgage-CMO debt securities		19		19
Total short-term investments	$ 60,006	$ 359	$	$ 60,365

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 assets held-for-sale, goodwill, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination and our pipeline contractual commitments.

Table of Contents

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, revolving credit facility and commercial paper 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, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
2.35% senior notes due September 2016	$ 349,870	$ 357,242	$ 349,820	$ 354,694
6.15% senior notes due February 2018	948,900	1,074,186	969,928	1,097,480
9.25% senior notes due January 2019	339,607	426,835	339,607	428,733
5.00% senior notes due September 2020	698,177	768,607	697,947	731,955
4.625% senior notes due September 2021	698,328	755,300	698,148	709,793
5.10% senior notes due September 2023	348,861	380,114	348,765	349,731
Subsidiary preferred stock (1)			69,188	69,000
Revolving credit facility	100,000	100,000	170,000	170,000
Commercial paper	771,374	771,374	329,844	329,844
Other	215	215	10,243	10,243
Total	$ 4,255,332	$ 4,633,873	$ 3,983,490	$ 4,251,473

(1) We redeemed all outstanding subsidiary preferred stock during the second quarter of 2014. See Note 8 Subsidiary Preferred Stock for additional discussion.

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 Share-Based Compensation

We have several share-based employee and director compensation plans, which are more fully described in Note 9 Share-Based Compensation in our 2013 Annual Report. Total share-based compensation expense, which includes stock options and restricted stock, totaled $8.9 million and $7.1 million for the three months ended September 30, 2014 and 2013, respectively, and $28.1 million and $45.9 million for the nine months ended September 30, 2014 and 2013, respectively. Share-based compensation expense has been allocated to our various operating segments. See Note 13 Segment Information.

Stock Options

The total intrinsic value of stock options exercised during the nine months ended September 30, 2014 and 2013 was $49.1 million and $3.2 million, respectively. The total fair value of stock options that vested during the nine months ended September 30, 2014 and 2013 was $1.6 million and $4.0 million, respectively.

Restricted Stock

During the nine months ended September 30, 2014 and 2013, we awarded 1,154,615 and 4,375,260 shares of restricted stock, respectively, vesting over periods of up to four years, to our employees and directors. These awards had an aggregate value at their date of grant of $26.4 million and $71.7 million, respectively. The fair value of restricted stock that vested during the nine months ended September 30, 2014 and 2013 was $26.6 million and $36.6 million, respectively. The fair value of these awards is based on the closing price of Nabors stock on the date the awards are granted.

Table of Contents

Restricted Stock Based on Performance

During the nine months ended September 30, 2014, we awarded 362,311 shares of restricted stock, vesting over a period of three years, to some of our executives. The performance awards granted were based upon achievement of specific financial or operational objectives. The number of shares granted was determined by the number of performance goals achieved during the period beginning January 1, 2013 through December 31, 2013.

Our awards based on performance conditions are liability-classified awards until shares are granted, of which our accrued liabilities included $1.9 million at September 30, 2014 for the performance period beginning January 1, 2014 through December 31, 2014. The fair value of these awards are estimated at each reporting period, based on internal metrics and marked to market.

Restricted Stock Based on Market Conditions

During the nine months ended September 30, 2014 and 2013, we awarded 395,550 and 353,933 shares of restricted stock, respectively, which are equity-classified awards and will vest based on our performance compared to our peer group over a three-year period. These awards had an aggregate fair value at their date of grant of $4.5 million and $3.7 million, respectively, after consideration of all assumptions. The grant date fair value of these awards was based on a Monte Carlo model, using the following assumptions during the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Risk free interest rate	0.80%	0.41%
Expected Volatility	40.00%	46.00%
Closing stock price at grant date	$ 18.19	$ 16.53
Expected term (in years)	2.97 years	2.82 years

