

CORRECTIONS CORP OF AMERICA

Form 10-K

February 27, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission file number: 001-16109
CORRECTIONS CORPORATION OF AMERICA
(Exact name of registrant as specified in its charter)

MARYLAND **62-1763875**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

10 BURTON HILLS BLVD., NASHVILLE, TENNESSEE 37215

(Address and zip code of principal executive office)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (615) 263-3000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class

Name of each exchange on which registered

Common Stock, \$.01 par value per share

New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ☐ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of the shares of the registrant's Common Stock held by non-affiliates was approximately \$2,055,550,605 as of June 30, 2006, based on the closing price of such shares on the New York Stock Exchange on that day. The number of shares of the Registrant's Common Stock outstanding on February 23, 2007 was 61,372,476.

DOCUMENTS INCORPORATED BY REFERENCE:

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Portions of the registrant's definitive Proxy Statement for the 2007 Annual Meeting of Stockholders currently scheduled to be held on May 10, 2007, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORM 10-K
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**CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING INFORMATION**

This annual report on Form 10-K contains statements that are forward-looking statements as defined within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations of forecasts of future events. All statements other than statements of current or historical fact contained in this annual report, including statements regarding our future financial position, business strategy, budgets, projected costs, and plans and objectives of management for future operations, are forward-looking statements. The words anticipate, believe, continue, estimate, expect, intend, may, plan, projects, will, and similar expressions to us, are intended to identify forward-looking statements. These statements are based on our current plans and actual future activities, and our results of operations may be materially different from those set forth in the forward-looking statements. In particular these include, among other things, statements relating to:

fluctuations in operating results because of changes in occupancy levels, competition, increases in cost of operations, fluctuations in interest rates and risks of operations;

changes in the privatization of the corrections and detention industry and the public acceptance of our services;

our ability to obtain and maintain correctional facility management contracts, including as the result of sufficient governmental appropriations, inmate disturbances, and the timing of the opening of new facilities and the commencement of new management contracts as well as our ability to utilize current available beds and new capacity as development and expansion projects are completed;

increases in costs to develop or expand correctional facilities that exceed original estimates, or the inability to complete such projects on schedule as a result of various factors, many of which are beyond our control, such as weather, labor conditions, and material shortages, resulting in increased construction costs;

changes in government policy and in legislation and regulation of the corrections and detention industry that adversely affect our business;

the availability of debt and equity financing on terms that are favorable to us; and

general economic and market conditions.

Any or all of our forward-looking statements in this annual report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and assumptions, including the risks, uncertainties and assumptions described in Risk Factors.

In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this annual report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. When you consider these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this annual report, including in Management's Discussion and Analysis of Financial Condition and Results of Operations and Business.

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Our forward-looking statements speak only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this annual report.

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PART I.

ITEM 1. BUSINESS.

Overview

We are the nation's largest owner and operator of privatized correctional and detention facilities and one of the largest prison operators in the United States behind only the federal government and three states. We currently operate 64 correctional, detention and juvenile facilities, including 40 facilities that we own, with a total design capacity of approximately 72,000 beds in 19 states and the District of Columbia. Further, we are constructing an additional 1,896-bed correctional facility in Eloy, Arizona that is expected to be completed mid-2007. We also own three additional correctional facilities that we lease to third-party operators.

We specialize in owning, operating, and managing prisons and other correctional facilities and providing inmate residential and prisoner transportation services for governmental agencies. In addition to providing the fundamental residential services relating to inmates, our facilities offer a variety of rehabilitation and educational programs, including basic education, religious services, life skills and employment training and substance abuse treatment. These services are intended to help reduce recidivism and to prepare inmates for their successful reentry into society upon their release. We also provide health care (including medical, dental, and psychiatric services), food services, and work and recreational programs.

Our website address is www.correctionscorp.com. We make our Form 10-K, Form 10-Q, Form 8-K, and Section 16 reports available on our website, free of charge, as soon as reasonably practicable after these reports are filed with or furnished to the Securities and Exchange Commission (the "SEC"). Information contained on our website is not part of this report.

Operations

Management and Operation of Correctional and Detention Facilities

Our customers consist of federal, state, and local correctional and detention authorities. For the years ended December 31, 2006, 2005, and 2004, federal correctional and detention authorities represented 40%, 39%, and 38%, respectively, of our total revenue. Federal correctional and detention authorities primarily consist of the Federal Bureau of Prisons, or the BOP, the United States Marshals Service, or the USMS, and the U.S. Immigration and Customs Enforcement, or ICE.

Our management services contracts typically have terms of one to five years and contain multiple renewal options. Most of our facility contracts also contain clauses that allow the government agency to terminate the contract at any time without cause, and our contracts are generally subject to annual or bi-annual legislative appropriation of funds. We are compensated for operating and managing facilities at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels. Occupancy rates for a particular facility are typically low when first opened or when expansions are first available. However, beyond the start-up period, which typically ranges from 90 to 180 days, the occupancy rate tends to stabilize. For the years 2006, 2005, and 2004, the average compensated occupancy of our facilities, based on rated capacity, was 94.9%, 91.4%, and 94.9%, respectively, for all of the facilities we owned or managed, exclusive of facilities where operations have been discontinued. From a capacity perspective, as of December 31, 2006, we had four facilities, our Stewart Detention Center, North Fork Correctional Facility, Florence Correctional Center, and our newly constructed Red Rock Correctional Center, that provide us with approximately 1,900 available beds. We believe we have been successful in substantially filling, or

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entering into management contracts that are expected to substantially fill, our remaining inventory of available beds, as set forth below.

In June 2006, we entered into a new agreement with Stewart County, Georgia to house detainees from ICE under an inter-governmental service agreement between Stewart County and ICE. The agreement enables ICE to accommodate detainees at our Stewart Detention Center. The agreement with Stewart County is effective through December 31, 2011, and provides for an indefinite number of renewal options. We began receiving ICE detainees at the Stewart facility in October 2006 and expect that ICE detainees will substantially occupy the Stewart facility sometime during 2007.

During February 2005, we commenced construction of the Red Rock Correctional Center, a new 1,596-bed correctional facility located in Eloy, Arizona. The facility was completed during July 2006. We relocated all of the Alaskan inmates from our Florence Correctional Center into this new facility during the third quarter of 2006. The beds made available at the Florence facility are expected to be used to satisfy anticipated state and federal demand for detention beds in the Arizona area, including inmates from the state of California. As of December 31, 2006, the Red Rock facility housed 993 Alaskan inmates and 222 Hawaiian inmates.

In October 2006, we announced that as a result of an emergency proclamation declared by the Governor of California, we entered into a new agreement with the State of California Department of Corrections and Rehabilitation, or CDCR, to house up to approximately 1,000 California male inmates at several of our facilities. The terms of the agreement include an initial three-year term which may be extended for successive two-year terms by mutual agreement. We began receiving inmates on November 3, 2006 at our West Tennessee Detention Facility, and as of December 31, 2006 we housed 230 CDCR inmates who volunteered to be transferred to our West Tennessee and Florence facilities. On February 2, 2007, the Governor of California ordered the CDCR to begin the involuntary transfer of prisoners to correctional facilities outside of California in a further effort to relieve prison overcrowding. As a result of the Governor's request, we agreed to amend the contract with the CDCR to potentially provide up to 4,670 additional beds for a total of approximately 5,670 beds. The amendment includes the potential utilization of additional beds at our Florence facility, the potential utilization of beds in our Tallahatchie and Diamondback facilities that will be vacated when the state of Hawaii transfers inmates to our new 1,896-bed Saguaro Correctional Facility (which is expected to be completed mid-2007), as well as expansion beds at the North Fork and Tallahatchie facilities that we expect to complete during the fourth quarter of 2007, as further described hereafter.

Lawsuits have been filed against California officials by employee unions, advocacy groups and others seeking to halt the out-of-state inmate transfers. On February 20, 2007, a California trial court, the Superior Court of California, County of Sacramento, ruled that the Governor of California acted in excess of his authority in issuing the emergency proclamation and that the contracts entered into by the CDCR to implement out of state transfers violated civil service principles contained in the State's constitution. The enforcement of this ruling is stayed for ten days following entry of judgment and we expect that there will be no change in the status of inmates already transferred to our facilities while the stay of enforcement is in place. We expect that the Governor of California will appeal this ruling and seek an extension of the stay of enforcement pending the results of the appeal. However, we can provide no assurance that the ruling will be appealed or that an extension of the stay will be granted, and we cannot predict the ultimate outcome of the appeal should it occur. Further, we can provide no assurances as to whether additional lawsuits will arise, how the California courts will ultimately rule on such lawsuits, the timing of the transfer of inmates, the total number of inmates that will ultimately be received or whether court rulings could require the return of inmates to California. During December 2006, we entered into an agreement with Bent County, Colorado to house Colorado male inmates under an inter-governmental service agreement between the County and State of

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Colorado Department of Corrections. Under the agreement we may house up to 720 Colorado inmates, subject to bed availability, at our North Fork Correctional Facility. The term of the contract includes an initial term which commenced December 28, 2006 and runs through June 30, 2007, and provides for mutually agreed extensions for a total contract term of up to five years. As of January 31, 2007, we had received approximately 480 Colorado inmates at the North Fork facility. If adequate bed space is available at the facility, Colorado may transfer additional inmates to the facility in order to meet any growth in Colorado inmate populations.

Enhanced Focus on Delivering New Bed Capacity

As a result of increasing demand from both our federal and state customers and the utilization of a significant portion of our existing available beds, we have intensified our efforts to deliver new capacity to address the lack of available beds that our existing and potential customers are experiencing. The following table sets forth current expansion and development projects at facilities we own:

Facilities Under Development ⁽¹⁾	Beds	Total Bed Capacity Following Expansion	Estimated Completion Date	Potential Customer(s)
Crossroads Correctional Center, Montana	96	664	Q1 2007	State of Montana and USMS
Saguaro Correctional Facility, Arizona	1,896	1,896	Mid-2007	State of Hawaii
North Fork Correctional Facility, Oklahoma	960	2,400	Q4 2007	Various States
Tallahatchie County Correctional Facility, Mississippi	360	1,464	Q4 2007	Federal and /or Various States
Eden Detention Center, Texas	129	1,354	Q1 2008	BOP
Bent County Correctional Facility, Colorado	720	1,420	Q2 2008	Colorado
Kit Carson Correctional Center, Colorado	720	1,488	Q2 2008	Colorado

(1) These development projects are described in further detail in Facilities Under Construction or Development hereafter.

Certain of our customers have also engaged us to expand certain facilities they own, that we manage for them. During the first quarter of 2007, we substantially completed an expansion by 360-beds of the 400-bed Citrus County Detention Facility, owned by Citrus County and located in Lecanto, Florida. We funded the expansion with cash on

hand. If the County terminates our management contract at any time prior to twenty years following completion of construction, the County would be required to pay us an amount equal to the construction cost less an allowance for amortization over a twenty-year period. In addition, the Florida Department of Management Services awarded to us contracts to design, construct, and operate a 235-bed expansion of their Bay Correctional Facility in Panama City, Florida and a 384-bed expansion of their Gadsden Correctional Institution in Quincy, Florida. Both of these expansions will be funded by the state of Florida.

In addition to the above listed projects, we are actively pursuing a number of additional sites for new prison development. We believe it is feasible to begin development of an additional 4,000 to 6,000 new prison beds during the course of the next year.

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Operating Procedures

Pursuant to the terms of our management contracts, we are responsible for the overall operations of our facilities, including staff recruitment, general administration of the facilities, facility maintenance, security, and supervision of the offenders. We are required by our contracts to maintain certain levels of insurance coverage for general liability, workers' compensation, vehicle liability, and property loss or damage. We are also required to indemnify the contracting agencies for claims and costs arising out of our operations and, in certain cases, to maintain performance bonds and other collateral requirements. Approximately 85% of the facilities we operated at December 31, 2006 were accredited by the American Correctional Association Commission on Accreditation. The American Correctional Association, or the ACA, is an independent organization comprised of corrections professionals that establish accreditation standards for correctional and detention institutions.

We provide a variety of rehabilitative and educational programs at our facilities. Inmates at most facilities we manage may receive basic education through academic programs designed to improve literacy levels and the opportunity to acquire GED certificates. We also offer vocational training to inmates who lack marketable job skills. Our craft vocational training programs are accredited by the National Center for Construction Education and Research. This organization provides training curriculum and establishes industry standards for over 4,000 construction and trade organizations in the United States and several foreign countries. In addition, we offer life skills transition planning programs that provide inmates with job search skills, health education, financial responsibility training, parenting, and other skills associated with becoming productive citizens. At many of our facilities, we also offer counseling, education and/or treatment to inmates with alcohol and drug abuse problems through our Strategies for Change and Residential Drug Addictions Treatment Program, or RDAP. Equally significant, we offer cognitive behavioral programs aimed at changing the anti-social attitudes and behaviors of offenders, and faith-based and religious programs that offer all offenders the opportunity to practice their spiritual beliefs. These programs incorporate the use of thousands of volunteers, along with our staff, that assist in providing guidance, direction, and post incarceration services to offenders. We believe these programs help reduce recidivism.

We operate our facilities in accordance with both company and facility-specific policies and procedures. The policies and procedures reflect the high standards generated by a number of sources, including the ACA, the Joint Commission on Accreditation of Healthcare Organizations, the National Commission on Correctional Healthcare, the Occupational Safety and Health Administration, federal, state, and local government guidelines, established correctional procedures, and company-wide policies and procedures that may exceed these guidelines. Outside agency standards, such as those established by the ACA, provide us with the industry's most widely accepted operational guidelines. Our facilities not only operate under these established standards (we have sought and received accreditation for 55 of the facilities we managed as of December 31, 2006) but are consistently challenged by management to exceed these standards. This challenge is presented, in large part, through an extensive, comprehensive Quality Assurance Program. We intend to apply for ACA accreditation for all of our eligible facilities that are not currently accredited where it is economically feasible to complete the 18-24 month accreditation process.

