

TRANSOCEAN INC  
Form 10-K  
February 26, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2008

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

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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.)

**Blandonnet International Business Center**  
**Chemin de Blandonnet 2**  
**Building F, 7<sup>th</sup> Floor**  
**Vernier, Switzerland**

(Address of principal executive offices)

**1214**  
(Zip code)

Registrant's telephone number, including area code: +41 (22) 930-9000

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Securities registered pursuant to Section 12(b) of the Act:

<u>Title of class</u>	<u>Exchange on which registered</u>
Shares, par value CHF 15.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of June 30, 2008, 319,044,814 shares were outstanding and the aggregate market value of shares held by non-affiliates was approximately \$48.6 billion (based on the reported closing market price of the ordinary shares of Transocean Inc. on such date of \$152.39 and assuming that all directors and executive officers of the Company are "affiliates," although the Company does not acknowledge that any such person is actually an "affiliate" within the meaning of the federal securities laws). As of February 20, 2009, 319,660,304 shares were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 2008, for its 2009 annual general meeting of shareholders, are incorporated by reference into Part III of this Form 10-K.

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TRANSOCEAN LTD. AND SUBSIDIARIES

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FOR THE YEAR ENDED DECEMBER 31, 2008

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### Forward-Looking Information

The statements included in this annual report regarding future financial performance and results of operations and other statements that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this annual report include, but are not limited to, statements about the following subjects:

- the offshore drilling market, including supply and demand, utilization rates, dayrates, customer drilling programs, commodity prices, effects of new rigs on the market and effects of declines in commodity prices and downturn in global economy on market outlook for our various geographical operating sectors and classes of rigs,
- customer contracts, including contract backlog, contract commencements, contract terminations, contract option exercises, contract revenues, contract awards and rig mobilizations,
- newbuild, upgrade, shipyard and other capital projects, including completion, delivery and commencement of operations dates, expected downtime and lost revenue, the level of expected capital expenditures and the timing and cost of completion of capital projects,
- liquidity and adequacy of cash flow for our obligations, including our ability and the expected timing to access certain investments in highly liquid instruments,
- our results of operations and cash flow from operations, including revenues and expenses,
- uses of excess cash, including debt retirement and share repurchases under our share repurchase program,
- timing and proceeds of asset sales,
- tax matters, including our effective tax rate, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, including those associated with our activities in Brazil, Norway and the U.S.,
- legal and regulatory matters, including results and effects of legal proceedings and governmental audits and assessments, outcome and effects of internal and governmental investigations, customs and environmental matters,
- insurance matters, including adequacy of insurance, insurance proceeds and cash investments of our wholly-owned captive insurance company,
- the possible benefits, effects or results of the redomestication transaction,
- debt levels, including impacts of the financial and credit crisis,
- effects of accounting changes and adoption of accounting policies, and
- investments in recruitment, retention and personnel development initiatives, pension plan and other postretirement benefit plan contributions, the timing of severance payments and benefit payments.

Forward-looking statements in this annual report are identifiable by use of the following words and other similar expressions among others:

- "anticipates"
- "believes"
- "budgets"
- "may"
- "might"
- "plans"

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- “could”
- “estimates”
- “expects”
- “forecasts”
- “intends”
- “predicts”
- “projects”
- “scheduled”
- “should”

Such statements are subject to numerous risks, uncertainties and assumptions, including, but not limited to:

- those described under "Item 1A. Risk Factors,"
- the adequacy of sources of liquidity,
- our inability to obtain contracts for our rigs that do not have contracts,
- the cancellation of contracts currently included in our reported contract backlog,
- the effect and results of litigation, tax audits and contingencies, and
- other factors discussed in this annual report and in our other filings with the U.S. Securities and Exchange Commission ("SEC"), which are available free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov).

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements, except as required by law.

## PART I

### ITEM 1. 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. As of February 3, 2009, we owned, had partial ownership interests in or operated 136 mobile offshore drilling units. As of this date, our fleet consisted of 39 High-Specification Floaters (Ultra-Deepwater, Deepwater and Harsh Environment semisubmersibles and drillships), 28 Midwater Floaters, 10 High-Specification Jackups, 55 Standard Jackups and four Other Rigs. In addition, we had 10 Ultra-Deepwater Floaters under construction or contracted for construction.

We believe our mobile offshore drilling fleet is one of the most modern and versatile fleets in the world. Our primary business is to contract our drilling rigs, related equipment and work crews primarily on a dayrate basis to drill oil and gas wells. We specialize in technically demanding segments of the offshore drilling business with a particular focus on deepwater and harsh environment drilling services. We also provide oil and gas drilling management services on either a dayrate basis or a completed-project, fixed-price (or "turnkey") basis, as well as drilling engineering and drilling project management services, and we participate in oil and gas exploration and production activities. Our shares are listed on the New York Stock Exchange ("NYSE") under the symbol "RIG."

Transocean Ltd. is a Swiss corporation with principal executive offices located at Blandonnet International Business Center, Chemin de Blandonnet 2, Building F, 7<sup>th</sup> Floor, 1214 Vernier, Switzerland. Our telephone number at that address is +41 (22) 930-9000.

For information about the revenues, operating income, assets and other information relating to our business, our segments and the geographic areas in which we operate, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes to Consolidated Financial Statements—Note 23—Segments, Geographical Analysis and Major Customers.

In this Annual Report, we sometimes refer to Transocean Inc., a Cayman Islands company and our wholly-owned subsidiary, as "Transocean-Cayman."

### Background of Transocean

In November 2007, we completed our merger transaction (the "Merger") with GlobalSantaFe Corporation ("GlobalSantaFe"). Immediately prior to the effective time of the Merger, each of Transocean-Cayman's outstanding ordinary shares was reclassified by way of a scheme of arrangement under Cayman Islands law into (1) 0.6996 Transocean-Cayman ordinary shares and (2) \$33.03 in cash (the "Reclassification" and together with the Merger, the "GSF Transactions"). At the effective time of the Merger, each outstanding ordinary share of GlobalSantaFe (the "GlobalSantaFe Ordinary Shares") was exchanged for (1) 0.4757 Transocean-Cayman ordinary shares (after giving effect to the Reclassification) and (2) \$22.46 in cash. Transocean-Cayman issued approximately 107,752,000 of its ordinary shares in connection with the Merger and distributed \$14.9 billion in cash in connection with the GSF Transactions. Transocean-Cayman funded the payment of the cash consideration for the GSF Transactions with \$15.0 billion of borrowings under a \$15.0 billion, one-year senior unsecured bridge loan facility (the "Bridge Loan Facility") and has since refinanced or repaid those borrowings and terminated the Bridge Loan Facility. We included the financial results of GlobalSantaFe in our consolidated financial statements beginning November 27, 2007, the date the GlobalSantaFe Ordinary Shares were exchanged for Transocean-Cayman ordinary shares.

In December 2008, Transocean Ltd. completed a transaction pursuant to an Agreement and Plan of Merger among Transocean Ltd., Transocean Inc., which was our former parent holding company, and Transocean Cayman Ltd., a company organized under the laws of the Cayman Islands that was a wholly-owned subsidiary of Transocean Ltd., pursuant to which Transocean Inc. merged by way of schemes of arrangement under Cayman Islands law with Transocean Cayman Ltd., with Transocean Inc. as the surviving company and, as a result, a wholly-owned subsidiary of Transocean Ltd. (the "Redomestication Transaction"). In the Redomestication Transaction, Transocean Ltd. issued one of its shares in exchange for each ordinary share of Transocean Inc. In addition, Transocean Ltd. issued 16 million of its shares to Transocean Inc. for future use to satisfy Transocean Ltd.'s obligations to deliver shares in connection with awards granted under our incentive plans, warrants or other rights to acquire shares of Transocean Ltd. The Redomestication Transaction effectively changed the place of incorporation of our parent holding company from the Cayman Islands to Switzerland. As a result of the Redomestication Transaction, Transocean Inc. became a direct, wholly-owned subsidiary of Transocean Ltd. In connection with the Redomestication Transaction, we relocated our principal executive offices to Vernier, Switzerland. We refer to the Redomestication Transaction and the relocation of our principal executive offices together as the "Redomestication."

### Drilling Fleet

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We principally operate three types of drilling rigs:

- drillships;
- semisubmersibles; and
- jackups.

Also included in our fleet are barge drilling rigs, a mobile offshore production unit and a coring drillship.

Most of our drilling equipment is suitable for both exploration and development drilling, and we normally engage in both types of drilling activity. Likewise, most of our drilling rigs are mobile and can be moved to new locations in response to client demand. All of our mobile offshore drilling units are designed for operations away from port for extended periods of time and most have living quarters for the crews, a helicopter landing deck and storage space for pipe and drilling supplies.

We categorize our fleet as follows: (1) "High-Specification Floaters," consisting of our "Ultra-Deepwater Floaters," "Deepwater Floaters" and "Harsh Environment Floaters," (2) "Midwater Floaters," (3) "High-Specification Jackups," (4) "Standard Jackups" and (5) "Other Rigs." As of February 3, 2009, our fleet of 136 rigs, which excludes assets that are classified as held for sale and are not currently operating under a contract and rigs contracted for or under construction, included:

- 39 High-Specification Floaters, which are comprised of:

- 18 Ultra-Deepwater Floaters;

- 16 Deepwater Floaters; and

- five Harsh Environment Floaters;

- 28 Midwater Floaters;

- 10 High-Specification Jackups;

- 55 Standard Jackups; and

- four Other Rigs, which are comprised of:

- two barge drilling rigs;

- one mobile offshore production unit; and

- one coring drillship.

As of February 3, 2009, our fleet was located in the Far East (22 units), U.K. North Sea (17 units), Middle East (18 units), U.S. Gulf of Mexico (13 units), Nigeria (nine units), India (12 units), Angola (11 units), Brazil (11 units), Norway (five units), other West African countries (nine units), the Caspian Sea (three units), Trinidad (two units), Australia (one unit), the Mediterranean (two units) and Canada (one unit).

High-Specification Floaters are specialized offshore drilling units that we categorize into three sub-classifications based on their capabilities. Ultra-Deepwater Floaters have high-pressure mud pumps and a water depth capability of 7,500 feet or greater. Deepwater Floaters are generally those other semisubmersible rigs and drillships that have a water depth capacity between 7,500 and 4,500 feet. Harsh Environment Floaters have a water depth capacity between 4,500 and 1,500 feet, are capable of drilling in harsh environments and have greater displacement, resulting in larger variable load capacity, more useable deck space and better motion characteristics. Midwater Floaters are generally comprised of those non-high-specification semisubmersibles with a water depth capacity of less than 4,500 feet. High-Specification Jackups consist of our harsh environment and high-performance jackups, and Standard Jackups consist of our remaining jackup fleet. Other Rigs consist of rigs that are of a different type or use than those mentioned above.

Drillships are generally self-propelled, shaped like conventional ships and are the most mobile of the major rig types. All of our High-Specification drillships are dynamically positioned, which allows them to maintain position without anchors through the use of their onboard propulsion and station-keeping systems. Drillships typically have greater load capacity than early generation semisubmersible rigs. This enables them to carry more supplies on board, which often makes them better suited for drilling in remote locations where resupply is more difficult. However, drillships are typically limited to calmer water conditions than those in which semisubmersibles can operate. Our three existing Enterprise-class drillships are, and five of our ten additional newbuild drillships contracted for or under construction will be, equipped with our patented dual-activity technology. Dual-activity technology includes structures, equipment and techniques for using two drilling stations within a single derrick to perform drilling tasks. Dual-activity technology allows our rigs to perform simultaneous drilling tasks in a parallel rather than sequential manner. Dual-activity technology reduces critical path activity and improves efficiency in both exploration and



development drilling.

