NABORS INDUSTRIES LTD
Form 10-Q
November 03, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2017

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

(441) 292-1510

(Address of principal executive office)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

YES NO

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

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The number of common shares, par value $.001 per share, outstanding as of October 31, 2017 was 285,864,361, excluding 49,672,636 common shares held by our subsidiaries, or 335,536,997 in the aggregate.

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2017	December 31, 2016
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 190,556	$ 264,093
Short-term investments	29,770	31,109
Accounts receivable, net	621,640	508,355
Inventory, net	119,050	103,595
Assets held for sale	37,275	76,668
Other current assets	176,630	172,019
Total current assets	1,174,921	1,155,839
Property, plant and equipment, net	6,051,606	6,267,583
Goodwill	173,321	166,917
Deferred tax asset	444,796	366,586
Other long-term assets	243,941	230,090
Total assets	$ 8,088,585	$ 8,187,015
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt	$ 196	$ 297
Trade accounts payable	317,314	264,578
Accrued liabilities	485,347	543,248
Income taxes payable	27,817	13,811
Total current liabilities	830,674	821,934
Long-term debt	3,958,615	3,578,335
Other long-term liabilities	351,787	522,456
Deferred income taxes	20,288	9,495
Total liabilities	5,161,364	4,932,220
Commitments and contingencies (Note 8)		
Equity:		
Shareholders’ equity:		
Common shares, par value $0.001 per share:		
Authorized common shares 800,000; issued 335,550 and 333,598, respectively	336	334
Capital in excess of par value	2,624,711	2,521,332
Accumulated other comprehensive income (loss)	15,657	(12,119)
Retained earnings	1,556,650	2,033,427

Less: treasury shares, at cost, 49,673 and 49,673 common shares, respectively	(1,295,949)	(1,295,949)
Total shareholders' equity	2,901,405	3,247,025
Noncontrolling interest	25,816	7,770
Total equity	2,927,221	3,254,795
Total liabilities and equity	$ 8,088,585	$ 8,187,015

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except per share amounts)			
Revenues and other income:				
Operating revenues	$ 662,103	$ 519,729	$ 1,856,008	$ 1,688,891
Earnings (losses) from unconsolidated affiliates	4	2	6	(221,918)
Investment income (loss)	373	310	208	923
Total revenues and other income	662,480	520,041	1,856,222	1,467,896
Costs and other deductions:				
Direct costs	441,263	306,436	1,246,428	1,012,738
General and administrative expenses	65,010	56,078	192,114	175,036
Research and engineering	12,960	8,476	36,060	24,818
Depreciation and amortization	217,075	220,713	628,837	655,444
Interest expense	54,607	46,836	165,813	137,803
Other, net	5,559	10,392	29,173	267,403
Total costs and other deductions	796,474	648,931	2,298,425	2,273,242
Income (loss) from continuing operations before income taxes	(133,994)	(128,890)	(442,203)	(805,346)
Income tax expense (benefit):				
Current	8,644	8,600	45,646	39,323
Deferred	(23,353)	(39,651)	(105,460)	(163,621)
Total income tax expense (benefit)	(14,709)	(31,051)	(59,814)	(124,298)
Income (loss) from continuing operations, net of tax	(119,285)	(97,839)	(382,389)	(681,048)
Income (loss) from discontinued operations, net of tax	(27,134)	(12,187)	(43,077)	(14,097)
Net income (loss)	(146,419)	(110,026)	(425,466)	(695,145)
Less: Net (income) loss attributable to noncontrolling interest	(2,113)	(1,185)	(5,001)	990
Net income (loss) attributable to Nabors	$ (148,532)	$ (111,211)	$ (430,467)	$ (694,155)
Amounts attributable to Nabors:				
Net income (loss) from continuing operations	$ (121,398)	$ (99,024)	$ (387,390)	$ (680,058)
Net income (loss) from discontinued operations	(27,134)	(12,187)	(43,077)	(14,097)
Net income (loss) attributable to Nabors	$ (148,532)	$ (111,211)	$ (430,467)	$ (694,155)
Earnings (losses) per share:				
Basic from continuing operations	$ (0.42)	$ (0.35)	$ (1.35)	$ (2.41)
Basic from discontinued operations	(0.10)	(0.04)	(0.16)	(0.05)
Total Basic	$ (0.52)	$ (0.39)	$ (1.51)	$ (2.46)

