TRANSOCEAN INC
Form 10-Q
August 06, 2004

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 JUNE 30, 2004

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)

Registrant's 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 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 X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No ___

As of July 30, 2004, 320,841,141 ordinary shares, par value $0.01 per share, were outstanding.

TRANSOCEAN INC.

INDEX TO FORM 10-Q

QUARTER ENDED JUNE 30, 2004

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		S
	2004	2003	
Operating Revenues			

Contract drilling revenues	$	584.9	$	574.7	$
Other revenues		48.3		29.2	
		633.2		603.9	
Costs and Expenses					
Operating and maintenance		406.2		426.5	
Depreciation		133.0		127.5	
General and administrative		14.0		14.9	
Impairment loss on long-lived assets		-		15.8	
Gain from sale of assets, net		(23.8)		(0.6)	
Gain from TODCO initial public offering		-		-	
		529.4		584.1	
Operating Income		103.8		19.8	
Other Income (Expense), net					
Equity in earnings of joint ventures		3.7		1.8	
Interest income		1.9		5.8	
Interest expense		(42.6)		(52.8)	
Loss on retirement of debt		-		(15.7)	
Impairment loss on note receivable from related party		-		(21.3)	
Other, net		(1.1)		(2.7)	
		(38.1)		(84.9)	
Income (Loss) Before Income Taxes and Minority Interest		65.7		(65.1)	
Income Tax Expense (Benefit)		19.9		(20.8)	
Minority Interest		(2.2)		0.2	
Net Income (Loss)	$	48.0	$	(44.5)	$
Earnings (Loss) Per Share					
Basic and Diluted	$	0.15	$	(0.14)	$
Weighted Average Shares Outstanding					
Basic		320.8		319.8	
Diluted		324.1		319.8	

See accompanying notes

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

	Three Months Ended June 30,	
	2004	2003

Net Income (Loss)	$ 48.0	$ (44.5)
Other Comprehensive Income (Loss), net of tax		
Amortization of gain on terminated interest rate swaps	(0.1)	(0.1)
Change in unrealized loss on securities available for sale	(0.1)	0.2
Change in share of unrealized loss in unconsolidated joint venture's interest rate swaps (net of tax of $0.6 for the three and six months ended June 30, 2003)	-	1.4
Minimum pension liability adjustments (net of tax of $0.2 for the three and six months ended June 30, 2004 and $0.4 million for the six months ended June 30, 2003)	0.5	0.1
Other Comprehensive Income	0.3	1.6
Total Comprehensive Income (Loss)	$ 48.3	$ (42.9)

See accompanying notes

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

	June 30, 2004 (Unaudited)	Dece
ASSETS		
Cash and Cash Equivalents	$ 322.1	$
Accounts Receivable, net of allowance for doubtful accounts of $11.9 and $29.1 at June 30, 2004 and December 31, 2003, respectively	512.1	
Materials and Supplies, net of allowance for obsolescence of $18.0 and $17.5 at June 30, 2004 and December 31, 2003, respectively	151.9	
Deferred Income Taxes	39.2	
Other Current Assets	47.2	
Total Current Assets	1,072.5	
Property and Equipment	10,642.3	
Less Accumulated Depreciation	2,863.5	
Property and Equipment, net	7,778.8	
Goodwill	2,232.0	
Investments in and Advances to Joint Ventures	6.8	
Deferred Income Taxes	28.2	
Other Assets	217.4	
Total Assets	$ 11,335.7	$

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts Payable	$ 157.3	$
Accrued Income Taxes	54.7	
Debt Due Within One Year	398.9	
Other Current Liabilities	260.9	
Total Current Liabilities	871.8	
Long-Term Debt	2,678.0	
Deferred Income Taxes	69.2	
Other Long-Term Liabilities	310.1	
Total Long-Term Liabilities	3,057.3	
Commitments and Contingencies		
Minority Interest	120.8	
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, 320,819,763 and 319,926,500 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	3.2	
Additional Paid-in Capital	10,666.1	
Accumulated Other Comprehensive Loss	(20.0)	
Retained Deficit	(3,363.5)	
Total Shareholders' Equity	7,285.8	
Total Liabilities and Shareholders' Equity	$ 11,335.7	$

See accompanying notes

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

	Three Months Ended June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 48.0	$ (44.5)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	133.0	127.5
Deferred income taxes	(3.3)	(87.1)