Semisubmersibles are floating vessels that can be submerged by means of a water ballast system such that the lower hulls are below the water surface during drilling operations. These rigs are capable of maintaining their position over the well through the use of an anchoring system or a computer controlled dynamic positioning thruster system. Some semisubmersible rigs are self-propelled and move between locations under their own power when afloat on pontoons although most are relocated with the assistance of tugs. Typically, semisubmersibles are better suited than drillships for operations in rougher water conditions. Our three Express-class semisubmersibles are designed for mild environments and are equipped with the unique tri-act derrick, which was designed to reduce overall well construction costs. The tri-act derrick allows offline tubular and riser handling operations to occur at two sides of the derrick while the center portion of the derrick is being used for normal drilling operations through the rotary table. Our two operating Development Driller-class semisubmersibles are, and one that is under construction will be, equipped with our patented dual-activity technology.

Jackup rigs are mobile self-elevating drilling platforms equipped with legs that can be lowered to the ocean floor until a foundation is established to support the drilling platform. Once a foundation is established, the drilling platform is then jacked further up the legs so that the platform is above the highest expected waves. These rigs are generally suited for water depths of 400 feet or less.

We classify certain of our jackup rigs as High-Specification Jackups. These rigs have greater operational capabilities than Standard Jackups and are able to operate in harsh environments, have higher capacity derricks, drawworks, mud systems and storage, and are typically capable of drilling to deeper depths. Typically, these jackups also have deeper water depth capacity than Standard Jackups.

Depending on market conditions, we may "warm stack" or "cold stack" non-contracted rigs. "Warm stacked" rigs are not under contract and may require the hiring of additional crew, but are generally ready for service with little or no capital expenditures and are being actively marketed. "Cold stacked" rigs are not actively marketed, generally cannot be reactivated upon short notice and normally require the hiring of most of the crew, a maintenance review and possibly significant refurbishment before they can be reactivated. Cold stacked rigs and some warm stacked rigs would require additional costs to return to service. The actual cost, which could fluctuate over time, is dependent upon various factors, including the availability and cost of shipyard facilities, cost of equipment and materials and the extent of repairs and maintenance that may ultimately be required. In certain circumstances, the cost could be significant. We would take these factors into consideration together with market conditions, length of contract and dayrate and other contract terms in deciding whether to return a particular idle rig to service. We may consider marketing cold stacked rigs for alternative uses, including as accommodation units, from time to time until drilling activity increases and we obtain drilling contracts for these units.

We own all of the drilling rigs in our fleet noted in the tables below except for the following: (1) those specifically described as being owned wholly or in part by unaffiliated parties, (2) *Petrobras 10000*, which will be subject to a capital lease with a 20-year term, (3) *GSF Explorer*, which is subject to a capital lease with a remaining term of 18 years, and (4) *GSF Jack Ryan*, which is subject to a fully defeased capital lease with a remaining term of 12 years.

In the tables presented below, the location of each rig indicates the current drilling location for operating rigs or the next operating location for rigs in shipyards with a follow-on contract, unless otherwise noted.

#### ***Rigs Under Construction (10)***

The following table provides certain information regarding our Ultra-Deepwater Floaters contracted for or under construction as of February 3, 2009:

<u>Name</u>	<u>Type</u>	<u>Expected completion</u>	<u>Water depth capacity (in feet)</u>	<u>Drilling depth capacity (in feet)</u>	<u>Contracted location</u>
<b>Ultra-Deepwater Floaters (a) (10)</b>					
Discoverer Americas (b)	HSD	Mid 2009	12,000	40,000	U.S. Gulf
Discoverer Clear Leader (b)	HSD	2Q 2009	12,000	40,000	U.S. Gulf
Discoverer Inspiration (b)	HSD	1Q 2010	12,000	40,000	U.S. Gulf
Deepwater Champion (b)	HSD	4Q 2010	12,000	40,000	U.S. Gulf
Dhirubhai Deepwater KG1 (c)	HSD	2Q 2009	12,000	35,000	India
Dhirubhai Deepwater KG2 (c)	HSD	1Q 2010	10,000	35,000	India
Discoverer India (b)	HSD	4Q 2010	10,000	40,000	India
Petrobras 10000 (b)	HSD	3Q 2009	10,000	37,500	Angola
Discoverer Luanda (b)(d)	HSD	3Q 2010	7,500	40,000	Angola
Development Driller III (b)	HSS	Mid 2009	7,500	30,000	U.S. Gulf

"HSD" means high-specification drillship.

"HSS" means high-specification semisubmersible.

(a) Dynamically positioned.

(b) Dual-activity.

(c) Owned through our 50 percent interest in Transocean Pacific Drilling Inc.

(d) Owned through our 65 percent interest in Angola Deepwater Drilling Company Limited.



**High-Specification Floaters (39)**

The following table provides certain information regarding our High-Specification Floaters as of February 3, 2009:

<u>Name</u>	<u>Type</u>	<u>Year entered service/ upgraded (a)</u>	<u>Water depth capacity (in feet)</u>	<u>Drilling depth capacity (in feet)</u>	<u>Location</u>
<b>Ultra-Deepwater Floaters (b) (18)</b>					
Deepwater Discovery	HSD	2000	10,000	30,000	Brazil
Deepwater Expedition	HSD	1999	10,000	30,000	India
Deepwater Frontier	HSD	1999	10,000	30,000	India
Deepwater Horizon	HSS	2001	10,000	30,000	U.S. Gulf
Deepwater Millennium	HSD	1999	10,000	30,000	Brazil
Deepwater Pathfinder	HSD	1998	10,000	30,000	Nigeria
Discoverer Deep Seas (c) (d)	HSD	2001	10,000	35,000	U.S. Gulf
Discoverer Enterprise (c) (d)	HSD	1999	10,000	35,000	U.S. Gulf
Discoverer Spirit (c) (d)	HSD	2000	10,000	35,000	U.S. Gulf
GSF C.R. Luigs	HSD	2000	10,000	35,000	U.S. Gulf
GSF Jack Ryan	HSD	2000	10,000	30,000	Nigeria
Cajun Express (e)	HSS	2001	8,500	35,000	U.S. Gulf
Deepwater Nautilus	HSS	2000	8,000	30,000	U.S. Gulf
GSF Explorer	HSD	1972/1998	7,800	30,000	Angola
GSF Development Driller I (d)	HSS	2004	7,500	37,500	U.S. Gulf
GSF Development Driller II (d)	HSS	2004	7,500	37,500	U.S. Gulf
Sedco Energy (e)	HSS	2001	7,500	30,000	Nigeria
Sedco Express (e)	HSS	2001	7,500	30,000	Angola
<b>Deepwater Floaters (16)</b>					
Deepwater Navigator (b)	HSD	2000	7,200	25,000	Brazil
Discoverer 534 (b)	HSD	1975/1991	7,000	25,000	India
Discoverer Seven Seas (b)	HSD	1976/1997	7,000	25,000	India
Transocean Marianas	HSS	1979/1998	7,000	25,000	U.S. Gulf
Sedco 702 (b)	HSS	1973/2007	6,500	25,000	Nigeria
Sedco 706 (b) (f)	HSS	1976/(f)	6,500	25,000	Singapore
Sedco 707 (b)	HSS	1976/1997	6,500	25,000	Brazil
GSF Celtic Sea	HSS	1982/1998	5,750	25,000	Brazil
Jack Bates	HSS	1986/1997	5,400	30,000	Indonesia
M.G. Hulme, Jr.	HSS	1983/1996	5,000	25,000	Nigeria
Sedco 709 (b)	HSS	1977/1999	5,000	25,000	Nigeria
Transocean Richardson	HSS	1988	5,000	25,000	Angola
Jim Cunningham	HSS	1982/1995	4,600	25,000	Angola
Sedco 710 (b)	HSS	1983/2001	4,500	25,000	Brazil
Sovereign Explorer	HSS	1984	4,500	25,000	Brazil
Transocean Rather	HSS	1988	4,500	25,000	U.K. N. Sea
<b>Harsh Environment Floaters (5)</b>					
Transocean Leader	HSS	1987/1997	4,500	25,000	Norwegian N. Sea
Henry Goodrich	HSS	1985	5,000	30,000	U.S. Gulf
Paul B. Loyd, Jr.	HSS	1990	2,000	25,000	U.K. N. Sea
Transocean Arctic	HSS	1986	1,650	25,000	Norwegian N. Sea
Polar Pioneer	HSS	1985	1,500	25,000	Norwegian N. Sea

"HSD" means high-specification drillship.

"HSS" means high-specification semisubmersible.

- (a) Dates shown are the original service date and the date of the most recent upgrade, if any.
- (b) Dynamically positioned.
- (c) Enterprise-class rig.
- (d) Dual-activity.
- (e) Express-class rig.
- (f) *Sedco 706* completed the upgrade from a Midwater Floater to a Deepwater Floater during the first quarter of 2009. As of February 20, 2009, the rig was in mobilization to Brazil for customer acceptance.

**Midwater Floaters (28)**

The following table provides certain information regarding our Midwater Floaters as of February 3, 2009:

<b>Name</b>	<b>Type</b>	<b>Year entered service/ upgraded (a)</b>	<b>Water depth capacity (in feet)</b>	<b>Drilling depth capacity (in feet)</b>	<b>Location</b>
Sedco 700	OS	1973/1997	3,600	25,000	Congo
Transocean Amirante	OS	1978/1997	3,500	25,000	U.S. Gulf
Transocean Legend	OS	1983	3,500	25,000	Singapore
GSF Arctic I	OS	1983/1996	3,400	25,000	Brazil
C. Kirk Rhein, Jr.	OS	1976/1997	3,300	25,000	Mozambique
Transocean Driller	OS	1991	3,000	25,000	Brazil
GSF Rig 135	OS	1983	2,800	25,000	Congo
Falcon 100	OS	1974/1999	2,400	25,000	Brazil
GSF Rig 140	OS	1983	2,400	25,000	Angola
GSF Aleutian Key	OS	1976/2001	2,300	25,000	Angola
Istiglal (b)	OS	1995/1998	2,300	20,000	Caspian Sea
Sedco 703	OS	1973/1995	2,000	25,000	Australia
GSF Arctic III	OS	1984	1,800	25,000	Libya
Sedco 711	OS	1982	1,800	25,000	U.K. N. Sea
Transocean John Shaw	OS	1982	1,800	25,000	U.K. N. Sea
Sedco 712	OS	1983	1,600	25,000	Warm Stacked (c)
Sedco 714	OS	1983/1997	1,600	25,000	U.K. N. Sea
Actinia	OS	1982	1,500	25,000	India
Dada Gorgud (b)	OS	1978/1998	1,500	25,000	Caspian Sea
GSF Arctic IV (d)	OS	1983/1999	1,500	25,000	U.K. N. Sea
GSF Grand Banks	OS	1984	1,500	25,000	East Canada
Sedco 601	OS	1983	1,500	25,000	Malaysia
Sedneth 701	OS	1972/1993	1,500	25,000	Angola
Transocean Prospect	OS	1983/1992	1,500	25,000	U.K. N. Sea
Transocean Searcher	OS	1983/1988	1,500	25,000	Norwegian N. Sea
Transocean Winner	OS	1983	1,500	25,000	Norwegian N. Sea
J. W. McLean	OS	1974/1996	1,250	25,000	U.K. N. Sea
Sedco 704	OS	1974/1993	1,000	25,000	U.K. N. Sea

"OS" means other semisubmersible.

