Transocean Ltd.
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 Q
(Mark one)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

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 000 53533

TRANSOCEAN LTD.
(Exact name of registrant as specified in its charter)

Zug, Switzerland (State or other jurisdiction of incorporation or organization)	98 0599916 (I.R.S. Employer Identification No.)
10 Chemin de Blandonnet Vernier, Switzerland (Address of principal executive offices)	1214 (Zip Code)
+41 (22) 930 9000 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes
No

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

Large accelerated filer Accelerated filer Non accelerated filer (do not check if a smaller reporting company)
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

As of July 28, 2015, 363,553,885 shares were outstanding.

TRANSOCEAN LTD. AND SUBSIDIARIES
INDEX TO FORM 10 Q
QUARTER ENDED JUNE 30, 2015

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Operating revenues				
Contract drilling revenues	$1,777	$2,278	$3,777	$4,570
Other revenues	107	50	150	97
	1,884	2,328	3,927	4,667
Costs and expenses				
Operating and maintenance	197	1,213	1,281	2,482
Depreciation	249	288	540	561
General and administrative	44	63	90	120
	490	1,564	1,911	3,163
Loss on impairment	(890)	—	(1,826)	(65)
Gain (loss) on disposal of assets, net	2	1	(5)	(2)
Operating income	506	765	185	1,437
Other income (expense), net				
Interest income	6	15	12	25
Interest expense, net of amounts capitalized	(120)	(112)	(236)	(238)
Other, net	(5)	8	42	6
	(119)	(89)	(182)	(207)
Income (loss) from continuing operations before income tax expense	387	676	3	1,230
Income tax expense	40	72	123	152
Income (loss) from continuing operations	347	604	(120)	1,078
Income (loss) from discontinued operations, net of tax	1	(7)	(1)	(15)
Net income (loss)	348	597	(121)	1,063
Net income attributable to noncontrolling interest	6	10	20	20
Net income (loss) attributable to controlling interest	$342	$587	$(141)	$1,043
Earnings (loss) per share basic				
Earnings (loss) from continuing operations	$0.93	$1.63	$(0.39)	$2.90
Loss from discontinued operations	—	(0.02)	—	(0.04)
Earnings (loss) per share	$0.93	$1.61	$(0.39)	$2.86
Earnings (loss) per share diluted				
Earnings (loss) from continuing operations	$0.93	$1.63	$(0.39)	$2.90
Loss from discontinued operations	—	(0.02)	—	(0.04)
Earnings (loss) per share	$0.93	$1.61	$(0.39)	$2.86

Weighted average shares outstanding				
Basic	363	362	363	362
Diluted	363	362	363	362

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$348	$597	$(121)	$1,063
Net income attributable to noncontrolling interest	6	10	20	20
Net income (loss) attributable to controlling interest	342	587	(141)	1,043
Other comprehensive income (loss) before reclassifications				
Components of net periodic benefit costs	(1)	78	(14)	73
Reclassifications to net income				
Components of net periodic benefit costs	5	—	10	6
Gain on derivative instruments	—	—	—	(2)
Other comprehensive income (loss) before income taxes	4	78	(4)	77
Income taxes related to other comprehensive income	—	(3)	(2)	(3)
Other comprehensive income (loss)	4	75	(6)	74
Other comprehensive income attributable to noncontrolling interest	—	—	—	—
Other comprehensive income (loss) attributable to controlling interest	4	75	(6)	74
Total comprehensive income (loss)	352	672	(127)	1,137
Total comprehensive income attributable to noncontrolling interest	6	10	20	20
Total comprehensive income (loss) attributable to controlling interest	$346	$662	$(147)	$1,117

