Transocean Ltd.
Form 10-Q
August 04, 2010

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2010

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

Chemin de Blandonnet 10 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 þ 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 þ 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 þ 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 þ

As of July 27, 2010, 318,993,839 shares were outstanding.

TRANSOCEAN LTD.
INDEX TO FORM 10-Q
QUARTER ENDED JUNE 30, 2010

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, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Operating revenues				
Contract drilling revenues	$ 2,290	$ 2,625	$ 4,731	$ 5,459
Contract drilling intangible revenues	29	75	62	179
Other revenues	186	182	314	362
	2,505	2,882	5,107	6,000
Costs and expenses				
Operating and maintenance	1,358	1,277	2,554	2,448
Depreciation, depletion and amortization	400	360	801	715
General and administrative	58	53	121	109
	1,816	1,690	3,476	3,272
Loss on impairment	—	(67)	(2)	(288)
Gain (loss) on disposal of assets, net	268	(4)	254	—
Operating income	957	1,121	1,883	2,440
Other income (expense), net				
Interest income	5	1	10	2
Interest expense, net of amounts capitalized	(141)	(114)	(273)	(250)
Gain (loss) on retirement of debt	—	(8)	2	(10)
Other, net	(3)	(8)	10	—
	(139)	(129)	(251)	(258)
Income before income tax expense	818	992	1,632	2,182
Income tax expense	98	184	227	435
Net income	720	808	1,405	1,747
Net income (loss) attributable to noncontrolling interest	5	2	13	(1)
Net income attributable to controlling interest	$ 715	$ 806	$ 1,392	$ 1,748
Earnings per share				
Basic	$ 2.23	$ 2.50	$ 4.32	$ 5.43

Diluted	$ 2.22	$ 2.49	$ 4.31	$ 5.42
Weighted average shares outstanding				
Basic	319	320	320	320
Diluted	320	321	321	321

See accompanying notes.

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Net income	$ 720	$ 808	$ 1,405	$ 1,747
Other comprehensive income (loss) before income taxes				
Unrecognized components of net periodic benefit cost	—	—	(10)	(39)
Recognized components of net periodic benefit cost	3	5	9	9
Unrealized gain (loss) on derivative instruments	(11)	10	(17)	9
Other, net	(3)	1	(3)	—
Other comprehensive income (loss) before income taxes	(11)	16	(21)	(21)
Income taxes related to other comprehensive income (loss)	(1)	(6)	(1)	3
Other comprehensive income (loss), net of income taxes	(12)	10	(22)	(18)
Total comprehensive income	708	818	1,383	1,729
Total comprehensive income (loss) attributable to noncontrolling interest	(9)	13	(8)	10
Total comprehensive income attributable to controlling interest	$ 717	$ 805	$ 1,391	$ 1,719

See accompanying notes.

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

	June 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	$ 2,888	$ 1,130
Accounts receivable, net of allowance for doubtful accounts of $41 and $65 at June 30, 2010 and December 31, 2009, respectively	2,254	2,385
Materials and supplies, net of allowance for obsolescence of $66 at June 30, 2010 and December 31, 2009	467	462
Deferred income taxes, net	121	104
Assets held for sale	—	186
Other current assets	184	209
Total current assets	5,914	4,476
Property and equipment	27,377	27,383
Property and equipment of consolidated variable interest entities	2,179	1,968
Less accumulated depreciation	7,034	6,333
Property and equipment, net	22,522	23,018
Goodwill	8,132	8,134
Other assets	984	808
Total assets	$ 37,552	$ 36,436
Liabilities and equity		
Accounts payable	$ 968	$ 780
Accrued income taxes	154	240
Debt due within one year	1,580	1,568
Debt of consolidated variable interest entities due within one year	82	300
Other current liabilities	1,884	730
Total current liabilities	4,668	3,618
Long-term debt	8,862	8,966
Long-term debt of consolidated variable interest entities	902	883
Deferred income taxes, net	710	726
Other long-term liabilities	1,683	1,684
Total long-term liabilities	12,157	12,259
Commitments and contingencies		
Shares, CHF 15.00 par value, 502,852,947 authorized, 167,617,649 conditionally authorized,	4,479	4,472

335,235,298 issued at June 30, 2010 and December 31, 2009; 318,916,207 and 321,223,882 outstanding at June 30, 2010 and December 31, 2009, respectively		
Additional paid-in capital	6,421	7,407
Treasury shares, at cost, 2,863,267 and none held at June 30, 2010 and December 31, 2009, respectively	(240)	—
Retained earnings	10,400	9,008
Accumulated other comprehensive loss	(336)	(335)
Total controlling interest shareholders' equity	20,724	20,552
Noncontrolling interest	3	7
Total equity	20,727	20,559
Total liabilities and equity	$ 37,552	$ 36,436

See accompanying notes.

