TRANSOCEAN INC
Form 10-Q
November 12, 2002

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

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 333-75899

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

CAYMAN ISLANDS	66-0582307
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4 GREENWAY PLAZA HOUSTON, TEXAS	77046
(Address of principal executive offices)	(Zip Code)

Registrants' telephone number, including area code: (713) 232-7500

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 proceeding 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 X No

As of October 31, 2002, 319,219,486 ordinary shares, par value $0.01 per share, were outstanding.

TRANSOCEAN INC.

INDEX TO FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2002

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements of Transocean Inc. (formerly known as "Transocean Sedco Forex Inc.") and its consolidated subsidiaries (the "Company") included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

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

	Three Months Ended September 30,		Nine Months September	
	2002	2001	2002	
Operating Revenues	$ 695.2	$770.2	$ 2,009.3	$
Costs and Expenses				
Operating and maintenance	381.1	418.2	1,127.7	
Depreciation	124.2	125.4	374.1	
Goodwill amortization	-	41.7	-	
General and administrative	15.8	14.5	51.6	
	521.1	599.8	1,553.4	
Impairment Loss on Long-Lived Assets	(40.9)	-	(42.0)	
Gain from Sale of Assets, net	2.9	9.4	3.5	
Operating Income	136.1	179.8	417.4	
Other Income (Expense), net				
Equity in earnings of joint ventures	0.4	6.3	4.8	
Interest income	6.1	5.5	16.0	
Interest expense, net of amounts capitalized	(52.3)	(60.8)	(160.7)	
Other, net	1.3	(0.5)	0.2	
	(44.5)	(49.5)	(139.7)	
Income Before Income Taxes, Minority Interest, Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	91.6	130.3	277.7	
Income Tax Expense (Benefit)	(164.8)	32.6	(137.1)	
Minority Interest	1.2	0.1	2.3	
Income Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	255.2	97.6	412.5	
Loss on Extraordinary Item, net of tax	-	-		
Cumulative Effect of a Change in Accounting Principle	-	-	(1,363.7)	
Net Income (Loss)	$ 255.2	$ 97.6	$ (951.2)	$
Basic Earnings (Loss) Per Share				
Income Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	$ 0.80	$ 0.31	$ 1.29	$
Loss on Extraordinary Item, net of tax	-	-		
Cumulative Effect of a Change in Accounting Principle	-	-	(4.27)	
Net Income (Loss)	$ 0.80	$ 0.31	$ (2.98)	$
Diluted Earnings (Loss) Per Share				
Income Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	$ 0.79	$ 0.30	$ 1.28	$
Loss on Extraordinary Item, net of tax	-	-		
Cumulative Effect of a Change in Accounting Principle	-	-	(4.22)	

Net Income (Loss)	$ 0.79	$ 0.30	$ (2.94)	$
Weighted Average Shares Outstanding				
Basic	319.2	318.7	319.1	
Diluted	328.8	322.7	323.0	
Dividends Paid Per Share	$ -	$ 0.03	$ 0.06	$

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ende September 30,	
	2002	2001	2002	2001
Net income (loss)	$255.2	$97.6	$(951.2)	$196.6
Other comprehensive income (loss), net of tax				
Gain on terminated interest rate swaps	-	-	-	4.1
Amortization of gain on terminated interest rate swaps	(0.1)	(0.1)	(0.2)	(0.2
Change in unrealized loss on cash flow hedges	-	0.5	-	-
Change in unrealized loss on securities available for sale	(0.2)	(0.4)	(0.1)	(0.8
Change in share of unrealized loss in unconsolidated joint venture's interest rate swaps	(0.2)	-	1.9	-
Other comprehensive income (loss)	(0.5)	-	1.6	3.1
Total comprehensive income (loss)	$254.7	$97.6	$(949.6)	$199.7

See accompanying notes.

