

WEATHERFORD INTERNATIONAL LTD

Form 10-Q

November 03, 2008

Table of Contents

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

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

**For the quarterly period ended September 30, 2008
OR**

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

For the transition period from _____ to _____

Commission file number 1-31339

WEATHERFORD INTERNATIONAL LTD.

(Exact name of Registrant as specified in its Charter)

Bermuda

98-0371344

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

515 Post Oak Boulevard
Suite 600
Houston, Texas

77027-3415

(Address of principal executive offices)

(Zip Code)

(713) 693-4000

(Registrant's telephone number, include area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common shares, as of the latest practicable date:

Title of Class

Outstanding at October 29, 2008

Common Shares, par value \$1.00

681,099,947

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 1A. RISK FACTORS

ITEM 2. UNREGISTERED SALES OF EQUITY IN SECURITIES AND USE OF PROCEEDS

ITEM 6. EXHIBITS

SIGNATURES

EX-31.1

EX-31.2

EX-32.1

EX-32.2

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except par value)**

| | September 30, 2008 (unaudited) | December 31, 2007 |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 336,546 | \$ 170,714 |
| Accounts Receivable, Net of Allowance for Uncollectible Accounts of \$12,708 and \$13,760, Respectively | 2,425,666 | 1,961,854 |
| Inventories | 2,021,814 | 1,607,684 |
| Other Current Assets | 723,112 | 731,517 |
| | 5,507,138 | 4,471,769 |
| Property, Plant and Equipment, Net of Accumulated Depreciation of \$2,737,610 and \$2,400,062, Respectively | 5,515,079 | 4,153,845 |
| Goodwill | 3,812,643 | 3,358,490 |
| Other Intangible Assets, Net of Accumulated Amortization of \$260,442 and \$227,307 Respectively | 572,433 | 596,999 |
| Equity Investments | 485,331 | 368,618 |
| Other Assets | 306,287 | 241,236 |
| | \$ 16,198,911 | \$ 13,190,957 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 1,074,000 | \$ 774,220 |
| Accounts Payable | 813,745 | 612,775 |
| Other Current Liabilities | 752,246 | 815,370 |
| | 2,639,991 | 2,202,365 |
| Long-term Debt | 4,544,110 | 3,066,335 |
| Other Liabilities | 553,951 | 482,211 |
| | 7,738,052 | 5,750,911 |
| Minority Interest in Consolidated Subsidiaries | 77,581 | 33,327 |
| Shareholders Equity: | 728,266 | 727,204 |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

Common Shares, \$1 Par Value, Authorized 2,000,000 Shares, Issued
728,266 and 727,204 Shares, Respectively

| | | |
|----------------------------------------|---------------|---------------|
| Capital in Excess of Par Value | 4,107,603 | 3,995,747 |
| Treasury Shares, Net | (905,727) | (924,202) |
| Retained Earnings | 4,175,967 | 3,170,182 |
| Accumulated Other Comprehensive Income | 277,169 | 437,788 |
| | 8,383,278 | 7,406,719 |
| | \$ 16,198,911 | \$ 13,190,957 |

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

Table of Contents

WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share amounts)

| | Three Months | | Nine Months | |
|-----------------------------------------------------------------------------|----------------------------|-------------|----------------------------|--------------|
| | Ended September 30, | | Ended September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | |
| Products | \$ 953,084 | \$ 777,243 | \$ 2,616,710 | \$ 2,136,346 |
| Services | 1,587,712 | 1,194,748 | 4,349,228 | 3,503,875 |
| | 2,540,796 | 1,971,991 | 6,965,938 | 5,640,221 |
| Costs and Expenses | | | | |
| Cost of Products | 685,338 | 544,295 | 1,905,964 | 1,647,318 |
| Cost of Services | 955,585 | 728,952 | 2,638,791 | 1,982,753 |
| Research and Development | 52,026 | 43,199 | 139,095 | 124,413 |
| Selling, General and Administrative Attributable to Segments | 268,710 | 207,383 | 778,375 | 628,799 |
| Corporate General and Administrative | 44,397 | 28,573 | 137,859 | 94,194 |
| Gain on Sale of Subsidiary | | | (81,344) | |
| Operating Income | 534,740 | 419,589 | 1,447,198 | 1,162,744 |
| Other Expense: | | | | |
| Interest Expense, Net | (60,521) | (50,194) | (175,723) | (119,258) |
| Other, Net | (8,243) | 1,282 | (13,026) | (7,024) |
| Income from Continuing Operations Before Income Taxes and Minority Interest | 465,976 | 370,677 | 1,258,449 | 1,036,462 |
| Provision for Income Taxes | (82,990) | (70,429) | (214,490) | (267,078) |
| Income from Continuing Operations Before Minority Interest | 382,986 | 300,248 | 1,043,959 | 769,384 |
| Minority Interest, Net of Taxes | (12,386) | (5,324) | (25,246) | (14,161) |
| Income from Continuing Operations | 370,600 | 294,924 | 1,018,713 | 755,223 |
| Loss from Discontinued Operation, Net of Taxes | | (2,211) | (12,928) | (15,628) |
| Net Income | \$ 370,600 | \$ 292,713 | \$ 1,005,785 | \$ 739,595 |
| Basic Earnings Per Share: | | | | |
| Income from Continuing Operations | \$ 0.54 | \$ 0.44 | \$ 1.49 | \$ 1.12 |
| Loss from Discontinued Operation | | (0.01) | (0.01) | (0.03) |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | | | | | | | |
|-----------------------------------|----|------|----|------|----|--------|----|--------|
| Net Income | \$ | 0.54 | \$ | 0.43 | \$ | 1.48 | \$ | 1.09 |
| Diluted Earnings Per Share: | | | | | | | | |
| Income from Continuing Operations | \$ | 0.53 | \$ | 0.42 | \$ | 1.46 | \$ | 1.09 |
| Loss from Discontinued Operation | | | | | | (0.02) | | (0.03) |
| Net Income | \$ | 0.53 | \$ | 0.42 | \$ | 1.44 | \$ | 1.06 |

Weighted Average Shares Outstanding:

| | | | | |
|---------|---------|---------|---------|---------|
| Basic | 682,532 | 676,352 | 681,531 | 677,012 |
| Diluted | 701,284 | 696,496 | 700,099 | 694,916 |

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

Table of Contents

WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

| | Nine Months | |
|-----------------------------------------------------------------------------------|----------------------------|-------------|
| | Ended September 30, | |
| | 2008 | 2007 |
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 1,005,785 | \$ 739,595 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 528,129 | 439,034 |
| Gain on Sales of Assets and Businesses, Net | (111,043) | (35,188) |
| Loss from Discontinued Operation | 12,928 | 15,628 |
| Employee Share-Based Compensation Expense | 74,760 | 57,109 |
| Excess Tax Benefits from Share-Based Compensation | (15,746) | (20,396) |
| Minority Interest | 25,246 | 14,161 |
| Deferred Income Tax (Benefit) Provision | (14,940) | 140,884 |
| Other, Net | (17,619) | 9,094 |
| Change in Operating Assets and Liabilities, Net of Effect of Businesses | | |
| Acquired Accounts Receivable | (402,682) | (292,581) |
| Inventories | (426,526) | (404,821) |
| Accounts Payable | 147,046 | 37,759 |
| Other | (214,763) | (169,826) |
| Net Cash Provided by Operating Activities – Continuing Operations | 590,575 | 530,452 |
| Net Cash Used by Operating Activities – Discontinued Operation | (6,219) | (9,014) |
| Net Cash Provided by Operating Activities | 584,356 | 521,438 |
| Cash Flows from Investing Activities: | | |
| Acquisitions of Businesses, Net of Cash Acquired | (673,845) | (224,878) |
| Capital Expenditures for Property, Plant and Equipment | (1,821,813) | (1,097,470) |
| Acquisition of Intellectual Property | (14,377) | (17,683) |
| Purchase of Equity Investment in Unconsolidated Affiliates | (3,422) | (334,520) |
| Proceeds from Sale of Assets and Businesses, Net | 290,974 | 59,927 |
| Net Cash Used by Investing Activities – Continuing Operations | (2,222,483) | (1,614,624) |
| Net Cash Provided (Used) by Investing Activities – Discontinued Operation | 11,000 | (22,361) |
| Net Cash Used by Investing Activities | (2,211,483) | (1,636,985) |
| Cash Flows from Financing Activities: | | |
| Borrowings of (Repayments on) Short-term Debt, Net | 295,528 | (228,256) |
| Borrowings of Long-term Debt, Net | 1,482,844 | 1,474,773 |
| Purchase of Treasury Shares | | (179,262) |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | |
|---------------------------------------------------------------------|------------|------------|
| Proceeds from Exercise of Stock Options | 9,969 | 30,753 |
| Excess Tax Benefits from Share-Based Compensation | 15,746 | 20,396 |
| Other Financing Activities, Net | (11,128) | (3,146) |
| Net Cash Provided by Financing Activities Continuing Operations | 1,792,959 | 1,115,258 |
| Net Cash Provided by Financing Activities Discontinued Operation | | |
| Net Cash Provided by Financing Activities | 1,792,959 | 1,115,258 |
| Net Increase (Decrease)in Cash and Cash Equivalents | 165,832 | (289) |
| Cash and Cash Equivalents at Beginning of Period | 170,714 | 126,287 |
| Cash and Cash Equivalents at End of Period | \$ 336,546 | \$ 125,998 |
| Supplemental Cash Flow Information: | | |
| Interest Paid | \$ 188,940 | \$ 110,766 |
| Income Taxes Paid, Net of Refunds | 231,319 | 241,887 |

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

Table of Contents

WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands)

| | Three Months | | Nine Months | |
|-----------------------------------------|----------------------------|-------------|----------------------------|-------------|
| | Ended September 30, | | Ended September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Net Income | \$ 370,600 | \$ 292,713 | \$ 1,005,785 | \$ 739,595 |
| Other Comprehensive Income: | | | | |
| Deferred Loss on Derivative Instruments | | | (12,576) | |
| Amortization of Pension Components | 885 | 1,026 | 6,501 | 5,608 |
| Pension Remeasurement Loss | | | | (15,427) |
| Foreign Currency Translation Adjustment | (192,205) | 127,370 | (154,879) | 255,745 |
| Other | 148 | 39 | 335 | 114 |
| Comprehensive Income | \$ 179,428 | \$ 421,148 | \$ 845,166 | \$ 985,635 |

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

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

1. General

The condensed consolidated financial statements of Weatherford International Ltd. and all majority-owned subsidiaries (the Company) included herein are unaudited; however, they include all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the Company's Condensed Consolidated Balance Sheet at September 30, 2008, Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Comprehensive Income and Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2008 and 2007. Although the Company believes the disclosures in these financial statements are adequate to make the interim information presented not misleading, certain information relating to the Company's organization and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted in this Form 10-Q pursuant to Securities and Exchange Commission rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and the notes thereto included in the Company's Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results expected for the full year.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and disclosure of contingent liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to uncollectible accounts receivable, lower of cost or market of inventories, equity investments, intangible assets and goodwill, property, plant and equipment, income taxes, self-insurance, pension and post retirement benefit plans and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Certain reclassifications have been made to conform prior year financial information to the current period presentation.

The Company's Board of Directors approved a two-for-one share split of our common shares effected through a share dividend. Shareholders of record on May 9, 2008 were entitled to the dividend, which was distributed on May 23, 2008. All share and option amounts included in the accompanying consolidated financial statements and related notes reflect the effect of the share split.

2. Business Combinations

The Company has acquired businesses critical to its long-term growth strategy. Results of operations for acquisitions are included in the accompanying Condensed Consolidated Statements of Income from the date of acquisition. The balances included in the Condensed Consolidated Balance Sheets related to recent acquisitions are based on preliminary information and are subject to change when final asset valuations are obtained and the potential for liabilities has been evaluated. Acquisitions are accounted for using the purchase method of accounting and the purchase price is allocated to the net assets acquired based upon their estimated fair values at the date of acquisition. Final valuations of assets and liabilities are obtained and recorded within one year from the date of the acquisition.