Diluted from continuing operations	$ (0.42)	$ (0.35)	$ (1.35)	$ (2.41)
Diluted from discontinued operations	(0.10)	(0.04)	(0.16)	(0.05)
Total Diluted	$ (0.52)	$ (0.39)	$ (1.51)	$ (2.46)
Weighted-average number of common shares outstanding:				
Basic	279,313	276,707	278,670	276,369
Diluted	279,313	276,707	278,670	276,369
Dividends declared per common share	$ 0.06	$ 0.06	$ 0.18	$ 0.18

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income (loss) attributable to Nabors	$ (148,532)	$ (111,211)	$ (430,467)	$ (694,155)
Other comprehensive income (loss), before tax:				
Translation adjustment attributable to Nabors	16,444	(8,950)	31,183	27,870
Unrealized gains (losses) on marketable securities:				
Unrealized gains (losses) on marketable securities	(5,706)	1,502	(5,122)	3,551
Less: reclassification adjustment for (gains) losses included in net income (loss)	—	3,495	1,341	3,495
Unrealized gains (losses) on marketable securities	(5,706)	4,997	(3,781)	7,046
Pension liability amortization and adjustment	50	297	150	765
Unrealized gains (losses) and amortization on cash flow hedges	153	153	459	459
Other comprehensive income (loss), before tax	10,941	(3,503)	28,011	36,140
Income tax expense (benefit) related to items of other comprehensive income (loss)	78	172	235	472
Other comprehensive income (loss), net of tax	10,863	(3,675)	27,776	35,668
Comprehensive income (loss) attributable to Nabors	(137,669)	(114,886)	(402,691)	(658,487)
Net income (loss) attributable to noncontrolling interest	2,113	1,185	5,001	(990)
Translation adjustment attributable to noncontrolling interest	160	(90)	317	371
Comprehensive income (loss) attributable to noncontrolling interest	2,273	1,095	5,318	(619)
Comprehensive income (loss)	$ (135,396)	$ (113,791)	$ (397,373)	$ (659,106)

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

NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (425,466)	$ (695,145)
Adjustments to net income (loss):		
Depreciation and amortization	630,773	657,541
Deferred income tax expense (benefit)	(114,973)	(168,413)
Impairments and other charges	35,293	45,809
Deferred financing costs amortization	5,300	3,335
Discount amortization on long-term debt	15,129	1,597
Losses (gains) on debt buyback	16,005	(6,707)
Losses (gains) on long-lived assets, net	10,180	13,608
Losses (gains) on investments, net	1,342	—
Impairments on equity method holdings	—	216,242
Share-based compensation	25,057	24,070
Foreign currency transaction losses (gains), net	1,728	5,916
Equity in (earnings) losses of unconsolidated affiliates, net of dividends	(6)	221,918
Other	(4,596)	2,025
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(128,542)	255,455
Inventory	(14,567)	14,660
Other current assets	(6,967)	30,192
Other long-term assets	35,378	(377)
Trade accounts payable and accrued liabilities	21,611	(187,771)
Income taxes payable	19,790	(22,496)
Other long-term liabilities	(158,578)	(6,691)
Net cash (used for) provided by operating activities	(36,109)	404,768
Cash flows from investing activities:		
Purchases of investments	(6,722)	(24)
Sales and maturities of investments	12,533	643
Cash paid for acquisition of businesses, net	(50,764)	—
Capital expenditures	(448,864)	(284,950)
Proceeds from sales of assets and insurance claims	32,805	26,597
Other	(427)	(19)
Net cash (used for) provided by investing activities	(461,439)	(257,753)
Cash flows from financing activities:		

Increase (decrease) in cash overdrafts	(78)	5
Proceeds from issuance of long-term debt	411,200	—
Debt issuance costs	(11,039)	—
Proceeds from revolving credit facilities	410,000	560,000
Reduction in revolving credit facilities	—	(260,000)
Proceeds from (payments for) issuance of common shares	8,300	562
Repurchase of common shares	—	(1,687)
Distributions to noncontrolling interest	(7,272)	—
Noncontrolling interest contribution	20,000	—
Reduction in long-term debt	(382,815)	(492,625)
Dividends to shareholders	(51,346)	(33,927)
Proceeds from (payment for) commercial paper, net	78,000	15,000
Cash proceeds from equity component of exchangeable debt	159,952	—
Payments on term loan	(162,500)	—
Proceeds from (payments for) short-term borrowings	(528)	(6,388)
Purchase of capped call hedge transactions	(40,250)	—
Other	(7,864)	(4,313)
Net cash (used for) provided by financing activities	423,760	(223,373)
Effect of exchange rate changes on cash and cash equivalents	251	(1,129)
Net increase (decrease) in cash and cash equivalents	(73,537)	(77,487)
Cash and cash equivalents, beginning of period	264,093	254,530
Cash and cash equivalents, end of period	$ 190,556	$ 177,043