Equity in earnings of joint ventures	(3.7)	(1.8)
Net (gain) loss from disposal of assets	(23.1)	8.5
Gain from TODCO initial public offering	-	-
Loss on retirement of debt	-	15.7
Impairment loss on long-lived assets	-	15.8
Impairment loss on note receivable from related party	-	21.3
Amortization of debt-related discounts/premiums, fair value adjustments and issue costs, net	(4.9)	(6.1)
Deferred income, net	17.4	(8.0)
Deferred expenses, net	(10.8)	7.5
Other long-term liabilities	4.7	6.6
Other, net	3.9	7.3
Changes in operating assets and liabilities		
Accounts receivable	(61.6)	34.0
Accounts payable and other current liabilities	(23.5)	(44.0)
Income taxes receivable/payable, net	4.4	50.3
Other current assets	8.9	11.2
Net Cash Provided by Operating Activities	89.4	114.2
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(37.3)	(25.8)
Note issued to related party, net of repayments	-	(45.3)
Proceeds from disposal of assets, net	31.5	1.0
Deepwater Drilling II LLC's cash acquired, net of cash paid	-	18.1
Proceeds from TODCO initial public offering	-	-
Joint ventures and other investments, net	3.2	0.8
Net Cash Provided by (Used in) Investing Activities	(2.6)	(51.2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on revolving credit agreements	(150.0)	-
Repayments on other debt instruments	(13.6)	(871.4)
Cash from termination of interest rate swaps	-	-
Net proceeds from issuance of ordinary shares under stock-based compensation plans	1.0	0.8
Other, net	-	1.2
Net Cash Used in Financing Activities	(162.6)	(869.4)
Net Decrease in Cash and Cash Equivalents	(75.8)	(806.4)
Cash and Cash Equivalents at Beginning of Period	397.9	1,520.4
Cash and Cash Equivalents at End of Period	$ 322.1	$ 714.0

See accompanying notes

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

NOTE 1 - NATURE OF BUSINESS AND PRINCIPLES OF CONSOLIDATION

Transocean Inc. (together with our subsidiaries and predecessors, unless the context requires otherwise, "Transocean," "we," "us" or "our") is a leading international provider of offshore contract drilling services for oil and gas wells. As of June 30, 2004, we owned, had partial ownership interests in or operated 95 mobile offshore and barge drilling units, excluding the 70-rig fleet of TODCO (together with its subsidiaries and predecessors, unless the context requires otherwise, "TODCO"), a publicly traded company in which we own a majority interest. We contract our drilling rigs, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells. We also provide additional services, including integrated well services and management of third party well service activities.

On January 31, 2001, we completed a merger transaction (the "R&B Falcon merger") with R&B Falcon Corporation ("R&B Falcon"). At the time of the merger, R&B Falcon owned, had partial ownership interests in, operated or had under construction more than 100 mobile offshore drilling units consisting of drillships, semisubmersibles, jackup rigs and other units including the Gulf of Mexico Shallow and Inland Water segment fleet. As a result of the merger, R&B Falcon became our indirect wholly owned subsidiary. The merger was accounted for as a purchase and we were the accounting acquiror.

In July 2002, we announced plans to pursue a divestiture of our Gulf of Mexico Shallow and Inland Water business, which was a part of R&B Falcon. R&B Falcon's overall business was considerably broader than the Gulf of Mexico Shallow and Inland Water business. In preparation for this divestiture, we began the transfer of all assets and businesses out of R&B Falcon that were unrelated to the Gulf of Mexico Shallow and Inland Water business. In December 2002, R&B Falcon changed its name to TODCO and, in January 2004, the Gulf of Mexico Shallow and Inland Water business segment became known as the TODCO segment. In February 2004, we completed an initial public offering ("IPO") of TODCO (see Note 3). Before the closing of the IPO, TODCO completed the transfer of all unrelated assets and businesses to us.

Our operations are aggregated into two reportable business segments: (i) Transocean Drilling and (ii) TODCO. We provide services with different types of drilling equipment in several geographic regions. The location of our operating assets and the allocation of resources to build or upgrade drilling units are determined by the activities and needs of customers. See Note 9.