In August of 2005, the Company acquired Precision Energy Services and Precision Drilling International. In association with the acquisition, the Company identified pre-acquisition contingencies related to duties and taxes associated with the importation of certain equipment assets to foreign jurisdictions. The Company calculated a range of reasonable estimates of the costs associated with these duties. As no amount within the range appeared to be a better estimate than any other, the Company used the amount that is the low end of the range. At September 30, 2008, the Company has a liability in the amount of \$13 million for this matter. If the Company used the high end of the range, the aggregate potential liability would be approximately \$19 million higher.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

During the nine months ended September 30, 2008, the Company acquired various businesses for cash consideration of \$683 million and approximately one million common shares valued at \$43 million. The largest acquisition during the period was for International Logging, Inc., a provider of surface logging and formation evaluation and drilling related services.

3. Equity Investment Acquisition

The Company acquired a 33% ownership interest in Premier Business Solutions (PBS) in June 2007 for approximately \$330 million. PBS conducts business in Russia and is the world's largest electric submersible pump manufacturer by volume. In January 2008, the Company sold its electrical submersible pumps (ESP) product line to PBS and received a combination of cash and an additional equity investment in PBS in consideration of the sale. The Company's investment in PBS is included in Equity Investments in the accompanying Condensed Consolidated Balance Sheets at September 30, 2008 and December 31, 2007. The assets and liabilities of the ESP product line were classified as held for sale at December 31, 2007 and included in Other Current Assets and Other Current Liabilities in the Condensed Consolidated Balance Sheet.

4. Discontinued Operations

In June 2007, the Company's management approved a plan to sell its oil and gas development and production business. The Company finalized the divestiture of the business in June 2008 and recorded an \$11 million gain, net of taxes, during the three months ended June 30, 2008. This gain was partially offset by operating and legal expenses incurred during the period. Included in the loss for the nine months ended September 30, 2008, is approximately \$21 million, net of taxes, incurred in connection with the settlement of a legal dispute regarding the business.

5. Inventories

The components of inventory were as follows:

| | September 30, 2008 | December 31, 2007 |
|----------------------------------------|-----------------------------------|------------------------------|
| | <i>(In thousands)</i> | |
| Raw materials, components and supplies | \$ 433,427 | \$ 373,383 |
| Work in process | 166,272 | 118,407 |
| Finished goods | 1,422,115 | 1,115,894 |
| | \$ 2,021,814 | \$ 1,607,684 |

Work in process and finished goods inventories include the cost of materials, labor and plant overhead.

6. Goodwill

Goodwill is evaluated for impairment on at least an annual basis. The Company performs its annual goodwill impairment test as of October 1. The Company's 2007 impairment test indicated goodwill was not impaired. The Company will continue to test its goodwill annually as of October 1 unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2008 were as follows:

| | North America | Latin America | Europe/ West Africa/ CIS (In thousands) | Middle East/ North Africa/ Asia | Total |
|-----------------------------------------|--------------------------|--------------------------|--------------------------------------------------------------------|--------------------------------------------------------|--------------|
| December 31, 2007 | \$ 1,918,411 | \$ 156,825 | \$ 678,433 | \$ 604,821 | \$ 3,358,490 |
| Acquisitions | 104,297 | 77,560 | 196,642 | 152,200 | 530,699 |
| Disposals | (4,380) | (27) | | | (4,407) |
| Purchase price and other adjustments | 2,222 | 7,161 | 6,644 | (15,909) | 118 |
| Foreign currency translation | (49,034) | (1,571) | (18,020) | (3,632) | (72,257) |
| As of September 30, 2008 | \$ 1,971,516 | \$ 239,948 | \$ 863,699 | \$ 737,480 | \$ 3,812,643 |

7. Short-term Borrowings and Current Portion of Long-term Debt

The components of short-term borrowings were as follows:

| | September 30, 2008 | December 31, 2007 |
|-------------------------------------------------------------|-----------------------------------|----------------------------------|
| | <i>(In thousands)</i> | |
| Revolving credit facilities | \$ 1,030,000 | \$ 491,000 |
| Commercial paper program | | 191,621 |
| Other short-term bank loans | 32,415 | 80,025 |
| Total Short-term Borrowings | 1,062,415 | 762,646 |
| Current Portion of Long-term Debt | 11,585 | 11,574 |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 1,074,000 | \$ 774,220 |

In March 2008, the Company completed a \$1.5 billion long-term debt offering comprised of (i) \$500 million of 5.15% Senior Notes due in 2013 (5.15% Senior Notes), (ii) \$500 million of 6.00% Senior Notes due 2018 (6.00% Senior Notes) and (iii) \$500 million of 7.00% Senior Notes due 2038 (7.00% Senior Notes). Net proceeds of \$1.47 billion were used to repay short-term borrowings and for general corporate purposes, including capital expenditures and business acquisitions. Interest on these notes is due semi-annually on March 15 and September 15 of each year.

The Company maintains a revolving credit agreement with a syndicate of banks. The aggregate lending commitment of this facility is \$1.5 billion and allows for a combination of borrowings, support of the Company's commercial paper program and issuances of letters of credit. There were \$28 million in outstanding letters of credit under this facility at September 30, 2008.

On March 19, 2008, the Company entered into an additional \$250 million revolving credit facility with a syndicate of banks. This facility allows for a combination of borrowings, support of the Company's commercial paper program

and issuances of letters of credit.

Both committed borrowing facilities require the Company to maintain a debt-to-capitalization ratio of less than 60% and contain other covenants and representations customary for an investment-grade commercial credit. The Company was in compliance with these covenants at September 30, 2008.

The Company has a \$1.5 billion commercial paper program under which it may from time to time issue short-term unsecured notes. The commercial paper program is supported by the Company's revolving credit facilities.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The Company has short-term borrowings with various domestic and international institutions pursuant to uncommitted facilities. At September 30, 2008, the Company had \$32 million in short-term borrowings outstanding under these arrangements with a weighted average interest rate of 7.7%. In addition, the Company had \$208 million of letters of credit and bid and performance bonds outstanding under these uncommitted facilities.

The Company's short-term borrowings approximate their fair value at September 30, 2008 and December 31, 2007.

8. Derivative Instruments

Interest Rate Swaps

Upon completion of the long-term debt offering in March 2008, the Company entered into interest rate swap agreements on an aggregate notional amount of \$500 million against its 5.15% Senior Notes. These agreements were outstanding at September 30, 2008. The aggregate fair value of the interest rate swaps at September 30, 2008 resulted in a liability of \$14 million with the offset to Long-term Debt on the accompanying Consolidated Balance Sheet.

Cash Flow Hedges

In March 2008, the Company entered into interest rate derivative instruments for a notional amount of \$500 million to hedge projected exposures to interest rates in anticipation of the 7.00% Senior Notes issued in March 2008. Those hedges were terminated at the time of the issuance. The Company paid a cash settlement of \$13 million at termination, and the loss on these hedges is being amortized to interest expense over the life of the 7.00% Senior Notes.

Other Derivative Instruments

As of September 30, 2008, we had several foreign currency forward contracts and one option contract with notional amounts aggregating \$488 million, which were entered into to hedge exposure to currency fluctuations in various foreign currencies, including, but not limited to, the British pound sterling, the Canadian dollar, the euro and the Norwegian kroner. The total estimated fair value of these contracts at September 30, 2008 resulted in a liability of approximately \$1 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in current earnings.

In addition, after the closing of the acquisition of Precision Energy Services and Precision Drilling International, the Company entered into a series of cross-currency swaps between the U.S. dollar and Canadian dollar to hedge certain exposures to the Canadian dollar created as a result of the acquisition. At September 30, 2008, the Company had notional amounts outstanding of \$364 million. The total estimated fair value of these contracts at September 30, 2008 resulted in a liability of \$50 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in current earnings.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*, (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option) with changes in fair value reported in earnings. The Company already records derivative contracts and hedging activities at fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The adoption of SFAS No. 159 had no impact on the financial statements as the Company did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, (SFAS No. 157) as it relates to financial assets and financial liabilities. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities. Accordingly, the Company will defer the adoption of SFAS No. 157 for its nonfinancial assets and nonfinancial liabilities until January 1, 2009.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principals and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. The adoption of SFAS No. 157, as it relates to financial assets, had no impact on the Company's consolidated financial position, results of operations and cash flows. The Company is currently evaluating the potential impact of SFAS No. 157, as it relates to nonfinancial assets and nonfinancial liabilities, on its consolidated financial position, results of operations and cash flows.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from independent sources (observable inputs) and an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs that are both significant to the fair value measurement and unobservable.

In accordance with SFAS No. 157, the following table presents the Company's assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of September 30, 2008:

| | September 30, 2008 | | | Total |
|----------------------|---------------------------|----------------|--------------------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| | <i>(In thousands)</i> | | | |
| Assets: | | | | |
| Derivative contracts | \$ | \$ | \$ | \$ |
| Liabilities: | | | | |
| Derivative contracts | | 64,810 | | 64,810 |

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

9. Income Taxes

The Company's effective tax rates were 17.8% and 17.0% for the three and nine months ended September 30, 2008, respectively, and 19.0% and 25.8% for the three and nine months ended September 30, 2007, respectively. The decrease in the effective tax rate was due primarily to withholding taxes of \$50 million that were required to be paid on a distribution made to one of the Company's foreign subsidiaries during the second quarter of 2007. In addition, the Company recognized a gain of \$81 million, with no related tax effect, on its sale of a 50% interest in a subsidiary in the second quarter of 2008. The remainder of the decrease is due to the net benefits realized from the refinement of the Company's international tax structure and changes in the Company's geographic earnings mix.

There were no material changes to the total amount of unrecognized tax benefits during the first nine months of 2008.

10. Earnings Per Share

Basic earnings per share for all periods presented equals net income divided by the weighted average number of the Company's common shares, \$1.00 par value (Common Shares) outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of Common Shares outstanding during the period, as adjusted for the dilutive effect of the Company's stock option and restricted share plans and warrant.

The Company's Board of Directors approved a two-for-one share split of its Common Shares effected through a share dividend. Shareholders of record on May 9, 2008 were entitled to the dividend, which was distributed on May 23, 2008. All share and option amounts included in the accompanying consolidated financial statements and related notes reflect the effect of the share split.

The following reconciles basic and diluted weighted average shares outstanding (in thousands):

| | Three Months | | Nine Months | |
|---------------------------------------------|-------------------------------------|-------------|-------------------------------------|-------------|
| | Ended September 30, 2008 | 2007 | Ended September 30, 2008 | 2007 |
| Basic weighted average shares outstanding | 682,532 | 676,352 | 681,531 | 677,012 |
| Dilutive effect of: | | | | |
| Warrant | 7,553 | 6,250 | 7,626 | 5,114 |
| Stock option and restricted share plans | 11,199 | 13,894 | 10,942 | 12,790 |
| Diluted weighted average shares outstanding | 701,284 | 696,496 | 700,099 | 694,916 |

11. Supplemental Cash Flow Information

Gain on sales of assets and businesses, net, for the nine months ended September 30, 2008 of \$111 million includes a \$19 million write-off of fixed assets resulting from our exit from sanctioned countries, an \$81 million gain recognized in connection with the sale of a 50% interest in a subsidiary the Company controls to Qatar Petroleum and \$49 million in gains related to our divestiture of other assets and businesses. For the nine months ended September 30, 2007, the \$35 million gain includes the divestiture of two equity investments.

During the nine months ended September 30, 2007 there were non-cash investing activities of \$20 million related to a note received in exchange for the sale of a minority interest in a subsidiary of the Company.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

12. Share-Based Compensation

The Company recognized the following employee share-based compensation expense during the three and nine months ended September 30, 2008 and 2007:

| | Three Months | | Nine Months | |
|--------------------------|----------------------------|-------------|----------------------------|-------------|
| | Ended September 30, | | Ended September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | <i>(In thousands)</i> | | | |
| Share-based compensation | \$26,626 | \$19,896 | \$74,760 | \$57,109 |
| Related tax benefit | 9,319 | 6,964 | 26,166 | 19,988 |

During the nine months ended September 30, 2008, the Company granted six million restricted share awards and units at a weighted average grant date fair value of \$34.69 per share.

As of September 30, 2008, there was \$268 million of total unrecognized compensation cost related to the Company's unvested stock options and restricted share grants. This cost is expected to be recognized over a weighted-average period of 2.2 years.