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

September 30,

		2002
		(Unaudited)
ASSETS		
Cash and Cash Equivalents	$	1,021.8
Accounts Receivable, net of allowance for doubtful accounts of $25.8 and $24.2 at September 30, 2002 and December 31, 2001, respectively		544.3
Materials and Supplies, net of allowance for obsolescence of $18.6 and $24.1 at September 30, 2002 and December 31, 2001, respectively		164.0
Deferred Income Taxes		21.3
Other Current Assets		32.5
Total Current Assets		1,783.9
Property and Equipment		10,150.2
Less Accumulated Depreciation		2,053.0
Property and Equipment, net		8,097.2
Goodwill, net		5,099.1
Investments in and Advances to Joint Ventures		107.0
Other Assets		422.9
Total Assets	$	15,510.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts Payable	$	128.1
Accrued Income Taxes		61.2
Debt Due Within One Year		941.6
Other Current Liabilities		280.9
Total Current Liabilities		1,411.8
Long-Term Debt		3,780.8
Deferred Income Taxes		128.1
Other Long-Term Liabilities		236.9
Total Long-Term Liabilities		4,145.8
Commitments and Contingencies		
Preference Shares, $0.10 par value; 50,000,000 shares authorized, none issued and outstanding		-
Ordinary Shares, $0.01 par value; 800,000,000 shares authorized, 319,219,486 and 318,816,035 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively		3.2
Additional Paid-in Capital		10,622.7
Accumulated Other Comprehensive Income		(0.7)
Retained Earnings (Deficit)		(672.7)
Total Shareholders' Equity		9,952.5
Total Liabilities and Shareholders' Equity	$	15,510.1

See accompanying notes.

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

	Nine Months End
	2002
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income (loss)	$ (951.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation	374.1
Goodwill amortization	-
Cumulative effect of a change in accounting principle - goodwill impairment	1,363.7
Deferred income taxes	(189.8)
Equity in earnings of joint ventures	(4.8)
Net (gain)/loss from disposal of assets	1.2
Impairment loss on long-lived assets	42.0
Loss on sale of securities	-
Amortization of debt-related discounts/premiums, fair value adjustments and issue costs, net	4.6
Deferred income, net	(9.3)
Deferred expenses, net	(7.7)
Extraordinary loss on debt extinguishment, net of tax	-
Other, net	11.9
Changes in operating assets and liabilities, net of effects from the R&B Falcon merger	
Accounts receivable	132.0
Accounts payable and other current liabilities	(41.9)
Income taxes receivable/payable, net	(15.9)
Other current assets	(8.7)
Net Cash Provided by Operating Activities	700.2
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(114.6)
Proceeds from disposal of assets, net	73.6
Proceeds from sale of securities	-
Merger costs paid	-
Cash acquired in merger, net of cash paid	-
Joint ventures and other investments, net	4.6
Net Cash Used in Investing Activities	(36.4)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net repayments on revolving credit agreements	-
Net repayments under commercial paper program	(326.4)
Repayments on other debt instruments	(154.3)

Net proceeds from issuance of debt	-
Net proceeds from issuance of ordinary shares under stock-based compensation plans	10.2
Proceeds from issuance of ordinary shares upon exercise of warrants	-
Dividends paid	(19.1)
Financing costs	(8.1)
Other, net	2.3
Net Cash Provided by (Used in) Financing Activities	(495.4)
Net Increase in Cash and Cash Equivalents	168.4
Cash and Cash Equivalents at Beginning of Period	853.4
Cash and Cash Equivalents at End of Period	$1,021.8

See accompanying notes.

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

NOTE 1 - PRINCIPLES OF CONSOLIDATION

Transocean Inc. (formerly known as "Transocean Sedco Forex Inc.", together with its subsidiaries and predecessors, unless the context requires otherwise, the "Company") is a leading international provider of offshore and inland marine contract drilling services for oil and gas wells. As of September 30, 2002, the Company owned, had partial ownership interests in or managed more than 150 mobile offshore and barge drilling units. The Company contracts its drilling rigs, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells.

On January 31, 2001, the Company completed a merger transaction (the "R&B Falcon merger") with R&B Falcon Corporation ("R&B Falcon"). As a result of the merger, R&B Falcon became an indirect wholly owned subsidiary of the Company. The merger was accounted for as a purchase with the Company as the accounting acquiror. The condensed consolidated statements of operations, comprehensive income and cash flows for the nine months ended September 30, 2001 include eight months of operating results and cash flows for R&B Falcon.

Intercompany transactions and accounts have been eliminated. The equity method of accounting is used for investments in joint ventures owned 50 percent or less and for investments in joint ventures owned more than 50 percent where the Company does not have significant control over the day-to-day operations of the joint venture.

NOTE 2 - GENERAL

BASIS OF CONSOLIDATION - The accompanying condensed consolidated financial statements of the Company have been prepared 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 Securities and Exchange Commission. Accordingly, 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. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to bad debts, materials and supplies obsolescence, investments, intangible assets and goodwill, property and equipment and other long-lived assets, income taxes, financing operations, workers' insurance, pensions and other post-retirement and employment benefits and contingent liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.