Note 6 Debt

Debt consisted of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
2.35% senior notes due September 2016	$ 349,870	$ 349,820
6.15% senior notes due February 2018	948,900	969,928
9.25% senior notes due January 2019	339,607	339,607
5.00% senior notes due September 2020	698,177	697,947
4.625% senior notes due September 2021	698,328	698,148

5.10% senior notes due September 2023	348,861	348,765
Commercial paper	771,374	329,844
Revolving credit facility	100,000	170,000
Other	215	10,243
	$ 4,255,332	$ 3,914,302
Less: current portion	196	10,185
	$ 4,255,136	$ 3,904,117

Commercial Paper Program

As of September 30, 2014, we had approximately $771.4 million of commercial paper outstanding. The weighted average interest rate on borrowings at September 30, 2014 was 0.35%. Our commercial paper borrowings are classified as long-term debt because the borrowings are fully supported by availability under our revolving credit facility, which as currently structured matures in November 2017, more than one year from the date of the Consolidated Balance Sheets.

Table of Contents

Revolving Credit Facility

As of September 30, 2014, we had approximately $100.0 million of borrowings outstanding. The weighted average interest rate on borrowings at September 30, 2014 was 1.46%. 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, 2014. 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.

6.15% Senior Notes Due February 2018

During the three months ended September 30, 2014, Nabors Delaware redeemed $22.0 million principal amount of these notes. Nabors Delaware paid the holders an aggregate of approximately $25.7 million which includes approximately $0.6 million in accrued interest and $3.1 million premium, which is reflected in losses (gains) on sales and disposals of long-lived assets and other expenses (income), net in our Consolidated Statements of Income (Loss).

Note 7 Common Shares

During the nine months ended September 30, 2014 and 2013, our employees exercised vested options to acquire 3.0 million and 0.5 million of our common shares, respectively, resulting in proceeds of $30.2 million and $4.4 million, respectively. During the nine months ended September 30, 2014 and 2013, we withheld 0.3 million and 0.2 million, respectively, of our common shares with a fair value of $7.6 million and $3.1 million, respectively, to satisfy tax withholding obligations in connection with the vesting of all stock awards.

On July 24, 2014, a cash dividend of $0.06 per share was declared for shareholders of record on September 9, 2014. The dividend was paid on September 30, 2014 in the amount of $18.0 million and was charged to retained earnings in our Consolidated Statement of Changes in Equity for the nine months ended September 30, 2014.

On September 11, 2014, with approval of the Board of Directors (Board), we purchased 10.375 million of our common shares, at $24.10 per share, for a total aggregate amount of approximately $250 million. This purchase was an isolated event and was not part of a broader Board approved repurchase program. The Board continuously seeks to increase returns to shareholders, and as a result, this could lead to additional repurchases in the future, although we do not have a plan in place to do so at this time.

Note 8 Subsidiary Preferred Stock

During the nine months ended September 30, 2014, we paid $70.9 million to redeem the 75,000 shares of Series A Preferred Stock outstanding of our subsidiary and paid all dividends due on such shares. The result of the redemption was a loss of $1.688 million, representing the difference between the redemption amount and the carrying value of the subsidiary preferred stock. The loss results in a charge to retained earnings and a reduction to net income used to determine income available for common shareholders in the calculation of basic and diluted earnings per share in the period of transaction. We also paid regular and accrued dividends of $750,000 and $108,750, respectively, and special dividends of $375,000. These dividends were treated as regular dividends, and as such were reflected in earnings in the Consolidated Statement of Income (Loss) for the nine months ended September 30, 2014.

Note 9 Commitments and Contingencies

Contingencies

Income Tax

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.

Table of Contents

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 14 Income Taxes to our 2013 Annual Report for additional discussion.

