Transocean Ltd.
Form 10-Q
November 03, 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 September 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 (State or other jurisdiction of incorporation or organization)	98-0599916 (I.R.S. Employer Identification No.)
Chemin de Blandonnet 10 Vernier, Switzerland (Address of principal executive	1214 (Zip Code)

offices)

+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 October 26, 2010, 319,020,214 shares were outstanding.

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

Index

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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Operating revenues				
Contract drilling revenues	$ 2,204	$ 2,602	$ 6,935	$ 8,061
Contract drilling intangible revenues	23	58	85	237
Other revenues	82	163	396	525
	2,309	2,823	7,416	8,823
Costs and expenses				
Operating and maintenance	1,213	1,396	3,767	3,844
Depreciation, depletion and amortization	394	367	1,195	1,082
General and administrative	59	54	180	163
	1,666	1,817	5,142	5,089
Loss on impairment	—	(46)	(2)	(334)
Gain (loss) on disposal of assets, net	2	(3)	256	(3)
Operating income	645	957	2,528	3,397
Other income (expense), net				
Interest income	7	—	17	2
Interest expense, net of amounts capitalized	(142)	(115)	(415)	(365)
Loss on retirement of debt	(22)	(7)	(20)	(17)
Other, net	8	9	18	9
	(149)	(113)	(400)	(371)
Income before income tax expense	496	844	2,128	3,026
Income tax expense	118	138	345	573
Net income	378	706	1,783	2,453
Net income (loss) attributable to noncontrolling interest	10	(4)	23	(5)
Net income attributable to controlling interest	$ 368	$ 710	$ 1,760	$ 2,458

Earnings per share

Basic	$ 1.15	$ 2.20	$ 5.47	$ 7.63
Diluted	$ 1.15	$ 2.19	$ 5.47	$ 7.61
Weighted average shares outstanding				
Basic	319	321	320	320
Diluted	319	322	320	321

See accompanying notes.

Index

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

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income	$ 378	$ 706	$ 1,783	$ 2,453
Other comprehensive income (loss) before income taxes				
Unrecognized components of net periodic benefit cost	1	—	(9)	(39)
Recognized components of net periodic benefit cost	7	4	16	13
Unrealized loss on derivative instruments	(11)	(10)	(34)	(3)
Other, net	2	2	5	4
Other comprehensive loss before income taxes	(1)	(4)	(22)	(25)
Income taxes related to other comprehensive loss	—	—	(1)	3
Other comprehensive loss, net of income taxes	(1)	(4)	(23)	(22)
Total comprehensive income	377	702	1,760	2,431
Total comprehensive loss attributable to noncontrolling interest	—	(14)	(8)	(4)
Total comprehensive income attributable to controlling interest	$ 377	$ 716	$ 1,768	$ 2,435

See accompanying notes.

Index

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

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	$ 4,636	$ 1,130
Accounts receivable, net of allowance for doubtful accounts of $39 and $65 at September 30, 2010 and December 31, 2009, respectively	2,299	2,385
Materials and supplies, net of allowance for obsolescence of $69 and $66 at September 30, 2010 and December 31, 2009, respectively	501	462
Deferred income taxes, net	100	104
Assets held for sale	—	186
Other current assets	234	209
Total current assets	7,770	4,476
Property and equipment	27,644	27,383
Property and equipment of consolidated variable interest entities	2,192	1,968
Less accumulated depreciation	7,423	6,333
Property and equipment, net	22,413	23,018
Goodwill	8,132	8,134
Other assets	1,015	808
Total assets	$ 39,330	$ 36,436
Liabilities and equity		
Accounts payable	$ 791	$ 780
Accrued income taxes	226	240
Debt due within one year	1,635	1,568
Debt of consolidated variable interest entities due within one year	82	300
Other current liabilities	2,030	730
Total current liabilities	4,764	3,618
Long-term debt	10,237	8,966
Long-term debt of consolidated variable interest entities	886	883
Deferred income taxes, net	652	726
Other long-term liabilities	1,752	1,684
Total long-term liabilities	13,527	12,259
Commitments and contingencies		
Shares, CHF 15.00 par value, 502,852,947 authorized, 167,617,649 conditionally authorized,	4,481	4,472

335,235,298 issued at September 30, 2010 and December 31, 2009; 319,017,904 and 321,223,882 outstanding at September 30, 2010 and December 31, 2009, respectively		
Additional paid-in capital	6,354	7,407
Treasury shares, at cost, 2,863,267 and none held at September 30, 2010 and December 31, 2009, respectively	(240)	—
Retained earnings	10,768	9,008
Accumulated other comprehensive loss	(327)	(335)
Total controlling interest shareholders’ equity	21,036	20,552
Noncontrolling interest	3	7
Total equity	21,039	20,559
Total liabilities and equity	$ 39,330	$ 36,436

See accompanying notes.