SUPPLEMENTARY CASH FLOW INFORMATION - Cash payments for interest and income taxes, net, were $116.3 million and $74.0 million, respectively, for the nine months ended September 30, 2002 and $168.7 million and $49.9 million, respectively, for the nine months ended September 30, 2001.

GOODWILL - Prior to the implementation of the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangible Assets (see "-New Accounting Pronouncements"), the excess of the purchase price over the estimated fair value of net assets acquired was accounted for as goodwill and was amortized on a straight-line basis based on a 40-year life. The amortization period was based on the nature of the offshore drilling industry, long-lived drilling equipment and the long-standing relationships with core customers.

During the first quarter of 2002, the Company performed the initial test of impairment of goodwill on its two reporting units, "International and U.S. Floater Contract Drilling Services" and "Gulf of Mexico Shallow and Inland Water." The test was applied utilizing the fair value of the reporting units as of January 1, 2002 and was determined based on a combination of each reporting unit's discounted cash flows and publicly traded company multiples and acquisition multiples of comparable businesses. There was no goodwill impairment for the International and U.S. Floater Contract Drilling Services reporting unit. However, because of deterioration in the Gulf of Mexico Shallow and Inland Water business segment since the completion of the R&B Falcon merger, a $1,363.7 million ($4.22 per diluted share) impairment of goodwill was recognized as a cumulative effect of a change in accounting principle in the nine months ended September 30, 2002. The Company's goodwill balance, after giving effect to the goodwill write down, is $5.1 billion as of September 30, 2002 (see Note 13). The changes in the carrying amount of goodwill are as follows (in millions):

Balance at

	January 1, 2002	Loss on Impairment	Other	Se
International and U.S. Floater Contract Drilling Services	$ 4,721.1	$ -	$ (3.9)	$
Gulf of Mexico Shallow and Inland Water	1,745.6	(1,363.7)	-	
	$ 6,466.7	$ (1,363.7)	$ (3.9)	$

7

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

Net income (loss) and earnings (loss) per share for the three and nine months ended September 30, 2002 and 2001 adjusted for goodwill amortization are as follows (in millions):

	Three Months Ended September 30,		Nine Mont Septemb
	2002	2001	2002
Reported net income before extraordinary item and cumulative effect of a change in accounting principle	$ 255.2	$ 97.6	$ 412.5
Add back: Goodwill amortization	-	41.7	-
Adjusted reported net income before extraordinary item and cumulative effect of a change in accounting principle	255.2	139.3	412.5
Loss on extraordinary item, net of tax	-	-	-
Cumulative effect of a change in accounting principle	-	-	(1,363.7)
Adjusted net income (loss)	$ 255.2	$ 139.3	$ (951.2)
Basic earnings (loss) per share:			
Reported net income before extraordinary item and cumulative effect of a change in accounting principle	$ 0.80	$ 0.31	$ 1.29
Goodwill amortization	-	0.13	-
Adjusted reported net income before extraordinary item and cumulative effect of a change in accounting principle	0.80	0.44	1.29
Loss on extraordinary item, net of tax	-	-	-
Cumulative effect of a change in accounting principle	-	-	(4.27)
Adjusted net income (loss)	$ 0.80	$ 0.44	$ (2.98)
Diluted earnings (loss) per share:			
Reported net income before extraordinary item and cumulative effect of a change in accounting principle	$ 0.79	$ 0.30	$ 1.28
Goodwill amortization	-	0.13	-
Adjusted reported net income before extraordinary item and cumulative effect of a change in accounting principle	0.79	0.43	1.28

Loss on extraordinary item, net of tax	-	-	-
Cumulative effect of a change in accounting principle	-	-	(4.22)
Adjusted net income (loss)	$ 0.79	$ 0.43	$ (2.94)

IMPAIRMENT OF LONG-LIVED ASSETS - The carrying value of long-lived assets, principally property and equipment, is reviewed for potential impairment when events or changes in circumstances indicate that the carrying amount of such assets or group of assets may not be recoverable. For property and equipment held for use, the determination of recoverability is made based upon the estimated undiscounted future net cash flows of the related asset or group of assets. Property and equipment held for sale are recorded at the lower of net book value or net realizable value. See "-New Accounting Pronouncements."

CAPITALIZED INTEREST - Interest costs for the construction and upgrade of qualifying assets are capitalized. The Company recorded $4.4 million and $34.9 million in capitalized interest costs on construction work in progress for the three and nine months ended September 30, 2001, respectively. No interest cost was capitalized during the three and nine months ended September 30, 2002.