Our Quality Assurance Department independently operates under the auspices of, and reports directly to, the Company's Office of General Counsel. The Quality Assurance Department consists of two major sections. The first is the Research and Data Analysis Section which collects and analyzes performance metrics across multiple databases. Through rigorous reporting and analyses of comprehensive, comparative statistics across disciplines, divisions, business units and the Company as a whole, the Research and Data Analysis Section provides timely, independently generated performance and trend data to senior management. The second major section within the Quality Assurance Department is the Operational Audit Section. This section consists of two full time audit teams comprised of subject matter experts from all the major discipline areas within institutional

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operations. These two audit teams conduct rigorous, on site annual evaluations of each facility within the Company with only minimal advance notice. Highly specialized, discipline specific audit tools, containing over 800 audited items are employed in this detailed, comprehensive process. The results of these on site evaluations are used to discern areas of strength and areas in need of management attention. The audit findings also comprise a major part of our continuous operational risk assessment and management process. The Company has devoted significant resources to the Quality Assurance Department, enabling us to monitor compliance with contractual requirements, outside agency and accrediting organization standards. Quality Assurance closely monitors all efforts by our facilities to deliver the exceptional quality of services and operations expected.

Prisoner Transportation Services

We provide transportation services to governmental agencies through our wholly-owned subsidiary, TransCor America, LLC, or TransCor. TransCor is the largest third-party prisoner extradition company in the United States. Through a hub-and-spoke network, TransCor provides nationwide coverage to over 800 federal, state, and local agencies across the country. During the years ended December 31, 2006, 2005, and 2004, TransCor generated total consolidated revenue of \$15.1 million, \$14.6 million, and \$19.1 million, respectively, comprising 1.1%, 1.2%, and 1.7% of our total consolidated revenue in each respective year. We also provide transportation services for our existing customers utilizing TransCor's services. We believe TransCor provides a complementary service to our core business that enables us to quickly respond to our customers' transportation needs.

Facility Portfolio

General

Our facilities can generally be classified according to the level(s) of security at such facility. Minimum security facilities have open housing within an appropriately designed and patrolled institutional perimeter. Medium security facilities have either cells, rooms or dormitories, a secure perimeter, and some form of external patrol. Maximum security facilities have cells, a secure perimeter, and external patrol. Multi-security facilities have various areas encompassing minimum, medium or maximum security. Non-secure facilities are facilities having open housing that inhibit movement by their design. Secure facilities are facilities having cells, rooms, or dormitories, a secure perimeter, and some form of external patrol.

Our facilities can also be classified according to their primary function. The primary functional categories are:

Correctional Facilities. Correctional facilities house and provide contractually agreed upon programs and services to sentenced adult prisoners, typically prisoners on whom a sentence in excess of one year has been imposed.

Detention Facilities. Detention facilities house and provide contractually agreed upon programs and services to (i) prisoners being detained by ICE, (ii) prisoners who are awaiting trial who have been charged with violations of federal criminal law (and are therefore in the custody of the USMS) or state criminal law, and (iii) prisoners who have been convicted of crimes and on whom a sentence of one year or less has been imposed.

Juvenile Facilities. Juvenile facilities house and provide contractually agreed upon programs and services to juveniles, typically defined by applicable federal or state law as being persons below the age of 18, who have been determined to be delinquents by a juvenile court and who have been committed for an indeterminate period of time but who typically remain confined for

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a period of six months or less. At December 31, 2006, we owned only one such juvenile facility. The operation of juvenile facilities is not considered part of our strategic focus.

Leased Facilities. Leased facilities are facilities that are within one of the above categories and that we own but do not manage. These facilities are leased to third-party operators.

Facilities and Facility Management Contracts

We own 43 correctional, detention, and juvenile facilities in 14 states and the District of Columbia, three of which we lease to third-party operators. We also own two corporate office buildings. Additionally, we currently manage 24 correctional and detention facilities owned by government agencies. The following table sets forth all of the facilities which we currently (i) own and manage, (ii) own, but are leased to another operator, and (iii) manage but are owned by a government authority. The table includes certain information regarding each facility, including the term of the primary management contract related to such facility, or, in the case of facilities we own but lease to a third-party operator, the term of such lease. We have a number of management contracts and leases that expire in 2007 (or have expired) with no remaining renewal options. We continue to operate, and, unless otherwise noted, expect to continue to manage or lease these facilities, although we can provide no assurance that we will maintain our contracts to manage or lease these facilities or when new contracts will be renewed.

Facility Name	Primary Design Customer	Design Capacity (A)	Security Level	Facility Type (B)	Term	Remaining Renewal Options (C)
Owned and Managed Facilities:						
Central Arizona Detention Center Florence, Arizona	USMS	2,304	Multi	Detention	May 2007	(1) 1 year
Eloy Detention Center Eloy, Arizona	ICE	1,500	Medium	Detention	Indefinite	
Florence Correctional Center Florence, Arizona	USMS	1,824	Multi	Correctional	May 2007	(1) 1 year
Red Rock Correctional Center Eloy, Arizona	State of Alaska	1,596	Medium	Correctional	June 2008	(6) 1 year
California City Correctional Center California City, California	BOP	2,304	Medium	Correctional	September 2007	(3) 1 year
San Diego Correctional Facility (D) San Diego, California	ICE	1,016	Minimum/Medium	Detention	June 2008	(5) 3 years
Bent County Correctional Facility Las Animas, Colorado	State of Colorado	700	Medium	Correctional	June 2007	(1) 1 year
Crowley County Correctional Facility Olney Springs, Colorado	State of Colorado	1,794	Medium	Correctional	June 2007	(1) 1 year
Huerfano County Correctional Center (E) Walsenburg, Colorado	State of Colorado	752	Medium	Correctional	June 2007	(1) 1 year

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Kit Carson Correctional Center Burlington, Colorado	State of Colorado	768	Medium	Correctional	June 2007	(1) 1 year
Coffee Correctional Facility (F) Nicholls, Georgia	State of Georgia	1,524	Medium	Correctional	June 2007	(22) 1 year
McRae Correctional Facility McRae, Georgia	BOP	1,524	Medium	Correctional	November 2007	(5) 1 year

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	Primary	Design	Security	Facility	Remaining
Facility Name	Customer	Capacity	Level	Type (B)	Options (C)
Stewart Detention Center Lumpkin, Georgia	ICE	1,524	Medium	Correctional	Indefinite
Wheeler Correctional Facility (F) Alamo, Georgia	State of Georgia	1,524	Medium	Correctional	June 2007 (22) 1 year
Leavenworth Detention Center Leavenworth, Kansas	USMS	767	Maximum	Detention	December 2011 (3) 5 year
Lee Adjustment Center Beattyville, Kentucky	State of Vermont	816	Minimum/Medium	Correctional	June 2007
Marion Adjustment Center St. Mary, Kentucky	Commonwealth of Kentucky	826	Minimum	Correctional	December 2007 (3) 2 year
Otter Creek Correctional Center (G) Wheelwright, Kentucky	Commonwealth of Kentucky	656	Minimum/Medium	Correctional	July 2007 (4) 2 year
Prairie Correctional Facility Appleton, Minnesota	State of Minnesota	1,600	Medium	Correctional	June 2007
Tallahatchie County Correctional Facility (H) Tutwiler, Mississippi	State of Hawaii	1,104	Medium	Correctional	June 2007 (2) 2 year
Crossroads Correctional Center (I) Shelby, Montana	State of Montana	664	Multi	Correctional	August 2007 (6) 2 year
Cibola County Corrections Center Milan, New Mexico	BOP	1,129	Medium	Correctional	September 2007 (3) 1 year
New Mexico Women's Correctional Facility Grants, New Mexico	State of New Mexico	596	Multi	Correctional	June 2009
Torrance County Detention Facility Estancia, New Mexico	USMS	910	Multi	Detention	Indefinite
Northeast Ohio Correctional Center Youngstown, Ohio	BOP	2,016	Medium	Correctional	May 2009 (3) 2 year

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Cimarron Correctional Facility (J) Cushing, Oklahoma	State of Oklahoma	960	Medium	Correctional	September 2007	(2) 1 year
Davis Correctional Facility (J) Holdenville, Oklahoma	State of Oklahoma	960	Medium	Correctional	September 2007	(2) 1 year
Diamondback Correctional Facility Watonga, Oklahoma	State of Arizona	2,160	Medium	Correctional	June 2007	
North Fork Correctional Facility Sayre, Oklahoma	State of Wyoming	1,440	Medium	Correctional	June 2008	
West Tennessee Detention Facility Mason, Tennessee	USMS	600	Multi	Detention	February 2009	
Shelby Training Center (K) Memphis, Tennessee	Shelby County, Tennessee	200	Secure	Juvenile	April 2015	
Whiteville Correctional Facility (L) Whiteville, Tennessee	State of Tennessee	1,536	Medium	Correctional	September 2007	(1) 1 year
Bridgeport Pre-Parole Transfer Facility Bridgeport, Texas	State of Texas	200	Medium	Correctional	February 2007	(4) 1 year

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	Primary	Design	Security	Facility	Remaining
	Customer	Capacity	Level	Type (B)	Renewal
	BOP	(A)	Medium	Correctional	Options (C)
		1,225			(3) 2 year
	ICE	905	Medium	Detention	September 2007
	ICE	258	Minimum/ Medium	Detention	December 2009
Center	USMS	480	Medium	Detention	May 2007
Transfer	State of Texas	2,103	Minimum	Correctional	February 2007
Center	ICE	512	Non-secure	Detention	Indefinite
ent Facility (M)	District of Columbia	1,500	Medium	Detention	March 2017
:	State of Florida	750	Medium	Correctional	June 2007
ex	Bay County, Florida	1,150	Multi	Detention	September 2012
Facility	Citrus County, Florida	760	Multi	Detention	September 2015
stitution	State of Florida	1,136			
	2005	240,000		75,000	93,739
	2004	200,000		50,000	0
	2003	185,000		45,000	0
	2005	110,000		45,000	54,159 ⁽¹¹⁾
	2004	100,000		12,500	18,736
	2003	99,333		10,000	57,867
					46,089
					0

- (1) Represents the grant date value of Nabors restricted stock awarded to the named executive officers on February 24, 2005 for performance during 2004, based on the closing price of Nabors common shares on said date of \$57.65 per share. The total number of restricted shares held, and their aggregate value as of December 30, 2005, were as follows: Mr. Isenberg

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100,000 shares valued at \$7,575,000, Mr. Petrello 50,000 shares valued at \$3,787,500, Mr. Koch 1,626 shares valued at \$123,170, and Mr. McLachlin 325 shares valued at \$24,619. Each of the Named Executive Officers also received the number of restricted shares indicated below, effective February 28, 2006 for performance during 2005. On February 28, 2006, the fair market value of a common share of Nabors was \$65.95. The restricted stock awards vest in three equal annual installments beginning on the first anniversary of the date of the grant for Mr. Isenberg and Mr. Petrello and four equal annual installments beginning on the first anniversary of the date of the grant for Mr. Koch: Mr. Isenberg 100,000, Mr. Petrello 50,000, and Mr. Koch 2,000.

- (2) Includes \$50,000 paid as director's fees.
- (3) Mr. Isenberg is entitled to receive an annual cash bonus as provided in his employment agreement. For each of fiscal years 2005, 2004, and 2003, Mr. Isenberg agreed to accept a cash bonus that was less than the cash bonus he was entitled to receive under his employment agreement. See below Employment Contracts.
- (4) Includes various club dues (\$55,285); auto allowance, including tax gross-up (\$37,766); imputed life insurance (\$14,642); tax preparation fees, including tax gross-up (\$118,020); and personal use of corporate aircraft, including tax gross-up (\$61,948).
- (5) Includes (a) Nabors matching contributions to a retirement savings plan and a non-qualified deferred compensation plan of \$8,400; and (b) \$236,573 that is the net benefit to Mr. Isenberg of the premiums paid by Nabors, as projected on an actuarial basis, for a split dollar life insurance arrangement (Nabors has suspended additional premium payments under these policies as a result of the adoption of the Sarbanes-Oxley Act of 2002).
- (6) Includes \$50,000 paid as director's fees.
- (7) Mr. Petrello is entitled to receive an annual cash bonus as provided in his employment agreement. For each of fiscal years 2005 and 2004, Mr. Petrello agreed to accept a cash bonus that was less than the cash bonus he was entitled to receive under his employment agreement. See below Employment Contracts.
- (8) Includes club dues (\$18,906); auto allowance, including tax gross-up (\$37,822); imputed life insurance (\$3,864); tax gross-up on move (\$36,755); and personal use of corporate aircraft, including tax gross-up (\$126,485).
- (9) Includes (a) Nabors matching contributions to a retirement savings plan and a non-qualified deferred compensation plan of \$8,400; (b) \$92,847.00 that is the net benefit to Mr. Petrello of the premiums paid by Nabors, as projected on an actuarial basis, for a split dollar life insurance arrangement (Nabors has suspended additional premium payments under these policies as a result of the adoption of the Sarbanes-Oxley Act of 2002); and (c) imputed interest of \$100,839 on a loan from Nabors in the maximum amount of \$2,881,915 pursuant to his employment agreement in connection with his relocation to Houston, the balance of which was \$2,881,915 as of March 31, 2006, and on which no interest has been paid or charged thereon.
- (10) Includes Nabors matching contributions to a retirement savings plan and a non-qualified deferred compensation plan of \$8,400.
- (11) Includes club dues; imputed life insurance; foreign service premium; goods & services differential (\$27,089); Company reimbursement of moving expenses in connection with a relocation to Bermuda; and a hardship allowance.