Index

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

	Nine months ended September 30, 2010	Nine months ended September 30, 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	9	26
Balance, end of period	$ 4,481	$ 4,470
Additional paid-in capital		
Balance, beginning of period	$ 7,407	$ 7,313
Share-based compensation expense	79	66
Issuance of shares under share-based compensation plans	(13)	7
Obligation for cash distribution	(1,123)	—
Repurchases of convertible senior notes	11	19
Changes in ownership of noncontrolling interest and other, net	(7)	(11)
Balance, end of period	$ 6,354	$ 7,394
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	1,760	2,458
Balance, end of period	$ 10,768	$ 8,285
Accumulated other comprehensive loss		
Balance, beginning of period	$ (335)	$ (420)
Other comprehensive loss attributable to controlling interest	8	(23)
Balance, end of period	$ (327)	$ (443)
Total controlling interest shareholders' equity		
Balance, beginning of period	$ 20,552	$ 17,164
Total comprehensive income attributable to controlling interest	1,768	2,435
Share-based compensation expense	79	66
Issuance of shares under share-based compensation plans	(4)	33
Purchases of shares held in treasury	(240)	—
Obligation for cash distribution	(1,123)	—
Repurchases of convertible senior notes	11	19
	(7)	(11)

Changes in ownership of noncontrolling interest and other, net		
Balance, end of period	$ 21,036	$ 19,706
Total noncontrolling interest		
Balance, beginning of period	$ 7	$ 3
Net income (loss) attributable to noncontrolling interest	23	(5)
Other comprehensive income (loss) attributable to noncontrolling interest	(31)	1
Changes in ownership of noncontrolling interest and other, net	4	—
Balance, end of period	$ 3	$ (1)
Total equity		
Balance, beginning of period	$ 20,559	$ 17,167
Total comprehensive income	1,760	2,431
Share-based compensation expense	79	66
Issuance of shares under share-based compensation plans	(4)	33
Purchases of shares held in treasury	(240)	—
Obligation for cash distribution	(1,123)	—
Repurchases of convertible senior notes	11	19
Changes in ownership of noncontrolling interest and other, net	(3)	(11)
Balance, end of period	$ 21,039	$ 19,705

See accompanying notes.

Index

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

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Cash flows from operating activities				
Net income	$ 378	$ 706	$ 1,783	$ 2,453
Adjustments to reconcile net income to net cash provided by operating activities				
Amortization of drilling contract intangibles	(23)	(58)	(85)	(237)
Depreciation, depletion and amortization	394	367	1,195	1,082
Share-based compensation expense	26	23	79	66
Excess tax benefit from share-based compensation plans	—	(9)	(1)	(10)
(Gain) loss on disposal of assets, net	(2)	3	(256)	3
Loss on impairment	—	46	2	334
Loss on retirement of debt	22	7	20	17
Amortization of debt issue costs, discounts and premiums, net	48	51	148	160
Deferred income taxes	(40)	24	(74)	50
Other, net	2	7	1	30
Deferred revenue, net	47	29	205	72
Deferred expenses, net	(18)	(3)	(55)	(38)
Changes in operating assets and liabilities	(125)	213	188	441
Net cash provided by operating activities	709	1,406	3,150	4,423
Cash flows from investing activities				
Capital expenditures	(304)	(540)	(983)	(2,195)
Proceeds from disposal of assets, net	—	2	51	10
Proceeds from insurance recoveries for loss of drilling unit	—	—	560	—
Proceeds from payments on notes receivable	10	—	31	—
Proceeds from short-term investments	—	29	5	422
Purchases of short-term investments	—	(34)	—	(268)
Joint ventures and other investments, net	(4)	5	(5)	5
Net cash used in investing activities	(298)	(538)	(341)	(2,026)