CHANGE IN ESTIMATE - As a result of the R&B Falcon merger, the Company conformed its policies relating to estimated rig lives and salvage values. Estimated useful lives of drilling units now range from 18 to 35 years, reflecting maintenance history and market demand for these drilling units, buildings and improvements from 10 to 30 years and machinery and equipment from four to 12 years. Depreciation expense for the three and nine months ended September 30, 2001 was reduced by approximately $6 million (net $0.02 per diluted share) and $17 million (net $0.05 per diluted share), respectively, as a result of conforming these policies.

INCOME TAXES - Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The income tax rates imposed by these taxing authorities vary substantially. Taxable income may differ from pre-tax income for financial accounting purposes. There is no expected relationship between the provision for income taxes and income before income taxes because the countries have different taxation regimes, which vary not only with respect to nominal rate, but also in terms of the availability of deductions, credits and other benefits. Variations also arise because income earned and taxed in any particular country or countries may fluctuate from period to period.

COMPREHENSIVE INCOME - The components of accumulated other comprehensive income as of September 30, 2002 and December 31, 2001 are as follows (in millions):

	September 30, 2002
Gain on terminated interest rate swaps	$ 3.7
Unrealized loss on securities available for sale	(0.7)

Share of unrealized loss in unconsolidated joint venture's interest rate swaps		(3.7)
Accumulated other comprehensive income	$	(0.7)

SEGMENTS - The Company's operations are aggregated into two reportable segments: (i) International and U.S. Floater Contract Drilling Services and (ii) Gulf of Mexico Shallow and Inland Water. The Company provides services with different types of drilling equipment in several geographic regions. The location of the Company's operating assets and the allocation of resources to build or upgrade drilling units is determined by the activities and needs of customers. See Note 8.

INTERIM FINANCIAL INFORMATION - The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair statement of results of operations for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise identified.

NEW ACCOUNTING PRONOUNCEMENTS - In July 2001, the FASB issued SFAS 142, Goodwill and Other Intangible Assets, which is effective for fiscal years beginning after December 15, 2001. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company adopted SFAS 142 effective January 1, 2002 and will perform a test of impairment as of October 1 each year. In conjunction with the adoption of this statement, the Company has discontinued the amortization of goodwill. Application of the non-amortization provisions of SFAS 142 for goodwill is expected to result in an increase in operating income of approximately $155 million ($0.48 per diluted share) in 2002. See "-Goodwill."

In August 2001, the FASB issued SFAS 144, Accounting for Impairment or Disposal of Long-Lived Assets. SFAS 144 supersedes SFAS 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, and the accounting and reporting provisions of Accounting Principles Board Opinion

("APB") 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 retains the fundamental provisions of SFAS 121 for recognition and measurement of long-lived asset impairment and for the measurement of long-lived assets to be disposed of by sale and the basic requirements of APB 30. In addition to these fundamental provisions, SFAS 144 provides guidance for determining whether long-lived assets should be tested for impairment and specific criteria for classifying assets to be disposed of as held for sale. The statement is effective for fiscal years beginning after December 15, 2001. The Company adopted the statement as of January 1, 2002. The adoption of this statement had no material effect on the Company's consolidated financial position or results of operations. See Note 9.

In April 2002, the FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement eliminates the requirement under SFAS 4 to aggregate and classify all gains and losses from extinguishment of debt as an extraordinary item, net of related income tax effect. This statement also amends SFAS 13 to require certain lease modifications with economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. In addition, SFAS 145 requires reclassification of gains and losses in all prior periods presented in comparative financial statements related to debt extinguishment that do not meet the criteria for extraordinary item in APB 30. The statement is effective for fiscal years beginning after May 15, 2002 with early adoption encouraged. The Company will adopt SFAS 145 effective January 1, 2003. Management does not expect adoption of this statement to have a material effect on the Company's consolidated financial position or results of operations.

In July 2002, the FASB issued SFAS 146, Obligations Associated with Disposal Activities, which is effective for disposal activities initiated after December 15, 2002, with early application encouraged. SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). Under this statement, a liability for a cost associated with an exit or disposal activity would be recognized and measured at its fair value when it is incurred rather than at the date of commitment to an exit plan. Also, severance pay would be recognized over time rather than up front provided the benefit arrangement requires employees to render future service beyond a minimum retention period, which would be based on the legal notification period, or if there is no such requirement, 60 days, thereby allowing a liability to be recorded over the employees' future service period. The Company will adopt SFAS 146 effective with disposal activities initiated after December 15, 2002. Management does not expect adoption of this statement to have a material effect on the Company's consolidated financial position or results of operations.