For investments in joint ventures and other entities that do not meet the criteria of a variable interest entity and where we are not deemed to be the primary beneficiary for accounting purposes of those entities that meet the variable interest entity criteria, we use the equity method of accounting where our ownership is between 20 percent and 50 percent and where our ownership is more than 50 percent and we do not have significant influence or control over the joint venture. We use the cost method of accounting for investments in joint ventures where our ownership is less than 20 percent and where we do not have significant influence over the joint venture. We consolidate those investments in joint ventures 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Our accompanying condensed consolidated financial statements have been prepared without audit in accordance with accounting principles generally accepted in the United States 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 ("SEC"). 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. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management,

necessary for a fair statement 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, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004 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, 2003.

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, we evaluate our 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, workers' insurance, pensions and other postretirement benefits, other employment benefits and contingent liabilities. We base our estimates on historical experience and on various other assumptions we believe are 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 $103.5 million and $35.9 million, respectively, for the six months ended June 30, 2004 and $106.1 million and $40.9 million, respectively, for the six months ended June 30, 2003.

Goodwill - In accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangible Assets, goodwill is no longer amortized and is tested for impairment at the reporting unit level, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. Management has determined that our reporting units are the same as our operating segments for the purpose of allocating goodwill and the subsequent testing of goodwill for impairment. Goodwill resulting from the R&B Falcon merger was allocated to our two reporting units, Transocean Drilling and TODCO, at a ratio of 68 percent and 32 percent, respectively. The allocation was determined based on the percentage of each reporting unit's assets at fair value to the total fair value of assets acquired in the R&B Falcon merger. The fair value was determined from a third party valuation. Goodwill resulting from previous mergers was allocated entirely to the Transocean Drilling reporting unit. The remaining goodwill balance at June 30, 2004 and December 31, 2003 relates to our Transocean Drilling segment.

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 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 being evaluated. Property and equipment held for sale are recorded at the lower of net book value or fair value. See Note 4.

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, particularly in countries with revenue-based taxes. There is no expected relationship between the provision for income taxes and income before income taxes because the countries in which we operate have different taxation regimes that 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. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities using the applicable tax

rates in effect at period end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. See Note 5.

Comprehensive Income - The components of accumulated other comprehensive loss at June 30, 2004 and December 31, 2003, net of tax, are as follows (in millions):

	Gain on Terminated Interest Rate Swap	Unrealized Loss on Available-for-Sale Securities	Minimum Pension Liability	
Balance at December 31, 2003	$ 3.4	$ (0.4)	$ (23.2)	$
Change in other comprehensive income, net of tax	(0.2)	(0.1)	0.5	
Balance at June 30, 2004	$ 3.2	$ (0.5)	$ (22.7)	$

Stock-Based Compensation - Through December 31, 2002 and in accordance with the provisions of SFAS 123, Accounting for Stock-Based Compensation, we had elected to follow Accounting Principles Board Opinion ("APB") 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our employee stock-based compensation plans. Stock-based compensation awards granted prior to January 1, 2003, if not subsequently modified, will continue to be accounted for under the recognition and measurement provisions of APB 25. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS 123 using the prospective method proscribed in SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Under the prospective method, all future employee stock-based compensation awards granted on or subsequent to January 1, 2003 are expensed over the vesting period based on the fair value of the underlying awards on the date of grant. The fair value of the stock options is determined using the Black-Scholes option pricing model, while the fair value of restricted stock grants is determined based on the market price of our stock on the date of grant. Additionally, stock appreciation rights are recorded at fair value with the changes in fair value being recorded as compensation expense as incurred.

If compensation expense for grants to employees under our long-term incentive plan and employee stock purchase plan prior to January 1, 2003 was recognized using the fair value method of accounting under SFAS 123 rather than the intrinsic value method under APB 25, net income and earnings per share would have been reduced to the pro forma amounts indicated below (in millions, except per share data):

	Three Months Ended June 30,		Six Months Ende June 30,	
	2004	2003	2004	2
Net Income (Loss) as Reported	$ 48.0	$(44.5)	$ 70.7	$
Add back: Stock-based compensation expense included in reported net income, net of related tax effects	1.5	1.3	8.8	
Deduct: Total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects				
Long-Term Incentive Plan	(3.2)	(3.7)	(12.9)	
Employee Stock Purchase Plan	(0.5)	(1.2)	(1.1)	
Pro Forma Net Income (Loss)	$ 45.8	$(48.1)	$ 65.5	$
Basic and Diluted Earnings (Loss) Per Share				
As Reported	$ 0.15	$(0.14)	$ 0.22	$
Pro Forma	0.14	(0.15)	0.20	

New Accounting Pronouncements - In April 2004, the FASB issued FASB Staff Position ("FSP") 129-1, Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities, which applies to all contingently convertible securities and became effective the date of issue. The FSP requires disclosure of the nature of the contingency and the potential impact of conversion on the financial statements, particularly the impact on earnings per share, and whether the securities have been included in the entity's calculation of diluted earnings per share. The implementation of this FSP did not have an effect on our condensed consolidated financial statements and related notes thereto as our disclosures are in accordance with the disclosure requirements as stated in this FSP.