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$3,769	$ 2,635
Accounts receivable, net of allowance for doubtful accounts of $14 at June 30, 2015 and December 31	1,806	2,120
Materials and supplies, net of allowance for obsolescence of $107 and $109 at June 30, 2015 and December 31, 2014, respectively	741	818
Assets held for sale	9	25
Deferred income taxes, net	180	161
Other current assets	214	242
Total current assets	6,719	6,001
Property and equipment	24,708	28,516
Less accumulated depreciation	(5,051)	(6,978)
Property and equipment, net	19,657	21,538
Other assets	597	874
Total assets	$26,973	$ 28,413
Liabilities and equity		
Accounts payable	$585	$ 784
Accrued income taxes	76	131
Debt due within one year	1,026	1,033
Other current liabilities	1,215	1,822
Total current liabilities	2,902	3,770
Long term debt	8,989	9,059
Deferred income taxes, net	188	237
Other long term liabilities	1,236	1,354
Total long term liabilities	10,413	10,650
Commitments and contingencies		
Redeemable noncontrolling interest	10	11
Shares, CHF 15.00 par value, 396,260,487 authorized, 167,617,649 conditionally authorized, 373,830,649 issued at June 30, 2015 and December 31, 2014 and 363,548,290 and 362,279,530 outstanding at June 30, 2015 and December 31, 2014, respectively	5,186	5,169
Additional paid in capital	5,596	5,797
Treasury shares, at cost, 2,863,267 held at June 30, 2015 and December 31, 2014	(240)	(240)
Retained earnings	3,208	3,349
Accumulated other comprehensive loss	(410)	(404)
Total controlling interest shareholders' equity	13,340	13,671
Noncontrolling interest	308	311

Total equity	13,648	13,982
Total liabilities and equity	$26,973	$ 28,413

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(In millions)
(Unaudited)

	Six months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	Shares		Amount	
Shares				
Balance, beginning of period	362	361	$5,169	$5,147
Issuance of shares under share based compensation plans	2	1	17	20
Balance, end of period	364	362	$5,186	$5,167
Additional paid in capital				
Balance, beginning of period			$5,797	$6,784
Share based compensation			33	51
Issuance of shares under share based compensation plans			(18)	(19)
Reclassification of obligation for distribution of qualifying additional paid in capital			(218)	(1,088)
Allocated capital for sale of noncontrolling interest			9	—
Other, net			(7)	(8)
Balance, end of period			$5,596	$5,720
Treasury shares, at cost				
Balance, beginning of period			$(240)	$(240)
Balance, end of period			$(240)	$(240)
Retained earnings				
Balance, beginning of period			$3,349	$5,262
Net income (loss) attributable to controlling interest			(141)	1,043
Balance, end of period			$3,208	$6,305
Accumulated other comprehensive loss				
Balance, beginning of period			$(404)	$(262)
Other comprehensive income (loss) attributable to controlling interest			(6)	74
Balance, end of period			$(410)	$(188)
Total controlling interest shareholders' equity				
Balance, beginning of period			$13,671	$16,691
Total comprehensive income (loss) attributable to controlling interest			(147)	1,117
Share based compensation			33	51
Issuance of shares under share based compensation plans			(1)	1
Reclassification of obligation for distribution of qualifying additional paid in capital			(218)	(1,088)
Allocated capital for sale of noncontrolling interest			9	—
Other, net			(7)	(8)
Balance, end of period			$13,340	$16,764
Noncontrolling interest				
Balance, beginning of period			$311	$(6)
Total comprehensive income attributable to noncontrolling interest			20	17
Distributions to holders of noncontrolling interest			(14)	—
Allocated capital for sale of noncontrolling interest			(9)	—
Balance, end of period			$308	$11
Total equity				
Balance, beginning of period			$13,982	$16,685

Total comprehensive income (loss)	(127)	1,134
Share based compensation	33	51
Issuance of shares under share based compensation plans	(1)	1
Reclassification of obligation for distribution of qualifying additional paid in capital	(218)	(1,088)
Distributions to holders of noncontrolling interest	(14)	—
Other, net	(7)	(8)
Balance, end of period	$13,648	$16,775