- (12) Includes Nabors matching contributions to a retirement savings plan and a nonqualified deferred compensation plan of \$3,578.

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The following table provides information with respect to stock options granted during the fiscal year ended December 31, 2005 to the Named Executive Officers. Nabors did not grant any stock appreciation rights to the Named Executive Officers during the fiscal year ended December 31, 2005.

Name	Number of Securities Underlying Options Granted	Individual Grants			Grant Date Present Value (\$) ⁽⁴⁾
		% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	
Eugene M. Isenberg	350,000 ⁽¹⁾	9.55%	57.65	02/24/2015	5,636,610
Eugene M. Isenberg	1,333,333 ⁽²⁾	36.37%	71.61	12/05/2015	29,879,193
Anthony G. Petrello	175,000 ⁽¹⁾	4.77%	57.65	02/24/2015	2,818,305
Anthony G. Petrello	666,667 ⁽²⁾	18.18%	71.61	12/05/2015	14,939,607
Bruce P. Koch	5,000 ⁽¹⁾	.14%	57.65	02/24/2015	53,362
Bruce P. Koch	5,000 ⁽³⁾	.14%	62.10	07/08/2015	59,886
Daniel McLachlin	1,000 ⁽¹⁾	.03%	57.65	02/24/2015	10,672

(1) The options were granted on February 24, 2005 and were fully vested on June 1, 2005.

(2) The options were granted on December 5, 2005 and were fully vested on December 30, 2005.

(3) The options were granted on July 8, 2005 and were fully vested on December 31, 2005.

(4) All options are granted at an exercise price equal to the closing price of Nabors common shares on the date of grant. Therefore, if there is no appreciation in the market value, no value will be realizable. In accordance with Securities and Exchange Commission rules, the Black-Scholes option pricing model was chosen to estimate the grant date present value of the options set forth in this table. Nabors use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. The following assumptions were made for purposes of estimating the fair value of each option grant: (a) for options granted to Mr. Isenberg and Mr. Petrello on February 24, 2005 an expected term of 4 years, volatility of 27.5% and a risk-free rate of return of 3.801%; (b) for options granted to Mr. Koch and Mr. McLachlin on February 24, 2005 an expected term of 2 years, volatility of 27.5% and a risk-free rate of return of 3.498%; (c) for options granted on July 8, 2005 an expected term of 2 years, volatility of 28.5% and a risk-free rate of return of 3.77%; and (d) for options granted December 5, 2005 an expected term of 4 years, volatility of 30.75% and a risk-free rate of return of 4.49%. The figures given are not intended to forecast future price appreciation of the shares. The real value of the options in this table depends solely upon the actual performance of the Nabors shares during the applicable period.

Option Exercises During 2005 and Year-End Option Values

The following table provides information with respect to stock options exercised during 2005 and the value as of December 30, 2005 of unexercised in-the-money options held by the Named Executive Officers. The value realized on

the exercise of options is calculated using the difference between the per share option exercise price and the market value of a share on the date of the exercise. The value of

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unexercised in-the-money options at fiscal year end is calculated using the difference between the per share option exercise price and the market value of \$75.75 per share at December 30, 2005.

Name	Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End	Value of Unexercised In-the-Money Options at Fiscal Year-End (\$)
			Exercisable/Unexercisable	Exercisable/Unexercisable
Eugene M. Isenberg	4,846,240	193,308,763	8,082,170/950,002	242,977,387/30,615,403
Anthony G. Petrello	1,869,923	81,616,986	4,756,991/475,001	159,036,806/15,307,701
Bruce P. Koch	82,850	3,059,025	37,500/43,750	1,137,300/1,414,025
Daniel McLachlin	0	0	2,125/6,625	51,670/235,585

Employment Contracts

Nabors Chairman and Chief Executive Officer, Eugene M. Isenberg, and its Deputy Chairman, President and Chief Operating Officer, Anthony G. Petrello, have employment agreements which were amended and restated effective October 1, 1996 and which currently are due to expire on September 30, 2010.

Mr. Isenberg's employment agreement was originally negotiated with a creditors' committee in 1987 in connection with the reorganization proceedings of Anglo Energy, Inc., which subsequently changed its name to Nabors. These contractual arrangements subsequently were approved by the various constituencies in those reorganization proceedings, including equity and debt holders, and confirmed by the United States Bankruptcy Court.

Mr. Petrello's employment agreement was first entered into effective October 1, 1991. Mr. Petrello's employment agreement was agreed upon as part of arm's length negotiations with the Board before he joined Nabors in October 1991, and was reviewed and approved by the Compensation Committee of the Board and the full Board of Directors at that time.

The employment agreements for Messrs. Isenberg and Petrello were amended in 1994 and 1996. These amendments were approved by the Compensation Committee of the Board and the full Board of Directors at that time.

The employment agreements provide for an initial term of five years with an evergreen provision which automatically extended the agreement for an additional one-year term on each anniversary date, unless Nabors provided notice to the contrary ten days prior to such anniversary. The Board of Directors in March 2006 exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello, and accordingly these agreements will expire at the end of their current term at September 30, 2010.

In addition to a base salary, the employment agreements provide for annual cash bonuses in an amount equal to 6% and 2%, for Messrs. Isenberg and Petrello, respectively, of Nabors' net cash flow (as defined in the respective employment agreements) in excess of 15% of the average shareholders' equity for each fiscal year. (Mr. Isenberg's cash bonus formula originally was set at 10% in excess of a 10% return on shareholders' equity and he has voluntarily reduced it over time to its 6% in excess of 15% level.) Mr. Petrello's bonus is subject to a minimum of \$700,000 per year. In 15 of the last 16 years, Mr. Isenberg has agreed voluntarily to accept a lower annual cash bonus (i.e., a cash amount lower than the cash amount provided for under his employment agreement) in light of his overall

compensation package. Mr. Petrello has agreed voluntarily to accept a lower annual cash bonus (i.e., a cash amount lower than the cash amount provided for under his employment agreement) in light of his overall compensation package in 13 of the last 15 years. For 2005 the annual cash bonuses for Messrs. Isenberg and Petrello pursuant to the formula described in their employment agreements were \$41.2 million and \$13.7 million, respectively; but in light of their overall compensation package

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(including significant stock option grants and restricted stock awards), they agreed to accept cash bonuses in the amounts of \$3 million and \$1.5 million, respectively. There can be no assurance that Messrs. Isenberg and Petrello will agree in the future to accept annual cash bonuses in an amount less than the cash amounts provided for in their agreements.

Mr. Isenberg voluntarily agreed to amend his employment agreement in March 2006 (the 2006 Amendment). Under the 2006 Amendment, Mr. Isenberg agreed to reduce the annual cash bonus to an amount equal to 3% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for 2006. For 2007 through the expiration date of the employment agreement, the annual cash bonus will return to 6% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for each fiscal year.

Messrs. Isenberg and Petrello also are eligible for awards under Nabors' equity plans and may participate in annual long-term incentive programs and pension and welfare plans, on the same basis as other executives; and may receive special bonuses from time to time as determined by the Board.

In the event that either Mr. Isenberg's or Mr. Petrello's employment agreement is terminated (i) upon death or disability (as defined in the respective employment agreements), (ii) by Nabors prior to the expiration date of the employment agreement for any reason other than for Cause (as defined in the respective employment agreements) or (iii) by either individual for Constructive Termination Without Cause (as defined in the respective employment agreements), each would be entitled to receive within 30 days of the triggering event (a) all base salary which would have been payable through the expiration date of the contract or three times his then current base salary, whichever is greater; plus (b) the greater of (i) all annual cash bonuses which would have been payable through the expiration date; (ii) three times the highest bonus (including the imputed value of grants of stock awards and stock options), paid during the last three fiscal years prior to termination; or (iii) three times the highest annual cash bonus payable for each of the three previous fiscal years, regardless of whether the amount was paid. In computing any amount due under (b)(i) and (iii) above, the calculation is made without regard to the 2006 Amendment reducing Mr. Isenberg's bonus percentage as described above. If, by way of example, these provisions had applied at March 13, 2006, Mr. Isenberg would have been entitled to a payment of approximately \$204 million, subject to a true up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but would not be less than approximately \$204 million. Similarly, with respect to Mr. Petrello, had these provisions applied at March 13, 2006, Mr. Petrello would have been entitled to a payment of approximately \$104 million, subject to a true up equal to the amount of cash bonus he would have earned under the formula during the remaining term of the agreement, based upon actual results, but would not be less than approximately \$104 million. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. In addition, the affected individual is entitled to receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Mr. Isenberg, as of March 13, 2006, the value of unvested restricted stock was approximately \$10.9 million and the value of in-the-money unvested stock options was approximately \$6.2 million. For Mr. Petrello, as of March 13, 2006, the value of unvested restricted stock was approximately \$5.5 million and the value of in-the-money unvested stock

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options was approximately \$3.1 million. Estimates of the cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above.

In the event that Messrs. Isenberg's or Petrello's termination of employment is related to a Change in Control (as defined in their respective employment agreements), they would be entitled to receive a cash amount equal to the greater of (a) one dollar less than the amount that would constitute an excess parachute payment as defined in Section 280G of the Internal Revenue Code, or (b) the cash amount that would be due in the event of a termination without cause, as described above. If, by way of example, there was a change of control event that applied on March 13, 2006, then the payments to Messrs. Isenberg and Petrello would be approximately \$204 million and \$104 million, respectively. These payment amounts are based on historical data and are not intended to be estimates of future payments required under the agreements. Depending upon future operating results, the true-up could result in the payment of amounts which are significantly higher. In addition, they would receive (a) any unvested restricted stock outstanding, which shall immediately and fully vest; (b) any unvested outstanding stock options, which shall immediately and fully vest; (c) any amounts earned, accrued or owing to the executive but not yet paid (including executive benefits, life insurance, disability benefits and reimbursement of expenses and perquisites), which shall be continued through the later of the expiration date or three years after the termination date; (d) continued participation in medical, dental and life insurance coverage until the executive receives equivalent benefits or coverage through a subsequent employer or until the death of the executive or his spouse, whichever is later; and (e) any other or additional benefits in accordance with applicable plans and programs of Nabors. For Mr. Isenberg, as of March 13, 2006, the value of unvested restricted stock was approximately \$10.9 million and the value of in-the-money unvested stock options was approximately \$6.2 million. For Mr. Petrello, as of March 13, 2006, the value of unvested restricted stock was approximately \$5.5 million and the value of in-the-money unvested stock options was approximately \$3.1 million. The cash value of Nabors' obligations to Messrs. Isenberg and Petrello under (c), (d) and (e) above are included in the payment amounts above. Also, they would receive additional stock options immediately exercisable for 5 years to acquire a number of shares of common stock equal to the highest number of options granted during any fiscal year in the previous three fiscal years, at an option exercise price equal to the average closing price during the 20 trading days prior to the event which resulted in the change of control. If, by way of example, there was a change of control event that applied at March 13, 2006, Mr. Isenberg would have received 1,683,333 options valued at approximately \$41 million and Mr. Petrello would have received 841,666 options valued at approximately \$20 million, in each case based upon a Black Scholes analysis. Finally, in the event that an excise tax were applicable, they would receive a gross-up payment to make them whole with respect to any excise taxes imposed by Section 4999 of the Internal Revenue Code. With respect to the preceding sentence, by way of example, if there was a change of control event that applied on March 13, 2006, and assuming that the excise tax were applicable to the transaction, then the additional payments to Messrs. Isenberg and Petrello for the gross-up would be up to approximately \$92 million and \$49 million, respectively.

In addition to salary and bonus, each of Mr. Isenberg and Mr. Petrello receive group life insurance at an amount at least equal to three times their respective base salaries; various split-dollar life insurance policies, reimbursement of expenses, various perquisites and a personal umbrella policy in the amount of \$5 million. Premiums payable under the split dollar life insurance policies have been suspended as a result of the adoption of the Sarbanes-Oxley Act of 2002.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This section discusses certain direct and indirect relationships and transactions involving Nabors and any director or Named Executive Officer.

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Mr. Petrello has a loan from Nabors in the maximum amount of \$2,881,915 pursuant to his employment agreement in connection with his relocation to Houston, the balance of which was \$2,881,915 as of December 31, 2005. The repayment of the loan was automatically extended for an additional year on each anniversary of his employment agreement. In September 2002 Mr. Petrello signed a waiver discontinuing the automatic extensions of the loan repayment. The loan is scheduled to be paid on or before September 30, 2006 and shall not be further extended.

Mr. Payne is chairman and chief executive officer of, and owns greater than a ten percent (10%) interest in, Shona Energy Company, LLC (Shona). A subsidiary of Shona and a subsidiary of the Company are parties to a series of agreements pursuant to which they, along with a Peruvian company, obtained a license to explore for hydrocarbons in Peru. The only payments made between the Company and Shona are certain reimbursements by the Company to Shona representing Nabors Subsidiary's proportionate share of expenditures advanced by Shona in connection with the parties' joint participation in the license contract. During 2005 the total amount reimbursed to Shona was approximately \$20,300. The Company also has guaranteed Shona's initial minimum work obligations under the license agreement. Shona, in turn, has undertaken to reimburse the Company any amounts paid on Shona's behalf pursuant to the guarantee. The Board of Directors has determined that this transaction does not compromise Mr. Payne's independence as a director.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee for 2005 was comprised of James C. Flores (Chairman), Myron M. Sheinfeld, Hans Schmidt, Martin J. Whitman (beginning May 6, 2005), and Alexander M. Knaster (beginning May 6, 2005), all independent directors. As of the date of this proxy statement, the members of the Compensation Committee are Martin J. Whitman (Chairman), James L. Payne, Alexander M. Knaster, Hans W. Schmidt, and Myron M. Sheinfeld, all independent directors. None of these directors has ever served as an officer or employee of Nabors or any of its subsidiaries, nor has any participated in any transaction during the last fiscal year required to be disclosed pursuant to the federal proxy rules. No executive officer of Nabors serves on any compensation committee of the board of directors of any entity that has one or more of its executive officers serving as a member of our Compensation Committee. In addition, none of our executive officers serves as a member of the compensation committee of the board of directors of any entity that has one or more of its executive officers serving as a member of our Board of Directors.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Compensation and Role of the Compensation Committee

The Compensation Committee (the Committee) of the Company is composed entirely of independent directors within the meaning of the NYSE listing rules and the standards for director independence adopted by the Board of Directors. The Committee is responsible for overseeing the administration of our compensation programs and setting the compensation of our key executives. The Committee operates pursuant to a written charter adopted by the Board of Directors, which is available in the Investor Relations section of our website at www.nabors.com. We discuss below our policies for compensating our executives and aligning the interests of management with the long-term interests of shareholders.