13. Retirement and Employee Benefit Plans

The Company has defined benefit pension and other post-retirement benefit plans covering certain employees. The components of net periodic benefit cost for the three and nine months ended September 30, 2008 and 2007 were as follows:

| | Three Months Ended September 30, | | | |
|---------------------------------------------|-----------------------------------------|----------------------|---------------|----------------------|
| | 2008 | | 2007 | |
| | United | United | United | United |
| | States | International | States | International |
| | <i>(In thousands)</i> | | | |
| Service cost | \$ 720 | \$ 3,413 | \$ 660 | \$ 2,798 |
| Interest cost | 1,511 | 2,551 | 1,326 | 2,060 |
| Expected return on plan assets | (179) | (2,233) | (165) | (2,001) |
| Amortization of transition obligation | | (1) | ¾ | (1) |
| Amortization of prior service cost (credit) | 458 | (19) | 527 | (27) |
| Amortization of loss | 964 | 102 | 1,043 | 39 |
| Curtailment/settlement loss | | | | |
| Net periodic benefit cost | \$ 3,474 | \$ 3,813 | \$ 3,391 | \$ 2,868 |

| | Nine Months Ended September 30, | | | |
|---------------------------------------------|----------------------------------------|----------------------|---------------|----------------------|
| | 2008 | | 2007 | |
| | United | United | United | United |
| | States | International | States | International |
| | <i>(In thousands)</i> | | | |
| Service cost | \$ 2,160 | \$ 10,456 | \$ 1,981 | \$ 8,216 |
| Interest cost | 4,533 | 7,820 | 3,979 | 6,053 |
| Expected return on plan assets | (537) | (6,859) | (495) | (5,887) |
| Amortization of transition obligation | | (3) | | (3) |
| Amortization of prior service cost (credit) | 1,374 | (59) | 1,581 | (79) |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | | | |
|-----------------------------|-----------|-----------|-----------|----------|
| Amortization of loss | 2,892 | 310 | 3,127 | 113 |
| Curtailment/settlement loss | 5,621 | | 1,881 | |
| Net periodic benefit cost | \$ 16,043 | \$ 11,665 | \$ 12,054 | \$ 8,413 |

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The Company previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute \$13 million to its pension and other postretirement benefit plans during 2008. As of September 30, 2008, the Company has contributed approximately \$8 million to these plans. Currently, the Company anticipates total contributions to approximate the original estimates previously disclosed.

14. Segment Information

Financial information by segment is summarized below. Revenues are attributable to countries based on the ultimate destination of the sale of products or performance of services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

| | Three Months Ended September 30, 2008 | | |
|-------------------------------|----------------------------------------------|---------------------------------------------------------------------|----------------------------------------------|
| | Net Operating Revenues | Income from Operations <i>(In thousands)</i> | Depreciation and Amortization |
| North America | \$ 1,179,605 | \$ 312,887 | \$ 79,619 |
| Middle East/North Africa/Asia | 637,872 | 146,450 | 49,138 |
| Europe/West Africa/CIS | 408,993 | 102,385 | 31,911 |
| Latin America | 314,326 | 69,521 | 23,561 |
| | 2,540,796 | 631,243 | 184,229 |
| Research and Development | | (52,026) | 1,902 |
| Corporate | | (30,750) | 1,000 |
| Other (a) | | (13,727) | |
| Total | \$ 2,540,796 | \$ 534,740 | \$ 187,131 |

| | Three Months Ended September 30, 2007 | | |
|-------------------------------|----------------------------------------------|---------------------------------------------------------------------|----------------------------------------------|
| | Net Operating Revenues | Income from Operations <i>(In thousands)</i> | Depreciation and Amortization |
| North America | \$ 993,828 | \$ 264,183 | \$ 74,047 |
| Middle East/North Africa/Asia | 455,932 | 103,839 | 40,983 |
| Europe/West Africa/CIS | 308,587 | 77,886 | 22,926 |
| Latin America | 213,644 | 45,453 | 18,880 |
| | 1,971,991 | 491,361 | 156,836 |
| Research and Development | | (43,199) | 1,678 |
| Corporate | ¾ | (24,945) | 463 |
| Other (b) | ¾ | (3,628) | |
| Total | \$ 1,971,991 | \$ 419,589 | \$ 158,977 |

- (a) The three months ended September 30, 2008 includes \$14 million incurred in connection with the Company's on-going investigations by the U. S. government.

- (b) The three months ended September 30, 2007 includes \$4 million incurred in connection with the Company's on-going investigations.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

| | Nine Months Ended September 30, 2008 | | |
|-------------------------------|---------------------------------------------|---------------------------------------|----------------------------------------------|
| | Net Operating Revenues | Income from Operations | Depreciation and Amortization |
| | <i>(In thousands)</i> | | |
| North America | \$ 3,282,211 | \$ 828,792 | \$ 229,499 |
| Middle East/North Africa/Asia | 1,716,007 | 397,774 | 140,856 |
| Europe/West Africa/CIS | 1,146,185 | 294,614 | 86,132 |
| Latin America | 821,535 | 188,374 | 63,611 |
| | 6,965,938 | 1,709,554 | 520,098 |
| Research and Development | | (139,095) | 5,463 |
| Corporate | | (99,657) | 2,568 |
| Other (c) | | (23,604) | |
| Total | \$ 6,965,938 | \$ 1,447,198 | \$ 528,129 |

| | Nine Months Ended September 30, 2007 | | |
|-------------------------------|---------------------------------------------|---------------------------------------|----------------------------------------------|
| | Net Operating Revenues | Income from Operations | Depreciation and Amortization |
| | <i>(In thousands)</i> | | |
| North America | \$ 2,883,825 | \$ 756,661 | \$ 202,770 |
| Middle East/North Africa/Asia | 1,286,022 | 284,310 | 114,101 |
| Europe/West Africa/CIS | 844,184 | 202,911 | 62,097 |
| Latin America | 626,190 | 139,784 | 52,737 |
| | 5,640,221 | 1,383,666 | 431,705 |
| Research and Development | | (124,413) | 4,967 |
| Corporate | | (75,565) | 2,362 |
| Other (d) | | (20,944) | |
| Total | \$ 5,640,221 | \$ 1,162,744 | \$ 439,034 |

(c) The nine months ended September 30, 2008 includes \$57 million for costs incurred in connection with

the Company's withdrawal from sanctioned countries. These costs were included in the Cost of Products line item in the Condensed Consolidated Statements of Income. In addition, severance costs of \$15 million were incurred associated with reorganization activities and \$33 million was expended in connection with the Company's on-going investigations. These charges were partially offset by a gain of \$81 million recognized in connection with the sale of a 50% interest in a subsidiary the Company controls to Qatar Petroleum for cash consideration of \$113 million.

- (d) The nine months ended September 30, 2007 includes \$17 million for severance charges associated with reorganization activities and

\$4 million in investigation costs incurred in connection with the Company's on-going investigations by the U. S. government.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

15. Disputes, Litigation and Contingencies

U.S. Government and Internal Investigations

We are currently involved in government and internal investigations involving various of our operations. We participated in the United Nations oil-for-food program governing sales of goods and services into Iraq. The SEC has subpoenaed certain documents in connection with an investigation into our participation in the oil-for-food program. The U.S. Department of Justice is also conducting an investigation of our participation in the oil-for-food program. We are cooperating fully with these investigations. We have retained legal counsel, reporting to our audit committee, to investigate this matter. These investigations are ongoing, and we cannot anticipate the timing, outcome or possible impact of these investigations, financial or otherwise.

The U.S. Department of Commerce, Bureau of Industry & Security and the U.S. Department of Justice are investigating allegations of improper sales of products and services by us and our subsidiaries in sanctioned countries. We are cooperating fully with this investigation. We have retained legal counsel, reporting to our audit committee, to investigate this matter. This investigation is ongoing, and we cannot anticipate the timing, outcome or possible impact of the investigation, financial or otherwise.

In light of this investigation and of the current U.S. and foreign policy environment and the inherent uncertainties surrounding these countries, we decided in September 2007 to direct our foreign subsidiaries to discontinue doing business in countries that are subject to U.S. economic and trade sanctions, including Cuba, Iran, Sudan and Syria. Effective September 2007, we ceased entering into any new contracts relating to these countries and began an orderly discontinuation and winding down of our existing business in these sanctioned countries. Effective March 31, 2008, we completed our withdrawal from these countries.

With the assistance of outside counsel and in connection with the U.S. government investigations, we are conducting internal investigations regarding the embezzlement of approximately \$175,000 at a European subsidiary and the possible improper use of these funds, including possible payments to government officials in Europe, during the period from 2000 to 2004, and the Company's compliance with the Foreign Corrupt Practices Act and other laws worldwide. As part of this internal investigation, we have also uncovered potential violations of U.S. law in connection with a joint venture in Angola. These internal investigations are ongoing, and we cannot anticipate the timing, outcome or possible impact, if any, of the investigations, financial or otherwise. We have informed the SEC and the DOJ of these internal investigations, and the results of the internal investigations will be provided to the SEC and DOJ.

The DOJ, the SEC and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of trading sanctions laws, the Foreign Corrupt Practices Act and other federal statutes including, but not limited to, injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs. In recent years, these agencies and authorities have entered into agreements with, and obtained a range of penalties against, several public corporations and individuals in similar investigations, under which civil and criminal penalties were imposed, including in some cases multi-million dollar fines and other penalties and sanctions. Under trading sanctions laws, the DOJ may also seek to impose modifications to business practices, including immediate cessation of all business activities in sanctioned countries, and modifications to compliance programs, which may increase compliance costs. In addition, our activities in sanctioned countries, such as Sudan and Iran, could result in certain investors, such as government sponsored pension funds, divesting or not investing in our common shares. Based on available information, we cannot predict what, if any, actions the DOJ, SEC or other authorities may take in our situation or the effect any such actions may have on our consolidated financial position or results of operations. To the extent we violated U.S. export regulations, fines and other penalties may be imposed. Because these matters are now pending before the indicated agencies, there can be no assurance that actual fines or penalties, if any, will not have a material adverse affect on our business, financial condition, liquidity or results of operations.

During the nine months ended September 30, 2008, we incurred \$57 million for costs incurred in connection with our exit from sanctioned countries and \$33 million in connection with complying with these on-going investigations. We will have additional charges related to these matters in future periods, which costs may include labor claims, contractual claims, penalties assessed by customers, and costs, fines, taxes and penalties assessed by the local governments, but we cannot quantify those charges or be certain of the timing of them.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

Other Litigation and Disputes

The Company is aware of various disputes and potential claims and is a party in various litigation involving claims against the Company, some of which are covered by insurance. Based on facts currently known, the Company believes that the ultimate liability, if any, which may result from known claims, disputes and pending litigation, would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

16. New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how a company recognizes assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at fair value at the acquisition date. The statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effect of the business combination. SFAS No. 141R is effective for business combinations completed in fiscal years beginning after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interest of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 160 will have on our financial position, results of operation and cash flows.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activity. Entities are required to provide enhanced disclosures about how and why they use derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on its consolidated financial position, results of operations and cash flows.

17. Subsequent Event

In October 2008, the Company entered into an additional \$550 million in revolving credit facilities with a syndicate of banks. These facilities allow for a combination of borrowings and issuances of letters of credit. These facilities mature in October 2009.

18. Condensed Consolidating Financial Statements

The following obligations of Weatherford International, Inc. (Issuer) were guaranteed by Weatherford International Ltd. (Parent) at September 30, 2008 and December 31, 2007: (i) the 6.625% Senior Notes, (ii) the 5.95% Senior Notes, (iii) the 6.35% Senior Notes and (iv) the 6.80% Senior Notes.

The following obligations of the Parent were guaranteed by the Issuer at September 30, 2008: (i) both revolving credit facilities, (ii) the 4.95% Senior Notes, (iii) the 5.50% Senior Notes, (iv) the 6.50% Senior Notes (v) the 5.15% Senior Notes, (vi) the 6.00% Senior Notes, (vii) the 7.00% Senior Notes and (viii) issuances of notes under the commercial paper program.

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

The following obligations of the Parent were guaranteed by the Issuer at December 31, 2007: (i) the revolving credit facility, (ii) the 4.95% Senior Notes, (iii) the 5.50% Senior Notes, (iv) the 6.50% Senior Notes and (v) issuances of notes under the commercial paper program.

As a result of these guarantee arrangements, the Company is required to present the following condensed consolidating financial information. The accompanying guarantor financial information is presented on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the Company's share in the subsidiaries' cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries relate primarily to the elimination of investments in subsidiaries and associated intercompany balances and transactions. Certain prior year amounts have been reclassified to conform to the current year presentation.