Cash flows from financing activities				
Change in short-term borrowings, net	46	254	(131)	(246)
Proceeds from debt	2,000	26	2,054	345
Repayments of debt	(691)	(1,173)	(966)	(2,583)
Purchases of shares held in treasury	—	—	(240)	—
Financing costs	(15)	—	(15)	(2)
Proceeds from (taxes paid for) share-based compensation plans, net	(2)	(6)	(3)	16
Excess tax benefit from share-based compensation plans	—	9	1	10
Other, net	(1)	1	(3)	(14)
Net cash provided by (used in) financing activities	1,337	(889)	697	(2,474)
Net increase (decrease) in cash and cash equivalents	1,748	(21)	3,506	(77)
Cash and cash equivalents at beginning of period	2,888	907	1,130	963
Cash and cash equivalents at end of period	$ 4,636	$ 886	$ 4,636	$ 886

See accompanying notes.

Index

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 September 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 nine months ended September 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 as of December 31, 2009 and 2008 and for each of the three years ended December 31, 2009 included in our current report on Form 8-K filed on September 16, 2010.

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 $26 million and $79 million for the three and nine months ended September 30, 2010, respectively. Share-based compensation expense was $23 million and $66 million for the three and nine months ended September 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 $20 million and $67 million for the three and nine months ended September 30, 2010, respectively. We capitalized interest costs on construction work in progress of $48 million and $143 million for the three and nine months ended September 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. Our adoption did not have a material effect on the disclosures contained within our notes to condensed consolidated financial statements. See Note 2—Significant Accounting Policies.

Recently issued accounting standards

Fair value measurements and disclosures—Effective January 1, 2011, we will adopt the remaining 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 separately disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis. The update is effective for interim and annual periods beginning after December 15, 2010. We do not expect that our adoption will have a material effect on the disclosures contained in our notes to consolidated financial statements.

Note 4—Variable Interest Entities

Consolidated variable interest entities—TPDI and ADDCL, two joint venture companies in which we hold interests, were formed to own and operate certain ultra-deepwater drillships. We have determined that each of these joint venture companies meets the criteria of a variable interest entity for accounting purposes because their equity at risk is insufficient to permit them to carry on their activities without additional subordinated financial support from us. We have also determined, in each case, that we are the primary beneficiary for accounting purposes since (a) we have the power to direct the construction, marketing and operating activities, which are the activities that most significantly impact each entity's economic performance, and (b) we have the obligation to absorb a majority of the losses or the right to receive a majority of the benefits that could be potentially significant to the variable interest entity. As a result, we consolidate TPDI and ADDCL in our condensed consolidated financial statements, we eliminate intercompany transactions, and we present the interests that are not owned by us as noncontrolling interest on our condensed consolidated balance sheets. The carrying amounts associated with these two joint venture companies, after eliminating the effect of intercompany transactions, were as follows (in millions):

	September 30, 2010			December 31, 2009		
	Assets	Liabilities	Net carrying amount	Assets	Liabilities	Net carrying amount
Variable interest entity						
TPDI	$ 1,609	$ 793	$ 816	$ 1,500	$ 763	$ 737
ADDCL	881	352	529	582	482	100
Total	$ 2,490	$ 1,145	$ 1,345	$ 2,082	$ 1,245	$ 837

Pacific Drilling Limited ("Pacific Drilling"), a Liberian company, owns the 50 percent interest in TPDI that is not owned by us, and we present its interest in TPDI as noncontrolling interest on our condensed consolidated balance sheets. Beginning on October 18, 2010, Pacific Drilling will have the unilateral right to exchange its interest in TPDI for our shares or cash, at its election, measured at an amount based on an appraisal of the fair value of the drillships, subject to certain adjustments. Accordingly, when this option becomes exercisable, we will reclassify the carrying amount of Pacific Drilling's interest from permanent equity to temporary equity, located between liabilities and equity on our condensed consolidated balance sheets, since the event that gives rise to a potential redemption of the noncontrolling interest is not within our control.

Unconsolidated variable interest entities—In January 2010, we completed the sale of two Midwater Floaters, GSF Arctic II and GSF Arctic IV, to subsidiaries of Awilco Drilling Limited ("ADL"), a U.K. company (see Note 8—Drilling Fleet). We have determined that ADL meets the criteria of a variable interest entity for accounting purposes because its equity at risk is insufficient to permit it to carry on its activities without additional subordinated financial support. We have also determined that we are not the primary beneficiary for accounting purposes since, although we hold a significant financial interest in the variable interest entity and have the obligation to absorb losses or receive benefits that could be potentially significant to the variable interest entity, we do not have the power to direct the marketing and operating activities, which are the activities that most significantly impact the entity's economic performance.