In 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 proposed to deny depreciation expense deductions relating to drilling rigs operating in Mexico in 2003. The notice also proposed to deny a deduction for payments made to an affiliated company for the procurement of labor services in Mexico. NDIL s Mexico branch took similar deductions for depreciation and labor expenses from 2004 to 2008. In 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 through 2008 and against NDIL II for 2007 to 2010. Although we previously concluded that the deductions were appropriate for each of the years, a reserve has been recorded in accordance with GAAP. During 2013, we reached a negotiated settlement for NDIL s 2003, 2005 and 2006 tax years (the statute of limitations had previously expired on the 2004 tax year) and NDIL II s 2006 tax year. Accordingly, the corresponding reserves were reduced by approximately $20 million during 2013. After this settlement, the remaining amounts assessed or expected to be assessed in the aggregate, range from $30 million to $35 million, for which reserves are recorded in accordance with GAAP. If we ultimately do not prevail, we would be required to recognize additional tax expense for any amount in excess of the current reserve.

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 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, 2014, 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 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 $17.7 million (at current exchange rates) against us relating to alleged customs infractions in Algeria. We believe we did not receive proper notice of the 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. 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 have again lodged an appeal to the Algeria Supreme Court, asserting the same challenges as before. Based upon our understanding of applicable law and precedent, we continue to believe that we will prevail. Although the appeal remains ongoing at this time, the Hassi Messaoud customs office recently initiated efforts to collect the judgment prior to the Supreme Court s decision in

Table of Contents

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. We have recorded a reserve in the amount of the posted security. If we are ultimately required to pay a fine or judgment related to this matter, the resulting loss could be up to $13.3 million in excess of amounts accrued.

In 2011, the Court of Ouargla entered a judgment of approximately $34.8 million (at current 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 Algeria Supreme Court, which overturned the decision on September 25, 2014. The case will be reheard in light of the Algeria Supreme Court s opinion. 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 $26.8 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. Nabors successfully defeated ERG s effort to obtain a temporary restraining order from the Texas court on March 20, 2012. Nabors 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 lawsuit is staid, pending further court actions. ERG retains its causes of action for monetary damages, but Nabors believes 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, Nabors and Red Lion, along with C&J Energy Services, Inc. (CJES), and the members of the board of directors of CJES, including its management directors, were sued in a putative shareholder class action by the stockholders of CJES. The case is styled City of Miami General Employees and Sanitation Employees Retirement Trust, et al. v. C&J Energy Services, Inc., et al.; C.A. No. 9980; In the Court of Chancery of the State of Delaware. The complaint alleges that the CJES directors breached their fiduciary duties in connection with the transaction between CJES, Nabors and Red Lion, and that CJES, Nabors and Red Lion aided and abetted these alleged violations. The complaint seeks injunctive relief, including an injunction against the consummation of the transactions, together with attorney s fees and costs. We believe that the case is without merit and intend to vigorously defend it.

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.

Table of Contents

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 2014	2015	2016	Thereafter	Total
			(In thousands)		
Financial standby letters of credit and other financial surety instruments	$ 63,632	$ 127,994	$ 75	$ 18	$ 191,719

Note 10 Earnings (Losses) Per Share

Accounting Standards Codification (ASC) 260, Earnings per Share, requires companies to treat unvested share-based payment awards that have non-forfeitable 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 non-forfeitable 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.