- (a) Dates shown are the original service date and the date of the most recent upgrade, if any.
- (b) Owned by the State Oil Company of the Azerbaijan Republic ("SOCAR") and operated under long-term bareboat charters between Caspian Drilling Company Limited, a joint venture in which we own a 45 percent ownership interest, and SOCAR.
- (c) As of February 20, 2009, *Sedco 712* was warm stacked.
- (d) In connection with our previously announced undertakings to the Office of Fair Trading in the U.K. (the "OFT") made in connection with the Merger, *GSF Arctic II* and *GSF Arctic IV* are classified as held for sale. In July 2008, we entered into a definitive agreement to sell *GSF Arctic II* and *GSF Arctic IV*; however, the acquisition of the rigs was contingent upon the buyers' ability to obtain lender consents. The buyers have reported that they have been unable to obtain the consent of their lenders on terms acceptable to them and have publicly announced their termination of the agreement to purchase the vessels. We continue to market both rigs for sale. At February 3, 2009, *GSF Arctic IV* is included in the table above as it continued to operate under contract, and *GSF Arctic II* is excluded from the table above as it was warm stacked in anticipation of its sale, having completed its contracted operations.

**High-Specification Jackups (10)**

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The following table provides certain information regarding our High-Specification Jackups as of February 3, 2009:

<b>Name</b>	<b>Year entered service/ upgraded (a)</b>	<b>Water depth capacity (in feet)</b>	<b>Drilling depth capacity (in feet)</b>	<b>Location</b>
GSF Constellation I	2003	400	30,000	Trinidad
GSF Constellation II	2004	400	30,000	Egypt
GSF Galaxy I	1991/2001	400	30,000	U.K. N. Sea
GSF Galaxy II	1998	400	30,000	U.K. N. Sea
GSF Galaxy III	1999	400	30,000	U.K. N. Sea
GSF Baltic	1983	375	25,000	Nigeria
GSF Magellan	1992	350	30,000	U.K. N. Sea
GSF Monarch	1986	350	30,000	U.K. N. Sea
GSF Monitor	1989	350	30,000	Trinidad
Trident 20	2000	350	25,000	Caspian Sea

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(a) Dates shown are the original service date and the date of the most recent upgrades, if any.

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*Standard Jackups (55)*

The following table provides certain information regarding our Standard Jackups as of February 3, 2009:

<b>Name</b>	<b>Year entered service/ upgraded (a)</b>	<b>Water depth capacity (in feet)</b>	<b>Drilling depth capacity (in feet)</b>	<b>Location</b>
Trident IX	1982	400	20,000	Vietnam
Trident 17	1983	355	25,000	Malaysia
GSF Adriatic II	1981	350	25,000	Angola
GSF Adriatic IX	1981	350	25,000	Gabon
GSF Adriatic X	1982	350	30,000	Egypt
GSF Key Manhattan	1980	350	25,000	Egypt
GSF Key Singapore	1982	350	25,000	Egypt
GSF Adriatic VI	1981	328	25,000	Gabon
GSF Adriatic VIII	1983	328	25,000	Nigeria
C. E. Thornton	1974	300	25,000	India
D. R. Stewart	1980	300	25,000	Italy
F. G. McClintock	1975	300	25,000	India
George H. Galloway	1984	300	25,000	Italy
GSF Adriatic I	1981	300	25,000	Angola
GSF Adriatic V	1979	300	25,000	Angola
GSF Adriatic XI	1983	300	25,000	Indonesia
GSF Compact Driller	1992	300	25,000	Thailand
GSF Galveston Key	1978	300	25,000	Vietnam
GSF Key Gibraltar	1976/1996	300	25,000	Warm Stacked (b)
GSF Key Hawaii	1982	300	25,000	Qatar
GSF Labrador	1983	300	25,000	U.K. N. Sea
GSF Main Pass I	1982	300	25,000	Arabian Gulf
GSF Main Pass IV	1982	300	25,000	Arabian Gulf
GSF Parameswara	1983	300	20,000	Indonesia
GSF Rig 134	1982	300	20,000	Malaysia
GSF Rig 136	1982	300	25,000	Malaysia
Harvey H. Ward	1981	300	25,000	Malaysia
J. T. Angel	1982	300	25,000	India
Randolph Yost	1979	300	25,000	India
Roger W. Mowell	1982	300	25,000	Malaysia
Ron Tappmeyer	1978	300	25,000	India
Shelf Explorer	1982	300	20,000	Malaysia
Interocean III	1978/1993	300	25,000	Egypt
Transocean Nordic	1983	300	25,000	Warm Stacked (b)
Trident II	1977/1985	300	25,000	India
Trident IV	1980/1999	300	25,000	Warm Stacked (c)
Trident VIII	1981	300	21,000	Eq.Guin. (c)
Trident XII	1982/1992	300	25,000	India
Trident XIV	1982/1994	300	20,000	Angola
Trident 15	1982	300	25,000	Thailand
Trident 16	1982	300	25,000	Vietnam



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GSF High Island II	1979	270	20,000	Arabian Gulf
GSF High Island IV	1980/2001	270	20,000	Arabian Gulf
GSF High Island V	1981	270	20,000	Congo
GSF High Island VII	1982	250	20,000	Cameroon
GSF High Island IX	1983	250	20,000	Nigeria
GSF Rig 103	1974	250	20,000	Egypt
GSF Rig 105	1975	250	20,000	Egypt
GSF Rig 124	1980	250	20,000	Egypt
GSF Rig 127	1981	250	20,000	Qatar
GSF Rig 141	1982	250	20,000	Egypt
Transocean Comet	1980	250	20,000	Egypt
Transocean Mercury	1969/1998	250	20,000	Egypt
GSF Britannia	1968	230	20,000	U.K. N. Sea
Trident VI	1981	220	21,000	Vietnam

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- (a) Dates shown are the original service date and the date of the most recent upgrade, if any.  
 (b) As of February 20, 2009, *GSF Key Gibraltar* and *Transocean Nordic* were cold stacked.  
 (c) As of February 20, 2009, *Trident IV* and *Trident VIII* were warm stacked.

### ***Other Rigs***

In addition to our floaters and jackups, we also own or operate several other types of rigs as follows: two drilling barges, a mobile offshore production unit and a coring drillship.

### ***Rigs Held for Sale and Stacked***

In connection with our previously announced undertakings to the OFT made in connection with the Merger, *GSF Arctic II* and *GSF Arctic IV* are classified as held for sale. In July 2008, we entered into a definitive agreement to sell *GSF Arctic II* and *GSF Arctic IV*; however, the acquisition of the rigs was contingent upon the buyers' ability to obtain lender consents. The buyers have reported that they have been unable to obtain the consent of their lenders on terms acceptable to them and have publicly announced their termination of the agreement to purchase the vessels. We continue to market both rigs for sale. At February 3, 2009, *GSF Arctic IV* is included in the tables above as it continued to operate under contract, and *GSF Arctic II* is excluded from the table above as it was warm stacked in anticipation of its sale, having completed its contracted operations.

### **Markets**

Our operations are geographically dispersed in oil and gas exploration and development areas throughout the world. Although the cost of moving a rig and the availability of rig-moving vessels may cause the balance between supply and demand to vary between regions, significant variations do not tend to exist long-term because of rig mobility. Consequently, we operate in a single, global offshore drilling market. Because our drilling rigs are mobile assets and are able to be moved according to prevailing market conditions, we cannot predict the percentage of our revenues that will be derived from particular geographic or political areas in future periods.

In recent years, there has been increased emphasis by oil companies on exploring for hydrocarbons in deeper waters. This deepwater focus is due, in part, to technological developments that have made such exploration more feasible and cost-effective. Therefore, water-depth capability is a key component in determining rig suitability for a particular drilling project. Another distinguishing feature in some drilling market sectors is a rig's ability to operate in harsh environments, including extreme marine and climatic conditions and temperatures.

The deepwater and midwater market sectors are serviced by our semisubmersibles and drillships. Although the term "deepwater" as used in the drilling industry to denote a particular sector of the market can vary and continues to evolve with technological improvements, we generally view the deepwater market sector as that which begins in water depths of approximately 4,500 feet and extends to the maximum water depths in which rigs are capable of drilling, which is currently approximately 12,000 feet. We view the midwater market sector as that which covers water depths of about 300 feet to approximately 4,500 feet.

The global jackup market sector begins at the outer limit of the transition zone and extends to water depths of about 400 feet. This sector has been developed to a significantly greater degree than the deepwater market sector because the shallower water depths have made it much more accessible than the deeper water market sectors.

The "transition zone" market sector is characterized by marshes, rivers, lakes, and shallow bay and coastal water areas. We operate in this sector using our two barge drilling rigs located in Southeast Asia.

### **Contract Backlog**

We were successful in building contract backlog in 2008 within all of our asset classes. Our contract backlog at December 31, 2008 was approximately \$40 billion, representing a 25 percent and 100 percent increase compared to our contract backlog of \$32 billion and \$20 billion at December 31, 2007 and 2006, respectively. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook—Drilling Market" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Performance and Other Key Indicators."



**Operating Revenues and Long-Lived Assets by Country**

Operating revenues and long-lived assets by country are as follows (in millions):

	<b>Years ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Operating revenues</b>			
U.S.	\$ 2,578	\$ 1,259	\$ 806
U.K.	2,012	848	439
Nigeria	1,096	587	447
India	890	761	291
Other countries (a)	6,098	2,922	1,899
Total operating revenues	\$ 12,674	\$ 6,377	\$ 3,882

	<b>As of December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Long-lived assets</b>		
U.S.	\$ 8,155	\$ 5,856
U.K.	1,534	2,301
Other countries (a)	11,138	12,773
Total long-lived assets	\$ 20,827	\$ 20,930

(a) Other countries represents countries in which we operate that individually had operating revenues or long-lived assets representing less than 10 percent of total operating revenues earned or total long-lived assets for any of the periods presented.

**Contract Drilling Services**

Our contracts to provide offshore drilling services are individually negotiated and vary in their terms and provisions. We obtain most of our contracts through competitive bidding against other contractors. Drilling contracts generally provide for payment on a dayrate basis, with higher rates while the drilling unit is operating and lower rates for periods of mobilization or when drilling operations are interrupted or restricted by equipment breakdowns, adverse environmental conditions or other conditions beyond our control.

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well or group of wells or covering a stated term. Certain of our contracts with customers may be cancelable at the option of the customer upon payment of an early termination payment. Such payments may not, however, fully compensate us for the loss of the contract. Contracts also customarily provide for either automatic termination or termination at the option of the customer typically without the payment of any termination fee, under various circumstances such as non-performance, in the event of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events. Many of these events are beyond our control. The contract term in some instances may be extended by the client exercising options for the drilling of additional wells or for an additional term. Our contracts also typically include a provision that allows the client to extend the contract to finish drilling a well-in-progress. During periods of depressed market conditions, our clients may seek to renegotiate firm drilling contracts to reduce their obligations or may seek to repudiate their contracts. Suspension of drilling contracts will result in the reduction in or loss of dayrate for the period of the suspension. If our customers cancel some of our contracts and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, it could adversely affect our consolidated statement of financial position, results of operations or cash flows. See "Item 1A. Risk Factors—Our drilling contracts may be terminated due to a number of events."

**Drilling Management Services**

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We provide drilling management services primarily on a turnkey basis through Applied Drilling Technology Inc., our wholly owned subsidiary, which primarily operates in the U.S. Gulf of Mexico, and through ADT International, a division of one of our U.K. subsidiaries, which primarily operates in the North Sea (together, "ADTI"). As part of our turnkey drilling services, we provide planning, engineering and management services beyond the scope of our traditional contract drilling business and thereby assume greater risk. Under turnkey arrangements, we typically assume responsibility for the design and execution of a well and deliver a logged or cased hole to an agreed depth for a guaranteed price for which payment is contingent upon successful completion of the well program.