In connection with the sale, we received net cash proceeds of $38 million and non-cash proceeds in the form of two notes receivable in the aggregate amount of $165 million. The notes receivable, which are secured by the drilling units, have stated interest rates of 9 percent and are payable in scheduled quarterly installments of principal and interest through maturity in January 2015. We have also committed to provide ADL with a working capital loan, which is also secured by the drilling units, with a maximum borrowing amount of $35 million. Additionally, we continue to operate GSF Arctic IV under a short-term bareboat charter with ADL, which is expected to end in early November 2010. At September 30, 2010, the notes receivable and working capital loan receivable represented aggregate carrying amounts of $113 million and $6 million, respectively, which, together, represented our maximum exposure to loss.

Note 5—Impairments

Goodwill and other indefinite-lived intangible assets—During the nine months ended September 30, 2010, we recognized a loss on impairment of goodwill associated with our oil and gas properties reporting unit in the amount of $2 million ($0.01 per diluted share), which had no tax effect. The carrying amount of goodwill associated with our oil and gas properties reporting unit was $2 million at December 31, 2009.

During the nine months ended September 30, 2009, we determined that the trade name intangible asset associated with our drilling management services reporting unit was impaired due to market conditions resulting from the global economic downturn and continued pressure on commodity prices. We estimated the fair value of the trade name intangible asset using the relief from royalty method, a valuation methodology that applies the income approach. Our valuation required us to project the future performance of the drilling management services reporting unit based on unobservable inputs that require significant judgment for which there is little or no market data, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates. As a result, we determined that the carrying amount of the trade name intangible asset exceeded its fair value, and we recognized a loss on impairment of $6 million ($0.02 per diluted share), which had no tax effect, during the three and nine months ended September 30, 2009. The carrying amount of the trade name intangible asset, recorded in other assets on our condensed consolidated balance sheets, was $39 million at both September 30, 2010 and December 31, 2009.

Index

Definite-lived intangible assets—During the three and nine months ended September 30, 2009, we determined that the customer relationships intangible asset associated with our drilling management services reporting unit was impaired due to market conditions resulting from the global economic downturn and continued pressure on commodity prices. We estimated the fair value of the customer relationships intangible asset using the multiperiod excess earnings method, a valuation methodology that applies the income approach. Our valuation required us to project the future performance of the drilling management services reporting unit based on unobservable inputs that require significant judgment for which there is little or no market data, including assumptions for future commodity prices, projected demand for our services, rig availability and dayrates. As a result of our impairment testing, we determined that the carrying amount of the customer relationships intangible asset exceeded its fair value and recognized losses on impairment of $40 million ($0.12 per diluted share) and $49 million ($0.15 per diluted share), both of which had no tax effect, during the three and nine months ended September 30, 2009, respectively. The carrying amount of the customer relationships intangible asset, recorded in other assets on our condensed consolidated balance sheets, was $60 million and $64 million at September 30, 2010 and December 31, 2009, respectively.

Assets held for sale—During the nine months ended September 30, 2009, we determined that GSF Arctic II and GSF Arctic IV, both previously classified as assets held for sale, were impaired due to the global economic downturn and pressure on commodity prices, both of which have had an adverse effect on our industry. We estimated the fair values of these rigs based on an exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date and considering our undertakings to the Office of Fair Trading in the U.K. ("OFT") that required the sale of the rigs with certain limitations and in a limited amount of time. We based our estimates on unobservable inputs that require significant judgment, for which there is little or no market data, including non-binding price quotes from unaffiliated parties, considering the then-current market conditions and restrictions imposed by the OFT. As a result of our evaluation, we recognized a loss on impairment of $279 million ($0.87 per diluted share), which had no tax effect, for the nine months ended September 30, 2009. The carrying amount of assets held for sale was $186 million at December 31, 2009, and these assets were sold in the nine months ended September 30, 2010. See Note 8—Drilling Fleet.