Compensation Policies

The Committee's goal is to incentivize and reward superior executive performance that will create long-term investor value and to attract and retain executives who deliver that level of performance. The Committee supports a practice of paying base salaries that approximate the median of the

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competitive market, and bonuses and long-term incentives which deliver above average compensation if financial results and/or shareholder returns exceed the results obtained by peer companies. On an annual basis, the Committee will review a tally sheet setting forth the base salary, annual bonus, long-term incentives awarded, perquisites and other benefits for the Chief Executive Officer and each Named Executive Officer as compared to a peer group of companies.

To assist the Committee with its responsibilities, it is regularly provided with briefing materials and is authorized to retain, and has retained from time to time, nationally recognized independent compensation consultants who report directly to the Committee to provide expertise regarding competitive compensation practices, peer analysis and advice to the Committee. The Committee reports to the Board of Directors on its actions and recommendations following every meeting and regularly meets in executive session without members of management present.

The Committee is mindful that the oil field services industry, particularly the contract drilling segment, historically has been volatile but currently is in a period of rapid expansion. The ability of the Company to compete in this market place depends in part on its ability to attract and retain executives with the necessary industry knowledge and management and financial skills to preserve and enhance Nabors' position, notwithstanding the industry's characteristics. The Committee reviews and approves all of the policies under which compensation is paid to our senior executive officers and oversees and evaluates the effectiveness of the executive compensation programs in hiring, motivating and retaining key employees.

Nabors' executive compensation program includes base salary and incentive bonuses as follows:

Base salary. The Committee reviews the performance of each senior executive officer individually with the Chief Executive Officer and determines an appropriate salary level for each senior executive officer based primarily on individual performance and competitive factors. These competitive factors include as a reference the base salary of other top executives of drilling contractors and the oil service sector generally, and also the compensation levels needed to attract and retain highly talented executives from outside the industry.

Incentive bonus program. Financial performance goals for the Chief Executive Officer and President are set forth in the contractual bonus formula described above under **MANAGEMENT COMPENSATION** Employment Contracts .

The Committee administers annual review programs to determine overall rewards to senior executive officers and key employees based upon Nabors' performance in relation to performance goals. The performance goals include both financial and nonfinancial objectives, including achieving certain financial targets in relation to internal budgets, developing internal infrastructure and enhancing positions in certain markets. The financial criteria include, among other things, increasing revenues, controlling direct and overhead expenses and increasing cash flow from operations. The nonfinancial criteria include: obtainment of safety goals, maintaining Nabors' share in its principal geographic markets, enhancing Nabors' technical capabilities and developing operations in identified strategic markets. Based on these reviews, the Committee recommends annual incentive rewards. Annual incentive awards include cash, options or restricted shares, or a combination thereof. Share awards or stock option grants typically have been issued on a four-year vesting schedule, but the Committee reserves the right to modify the vesting schedule in its discretion. Annual incentive bonus awards are not guaranteed except for those provided under contractual arrangements. The Committee believes that equity awards are critical in motivating and rewarding the creation of long-term shareholder value and the Committee has established a policy of including equity awards in the employee's overall compensation package from time to time based on the continuing progress of Nabors and on individual performance.

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Section 162(m) of the Internal Revenue Code of 1986, as amended, limits to \$1 million the amount of compensation that may be deducted by Nabors in any year with respect to certain of Nabors' highest paid executives. Certain performance-based compensation that has been approved by shareholders is not subject to the \$1 million limit, nor is compensation paid pursuant to employment contracts in existence prior to the adoption of Section 162(m) in 1993. Although the contractual bonus arrangements remained the same from their previous contracts, certain bonus compensation, as well as the share options granted to Mr. Isenberg and Mr. Petrello pursuant to the new and amended employment contracts entered into in 1996 may not be exempt from Section 162(m). Consequently, Nabors may not be able to deduct that portion of such compensation that exceeds \$1 million (see MANAGEMENT COMPENSATION-Option/Exercises During 2004 and Year-End Options Values and Employment Contracts). While Nabors intends to take reasonable steps to obtain deductibility of compensation, it reserves the right not to do so in its judgment, particularly with respect to retaining the service of its principal executive officers.

Chief Executive Officer and President

Nabors' arrangements with its Chief Executive Officer and President have been designed from the outset to align their compensation with enhancing shareholder value. Mr. Isenberg's compensation was originally negotiated with a creditors committee in 1987 in connection with the reorganization proceedings of Anglo Energy, Inc., which subsequently changed its name to Nabors. These contractual arrangements were subsequently approved by the various constituencies in those reorganization proceedings, including equity and debt holders, and confirmed by the United States Bankruptcy Court. Mr. Petrello's employment agreement was first entered into effective October 1, 1991, was agreed upon as part of arm's length negotiations with the Board before he joined Nabors in October 1991, and was reviewed and approved by the Committee and the full Board of Directors at that time.

The employment agreements for Messrs. Isenberg and Petrello were amended in 1994 and 1996. These amendments were approved by the Committee and the full Board of Directors at that time. These agreements may limit the Committee's flexibility in designing compensation programs for these executives.

Mr. Isenberg's base salary remained constant from 1987 through the end of 2003 and Mr. Petrello's base salary remained constant since his employment began in 1991 through the end of 2003. The major portion of Mr. Isenberg's and Mr. Petrello's cash compensation is performance-based bonus compensation. In addition to a base salary, their employment agreements provide for annual cash bonuses in an amount equal to 6% and 2%, respectively, of Nabors net cash flow (as defined in the respective employment agreements) in excess of 15% of the average shareholders equity for each fiscal year. (Mr. Isenberg's cash bonus formula originally was set at 10% in excess of a 10% return on shareholders' equity and he has voluntarily reduced it over time to its 6% in excess of 15% level.) Mr. Petrello's bonus is subject to a minimum of \$700,000 per year. In 15 of the last 16 years, Mr. Isenberg has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package. Mr. Petrello has agreed voluntarily to accept a lower annual cash bonus (i.e., an amount lower than the amount provided for under his employment agreement) in light of his overall compensation package in 13 of the last 15 years. For 2005 the annual cash bonuses for Messrs. Isenberg and Petrello pursuant to the formula described in their employment agreements were \$41.2 million and \$13.7 million, respectively; but in light of their overall compensation package (including significant stock option grants and restricted stock awards), they agreed to accept cash bonuses in the amounts of \$3 million and \$1.5 million, respectively. There can be no assurance that Messrs. Isenberg and Petrello will agree in the future to accept annual cash bonuses in an amount less than the cash amounts provided for in their agreements.

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Mr. Isenberg voluntarily agreed to amend his employment agreement in March 2006. Under the 2006 Amendment, Mr. Isenberg agreed to reduce the annual cash bonus to an amount equal to 3% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for 2006. For 2007 through the expiration date of the employment agreement, the annual cash bonus will return to 6% of Nabors' net cash flow (as defined in his employment agreement) in excess of 15% of the average shareholders' equity for each fiscal year.

On December 5, 2005, taking into account the reduction in annual cash bonus provided for in the employment agreements, the Committee granted to Messrs. Isenberg and Petrello 1,333,333 and 666,667 stock options, respectively, with a per share exercise price of \$71.61, the closing price of an underlying share on the date of grant (vesting on December 30, 2005). On February 28, 2006, taking into account the reduction in annual cash bonus provided for in the employment agreements, the Committee also granted to Messrs. Isenberg and Petrello 100,000 and 50,000 restricted shares, respectively (vesting pro rata over a three year period).

In reviewing Mr. Isenberg's and Mr. Petrello's compensation, the Committee noted that Nabors' financial results in 2005 were the best in the Company's history, with significant financial and operational achievements in virtually every operating and business category. The Company generated significant free cash flows after an aggressive capital expenditure program. The Committee also took notice of the strategies employed by senior management to help ensure the continued financial success of the Company over the ensuing years—including organic growth in developing and deploying new, state of the art rigs at attractive costs, obtaining long-term contracts with key customers, and negotiating favorable arrangements with key vendors to ensure availability of equipment needed to support the Company's growth. These strategies have resulted in capturing approximately one-third of the new rig contract opportunities worldwide, among over 200 competitors, mostly with term contracts from creditworthy customers that assure high returns and short term payouts.

The senior executive management team in place for many years has demonstrated its versatility and leadership in forging a stable and effective organization. The Compensation Committee also noted The Wall Street Journal's special supplement published on February 27, 2006 which again listed Nabors among the top U.S. companies in long-term shareholder returns, with a one-year return of 47% and a ten-year return of 21%, meriting placement in the top 20% of its list of 1,000 largest companies.

The Compensation Committee believes that the consistent high ranking of Nabors in such studies throughout the industry's cyclical ups and downs validates its assertion that the current management team has delivered consistently superior returns to its shareholders over the long term. In fact, according to Bloomberg, Nabors' ten-year average is 21.28% which is nearly triple that of the S&P 500 (the ten-year average return for companies in the S&P 500 Index is 7.29% for the ten-year period ending December 31, 2005). The Compensation Committee also believes that retention and financial motivation of the current management team is vital to sustaining this level of performance.

The Committee is mindful that the competitive, financial accounting, and regulatory landscape of executive compensation continues to evolve. The Committee accordingly has made adjustments in the forms of equity-based compensation and, at the Committee's recommendation, the Board of Directors in March 2006 exercised its election to fix the expiration date of the employment agreements for Messrs. Isenberg and Petrello. Accordingly these agreements will expire at the end of their current term at September 30, 2010, which will permit the Committee to exercise greater flexibility in determining the incentive arrangements for the Company's senior executives.

Table of Contents**Financial Highlights Nabors Industries Ltd. and Subsidiaries***(In millions, except per share amounts)*

Financial Data	2005	Fiscal Year ⁽¹⁾		2005 Versus 2004		2005 Versus 2000	
		2004	2000	Increase/(Decrease)		Increase/(Decrease)	
				\$	%	\$	%
Revenues and earnings from unconsolidated affiliates	\$ 3,465.6	\$ 2,398.1	\$ 1,414.9	\$ 1,067.5	45	\$ 2,050.7	145
Net income	648.7	302.5	137.4	346.2	114	511.3	372
Net income per diluted Share	4.00	1.92	.90	2.08	108	3.10	344
Stockholders' equity	3,758.1	2,929.4	1,806.5	828.7	28	1,951.6	108
Year end market value of shares outstanding	\$ 11,945.5	\$ 7,686.4	\$ 8,669.3	\$ 4,259.1	55	\$ 3,276.2	38

(1) The fiscal years ended 2005, 2004 and 2000 are for the period January 1 through December 31.

THE COMPENSATION COMMITTEE (as of April 30, 2006)

Martin J. Whitman, Chairman

Alexander M. Knaster

James L. Payne

Hans Schmidt

Myron M. Sheinfeld

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee is comprised of three independent directors and operates pursuant to a written Charter that is available on our website at www.nabors.com. In 2005 the Committee met four times. The primary purposes of the Audit Committee are to assist the Board in monitoring (a) the quality and integrity of the financial statements of Nabors; (b) the independent auditors' qualifications and independence; (c) the performance of Nabors' independent auditors; and (d) compliance by Nabors with legal and regulatory requirements. The Board has determined that the Audit Committee's current composition satisfies the rules of the NYSE that govern audit committee composition, including the requirement that each member of the Audit Committee be independent as that term is defined under the listing standards of the NYSE and specified in Rule 10A-3 under the Securities Exchange Act of 1934. In addition, the Board has determined that Mr. Whitman is an audit committee financial expert as defined under the current rules of the SEC.

Management is responsible for the preparation, presentation and integrity of Nabors' financial statements, accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for performing an independent audit of the financial statements in accordance with generally accepted auditing standards. The independent auditors have free access to the Audit Committee to discuss any matters they deem appropriate.

In performing its oversight role, the Audit Committee has reviewed and discussed the audited financial statements with management and the independent auditors. The Audit Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as updated by Statement on Auditing Standards No. 89, *Audit Adjustments*, and Statement on Auditing Standards No. 90, *Audit Committee Communications*. The Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as currently in effect and has discussed with the independent auditors their independence. The Audit Committee has also considered whether the provision of certain non-audit services by the independent auditors is compatible with maintaining the auditors' independence and has enhanced its pre-approval policies and procedures for services provided by our independent auditors. The Committee also reviews reports received from the internal auditors and corrective actions taken by management where warranted.

During fiscal 2005 the Audit Committee performed all of its duties and responsibilities under the then-applicable Audit Committee Charter. In addition, based on the review and discussions described in this Report of the Audit Committee, the Audit Committee recommended to the Board of Directors and the Board approved that the audited financial statements of Nabors for fiscal 2005 be included in its Annual Report on Form 10-K for such fiscal year.