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In addition to turnkey drilling services, we participate in project management operations that include providing certain planning, management and engineering services, purchasing equipment and providing personnel and other logistical services to customers. Our project management services differ from turnkey drilling services in that the customer assumes control of the drilling operations and thereby retains the risks associated with the project. These drilling management services revenues represented less than six percent of our consolidated revenues for the year ended December 31, 2008.

In the course of providing drilling management services, ADTI may use a drilling rig in our fleet or contract for a rig owned by a third party.

### **Integrated Services**

From time to time, we provide well and logistics services in addition to our normal drilling services through third party contractors and our employees. We refer to these other services as integrated services, which are generally subject to individual contractual agreements executed to meet specific client needs and may be provided on either a dayrate, cost plus or fixed-price basis, depending on the daily activity. As of February 3, 2009, we were performing such services in India. These integrated services revenues represented less than two percent of our consolidated revenues for the year ended December 31, 2008.

### **Oil and Gas Properties**

We conduct oil and gas exploration, development and production activities through our oil and gas subsidiaries. We acquire interests in oil and gas properties principally in order to facilitate the awarding of turnkey contracts for our drilling management services operations. Our oil and gas activities are conducted through Challenger Minerals Inc. and Challenger Minerals (North Sea) Limited (together, "CMI"), which holds property interests primarily in the U.S. offshore Louisiana and Texas and in the U.K. sector of the North Sea. The oil and gas properties revenues represented less than one percent of our consolidated revenues for the year ended December 31, 2008.

### **Joint Venture, Agency and Sponsorship Relationships and Other Investments**

In some areas of the world, local customs and practice or governmental requirements necessitate the formation of joint ventures with local participation, which we may or may not control. We are an active participant in several joint venture drilling companies, principally in Azerbaijan, Indonesia, Malaysia, Angola, Libya and Nigeria.

We hold a 50 percent interest in Overseas Drilling Limited ("ODL"), an unconsolidated Liberian joint venture company, which owns the drillship *Joides Resolution*. The drillship is contracted to perform drilling and coring operations in deep waters worldwide for the purpose of scientific research. We manage and operate the vessel on behalf of ODL.

We hold a 50 percent equity interest in Transocean Pacific Drilling Inc. ("TPDI"), a British Virgin Islands joint venture company formed by us and Pacific Drilling Limited ("Pacific Drilling"), a Liberian company, to own two ultra-deepwater drillships to be named *Dhirubhai Deepwater KG1* and *Dhirubhai Deepwater KG2*, which are currently under construction. Under a management services agreement with TPDI, we provide construction management services and have agreed to provide operating management services once the drillships begin operations. Beginning on October 18, 2010, Pacific Drilling will have the right to exchange its interest in the joint venture for our shares or cash at a purchase price based on an appraisal of the fair value of the drillships, subject to various adjustments.

In September 2008, we acquired a 65 percent interest in Angola Deepwater Drilling Company Limited ("ADDCL"), a Cayman Islands joint venture company formed to construct, own and operate an ultra-deepwater drillship to be named *Discoverer Luanda*. Angco Cayman Limited, a Cayman Islands company, acquired the remaining 35 percent interest in ADDCL. Under a management services agreement with ADDCL, we provide construction management services and have agreed to provide operating management services once the drillship begins operations. Beginning on the fifth anniversary of the first well commencement date, Angco Cayman Limited will have the right to exchange its interest in the joint venture for cash at a purchase price based on an appraisal of the fair value of the drillship, subject to various adjustments.

In Azerbaijan, Caspian Drilling Company Limited ("CDC"), a joint venture in which we hold a 45 percent ownership interest operates the semisubmersibles *Istiglal* and *Dada Gorgud* under bareboat charters running until October 2011 from the owner of both rigs, SOCAR, our sole equity partner in CDC.

A joint venture in which we hold a noncontrolling minority interest operates primarily in Libya and, to a limited extent, in Syria. The joint venture, Arab Drilling & Workover Company ("ADWOC"), is a Libyan joint venture company, of which we own a 40 percent interest, with the

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remaining 60 percent being owned by parties unrelated to us. One of these parties is Arab Petroleum Investments Corporation, a Saudi Arabian company ("APIC"), whose shareholders are the ten member states of the Organization of Arab Petroleum Exporting Countries ("OAPEC"), including Syria (three percent interest). APIC owns a 20 percent interest in ADWOC. The other party is Arab Petroleum Services Company, a Libyan company ("APSCO"), whose shareholders are the member states of OAPEC. APSCO owns a 40 percent interest in ADWOC. The Establishment Agreement and Statutes of the joint venture provide us with the right to appoint two of the five members of the board of directors of ADWOC. While the Libyan Sanctions Regulations of the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") were in effect, our two representatives on the board generally attended but did not otherwise participate in meetings of the board of directors. Since the Libyan Sanctions Regulations were lifted by executive order, our representatives have voted on some matters at meetings of the board of directors of ADWOC.

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Syria is identified by the U.S. State Department as a state sponsor of terrorism. In addition, Syria is subject to a number of economic regulations, including sanctions administered by OFAC, and comprehensive restrictions on the export and re-export of U.S.-origin items to Syria. We believe our noncontrolling minority investment has been maintained in accordance with all applicable OFAC regulations. However, potential investors could view our minority interest in our Libyan joint venture and any potential violations of OFAC regulations negatively, which could adversely affect our reputation and the market for our shares. Various state and municipal governments, universities and other investors have proposed or adopted divestment and other initiatives regarding investments (including, with respect to state governments, by state retirement systems) in companies that do business with countries that have been designated as state sponsors of terrorism by the U.S. State Department. As a result, certain investors may be subject to reporting requirements with respect to investments in companies such as ours or may be subject to limits or prohibitions with respect to those investments. See "Item 1A. Risk Factors—Our non-U.S. operations involve additional risks not associated with our U.S. operations."

Local laws or customs in some areas of the world also effectively mandate establishment of a relationship with a local agent or sponsor. When appropriate in these areas, we enter into agency or sponsorship agreements.

### **Significant Clients**

We engage in offshore drilling for most of the leading international oil companies (or their affiliates), as well as for many government-controlled and independent oil companies. Our most significant client in 2008 was BP, accounting for 11 percent of our 2008 operating revenues. No other client accounted for 10 percent or more of our 2008 operating revenues. The loss of this significant client could, at least in the short term, have a material adverse effect on our results of operations.

### **Environmental Regulation**

For a discussion of the effects of environmental regulation, see "Item 1A. Risk Factors—Compliance with or breach of environmental laws can be costly and could limit our operations." We have made and will continue to make the required expenditures to comply with environmental requirements. We continue to make expenditures to further our commitment to continuous improvement and the setting of a global environmental standard. Continually assessing our aspects and impacts, specifically in the areas of greenhouse gas emissions and climate change, while monitoring legislation, will ensure continued risk reduction in our future operations and sound environmental management. To date, we have not expended material amounts in order to comply, and we do not believe that our compliance with such requirements will have a material adverse effect upon our results of operations or competitive position or materially increase our capital expenditures.

### **Employees**

We require highly skilled personnel to operate our drilling units. As a result, we conduct extensive personnel recruiting, training and safety programs. At December 31, 2008, we had approximately 21,600 employees and we also utilized approximately 4,700 persons through contract labor providers. Some of our employees, most of whom work in Nigeria, the U.K., Egypt and Norway, are represented by collective bargaining agreements. In addition, some of our contracted labor work under collective bargaining agreements. Many of these represented individuals are working under agreements that are subject to ongoing salary negotiation in 2009. These negotiations could result in higher personnel expenses, other increased costs or increased operation restrictions. Additionally, the unions in the U.K. have sought an interpretation of the application of the Working Time Regulations to the offshore sector. The Employment Appeal Tribunal (the "Tribunal") has issued its decision in favor of the unions and held, in part, that offshore workers are entitled to another 14 days of annual leave. We have appealed in the first instance to the Tribunal. Oral arguments on the appeal have been held but no decision has been issued. The application of the Working Time Regulations to the offshore sector could result in higher labor costs and could undermine our ability to obtain a sufficient number of skilled workers in the U.K.

### **Available Information**

Our website address is [www.deepwater.com](http://www.deepwater.com). We make our website content available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference in this Form 10-K. We make available on this website under "Investor Relations-SEC Filings," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file those materials with, or furnish those materials to, the SEC. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding SEC registrants, including us.



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You may also find information related to our corporate governance, board committees and company code of business conduct and ethics at our website. Among the information you can find there is the following:

- Audit Committee Charter;
- Corporate Governance Committee Charter;
- Executive Compensation Committee Charter;
- Finance/Benefits Committee Charter;
- Mission Statement;
- Code of Business Conduct and Ethics, including our anti-corruption policy; and
- Corporate Governance Guidelines.

We intend to satisfy the requirement under Item 5.05 of Form 8-K to disclose any amendments to our Code of Business Conduct and Ethics and any waiver from a provision of our Code of Business Conduct and Ethics by posting such information in the Corporate Governance section of our website at [www.deepwater.com](http://www.deepwater.com).

**ITEM 1A. Risk Factors**

***The recent worldwide financial and credit crisis and worldwide economic downturn could have a material adverse effect on our revenue, profitability and financial position.***

The recent worldwide financial and credit crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit combined with recent substantial losses in worldwide equity markets could lead to an extended worldwide economic recession. A slowdown in economic activity caused by a recession could reduce worldwide demand for energy and result in an extended period of lower oil and natural gas prices. Crude oil prices have declined from record levels in July 2008 of approximately \$145 per barrel to approximately \$40 per barrel as of February 20, 2009 and natural gas prices have also experienced sharp declines. This decline in commodity prices, along with difficult conditions in the credit markets, has had a negative impact on our business, and this impact could continue or worsen. Demand for our services depends on oil and natural gas industry activity and expenditure levels that are directly affected by trends in oil and, to a lesser extent, natural gas prices. Demand for our services is particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. Any prolonged reduction in oil and natural gas prices could depress the immediate levels of exploration, development, and production activity. Perceptions of longer-term lower oil and natural gas prices by oil and gas companies could similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Lower levels of activity result in a corresponding decline in the demand for our services, which could have a material adverse effect on our revenue and profitability. Additionally, these factors may adversely impact our statement of financial position if they are determined to cause a further impairment of our goodwill or intangible assets or of our long-lived assets or our assets held for sale. The financial crisis may also adversely affect the ability of shipyards to meet scheduled deliveries of our newbuild and other shipyard projects.

***The global financial and credit crisis may negatively impact our business and financial condition.***

The continued credit crisis and related instability in the global financial system has had, and may continue to have, an impact on our business and our financial condition. We may face significant challenges if conditions in the financial markets do not improve. Our ability to access the capital markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. The credit crisis has impacted lenders participating in our credit facilities and our customers, and further negative impacts may cause them to fail to meet their obligations to us.

***Our business depends on the level of activity in the offshore oil and gas industry, which is significantly affected by volatile oil and gas prices and other factors.***

Our business depends on the level of activity in oil and gas exploration, development and production in offshore areas worldwide. Oil and gas prices and market expectations of potential changes in these prices significantly affect this level of activity. However, higher commodity prices do not necessarily translate into increased drilling activity since customers' expectations of future commodity prices typically drive demand for our rigs. Also, increased competition for customers' drilling budgets could come from, among other areas, land-based energy markets in Africa, Russia, Western Asian countries, the Middle East, the U.S. and elsewhere. The availability of quality drilling prospects, exploration success, relative production costs, the stage of reservoir development and political and regulatory environments also affect customers' drilling campaigns. Worldwide military, political and economic events have contributed to oil and gas price volatility and are likely to do so in the future.