**Condensed Consolidating Balance Sheet
September 30, 2008
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|-------------------------------------------------------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 399 | \$ 27,096 | \$ 309,051 | \$ | \$ 336,546 |
| Other Current Assets | 11,585 | 23,243 | 5,135,764 | | 5,170,592 |
| | 11,984 | 50,339 | 5,444,815 | | 5,507,138 |
| Equity Investments in Affiliates | 13,895,400 | 5,864,556 | 12,678,730 | (32,438,686) | |
| Shares Held in Parent | | 135,112 | 770,619 | (905,731) | |
| Intercompany Receivables, Net | 1,181,406 | 964,157 | | (2,145,563) | |
| Other Assets | 61,300 | 175,313 | 10,455,160 | | 10,691,773 |
| | \$ 15,150,090 | \$ 7,189,477 | \$ 29,349,324 | \$ (35,489,980) | \$ 16,198,911 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 615,795 | \$ 1,731 | \$ 456,474 | \$ | \$ 1,074,000 |
| Accounts Payable and Other Current Liabilities | 35,265 | 37,303 | 1,493,423 | | 1,565,991 |
| | 651,060 | 39,034 | 1,949,897 | | 2,639,991 |
| Long-term Debt | 2,678,794 | 1,849,726 | 15,590 | | 4,544,110 |
| Intercompany Payables, Net | | | 2,145,563 | (2,145,563) | |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | | | | |
|------------------------------------------------|---------------|--------------|---------------|-----------------|---------------|
| Other Long-term Liabilities | 111,577 | 12,425 | 429,949 | | 553,951 |
| | 3,441,431 | 1,901,185 | 4,540,999 | (2,145,563) | 7,738,052 |
| Minority Interest in Consolidated Subsidiaries | | | 77,581 | | 77,581 |
| Shareholders Equity | 11,708,659 | 5,288,292 | 24,730,744 | (33,344,417) | 8,383,278 |
| | \$ 15,150,090 | \$ 7,189,477 | \$ 29,349,324 | \$ (35,489,980) | \$ 16,198,911 |

Table of Contents**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Balance Sheet****December 31, 2007****(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|-------------------------------------------------------------------|-----------------------------|-----------------------------|-------------------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 228 | \$ 1,489 | \$ 168,997 | \$ | \$ 170,714 |
| Other Current Assets | 13,591 | 2,537 | 4,284,927 | | 4,301,055 |
| | 13,819 | 4,026 | 4,453,924 | | 4,471,769 |
| Equity Investments in Affiliates | 12,008,907 | 4,696,938 | 13,600,365 | (30,306,210) | |
| Shares Held in Parent | ³ / ₄ | 129,428 | 794,774 | (924,202) | |
| Intercompany Receivables, Net | (127,594) | 1,233,846 | ³ / ₄ | (1,106,252) | |
| Other Assets | 52,031 | 34,186 | 8,632,971 | | 8,719,188 |
| | \$ 11,947,163 | \$ 6,098,424 | \$ 27,482,034 | \$ (32,336,664) | \$ 13,190,957 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Short-term Borrowings and Current Portion of Long-term Debt | \$ 582,389 | \$ 24,854 | \$ 166,977 | \$ | \$ 774,220 |
| Accounts Payable and Other Current Liabilities | 47,574 | 7,959 | 1,372,612 | | 1,428,145 |
| | 629,963 | 32,813 | 1,539,589 | | 2,202,365 |
| Long-term Debt | 1,198,418 | 1,850,594 | 17,323 | | 3,066,335 |
| Intercompany Payables, Net | | ³ / ₄ | 1,106,252 | (1,106,252) | |
| Other Long-term Liabilities | 91,392 | 22,556 | 368,263 | | 482,211 |
| | 1,919,773 | 1,905,963 | 3,031,427 | (1,106,252) | 5,750,911 |
| Minority Interest In Consolidated Subsidiaries | | | 33,327 | | 33,327 |
| Shareholders Equity | 10,027,390 | 4,192,461 | 24,417,280 | (31,230,412) | 7,406,719 |
| | \$ 11,947,163 | \$ 6,098,424 | \$ 27,482,034 | \$ (32,336,664) | \$ 13,190,957 |

Table of Contents**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****Condensed Consolidating Statements of Income****Three Months Ended September 30, 2008****(unaudited)****(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|------------------------------------------------------------------------------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Revenues | \$ | \$ | \$ 2,540,796 | \$ | \$ 2,540,796 |
| Costs and Expenses | (8,211) | (611) | (1,997,234) | | (2,006,056) |
| Operating Income (Loss) | (8,211) | (611) | 543,562 | | 534,740 |
| Other Income (Expense): | | | | | |
| Interest Expense, Net | (30,446) | (28,677) | (1,398) | | (60,521) |
| Intercompany Charges, Net | 26,353 | | (26,353) | | |
| Equity in Subsidiary Income | 393,503 | 479,622 | | (873,125) | |
| Other, Net | (10,599) | (342) | 2,698 | | (8,243) |
| Income (Loss) from Continuing Operations Before Income Taxes and Minority Interest | 370,600 | 449,992 | 518,509 | (873,125) | 465,976 |
| Provision for Income Taxes | | (56,489) | (26,501) | | (82,990) |
| Income (Loss) from Continuing Operations Before Minority Interest | 370,600 | 393,503 | 492,008 | (873,125) | 382,986 |
| Minority Interest, Net of Taxes | | | (12,386) | | (12,386) |
| Income (Loss) from Continuing Operations | 370,600 | 393,503 | 479,622 | (873,125) | 370,600 |
| Loss from Discontinued Operation, Net of Taxes | | | | | |
| Net Income (Loss) | \$ 370,600 | \$ 393,503 | \$ 479,622 | \$ (873,125) | \$ 370,600 |

Condensed Consolidating Statements of Income**Three Months Ended September 30, 2007****(unaudited)****(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|--------------------|--------------------------------|--------------------------------|-------------------------------|--------------------------------|----------------------|
| Revenues | \$ ³ / ₄ | \$ ³ / ₄ | \$ 1,971,991 | \$ ³ / ₄ | \$ 1,971,991 |
| Costs and Expenses | (3,027) | (272) | (1,549,103) | ³ / ₄ | (1,552,402) |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | | | | |
|------------------------------------------------------------------------------------|------------|------------|------------|--------------|------------|
| Operating Income (Loss) | (3,027) | (272) | 422,888 | ¾ | 419,589 |
| Other Income (Expense): | | | | | |
| Interest Expense, Net | (19,087) | (30,131) | (976) | ¾ | (50,194) |
| Intercompany Charges, Net | 36,021 | 26,700 | (62,721) | ¾ | ¾ |
| Equity in Subsidiary Income | 269,206 | 271,357 | ¾ | (540,563) | ¾ |
| Other, Net | 9,600 | 114 | (8,432) | ¾ | 1,282 |
| Income (Loss) from Continuing Operations Before Income Taxes and Minority Interest | 292,713 | 267,768 | 350,759 | (540,563) | 370,677 |
| Benefit (Provision) for Income Taxes | ¾ | 1,438 | (71,867) | ¾ | (70,429) |
| Income (Loss) from Continuing Operations Before Minority Interest | 292,713 | 269,206 | 278,892 | (540,563) | 300,248 |
| Minority Interest, Net of Taxes | ¾ | ¾ | (5,324) | ¾ | (5,324) |
| Income (Loss) from Continuing Operations | 292,713 | 269,206 | 273,568 | (540,563) | 294,924 |
| Loss from Discontinued Operation, Net of Taxes | ¾ | ¾ | (2,211) | ¾ | (2,211) |
| Net Income (Loss) | \$ 292,713 | \$ 269,206 | \$ 271,357 | \$ (540,563) | \$ 292,713 |

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

**Condensed Consolidating Statements of Income
Nine Months Ended September 30, 2008
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|------------------------------------------------------------------------------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Revenues | \$ | \$ | \$ 6,965,938 | \$ | \$ 6,965,938 |
| Costs and Expenses | (25,632) | (1,452) | (5,491,656) | | (5,518,740) |
| Operating Income (Loss) | (25,632) | (1,452) | 1,474,282 | | 1,447,198 |
| Other Income (Expense): | | | | | |
| Interest Income (Expense), Net | (88,019) | (87,006) | (698) | | (175,723) |
| Intercompany Charges, Net | 102,651 | | (102,651) | | |
| Equity in Subsidiary Income | 1,020,439 | 1,112,038 | | (2,132,477) | |
| Other, Net | (5,625) | (908) | (6,493) | | (13,026) |
| Income (Loss) from Continuing Operations Before Income Taxes and Minority Interest | 1,003,814 | 1,022,672 | 1,364,440 | (2,132,477) | 1,258,449 |
| Provision for Income Taxes | (29) | (2,233) | (212,228) | | (214,490) |
| Income (Loss) from Continuing Operations Before Minority Interest | 1,003,785 | 1,020,439 | 1,152,212 | (2,132,477) | 1,043,959 |
| Minority Interest, Net of Taxes | | | (25,246) | | (25,246) |
| Income (Loss) from Continuing Operations | 1,003,785 | 1,020,439 | 1,126,966 | (2,132,477) | 1,018,713 |
| Gain (Loss) from Discontinued Operation, Net of Taxes | 2,000 | | (14,928) | | (12,928) |
| Net Income (Loss) | \$ 1,005,785 | \$ 1,020,439 | \$ 1,112,038 | \$ (2,132,477) | \$ 1,005,785 |

**Condensed Consolidating Statements of Income
Nine Months Ended September 30, 2007
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|--------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Revenues | \$ ¾ | \$ ¾ | \$ 5,640,221 | \$ ¾ | \$ 5,640,221 |
| Costs and Expenses | (10,313) | (2,783) | (4,464,381) | ¾ | (4,477,477) |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | | | | |
|------------------------------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Operating Income (Loss) | (10,313) | (2,783) | 1,175,840 | ³ / ₄ | 1,162,744 |
| Other Income (Expense): | | | | | |
| Interest Expense, Net | (73,906) | (44,387) | (965) | ³ / ₄ | (119,258) |
| Intercompany Charges, Net | 27,411 | 120,302 | (147,713) | ³ / ₄ | ³ / ₄ |
| Equity in Subsidiary Income | 786,917 | 738,658 | ³ / ₄ | (1,525,575) | ³ / ₄ |
| Other, Net | 9,486 | 1,346 | (17,856) | ³ / ₄ | (7,024) |
| Income (Loss) from Continuing Operations Before Income Taxes and Minority Interest | | | | | |
| | 739,595 | 813,136 | 1,009,306 | (1,525,575) | 1,036,462 |
| Provision for Income Taxes | ³ / ₄ | (26,219) | (240,859) | ³ / ₄ | (267,078) |
| Income (Loss) from Continuing Operations Before Minority Interest | | | | | |
| | 739,595 | 786,917 | 768,447 | (1,525,575) | 769,384 |
| Minority Interest, Net of Taxes | ³ / ₄ | ³ / ₄ | (14,161) | ³ / ₄ | (14,161) |
| Income (Loss) from Continuing Operations | | | | | |
| | 739,595 | 786,917 | 754,286 | (1,525,575) | 755,223 |
| Loss from Discontinued Operation, Net of Taxes | ³ / ₄ | ³ / ₄ | (15,628) | ³ / ₄ | (15,628) |
| Net Income (Loss) | \$ 739,595 | \$ 786,917 | \$ 738,658 | \$ (1,525,575) | \$ 739,595 |