THE AUDIT COMMITTEE (as of April 30, 2006)

Myron M. Sheinfeld, Chairman

Martin J. Whitman

Hans W. Schmidt

Preapproval of independent auditor services. The Audit Committee preapproves all audit and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by PricewaterhouseCoopers LLP (PricewaterhouseCoopers), the Company's independent auditors. The Chairman of the Audit Committee may preapprove additional permissible proposed non-audit services that arise between Committee meetings, provided that the decision to pre-approve the service is presented for ratification at the next regularly scheduled Committee meeting.

Table of Contents***Independent Auditor Fees***

The following table summarizes the aggregate fees for professional services rendered by PricewaterhouseCoopers. The Audit Committee pre-approved fiscal 2005 services and 2004 services.

	2005	2004
Audit Fees	\$ 4,111,481	\$ 4,787,460
Audit-Related Fees	24,166	314,799
Tax Fees	661,241	1,133,206
All Other Fees		
Total	\$ 4,796,888	\$ 6,235,465

The *Audit* fees for the years ended December 31, 2005 and 2004, respectively, include fees for professional services rendered for the audits of the consolidated financial statements of the Company, the audit of management's report on the effectiveness of the Company's internal control over financial reporting and PricewaterhouseCooper's own audit of the Company's internal control over financial reporting, in each case as required by Section 404 of the Sarbanes-Oxley Act of 2002 and applicable SEC rules, statutory audits, consents, and accounting consultation attendant to the audit.

The *Audit-Related* fees as of the years ended December 31, 2005 include consultations concerning financial accounting and reporting standards. Audit related fees for the year 2004 include audits of employee benefit plans, work performed in anticipation of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, limited to data entry of the Company's policies and procedures into the project management database of Section 404 compliance.

Tax fees as of the years ended December 31, 2005 and 2004, respectively, include services related to tax compliance, including the preparation of tax returns and claims for refund; and tax planning and tax advice.

There were no other professional services rendered during 2005 or 2004.

- * The aggregate fees included in Audit Fees are fees billed *for* the fiscal years for the audit of the registrant's annual financial statements and review of financial statements and statutory and regulatory filings or engagements. The aggregate fees included in each of the other categories are fees billed *in* the fiscal years.

ITEM 2**APPROVAL AND APPOINTMENT OF INDEPENDENT AUDITORS AND AUTHORIZATION OF THE AUDIT COMMITTEE TO SET THE AUDITORS REMUNERATION**

Under Bermuda law, our shareholders have the responsibility to appoint the independent auditors of the Company to hold office until the close of the next annual general meeting and to authorize the Audit Committee of the Board of Directors to set the auditors' remuneration. At the annual general meeting, the shareholders will be asked to approve the appointment of PricewaterhouseCoopers LLP as our independent auditors and to authorize the Audit Committee of the Board of Directors to set the independent auditors' remuneration. PricewaterhouseCoopers LLP, or a predecessor, has been our independent auditors since May 1987.

A representative from PricewaterhouseCoopers LLP is expected to be present at the annual general meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate

questions.

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Directors Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT AUDITORS OF THE COMPANY AND TO AUTHORIZE THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS TO SET THE AUDITORS REMUNERATION.

ITEM 3

APPROVAL OF THE AMENDED AND RESTATED 2003 EMPLOYEE STOCK PLAN

We are asking our shareholders to approve our Amended and Restated 2003 Employee Stock Plan (the Plan) so that we may continue to attract and retain talented employees necessary for the Company's continued growth and success. We want to set the number of common shares of our common stock that can be issued under the Plan at 7 million common shares, and also provide, commencing on June 1, 2006, and thereafter for a period of four (4) years on each January 1, for an automatic increase in the number of shares reserved and available for issuance under the Plan by an amount equal to two percent (2%) of the Company's outstanding common shares as of such June 1 or January 1 date. In addition, the aggregate number of shares of common stock that are reserved and available for issuance under the Plan will be automatically increased in the following circumstances:

if the exercise price of an option granted under the Plan exceeds the fair market value of our common shares at the date of grant, the aggregate number of available common shares will be automatically increased by an amount based on the following formula:

$$\text{Increase} = ([M/E] - 1) \times G$$

M = Value of the option if it were granted at fair market value (using either a Black Scholes or Lattice Model)

E = Value of the option at its actual exercise price (using either a Black Scholes or Lattice Model)

G = Number of options granted to option holder at above market value

if a cap value is placed on the option pursuant to the award agreement, the aggregate number of available common shares will be automatically increased by an amount based on the following formula:

$$\text{Increase} = ([M/E] - 1) \times G$$

M = Black Scholes value of the option that is not capped at the date of grant

E = Lattice Model value of a capped option at the date of grant

G = Number of capped options granted to option holder

If the fair market value of the common shares on the exercise date exceeds the cap value, the number of common shares to be issued to the participant under the award agreement will be reduced to ensure that the value of each share on the exercise date received by the participant upon exercise of the option will not exceed the cap value.

The adjustment in the formula is intended to permit the Company to issue performance-based option awards (i.e., awards issued with an exercise price greater than the market price on the date of award premium-priced options) or

option awards subject to a cap in the amount of appreciation which can be realized capped option awards . To the extent that the Company issues premium-priced options or capped option awards, the number of common shares which could be issued under the plan would be increased pursuant to the formulas described above, which is intended to create additional authorized common shares under the plan to the extent that the value of the premium-priced options or capped option awards is less than the value of awards which are not subject to those restrictions.

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Various shareholder groups have advocated premium priced options as a mechanism to help ensure that equity incentives are more closely aligned with shareholders' interests by having more demanding corporate performance goals. Similarly, capped option awards, which limit the appreciation that can be realized under an option award, arguably help ensure that an optionee does not profit unduly from broad-based gains of the stock market.

The Company believes that it would be more likely to issue premium-priced options or capped options awards (which have a lower value at the time of the award than awards without such limitations) if it had additional shares which could be issued to optionees under the Plan.

The approval of the Plan requires the vote of a majority of the voting power of the shares that are present by person or by proxy and entitled to vote at the annual general meeting. Our Named Executive Officers and directors have an interest in this proposal because they, along with other eligible employees, may participate in the Plan.

Description of the Plan

The following paragraphs provide a summary of the principal features of the Plan and its operation. The Plan is set forth in its entirety as Exhibit A to this Proxy Statement. The following summary is qualified in its entirety by reference to Exhibit A.

The Plan will reserve for issuance a maximum of 7,000,000 common shares, subject to increase as set forth above. If an award granted under the Plan expires or is terminated, the common shares underlying the award will again be available under the Plan. In addition, to the extent common shares are used to exercise any award (as described below) or to satisfy tax withholding obligations under the Plan, an equal number of shares will remain available for issuance under the Plan.

No individual may be granted awards under the Plan in any calendar year covering more than 3,000,000 shares.

In the event of any change in the Company's capitalization or in the event of a corporate transaction such as a merger, amalgamation, consolidation, separation or similar event, the Plan provides for appropriate adjustments in the number and class of common shares available for issuance or grant and in the number and/or price of shares subject to awards.

Types of Awards

The Plan permits a variety of types of awards to be granted under the Plan:

- stock options, including incentive stock options and non-qualified stock options,
- restricted stock,
- restricted stock units,
- stock appreciation rights, and
- stock bonuses.

These awards are all described in more detail below.

Administration

The Plan is administered by the Compensation Committee of the Board of Directors. The Committee may, subject to the provisions of the Plan, determine the persons to whom awards will be granted, the type of awards to be granted, the number of shares to be made subject to awards and the exercise price. The Committee may also condition the award on the attainment of certain goals, determine other terms and conditions that shall apply to awards, interpret the Plan and prescribe, amend and rescind rules and regulations relating to the Plan. The Committee may delegate to any of

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our employees (or a committee of employees) the authority to make grants of awards to our employees who are not our executive officers or directors. The terms and conditions of each award granted under the Plan are set forth in a written award agreement relating to the award.

In the event that the Committee grants an award that is intended to constitute qualified performance-based compensation within the meaning Section 162(m) of the Code, the Committee in its discretion may condition payment under the award in whole or in part on the attainment of (or a specified increase or decrease in) one or more of the following business criteria as applied to an award recipient under the Plan and/or a business unit of the Company or its subsidiaries or affiliates: (i) income before federal taxes and net interest expense; (ii) achievement of specific and measurable operational objectives in the areas of rig operating costs, accident records, and employee turnover; (iii) working capital, generally defined to include receivables, inventories and controllable current liabilities, measured either in absolute dollars or relative to sales; (iv) earnings growth, revenues, expenses, share price, market share, return on assets, return on capital, equity or investment, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, or achievement of balance sheet, income statement or cash flow objectives; (v) adjusted cash flow or adjusted income derived from operating activities; and/or (vi) a percentage of cash flow in excess of a percentage of shareholders' average book equity. Payments under such awards will be made, in the case of employees covered under Section 162(m) of the Code, solely on account of the attainment of such performance goals established in writing by the Committee not later than the date on which 25% of the period of service to which the award relates has elapsed (or if earlier, 90 days after the beginning of the period).

Eligibility

Awards may be granted under the Plan to employees of the Company or its subsidiaries or affiliates, as selected by the Committee in its sole discretion. Member of the Board of Directors also receive the equity component of their compensation pursuant to the Plan.

Terms and Conditions of Options

Stock options granted under the Plan may be either incentive stock options, as that term is defined in Section 422 of the Code, or non-qualified stock options (i.e., any option that is not such an incentive stock option). The exercise price of a stock option granted under the Plan is determined by the Committee at the time the option is granted, but the exercise price may not be less than the fair market value of the common shares (determined generally as the closing price per common share of the Company on the date of grant). Stock options are exercisable at the times and upon the conditions that the Committee may determine, as reflected in the applicable option agreement. The Committee will also determine the maximum duration of the period in which the option may be exercised, which may not exceed ten years from the date of grant.

The option exercise price must be paid in full at the time of exercise, and is payable (in the discretion of the Committee) by any one of the following methods or a combination thereof:

in cash or cash equivalents,

the surrender of previously acquired common shares that have been held by the participant for at least six months prior to the date of surrender, or

to the extent permitted by applicable law, through a broker cashless exercise procedure acceptable to the Committee.

Restricted Stock

The Plan provides for awards of common shares that are subject to restrictions on transferability and other restrictions determined by the Committee in its discretion. Such restrictions will lapse on

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terms established by the Committee. Except as may be otherwise provided under the award agreement relating to the restricted stock, a participant granted restricted stock will have all the rights of a shareholder (for instance, the right to receive dividends on the shares of restricted stock, if any, and the right to vote the shares). The restricted period shall not be less than three years, but the restricted period can be shortened to one or more years if vesting of the restricted stock unit is conditioned upon the attainment of the performance goals identified above or other corporate or individual performance goals established by the Committee at the time of grant.

Restricted Stock Units

The Plan permits awards of restricted stock units which, upon vesting, entitle the participant to receive an amount in cash or common shares (as determined by the Committee and set forth in the applicable award agreement) equal to the fair market value of the number of shares made subject to the award. Vesting of all or a portion of a restricted stock unit award may be subject to terms and conditions established by the Committee. As with awards of restricted stock, the restricted period shall not be less than three years, but the restricted period can be shortened to one or more years if vesting of the restricted stock is conditioned upon the attainment of the performance goals identified above or other corporate or individual performance goals established by the Committee at the time of grant.

Stock Appreciation Rights (SARs)

The Plan permits the Committee, in its discretion, to award stock appreciation rights, either in tandem with stock options or freestanding and unrelated to options. The grant price of a freestanding SAR will be the fair market value of a common share (as described above). The grant price of tandem SARs will equal the exercise price of the related option. Tandem SARs may be exercised for all or part of the shares subject to the related option upon surrender of the right to exercise the equivalent portion of the related option. Freestanding SARs may be exercised upon whatever terms and conditions the Committee imposes. SARs will be payable in cash, common shares or a combination of both, as determined in the Committee's discretion and set forth in the applicable award agreement.

Stock Bonuses

The Plan permits the Committee, in its discretion, to award common shares to employees that are not subject to restrictions on transferability or otherwise, but only in lieu of salary or a cash bonus otherwise payable to the employee.

Change in Control

The Committee in its discretion may provide that, in the event of a change in control (as defined in an applicable award agreement), whether alone or in combination with other events, the vesting and exercisability restrictions on any outstanding award that is not yet fully vested and exercisable will lapse in part or in full.

Termination of Employment

Unless otherwise determined by the Committee in an award agreement, the termination of a participant's employment or service will immediately cancel any awards granted to the participant under the Plan, whether or not it is then exercisable. However, in no case may an option be exercised after it expires.

Amendment and Termination

The Board of Directors may modify or terminate the Plan or any portion of the Plan at any time, except that an amendment that requires shareholder approval in order for the Plan to continue to

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comply with any law, regulation or stock exchange requirement will not be effective unless approved by the requisite vote of our shareholders. In addition, any amendment shall be subject to approval of our shareholders if it materially increases the benefits accruing to participants under the Plan, materially increases the number of shares that may be issued under the Plan, or materially modifies the requirements for participation in the Plan. Any amendment to the Plan or an award agreement that accelerates the date on which an award is exercisable or payable or that reduces the exercise price of any outstanding option will also be subject to the approval of our shareholders. No awards may be granted under the Plan after the day prior to the tenth anniversary of the date of its approval by the Company's shareholders, but awards granted prior to that time can continue after such time in accordance with their terms.

Certain Federal Income Tax Consequences of Options

The following is a discussion of certain federal income tax effects currently applicable to stock options granted under the Plan. The discussion is a summary only, and the applicable law is subject to change. Reference is made to the Code for a complete statement of all relevant federal tax provisions.

Nonqualified Stock Options (NSOs)

An optionee generally will not recognize taxable income upon the grant of an NSO. Rather, at the time of exercise of such NSO, the optionee will recognize ordinary income for income tax purposes in an amount equal to the excess of the fair market value of the shares purchased over the exercise price. The Company will generally be entitled to a tax deduction at such time and in the same amount that the optionee recognizes ordinary income.