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

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NABORS INDUSTRIES LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Common Shares		Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Shares	Non-controlling Interest	Total Equity
n thousands)	Shares	Par Value						
s of ecember 31, 015	330,526	331	2,493,100	(47,593)	3,131,134	(1,294,262)	11,158	4,293,868
et income oss)	—	—	—	—	(694,155)	—	(990)	(695,145)
ividends to hareholders 0.18 per hare)	—	—	—	—	(50,926)	—	—	(50,926)
epurchase of easury shares	—	—	—	—	—	(1,687)	—	(1,687)
ther omprehensive come (loss), et of tax	—	—	—	35,668	—	—	371	36,039
suance of ommon shares or stock ptions xercised, net f surrender of nexercised ock options	57	—	562	—	—	—	—	562
hare-based ompensation	—	—	24,070	—	—	—	—	24,070
ther	2,424	2	(4,315)	—	—	—	(3,774)	(8,087)
s of eptember 30, 016	333,007	$ 333	$ 2,513,417	$ (11,925)	$ 2,386,053	$ (1,295,949)	$ 6,765	$ 3,598,694
s of ecember 31, 016	333,598	$ 334	$ 2,521,332	$ (12,119)	$ 2,033,427	$ (1,295,949)	$ 7,770	$ 3,254,795
et income oss)	—	—	—	—	(430,467)	—	5,001	(425,466)
	—	—	—	—	(51,460)	—	—	(51,460)

ividends to hareholders 60.18 per hare)								
ther omprehensive come (loss), et of tax	—	—	—	27,776	—	—	317	28,093
suance of ommon shares or stock ptions xercised, net f surrender of nexercised ock options	843	1	8,299	—	—	—	—	8,300
hare-based ompensation	—	—	25,057	—	—	—	—	25,057
quity omponent of xchangeable ebt	—	—	116,195	—	—	—	—	116,195
apped call ansactions	—	—	(40,250)	—	—	—	—	(40,250)
doption of SU No. 016-09	—	—	1,943	—	5,150	—	—	7,093
oncontrolling terest ontributions listributions)	—	—	—	—	—	—	12,728	12,728
ther	1,109	1	(7,865)	—	—	—	—	(7,864)
s of eptember 30, 017	335,550	$ 336	$ 2,624,711	$ 15,657	$ 1,556,650	$ (1,295,949)	$ 25,816	$ 2,927,221

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

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Nabors Industries Ltd. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

Unless the context requires otherwise, references in this report to "we," "us," "our," "the Company," or "Nabors" mean Nabors Industries Ltd., together with our subsidiaries where the context requires.

We own and operate the world's largest land-based drilling rig fleet and are a leading provider of offshore platform drilling rigs in the United States and multiple international markets. We also provide advanced wellbore placement services, drilling software and performance tools, drilling equipment and innovative technologies throughout the world's most significant oil and gas markets.

As a global provider of drilling and drilling-related services for land-based and offshore oil and natural gas wells, our fleet of rigs and drilling-related equipment as of September 30, 2017 included:

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

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

Our business consists of four reportable operating segments: U.S., Canada, International and Rig Services.

Note 2 Summary of Significant Accounting Policies

Interim Financial Information

The accompanying unaudited condensed consolidated financial statements of Nabors have been prepared in conformity with generally accepted accounting principles in the United States (“GAAP”). Pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read together with our annual report on Form 10-K for the year ended December 31, 2016 (“2016 Annual Report”). In management’s opinion, the unaudited condensed consolidated financial statements contain all adjustments necessary to state fairly our financial position as of September 30, 2017 and the results of operations, comprehensive income (loss), cash flows and changes in equity for the periods presented herein. Interim results for the nine months ended September 30, 2017 may not be indicative of results that will be realized for the full year ending December 31, 2017.

Principles of Consolidation

Our condensed consolidated financial statements include the accounts of Nabors, as well as all majority owned and non-majority owned subsidiaries required to be consolidated under GAAP. All significant intercompany accounts and transactions are eliminated in consolidation.