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

	Six months ended June 30,	
	2010	2009
Shares outstanding		
Balance, beginning of period	321	319
Issuance of shares under share-based compensation plans	1	2
Purchases of shares held in treasury	(3)	—
Balance, end of period	319	321
Shares		
Balance, beginning of period	$ 4,472	$ 4,444
Issuance of shares under share-based compensation plans	7	24
Balance, end of period	$ 4,479	$ 4,468
Additional paid-in capital		
Balance, beginning of period	$ 7,407	$ 7,313
Share-based compensation expense	53	43
Issuance of shares under share-based compensation plans	(9)	16
Obligation for cash distribution	(1,024)	—
Repurchases of convertible senior notes	—	16
Changes in ownership of noncontrolling interest and other, net	(6)	—
Balance, end of period	$ 6,421	$ 7,388
Treasury shares, at cost		
Balance, beginning of period	$ —	$ —
Purchases of shares held in treasury	(240)	—
Balance, end of period	$ (240)	$ —
Retained earnings		
Balance, beginning of period	$ 9,008	$ 5,827
Net income attributable to controlling interest	1,392	1,748
Balance, end of period	$10,400	$ 7,575
Accumulated other comprehensive loss		
Balance, beginning of period	$ (335)	$ (420)
Other comprehensive loss attributable to controlling interest	(1)	(29)
Balance, end of period	$ (336)	$ (449)
Total controlling interest shareholders' equity		
Balance, beginning of period	$20,552	$17,164
Total comprehensive income attributable to controlling interest	1,391	1,719
Share-based compensation expense	53	43
Issuance of shares under share-based compensation plans	(2)	40
Purchases of shares held in treasury	(240)	—
Obligation for cash distribution	(1,024)	—
Repurchases of convertible senior notes	—	16
Changes in ownership of noncontrolling interest and other, net	(6)	—

Balance, end of period	$20,724	$18,982
Total noncontrolling interest		
Balance, beginning of period	$ 7	$ 3
Net income (loss) attributable to noncontrolling interest	13	(1)
Other comprehensive income (loss) attributable to noncontrolling interest	(21)	11
Changes in ownership of noncontrolling interest	4	—
Balance, end of period	$ 3	$ 13
Total equity		
Balance, beginning of period	$20,559	$17,167
Total comprehensive income	1,383	1,729
Share-based compensation expense	53	43
Issuance of shares under share-based compensation plans	(2)	40
Purchases of shares held in treasury	(240)	—
Obligation for cash distribution	(1,024)	—
Repurchases of convertible notes	—	16
Changes in ownership of noncontrolling interest and other, net	(2)	—
Balance, end of period	$20,727	$18,995

See accompanying notes.

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

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash flows from operating activities				
Net income	$ 720	$ 808	$ 1,405	$ 1,747
Adjustments to reconcile net income to net cash provided by operating activities				
Amortization of drilling contract intangibles	(29)	(75)	(62)	(179)
Depreciation, depletion and amortization	400	360	801	715
Share-based compensation expense	18	24	53	43
Excess tax benefit from share-based compensation plans	(1)	—	(1)	(1)
(Gain) loss on disposal of assets, net	(268)	4	(254)	—
Loss on impairment	—	67	2	288
(Gain) loss on retirement of debt	—	8	(2)	10
Amortization of debt issue costs, discounts and premiums, net	51	57	100	109
Deferred income taxes	(12)	20	(34)	26
Other, net	(6)	14	(1)	23
Deferred revenue, net	7	49	158	43
Deferred expenses, net	(23)	(37)	(37)	(35)
Changes in operating assets and liabilities	412	277	313	228
Net cash provided by operating activities	1,269	1,576	2,441	3,017
Cash flows from investing activities				
Capital expenditures	(300)	(947)	(679)	(1,655)
Proceeds from disposal of assets, net	10	—	51	8
Proceeds from insurance recoveries for loss of drilling unit	560	—	560	—
Proceeds from payments on notes receivable	11	—	21	—
Proceeds from short-term investments	—	172	5	393
Purchases of short-term investments	—	(234)	—	(234)
Joint ventures and other investments, net	(1)	—	(1)	—
Net cash provided by (used in) investing activities	280	(1,009)	(43)	(1,488)

Cash flows from financing activities				
Change in short-term borrowings, net	(46)	(476)	(177)	(500)
Proceeds from debt	—	231	54	319
Repayments of debt	(22)	(708)	(275)	(1,410)
Payments for warrant exercises, net	—	(13)	—	(13)
Purchases of shares held in treasury	(180)	—	(240)	—
Proceeds from (taxes paid for) share-based compensation plans, net	3	5	(1)	22
Excess tax benefit from share-based compensation plans	1	—	1	1
Other, net	(3)	(1)	(2)	(4)
Net cash used in financing activities	(247)	(962)	(640)	(1,585)
Net increase (decrease) in cash and cash equivalents	1,302	(395)	1,758	(56)
Cash and cash equivalents at beginning of period	1,586	1,302	1,130	963
Cash and cash equivalents at end of period	$2,888	$ 907	$2,888	$ 907

See accompanying notes.