If shares acquired upon exercise of an NSO are later sold or exchanged, then the difference between the amount received upon such sale, exchange or disposition and the fair market value of such shares on the date of such exercise will generally be taxable as long-term or short-term capital gain or loss (if the shares are a capital asset of the optionee) depending upon the length of time such shares were held by the optionee.

Incentive Stock Options (ISOs)

An optionee will not recognize any ordinary income (and the Company will not be permitted any deduction) upon the grant or timely exercise of an ISO. However, the amount by which the fair market value of the common shares on the exercise date of an ISO exceeds the purchase price generally will constitute an item which increases the optionee's alternative minimum taxable income.

Exercise of an ISO will be timely if made during its term and if the optionee remains an employee of the Company or a subsidiary at all times during the period beginning on the date of grant of the ISO and ending on the date three months before the date of exercise (or one year before the date of exercise in the case of a disabled optionee, and without limit in the case of death). The tax consequences of an untimely exercise of an ISO will be determined in accordance with the rules applicable to NSOs, discussed above.

If shares acquired pursuant to the timely exercise of an ISO are later disposed of, and if the shares are a capital asset of the optionee, the optionee generally will recognize short-term or long-term capital gain or loss (depending upon the length of time such shares were held by the optionee) equal to the difference between the amount realized upon such sale and the exercise price. The Company, under these circumstances, will not be entitled to any income tax deduction in connection with either the exercise of the ISO or the sale of such shares by the optionee.

If, however, shares acquired pursuant to the exercise of an ISO is disposed of by the optionee prior to the expiration of two years from the date of grant of the ISO or within one year from the date such shares are transferred to him or her upon exercise (a disqualifying disposition), any gain realized by

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the optionee generally will be taxable at the time of such disqualifying disposition as follows: (i) at ordinary income rates to the extent of the difference between the exercise price and the lesser of the fair market value of the shares on the date the ISO is exercised or the amount realized on such disqualifying disposition and (ii) if the shares are a capital asset of the optionee, as short-term or long-term capital gain (depending upon the length of time such shares were held by the optionee) to the extent of any excess of the amount realized on such disqualifying disposition over the sum of the exercise price and any ordinary income recognized by the optionee. In such case, the Company may claim an income tax deduction at the time of such disqualifying disposition for the amount taxable to the optionee as ordinary income.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF NABORS INDUSTRIES LTD. AMENDED AND RESTATED 2003 EMPLOYEE STOCK PLAN.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Nabors directors and executive officers, and persons who own more than 10% of a registered class of Nabors equity securities, to file with the Securities and Exchange Commission and the NYSE initial reports of ownership and reports of changes in ownership of common shares and other equity securities of Nabors. Officers, directors and greater than 10% shareholders are required by Commission regulation to furnish Nabors with copies of all Section 16(a) forms which they file.

To our knowledge, based solely on our review of the copies of Forms 3 and 4 and amendments thereto furnished to us during 2005 and Form 5 and amendments thereto furnished to us with respect to the year 2005, and written representations that no other reports were required, all Section 16(a) filings required to be made by Nabors officers, directors and greater than 10% beneficial owners with respect to the fiscal year 2005 were timely filed, except that Mr. Martin Whitman filed one Form 4 late with respect to a single sale transaction that occurred in May 2005.

SHAREHOLDER MATTERS

Bermuda has exchange controls which apply to residents in respect of the Bermudian dollar. As an exempt company, Nabors is considered to be nonresident for such controls; consequently, there are no Bermuda governmental restrictions on the Company's ability to make transfers and carry out transactions in all other currencies, including currency of the United States.

There is no reciprocal tax treaty between Bermuda and the United States regarding withholding taxes. Under existing Bermuda law, there is no Bermuda income or withholding tax on dividends, if any, paid by Nabors to its shareholders. Furthermore, no Bermuda tax or other levy is payable on the sale or other transfer (including by gift or on the death of the shareholder) of Nabors common shares (other than by shareholders resident in Bermuda).

Table of Contents**STOCK PERFORMANCE GRAPH**

The following graph illustrates comparisons of five-year cumulative total returns among Nabors Industries Ltd., the S&P 500 Index and the Dow Jones Oil Equipment and Services Index. Total return assumes \$100 invested on December 31, 2000 in shares of Nabors Industries Ltd., the S&P 500 Index, and the Dow Jones Oil Equipment and Services Index. It also assumes reinvestment of dividends and is calculated at the end of each calendar year, December 31, 2001 to December 31, 2005.

	2001	2002	2003	2004	2005
Nabors Industries Ltd.	58	60	70	87	128
S&P 500 Index	88	69	88	98	103
Dow Jones Oil Equipment and Services Index	69	63	73	98	149

SHAREHOLDER PROPOSALS

Shareholders who, in accordance with the SEC's Rule 14a-8, wish to present proposals for inclusion in the proxy materials to be distributed by us in connection with our 2007 annual general meeting of shareholders must submit their proposals and their proposals must be received at our principal executive offices no later than January 5, 2007. As the rules of the SEC make clear, simply submitting a proposal does not guarantee its inclusion.

In accordance with our Bye-Laws, in order to be properly brought before the 2007 annual general meeting, a shareholder notice of the matter the shareholder wishes to present must be delivered to the Secretary of Nabors at Nabors Industries Ltd., P.O. Box HM3349, Hamilton, HMPX, Bermuda, not less than sixty (60) nor more than ninety (90) days prior to the first anniversary of this year's annual general meeting (provided, however, that if the 2007 annual general meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice must be received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual general meeting is mailed or public disclosure of the date of the annual general meeting is made, whichever first occurs). As a result, any notice given by or on behalf of a shareholder pursuant to

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these provisions of our Bye-Laws (and not pursuant to the SEC's Rule 14a-8) generally must be received no earlier than March 9, 2007 and no later than April 7, 2007.

OTHER MATTERS

The Board knows of no other business to come before the annual general meeting. However, if any other matters are properly brought before the annual general meeting, the persons named in the accompanying form of proxy, or their substitutes, will vote in their discretion on such matters.

Costs of Solicitation. We will pay the expenses of the preparation of the proxy materials and the solicitation by the Board of your proxy. We have retained Georgeson Shareholder Communications Inc., 17 State Street, New York, New York 10004 to solicit proxies on behalf of the Board of Directors at an estimated cost of \$15,000 plus reasonable out-of-pocket expenses. Proxies may be solicited on behalf of the Board of Directors by mail, in person and by telephone. Proxy materials will also be provided for distribution through brokers, custodians, and other nominees and fiduciaries. We will reimburse such parties for their reasonable out-of-pocket expenses for forwarding the proxy materials.

Financial Statements. The financial statements for the Company's 2005 fiscal year will be presented at the annual general meeting.

Shareholder Communications with Directors. Shareholders may contact any of the Company's directors, a committee of the Board of Directors, the Board's independent directors as a group or the Board generally, by writing to them at Nabors Industries Ltd., P.O. Box HM3349, Hamilton, HMPX, Bermuda. Shareholder communications received in this manner will be handled in accordance with procedures approved by the Board's independent directors. The Board's Policy Regarding Shareholder Communications with the Board of Directors is available at www.nabors.com. In addition, the Company encourages directors to attend the annual general meeting of shareholders. Four directors attended the 2005 annual general meeting of shareholders.

NABORS INDUSTRIES LTD.

Daniel McLachlin
Secretary

Dated: May 5, 2006

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EXHIBIT SCHEDULE

Exhibit	Document
Exhibit A	Amended and Restated 2003 Employee Stock Plan

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EXHIBIT A

**NABORS INDUSTRIES LTD.
AMENDED AND RESTATED 2003 EMPLOYEE STOCK PLAN**

Section 1. Purpose of Plan.

The name of this plan is the Nabors Industries Ltd. Amended and Restated 2003 Employee Stock Plan (the Plan). The purpose of the Plan is to provide additional incentive to those officers and employees of the Company and its Subsidiaries and Affiliates whose contributions are essential to the growth and success of the Company's business, in order to strengthen the commitment of such persons to the Company and its Subsidiaries and Affiliates, motivate such persons to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons whose efforts will result in the long-term growth and profitability of the Company and its Subsidiaries and Affiliates. To accomplish such purposes, the Plan provides that the Company may grant Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, and Stock Bonuses. The Plan is intended to permit awards that satisfy the requirements of section 162(m) of the Code and shall be interpreted in a manner consistent with the requirements thereof.

Section 2. Definitions.

For purposes of the Plan, in addition to terms defined elsewhere in the Plan, the following terms shall be defined as set forth below:

- (a) Administrator means the Board, or if and to the extent the Board does not administer the Plan, the Committee, in accordance with Section 3 hereof.
- (b) Affiliate means any corporation or other entity, more than 50% of the voting power of the outstanding voting securities of which is owned by the Company, its Subsidiaries, or any other Affiliate.
- (c) Award means an award of Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, or Stock Bonus under the Plan.
- (d) Award Agreement means, with respect to any Award, the written agreement between the Company and the Participant setting forth the terms and conditions of the Award.
- (e) Board means the Board of Directors of the Company.
- (f) Change in Capitalization means any increase, reduction, or change or exchange of Shares for a different number or kind of shares or other securities or property by reason of a reclassification, recapitalization, merger, amalgamation, consolidation, reorganization, issuance of warrants or rights, stock dividend, stock split or reverse stock split, combination or exchange of shares, repurchase of shares, change in corporate structure or otherwise; or any other corporate action, such as declaration of a special dividend, that affects the capitalization of the Company.
- (g) Code means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.
- (h) Committee means any committee or subcommittee the Board may appoint to administer the Plan. If at any time or to any extent the Board shall not administer the Plan, then the functions of the Administrator specified in the Plan shall be exercised by the Committee. Unless otherwise determined by the Board, the composition of the Committee shall at all times consist solely of persons who are (i) Nonemployee Directors as defined in Rule 16b-3 issued under

the Exchange Act, and (ii) outside directors as defined in section 162(m) of the Code.

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- (i) Common Shares means the common shares, par value \$0.001 per share, of the Company.
- (j) Company means Nabors Industries Ltd., a Bermuda exempt company (or any successor corporation).
- (k) Disability means (1) any physical or mental condition that would qualify a Participant for a disability benefit under any long-term disability plan maintained by the Company (or by the Subsidiary or Affiliate by which he is employed); (2) when used in connection with the exercise of an Incentive Stock Option following termination of employment, disability within the meaning of section 22(e)(3) of the Code; or (3) such other condition as may be determined in the sole discretion of the Administrator to constitute Disability.
- (l) Eligible Recipient means an employee or officer of the Company or of any Subsidiary or Affiliate, and in the case of awards of Restricted Stock, shall include nonemployee directors of the Company.
- (m) Exchange Act shall mean the Securities Exchange Act of 1934, as amended from time to time.
- (n) Exercise Price means the per share price at which a holder of an Option may purchase the Shares issuable upon exercise of the Option.
- (o) Fair Market Value of a Common Share as of a particular date shall mean (1) the closing sale price reported for such share on the national securities exchange or national market system on which such share is principally traded on such date (or, if there were no trades on such date, on the most recently preceding day on which there was a sale), or (2) if the Common Shares are not then listed on a national securities exchange or national market system, or the value of such shares is not otherwise determinable, such value as determined by the Administrator in good faith in its sole discretion.
- (p) Freestanding SAR means an SAR that is granted independently of any Options, as described Section 11 hereof.
- (q) Immediate Family means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships of the Participant; trusts for the benefit of such immediate family members; or partnerships in which such immediate family members are the only partners.
- (r) Incentive Stock Option shall mean an Option that is an incentive stock option within the meaning of section 422 of the Code, or any successor provision, and that is designated by the Administrator as an Incentive Stock Option.
- (s) Nonqualified Stock Option means any Option that is not an Incentive Stock Option, including any Option that provides (as of the time such Option is granted) that it will not be treated as an Incentive Stock Option.
- (t) Option means an Incentive Stock Option, a Nonqualified Stock Option, or either or both of them, as the context requires.
- (u) Participant means any Eligible Recipient selected by the Administrator, pursuant to the Administrator's authority in Section 3 hereof, to receive grants of Options or Stock Appreciation Rights or awards of Restricted Stock, Restricted Stock Units, or Stock Bonus. A Participant who receives the grant of an Option is sometimes referred to herein as Optionee.
- (v) Performance Goal shall mean one or more of the following business criteria applied to a Participant and/or a business unit or the Company and/or a Subsidiary: (i) income before

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federal taxes and net interest expense; (ii) achievement of specific and measurable operational objectives in the areas of rig operating costs, accident records, and employee turnover; (iii) working capital, generally defined to include receivables, inventories and controllable current liabilities, measured either in absolute dollars or relative to sales; (iv) earnings growth, revenues, expenses, share price, market share, return on assets, return on capital, equity or investment, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, or achievement of balance sheet, income statement or cash flow objectives; (v) adjusted cash flows or adjusted income derived from operating activities; and/or (vi) a percentage of cash flow in excess of a percentage of shareholders average book equity.

(w) Restricted Stock Unit means the right to receive a Share or the Fair Market Value of a Share in cash granted pursuant to Section 9 hereof.

(x) Restricted Stock means Shares subject to certain restrictions granted pursuant to Section 8 hereof.

(y) Shares means Common Shares and the common equity of any successor security.

(z) Stock Appreciation Right or SAR means an Award, granted alone or in connection with a related Option, designated as an SAR, pursuant to Section 11 hereof.

(aa) Stock Bonus means the right to receive a Share granted pursuant to Section 10 hereof.

(bb) Subsidiary means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations (other than the last corporation) in the unbroken chain owns stock possessing more than 50% of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(cc) Tandem SAR means an SAR that is granted in connection with a related Option pursuant to Section 11 hereof, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be canceled).