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Cash flows from operating activities				
Net income (loss)	$348	$597	$(121)	$1,063
Adjustments to reconcile to net cash provided by operating activities				
Amortization of drilling contract intangibles	(3)	(4)	(7)	(8)
Depreciation	249	288	540	561
Share-based compensation expense	14	23	33	51
Loss on impairment	890	—	1,826	65
(Gain) loss on disposal of assets, net	(2)	(1)	5	2
Loss on disposal of assets in discontinued operations, net	—	—	—	10
Deferred income taxes	8	(25)	(90)	(40)
Other, net	16	5	28	17
Changes in deferred revenues, net	(68)	96	(107)	70
Changes in deferred costs, net	59	(18)	116	20
Changes in operating assets and liabilities	(200)	(325)	(386)	(1,039)
Net cash provided by operating activities	1,311	636	1,837	772
Cash flows from investing activities				
Capital expenditures	(195)	(351)	(396)	(1,482)
Proceeds from disposal of assets, net	23	10	30	101
Proceeds from disposal of assets in discontinued operations, net	1	22	3	36
Proceeds from repayment of loans and notes receivable	15	98	15	101
Other, net	—	—	—	(15)
Net cash used in investing activities	(156)	(221)	(348)	(1,259)
Cash flows from financing activities				
Repayments of debt	(6)	(6)	(69)	(243)
Proceeds from restricted cash investments	—	—	57	107
Deposits to restricted cash investments	—	—	—	(20)
Distributions of qualifying additional paid in capital	(55)	(272)	(327)	(474)
Distributions to holders of noncontrolling interest	(7)	—	(14)	—
Other, net	—	(7)	(2)	(9)
Net cash used in financing activities	(68)	(285)	(355)	(639)
Net increase (decrease) in cash and cash equivalents	1,087	130	1,134	(1,126)
Cash and cash equivalents at beginning of period	2,682	1,987	2,635	3,243
Cash and cash equivalents at end of period	$3,769	$2,117	$3,769	$2,117

See accompanying notes.

TRANSOCEAN LTD. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Business
Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, "Transocean," "we," "us" or "our") is a leading international provider of offshore contract drilling services for oil and gas wells. We specialize in technically demanding sectors of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services. Our mobile offshore drilling fleet is considered one of the most versatile fleets in the world. We contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. At June 30, 2015, we owned or had partial ownership interests in and operated 63 mobile offshore drilling units, including 27 Ultra Deepwater Floaters, seven Harsh Environment Floaters, six Deepwater Floaters, 13 Midwater Floaters and 10 High Specification Jackups. At June 30, 2015, we also had seven Ultra Deepwater drillships and five High Specification Jackups under construction or under contract to be constructed. See Note 9—Drilling Fleet.
On August 5, 2014, we completed an initial public offering to sell a noncontrolling interest in Transocean Partners LLC ("Transocean Partners"), a Marshall Islands limited liability company, which was formed on February 6, 2014, by Transocean Partners Holdings Limited, a Cayman Islands company and our wholly owned subsidiary, to own, operate and acquire modern, technologically advanced offshore drilling rigs. See Note 15—Noncontrolling Interest.
Note 2—Significant Accounting Policies
Presentation—We have prepared our accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S.") for interim financial information and with the instructions to Form 10 Q and Article 10 of Regulation S X of the U.S. Securities and Exchange Commission ("SEC"). Pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or for any future period. The accompanying condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 included in our annual report on Form 10 K filed on February 26, 2015.
Accounting estimates—To prepare financial statements in accordance with accounting principles generally accepted in the U.S., we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to our allowance for doubtful accounts, materials and supplies obsolescence, assets held for sale, property and equipment, investments, income taxes, contingencies, share based compensation, defined benefit pension plans and other postretirement benefits. We base our estimates and assumptions on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.
Fair value measurements—We estimate fair value at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability. Our valuation techniques require inputs that we categorize using a three level hierarchy, from highest to lowest level of observable inputs, as follows: (1) significant observable inputs, including unadjusted quoted prices for identical assets or liabilities in active markets ("Level 1"), (2) significant other observable inputs, including direct or indirect market data for similar assets or liabilities in active markets or identical assets or liabilities in less active markets ("Level 2") and (3) significant unobservable inputs, including those that require considerable judgment for which there is little or no market data ("Level 3"). When multiple input levels are required for a valuation, we categorize the entire fair value

measurement according to the lowest level of input that is significant to the measurement even though we may have also utilized significant inputs that are more readily observable.

Consolidation—We consolidate entities in which we have a majority voting interest and entities that meet the criteria for variable interest entities for which we are deemed to be the primary beneficiary for accounting purposes. We eliminate intercompany transactions and accounts in consolidation. We apply the equity method of accounting for an investment in an entity if we have the ability to exercise significant influence over the entity that (a) does not meet the variable interest entity criteria or (b) meets the variable interest entity criteria, but for which we are not deemed to be the primary beneficiary. We apply the cost method of accounting for an investment in an entity if we do not have the ability to exercise significant influence over the unconsolidated entity. We separately present within equity on our condensed consolidated balance sheets the ownership interests attributable to parties with noncontrolling interests in our consolidated subsidiaries, and we separately present net income attributable to such parties on our condensed consolidated statements of operations. See Note 4—Variable Interest Entities and Note 15—Noncontrolling Interest.