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

**Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2008
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|-------------------------------------------------------------------------------------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Cash Flows from Operating Activities: | | | | | |
| Net Income (Loss) | \$ 1,005,785 | \$ 1,020,439 | \$ 1,112,038 | \$ (2,132,477) | \$ 1,005,785 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | |
| Charges from Parent or Subsidiary | (102,651) | | 102,651 | | |
| (Gain) Loss from Discontinued Operations | (2,000) | | 14,928 | | 12,928 |
| Equity in (Earnings) Loss of Affiliates | (1,020,439) | (1,112,038) | | 2,132,477 | |
| Deferred Income Tax Provision (Benefit) | | (35,517) | 20,577 | | (14,940) |
| Other Adjustments | (17,648) | (127,545) | (268,005) | | (413,198) |
| Net Cash Provided (Used) by Operating Activities-Continuing Operations | (136,953) | (254,661) | 982,189 | | 590,575 |
| Net Cash Used by Operating Activities- Discontinued Operations | | | (6,219) | | (6,219) |
| Net Cash Provided (Used) by Operating Activities | (136,953) | (254,661) | 975,970 | | 584,356 |
| Cash Flows from Investing Activities: | | | | | |
| Acquisitions of Businesses, Net of Cash Acquired | | | (673,845) | | (673,845) |
| Capital Expenditures for Property, Plant and Equipment | | | (1,821,813) | | (1,821,813) |
| Acquisition of Intellectual Property | | | (14,377) | | (14,377) |
| Purchase of Equity Investment in Unconsolidated Affiliate | | | (3,422) | | (3,422) |
| | | | 290,974 | | 290,974 |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | | | | |
|--------------------------------------------------------------------------|-------------|-----------|-------------|-----------|-------------|
| Proceeds from Sale of Assets and Businesses, Net | | | | | |
| Capital Contribution to Subsidiary | (284,229) | (5,000) | | 289,229 | |
| Net Cash Provided (Used) by Investing Activities-Continuing Operations | (284,229) | (5,000) | (2,222,483) | 289,229 | (2,222,483) |
| Net Cash Provided by Investing Activities- Discontinued Operations | 11,000 | | | | 11,000 |
| Net Cash Provided (Used) by Investing Activities | (273,229) | (5,000) | (2,222,483) | 289,229 | (2,211,483) |
| Cash Flows from Financing Activities: | | | | | |
| Borrowings of (Repayments on) Short-term Debt, Net | 33,406 | (21,469) | 283,591 | | 295,528 |
| Borrowings of (Repayments on) Long-term Debt, Net | 1,483,931 | (867) | (220) | | 1,482,844 |
| Proceeds from Exercise of Stock Options | | 9,969 | | | 9,969 |
| Borrowings (Repayments) Between Subsidiaries, Net | (1,094,513) | 280,546 | 813,967 | | |
| Proceeds from Capital Contribution | | | 289,229 | (289,229) | |
| Other, Net | (12,471) | 17,089 | | | 4,618 |
| Net Cash Provided (Used) by Financing Activities Continuing Operations | 410,353 | 285,268 | 1,386,567 | (289,229) | 1,792,959 |
| Net Cash Provided (Used) by Financing Activities Discontinued Operations | | | | | |
| Net Cash Provided (Used) by Financing Activities | 410,353 | 285,268 | 1,386,567 | (289,229) | 1,792,959 |
| Net Decrease in Cash and Cash Equivalents | 171 | 25,607 | 140,054 | | 165,832 |
| Cash and Cash Equivalents at Beginning of Year | 228 | 1,489 | 168,997 | | 170,714 |
| Cash and Cash Equivalents at End of Year | \$ 399 | \$ 27,096 | \$ 309,051 | \$ | \$ 336,546 |

Table of Contents

**WEATHERFORD INTERNATIONAL LTD. AND SUBSIDIARIES NOTES TO CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

**Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2007
(unaudited)
(In thousands)**

| | Parent | Issuer | Other Subsidiaries | Eliminations | Consolidation |
|-------------------------------------------------------------------------------------------------|---------------|---------------|-------------------------------|---------------------|----------------------|
| Cash Flows from Operating Activities: | | | | | |
| Net Income (Loss) | \$ 739,595 | \$ 786,917 | \$ 738,658 | \$ (1,525,575) | \$ 739,595 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | |
| Equity in (Earnings) Loss of Affiliates | (786,917) | (738,658) | ¾ | 1,525,575 | ¾ |
| Loss from Discontinued Operation | ¾ | ¾ | 15,628 | ¾ | 15,628 |
| Charges from Parent or Subsidiary | (27,411) | (120,302) | 147,713 | ¾ | ¾ |
| Deferred Income Tax Provision (Benefit) | ¾ | (16,222) | 157,106 | ¾ | 140,884 |
| Other Adjustments | 65,154 | (59,825) | (370,984) | ¾ | (365,655) |
| Net Cash Provided (Used) by Operating Activities- | | | | | |
| Continuing Operations | (9,579) | (148,090) | 688,121 | ¾ | 530,452 |
| Net Cash Used by Operating Activities- Discontinued Operation | ¾ | ¾ | (9,014) | ¾ | (9,014) |
| Net Cash Provided (Used) by Operating Activities | (9,579) | (148,090) | 679,107 | ¾ | 521,438 |
| Cash Flows from Investing Activities: | | | | | |
| Acquisition of Businesses, Net of Cash Acquired | ¾ | ¾ | (224,878) | ¾ | (224,878) |
| Capital Expenditures for Property, Plant and Equipment | ¾ | ¾ | (1,097,470) | ¾ | (1,097,470) |
| Acquisition of Intellectual Property | ¾ | ¾ | (17,683) | ¾ | (17,683) |
| Purchase of Equity Investment in Unconsolidated Affiliates | ¾ | ¾ | (334,520) | ¾ | (334,520) |
| Proceeds from Sale of Assets | ¾ | ¾ | 59,927 | ¾ | 59,927 |

Edgar Filing: WEATHERFORD INTERNATIONAL LTD - Form 10-Q

| | | | | | |
|-------------------------------------------------------------------------------|-----------|-------------|-------------|-----------|-------------|
| Capital Contribution to Subsidiary | (595,651) | (27,100) | ¾ | 622,751 | ¾ |
| Distribution of Earnings from Subsidiary | ¾ | (1,486,365) | 1,486,365 | ¾ | ¾ |
| Net Cash Provided (Used) by Investing Activities- Continuing Operations | (595,651) | (1,513,465) | (128,259) | 622,751 | (1,614,624) |
| Net Cash Used by Investing Activities- Discontinued Operation | ¾ | ¾ | (22,361) | ¾ | (22,361) |
| Net Cash Provided (Used) by Investing Activities | (595,651) | (1,513,465) | (150,620) | 622,751 | (1,636,985) |
| Cash Flows from Financing Activities: | | | | | |
| Borrowings of (Repayments on) Short-term Debt, Net | (420,944) | 84,072 | 108,616 | ¾ | (228,256) |
| Borrowings of (Repayments on) Long-term Debt, Net | ¾ | 1,485,497 | (10,724) | ¾ | 1,474,773 |
| Borrowings (Repayments) Between Subsidiaries, Net | 1,026,164 | 65,190 | (1,091,354) | ¾ | ¾ |
| Purchase of Treasury Shares | ¾ | ¾ | (179,262) | ¾ | (179,262) |
| Proceeds from Exercise of Stock Options | ¾ | 30,753 | ¾ | ¾ | 30,753 |
| Proceeds from Capital Contribution | ¾ | ¾ | 622,751 | (622,751) | ¾ |
| Other, Net | ¾ | 17,250 | ¾ | ¾ | 17,250 |
| Net Cash Provided (Used) by Financing Activities- Continuing Operations | 605,220 | 1,682,762 | (549,973) | (622,751) | 1,115,258 |
| Net Cash Provided by Financing Activities- Discontinued Operation | ¾ | ¾ | ¾ | ¾ | ¾ |
| Net Cash Provided (Used) by Financing Activities | 605,220 | 1,682,762 | (549,973) | (622,751) | 1,115,258 |
| Net Decrease in Cash and Cash Equivalents | (10) | 21,207 | (21,486) | ¾ | (289) |
| Cash and Cash Equivalents at Beginning of Period | 35 | 2,271 | 123,981 | ¾ | 126,287 |
| Cash and Cash Equivalents at End of Period | \$ 25 | \$ 23,478 | \$ 102,495 | \$ ¾ | \$ 125,998 |

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with an executive level overview, which provides a general description of our company today, a synopsis of industry market trends, insight into management's perspective of the opportunities and challenges we face and our outlook for the remainder of 2008 and into 2009. Next, we analyze the results of our operations for the three and nine months ended September 30, 2008 and 2007, including the trends in our overall business. Then we review our liquidity and capital resources. We conclude with a discussion of our critical accounting judgments and estimates and a summary of recently issued accounting pronouncements.

Overview**General**

The following discussion should be read in conjunction with our financial statements included with this report and our financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007 included in our Annual Report on Form 10-K. Our discussion includes various forward-looking statements about our markets, the demand for our products and services and our future results. These statements are based on certain assumptions we consider reasonable. For information about these assumptions, you should refer to the section entitled Forward-Looking Statements.

We provide equipment and services used for drilling, completion and production of oil and natural gas wells throughout the world. We conduct operations in approximately 100 countries and have service and sales locations in nearly all of the oil and natural gas producing regions in the world. Our product offerings can be grouped into ten service lines: 1) artificial lift systems; 2) drilling services; 3) well construction; 4) drilling tools; 5) completion systems; 6) wireline and evaluation services; 7) re-entry and fishing; 8) stimulation and chemicals; 9) integrated drilling; and 10) pipeline and specialty services.

Industry Trends

Changes in the current price and expected future prices of oil and natural gas influence the level of energy industry spending. Changes in expenditures result in an increased or decreased demand for our products and services. Rig count is an indicator of the level of spending for the exploration for and production of oil and natural gas reserves.

The following chart sets forth certain statistics that reflect historical market conditions:

| | | Henry Hub | North American | International Rig Count |
|--------------------|--------------------|----------------------|---------------------------|------------------------------------|
| | WTI Oil (1) | Gas (2) | Rig Count (3) | (3) |
| September 30, 2008 | \$ 100.64 | \$ 7.44 | 2,449 | 1,209 |
| December 31, 2007 | 95.98 | 7.48 | 2,171 | 1,122 |
| September 30, 2007 | 81.66 | 6.87 | 2,128 | 1,114 |

(1) Price per barrel
as of
September 30
and
December 31
Source:
Thomson
Reuters

(2) Price per
MM/BTU as of
September 30

and
December 31
Source:
Thomson
Reuters

- (3) Average rig
count for the
applicable
month *Source:*
Baker Hughes
Rig Count and
other third-party
data

Oil prices increased during the first nine months of 2008, ranging from a low of \$86.99 per barrel in mid-January to a high of \$145.29 per barrel early in July. Natural gas prices remained relatively flat comparing September 30, 2008 to December 31, 2007, but ranged from a low of \$7.22 MM/BTU near the end of September to a high of \$13.58 MM/BTU in early July. Since September 30, 2008, oil and natural gas prices have experienced significant declines due to the recent economic downturn reaching \$67.81 per barrel and \$6.78 MM/BTU as of October 31, 2008. Factors influencing oil and natural gas prices during the period include hydrocarbon inventory levels, realized and expected economic growth, realized and expected levels of hydrocarbon demand, levels of spare production capacity within the Organization of Petroleum Exporting Countries (OPEC), weather and geopolitical uncertainty.

Table of Contents

The North American rig count has increased approximately 13% during 2008. The international rig count has increased approximately 8% since the end of 2007. Latin America and Middle East/North Africa/Asia regions were the most significant contributors to the increase in international rig count during 2008.

According to Spears & Associates, 2007 drilling and completion spending was relatively flat in North America and increased 19% in international markets as compared to 2006 levels. Drilling and completion spending growth during 2008 is anticipated to be driven by both the international and North American markets. According to a June 2008 study by Barclays Capital (formerly Lehman Brothers), 2008 international exploration and production expenditures are forecast to increase 22% over 2007 levels while expenditures in North America are expected to rise 14%.

Opportunities and Challenges

The nature of our industry offers many opportunities and challenges. We have created a long-term strategy aimed at growing our business, servicing our customers, and most importantly, creating value for our shareholders. The success of our long-term strategy will be determined by our ability to manage effectively any industry cyclicality, respond to industry demands and successfully maximize the benefits from our acquisitions.

The cyclicality of the energy industry impacts the demand for our products and services. Certain of our products and services, such as our drilling and evaluation services, well installation services and well completion services, depend on the level of exploration and development activity and the completion phase of the well life cycle. Other products and services, such as our production optimization and artificial lift systems, are dependent on production activity. We believe that decline rates, a measure of the fall in production from a well over time, are accelerating. We also believe that there has been, and will continue to be, a deterioration in the quality of incremental hydrocarbon formations that our customers develop and that these formations will require more of our products and services than higher quality formations. The market for oilfield services will grow year-on-year relative to the decline rates and the implicit rate of demand growth. We are aggressively, but methodically, growing our employee base, manufacturing capacity and equipment capacity to meet the demands of the industry.

2008 and 2009 Outlook

We believe the long-term outlook for our businesses is favorable. As decline rates accelerate and reservoir productivity complexities increase, our clients will face growing challenges securing desired rates of production growth. The acceleration of decline rates and the increasing complexity of the reservoirs increase our customers requirements for technologies that improve productivity and efficiency. These phenomena provide us with a positive outlook over the longer term.