Section 3. Administration.

(a) The Plan shall be administered by the Board or, at the Board's sole discretion, by the Committee, which shall serve at the pleasure of the Board. Pursuant to the terms of the Plan, the Administrator shall have the power and authority, without limitation:

(i) to select those Eligible Recipients who shall be Participants;

(ii) to determine in an Award Agreement whether and to what extent Options or Stock Appreciation Rights or awards of Restricted Stock, Restricted Stock Units, or Stock Bonus are to be granted hereunder to Participants;

(iii) to determine in an Award Agreement the number of Shares to be covered by each Award granted hereunder;

(iv) to determine in an Award Agreement the terms and conditions, not inconsistent with the terms of the Plan, of each Award granted hereunder;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing Options or Stock Appreciation Rights or awards of Restricted Stock, Restricted Stock Units, or Stock Bonus granted hereunder;

(vi) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; and

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(vii) to interpret the terms and provisions of the Plan and any Award issued under the Plan (and any Award Agreement relating thereto), and to otherwise supervise the administration of the Plan.

(b) All decisions made by the Administrator pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, including the Company and the Participants. No member of the Board or the Committee, nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

(c) The Administrator in its discretion may condition entitlement to an Award in whole or in part on the attainment of one or more Performance Goals. The Administrator shall establish any such Performance Goal not later than 90 days after the commencement of the period of service to which the Award relates if the period equals or exceeds one year (or if the period is shorter, 25% of such period of service), and once granted, the Administrator shall not have discretion to increase the amount payable under such Award, provided, however, that whether or not an Award is intended to constitute qualified performance based compensation within the meaning of section 162(m) of the Code, the Administrator shall have the authority to make appropriate adjustments in Performance Goals under an Award to reflect the impact of extraordinary items not reflected in such Performance Goals. For purposes of the Plan, extraordinary items shall be defined as (1) any profit or loss attributable to acquisitions or dispositions of stock or assets, (2) any changes in accounting standards that may be required or permitted by the Financial Accounting Standards Board or adopted by the Company after the goal is established, (3) all items of gain, loss or expense for the year related to restructuring charges for the Company, (4) all items of gain, loss or expense for the year determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business, (5) all items of gain, loss or expense for the year related to discontinued operations as defined in APB Opinion No. 30 or FAS No. 144, and (6) such other items as may be prescribed by section 162(m) of the Code and the Treasury Regulations thereunder as may be in effect from time to time, and any amendments, revisions or successor provisions and any changes thereto.

(d) Subject to section 162(m) of the Code and except as required by Rule 16b-3 under the Exchange Act with respect to grants of Awards to individuals who are subject to section 16 of the Exchange Act, or as otherwise required for compliance with Rule 16b-3 under the Exchange Act or other applicable law, the Administrator may delegate all or any part of its authority under the Plan to an employee, employees or committee of employees of the Company or any Subsidiary.

(e) If at any time (whether before or after termination of employment) a majority of either the Board or the Committee determines that a Participant has engaged in fraud, embezzlement, theft, commission of a felony, dishonesty, or any other conduct inimical to the Company, either the Board or the Committee (as the case may be) may provide for the immediate forfeiture of any Award held by the Participant, whether or not then vested. Any determination by the Board or Committee (as the case may be) under this subsection (e) shall be final, conclusive and binding on all persons.

Section 4. Shares Reserved for Issuance Under the Plan.

(a) There shall be reserved and available for issuance under the Plan 7,000,000 Common Shares. Commencing on June 1, 2006, and thereafter for a period of four (4) years on each January 1, the aggregate number of Common Shares reserved and available for issuance under the Plan shall be increased automatically by a number of shares equal to two percent (2%) of the total outstanding Common Shares as of such June 1 or January 1 date. In addition, the aggregate number of Common

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Shares that are reserved and available for issuance under the Plan shall be automatically increased in the following circumstances:

(i) if the Exercise Price of any Option granted under the Plan exceeds the Fair Market Value of a Common Share at the date of grant, the aggregate number of available Common Shares will be automatically increased by an amount based on the following formula:

$$\text{Increase} = ([M/E] - 1) \times G$$

M = Value of the Option if it were granted at Fair Market Value (using either a Black Sholes or Lattice Model)

E = Value of the Option at its actual Exercise Price (using either a Black Sholes or Lattice Model)

G = Number of Options granted to Participant at above Fair Market Value

(ii) (a) if a cap value is placed on the Option pursuant to an Award Agreement, the aggregate number of available Common Shares under the Plan will be automatically increased by an amount based on the following formula:

$$\text{Increase} = ([M/E] - 1) \times G$$

M = Black Sholes value of the option that is not capped at the date of grant

E = Lattice Model value of a capped option at the date of grant

G = Number of capped options granted to the option holder

(b) If the Fair Market Value of the Common Shares on the exercise date exceeds the cap value set forth in the Award Agreement, the number of Common Shares to be issued to the Participant under the Award Agreement will be reduced to ensure that the value of each Common Share on the exercise date received by the Participant upon exercise of the Option does not exceed the cap value.

The grant of any Restricted Stock Units or SARs that may be settled only in cash shall not reduce the number of Common Shares with respect to which Awards may be granted pursuant to the Plan.

(b) To the extent that (i) an Option expires or is otherwise cancelled or terminated without being exercised as to the underlying Shares, (ii) any Shares subject to any award of Stock Appreciation Rights, Restricted Stock, Restricted Stock Unit, or Stock Bonus are forfeited, (iii) payment for an Option upon exercise is made with Shares owned by the Optionee for at least six months on the date of surrender or (iv) Shares are withheld from payment of an Award in satisfaction of any federal, state or local tax withholding requirements, such Shares shall again be available for issuance in connection with future Awards granted under the Plan.

(c) The aggregate number of Shares with respect to which Awards (including Awards payable in cash but denominated in Common Shares, i.e., cash-settled Restricted Stock Units or SARs) may be granted to any individual Participant during any calendar year shall not exceed 1,500,000.

Section 5. Equitable Adjustments.

In the event of any Change in Capitalization, an equitable substitution or proportionate adjustment shall be made in

(i) the aggregate number and/or kind of common shares or other property reserved for issuance under the Plan, (ii) the

kind, number and/or option price of shares or other property subject to outstanding Options and Stock Appreciation Rights granted under the Plan, and (iii) the kind, number and/or purchase price of shares or other property subject to outstanding awards of Restricted Stock, and Restricted Stock Units granted under the Plan, in each case as may be determined by the Administrator, in its sole discretion. Such other equitable substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion. Without limiting the generality of the foregoing, in connection with a Change in Capitalization, the

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Administrator may provide, in its sole discretion, for the cancellation of any outstanding Awards in exchange for payment in cash or other property of the Fair Market Value of the Shares covered by such Awards reduced, in the case of Options, by the Exercise Price thereof, and in the case of Stock Appreciation Rights, by the grant price thereof, or by any other applicable purchase price.

Section 6. Eligibility.

The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from among Eligible Recipients. The Administrator shall have the authority to grant to any Eligible Recipient Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, or a Stock Bonus.

Section 7. Options.

(a) **General.** Options may be granted alone or in addition to other Awards granted under the Plan. Any Option granted under the Plan shall be evidenced by an Award Agreement in such form as the Administrator may from time to time approve. The provisions of each Option need not be the same with respect to each Participant. Participants who are granted Options shall enter into an Award Agreement with the Company, in such form as the Administrator shall determine, which Award Agreement shall set forth, among other things, the Exercise Price of the Option, the term of the Option and provisions regarding exercisability of the Option granted thereunder. The Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Nonqualified Stock Options. To the extent that any Option does not qualify as an Incentive Stock Option, it shall constitute a separate Nonqualified Stock Option. More than one Option may be granted to the same Participant and be outstanding concurrently hereunder. Options granted under the Plan shall be subject to the terms and conditions set forth in paragraphs (b)-(i) of this Section 7 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable.

(b) **Exercise Price.** The per share Exercise Price of Shares purchasable under an Option shall be determined by the Administrator in its sole discretion at the time of grant but shall not be less than 100% of the Fair Market Value per Share on such date (or, in the case of Incentive Stock Options, 110% of the Fair Market Value per Share on such date if, on such date, the Eligible Recipient owns (or is deemed to own under the Code) stock possessing more than 10% (a Ten Percent Owner) of the total combined voting power of all classes of shares of the Company or its Subsidiaries).

(c) **Option Term.** The term of each Option shall be fixed by the Administrator, but no Option shall be exercisable more than ten years after the date such Option is granted. If the Eligible Participant is a Ten Percent Owner, an Incentive Stock Option may not be exercisable after the expiration of five years from the date such Incentive Stock Option is granted.

(d) **Exercisability.** Options shall be exercisable at such time or times and subject to such terms and conditions, including the attainment of preestablished Performance Goals or other corporate or individual performance goals, as shall be determined by the Administrator in its sole discretion. The Administrator may also provide that any Option shall be exercisable only in installments.

(e) **Method of Exercise.** Options may be exercised in whole or in part by giving written notice of exercise to the Company specifying the number of Shares to be purchased, accompanied by payment in full of the aggregate Exercise Price of the Shares so purchased in cash or its equivalent, as determined by the Administrator. As determined by the Administrator, in its sole discretion, payment in whole or in part may also be made (i) by means of any properly executed broker-assisted exercise procedure, subject to approval by the Administrator, (ii) in the form of unrestricted Shares already owned by the Optionee for at least six months on the date of surrender to the extent the Shares have a

Fair Market Value on the date of surrender equal to the aggregate option price of the Shares as to which such Option shall be exercised, *provided* that, in the case of an Incentive Stock Option, the right

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to make payment in the form of already owned Shares may be authorized only at the time of grant, or (iii) any combination of the foregoing.

(f) Rights as Shareholder. An Optionee shall have no rights to dividends or any other rights of a shareholder with respect to the Shares subject to the Option until the Optionee has given written notice of exercise, has paid in full for such Shares, and has satisfied the requirements of Section 15 hereof.

(g) Nontransferability of Options. The Optionee shall not be permitted to sell, transfer, pledge or assign any Option other than by will and the laws of descent and distribution and all Options shall be exercisable during the Participant's lifetime only by the Participant, in each case, except as set forth in the following two sentences. During an Optionee's lifetime, the Administrator may, in its discretion, permit the transfer, assignment or other encumbrance of an outstanding Option if such Option is a Nonqualified Stock Option or an Incentive Stock Option that the Administrator and the Participant intend to change to a Nonqualified Stock Option. Subject to the approval of the Administrator and to any conditions that the Administrator may prescribe, an Optionee may, upon providing written notice to the Company, elect to transfer any or all Options described in the preceding sentence (i) to members of his or her Immediate Family, *provided* that no such transfer by any Participant may be made in exchange for consideration, or (ii) by instrument to an inter vivos or testamentary trust in which the Options are to be passed to beneficiaries upon the death of the Participant.

(h) Termination of Employment or Service. Except as otherwise provided in an Award Agreement, if a Participant's employment with the Company or any Subsidiary or Affiliate terminates for any reason, all outstanding Options granted to such Participant shall expire on the date of such termination (whether or not then vested or exercisable). Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.

(i) Limitation on Incentive Stock Options. To the extent that the aggregate Fair Market Value of Shares with respect to which Incentive Stock Options are exercisable for the first time by an Optionee during any calendar year under the Plan and any other stock option plan of the Company or any Subsidiary or Affiliate shall exceed \$100,000, such Options shall be treated as Nonqualified Stock Options. Such Fair Market Value shall be determined as of the date on which each such Incentive Stock Option is granted.

Section 8. Restricted Stock.

(a) General. Awards of Restricted Stock may be issued either alone or in addition to other Awards granted under the Plan and shall be evidenced by an Award Agreement. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, Awards of Restricted Stock shall be made; the number of Shares to be awarded; the price, if any, to be paid by the Participant for the acquisition of Restricted Stock; and the Restricted Period (as defined in Section 8(d)) applicable to awards of Restricted Stock. The provisions of the awards of Restricted Stock need not be the same with respect to each Participant.

(b) Purchase Price. The price per Share, if any, that a Recipient must pay for Shares purchasable under an award of Restricted Stock shall be determined by the Administrator in its sole discretion at the time of grant.

(c) Awards and Certificates. The prospective recipient of an Award of Restricted Stock shall not have any rights with respect to any such Award, unless and until such recipient has executed an Award Agreement evidencing the Award and delivered a fully executed copy thereof to the Company, within such period as the Administrator may specify after the award date. Each Participant who is granted an award of Restricted Stock shall be issued a share certificate in respect of such shares of Restricted Stock, which certificate shall be registered in the name of the Participant and shall bear an

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appropriate legend referring to the terms, conditions, and restrictions applicable to any such Award, *provided* that the Company may require that the share certificates evidencing Restricted Stock granted hereunder be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any award of Restricted Stock, the Participant shall have delivered a stock power, endorsed in blank, relating to the Shares covered by such Award.

(d) Nontransferability. Any Award of Restricted Stock granted pursuant to this Section 8 shall be subject to the restrictions on transferability set forth in this paragraph (d). During such period as may be set by the Administrator in the Award Agreement (the Restricted Period), the Participant shall not be permitted to sell, transfer, pledge, hypothecate or assign Shares of Restricted Stock awarded under the Plan except by will or the laws of descent and distribution. The Administrator may also impose such other restrictions and conditions, including the attainment of preestablished Performance Goals or other corporate or individual performance goals, on Restricted Stock as it determines in its sole discretion. The Restricted Period shall be not less than three years, *provided* that the Restricted Period may be shorter (but not less than one year) if vesting of the Restricted Stock is conditioned upon the attainment of preestablished Performance Goals or other corporate or individual performance goals. However, in no event shall the Restricted Period end with respect to a Restricted Stock Award prior to the satisfaction by the Participant of any liability arising under Section 15 hereof. Any attempt to dispose of any Restricted Stock in contravention of any such restrictions shall be null and void and without effect.