RECLASSIFICATIONS - Certain reclassifications have been made to prior period amounts to conform with the current period's presentation.

NOTE 3 - BUSINESS COMBINATION

On January 31, 2001, the Company completed a merger transaction with R&B Falcon, in which an indirect wholly owned subsidiary of the Company merged with and into R&B Falcon. As a result of the merger, R&B Falcon common shareholders received 0.5 newly issued ordinary shares of the Company for each R&B Falcon share. The Company issued approximately 106 million ordinary shares in exchange for the issued and outstanding shares of R&B Falcon and assumed warrants and options exercisable for approximately 13 million ordinary shares. The ordinary shares issued in exchange for the issued and outstanding shares of R&B Falcon constituted approximately 33 percent of the Company's outstanding ordinary shares after the merger.

The Company accounted for the merger using the purchase method of accounting with the Company treated as the accounting acquiror. The purchase price of $6.7 billion is comprised of the calculated market capitalization of the Company's ordinary shares issued at the time of merger with R&B Falcon of $6.1 billion and the estimated fair value of R&B Falcon stock options and warrants at the time of the merger of $0.6 billion. The market capitalization of the Company's ordinary shares issued was calculated using the average closing price of the Company's ordinary shares for a period immediately before and after August 21, 2000, the date the merger was announced.

The purchase price included, at estimated fair value at January 31, 2001, current assets of $672 million, drilling and other property and equipment of $4,010 million, other assets of $160 million and the assumption of current liabilities of $338 million, other net long-term liabilities of $242 million and long-term debt of $3,206 million. The excess of the purchase price over the estimated fair value of net assets acquired was $5,630 million, which was accounted for as goodwill and is reviewed for impairment annually in accordance with SFAS 142. See Note 2.

In conjunction with the R&B Falcon merger, the Company established a liability of $16.5 million for the estimated severance-related costs associated with the involuntary termination of 569 R&B Falcon employees pursuant to management's plan to consolidate operations and administrative functions post-merger. Included in the 569 planned involuntary terminations were 387 employees engaged in the Company's land drilling business in Venezuela. The Company has suspended active marketing efforts to divest this business and, as a result, the estimated liability was reduced by $4.3 million in the third quarter of 2001 with an offset to goodwill. Through September 30, 2002 all required severance-related costs were paid to 182 employees whose positions were eliminated as a result of this plan.

Unaudited pro forma combined operating results of the Company and R&B Falcon assuming the merger was completed as of January 1, 2001 are summarized as follows (in millions, except per share data):

	Nine Months Ended September 30, 2001
Operating revenues	$ 2,198.4
Operating income	436.6
Net income from continuing operations	202.7
Basic earnings per share	$ 0.64
Diluted earnings per share	0.63

The pro forma information includes adjustments for additional depreciation based on the fair market value of the drilling and other property and equipment acquired, amortization of goodwill arising from the transaction, increased interest expense for debt assumed in the merger and related adjustments for income taxes. The pro forma information is not necessarily indicative of the results of operations had the transaction been effected on the assumed date or the results of operations for any future periods.

NOTE 4 - DEBT

Debt, net of unamortized discounts, premiums and fair value adjustments, is comprised of the following (in millions):

	September 30, 2002	Decem 2
Commercial Paper	$ -	$
6.5% Senior Notes, due April 2003.	239.9	
9.125% Senior Notes, due December 2003	90.1	
Term Loan Agreement - final maturity December 2004	325.0	
6.75% Senior Notes, due April 2005 (a)	372.9	
7.31% Nautilus Class A1 Amortizing Notes - final maturity May 2005	114.5	
9.41% Nautilus Class A2 Notes, due May 2005.	52.0	
Secured Rig Financing	-	
6.95% Senior Notes, due April 2008 (a)	278.4	
9.5% Senior Notes, due December 2008 (a)	375.0	
6.625% Notes, due April 2011 (a)	810.9	
7.375% Senior Notes, due April 2018.	250.5	
Zero Coupon Convertible Debentures, due May 2020 (put options exercisable May 2003, May 2008 and May 2013).	523.4	
1.5% Convertible Debentures, due May 2021 (put options exercisable May 2006, May 2011 and May 2016).	400.0	
8% Debentures, due April 2027.	198.0	
7.45% Notes, due April 2027 (put options exercisable April 2007)	94.5	
7.5% Notes, due April 2031	597.3	
Total Debt.	$ 4,722.4	$
Less Debt Due Within One Year (b)	941.6	
Total Long-Term Debt.	$ 3,780.8	$