Oil and gas prices are extremely volatile and are affected by numerous factors, including the following:

- worldwide demand for oil and gas including economic activity in the U.S. and other energy-consuming markets;
- the ability of the Organization of the Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing;
- the level of production in non-OPEC countries;
- the policies of various governments regarding exploration and development of their oil and gas reserves;

- advances in exploration and development technology; and
- the worldwide military and political environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East or other geographic areas or further acts of terrorism in the U.S., or elsewhere.

***Our industry is highly competitive and cyclical, with intense price competition.***

The offshore contract drilling industry is highly competitive with numerous industry participants, none of which has a dominant market share. Drilling contracts are traditionally awarded on a competitive bid basis. Intense price competition is often the primary factor in determining which qualified contractor is awarded a job, although rig availability and the quality and technical capability of service and equipment may also be considered.

Our industry has historically been cyclical and is impacted by oil and gas price levels and volatility. There have been periods of high demand, short rig supply and high dayrates, followed by periods of low demand, excess rig supply and low dayrates. Changes in commodity prices can have a dramatic effect on rig demand, and periods of excess rig supply intensify the competition in the industry and often result in rigs being idle for long periods of time. Since the onset of the worldwide financial and credit crisis and economic downturn, we have experienced weakness in our Midwater Floater and Jackup markets. We may be required to idle rigs or enter into lower dayrate contracts in response to market conditions.

During prior periods of high utilization and dayrates, industry participants have increased the supply of rigs by ordering the construction of new units. This has typically resulted in an oversupply of drilling units and has caused a subsequent decline in utilization and dayrates, sometimes for extended periods of time. There are numerous high-specification rigs and jackups under contract for construction and several mid-water semisubmersibles are being upgraded to enhance their operating capability. The entry into service of these new and upgraded units will increase supply and could curtail a strengthening, or trigger a reduction, in dayrates as rigs are absorbed into the active fleet. Any further increase in construction of new drilling units would likely exacerbate the negative impact on utilization and dayrates. Lower utilization and dayrates could adversely affect our revenues and profitability. Prolonged periods of low utilization and dayrates could also result in the recognition of impairment charges on certain classes of our drilling rigs or our goodwill balance if future cash flow estimates, based upon information available to management at the time, indicate that the carrying values of these rigs, goodwill or other intangible assets may not be recoverable.

***Our shipyard projects and operations are subject to delays and cost overruns.***

We have committed to a total of ten deepwater newbuild rig projects and the *Sedco 706* rig upgrade. We also have a variety of other more limited shipyard projects at any given time. These shipyard projects are subject to the risks of delay or cost overruns inherent in any such construction project resulting from numerous factors, including the following:

- shipyard availability;
- shortages of equipment, materials or skilled labor;
- unscheduled delays in the delivery of ordered materials and equipment;
- engineering problems, including those relating to the commissioning of newly designed equipment;
- work stoppages;
- client acceptance delays;
- weather interference or storm damage;
- unanticipated cost increases; and
- difficulty in obtaining necessary permits or approvals.

These factors may contribute to cost variations and delays in the delivery of our upgraded and newbuild units and other rigs undergoing shipyard projects. Delays in the delivery of these units would result in delay in contract commencement, resulting in a loss of revenue to us, and may also cause customers to terminate or shorten the term of the drilling contract for the rig pursuant to applicable late delivery clauses. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as favorable terms, if at all.

Our operations also rely on a significant supply of capital and consumable spare parts and equipment to maintain and repair our fleet. We also rely on the supply of ancillary services, including supply boats and helicopters. We have experienced increased delivery times from vendors due to increased drilling activity worldwide and the increase in construction and upgrade projects and have also experienced a tightening in the availability of ancillary services. Shortages in materials, delays in the delivery of necessary spare parts, equipment or other materials, or the unavailability of ancillary services could negatively impact our future operations and result in increases in rig downtime, and delays in the repair and maintenance of our fleet.

***Our drilling contracts may be terminated due to a number of events.***

Certain of our contracts with customers may be cancelable at the option of the customer upon payment of an early termination payment. Such payments may not, however, fully compensate us for the loss of the contract. Contracts also customarily provide for either automatic termination or termination at the option of the customer typically without the payment of any termination fee, under various circumstances such as non-performance, as a result of downtime or impaired performance caused by equipment or operational issues, or sustained periods of downtime due to force majeure events. Many of these events are beyond our control. During periods of depressed market conditions, we may be subject to an increased risk of our clients seeking to repudiate their contracts, including through claims of non-performance. Our customers' ability to perform their obligations under their drilling contracts with us may also be negatively impacted by the credit crisis and the economic downturn. If our customers cancel some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or

if contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, it could adversely affect our consolidated statement of financial position, results of operations or cash flows.

***The anticipated benefits of moving our principal executive offices to Switzerland may not be realized, and difficulties in connection with moving our principal executive offices could have an adverse effect on us.***

We are in the process of relocating our principal executive offices from the Cayman Islands and Houston, Texas to Vernier, Switzerland. Initially we expect that 14 of our officers, including our Chief Executive Officer, will be located at our new principal executive offices, along with related support staff. We may face significant challenges in relocating our executive offices to a different country, including difficulties in retaining and attracting officers, key personnel and other employees and challenges in maintaining principal executive offices in a country different from the country where other employees, including corporate support staff, are located. Employees may be uncertain about their future roles within our organization following the completion of the Redomestication Transaction. Management may also be required to devote substantial time to the Redomestication Transaction and related matters, which could otherwise be devoted to focusing on ongoing business operations and other initiatives and opportunities. In addition, we may not realize the benefits we anticipate from the Redomestication Transaction. Any such difficulties could have an adverse effect on our business, results of operations or financial condition.

***Our non-U.S. operations involve additional risks not associated with our U.S. operations.***

We operate in various regions throughout the world, which may expose us to political and other uncertainties, including risks of:

- terrorist acts, war, piracy and civil disturbances;
- expropriation or nationalization of equipment; and
- the inability to repatriate income or capital.

We are protected to some extent against loss of capital assets, but generally not loss of revenue, from most of these risks through indemnity provisions in our drilling contracts. Our assets are generally not insured against risk of loss due to perils such as terrorist acts, civil unrest, expropriation, nationalization and acts of war.

Many governments favor or effectively require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These practices may adversely affect our ability to compete.

Our non-U.S. contract drilling operations are subject to various laws and regulations in certain countries in which we operate, including laws and regulations relating to the equipment and operation of drilling units, currency conversions and repatriation, oil and gas exploration and development and taxation of offshore earnings and earnings of expatriate personnel. We are also subject to OFAC and other U.S. laws and regulations governing our international operations. In addition, various state and municipal governments, universities and other investors have proposed or adopted divestment and other initiatives regarding investments (including, with respect to state governments, by state retirement systems) in companies that do business with countries that have been designated as state sponsors of terrorism by the U.S. State Department. We have a minority interest in a Libyan joint venture that operates to a limited extent in Syria, which has been designated as a state sponsor of terrorism by the U.S. State Department. Our internal compliance program has identified a potential OFAC compliance issue involving the shipment of goods by a freight forwarder through Iran, another country that has been designated as a state sponsor of terrorism by the U.S. State Department. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook—Regulatory Matters." Failure to comply with applicable laws and regulations, including those relating to sanctions and export restrictions, may subject us to criminal sanctions or civil remedies, including fines, denial of export privileges, injunctions or seizures of assets. Potential investors could view our minority interest in our Libyan joint venture and any potential violations of OFAC regulations negatively, which could adversely affect our reputation and the market for our shares.

Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and gas and other aspects of the oil and gas industries in their countries. In addition, government action, including initiatives by OPEC, may continue to cause oil or gas price volatility. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil companies and may continue to do so.

A substantial portion of our drilling contracts are partially payable in local currency. Those amounts may exceed our local currency needs, leading to the accumulation of excess local currency, which, in certain instances, may be subject to either temporary blocking or other difficulties converting to U.S. dollars. Excess amounts of local currency may be exposed to the risk of currency exchange losses.

***A change in tax laws, treaties or regulations, or their interpretation, of any country in which we operate could result in a higher tax rate on our worldwide earnings, which could result in a significant negative impact on our earnings and cash flows from operations.***

A change in applicable tax laws, treaties or regulations could result in a higher effective tax rate on our worldwide earnings and such change could be significant to our financial results. One of the income tax treaties that we rely upon is currently in the process of being renegotiated. This renegotiation will likely result in a change in the terms of the treaty that is adverse to our tax structure, which in turn would increase our effective tax rate, and such increase could be material. We expect to take certain steps to mitigate any such potential negative impact. We may not be able to fully, or partially, mitigate any negative impact of this treaty renegotiation or any other future changes in treaties that we rely upon.

Tax legislative proposals intending to eliminate some perceived tax advantages of companies that have legal domiciles outside the U.S. but have certain U.S. connections have repeatedly been introduced in the U.S. Congress. Recent examples include, but are not limited to, legislative proposals that would broaden the circumstances in which a non-U.S. company would be considered a U.S. resident and proposals that could override certain tax treaties and limit treaty benefits on certain payments by U.S. subsidiaries to non-U.S. affiliates.

*Failure to comply with the U.S. Foreign Corrupt Practices Act could result in fines, criminal penalties, drilling contract terminations and an adverse effect on our business.*

In June 2007, GlobalSantaFe's management retained outside counsel to conduct an internal investigation of its Nigerian and West African operations, focusing on brokers who handled customs matters for its affiliates operating in those jurisdictions and whether those brokers have fully complied with the U.S. Foreign Corrupt Practices Act ("FCPA") and local laws. GlobalSantaFe commenced its investigation following announcements by other oilfield service companies that they were independently investigating the FCPA implications of certain actions taken by third parties in respect of customs matters in connection with their operations in Nigeria, as well as another company's announced settlement implicating a third party handling customs matters in Nigeria. In each case, the customs broker

was reported to be Panalpina Inc., which GlobalSantaFe used to obtain temporary import permits for its rigs operating offshore Nigeria. GlobalSantaFe voluntarily disclosed its internal investigation to the U.S. Department of Justice (the "DOJ") and the SEC and, at their request, expanded its investigation to include the activities of its customs brokers in other West African countries and the activities of Panalpina Inc. worldwide. The investigation is focusing on whether the brokers have fully complied with the requirements of their contracts, local laws and the FCPA. In late November 2007, GlobalSantaFe received a subpoena from the SEC for documents related to its investigation. In this connection, the SEC advised GlobalSantaFe that it had issued a formal order of investigation. After the completion of the Merger, outside counsel began formally reporting directly to the audit committee of our board of directors. Our legal representatives are keeping the DOJ and SEC apprised of the scope and details of their investigation and producing relevant information in response to their requests.

On July 25, 2007, our legal representatives met with the DOJ in response to a notice we received requesting such a meeting regarding our engagement of Panalpina Inc. for freight forwarding and other services in the U.S. and abroad. The DOJ informed us that it is conducting an investigation of alleged FCPA violations by oil service companies who used Panalpina Inc. and other brokers in Nigeria and other parts of the world. We developed an investigative plan, which has continued to be amended, to review and produce relevant and responsive information requested by the DOJ and SEC. The investigation was expanded to include one of our agents for Nigeria. This investigation and the legacy GlobalSantaFe investigation are being conducted by outside counsel who reports directly to the audit committee of our board of directors. Our outside counsel has coordinated their efforts with the DOJ and the SEC with respect to the implementation of our investigative plan, including keeping the DOJ and SEC apprised of the scope and details of the investigation and producing relevant information in response to their requests.