Note 6—Income Taxes

Overview—Transocean Ltd., a holding company and Swiss resident, is exempt from cantonal and communal income tax in Switzerland, but is subject to Swiss federal income tax. At the federal level, qualifying net dividend income and net capital gains on the sale of qualifying investments in subsidiaries are exempt from Swiss federal income tax. Consequently, Transocean Ltd. expects dividends from its subsidiaries and capital gains from sales of investments in its subsidiaries to be exempt from Swiss federal income tax.

Tax provision—We conduct operations through our various subsidiaries in a number of countries throughout the world, all of which have taxation regimes with varying nominal rates, deductions, credits and other tax attributes. Our provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which we operate and earn income. There is little to no expected relationship between the provision for or benefit from income taxes and income or loss before income taxes considering, among other factors, (a) changes in the blend of income that is taxed based on gross revenues versus income before taxes, (b) rig movements between taxing jurisdictions and (c) our rig operating structures.

Our estimated annual effective tax rates for the nine months ended September 30, 2010 and September 30, 2009 were 17.0 percent and 15.7 percent, respectively. These rates were based on projected annual income before income taxes for each period after adjusting for certain items, such as impairment losses, the gain resulting from the insurance recoveries on the loss of Deepwater Horizon and various other discrete items.

We record a valuation allowance for deferred tax assets, including those resulting from net operating losses, when it is more likely than not that we will not realize some or all of the benefit from the deferred tax assets. At September 30, 2010 and December 31, 2009, the valuation allowance for non-current deferred tax assets was $73 million and $69 million, respectively.

Tax returns—We file federal and local tax returns in several jurisdictions throughout the world. With few exceptions, we are no longer subject to examinations of our U.S. and non-U.S. tax matters for years prior to 1999. For the nine months ended September 30, 2010 and September 30, 2009, the amount of current tax benefit recognized from the settlement of disputes with tax authorities and from the expiration of statutes of limitations was insignificant.

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

The liabilities related to our unrecognized tax benefits, including related interest and penalties that we recognize as a component of income tax expense, were as follows (in millions):

	September 30, 2010	December 31, 2009
Unrecognized tax benefits, excluding interest and penalties	$ 481	$ 460
Interest and penalties	226	200
Unrecognized tax benefits, including interest and penalties	$ 707	$ 660

Our tax returns in the other major jurisdictions in which we operate are generally subject to examination for periods ranging from three to six years. We have agreed to extensions beyond the statute of limitations in three major jurisdictions for up to 15 years. Tax authorities in certain jurisdictions are examining our tax returns and in some cases have issued assessments. We are defending our tax positions in those jurisdictions. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect the ultimate liability to have a material adverse effect on our consolidated statement of financial position, or results of operations, although it may have a material adverse effect on our consolidated cash flows.

Tax positions—With respect to our 2004 and 2005 U.S. federal income tax returns, the U.S. tax authorities have withdrawn all of their previously proposed tax adjustments, except a claim regarding transfer pricing for certain charters of drilling rigs between our subsidiaries, resulting in a total proposed adjustment of approximately $79 million, exclusive of interest. We believe an unfavorable outcome on this assessment with respect to 2004 and 2005 activities would not result in a material adverse effect on our consolidated financial position, results of operations or cash flows. Although we believe the transfer pricing for these charters is materially correct, we have been unable to reach a resolution with the tax authorities. In August 2010, we filed a petition with the U.S. Tax Court.

In May 2010, we received an assessment from the U.S. tax authorities related to our 2006 and 2007 U.S. federal income tax returns. We filed a protest letter with the U.S. tax authorities covering these assessments in July 2010. The significant issues raised in the assessment relate to transfer pricing for certain charters of drilling rigs between our subsidiaries and the creation of intangible assets resulting from the performance of engineering services between our subsidiaries. These two items would result in net adjustments of approximately $278 million of additional taxes, exclusive of interest. An unfavorable outcome on these adjustments could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. We believe our returns are materially correct as filed, and we intend to continue to vigorously defend against all such claims.