Table of Contents

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, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands, except per share amounts)			
BASIC EPS:				
Net income (loss) (numerator):				
Income (loss) from continuing operations, net of tax	$ 102,430	$ (90,510)	$ 217,136	$ 29,825
Less: net (income) loss attributable to noncontrolling interest	(387)	(441)	(1,213)	(6,154)
Less: loss on redemption of subsidiary preferred stock			(1,688)	
Less: (earnings) losses allocated to unvested shareholders	(1,579)	1,411	(3,286)	671
Numerator for basic earnings per share:				
Adjusted income (loss) from continuing operations	$ 100,464	$ (89,540)	$ 210,949	$ 24,342
Income (loss) from discontinued operations	$ 4,005	$ (14,430)	$ 4,488	$ (34,292)
Weighted-average number of shares outstanding - basic	292,621	295,076	292,613	293,837
Earnings (losses) per share:				
Basic from continuing operations	$ 0.34	$ (0.30)	$ 0.72	$ 0.08
Basic from discontinued operations	0.02	(0.05)	0.02	(0.11)
Total Basic	$ 0.36	$ (0.35)	$ 0.74	$ (0.03)
DILUTED EPS:				
Income (loss) from continuing operations attributed to common shareholders	$ 100,464	$ (89,540)	$ 210,949	$ 24,342
Add: effect of reallocating undistributed earnings of unvested shareholders	11		25	
Adjusted income (loss) from continuing operations attributed to common shareholders	$ 100,475	$ (89,540)	$ 210,974	$ 24,342
Income (loss) from discontinued operations	$ 4,005	$ (14,430)	$ 4,488	$ (34,292)
Weighted-average number of shares outstanding - basic	292,621	295,076	292,613	293,837
Add: dilutive effect of potential common shares	2,384		2,740	2,371
Weighted-average number of diluted shares outstanding	295,005	295,076	295,353	296,208
Earnings (losses) per share:				
Diluted from continuing operations	$ 0.34	$ (0.30)	$ 0.71	$ 0.08
Diluted from discontinued operations	0.01	(0.05)	0.02	(0.11)
Total Diluted	$ 0.35	$ (0.35)	$ 0.73	$ (0.03)

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 our common shares, because their inclusion would be anti-dilutive and because they are not considered participating securities. The average number of options that were excluded from diluted earnings (losses) per share that would potentially dilute earnings (losses) per share were 5,389,090 and 18,786,837 shares during the three months ended September 30, 2014 and 2013, respectively, and 6,341,624 and 11,887,169 shares during the nine months ended September 30, 2014 and 2013, respectively. In any period during which the average market price of our 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.

Table of Contents

Note 11 Supplemental Balance Sheet, Income Statement and Cash Flow Information

Accrued liabilities include the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
Accrued compensation	$ 182,028	$ 172,803
Deferred revenue	314,773	202,918
Other taxes payable	58,287	76,781
Workers compensation liabilities	29,459	29,459
Interest payable	17,857	64,728
Warranty accrual	4,791	4,653
Litigation reserves	23,750	30,784
Current liability to discontinued operations	23,817	64,404
Professional fees	2,842	2,971
Current deferred tax liability	3,075	3,075
Current liability to acquisition of KVS	22,033	22,033
Other accrued liabilities	19,796	22,484
	$ 702,508	$ 697,093

Investment income (loss) includes the following:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)			
Interest and dividend income	$ 2,323	$ 1,107	$ 5,318	$ 4,225
Gains (losses) on investments, net	(134)	122	4,917(1)	91,246(2)
	$ 2,189	$ 1,229	$ 10,235	$ 95,471

(1) Includes realized gains of $4.9 million from the sale of available-for-sale securities.

(2) Includes realized gains of $88.2 million from the sale of available-for-sale securities and net realized gains of $2.5 million from the sale of our trading securities.

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013

		(In thousands)						
Losses (gains) on sales, disposals and involuntary conversions of long-lived assets	$	(27,641)(1)	$	2,806	$	(14,095)(1)	$	8,150
Litigation expenses		3,177		1,983		6,804		7,642
Merger transaction expenses		17,000(2)				17,000(2)		
Foreign currency transaction losses (gains)		2,374		(290)		3,417		7,017
Other losses (gains)		3,577		(1,233)		3,341		4,436
	$	(1,513)	$	3,266	$	16,467	$	27,245

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(1) Includes a $22.2 million gain related to the disposition of our Alaska E&P assets. See Note 12 Assets Held-for-Sale and Discontinued Operations.

(2) Represents transaction costs related to the merger with CJES, including professional fees and other costs incurred to re-organize the business in contemplation of the merger.