Looking into the remainder of 2008 and into 2009, the near-term outlook is more difficult to assess given the dramatically weakened picture of the global economy stemming from a severe dislocation in credit markets and money flows around the world. Beginning in the fourth quarter of 2008, we anticipate a pull back in North American average rig activity compared to third quarter 2008 levels principally due to existing natural gas storage levels, lower natural gas prices and a dampened prognosis for the U.S. economy. We would expect this pull back in rig count to persist during 2009, with the North American rig count averaging levels below 2008 levels. In contrast, we expect international rig activity to increase in 2009 at levels similar to those achieved thus far in 2008, unless the price of crude oil falls materially below its current trading levels for an extended period of time. We expect our rate of international growth in 2008 to finish strong, at levels similar to that achieved during 2007. In 2009, we anticipate a similar level of growth in the international markets, with the Eastern Hemisphere and Latin America both making significant contributions. These improvements should be driven by the strength of our technology and our global infrastructure. We expect our newer technologies to continue to gain traction across a wider breadth of geographic markets in both 2008 and 2009, similar to our performance in 2007.

Geographic Markets. Climate, natural gas storage levels and commodity prices, as well as expectations for the U.S. economy, will dictate the level of oilfield service activity in North America for the remainder of 2008 and into 2009. While these factors are difficult to predict with any certainty over short periods of time, we anticipate a pull back in drilling activity in both the U.S. and Canada. We anticipate the pull back will be in the natural gas segment and that oil will be relatively immune to the recent economic downturn.

Table of Contents

We expect most of our growth in 2008, and all of our growth in 2009, will come out of the international markets. We expect Eastern Hemisphere growth rates for 2008 to be similar to our growth rates achieved for 2007 as compared to 2006. We expect North Africa, Russia, Middle East, China and Central Europe to show the largest year-on-year growth. We also expect volume increases in Latin America with the larger growth improvements stemming from Brazil, Mexico, Venezuela and Argentina. For our international markets combined, we expect to realize revenue growth similar to the levels achieved during 2007 and 2008.

Pricing. The overall pricing outlook is positive. During 2008, overall pricing has been trending upwards, concurrently with raw material and labor cost inflation. Pricing in the U.S. and Canada has been leveling with no discernable movement up or down. In the event of a pull back in activity in North America, we would expect pricing in general to come under pressure, with the magnitude dependant upon the extent to which activity declines. In the international markets, price improvements have been realized on a contract-by-contract basis and have occurred in different classes of products and service lines depending upon the region. We expect international pricing to remain positive for the remainder of 2008, net of cost increases.

Overall, the level of improvements for our businesses for 2008 will continue to depend heavily on our ability to further penetrate existing markets with our younger technologies and to successfully introduce these technologies to new markets. The recruitment, training and retention of personnel will also be a critical factor in growing our business. The continued strength of the industry will be highly dependent on many external factors, such as world economic and political conditions, member country quota compliance within OPEC and weather conditions. The extreme volatility of our markets makes predictions regarding future results difficult.

Table of Contents**Results of Operations**

The following charts contain selected financial data comparing our consolidated and segment results from operations for the three and nine months ended September 30, 2008 and 2007.

| | Three Months | | Nine Months | |
|------------------------------------------------------------|--------------------------------------------------------------|-------------|-------------------------------------|--------------|
| | Ended September 30, 2008 | 2007 | Ended September 30, 2008 | 2007 |
| | <i>(In thousands, except percentages and per share data)</i> | | | |
| Revenues: | | | | |
| North America | \$ 1,179,605 | \$ 993,828 | \$ 3,282,211 | \$ 2,883,825 |
| Middle East/North Africa/Asia | 637,872 | 455,932 | 1,716,007 | 1,286,022 |
| Europe/West Africa/CIS | 408,993 | 308,587 | 1,146,185 | 844,184 |
| Latin America | 314,326 | 213,644 | 821,535 | 626,190 |
| | 2,540,796 | 1,971,991 | 6,965,938 | 5,640,221 |
| Operating Income: | | | | |
| North America | 312,887 | 264,183 | 828,792 | 756,661 |
| Middle East/North Africa/Asia | 146,450 | 103,839 | 397,774 | 284,310 |
| Europe/West Africa/CIS | 102,385 | 77,886 | 294,614 | 202,911 |
| Latin America | 69,521 | 45,453 | 188,374 | 139,784 |
| Research and Development | (52,026) | (43,199) | (139,095) | (124,413) |
| Corporate | (30,750) | (24,945) | (99,657) | (75,565) |
| Exit and Restructuring | (13,727) | (3,628) | (23,604) | (20,944) |
| | 534,740 | 419,589 | 1,447,198 | 1,162,744 |
| Interest Expense, Net | (60,521) | (50,194) | (175,723) | (119,258) |
| Other, Net | (8,243) | 1,282 | (13,026) | (7,024) |
| Effective Tax Rate | 17.8% | 19.0% | 17.0% | 25.8% |
| Net Income per Diluted Share from Continuing Operations | \$ 0.53 | \$ 0.42 | \$ 1.46 | \$ 1.09 |
| Loss from Discontinued Operation, Net of Taxes | | (2,211) | (12,928) | (15,628) |
| Net Income per Diluted Share | \$ 0.53 | \$ 0.42 | \$ 1.44 | \$ 1.06 |
| Depreciation and Amortization | 187,131 | 158,977 | 528,129 | 439,034 |

Table of Contents**Revenues**

The following chart contains consolidated revenues by product line for the three and nine months ended September 30, 2008 and 2007:

| | Three Months | | Nine Months | |
|----------------------------------|----------------------------|-------------|----------------------------|-------------|
| | Ended September 30, | | Ended September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Artificial Lift Systems | 17% | 18% | 17% | 17% |
| Well Construction | 15 | 16 | 16 | 16 |
| Drilling Services | 17 | 16 | 16 | 15 |
| Drilling Tools | 11 | 11 | 11 | 12 |
| Completion Systems | 9 | 10 | 10 | 10 |
| Re-entry & Fishing | 9 | 8 | 8 | 8 |
| Wireline | 7 | 7 | 7 | 8 |
| Stimulation & Chemicals Services | 6 | 6 | 5 | 7 |
| Integrated Drilling | 6 | 5 | 7 | 5 |
| Pipeline & Specialty Services | 3 | 3 | 3 | 2 |
| | 100% | 100% | 100% | 100% |

Consolidated revenues increased \$569 million, or 29%, in the third quarter of 2008 as compared to the third quarter of 2007. The increase resulted primarily from organic growth as our businesses continued to benefit from increasing market activity and share gains. Approximately 67% of our revenue growth was derived outside of North America. International revenues increased \$383 million, or 39%, in the third quarter of 2008 as compared to the third quarter of 2007. This increase outpaced the 8% increase in average international rig count over the comparable period. All product lines grew compared to the levels achieved in the third quarter of 2007.

For the first nine months of 2008, consolidated revenues increased \$1,326 million, or 24%, as compared to the first nine months of 2007. Similar to what was experienced in the third quarter of 2008, the increase in revenues during the first nine months of 2008 was driven by our international businesses. Approximately 70% of our revenue growth was from our international regions.

Operating Income

Consolidated operating income increased \$115 million, or 27%, in the third quarter of 2008 as compared to the third quarter of 2007. Our operating segments contributed \$140 million of incremental operating income during the current quarter as compared to the same quarter of the prior year while corporate and research and development expenditures were \$15 million higher over the same period. The increase in corporate and research and development expenses was primarily attributable to higher employee compensation costs. In addition, current quarter results include \$14 million in costs incurred in connection with our on-going investigations by the U.S. government. The three months ended September 30, 2007 included \$4 million incurred in connection with the investigations by the U.S. government.

Consolidated operating income for the first nine months of 2008 increased \$284 million, or 24%, as compared to the first nine months of 2007. Our operating segments contributed \$326 million of incremental operating income during the first nine months of 2008 as compared to the same period of the prior year while corporate and research and development expenditures were \$39 million higher as compared to the same period of the prior year. In addition, results for the first nine months of 2008 include exit and restructuring charges of \$24 million compared to charges of \$21 million during the first nine months of 2007.

Exit and restructuring charges during the first nine months of 2008 include \$57 million for costs incurred in connection with our withdrawal from sanctioned countries, \$15 million for severance costs incurred associated with reorganization activities and \$33 million incurred in connection with our on-going investigations. These charges were offset by an \$81 million gain recognized in the second quarter of 2008 as a result of selling our 50% interest in a

subsidiary we control to Qatar Petroleum for cash consideration of \$113 million. Exit and restructuring charges during the first nine months of 2007 include \$17 million in severance charges associated with reorganization activities and \$4 million incurred in connection with the investigations by the U.S. government.

Table of Contents***Interest Expense, Net***

Interest expense, net increased \$10 million, or 21%, and \$56 million, or 47% during the three and nine months ended September 30, 2008 as compared to the same periods of the prior year, respectively. The increase in interest expense was due to an increase in our total debt. The incremental borrowings period-over-period were used to fund capital expenditures and acquisitions.

Income Taxes

Our effective tax rates were 17.8% and 19.0% for the third quarter of 2008 and 2007, respectively, and 17.0% and 25.8% for the first nine months of 2008 and 2007, respectively. The decrease in our effective tax rates was due primarily to withholding taxes of \$50 million that were required to be paid on a distribution made to one of our foreign subsidiaries during the second quarter of 2007. In addition, we recognized a gain of \$81 million, with no related tax effect, from the sale of a 50% interest in a subsidiary during the second quarter of 2008. The remainder of the decrease is due to the net benefits realized from the refinement of our international tax structure and changes in our geographic earnings mix.

Segment Results***North America***

North America revenues increased \$186 million, or 19%, in the third quarter of 2008 as compared to the third quarter of 2007 and outpaced a 13% increase in average North American rig count over the comparable period. Revenues from our artificial lift, wireline and drilling services product lines were the strongest contributors to the quarter-over-quarter increase.

North America revenues increased \$398 million, or 14%, during the first nine months of 2008 as compared to the first nine months of 2007. Revenues from our artificial lift, well construction and stimulation and chemicals product lines were the strongest contributors to the year-to-date revenue growth.

Operating income increased \$49 million, or 18%, in the third quarter of 2008 as compared to the third quarter of 2007. Operating margins were 27% in both the third quarter of 2008 and 2007. During the first nine months of 2008, operating income increased \$72 million, or 10%, over the comparable period of 2007 with operating margins at 25% for the first nine months of 2008 and 26% for the first nine months of 2007. The decline in operating margin during the first nine months of 2008 was primarily due to weakness in the Canadian market during the first half of 2008.

Middle East/North Africa/Asia

Middle East/North Africa/Asia revenues increased \$182 million, or 40%, in the third quarter of 2008 as compared to the third quarter of 2007. This increase outpaced the 7% increase in rig count over the comparable period. Middle East/North Africa/Asia was the strongest contributor to our year-to-date revenue growth. Revenues increased \$430 million, or 33%, during the first nine months of 2008 as compared to the first nine months of 2007. Our drilling services, integrated drilling, wireline and well construction product lines were the strongest contributors to both the quarterly and year-to-date increase in revenue over the same periods of the prior year.

Operating income increased \$43 million, or 41%, during the third quarter of 2008 compared to the same quarter of the prior year and \$113 million, or 40%, during the first nine months of 2008 compared to the first nine months of 2007. Operating margins were 23% for both the third quarter of 2008 and 2007. On a year-to-date basis, operating margins were 23% for the first nine months of 2008 as compared to 22% for the first nine months of 2007.

Europe/West Africa/CIS

Revenues in our Europe/West Africa/CIS segment increased \$100 million, or 33%, in the third quarter of 2008 as compared to the same quarter of the prior year, which outpaced the 17% rig count increase over the comparable period. On a year-to-date basis, revenues grew \$302 million, or 36%, compared to the same period of 2007. Our drilling services, well construction and wireline product lines were the strongest contributors to both the quarterly and year-to-date increase in revenue over the same periods of the prior year.

Operating income increased \$24 million, or 32%, during the third quarter of 2008 compared to the same quarter of the prior year and \$92 million, or 45%, during the first nine months of 2008 compared to the first nine months of

Table of Contents

2007. Operating margins were 25% for both the third quarter of 2008 and 2007. On a year-to-date basis, margins increased from 24% during the first nine months of 2007 to 26% for the first nine months of 2008. Both the quarterly and year-to-date improvement in operating income and margins was primarily the result of higher revenues absorbing the region's fixed cost base as well as the performance of equity investments.