In addition, the assessment included adjustments related to a series of restructuring transactions that occurred between 2001 and 2004. These restructuring transactions ultimately resulted in the disposition of our interests in our former subsidiary TODCO in 2004 and 2005. The authorities are disputing the amount of capital losses resulting from the disposition of TODCO. We utilized a portion of the capital losses to offset capital gains on the 2006, 2007, 2008 and 2009 tax returns. The majority of the capital losses expired on December 31, 2009. The adjustments would also impact the amount of certain net operating losses and other carryovers into 2006 and later years. The authorities are also contesting the characterization of certain amounts of income received in 2006 and 2007 as capital gain and thus the availability of the capital gain for offset by the capital loss. Claims with respect to our U.S. federal income tax returns for 2006 through 2009 could result in net tax adjustments of approximately $295 million. An unfavorable outcome on these potential adjustments could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. We believe that our tax returns are materially correct as filed, and we intend to vigorously defend against any potential claims.

The assessment also included certain claims with respect to withholding taxes and certain other items resulting in net tax adjustments of approximately $166 million, exclusive of interest. In addition, the tax authorities assessed penalties associated with the various tax adjustments in the aggregate amount of approximately $92 million, exclusive of interest. We believe that our tax returns are materially correct as filed, and we intend to vigorously defend against any potential claims.

Norwegian civil tax and criminal authorities are investigating various transactions undertaken by our subsidiaries in 2001 and 2002 as well as the actions of certain of our former external advisors on these transactions. The authorities issued tax assessments of (a) approximately $266 million plus interest, related to certain restructuring transactions, (b) approximately $116 million plus interest, related to the migration of a subsidiary that was previously subject to tax in Norway, (c) approximately $70 million plus interest, related to a 2001 dividend payment and (d) approximately $7 million plus interest, related to certain foreign exchange deductions and dividend withholding tax. We have filed or expect to file appeals to these tax assessments. We may be required to provide some form of financial security, in an amount up to $939 million, including interest and penalties, for these assessed amounts as this dispute is appealed and addressed by the Norwegian courts. The authorities have indicated that they plan to seek penalties of 60 percent on all matters. For these matters, we believe our returns are materially correct as filed, and we have and will continue to respond to all information requests from the Norwegian authorities. We intend to vigorously contest any assertions by the Norwegian authorities in connection with the various transactions being investigated.

Index

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

During the nine months ended September 30, 2010, our long-term liability for unrecognized tax benefits related to these Norwegian tax issues increased $3 million to $184 million due to the accrual of interest and exchange rate fluctuations. An unfavorable outcome on these Norwegian civil tax matters could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect the ultimate resolution of these matters to have a material adverse effect on our consolidated financial position or results of operations, although it may have a material adverse effect on our consolidated cash flows.

The Norwegian authorities issued notification of criminal charges against Transocean Ltd. and certain of its subsidiaries related to disclosures included in one of our Norwegian tax returns. This notification, however, does not itself constitute an indictment under Norwegian law nor does it initiate legal proceedings but represents a formal expression of suspicion and continued investigation. All income taxes, interest charges and penalties related to this Norwegian tax return have previously been settled. We believe that these charges are without merit and plan to vigorously defend Transocean Ltd. and its subsidiaries to the fullest extent.

Certain of our Brazilian income tax returns for the years 2000 through 2004 are currently under examination. The Brazilian tax authorities have issued tax assessments totaling $115 million, plus a 75 percent penalty of $86 million and $111 million of interest through September 30, 2010. An unfavorable outcome on these proposed assessments could result in a material adverse effect on our consolidated financial position, results of operations or cash flows. We believe our returns are materially correct as filed, and we are vigorously contesting these assessments. We filed a protest letter with the Brazilian tax authorities on January 25, 2008, and we are currently engaged in the appeals process.

Note 7—Earnings Per Share

The reconciliation of the numerator and denominator used for the computation of basic and diluted earnings per share is as follows (in millions, except per share data):

	Three months ended September 30,				Nine months ended September 30,			
	2010		2009		2010		2009	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator for earnings per share								
Net income attributable to controlling interest	$ 368	$ 368	$ 710	$ 710	$ 1,760	$ 1,760	$ 2,458	$ 2,458
Undistributed earnings allocable to participating securities	(2)	(2)	(4)	(4)	(10)	(10)	(14)	(14)
Net income available to	$ 366	$ 366	$ 706	$ 706	$ 1,750	$ 1,750	$ 2,444	$ 2,444

shareholders								
Denominator for earnings per share								
Weighted-average shares outstanding	319	319	321	321	320	320	320	320
Effect of stock options and other share-based awards	—	—	—	1	—	—	—	1
Weighted-average shares for per share calculation	319	319	321	322	320	320	320	321