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

Note 1—Nature of Business

Transocean Ltd. (together with its subsidiaries and predecessors, unless the context requires otherwise, "Transocean," the "Company," "we," "us" or "our") is a leading international provider of offshore contract drilling services for oil and gas wells. Our mobile offshore drilling fleet is considered one of the most modern and versatile fleets in the world. Specializing in technically demanding sectors of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services, we contract our drilling rigs, related equipment and work crews predominantly on a dayrate basis to drill oil and gas wells. At June 30, 2010, we owned, had partial ownership interests in or operated 139 mobile offshore drilling units. As of this date, our fleet consisted of 45 High-Specification Floaters (Ultra-Deepwater, Deepwater and Harsh Environment semisubmersibles and drillships), 26 Midwater Floaters, 10 High-Specification Jackups, 55 Standard Jackups and three Other Rigs. We also have three Ultra-Deepwater Floaters under construction (see Note 8—Drilling Fleet).

We also provide oil and gas drilling management services, drilling engineering and drilling project management services, and we participate in oil and gas exploration and production activities. Drilling management services are provided through Applied Drilling Technology Inc., our wholly owned subsidiary, and through ADT International, a division of one of our U.K. subsidiaries (together, "ADTI"). ADTI conducts drilling management services primarily on either a dayrate or a completed-project, fixed-price (or "turnkey") basis. Oil and gas properties consist of exploration, development and production activities performed by Challenger Minerals Inc. and Challenger Minerals (North Sea) Limited (together, "CMI"), our oil and gas subsidiaries.

Note 2—Significant Accounting Policies

Basis of presentation—We have prepared our accompanying condensed consolidated financial statements without audit 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 identified. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 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 included in our annual report on Form 10-K for the year ended December 31, 2009.

Accounting estimates—The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires us 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, investments, notes receivable, goodwill and other intangible assets, income taxes, share-based compensation, defined benefit pension plans and other postretirement benefits and contingencies. 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) unadjusted quoted prices for identical assets or liabilities in active markets ("Level 1"), (2) direct or indirect observable inputs, including quoted prices or other market data, for similar assets or liabilities in active markets or identical assets or liabilities in less active markets ("Level 2") and (3) unobservable inputs that require significant 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.

Principles of consolidation—We consolidate those investments that meet the criteria of a variable interest entity where we are deemed to be the primary beneficiary for accounting purposes and for entities in which we have a majority voting interest. Intercompany transactions and accounts are eliminated in consolidation. We apply the equity method of accounting for investments in joint ventures and other entities when we have the ability to exercise significant influence over an 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 investments in joint ventures and other entities if we do not have the ability to exercise significant influence over the unconsolidated affiliate. See Note 4—Variable Interest Entities.

Share-based compensation—Share-based compensation expense was $18 million and $53 million for the three and six months ended June 30, 2010, respectively. Share-based compensation expense was $24 million and $43 million for the three and six months ended June 30, 2009, respectively.

Capitalized interest—We capitalize interest costs for qualifying construction and upgrade projects. We capitalized interest costs on construction work in progress of $19 million and $47 million for the three and six months ended June 30, 2010, respectively. We capitalized interest costs on construction work in progress of $49 million and $95 million for the three and six months ended June 30, 2009, respectively.

Reclassifications—We have made certain reclassifications to prior period amounts to conform with the current period's presentation. These 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 15—Subsequent Events.

Note 3—New Accounting Pronouncements

Recently adopted accounting standards

Consolidation—Effective January 1, 2010, we adopted the accounting standards update that requires enhanced transparency of our involvement with variable interest entities, which (a) amends certain guidance for determining whether an enterprise is a variable interest entity, (b) requires a qualitative rather than a quantitative analysis to determine the primary beneficiary, and (c) requires continuous assessments of whether an enterprise is the primary beneficiary of a variable interest entity. We evaluated these requirements, particularly with regard to our interests in Transocean Pacific Drilling Inc. ("TPDI") and Angola Deepwater Drilling Company Limited ("ADDCL") and our adoption did not have a material effect on our condensed consolidated statement of financial position, results of operations or cash flows. See Note 4—Variable Interest Entities.

Fair value measurements and disclosures—Effective January 1, 2010, we adopted the effective provisions of the accounting standards update that clarifies existing disclosure requirements and introduces additional disclosure requirements for fair value measurements. The update requires entities to disclose the amounts of and reasons for significant transfers between Level 1 and Level 2, the reasons for any transfers into or out of Level 3, and information about recurring Level 3 measurements of purchases, sales, issuances and settlements on a gross basis. The update also clarifies that entities must provide (a) fair value measurement disclosures for each class of assets and liabilities and (b) information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. We have applied the effective provisions of this accounting standards update in preparing the disclosures in our notes to condensed consolidated financial statements and our adoption did not have a material effect on such disclosures. See Note 2—Significant Accounting Policies.

Subsequent events—Effective for financial statements issued after February 2010, we adopted the accounting standards update regarding subsequent events, which clarifies that SEC filers are not required to disclose the date through which management evaluated subsequent events in the financial statements. &#