(e) Rights as a Shareholder. Except as provided in Section 8(c) and (d), the Participant shall possess all incidents of ownership with respect to Shares of Restricted Stock during the Restricted Period, including the right to receive or reinvest dividends with respect to such Shares (except that the Administrator may provide in its discretion that any dividends paid in property other than cash shall be subject to the same restrictions as those that apply to the underlying Restricted Stock) and to vote such Shares. Certificates for unrestricted Shares shall be delivered to the Participant promptly after, and only after, the Restricted Period shall expire without forfeiture in respect of such awards of Restricted Stock except as the Administrator, in its sole discretion, shall otherwise determine.

(f) Termination of Employment. The rights of Participants granted an Award of Restricted Stock upon termination of employment with the Company or any Subsidiary or Affiliate for any reason during the Restricted Period shall be set forth in the Award Agreement governing such Award.

Section 9. Restricted Stock Units

(a) Vesting. At the time of the grant of Restricted Stock Units, the Administrator may impose such restrictions or conditions to the vesting of such Restricted Stock Units as it, in its sole discretion, deems appropriate, to be contained in the Award Agreement, including the attainment of preestablished Performance Goals or other corporate or individual performance goals. The Administrator may divide such Restricted Stock Units into classes and assign different vesting conditions for each class. Provided that all conditions to the vesting of a Restricted Stock Unit are satisfied, and except as provided in Section 9(c), upon the satisfaction of all vesting conditions with respect to a Restricted Stock Unit, such Restricted Stock Unit shall vest. The provisions of the awards of Restricted Stock Units need not be the same with respect to each Participant.

(b) Benefit Upon Vesting. Upon the vesting of a Restricted Stock Unit, the Participant shall be entitled to receive, within 30 days of the date on which such Restricted Stock Unit vests, an amount in cash or, in the Company's sole discretion, in Common Shares with a Fair Market Value equal to the sum of (1) the Fair Market Value of a Common Share on the date on which such Restricted Stock Unit vests and (2) the aggregate amount of cash dividends paid with respect to a Common Share during the period commencing on the date on which the Restricted Stock Unit was granted and terminating on the date on which such Share vests. Notwithstanding the foregoing provisions of this

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Section 9, if a Restricted Stock Unit is to be settled in Common Shares, the Restricted Stock Unit shall vest not earlier than three years from the date of grant, *provided* that the Restricted Stock Unit may vest earlier (but not less than one year from the date of grant) if vesting of the Restricted Stock Unit is conditioned upon the attainment of preestablished Performance Goals or other corporate or individual performance goals.

(c) Termination of Employment. The rights of Participants granted a Restricted Stock Unit upon termination of employment with the Company or any Subsidiary or Affiliate for any reason before the Restricted Stock Unit vests shall be set forth in the Award Agreement governing such Award.

Section 10. Stock Bonus Awards

In the event that the Administrator grants a Stock Bonus, a certificate for the Common Shares constituting such Stock Bonus shall be issued in the name of the Participant to whom such grant was made and delivered to such Participant as soon as practicable after the date on which such Stock Bonus is payable. The Fair Market Value of the Shares subject to a Stock Bonus shall not exceed the salary or cash bonus otherwise payable to the Participant on the date of grant, and the Stock Bonus shall be in lieu of an amount of the Participant's salary or cash bonus equal to such Fair Market Value.

Section 11. Stock Appreciation Rights.

(a) Grant of SARs. Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Administrator in its sole discretion. The Administrator may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SAR. The Administrator in its sole discretion shall determine the number of SARs granted to each Participant (subject to Section 4 hereof) and, consistent with the provisions of the Plan, the terms and conditions pertaining to such SARs, including any conditions relating to the attainment of preestablished Performance Goals or other corporate or individual performance goals as may be determined by the Administrator in its sole discretion. The provisions of the awards of SARs need not be the same with respect to each Participant.

(b) Grant Price. The grant price of a Freestanding SAR shall be not less than the Fair Market Value of a Share on the date of grant of the SAR. The grant price of Tandem SARs shall equal the Exercise Price of the related Option.

(c) Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an Incentive Stock Option: (i) the Tandem SAR shall expire no later than the expiration of the underlying Incentive Stock Option; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Exercise Price of the underlying Incentive Stock Option and the Fair Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

(d) Exercise of Freestanding SARs. Freestanding SARs may be exercised upon whatever terms and conditions the Administrator, in its sole discretion, imposes upon them.

(e) SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the grant price, the term of the SAR, and such other provisions as the Administrator shall determine.

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(f) Term of SARs. The term of an SAR granted under the Plan shall be determined by the Administrator, in its sole discretion; provided, however, that such term shall not exceed ten (10) years.

(g) Payment of SAR Amount. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (i) the difference between the Fair Market Value of a Share on the date of exercise over the grant price; by
- (ii) the number of Shares with respect to which the SAR is exercised.

At the discretion of the Administrator, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof. The Administrator's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

Section 12. Effect of Change in Control.

The Administrator in its discretion may provide that, upon the occurrence of a change in control (as such term may be defined in an Award Agreement) or upon termination of employment under specified circumstances during a specified period following such a change in control, all as specified in the applicable Award Agreement, all outstanding Shares of Restricted Stock, and Restricted Stock Units granted to a Participant which have not theretofore vested shall immediately vest and all restrictions on such Shares and Units shall immediately lapse, and each Option and Stock Appreciation Right granted to a Participant and outstanding at such time shall become fully and immediately exercisable.

Section 13. Amendment and Termination.

(a) The Board may amend, alter or discontinue the Plan, but (i) no amendment, alteration, or discontinuation shall be made that would impair the rights of a Participant under any Award theretofore granted without such Participant's consent, and (ii) any amendment shall be subject to approval of shareholders if it (A) materially increases the benefits accruing to Participants under the Plan, (B) materially increases the number of Shares that may be issued under the Plan, or (C) materially modifies the requirements for participation in the Plan. Unless the Board determines otherwise, the Board shall obtain approval of shareholders of the Company for any amendment that would require such approval in order to satisfy the requirements of section 162(m) of the Code, section 422 of the Code, stock exchange rules or other applicable law.

(b) The Administrator may amend the terms of any Award theretofore granted, prospectively or retroactively, but (i) unless approved by the shareholders of the Company, no such amendment shall (A) accelerate the date on which any Option or SAR granted under the Plan becomes exercisable or (B) accelerate the lapse of restrictions, or waive any condition imposed hereunder, with respect to any Restricted Stock, Restricted Stock Units, or Stock Bonus, and (ii) subject to Section 4 of Plan, no such amendment shall impair the rights of any Participant without his or her consent.

(c) Notwithstanding the foregoing provisions of this Section 13, any decrease in the Exercise Price of any outstanding Option (whether effected by amendment to the Plan or an Award Agreement) shall be subject to the approval of the shareholders of the Company.

Section 14. Unfunded Status of Plan.

The Plan is intended to constitute an unfunded plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

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Section 15. Withholding Taxes.

(a) Whenever cash is to be paid pursuant to an Award, the Company (or Subsidiary or Affiliate, as the case may be) shall have the right to deduct therefrom an amount sufficient to satisfy any federal, state and local tax withholding requirements related thereto. Whenever Shares are to be delivered pursuant to an Award, the Company (or Subsidiary or Affiliate, as the case may be) shall have the right to require the Participant to remit to the Company (or Subsidiary or Affiliate, as the case may be) in cash an amount sufficient to satisfy any federal, state and local tax withholding requirements related thereto. With the approval of the Administrator, a Participant may satisfy the foregoing requirement by electing to have the Company withhold from delivery Shares or by delivering Shares already owned by the Participant for at least six months, in each case, having a value equal to the minimum amount of tax required to be withheld. Such shares shall be valued at their Fair Market Value on the date of which the amount of tax to be withheld is determined. Fractional share amounts shall be settled in cash. Such an election may be made with respect to all or any portion of the shares to be delivered pursuant to an Award.

(b) If the Participant makes a disposition, within the meaning of section 424(c) of the Code and regulations promulgated thereunder, of any Share or Shares issued to such Participant pursuant to such Participant's exercise of an Incentive Stock Option, and such disposition occurs within the two-year period commencing on the day after the date of grant or within the one-year period commencing on the day after the date of exercise, such Participant shall, within ten (10) days of such disposition, notify the Company (or Subsidiary or Affiliate, as the case may be) thereof and thereafter immediately deliver to the Company (or Subsidiary or Affiliate, as the case may be) any amount of federal, state or local income taxes and other amounts which the Company (or Subsidiary or Affiliate, as the case may be) informs the Participant the Company (or Subsidiary or Affiliate, as the case may be) is required to withhold.

Section 16. General Provisions.

(a) Shares shall not be issued pursuant to the exercise of any Award granted hereunder unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act and the requirements of any stock exchange upon which the Common Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Company shall be under no obligation to effect the registration pursuant to the Securities Act of 1933, as amended, of any interests in the Plan or any Common Shares to be issued hereunder or to effect similar compliance under any state laws.

(b) All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Administrator may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Shares may then be listed, and any applicable federal or state securities law, and the Administrator may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. The Administrator may require, as a condition of the issuance and delivery of certificates evidencing Shares pursuant to the terms hereof, that the recipient of such Shares make such agreements and representations as the Administrator, in its sole discretion, deems necessary or desirable.

(c) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval, if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan shall not confer upon any Eligible Recipient any right to continued employment or service with the Company or any Subsidiary or Affiliate, as the case may be, nor shall it interfere in any way

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with the right of the Company or any Subsidiary or Affiliate to terminate the employment or service of an Eligible Recipient at any time.

(d) No fractional Common Shares shall be issued or delivered pursuant to the Plan. The Administrator shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(e) If any provision of the Plan is held to be invalid or unenforceable, the other provisions of the Plan shall not be affected but shall be applied as if the invalid or unenforceable provision had not been included in the Plan.

(f) The Plan and all Awards shall be governed by the laws of the State of Delaware without regard to its principles of conflict of laws.

(g) Awards may be granted under the Plan from time to time in substitution for awards held by employees, directors or service providers of other corporations who are about to become employees of the Company or a Subsidiary or Affiliate as the result of a merger or consolidation of the employing corporation with the Company or Subsidiary or Affiliate, or the acquisition by the Company or a Subsidiary or Affiliate of the assets of the employing corporation, or the acquisition by the Company or a Subsidiary or Affiliate of the shares of the employing corporation, as the result of which it becomes a Subsidiary or Affiliate under the Plan. The terms and conditions of the Awards so granted may vary from the terms and conditions set forth in this Plan at the time of such grant as the Administrator may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are made.

Section 17. Shareholder Approval; Effective Date of Plan.

The Plan shall be effective as of the date of its approval by the Company's shareholders.

Section 18. Term of Plan.

No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the date the Plan is approved by the Company's shareholders, but Awards theretofore granted may extend beyond that date.

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PROXY

NABORS INDUSTRIES LTD.

This Proxy is Solicited on Behalf of the Board of Directors

The person signing on the reverse by this proxy appoints Eugene M. Isenberg and Anthony G. Petrello, and each of them (with full power to designate substitutes), proxies to represent, vote and act with respect to all common shares of Nabors Industries Ltd. held of record by the undersigned at the close of business on April 7, 2006 at Nabors' annual general meeting of shareholders to be held on June 6, 2006 and at any adjournments or postponements thereof. The proxies may vote and act upon the matters designated below and upon such other matters as may properly come before the meeting (including a motion to adjourn the meeting), according to the number of votes the undersigned might cast and with all powers the undersigned would possess if personally present.

1. **ELECTION OF DIRECTORS:** Election of one Class III director of Nabors to serve until the 2009 annual general meeting of shareholders or until their respective successors are elected and qualified.

Nominees: Eugene M. Isenberg

2. **APPOINTMENT OF AUDITORS AND AUTHORIZATION OF AUDIT COMMITTEE TO SET AUDITORS REMUNERATION:** Appointment of PricewaterhouseCoopers LLP as independent auditors and to authorize the Audit Committee of the Board of Directors to set auditors' remuneration.

3. **MANAGEMENT PROPOSAL:** Approval of the Company's Amended and Restated 2003 Employee Stock Plan. **YOU ARE ENCOURAGED TO SPECIFY YOUR CHOICE BY MARKING THE APPROPRIATE BOX ON THE REVERSE SIDE. IF YOU DO NOT MARK ANY BOX, YOUR SHARES WILL BE VOTED FOR THE ELECTION OF THE ABOVE-NAMED DIRECTORS AND FOR THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS AUDITORS AND FOR THE APPROVAL OF THE AMENDED AND RESTATED 2003 EMPLOYEE STOCK PLAN IN ACCORDANCE WITH THE BOARD OF DIRECTORS' RECOMMENDATIONS.**

SEE REVERSE
SIDE

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þ Please mark your votes as in this example.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEMS 1, 2, AND 3.

1.	Election of Director Eugene Isenberg	FOR o	WITHHELD o	2.	Appointment of Pricewaterhouse Coopers LLP as independent auditors and to authorize the Audit Committee of the Board of Directors to set auditors remuneration.	FOR o	AGAINST o	ABSTAIN o
3.	Approval of Amended and Restated 2003 Employee Stock Plan	FOR o	AGAINST o	ABSTAIN o				

In their discretion the proxies are authorized to vote upon such other business as may properly come before the meeting (including a motion to adjourn the meeting) and at any adjournment of the meeting.

NOTE: Please mark the proxy, sign exactly as your name appears below, and return it promptly in the enclosed addressed envelope. When shares are held by joint tenants, both parties should sign. When signing as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by the President or other authorized person. If a partnership, please sign in full partnership name by an authorized person.

Signature

Date

Signature

Date