Latin America

Revenues in our Latin America segment increased \$101 million, or 47%, in the third quarter of 2008 as compared to the same quarter of the prior year, which outpaced the average Latin American rig count increase of 8% over the comparable period. Revenues increased \$195 million, or 31%, during the first nine months of 2008 compared to the same period of the prior year. Revenue growth was generated in all product lines during the three and nine month periods ended September 30, 2008 as compared to the comparable periods of the prior year.

Operating income increased \$24 million, or 53%, and \$49 million, or 35%, for the three and nine months ended September 30, 2008, respectively, over the comparable periods of the prior year. Operating margins increased by one percent in both the three and nine months ended September 30, 2008 as compared to the same periods of the prior year.

Discontinued Operations

We finalized the divestiture of our discontinued operation consisting of our oil and gas development and production company during the second quarter of 2008. We recorded a gain of \$11 million, net of taxes, in connection with the finalization of the divestiture. On a year-to-date basis, we had a loss from our discontinued operation, net of taxes, of \$13 million, which included approximately \$21 million incurred in connection with the settlement of a legal dispute regarding the business. This loss was partially offset by the gain recognized in the second quarter.

Liquidity and Capital Resources**Sources of Liquidity**

Our sources of liquidity include current cash and cash equivalent balances, cash generated from operations and committed availabilities under bank lines of credit. We maintain a shelf registration statement covering the future issuance of various types of securities, including debt, common shares, preferred shares and warrants.

Committed Borrowing Facilities

We maintain a \$1.5 billion revolving credit agreement with a syndicate of banks. This facility allows for a combination of borrowings, support for our commercial paper program and issuances of letters of credit.

On March 19, 2008, we entered into an additional \$250 million revolving credit facility with a syndicate of banks. This facility also allows for a combination of borrowings, support for our commercial paper program and issuances of letters of credit.

Both committed borrowing facilities require us to maintain a debt-to-capitalization ratio of less than 60% and contain other covenants and representations customary for an investment-grade commercial credit. We were in compliance with these covenants at September 30, 2008. Both facilities mature in May 2011.

The following is a recap of our availability under our committed borrowing facilities at September 30, 2008 (in millions):

| | |
|-------------------|----------|
| Facilities | \$ 1,750 |
| Less: | |
| Amount drawn | 1,030 |
| Commercial paper | |
| Letters of credit | 28 |
| Availability | \$ 692 |

Table of Contents

In October 2008, we entered into an additional \$550 million in revolving credit facilities with a syndicate of banks. These facilities allow for a combination of borrowings and issuances of letters of credit. These facilities mature in October 2009.

Commercial Paper

We have a \$1.5 billion commercial paper program under which we may from time to time issue short-term, unsecured notes, subject to market conditions. The commercial paper program is supported by our revolving credit facilities. At September 30, 2008, there were no borrowings outstanding under this program.

Debt Offering

In March 2008, we completed a \$1.5 billion long-term debt offering comprised of (i) \$500 million of 5.15% Senior Notes due in 2013 (5.15% Senior Notes), (ii) \$500 million of 6.00% Senior Notes due 2018 (6.00% Senior Notes) and (iii) \$500 million of 7.00% Senior Notes due 2038 (7.00% Senior Notes). Net proceeds of \$1.47 billion were used to repay short-term borrowings and for general corporate purposes, including capital expenditures and business acquisitions. Interest on these notes is due semi-annually on March 15 and September 15 of each year.

Cash Requirements

During 2008, we anticipate our cash requirements to include working capital needs, capital expenditures and business acquisitions. We anticipate funding these requirements from cash generated from operations and availability under our committed borrowing facilities.

Capital expenditures for 2008 are projected to be approximately \$2.2 billion. The expenditures are expected to be used primarily to support the growth of our business and operations. Capital expenditures during the nine months ended September 30, 2008 were \$1.7 billion, net of proceeds from tools lost down hole.

In December 2005, our board authorized us to repurchase up to \$1 billion of our outstanding common shares. We may from time to time repurchase our common shares depending upon the price of our common shares, our liquidity and other considerations. There were no repurchases of our common shares during the nine months ended September 30, 2008.

From time to time we acquire businesses or technologies that increase our range of products and services, expand our geographic scope or are otherwise strategic to our businesses. During the nine months ended September 30, 2008, we used approximately \$674 million in cash, net of cash acquired, in business acquisitions. The largest acquisition during the nine months ended September 30, 2008, was for International Logging, Inc., a provider of surface logging and formation evaluation and drilling related services.

*Derivative Instruments**Interest Rate Swaps*

Upon completion of the long-term debt offering in March 2008, we entered into interest rate swap agreements on an aggregate notional amount of \$500 million against our 5.15% Senior Notes. These agreements were outstanding as of September 30, 2008. The aggregate fair value of the interest rate swaps at September 30, 2008 resulted in a liability of \$14 million with the offset to Long-term Debt in our accompanying Condensed Consolidated Balance Sheet.

Cash Flow Hedges

In March 2008, we entered into interest rate derivative instruments for a notional amount of \$500 million to hedge projected exposures to interest rates in anticipation of the 7.00% Senior Notes issued in March 2008. Those hedges were terminated at the time of the issuance. We paid a cash settlement of \$13 million at termination, and the loss on these hedges is being amortized to interest expense over the life of the 7.00% Senior Notes.

Table of Contents*Other Derivative Instruments*

As of September 30, 2008, we had several foreign currency forward contracts and one option contract with notional amounts aggregating \$488 million, which were entered into to hedge exposure to currency fluctuations in various foreign currencies, including, but not limited to, the British pound sterling, the Canadian dollar, the euro and the Norwegian kroner. The total estimated fair value of these contracts at September 30, 2008 resulted in a liability of approximately \$1 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts were recorded each period in current earnings.

In addition, after the closing of the acquisition of Precision Energy Services and Precision Drilling International on August 31, 2005, we entered into a series of cross-currency swaps between the U.S. dollar and Canadian dollar to hedge certain exposures to the Canadian dollar created as a result of the acquisition. At September 30, 2008, we had notional amounts outstanding of \$364 million. The total estimated fair value of these contracts at September 30, 2008 resulted in a liability of \$50 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts were recorded each period in current earnings.

Off Balance Sheet Arrangements*Guarantees*

The following obligations of Weatherford International, Inc. were guaranteed by Weatherford International Ltd. as of September 30, 2008: (i) the 6.625% Senior Notes, (ii) the 5.95% Senior Notes, (iii) the 6.35% Senior Notes and (iv) the 6.80% Senior Notes.

The following obligations of Weatherford International Ltd. were guaranteed by Weatherford International, Inc. as of September 30, 2008: (i) both revolving credit facilities, (ii) the 4.95% Senior Notes, (iii) the 5.50% Senior Notes, (iv) the 6.50% Senior Notes, (v) the 5.15% Senior Notes, (vi) the 6.00% Senior Notes, (vii) the 7.00% Senior Notes and (viii) issuances of notes under the commercial paper program.

Letters of Credit

We execute letters of credit in the normal course of business. While these obligations are not normally called, these obligations could be called by the beneficiaries at any time before the expiration date should we breach certain contractual or payment obligations. As of September 30, 2008, we had \$236 million of letters of credit and bid and performance bonds outstanding, consisting of \$208 million outstanding under various uncommitted credit facilities and \$28 million letters of credit outstanding under our committed facilities. If the beneficiaries called these letters of credit our available liquidity would be reduced by the amount called.

New Accounting Pronouncements

See Note 16 to our condensed consolidated financial statements included elsewhere in this report.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We prepare these financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K, for the year ended December 31, 2007.

Exposures

An investment in our common shares involves various risks. When considering an investment in our Company, you should consider carefully all of the risk factors described in our most recent Annual Report on Form 10-K under the heading *Item 1A. Risk Factors* as well as the information below and other information included and incorporated by reference in this report.

Table of Contents

Forward-Looking Statements

This report, as well as other filings made by us with the Securities and Exchange Commission (SEC), and our releases issued to the public contain various statements relating to future results, including certain projections and business trends. We believe these statements constitute Forward-Looking Statements as defined in the Private Securities Litigation Reform Act of 1995.

From time to time, we update the various factors we consider in making our forward-looking statements and the assumptions we use in those statements. However, we undertake no obligation to publicly update or revise any forward-looking events or circumstances that may arise after the date of this report. The following sets forth the various assumptions we use in our forward-looking statements, as well as risks and uncertainties relating to those statements. Certain of the risks and uncertainties may cause actual results to be materially different from projected results contained in forward-looking statements in this report and in our other disclosures. These risks and uncertainties include, but are not limited to, the following:

A downturn in market conditions could affect projected results. Any material changes in oil and natural gas supply and demand, oil and natural gas prices, rig count or other market trends would affect our results and would likely affect the forward-looking information we provide. The oil and natural gas industry is extremely volatile and subject to change based on political and economic factors outside our control. Worldwide drilling activity has increased in each year from 2002 to 2008 (through September); however, if an extended regional and/or worldwide recession were to occur, it would result in lower demand and lower prices for oil and natural gas, which would adversely affect drilling and production activity and therefore would affect our revenues and income. We have assumed worldwide demand growth will slow through the remainder of 2008 and that 2009 demand will be up modestly compared to 2008. In 2009, worldwide demand may be weaker than we have assumed.

Availability of a skilled workforce could affect our projected results. Due to the high activity in the exploration and production and oilfield service industries there is an increasing shortage of available skilled labor, particularly in our high-growth regions. Our forward-looking statements assume we will be able to recruit and maintain a sufficient skilled workforce for activity levels.

Increases in the prices and availability of our raw materials could affect our results of operations. We use large amounts of raw materials for manufacturing our products. The price of these raw materials has a significant impact on our cost of producing products for sale or producing fixed assets used in our business. We have assumed that the prices of our raw materials will remain within a manageable range and will be readily available. If we are unable to obtain necessary raw materials or if we are unable to minimize the impact of increased raw materials costs through our supply chain initiatives or by passing through these increases to our customers, our margins and results of operations could be adversely affected.

Our long-term growth depends upon technological innovation and commercialization. Our ability to deliver our long-term growth strategy depends in part on the commercialization of new technology. A central aspect of our growth strategy is to improve our products and services through innovation, to obtain technologically advanced products through internal research and development and/or acquisitions, to protect proprietary technology from unauthorized use and to expand the markets for new technology through leverage of our worldwide infrastructure. The key to our success will be our ability to commercialize the technology that we have acquired and demonstrate the enhanced value our technology brings to our customers' operations. Our major technological advances include, but are not limited to, those related to controlled pressure drilling and testing systems, expandable solid tubulars, expandable sand screens and intelligent well completion. Our forward-looking statements have assumed successful commercialization of, and above-average growth from, these new products and services, as well as legal protection of our intellectual property rights.

Nonrealization of expected benefits from our 2002 corporate reincorporation could affect our projected results. We are incorporated in Bermuda and we operate through our various subsidiaries in numerous countries throughout the world including the United States. Consequently, we are subject to changes in tax laws, treaties or regulations or the interpretation or enforcement thereof in the U.S., Bermuda or jurisdictions in which we or any of our subsidiaries operates or is resident. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred. If the U.S. Internal Revenue Service or other taxing authorities do not agree with our assessment of the effects of such laws, treaties and regulations, this could have a material adverse effect on us

Table of Contents

including the imposition of a higher effective tax rate on our worldwide earnings or a reclassification of the tax impact of our significant corporate restructuring transactions.

Nonrealization of expected benefits from our acquisitions could affect our projected results. We expect to gain certain business, financial and strategic advantages as a result of business acquisitions we undertake, including synergies and operating efficiencies. Our forward-looking statements assume that we will successfully integrate our business acquisitions and realize the benefits of that. An inability to realize expected strategic advantages as a result of the acquisition would negatively affect the anticipated benefits of the acquisition.

The cyclical nature of or a prolonged downturn in our industry could affect the carrying value of our goodwill. As of September 30, 2008, we had approximately \$3.8 billion of goodwill. Our estimates of the value of our goodwill could be reduced in the future as a result of various factors, some of which are beyond our control. Our forward-looking statements do not assume any future goodwill impairment. Any reduction in the value of our goodwill may result in an impairment charge and therefore adversely affect our results.

Currency fluctuations could have a material adverse financial impact on our business. A material change in currency rates in our markets could affect our future results as well as affect the carrying values of our assets. World currencies have been subject to much volatility. Our forward-looking statements assume no material impact from future changes in currency exchange rates.