During 2016, we entered into an agreement with Saudi Arabian Development Company, a wholly-owned subsidiary of Saudi Arabian Oil Company (“Saudi Aramco”), to form a new joint venture, Saudi Aramco Nabors Drilling (“SANAD”), to own, manage and operate onshore drilling rigs in The Kingdom of Saudi Arabia. SANAD, which is equally owned by Saudi Aramco and Nabors, is expected to commence operations during the fourth quarter of 2017. In May 2017, Nabors and Saudi Aramco each contributed $20 million in cash for formation of the joint venture. We have consolidated this joint venture which, as of September 30, 2017, is limited to the $40 million of cash mentioned above to be used exclusively by the joint venture to fund future operations.

Investments in operating entities where we have the ability to exert significant influence, but where we do not control operating and financial policies, are accounted for using the equity method. Our share of the net income (loss) of these entities is recorded as earnings (losses) from unconsolidated affiliates in our condensed consolidated statements of

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income (loss). The investments in these entities are included in investment in other long-term assets in our condensed consolidated balance sheets. We historically recorded our share of the net income (loss) of our equity method investment in C&J Energy Services, Ltd. ("CJES") on a one-quarter lag, as we were not able to obtain the financial information of CJES on a timely basis. During the third quarter of 2016, CJES filed for bankruptcy, at which time we ceased accounting for our investment in CJES as an equity method investment. See Note 4 — Investments in Unconsolidated Affiliates.

Revenue Recognition

We recognize revenues and costs on daywork contracts daily as the work progresses. For certain contracts, we receive lump-sum payments for the mobilization of rigs and other drilling equipment. We defer revenue related to mobilization periods and recognize the revenue over the term of the related drilling contract. We also defer recognition of revenue on amounts received from customers for prepayment of services until those services are provided. At September 30, 2017 and December 31, 2016, our deferred revenues classified as accrued liabilities were $241.8 million and $255.6 million, respectively. At September 30, 2017 and December 31, 2016, our deferred revenues classified as other long-term liabilities were $167.8 million and $321.0 million, respectively.

Costs incurred related to a mobilization period for which a contract is secured are deferred and recognized over the term of the related drilling contract. Costs incurred to relocate rigs and other drilling equipment to areas in which a contract has not been secured are expensed as incurred. At September 30, 2017 and December 31, 2016, our deferred expenses classified as other current assets were $66.6 million and $63.4 million, respectively. At September 30, 2017 and December 31, 2016, our deferred expenses classified as other long-term assets were $41.7 million and $69.5 million, respectively.

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

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

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

Inventory, net

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

	September 30, 2017	December 31, 2016
	(In thousands)	
Raw materials	$ 89,127	$ 84,431
Work-in-progress	15,630	1,204
Finished goods	14,293	17,960
	$ 119,050	$ 103,595

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Property, Plant and Equipment

We review our assets for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the estimated undiscounted future cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to the extent the carrying amount of the long-lived asset exceeds its estimated fair value. Management considers a number of factors such as estimated future cash flows from the assets, appraisals and current market value analysis in determining fair value. The determination of future cash flows requires the estimation of utilization, dayrates, operating margins, sustaining capital and remaining economic life. Such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry.

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

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

Goodwill

We review goodwill for impairment annually during the second quarter of each fiscal year or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill and intangible assets exceed their fair value. Due to the adoption of Accounting Standards Update ("ASU") No. 2017-04, effective January 1, 2017, we no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. We will continue to perform our qualitative analysis as well as step one of the impairment test which compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the fair value, an impairment charge will be recognized in an amount equal to the excess; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

For our goodwill tests prior to adoption of the new standard, we initially assessed goodwill for impairment based on qualitative factors to determine whether to perform the two-step annual goodwill impairment test, a Level 3 fair value measurement. After our qualitative assessment, step one of the impairment test compared the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeded the fair value, a second step was required to measure the goodwill impairment loss. The second step compared the implied fair value of the reporting unit's goodwill to its carrying amount. If the carrying amount exceeded the implied fair value, an impairment loss was recognized in an amount equal to the excess.

Our estimated fair values of our reporting units incorporate judgment and the use of estimates by management. Potential triggering events requiring assessment include a further or sustained decline in our stock price, declines in oil and natural gas prices, a variance in results of operations from forecasts, a change in operating strategy of assets and additional transactions in the oil and gas industry. Another factor in determining whether a triggering event has occurred is the relationship between our market capitalization and our book value. As part of our annual review, we compare the sum of our reporting units' estimated fair value, which includes the estimated fair value of non-operating assets and liabilities, less debt, to our market capitalization and assess the reasonableness of our estimated fair value. Any of the above-mentioned factors may cause us to re-evaluate goodwill during any quarter throughout the year.