Table of Contents

Impairments and other charges include the following:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(In thousands)	
Termination of employment contract	$	$ 45,000(1)
Loss on tendered notes	208,197	208,197(2)
Provision for retirement of assets	14,044	14,044(3)
Impairment of long-lived assets	20,000	20,000(4)
	$ 242,241	$ 287,241

There were no impairment charges during the three and nine months ended September 30, 2014.

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(1) Represents a one-time stock grant valued at $27.0 million, which vested immediately, and $18.0 million in cash awarded and paid to Mr. Petrello in connection with the termination of his prior employment agreement. See Note 9 Commitments and Contingencies to our 2013 Annual Report for additional discussion.

(2) Represents the loss related to the extinguishment of debt in connection with the tender offer for our 9.25% senior notes.

(3) Represents provision for retirement of long-lived assets in our International operations totaling $14.0 million, which reduced the carrying value of some assets to their salvage value. The retirements were related to assets in Saudi Arabia and included obsolete top-drives, nonworking trucks, generators, engines and other miscellaneous equipment. A continued period of lower oil prices and its potential impact on our utilization and dayrates could result in the recognition of future impairment charges to additional assets if future cash flow estimates, based upon information then available to management, indicate that the carrying value of those assets may not be recoverable.

(4) Represents impairment of $20.0 million to our fleet of coil-tubing units in our Completion & Production Services operating segment. Intense competition and oversupply of equipment has led to lower utilization and margins for this product line, and we have recently decided to suspend the majority of our operations for these assets. When these factors were considered as part of our annual impairment tests on long-lived assets, the sum of the estimated future cash flows, on an undiscounted basis, was less than the carrying amount of these assets. The estimated fair values of these assets were calculated using discounted cash flow models involving assumptions based on our utilization of the assets, revenues as well as direct costs, capital expenditures and working capital requirements. We believe the fair value estimated for purposes of these tests represents a Level 3 fair value measurement. A prolonged period of slow economic recovery could continue to adversely affect the demand for and prices of our services, which could result in future impairment charges for other reporting units due to the potential impact on our estimate of our future operating results.

Table of Contents

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

	Gains (losses) on cash flow hedges	Unrealized gains (losses) on available-for-sale securities	Defined benefit pension plan items (In thousands)	Foreign currency items	Total
As of January 1, 2013 (1)	$ (2,793)	$ 134,229	$ (7,632)	$ 216,339	$ 340,143
Other comprehensive income (loss) before reclassifications		1,549		(36,853)	(35,304)
Amounts reclassified from accumulated other comprehensive income (loss) (2)	280	(85,456)	516		(84,660)
Net other comprehensive income (loss)	280	(83,907)	516	(36,853)	(119,964)
As of September 30, 2013	$ (2,513)	$ 50,322	$ (7,116)	$ 179,486	$ 220,179

	Gains (losses) on cash flow hedges	Unrealized gains (losses) on available-for-sale securities	Defined benefit pension plan items (In thousands)	Foreign currency items	Total
As of January 1, 2014 (1)	$ (2,419)	$ 71,742	$ (4,075)	$ 150,892	$ 216,140
Other comprehensive income (loss) before reclassifications		(34,646)		(46,052)	(80,698)
Amounts reclassified from accumulated other comprehensive income (loss) (2)	280	(3,726)	226		(3,220)
Net other comprehensive income (loss)	280	(38,372)	226	(46,052)	(83,918)
As of September 30, 2014	$ (2,139)	$ 33,370	$ (3,849)	$ 104,840	$ 132,222

(1) Reflects amounts reclassified from foreign currency translation adjustment to retained earnings as discussed in Note 2 Summary of Significant Accounting Policies.

(2) All amounts are net of tax. Amounts in parentheses indicate debits.

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

Line item in consolidated statement of income (loss)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands)			
Investment income (loss)	$ (267)	$ 2	$ 4,636	$ 88,159
Interest expense	153	153	459	459

General and administrative expenses	123	280	369	842
Total before tax	$ (543)	$ (431)	$ 3,808	