Adverse weather conditions in certain regions could adversely affect our operations. In the summers of 2005 and 2008, the Gulf of Mexico suffered several significant hurricanes. These hurricanes and associated hurricane threats reduced the number of days on which we and our customers could operate, which resulted in lower revenues than we otherwise would have achieved. In parts of 2006, and particularly in the second quarter of 2007 and 2008, climatic conditions in Canada were not as favorable to drilling as we anticipated, which limited our potential results in that region. Similarly, unfavorable weather in Russia and in the North Sea could reduce our operations and revenues from that area during the relevant period. Our forward-looking statements assume weather patterns in our primary areas of operations will be conducive to our operations.

U.S. Government and internal investigations could affect our results of operations. We are currently involved in government and internal investigations involving various of our operations. These investigations are ongoing, and we cannot anticipate the timing, outcome or possible impact of these investigations, financial or otherwise. The governmental agencies involved in these investigations have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of trading sanctions laws, the Foreign Corrupt Practices Act and other federal statutes including, but not limited to, injunctive relief, disgorgement, fines, penalties and modifications to business practices and compliance programs. In recent years, these agencies and authorities have entered into agreements with, and obtained a range of penalties against, several public corporations and individuals in similar investigations, under which civil and criminal penalties were imposed, including in some cases multi-million dollar fines and other penalties and sanctions. Under trading sanctions laws, the Department of Justice (DOJ) may also seek to impose modifications to business practices, including immediate cessation of all business activities in sanctioned countries, and modifications to compliance programs, which may increase compliance costs. Any injunctive relief, disgorgement, fines, penalties, sanctions or imposed modifications to business practices resulting from these investigations could adversely affect our results of operations. Additionally, during the nine months ended September 30, 2008, we incurred \$57 million for costs in connection with our exit from sanctioned countries and \$33 million in connection with complying with these on-going investigations. We will have additional charges related to these matters in future periods, which costs may include labor claims, contractual claims, penalties assessed by customers, and costs, fines, taxes and penalties assessed by the local governments, but we cannot quantify those charges or be certain of the timing of them.

Political disturbances, war, or terrorist attacks and changes in global trade policies could adversely impact our operations. We have assumed there will be no material political disturbances or terrorist attacks and there will be no material changes in global trade policies. Any further military action undertaken by the U.S. or other countries could adversely affect our results of operations.

Current turmoil in the credit markets may reduce our access to capital or reduce the availability of financial risk-mitigation tools. In recent months, the worldwide credit markets have experienced almost

Table of Contents

unprecedented turmoil and uncertainty. Our forward-looking statements assume that the financial institutions that have committed to extend us credit will honor their commitments under our credit facilities. If one or more of those institutions becomes unwilling or unable to honor its commitments, our access to liquidity could be impaired and our cost of capital to fund growth could further increase. We use interest-rate and foreign-exchange swap transactions with financial institutions to mitigate certain interest-rate and foreign-exchange risks associated with our capital structure and our business. Our forward-looking statements assume that those tools will continue to be available to us. However, the failure of any swap counter party to honor a swap agreement could reduce the availability of these financial risk-mitigation tools or could result in the loss of expected financial benefits.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in our other filings with the SEC. For additional information regarding risks and uncertainties, see our other filings with the SEC under the Securities Exchange Act of 1934, as amended, and the Securities Act of 1933, as amended, available free of charge at the SEC's website at www.sec.gov.

Available Information

We make available, free of charge, on our website (www.weatherford.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file or furnish them to the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are currently exposed to market risk from changes in foreign currency and changes in interest rates. From time to time, we may enter into derivative financial instrument transactions to manage or reduce our market risk, but we do not enter into derivative transactions for speculative purposes. A discussion of our market risk exposure in financial instruments follows.

Foreign Currency Exchange Rates

We operate in virtually every oil and natural gas exploration and production region in the world. In some parts of the world, such as the Middle East and Southeast Asia, the currency of our primary economic environment is the U.S. dollar. We use this as our functional currency. In other parts of the world, we conduct our business in currencies other than the U.S. dollar and the functional currency is the applicable local currency. In those countries in which we operate in the local currency, the effects of foreign currency fluctuations are largely mitigated because local expenses of such foreign operations are also generally denominated in the same currency.

Assets and liabilities of which the functional currency is the local currency are translated into U.S. dollars using the exchange rates in effect at the balance sheet date, resulting in translation adjustments that are reflected as Accumulated Other Comprehensive Income in the shareholders' equity section on our Condensed Consolidated Balance Sheets. A portion of our net assets are impacted by changes in foreign currencies in relation to the U.S. dollar. We recorded a \$155 million adjustment to decrease our equity account for the nine month period ended September 30, 2008, to reflect the net impact of the strengthening of the U.S. dollar against various foreign currencies.

As of September 30, 2008, we had several foreign currency forward contracts and one option contract with notional amounts aggregating \$488 million to hedge exposure to currency fluctuations in various foreign currencies, including, but not limited to, the British pound sterling, the Canadian dollar, the euro, and the Norwegian kroner. The total estimated fair value of these contracts at September 30, 2008 resulted in a liability of approximately \$1 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in current earnings.

In addition, after the closing of the acquisition of Precision Energy Services and Precision Drilling International, we entered into a series of cross-currency swaps between the U.S. dollar and Canadian dollar to hedge certain exposures to the Canadian dollar created as a result of the acquisition. At September 30, 2008, we had notional amounts outstanding of \$364 million. The estimated fair value of these contracts at September 30, 2008 resulted in a liability of \$50 million. These derivative instruments were not designated as hedges and the changes in fair value of the contracts are recorded each period in current earnings.

Table of Contents**Interest Rates**

We are subject to interest rate risk on our fixed-interest and variable-interest rate borrowings. Variable rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at a higher rate. All other things being equal, the fair value of our fixed-rate debt will increase or decrease as interest rates change.

Our long-term borrowings that were outstanding at September 30, 2008 subject to interest rate risk consisted of the following:

| | September 30, 2008 | | December 31, 2007 | |
|------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | <i>(In millions)</i> | | | |
| 6.625% Senior Notes due 2011 | \$355 | \$356 | \$356 | \$369 |
| 5.95% Senior Notes due 2012 | 599 | 592 | 599 | 618 |
| 5.15% Senior Notes due 2013 | 485 | 479 | | |
| 4.95% Senior Notes due 2013 | 254 | 231 | 255 | 245 |
| 5.50% Senior Notes due 2016 | 349 | 316 | 349 | 338 |
| 6.00% Senior Notes due 2018 | 497 | 467 | | |
| 6.35% Senior Notes due 2017 | 600 | 550 | 600 | 624 |
| 6.50% Senior Notes due 2036 | 596 | 494 | 596 | 598 |
| 6.80% Senior Notes due 2037 | 298 | 277 | 298 | 313 |
| 7.00% Senior Notes due 2038 | 498 | 406 | | |

We have various other long-term debt instruments of \$25 million, but believe the impact of changes in interest rates in the near term will not be material to these instruments. Short-term borrowings of \$1 billion at September 30, 2008 approximate fair value.

As it relates to our variable rate debt, if market interest rates average 1% more for the remainder of 2008 than the rates as of September 30, 2008, interest expense for the remainder of 2008 would increase by approximately \$3 million. This amount was determined by calculating the effect of the hypothetical interest rate on our variable rate debt. This sensitivity analysis assumes there are no changes in our capital structure.

Interest Rate Swaps and Derivatives

We manage our debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps as a tool to achieve that goal. The major risks from interest rate derivatives include changes in the interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions. The counterparties to our interest rate swaps are multinational commercial banks. In light of recent events in the global credit markets and the potential impact of these events on the liquidity of the banking industry, we continue to monitor the creditworthiness of our counterparties.

We use interest rate swap agreements to take advantage of available short-term interest rates. Amounts received upon termination of the swaps represent the fair value of the agreements at the time of termination and are recorded as an adjustment to the carrying value of the related debt. These amounts are being amortized as a reduction to interest expense over the remaining term of the debt.

Upon completion of the long-term debt offering in March 2008, we entered into interest rate swap agreements on an aggregate notional amount of \$500 million against our 5.15% Senior Notes. These agreements were outstanding as of September 30, 2008. The aggregate fair value of the interest rate swaps at September 30, 2008 resulted in a liability of \$14 million with the offset to Long-term Debt in our accompanying Consolidated Balance Sheet.

Table of Contents

We may utilize interest rate derivatives to hedge projected exposures to interest rates in anticipation of future debt issuances. Amounts received or paid upon termination of these hedges represent the fair value of the agreements at the time of termination. These amounts are amortized as an adjustment to interest expense over the remaining life of the debt.

In March 2008, we entered into interest rate derivative instruments for a notional amount of \$500 million to hedge projected exposures to interest rates in anticipation of the 7.00% Senior Notes issued in March 2008. Those hedges were terminated at the time of the issuance. We paid a cash settlement of \$13 million at termination, and the loss on these hedges is being amortized to interest expense over the life of the 7.00% Senior Notes.

ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act). Based upon that evaluation, the Company s CEO and CFO have concluded the Company s disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that information relating to the Company (including its consolidated subsidiaries) required to be disclosed is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure. The Company s management, including the CEO and CFO, identified no change in the Company s internal control over financial reporting that occurred during the Company s fiscal quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 15 to our condensed consolidated financial statements included elsewhere in this report.

ITEM 1A. RISK FACTORS

There have been no material changes during the nine months ended September 30, 2008 to the risk factors set forth in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 21, 2008 (Annual Report), except for the supplementary information we reported in Item 8.01 of our Current Report on Form 8-K dated March 18, 2008, the text of which follows:

In September 2007, we announced that we had made a strategic decision to discontinue doing business through our foreign subsidiaries in countries that are subject to U.S. economic and trade sanctions, including Cuba, Iran, Sudan and Syria, and that we would begin an orderly discontinuation and winding down of our existing businesses in those sanctioned countries. We have accelerated our process of winding down those businesses and expect that we will completely withdraw from those countries by March 31, 2008.

We expect to incur additional costs in the future in connection with these withdrawals, which costs may include labor claims, contractual claims, penalties assessed by customers, and costs, fines, taxes and penalties assessed by the local governments. We cannot estimate the timing or amount, if any, of these potential costs.

ITEM 2. UNREGISTERED SALES OF EQUITY IN SECURITIES AND USE OF PROCEEDS

On September 25, 2008, in connection with an acquisition, we sold 279,124 of our common shares to the shareholders of the acquired company as consideration for the shares of the acquired company. The sale of our common shares was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of that act and pursuant to Regulation D and Regulation S promulgated under that act as a non-public sale to accredited investors and/or to non-U.S. persons outside the United States.

Table of Contents

In December 2005, our Board of Directors approved a share repurchase program under which up to \$1 billion of our outstanding common shares could be purchased. Future purchases of our shares can be made in the open market or privately negotiated transactions, at the discretion of management and as market conditions and our liquidity position warrant. During the quarter ended September 30, 2008, we did not purchase any of our common shares.

Under our restricted share plan, employees may elect to have us withhold common shares to satisfy minimum statutory federal, state and local tax withholding obligations arising on the vesting of restricted stock awards and exercise of options. When we withhold these shares, we are required to remit to the appropriate taxing authorities the market price of the shares withheld, which could be deemed a purchase of the common shares by us on the date of withholding. During the quarter ended September 30, 2008, we withheld common shares to satisfy these tax withholding obligations as follows:

| Period | No. of Shares | Average Price |
|----------------------------------|--------------------------|--------------------------|
| July 1 - July 31, 2008 | 3,112 | \$ 39.76 |
| August 1 - August 31, 2008 | | |
| September 1 - September 30, 2008 | 10,482 | 33.44 |

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits:

| Exhibit Number | Description |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1 | Credit Agreement, dated October 20, 2008 among Weatherford International Ltd. as borrower, Weatherford International Inc. as guarantor, and UBS AG as administrative agent, and other lenders party thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 1-31339) dated October 24, 2008). |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Weatherford International Ltd.

By: /s/ Bernard J. Duroc-Danner

Bernard J. Duroc-Danner
Chief Executive Officer
(Principal Executive Officer)

/s/ Andrew P. Becnel

Andrew P. Becnel
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ Jessica Abarca

Jessica Abarca
Vice President Accounting and Chief Accounting Officer
(Principal Accounting Officer)

Date: November 3, 2008

38