Based on our annual review during the second quarter of 2017, we did not record a goodwill impairment.

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Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-07, Investments—Equity Method and Joint Ventures, to simplify the transition to the equity method of accounting. This standard eliminates the requirement to retroactively adopt the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. Instead, the equity method investor should add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for the equity method of accounting. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. The adoption of this guidance did not have an impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation, to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2016. We adopted this guidance on a prospective basis effective January 1, 2017. The impact of adoption was a decrease in deferred tax liabilities of $7.1 million and an increase in retained earnings of $7.1 million related to excess tax benefits on prior awards. Additionally, we elected to account for forfeitures as they occur. The impact of this election resulted in an increase in capital in excess of par and a corresponding decrease in retained earnings of $1.9 million.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other, which simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under this new standard, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognize an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for fiscal years beginning after December 15, 2019. We have elected to early adopt this guidance on a prospective basis for our annual goodwill impairment test performed subsequent to January 1, 2017. The adoption of this standard did not have an impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, relating to the revenue recognition from contracts with customers that creates a common revenue standard for GAAP and IFRS. The core principle will require recognition of revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration, including costs incurred, to which the entity expects to be entitled in exchange for those goods or services. The standard will also require significantly expanded disclosures containing qualitative and quantitative information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB approved a one year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017. Throughout 2017 we have taken many steps towards quantifying the impact of the new standard on our contracts. We, along with our third party consultants, have identified and reviewed our revenue streams, identified a subset of contracts to represent these revenue streams and performed a detailed analysis of such contracts. As part of this analysis, we identified specific areas impacted under the new standard. We have finalized our bucketing of contracts and expanded our sample of contracts for review in order to evaluate, document and quantify the consolidated impact of adopting the standard. We expect to apply the modified retrospective approach during the first quarter of 2018. However, we continue to evaluate the impact of the standard on our accounting policies, internal controls and consolidated financial statements and related disclosures.

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

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

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

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes, which improves the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact this will have on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash, to provide guidance on the classification of restricted cash in the statement of cash flows. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments in the ASU should be adopted on a retrospective basis. We are currently evaluating the impact this will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business and provides further guidance for evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. The standard provides a test to determine whether a set of assets and activities acquired is a business. When substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. Under the updated guidance, an acquisition of a single property will likely be treated as an asset acquisition as opposed to a business combination and associated transaction costs will be capitalized rather than expensed as incurred. Additionally, assets acquired, liabilities assumed, and any noncontrolling interest will be measured at their relative fair values. We do not expect the adoption of this standard to have an impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation, to reduce diversity in practice and provide clarity regarding existing guidance in ASC 718, “Stock Compensation”. The standard provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. This guidance is effective for public companies for fiscal years beginning after December 15, 2017. Early application is permitted. We are currently evaluating the impact that this will have on our consolidated financial statements.

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Note 3 Acquisitions

On September 5, 2017 we paid an initial amount of approximately $50.9 million in cash, subject to customary closing adjustments, to acquire Stavanger, Norway based Robotic Drilling Systems AS ("RDS"), a provider of automated tubular and tool handling equipment for the onshore and offshore drilling markets. This transaction will allow us to integrate RDS's highly capable team and product offering with the technology portfolio of Canrig Drilling Technology ("Canrig"), Nabors rig equipment division, and strengthens the development of Canrig's drilling automation solutions. As part of our purchase price allocation, we have initially recorded intangible assets of $53.3 million (developed technology and in process research and development), goodwill of approximately $5.7 million and other liabilities of $7.3 million (net of other working capital items). The proforma effect on revenue and net income (loss) have been determined to be immaterial to our financial statements.

On August 13, 2017, Nabors signed an Arrangement Agreement to acquire all of the issued and outstanding common shares of Tesco Corporation ("Tesco"), with each outstanding common share of Tesco being exchanged for 0.68 common shares of Nabors. This transaction (the "Arrangement") will create a leading rig equipment and drilling automation provider by combining Canrig, with Tesco's rig equipment manufacturing, rental and aftermarket service business. Additionally, Tesco operates a tubular services business in numerous key regions globally, which will immediately benefit Nabors Drilling Solutions' ("NDS") operation. Nabors estimates that it will issue approximately 32 million of its common shares in connection with this transaction. The consummation of the Arrangement is subject to approval by Tesco security holders, receipt of required regulatory approvals, approval by the Court of Queens Bench of Alberta, and satisfaction or waiver of other customary closing conditions. It is currently anticipated that the closing of the Arrangement will occur in the fourth quarter of 2017.