We cannot predict the ultimate outcome of these investigations, the total costs to be incurred in completing the investigations, the potential impact on personnel, the effect of implementing any further measures that may be necessary to ensure full compliance with applicable laws or to what extent, if at all, we could be subject to fines, sanctions or other penalties. Our investigation includes a review of amounts paid to and by customs brokers in connection with the obtaining of permits for the temporary importation of vessels and the clearance of goods and materials. These permits and clearances are necessary in order for us to operate our vessels in certain jurisdictions. There is a risk that we may not be able to obtain import permits or renew temporary importation permits in West African countries, including Nigeria, in a manner that complies with the FCPA. As a result, we may not have the means to renew temporary importation permits for rigs located in the relevant jurisdictions as they expire or to send goods and equipment into those jurisdictions, in which event we may be forced to terminate the pending drilling contracts and relocate the rigs or leave the rigs in these countries and risk permanent importation issues, either of which could have an adverse effect on our financial results. In addition, termination of drilling contracts could result in damage claims by customers.

***Our labor costs and the operating restrictions under which we operate could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.***

Some of our employees, most of whom work in Nigeria, the U.K., Egypt and Norway, are represented by collective bargaining agreements. In addition, some of our contracted labor work under collective bargaining agreements. Many of these represented individuals are working under agreements that are subject to ongoing salary negotiation in 2009. These negotiations could result in higher personnel expenses, other increased costs or increased operating restrictions. Additionally, the unions in the U.K. have sought an interpretation of the application of the Working Time Regulations to the offshore sector. The Employment Appeal Tribunal (the "Tribunal") has issued its decision in favor of the unions and held, in part, that offshore workers are entitled to another 14 days of annual leave. We have appealed in the first instance to the Tribunal. Oral arguments on the appeal have been held but no decision has been issued. The application of the Working Time Regulations to the offshore sector could result in higher labor costs and could undermine our ability to obtain a sufficient number of skilled workers in the U.K.

***Our business involves numerous operating hazards.***

Our operations are subject to the usual hazards inherent in the drilling of oil and gas wells, such as blowouts, reservoir damage, loss of production, loss of well control, punch-throughs, craterings, fires and natural disasters such as hurricanes and tropical storms. In particular, the Gulf of Mexico area is subject to hurricanes and other extreme weather conditions on a relatively frequent basis, and our drilling rigs in the region may be exposed to damage or total loss by these storms (some of which may not be covered by insurance). The occurrence of these events could result in the suspension of drilling operations, damage to or destruction of the equipment involved and injury to or death of rig personnel. We are also subject to personal injury and other claims by rig personnel as a result of our drilling operations. Operations also may be suspended because of machinery breakdowns, abnormal drilling conditions, failure of subcontractors to perform or supply goods or services, or personnel shortages. In addition, offshore drilling operations are subject to perils peculiar to marine operations, including capsizing, grounding, collision and loss or damage from severe weather. Damage to the environment could also result from our operations, particularly through oil spillage or extensive uncontrolled fires. We may also be subject to property, environmental and other damage claims by oil and gas companies. Our insurance policies and contractual rights to indemnity may not adequately cover losses, and we do not have insurance coverage or rights to indemnity for all risks. Consistent with standard industry practice, our clients generally assume, and indemnify us against, well control and subsurface risks under dayrate contracts. These are risks associated with the loss of control of a well, such as blowout or cratering, the cost to



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regain control of or redrill the well and associated pollution. However, there can be no assurance that these clients will be financially able to indemnify us against all these risks.

We maintain insurance coverage for property damage, occupational injury and illness, and general and marine third-party liabilities. We generally have no coverage for named storms in the U.S. Gulf of Mexico and war perils worldwide. Also, pollution and environmental risks generally are not totally insurable.

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We maintain large self-insured deductibles for damage to our offshore drilling equipment and third-party liabilities. With respect to hull and machinery we generally maintain a \$125 million deductible per occurrence, subject to a \$250 million annual aggregate deductible. In the event that the \$250 million annual aggregate deductible has been exceeded, the hull and machinery deductible becomes \$10 million per occurrence. However, in the event of a total loss or a constructive total loss of a drilling unit, then such loss is fully covered by our insurance with no deductible. For general and marine third-party liabilities we generally maintain a \$10 million per occurrence deductible on personal injury liability for crew claims (\$5 million for non-crew claims) and a \$5 million per occurrence deductible on third-party property damage. We also self-insure the primary \$50 million of liability limits in excess of the \$5 million and \$10 million per occurrence deductibles described in the prior sentence. Generally, our turnkey drilling contracts include provisions that limit ADTI's liability associated with well blowouts to \$50 million. We self-insure coverage for expenses to ADTI and CMI related to well control and redrill liability for well blowouts.

If a significant accident or other event occurs and is not fully covered by insurance or an enforceable or recoverable indemnity from a client, it could adversely affect our consolidated statement of financial position, results of operations or cash flows. The amount of our insurance may be less than the related impact on enterprise value after a loss. Our insurance coverage will not in all situations provide sufficient funds to protect us from all liabilities that could result from our drilling operations. Our coverage includes annual aggregate policy limits. As a result, we retain the risk through self-insurance for any losses in excess of these limits. We do not carry insurance for loss of revenue, and certain other claims may also not be reimbursed by insurance carriers. Any such lack of reimbursement may cause us to incur substantial costs. In addition, we could decide to retain substantially more risk through self-insurance in the future. Moreover, no assurance can be made that we will be able to maintain adequate insurance in the future at rates we consider reasonable or be able to obtain insurance against certain risks. As of February 3, 2009, all of the rigs that we owned or operated were covered by existing insurance policies.

***A loss of a major tax dispute or a successful tax challenge to our operating structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries could result in a higher tax rate on our worldwide earnings, which could result in a significant negative impact on our earnings and cash flows from operations.***

We are a Swiss corporation that operates through our various subsidiaries in a number of countries throughout the world. Consequently, we are subject to tax laws, treaties and regulations in and between the countries in which we operate. Our income taxes are based upon the applicable tax laws and tax rates in effect in the countries in which we operate and earn income as well as upon our operating structures in these countries.

Our income tax returns are subject to review and examination. We do not recognize the benefit of income tax positions we believe are more likely than not to be disallowed upon challenge by a tax authority. If any tax authority successfully challenges our operational structure, intercompany pricing policies or the taxable presence of our key subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure; or if we lose a material tax dispute in any country, particularly in the U.S., Norway or Brazil, our effective tax rate on our worldwide earnings could increase substantially and our earnings and cash flows from operations could be materially adversely affected. For example, there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the U.S. (or maintaining a permanent establishment under an applicable treaty), so we cannot be certain that the Internal Revenue Service ("IRS") will not contend successfully that we or any of our key subsidiaries were or are engaged in a trade or business in the U.S. (or, when applicable, maintained or maintains a permanent establishment in the U.S.). If we or any of our key subsidiaries were considered to have been engaged in a trade or business in the U.S. (when applicable, through a permanent establishment), we could be subject to U.S. corporate income and additional branch profits taxes on the portion of our earnings effectively connected to such U.S. business during the period in which this was considered to have occurred, in which case our effective tax rate on worldwide earnings for that period could increase substantially, and our earnings and cash flows from operations for that period could be adversely affected. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook—Tax Matters."

***Failure to retain key personnel could hurt our operations.***

We require highly skilled personnel to operate and provide technical services and support for our business worldwide. Over the last few years, competition for the labor required for drilling operations, including for turnkey drilling and drilling management services businesses and construction projects, intensified as the number of rigs activated, added to worldwide fleets or under construction increased, leading to shortages of qualified personnel in the industry and creating upward pressure on wages and higher turnover. We may experience a reduction in the experience level of our personnel as a result of any increased turnover, which could lead to higher downtime and more operating incidents, which in turn could decrease revenues and increase costs. In response to these historical labor market conditions, we increased efforts in our recruitment, training, development and retention programs as required to meet our anticipated personnel needs. Although we expect market conditions to slow employee turnover, if increased competition for labor were to intensify in the future we may experience further increases in costs or limits on operations.



***We have a substantial amount of debt, and we may lose the ability to obtain future financing and suffer competitive disadvantages.***

Our overall debt level was \$14 billion and \$17 billion at December 31, 2008 and December 31, 2007, respectively. This substantial level of debt and other obligations could have significant adverse consequences on our business and future prospects, including the following:

- we may not be able to obtain financing in the future for working capital, capital expenditures, acquisitions, debt service requirements or other purposes;
- we may not be able to use operating cash flow in other areas of our business because we must dedicate a substantial portion of these funds to service the debt;
- we could become more vulnerable to general adverse economic and industry conditions, including increases in interest rates, particularly given our substantial indebtedness, some of which bears interest at variable rates;
- we may not be able to meet financial ratios included in our bank credit agreements due to market conditions or other events beyond our control, which could result in a default under these agreements and trigger cross default provisions in our other debt instruments;
- less levered competitors could have a competitive advantage because they have lower debt service requirements; and
- we may be less able to take advantage of significant business opportunities and to react to changes in market or industry conditions than our competitors.

***Our overall debt level and/or market conditions could lead the credit rating agencies to lower our corporate credit ratings below currently expected levels and possibly below investment grade.***

Our high leverage level and/or market conditions could lead the credit rating agencies to downgrade our credit ratings below currently expected levels and possibly to non-investment grade levels. Such ratings levels could limit our ability to refinance our existing debt, cause us to issue debt with unfavorable terms and conditions and increase certain fees we pay under our credit facilities. In addition, such ratings levels could negatively impact current and prospective customers' willingness to transact business with us. Suppliers may lower or eliminate the level of credit provided through payment terms when dealing with us thereby increasing the need for higher levels of cash on hand, which would decrease our ability to repay debt balances. Our credit ratings are currently BBB+ and Baa2 by Standard & Poor's and Moody's, respectively.

***We may be limited in our use of net operating losses.***

Our ability to benefit from our deferred tax assets depends on us having sufficient future earnings to utilize our net operating loss ("NOL") carryforwards before they expire. We have established a valuation allowance against the future tax benefit for a number of our foreign NOL carryforwards, and we could be required to record an additional valuation allowance against our foreign or U.S. deferred tax assets if market conditions change materially and, as a result, our future earnings are, or are projected to be, significantly less than we currently estimate. Our NOL carryforwards are subject to review and potential disallowance upon audit by the tax authorities of the jurisdictions where the NOLs are incurred.

***Our operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues.***

Our operating and maintenance costs will not necessarily fluctuate in proportion to changes in operating revenues. Operating revenues may fluctuate as a function of changes in dayrate. However, costs for operating a rig are generally fixed or only semi-variable regardless of the dayrate being earned. In addition, should our rigs incur idle time between contracts, we typically will not reduce the staff on those rigs because we will use the crew to prepare the rig for its next contract. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to prepare rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. In addition, as our rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are amortized.

***We are subject to litigation that, if not resolved in our favor and not sufficiently insured against, could have a material adverse effect on us.***

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We are subject to a variety of litigation and may be sued in additional cases. Certain of our subsidiaries are named as defendants in numerous lawsuits alleging personal injury as a result of exposure to asbestos or toxic fumes or resulting from other occupational diseases, such as silicosis, and various other medical issues that can remain undiscovered for a considerable amount of time. Some of these subsidiaries that have been put on notice of potential liabilities have no assets. Other subsidiaries are subject to litigation relating to environmental damage. We cannot predict the outcome of these cases involving those subsidiaries or the potential costs to resolve them. Insurance may not be applicable or sufficient in all cases, insurers may not remain solvent, and policies may not be located. Suits against non-asset-owning subsidiaries have and may in the future give rise to alter ego or successor-in-interest claims against us and our asset-owning subsidiaries to the extent a subsidiary is unable to pay a claim or insurance is not available or sufficient to cover the claims. To the extent that one or more pending or future litigation matters are not resolved in our favor and are not covered by insurance, a material adverse effect on our financial results and condition could result.