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

NOTE 3 - TODCO INITIAL PUBLIC OFFERING

In February 2004, we completed the TODCO IPO, in which we sold 13.8 million shares of TODCO's class A common stock, representing approximately 23 percent of TODCO's total outstanding shares, at $12.00 per share. We received net proceeds of $155.7 million from the IPO and recognized a gain of approximately $39.4 million ($0.12 per diluted share) in the first quarter of 2004, which represented the excess of net proceeds received over the net book value of the TODCO shares sold in the IPO. We hold an approximate 77 percent interest in TODCO, represented by 46.2 million shares of class B common stock, and we have approximately 94 percent of the outstanding voting interest in TODCO. Each share of our class B common stock has five votes per share compared to one vote per share of class A common stock. We consolidate TODCO in our financial statements as a business segment.

We entered into various agreements with TODCO to set forth our respective rights and obligations relating to our businesses and to effect the separation of our two companies. These agreements included a master separation agreement, tax sharing agreement, employee matters agreement, transition services agreement and registration rights agreement.

As a result of the deconsolidation of TODCO from our other U.S. subsidiaries for U.S. federal income tax purposes in conjunction with the IPO, we established in the first quarter of 2004 an initial valuation allowance of approximately $31.0 million ($0.09 per diluted share) against the estimated deferred tax assets of TODCO in excess of its deferred tax liabilities, taking into account prudent and feasible planning strategies as required by SFAS 109, Accounting for Income Taxes. The ultimate amount of such valuation allowance could vary significantly depending upon a number of factors, including the final allocation of tax benefits between TODCO and our other subsidiaries under applicable law, taxable income for calendar year 2004 and our ability to implement planning strategies under SFAS 109. See Note 5.

In conjunction with the closing of the TODCO IPO, TODCO granted restricted stock and stock options to certain of its employees under its long-term incentive plan and certain of these awards vested at the time of grant. In accordance with the provisions of SFAS 123, TODCO expects to recognize compensation expense of approximately $17.0 million over the vesting periods of the awards. TODCO recognized approximately $6.0 million ($0.02 per Transocean's diluted share) in the first quarter of 2004 as a result of the immediate vesting of certain awards. TODCO will amortize the remaining amount of approximately $11.0 million to compensation expense over the next three years with approximately $5.0 million over the remainder of 2004 and approximately $5.0 million and $1.0 million in 2005 and 2006, respectively. In addition, certain of TODCO's employees held options that were granted prior to the IPO to acquire our ordinary shares. In accordance with the employee matters agreement, these options were modified at the IPO date, which resulted in the accelerated vesting of the options and the extension of the term of the options through the original contractual life. TODCO recognized approximately $1.5 million additional compensation expense in the first quarter of 2004 as a result of the modification.

NOTE 4 - ASSET DISPOSITIONS, RETIREMENTS AND IMPAIRMENTS

Asset Dispositions and Retirements - In June 2004, in our Transocean Drilling segment, we completed the sale of a semisubmersible rig, the Sedco 602, for net proceeds of $28.0 million and recognized a gain of $21.6 million ($0.07 per diluted share).

During the six months ended June 30, 2004, we settled insurance claims and sold marine support vessels and certain other assets for net proceeds of approximately $14.0 million. We recorded net gains of $1.0 million, net of tax of $0.4 million, in our Transocean Drilling segment and $4.6 million ($0.01 per diluted share), which had no tax effect, in our TODCO segment.

In January 2003, in our Transocean Drilling segment, we completed the sale of a jackup rig, the RBF 160, for net proceeds of $13.1 million and recognized a gain of $0.2 million, net of tax of $0.1 million. The proceeds were received in December 2002.

