

Transocean Ltd.
Form 10-Q
May 01, 2018
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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 March 31, 2018

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)

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Zug, Switzerland 98-0599916
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Turmstrasse 30

6312

Steinhausen, Switzerland
(Address of principal executive offices) (Zip Code)

+41 (41) 749-0500
(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of April 24, 2018, 461,715,265 shares were outstanding.

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TRANSOCEAN LTD. AND SUBSIDIARIES

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PART I.FINANCIAL INFORMATION

Item I.Financial Statements

TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three months ended March 31,	
	2018	2017
Contract drilling revenues	\$ 664	\$ 738
Other revenues	—	47
	664	785
Costs and expenses		
Operating and maintenance	424	347
Depreciation	202	232
General and administrative	47	39
	673	618
Gain on disposal of assets, net	5	2
Operating income (loss)	(4)	169
Other income (expense), net		
Interest income	12	6
Interest expense, net of amounts capitalized	(147)	(127)
Other, net	(10)	7
	(145)	(114)
Income (loss) before income tax expense (benefit)	(149)	55
Income tax expense (benefit)	63	(40)
Net income (loss)	(212)	95
Net income (loss) attributable to noncontrolling interest	(2)	4
Net income (loss) attributable to controlling interest	\$ (210)	\$ 91
Earnings (loss) per share		
Basic	\$ (0.48)	\$ 0.23
Diluted	\$ (0.48)	\$ 0.23
Weighted-average shares outstanding		
Basic	438	390
Diluted	438	390

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

(Unaudited)

	Three months ended March 31,	
	2018	2017
Net income (loss)	\$ (212)	\$ 95
Net income (loss) attributable to noncontrolling interest	(2)	4
Net income (loss) attributable to controlling interest	(210)	91
Components of net periodic benefit costs before reclassifications	(4)	(2)
Components of net periodic benefit costs reclassified to net income	2	1
Other comprehensive loss before income taxes	(2)	(1)
Income taxes related to other comprehensive loss	—	—
Other comprehensive loss	(2)	(1)
Other comprehensive income attributable to noncontrolling interest	—	—
Other comprehensive loss attributable to controlling interest	(2)	(1)
Total comprehensive income (loss)	(214)	94
Total comprehensive income (loss) attributable to noncontrolling interest	(2)	4
Total comprehensive income (loss) attributable to controlling interest	\$ (212)	\$ 90

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 2,712	\$ 2,519
Short-term investments	150	450
Accounts receivable, net of allowance for doubtful accounts of less than \$1 at March 31, 2018 and December 31, 2017	576	596
Materials and supplies, net of allowance for obsolescence of \$149 and \$141 at March 31, 2018 and December 31, 2017, respectively	457	418
Restricted cash accounts and investments	484	466
Other current assets	164	157
Total current assets	4,543	4,606
Property and equipment	25,165	22,693
Less accumulated depreciation	(5,494)	(5,291)
Property and equipment, net	19,671	17,402
Goodwill	460	—
Contract intangible assets	613	—
Deferred income taxes, net	54	47
Other assets	354	355
Total assets	\$ 25,695	\$ 22,410
Liabilities and equity		
Accounts payable	\$ 211	\$ 201
Accrued income taxes	112	79
Debt due within one year	1,879	250
Other current liabilities	820	839
Total current liabilities	3,022	1,369
Long-term debt	7,976	7,146
Deferred income taxes, net	82	44
Other long-term liabilities	1,131	1,082
Total long-term liabilities	9,189	8,272
Commitments and contingencies		
Redeemable noncontrolling interest	57	58

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Shares, CHF 0.10 par value, 509,382,402 authorized, 143,783,041 conditionally authorized, 462,853,862 issued and 461,628,198 outstanding at March 31, 2018, and 417,060,033 authorized, 143,783,041 conditionally authorized, 394,801,990 issued and 391,237,308 outstanding at December 31, 2017

	44	37
Additional paid-in capital	11,953	11,031
Retained earnings	1,719	1,929
Accumulated other comprehensive loss	(292)	(290)
Total controlling interest shareholders' equity	13,424	12,707
Noncontrolling interest	3	4
Total equity	13,427	12,711
Total liabilities and equity	\$ 25,695	\$ 22,410

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In millions)

(Unaudited)