***Public health threats could have a material adverse effect on our operations and our financial results.***

Public health threats, such as the bird flu, Severe Acute Respiratory Syndrome, and other highly communicable diseases, outbreaks of which have already occurred in various parts of the world in which we operate, could adversely impact our operations, the operations of our clients and the global economy, including the worldwide demand for oil and natural gas and the level of demand for our services. Any quarantine of personnel or inability to access our offices or rigs could adversely affect our operations. Travel restrictions or operational problems in any part of the world in which we operate, or any reduction in the demand for drilling services caused by public health threats in the future, may materially impact operations and adversely affect our financial results.

***Compliance with or breach of environmental laws can be costly and could limit our operations.***

Our operations are subject to regulations controlling the discharge of materials into the environment, requiring removal and cleanup of materials that may harm the environment or otherwise relating to the protection of the environment. For example, as an operator of mobile offshore drilling units in navigable U.S. waters and some offshore areas, we may be liable for damages and costs incurred in connection with oil spills related to those operations. Laws and regulations protecting the environment have become more stringent in recent years, and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence. These laws and regulations may expose us to liability for the conduct of or conditions caused by others or for acts that were in compliance with all applicable laws at the time they were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

We have generally been able to obtain some degree of contractual indemnification pursuant to which our clients agree to protect and indemnify us against liability for pollution, well and environmental damages; however, there is no assurance that we can obtain such indemnities in all of our contracts or that, in the event of extensive pollution and environmental damages, our clients will have the financial capability to fulfill their contractual obligations to us. Also, these indemnities may not be enforceable in all instances.

***Our ability to operate our rigs in the U.S. Gulf of Mexico could be restricted by governmental regulation.***

Hurricanes Ivan, Katrina and Rita in 2005 and Hurricanes Gustav and Ike in 2008 caused damage to a number of rigs in the U.S. Gulf of Mexico fleet. Rigs that were moved off location by the storms damaged platforms, pipelines, wellheads and other drilling rigs. In 2006, the Minerals Management Service of the U.S. Department of the Interior ("MMS") issued interim guidelines requiring that semisubmersibles operating in the U.S. Gulf of Mexico assess their mooring systems against stricter criteria. In 2007 additional guidelines were issued which impose stricter criteria, requiring rigs to meet 25-year storm conditions. Although all of our semisubmersibles currently operating in the U.S. Gulf of Mexico meet the 2007 requirements, these guidelines may negatively impact our ability to operate other semisubmersibles in the U.S. Gulf of Mexico in the future. Moreover, the MMS may issue additional regulations that could increase the cost of operations or reduce the area of operations for our rigs in the future, thus reducing their marketability. Implementation of additional MMS regulations may subject us to increased costs or limit the operational capabilities of our rigs and could materially and adversely affect our operations in the U.S. Gulf of Mexico.

***Acts of terrorism and social unrest could affect the markets for drilling services.***

Acts of terrorism and social unrest, brought about by world political events or otherwise, have caused instability in the world's financial and insurance markets in the past and may occur in the future. Such acts could be directed against companies such as ours. In addition, acts of terrorism and social unrest could lead to increased volatility in prices for crude oil and natural gas and could affect the markets for drilling services. Insurance premiums could increase and coverages may be unavailable in the future. U.S. government regulations may effectively preclude us from actively engaging in business activities in certain countries. These regulations could be amended to cover countries where we currently operate or where we may wish to operate in the future.

***Our status as a Swiss corporation may limit our flexibility with respect to certain aspects of capital management and may cause us to be unable to make distributions or repurchase shares without subjecting our shareholders to Swiss withholding tax.***

Swiss law allows our shareholders to authorize share capital that can be issued by the board of directors without shareholder approval, but this authorization is limited to 50 percent of the existing registered share capital and must be renewed by the shareholders every two years. Additionally, subject to specified exceptions, Swiss law grants preemptive rights to existing shareholders to subscribe for new issuances of shares. Swiss law also does not provide as much flexibility in the various terms that can attach to different classes of shares as the laws of some other jurisdictions. In the event we need to raise common equity capital at a time when the trading price of our shares is below the 15 Swiss franc (equivalent to U.S. \$12.64, based on a foreign exchange rate of 1.1864 Swiss francs to \$1.00 on February 20, 2009) par value of the shares, we will need to obtain approval of shareholders to decrease the par value of our shares or issue another class of shares with a lower par value. Any reduction in par value would decrease our par value available for future repayment of share capital not subject to Swiss withholding tax.

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Swiss law also reserves for approval by shareholders many corporate actions over which a board of directors would have authority in some other jurisdictions. For example, dividends must be approved by shareholders. These Swiss law requirements relating to our capital management may limit our flexibility, and situations may arise where greater flexibility would have provided substantial benefits to our shareholders.

If we are not successful in our efforts to make distributions, if any, through a reduction of par value or, after January 1, 2011, pay dividends, if any, out of qualifying additional paid-in capital as shown on Transocean Ltd.'s standalone Swiss statutory financial statements,

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then any dividends paid by us will generally be subject to a Swiss federal withholding tax at a rate of 35 percent. Payment of a capital distribution in the form of a par value reduction is not subject to Swiss withholding tax. However, our shareholders may not approve a reduction in par value, or we may not be able to meet the other legal requirements for a reduction in par value. The Swiss withholding rules could also be changed in the future. In addition, over the long term, the amount of par value available for us to use for par value reductions will be limited. If we are unable to make a distribution through a reduction in par value or, after January 1, 2011, pay a dividend out of qualifying additional paid-in capital as shown on Transocean Ltd.'s standalone Swiss statutory financial statements, we may not be able to make distributions without subjecting our shareholders to Swiss withholding taxes.

Under present Swiss tax law, repurchases of shares for the purposes of capital reduction are treated as a partial liquidation subject to a 35 percent Swiss withholding tax on the difference between the par value and the repurchase price. We may follow a share repurchase process for future share repurchases, if any, similar to a "second trading line" on the SIX Swiss Exchange in which Swiss institutional investors sell shares to us and are generally able to receive a refund of the Swiss withholding tax. However, if we are unable to use this process successfully, we may not be able to repurchase shares for the purposes of capital reduction without subjecting the selling shareholders to Swiss withholding taxes.

***We are subject to anti-takeover provisions.***

Our articles of association and Swiss law contain provisions that could prevent or delay an acquisition of the company by means of a tender offer, a proxy contest or otherwise. These provisions may also adversely affect prevailing market prices for our shares. These provisions, among other things:

- classify our board into three classes of directors, each of which serve for staggered three-year periods;
- provide that the board of directors is authorized, at any time during a maximum two-year period, to issue a number of shares of up to 50 percent of the share capital registered in the commercial register and to limit or withdraw the preemptive rights of existing shareholders in various circumstances, including (1) following a shareholder or group of shareholders acting in concert having acquired in excess of 15 percent of the share capital registered in the commercial register without having submitted a takeover proposal to shareholders that is recommended by the board of directors or (2) for purposes of the defense of an actual, threatened or potential unsolicited takeover bid, in relation to which the board of directors has, upon consultation with an independent financial adviser retained by the board of directors, not recommended acceptance to the shareholders;
- provide that any shareholder who wishes to propose any business or to nominate a person or persons for election as director at any annual meeting may only do so if advance notice is given to the Secretary of Transocean;
- provide that directors can be removed from office only by the affirmative vote of the holders of at least 66 2/3 percent of the shares outstanding and entitled to vote;
- provide that a merger or demerger transaction requires the affirmative vote of the holders of at least 66 2/3 percent of the shares represented at the meeting and provide for the possibility of a so-called "cashout" or "squeezeout" merger if the acquirer controls 90 percent of the outstanding shares entitled to vote at the meeting;
- provide that any action required or permitted to be taken by the holders of shares must be taken at a duly called annual or extraordinary general meeting of shareholders;
- limit the ability of our shareholders to amend or repeal some provisions of our articles of association; and
- limit transactions between us and an "interested shareholder," which is generally defined as a shareholder that, together with its affiliates and associates, beneficially, directly or indirectly, owns 15 percent or more of our shares entitled to vote at a general meeting.

Our board of directors is comprised of six persons who were designated by Transocean and six persons who were designated by GlobalSantaFe prior to completing the Merger. Under our organizational regulations, at each annual general meeting held during the two years following the completion of the Merger, each such director whose term expires during such period will be nominated for re-election (or another person selected by the applicable group of directors will be nominated for election) to our board of directors.

**ITEM 1B. Unresolved Staff Comments**



None.

**ITEM 2. Properties**

The description of our property included under "Item 1. Business" is incorporated by reference herein.

We maintain offices, land bases and other facilities worldwide, including our principal executive offices in Vernier, Switzerland, our corporate offices in Zug, Switzerland; Houston, Texas; Cayman Islands and Barbados and our regional operational offices in the U.S., France and Singapore. Our remaining offices and bases are located in various countries in North America, South America, the Caribbean, Europe, Africa, Russia, the Middle East, India, the Far East and Australia. We lease most of these facilities.

**ITEM 3. Legal Proceedings**

In 2004, several of our subsidiaries were named, along with numerous unaffiliated defendants, in 21 complaints that were filed in the Circuit Courts of the State of Mississippi involving approximately 750 plaintiffs that alleged personal injury arising out of asbestos exposure in the course of their employment by some of these defendants between 1965 and 1986. The complaints also named as defendants certain subsidiaries of TODCO and certain subsidiaries of Sedco, Inc. to whom we may owe indemnity. Further, the

complaints named other unaffiliated defendant companies, including companies that allegedly manufactured drilling related products containing asbestos. The complaints alleged that the defendants used asbestos-containing products in connection with drilling operations and included allegations of negligence, strict liability, and claims allowed under the Jones Act and general maritime law. The plaintiffs generally sought awards of unspecified compensatory and punitive damages. The Special Master who was appointed to oversee these cases required that each plaintiff file a separate amended complaint for each such individual plaintiff and then he dismissed the original 21 complaints. We believe that we may have a direct or indirect interest in 44 of the resulting complaints. We have not been provided with sufficient information in all claims to determine the period of the claimants' exposure to asbestos, their medical condition or, in some cases, the vessels potentially involved in the claims. We historically have maintained broad liability insurance, but we are not certain whether our insurance will cover all liabilities arising out of the 44 claims. We intend to defend these lawsuits vigorously, but there can be no assurance as to their ultimate outcome.

One of our subsidiaries is involved in an action with respect to a customs matter relating to the *Sedco 710* semisubmersible drilling rig. Prior to our merger with Sedco Forex, this drilling rig, which was working for Petrobras in Brazil at the time, had been admitted into the country on a temporary basis under authority granted to a Schlumberger entity. Prior to the Sedco Forex merger, the drilling contract with Petrobras was transferred from the Schlumberger entity to an entity that would become one of our subsidiaries, but Schlumberger did not transfer the temporary import permit to any of our subsidiaries. In early 2000, the drilling contract was extended for another year. On January 10, 2000, the temporary import permit granted to the Schlumberger entity expired, and renewal filings were not made until later that January. In April 2000, the Brazilian customs authorities cancelled the temporary import permit. The Schlumberger entity filed an action in the Brazilian federal court of Campos for the purpose of extending the temporary admission. Other proceedings were also initiated in order to secure the transfer of the temporary admission to our subsidiary. Ultimately, the court permitted the transfer of the temporary admission from Schlumberger to our subsidiary but did not rule on whether the temporary admission could be extended without the payment of a financial penalty. During the first quarter of 2004, the Brazilian customs authorities issued an assessment totaling approximately \$114 million against our subsidiary.