During the six months ended June 30, 2003, we settled an insurance claim and sold certain other assets for net proceeds of approximately $3.2 million. We recorded net gains of $1.3 million, which had no tax effect, in our Transocean Drilling segment and $0.3 million, net of tax of $0.1 million, in our TODCO segment.

Impairments - During the six months ended June 30, 2003, we recorded after-tax non-cash impairment charges of $5.2 million ($0.02 per diluted share) in our Transocean Drilling segment associated with the removal of two rigs from drilling service and the value assigned to leases on oil and gas properties that we intended to discontinue. The determination of fair market value was based on an offer from a potential buyer, in the case of the two rigs, and management's assessment of fair value, in the case of the leases on oil and gas properties, where third party valuations were not available.

During the six months ended June 30, 2003, we recorded pre-tax non-cash impairment charges of $11.6 million ($7.6 million, or $0.02 per diluted share, after-tax) in our TODCO segment associated with the removal of five

jackup rigs from drilling service and the write down in the value of an investment in a joint venture to fair value. The determination of fair market value was based on third party valuations, in the case of the jackup rigs, and management's assessment of fair value, in the case of the investment in a joint venture, where third party valuations were not available.

NOTE 5 - INCOME TAXES

The annual effective tax rate for 2004 is estimated to be approximately 35 percent of earnings before TODCO IPO-related items, loss on debt retirements and gains on significant asset sales. The effective tax rate increased from approximately 27 percent estimated at March 31, 2004 as a result of developments in the second quarter on certain international tax disputes, an increase in the valuation allowance established at the time of the TODCO IPO and changes in the expected amount and geographical concentration of taxable income. The catch-up effect of the increase in the annual effective tax rate, a reduction in earnings of $4.6 million ($0.01 per diluted share), was reflected in the second quarter of 2004 resulting in an effective tax rate of 45 percent on earnings for the three months ended June 30, 2004, excluding the sale of the semisubmersible rig Sedco 602.

During the quarter ended March 31, 2004 and in conjunction with the IPO, we established a valuation allowance of approximately $31.0 million ($0.09 per diluted share) against the deferred tax assets of TODCO in excess of its deferred tax liabilities. See Note 3.

At June 30, 2003, we estimated the annual effective tax rate for 2003 to be approximately 38 percent of earnings before non-cash note receivable and other asset impairments and loss on debt retirements. The rate increased from an estimated annual effective tax rate of approximately 20 percent at March 31, 2003 due to a change in the amount and mix of estimated earnings for the year. As a result of the catch-up effect of the change in the annual effective tax rate, earnings for the three months ended June 30, 2003 were reduced by $10.7 million ($0.03 per diluted share).

In June 2003, we recorded a $14.6 million ($0.04 per diluted share) foreign tax benefit attributable to the favorable resolution of a non-U.S. income tax liability.

NOTE 6 - DEBT

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

	June 30, 2004	December 2003
6.75% Senior Notes, due April 2005	$ 356.9	$ 3
7.31% Nautilus Class A1 Amortizing Notes - final maturity May 2005	42.0	
6.95% Senior Notes, due April 2008	267.4	2
9.5% Senior Notes, due December 2008	11.3	3
800 Million Revolving Credit Agreement - final maturity December 2008	50.0	2
6.625% Notes, due April 2011	791.6	7
7.375% Senior Notes, due April 2018	250.4	2
Zero Coupon Convertible Debentures, due May 2020 (put options exercisable May 2008 and May 2013)	16.8	
1.5% Convertible Debentures, due May 2021 (put options exercisable May 2006, May 2011 and May 2016)	400.0	4
8% Debentures, due April 2027	198.1	1
7.45% Notes, due April 2027 (put options exercisable April 2007)	94.9	
7.5% Notes, due April 2031	597.5	5
Other	-	
Total Debt	3,076.9	3,6
Less Debt Due Within One Year	398.9	

Total Long-Term Debt	$ 2,678.0	$ 3,6

The scheduled maturity of our debt, at face value, assumes the bondholders exercise their options to require us to repurchase the 1.5% Convertible Debentures, 7.45% Notes and Zero Coupon Convertible Debentures in May 2006, April 2007 and May 2008, respectively, and is as follows (in millions):

	Twelve Months Ending June 30,
2005	$ 392.3
2006	400.0
2007	100.0
2008	269.0
2009	60.2
Thereafter	1,750.0
Total	$ 2,971.5

Commercial Paper Program - We have a revolving credit agreement, described below, which, together with previous revolving credit agreements, provided liquidity for commercial paper borrowings during 2003. Because we believe our current cash balances and the revolving credit agreement described below provide us with adequate liquidity, we terminated our Commercial Paper Program during the first quarter of 2004.