	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
	Quantity		Amount	
Shares				
Balance, beginning of period	391	389	\$ 37	\$ 36
Issuance of shares under share-based compensation plans	3	2	—	1
Issuance of shares in acquisition transactions	68	—	7	—
Balance, end of period	462	391	\$ 44	\$ 37
Additional paid-in capital				
Balance, beginning of period			\$ 11,031	\$ 10,993
Share-based compensation			10	10
Issuance of shares under share-based compensation plans			—	(1)
Issuance of shares in acquisition transactions			739	—
Equity component of convertible debt instruments			172	—
Allocated capital for transactions with holders of noncontrolling interest			3	—
Other, net			(2)	(2)
Balance, end of period			\$ 11,953	\$ 11,000
Retained earnings				
Balance, beginning of period			\$ 1,929	\$ 5,056
Net income (loss) attributable to controlling interest			(210)	91
Balance, end of period			\$ 1,719	\$ 5,147
Accumulated other comprehensive loss				
Balance, beginning of period			\$ (290)	\$ (283)
Other comprehensive loss attributable to controlling interest			(2)	(1)
Balance, end of period			\$ (292)	\$ (284)
Total controlling interest shareholders' equity				
Balance, beginning of period			\$ 12,707	\$ 15,802
Total comprehensive income (loss) attributable to controlling interest			(212)	90
Share-based compensation			10	10
Issuance of shares in acquisition transactions			746	—

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Equity component of convertible debt instruments	172	—
Allocated capital for transactions with holders of noncontrolling interest	3	—
Other, net	(2)	(2)
Balance, end of period	\$ 13,424	\$ 15,900
Noncontrolling interest		
Balance, beginning of period	\$ 4	\$ 3
Total comprehensive loss attributable to noncontrolling interest	(1)	(3)
Recognition of noncontrolling interest in business combination	33	—
Acquisition of noncontrolling interest in compulsory acquisition	(30)	—
Allocated capital for transactions with holders of noncontrolling interest	(3)	—
Balance, end of period	\$ 3	\$ —
Total equity		
Balance, beginning of period	\$ 12,711	\$ 15,805
Total comprehensive income (loss)	(213)	87
Share-based compensation	10	10
Issuance of shares in acquisition transactions	746	—
Equity component of convertible debt instruments	172	—
Recognition of noncontrolling interest in business combination	33	—
Acquisition of noncontrolling interest acquired in compulsory acquisition	(30)	—
Other, net	(2)	(2)
Balance, end of period	\$ 13,427	\$ 15,900

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three months ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income (loss)	\$ (212)	\$ 95
Adjustments to reconcile to net cash provided by operating activities:		
Contract intangible asset amortization	19	—
Depreciation	202	232
Share-based compensation expense	10	10
Gain on disposal of assets, net	(5)	(2)
Deferred income tax benefit	(3)	(19)
Other, net	13	7
Changes in deferred revenues, net	(20)	(68)
Changes in deferred costs, net	1	16
Changes in other operating assets and liabilities, net	98	(90)
Net cash provided by operating activities	103	181
Cash flows from investing activities		
Capital expenditures	(53)	(122)
Proceeds from disposal of assets, net	13	4
Unrestricted and restricted cash acquired in business combination	131	—
Deposits into short-term investments	(50)	—
Proceeds from maturities of short-term investments	350	—
Other, net	(15)	—
Net cash provided by (used in) investing activities	376	(118)
Cash flows from financing activities		
Repayments of debt	(168)	(72)
Proceeds from investments restricted for financing activities	26	50
Payments to terminate derivative instruments	(92)	—
Other, net	(14)	(3)
Net cash used in financing activities	(248)	(25)
Net increase in unrestricted and restricted cash and cash equivalents	231	38
Unrestricted and restricted cash and cash equivalents at beginning of period	2,975	3,433
Unrestricted and restricted cash and cash equivalents at end of period	\$ 3,206	\$ 3,471

See accompanying notes.

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TRANSOCEAN LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—Business

Overview—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 ultra 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 March 31, 2018, we owned or had partial ownership interests in and operated 47 mobile offshore drilling units, including 27 ultra deepwater floaters, 12 harsh environment floaters, two deepwater floaters and six midwater floaters. Additionally, at March 31, 2018, we operated two high specification jackups that were under contract when we sold the rigs, and we continue to operate such rigs until completion or novation of the respective drilling contracts. At March 31, 2018, we are constructing two additional ultra deepwater drillships. See Note 7—Drilling Fleet.

Business combination—On January 30, 2018, we acquired an approximate 97.7 percent ownership interest in Songa Offshore SE, a European public company limited by shares, or *societas Europaea*, existing under the laws of Cyprus (“Songa”). On March 28, 2018, we acquired the remaining shares not owned by us through a compulsory acquisition under Cyprus law, and as a result, Songa became our wholly owned subsidiary. In connection with these transactions, we issued an aggregate of 68.0 million shares and \$863 million aggregate principal amount of 0.50% exchangeable senior bonds due January 30, 2023 (the “Exchangeable Bonds”). As a result of the acquisition, we acquired seven mobile offshore drilling units, including five harsh environment floaters and two midwater floaters. See Note 4—Business Combination.

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 months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, 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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in our annual report on Form 10-K filed on February 21, 2018.

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, property and equipment, assets held for sale, goodwill, income taxes, contingencies, share based compensation and postemployment benefit plans. 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 ot