Note 4 Investments in Unconsolidated Affiliates

On March 24, 2015, we completed the merger of our Completion & Production Services business with C&J Energy Services, Inc.. We received total consideration comprised of approximately $693.5 million in cash ($650.0 million after settlement of working capital requirements) and approximately 62.5 million common shares in the combined company, CJES, representing approximately 53% of the outstanding and issued common shares of CJES as of the closing date. We recognized our share of the net income (loss) of CJES, which was a loss of $221.9 million for the nine months ended September 30, 2016, and is reflected in earnings (losses) from unconsolidated affiliates in our condensed consolidated statement of income (loss). Additionally, we recognized an other-than-temporary impairment charge of $192.4 million during the nine months ended September 30, 2016, which is reflected in other, net in our condensed consolidated statement of income (loss). During the third quarter of 2016, CJES commenced voluntarily cases under chapter 11 of the U.S. Bankruptcy code. As such, we ceased accounting for our investment in CJES as an equity method investment. In January 2017, CJES emerged from bankruptcy and as part of the settlement we received warrants to acquire the common equity in the reorganized CJES.

Note 5 Fair Value Measurements

Our financial assets and liabilities that are accounted for at fair value on a recurring basis as of September 30, 2017 consist of available-for-sale equity and debt securities. Our debt securities could transfer into or out of a Level 1 or 2 measure depending on the availability of independent and current pricing at the end of each quarter. During the three and nine months ended September 30, 2017, there were no transfers of our financial assets between Level 1 and Level 2 measures. Our financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The majority of our short-term investments are categorized as Level 1 and had a fair value of $23.6 million as of September 30, 2017. Additionally, we report our investment in the CJES warrants at fair value based on quoted market prices or prices quoted from third-party financial institutions. This measure is categorized as Level 2 and had a fair value of $6.2 million as of September 30, 2017.

Nonrecurring Fair Value Measurements

We applied fair value measurements to our nonfinancial assets and liabilities measured on a nonrecurring basis, which consist of measurements primarily to assets held for sale, goodwill, equity method investments, intangible assets and other long-lived assets, assets acquired and liabilities assumed in a business combination and our pipeline contractual commitment. Based upon our review of the fair value hierarchy, the inputs used in these fair value measurements were considered Level 3 inputs.

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Fair Value of Financial Instruments

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

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
6.15% senior notes due February 2018	$ 460,537	$ 467,620	$ 827,539	$ 865,300
9.25% senior notes due January 2019	303,489	327,902	303,489	337,443
5.00% senior notes due September 2020	669,769	685,622	669,540	689,211
4.625% senior notes due September 2021	695,048	686,096	694,868	708,765
5.50% senior notes due January 2023	600,000	598,242	600,000	627,000
5.10% senior notes due September 2023	346,544	333,680	346,448	348,613
0.75% senior exchangeable notes due January 2024	425,010	469,258	—	—
Term loan facility	—	—	162,500	162,500
Revolving credit facility	410,000	410,000	—	—
Commercial paper	78,000	78,000	—	—
Other	196	196	297	297
	3,988,593	$ 4,056,616	3,604,681	$ 3,739,129
Less: deferred financing costs	29,782		26,049	
	$ 3,958,811		$ 3,578,632	

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 6 Debt

Debt consisted of the following:

	September 30, 2017	December 31, 2016

	(In thousands)	
6.15% senior notes due February 2018 (1)	$ 460,537	$ 827,539
9.25% senior notes due January 2019	303,489	303,489
5.00% senior notes due September 2020	669,769	669,540
4.625% senior notes due September 2021	695,048	694,868
5.50% senior notes due January 2023	600,000	600,000
5.10% senior notes due September 2023	346,544	346,448
0.75% senior exchangeable notes due January 2024	425,010	—
Term loan facility	—	162,500
Revolving credit facility	410,000	—
Commercial paper	78,000	—
Other	196	297
	3,988,593	3,604,681
Less: current portion	196	297
Less: deferred financing costs	29,782	26,049
	$ 3,958,615	$