Property and equipment—The carrying amounts of our property and equipment, consisting primarily of offshore drilling rigs and related equipment, are based on our estimates, assumptions and judgments relative to capitalized costs, useful lives and salvage values of our rigs. These estimates, assumptions and judgments reflect both historical experience and expectations regarding future industry conditions and operations. At June 30, 2015, the aggregate carrying amount of our property and equipment represented approximately 73 percent of our total assets.

We compute depreciation using the straight line method after allowing for salvage values. In December 2014, we reduced the salvage values of certain drilling units due to existing market conditions. In the three and six months ended June 30, 2015, this change in estimate resulted in increased depreciation expense of $14 million ($14 million, or $0.04 per diluted share, net of tax) and $44 million ($42 million, or $0.12 per diluted share, net of tax), respectively. For the year ending December 31, 2015, we expect this change in estimate to result in increased depreciation expense of approximately $51 million ($49 million, net of tax).

Share based compensation—In the three and six months ended June 30, 2015, we recognized share based compensation expense of $14 million and $33 million, respectively. In the three and six months ended June 30, 2014, we recognized share based compensation expense of $23 million and $51 million, respectively.

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects. In the three and six months ended June 30, 2015, we capitalized interest costs on construction work in progress of $29 million and $55 million, respectively. In the three and six months ended June 30, 2014, we capitalized interest costs on construction work in progress of $42 million and $76 million, respectively.

Reclassifications—We have made certain reclassifications to prior period amounts to conform with the current period's presentation. Such reclassifications did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows.

Subsequent events—We evaluate subsequent events through the time of our filing on the date we issue our financial statements. See Note 18—Subsequent Events.

Note 3—New Accounting Pronouncements

Recently adopted accounting standards

Presentation of financial statements—Effective January 1, 2015, we adopted the accounting standards update that changes the criteria for reporting discontinued operations. The update expands the disclosures for discontinued operations and requires new disclosures related to the disposal of individually significant components of an entity that do not qualify for discontinued operations. The update is effective for interim and annual periods beginning on or after December 15, 2014 and does not apply to components, such as our discontinued operations, that have been evaluated and reported as discontinued operations under previous guidance. Our adoption did not have an effect on our condensed consolidated financial statements or the disclosures contained in our notes to condensed consolidated financial statements.

Recently issued accounting standards

Interest—Effective January 1, 2016, we will adopt the accounting standards update that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The update is effective for interim and annual periods beginning after December 15, 2015, and early adoption is permitted. At June 30, 2015 and December 31, 2014, the aggregate carrying amount of the debt issue costs related to our recognized debt liabilities was $46 million and $51 million, respectively, recorded in other assets. We do not expect that our adoption will have a material effect on our condensed consolidated balance sheets or the disclosures contained in our notes to condensed consolidated financial statements.

Presentation of financial statements—Effective with our annual report for the period ending December 31, 2016, we will adopt the accounting standards update that requires us to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued. The update is effective for the annual period ending after December 15, 2016 and for interim and annual periods thereafter. We do not expect that our adoption will have a material effect on the disclosures contained in our notes to condensed consolidated financial statements.

Revenue from contracts with customers—Effective January 1, 2018, we will adopt the accounting standards update that requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update was originally effective for interim and annual periods beginning on or after December 15, 2016, but has since been approved for a one year deferral, effective for interim and annual periods beginning on or after December 15, 2017 and permits adoption as early as the original effective date. We are evaluating the requirements to determine the effect such requirements may have on our revenue recognition policies.

Note 4—Variable Interest Entities

Consolidated variable interest entities— Angola Deepwater Drilling Company Limited ("ADDCL"), a consolidated Cayman Islands company, and Transocean Drilling Services Offshore Inc. ("TDSOI"), a consolidated British Virgin Islands company, are variable interest entities for which we are the primary beneficiary. Accordingly, we consolidate the opera