The first level Brazilian court ruled in April 2007 that the temporary admission granted to our subsidiary had expired which allowed the Brazilian customs authorities to execute on their assessment. Following this ruling, the Brazilian customs authorities issued a revised assessment against our subsidiary. As of December 31, 2008, the U.S. dollar equivalent of this assessment was approximately \$184 million in aggregate. We are not certain as to the basis for the increase in the amount of the assessment, and in September 2007, we received a temporary ruling in our favor from a Brazilian federal court that the valuation method used by the Brazilian customs authorities was incorrect. This temporary ruling was confirmed in January 2008 by a local court, but it is still subject to review at the appellate levels in Brazil. We intend to continue to aggressively contest this matter. We have appealed the first level Brazilian court's ruling to a higher level court in Brazil where we have also filed for a renewed stay, which was initially denied, but later granted through a separate proceeding. The original ruling to deny the stay is being reviewed by the Superior Court of Justice and we expect that either the stay that was ultimately granted or any order from the Superior Court of Justice in our favor will prevent enforcement of the whole amount in dispute. A ruling from the Superior Court of Justice is not subject to further appeal. There may be further judicial or administrative proceedings that result from this matter. While the court has granted us the right to continue our appeal without the posting of a bond, it is possible that we may be required to post a bond for up to the full amount of the assessment in connection with these proceedings. We have also put Schlumberger on notice that we consider any assessment to be solely the responsibility of Schlumberger, not our subsidiary, and we initiated proceedings in the State of New York, which were subsequently transferred to the State of Texas, against Schlumberger seeking a declaratory judgment in this respect. Nevertheless, we expect that the Brazilian customs authorities will continue to seek to recover the assessment solely from our subsidiary, not Schlumberger. Schlumberger has denied any responsibility for this matter, but remains a party to the proceedings. We do not expect the liability, if any, resulting from this matter to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

In the third quarter of 2006, we received tax assessments of approximately \$112 million from the state tax authorities of Rio de Janeiro in Brazil against one of our Brazilian subsidiaries for customs taxes on equipment imported into the state in connection with our operations. The assessments resulted from a preliminary finding by these authorities that our subsidiary's record keeping practices were deficient. We currently believe that the substantial majority of these assessments are without merit. We filed an initial response with the Rio de Janeiro tax authorities on September 9, 2006 refuting these additional tax assessments. In September 2007, we received confirmation from the state tax authorities that they believe the additional tax assessments are valid, and as a result, we filed an appeal on September 27, 2007 to the state Taxpayer's Council contesting these assessments. While we cannot predict or provide assurance as to the final outcome of these proceedings, we do not expect it to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows.

One of our subsidiaries is involved in lawsuits arising out of the subsidiary's involvement in the design, construction and refurbishment of major industrial complexes. The operating assets of the subsidiary were sold and its operations discontinued in 1989, and the subsidiary has no remaining assets other than the insurance policies involved in its litigation, fundings from settlements with the primary insurers and funds received from the cancellation of certain insurance policies. The subsidiary has been named as a defendant, along with numerous other companies, in lawsuits alleging personal injury as a result of exposure to asbestos. As of December 31, 2008, the subsidiary was a defendant in approximately 1,008 lawsuits. Some of these lawsuits include multiple plaintiffs and we estimate that there are approximately 2,973 plaintiffs in

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these lawsuits. For many of these lawsuits, we have not been provided with sufficient information from the plaintiffs to determine whether all or some of the plaintiffs have claims against the subsidiary, the basis of any such claims, or the nature of their alleged injuries. The first of the asbestos-related lawsuits was filed against this subsidiary in 1990. Through

December 31, 2008, the amounts expended to resolve claims (including both attorneys' fees and expenses, and settlement costs) have not been material, and all deductibles with respect to the primary insurance have been satisfied. The subsidiary continues to be named as a defendant in additional lawsuits and we cannot predict the number of additional cases in which it may be named a defendant nor can we predict the potential costs to resolve such additional cases or to resolve the pending cases. However, the subsidiary has in excess of \$1 billion in insurance limits. Although not all of the policies may be fully available due to the insolvency of certain insurers, we believe that the subsidiary will have sufficient insurance and funds from the settlements of litigation with insurance carriers available to respond to these claims. While we cannot predict or provide assurance as to the final outcome of these matters, we do not believe that the current value of the claims where we have been identified will have a material impact on our consolidated statement of financial position, results of operations or cash flows.

We are involved in various tax matters as described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook—Tax Matters" and various regulatory matters as described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Outlook—Regulatory Matters." We are involved in lawsuits relating to damage claims arising out of hurricanes Katrina and Rita, all of which are insured and which are not material to us. We are also involved in a number of other lawsuits, including a dispute for municipal tax payments in Brazil and a dispute involving customs procedures in India, neither of which is material to us, and all of which have arisen in the ordinary course of our business. We do not expect the liability, if any, resulting from these other matters to have a material adverse effect on our consolidated statement of financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of the litigation matters specifically described above or of any such other pending or threatened litigation. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or other litigation matter will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

#### **Environmental Matters**

We have certain potential liabilities under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and similar state acts regulating cleanup of various hazardous waste disposal sites, including those described below. CERCLA is intended to expedite the remediation of hazardous substances without regard to fault. Potentially responsible parties ("PRPs") for each site include present and former owners and operators of, transporters to and generators of the substances at the site. Liability is strict and can be joint and several.

We have been named as a PRP in connection with a site located in Santa Fe Springs, California, known as the Waste Disposal, Inc. site. We and other PRPs have agreed with the U.S. Environmental Protection Agency ("EPA") and the DOJ to settle our potential liabilities for this site by agreeing to perform the remaining remediation required by the EPA. The form of the agreement is a consent decree, which has been entered by the court. The parties to the settlement have entered into a participation agreement, which makes us liable for approximately eight percent of the remediation and related costs. The remediation is complete, and we believe our share of the future operation and maintenance costs of the site is not material. There are additional potential liabilities related to the site, but these cannot be quantified, and we have no reason at this time to believe that they will be material.

We have also been named as a PRP in connection with a site in California known as the Casmalia Resources Site. We and other PRPs have entered into an agreement with the EPA and the DOJ to resolve potential liabilities. Under the settlement, we are not likely to owe any substantial additional amounts for this site beyond what we have already paid. There are additional potential liabilities related to this site, but these cannot be quantified at this time, and we have no reason at this time to believe that they will be material.

We have been named as one of many PRPs in connection with a site located in Carson, California, formerly maintained by Cal Compact Landfill. On February 15, 2002, we were served with a required 90-day notification that eight California cities, on behalf of themselves and other PRPs, intend to commence an action against us under the Resource Conservation and Recovery Act ("RCRA"). On April 1, 2002, a complaint was filed by the cities against us and others alleging that we have liabilities in connection with the site. However, the complaint has not been served. The site was closed in or around 1965, and we do not have sufficient information to enable us to assess our potential liability, if any, for this site.

One of our subsidiaries has recently been ordered by the California Regional Water Quality Control Board to develop a testing plan for a site known as Campus 1000 Fremont in Alhambra, California. This site was formerly owned and operated by certain of our subsidiaries. It is presently owned by an unrelated party, which has received an order to test the property, the cost of which is expected to be in the range of \$200,000. We have also been advised that one or more of our subsidiaries is likely to be named by the EPA as a PRP for the San Gabriel Valley, Area 3, Superfund site, which includes this property. We have no knowledge at this time of the potential cost of any remediation, who else will be named as PRPs and whether in fact any of our subsidiaries is a responsible party. The subsidiaries in question do not own any operating assets and have limited ability to respond to any liabilities.

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Resolutions of other claims by the EPA, the involved state agency or PRPs are at various stages of investigation. These investigations involve determinations of:

- the actual responsibility attributed to us and the other PRPs at the site;
- appropriate investigatory and/or remedial actions; and
- allocation of the costs of such activities among the PRPs and other site users.

Our ultimate financial responsibility in connection with those sites may depend on many factors, including:

- the volume and nature of material, if any, contributed to the site for which we are responsible;
- the numbers of other PRPs and their financial viability; and
- the remediation methods and technology to be used.

It is difficult to quantify with certainty the potential cost of these environmental matters, particularly in respect of remediation obligations. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from all environmental matters, including the liability for all other related pending legal proceedings, asserted legal claims and known potential legal claims which are likely to be asserted, is adequately accrued and should not have a material effect on our financial position or ongoing results of operations. Estimated costs of future expenditures for environmental remediation obligations are not discounted to their present value.

**Contamination litigation**—On July 11, 2005, one of our subsidiaries was served with a lawsuit filed on behalf of three landowners in Louisiana in the 12th Judicial District Court for the Parish of Avoyelles, State of Louisiana. The lawsuit named 19 other defendants, all of which were alleged to have contaminated the plaintiffs' property with naturally occurring radioactive material, produced water, drilling fluids, chlorides, hydrocarbons, heavy metals and other contaminants as a result of oil and gas exploration activities. Experts retained by the plaintiffs issued a report suggesting significant contamination in the area operated by the subsidiary and another codefendant, and claimed that over \$300 million would be required to properly remediate the contamination. The experts retained by the defendants conducted their own investigation and concluded that the remediation costs would amount to no more than \$2.5 million.

The plaintiffs and the codefendant threatened to add GlobalSantaFe as a defendant in the lawsuit under the "single business enterprise" doctrine contained in Louisiana law. The single business enterprise doctrine is similar to corporate veil piercing doctrines. On August 16, 2006, our subsidiary and its immediate parent company, each of which is an entity that no longer conducts operations or holds assets, filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. Later that day, the plaintiffs dismissed our subsidiary from the lawsuit. Subsequently, the codefendant filed various motions in the lawsuit and in the Delaware bankruptcies attempting to assert alter ego and single business enterprise claims against GlobalSantaFe and two other subsidiaries in the lawsuit. The efforts to assert alter ego and single business enterprise theory claims against GlobalSantaFe were rejected by the Court in Avoyelles Parish and the lawsuit against the other defendant went to trial on February 19, 2007. This lawsuit was resolved at trial with a settlement by the codefendant that included a \$20 million payment and certain cleanup activities to be conducted by the codefendant.

The codefendant sought to dismiss the bankruptcies. In addition, the codefendant filed proofs of claim against both our subsidiary and its parent with regard to its claims arising out of the settlement of the lawsuit. On February 15, 2008, the Bankruptcy Court denied the codefendant's request to dismiss the bankruptcy case but modified the automatic stay to allow the codefendant to proceed on its claims against the debtors, our subsidiary and its parent, and their insurance companies. The codefendant subsequently filed suit against the debtors and certain of its insurers in the Court of Avoyelles Parish to determine their liability for the settlement.

The codefendant filed a Notice of Appeal of the rulings of the Bankruptcy Court. GlobalSantaFe and its two subsidiaries also filed Notices of Appeal to the U. S. District Court for the District of Delaware. On January 27, 2009, the codefendant's appeal was granted by the District Court and the bankruptcy case was remanded to the Bankruptcy Court with instructions to have the case dismissed. On February 10, 2009, the Bankruptcy Court entered an order dismissing the bankruptcy case. The debtors, GlobalSantaFe and the two subsidiaries have filed Notices of Appeal of the District Court's ruling with the U. S. Court of Appeals for the Third Circuit. On February 18, 2009, the District Court stayed its ruling which instructed the Bankruptcy Court to dismiss the case.

We believe that these legal theories should not be applied against GlobalSantaFe or these other two subsidiaries, and that in any event the manner in which the parent and its subsidiaries conducted their businesses does not meet the requirements of these theories for imposition of liability. Our subsidiary, its parent and GlobalSantaFe intend to continue to vigorously defend against any action taken in an attempt to impose liability against them under the theories discussed above or otherwise and believe they have good and valid defenses thereto. We are unable to determine the value of these claims as of the date of the Merger. We do not believe that these claims will have a material impact on our consolidated statement of financial position, results of operations or cash flows.

**ITEM 4.**