Revolving Credit Agreements - We are party to an $800.0 million five-year revolving credit agreement (the "Revolving Credit Agreement") dated December 16, 2003. The Revolving Credit Agreement bears interest, at our option, at a base rate or London Interbank Offered Rate ("LIBOR") plus a margin that can vary from 0.35 percent to

0.95 percent depending on our non-credit enhanced senior unsecured public debt rating. At June 30, 2004, the applicable margin was 0.5 percent. A facility fee varying from 0.075 percent to 0.225 percent depending on our non-credit enhanced senior unsecured public debt rating, is incurred on the daily amount of the underlying commitment, whether used or unused, throughout the term of the facility. At June 30, 2004, the applicable facility fee was 0.125 percent. A utilization fee of 0.125 percent is payable if amounts outstanding under the Revolving Credit Agreement are greater than $264.0 million. At June 30, 2004, $50.0 million was outstanding under the Revolving Credit Agreement.

The Revolving Credit Agreement requires compliance with various covenants and provisions customary for agreements of this nature, including an earnings before interest, taxes, depreciation and amortization ("EBITDA") to interest coverage ratio, as defined by the credit agreement, of not less than three to one, a debt to total tangible capital ratio, as defined by the credit agreement, of not greater than 50 percent, and limitations on creating liens, incurring debt, transactions with affiliates, sale/leaseback transactions and mergers and sale of substantially all assets.

In December 2003, TODCO entered into a $75.0 million two-year revolving credit agreement (the "TODCO Revolving Credit Agreement"), which will reduce to $60.0 million in December 2004. The TODCO Revolving Credit Agreement bears interest, at TODCO's option, at a base rate plus a margin of 2.50 percent or LIBOR plus a margin of 3.50 percent. Utilization of the facility is limited by a borrowing base. Commitment fees on the unused portion of the facility are 1.50 percent of the average daily balance and are payable quarterly. At June 30, 2004, there were no borrowings under the TODCO Revolving Credit Agreement. The TODCO Revolving Credit Agreement requires compliance with various covenants and provisions customary for similar agreements of non-investment grade facilities. TODCO's Revolving Credit Agreement is not guaranteed by us.

Debt Redeemed, Retired and Repurchased - In March 2004, we completed the redemption of our $289.8 million principal amount outstanding 9.5% Senior Notes due December 2008 at the make-whole premium price provided in the indenture. We redeemed these notes at 127.796% of face value or $370.3 million, plus accrued and unpaid interest. We recognized an after-tax loss on the redemption of debt of approximately $28.1 million ($0.09 per diluted share) in the first quarter of 2004, which reflected adjustments for fair value of the debt at the R&B Falcon merger and the premium on the termination of the related interest rate swap. We funded the redemption with existing cash balances, which included proceeds from the TODCO IPO. The redemption did not affect the 9.5% Senior Notes due December 2008 of TODCO, which had an aggregate principal amount outstanding of $10.2 million at June 30, 2004.

In May 2003, we repurchased and retired all of the $50.0 million principal amount outstanding 9.41% Nautilus Class A2 Notes due May 2005 and funded the repurchase from existing cash balances. We recognized a loss on retirement of debt of approximately $3.6 million ($0.01 per diluted share), net of tax of $1.9 million, in the second quarter of 2003.

In May 2003, holders of our Zero Coupon Convertible Debentures due May 24, 2020 had the option to require us to repurchase their debentures. Holders of $838.6 million aggregate principal amount, or approximately 97 percent, of these debentures exercised this option, and we repurchased their debentures at a repurchase price of $628.57 per $1,000 principal amount. Under the terms of the debentures, we had the option to pay for the debentures with cash, our ordinary shares or a combination of cash and shares, and we elected to pay the $527.2 million repurchase price from existing cash balances. We recognized additional expense of approximately $10.2 million ($0.03 per diluted share) as an after-tax loss on retirement of debt in the second quarter of 2003 to fully amortize the remaining debt issue costs related to the repurchased debentures.

In April 2003, we repaid the entire $239.5 million principal amount outstanding 6.5% Senior Notes, of which $5.0 million principal amount outstanding was the obligation of TODCO, plus accrued and unpaid interest, in accordance with their scheduled maturity. We funded the repayment from existing cash balances.

NOTE 7 - FINANCIAL INSTRUMENTS AND RISK CONCENTRATION

Foreign Exchange Risk - Our international operations expose us to foreign exchange risk. This risk is primarily associated with compensation costs denominated in currencies other than the U.S. dollar and with purchases from foreign suppliers. We may use a variety of techniques to minimize exposure to foreign exchange risk, including customer contract payment terms and foreign exchange derivative instruments.

Our primary foreign exchange risk management strategy involves structuring customer contracts to provide for payment in both U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual foreign exchange needs may vary from those anticipated in the customer contracts, resulting in partial exposure to foreign exchange risk. Fluctuations in foreign currencies typically have not had a material impact on overall results. In situations where payments of local currency do not equal local currency requirements, foreign exchange derivative instruments, specifically foreign exchange forward contracts, or spot purchases may be used to mitigate foreign currency risk. A foreign exchange forward contract obligates us to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates or to make an equivalent U.S. dollar payment equal to the value of such exchange.

In January 2003, Venezuela implemented foreign exchange controls that limit the Company's ability to convert local currency into U.S. dollars and transfer excess funds out of Venezuela. The Company's drilling contracts in Venezuela typically call for payments to be made in local currency, even when the dayrate is denominated in U.S. dollars. The exchange controls could also result in an artificially high value being placed on the local currency. As a result, the Company recognized a loss of $1.5 million, net of tax of $0.8 million, on the revaluation of the local currency into functional U.S dollars for the six months ended June 30, 2003.

We do not enter into derivative transactions for speculative purposes. At June 30, 2004, we had no open foreign exchange derivative contracts.

NOTE 8 - INTEREST RATE SWAPS

In January 2003, we terminated swaps with respect to our 6.75% Senior Notes due April 2005, 6.95% Senior Notes due April 2008 and 9.5% Senior Notes due December 2008. In March 2003, we terminated swaps with respect to our 6.625% Notes. As a result of these terminations, we received cash proceeds, net of accrued interest, of approximately $173.5 million that was recognized as a fair value adjustment to long-term debt in our consolidated balance sheet and the fair value adjustment is being amortized as a reduction to interest expense over the life of the underlying debt. During the six months ended June 30, 2004 and 2003, such reduction amounted to $12.4 million (or $0.04 per diluted share) and $10.0 million (or $0.03 per diluted share), respectively. As a result of the redemption of our 9.5% Senior Notes in March 2004, we recognized a swap premium of $22.0 million on the termination of the related interest rate swap as a reduction to our loss on retirement of debt (see Note 6).

At June 30, 2004 and December 31, 2003, we had no outstanding interest rate swaps.

NOTE 9 - SEGMENTS

Our operations are aggregated into two reportable segments: (i) Transocean Drilling and (ii) TODCO. The Transocean Drilling segment consists of floaters, jackups and other rigs used in support of offshore drilling activities and offshore support services. The TODCO segment consists of our interest in TODCO, which conducts jackup, drilling barge, land rig, submersible and other operations located in the U.S. Gulf of Mexico and inland waters, Mexico, Trinidad and Venezuela. We provide services with different types of drilling equipment in several geographic regions. The location of our rigs and the allocation of resources to build or upgrade rigs is determined by the activities

and needs of customers. Accounting policies of the segments are the same as those described in Note 2. We account for intersegment revenue and expenses as if the revenue or expenses were to third parties at current market prices.

Operating revenues and income (loss) before income taxes and minority interest by segment were as follows (in millions):

	Three Months Ended June 30,		Six Mont
	2004	2003	2004
Operating Revenues			
Transocean Drilling	$ 552.5	$ 548.5	$ 1,130.7
TODCO	80.7	55.4	154.5
Total Operating Revenues	$ 633.2	$ 603.9	$ 1,285.2
Operating Income (Loss) Before General and Administrative Expense			
Transocean Drilling (a)	$ 127.2	$ 84.2	$ 305.4
TODCO (b)	(9.4)	(49.5)	(36.3
	117.8	34.7	269.1
Unallocated general and administrative expense	(14.0)	(14.9)	(29.1
Unallocated other expense, net	(38.1)	(84.9)	(107.8
Income (Loss) Before Income Taxes and Minority Interest	$ 65.7	$ (65.1)	$ 132.2