

DIAMOND OFFSHORE DRILLING, INC.
Form 10-Q
April 29, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

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 1-13926

DIAMOND OFFSHORE DRILLING, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
or organization)

76-0321760
(I.R.S.
Employer

Identification
No.)

15415 Katy Freeway

Houston, Texas

77094

(Address of principal executive offices)

(Zip Code)

(281) 492-5300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 25, 2019 Common stock, \$0.01 par value per share 137,690,627 shares

DIAMOND OFFSHORE DRILLING, INC.

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Additional paid-in capital	2,019,555	2,018,143
Retained earnings	1,696,087	1,769,415
Accumulated other comprehensive gain	2	21
Treasury stock, at cost (7,026,789 and 6,945,309 shares of common stock		
at March 31, 2019 and December 31, 2018, respectively)	(205,214)	(204,370)
Total stockholders' equity	3,511,876	3,584,653
Total liabilities and stockholders' equity	\$6,112,484	\$6,035,694

The accompanying notes are an integral part of the condensed consolidated financial statements.

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DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
Revenues:		
Contract drilling	\$ 226,697	\$ 287,926
Revenues related to reimbursable expenses	6,845	7,584
Total revenues	233,542	295,510
Operating expenses:		
Contract drilling, excluding depreciation	167,429	184,689
Reimbursable expenses	6,743	7,470
Depreciation	86,898	81,825
General and administrative	17,312	18,513
Restructuring and separation costs	—	3,011
Loss (gain) on disposition of assets	4,287	(510)
Total operating expenses	282,669	294,998
Operating (loss) income	(49,127)	512
Other income (expense):		
Interest income	2,414	1,637
Interest expense, net of amounts capitalized	(29,925)	(28,318)
Foreign currency transaction (loss) gain	(1,085)	447
Other, net	333	580
Loss before income tax benefit	(77,390)	(25,142)
Income tax benefit	4,062	44,463
Net (loss) income	\$(73,328)	\$19,321
(Loss) Earnings per share, Basic and Diluted	\$(0.53)	\$0.14
Weighted-average shares outstanding:		
Shares of common stock	137,522	137,294
Dilutive potential shares of common stock	—	201
Total weighted-average shares outstanding	137,522	137,495

The accompanying notes are an integral part of the condensed consolidated financial statements.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS

(Unaudited)

(In thousands)

	Three Months Ended	
	March 31, 2019	2018
Net (loss) income	\$(73,328)	\$19,321
Other comprehensive gains (losses), net of tax:		
Derivative financial instruments:		
Reclassification adjustment for gain included in net (loss) income	(1)	(2)
Investments in marketable securities:		
Unrealized holding gain	14	-
Reclassification adjustment for gain included in net (loss) income	(32)	-
Total other comprehensive loss	(19)	(2)
Comprehensive (loss) income	\$(73,347)	\$19,319

The accompanying notes are an integral part of the condensed consolidated financial statements.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands, except number of shares)

	Three Months Ended March 31, 2019							
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Gains (Losses)	Treasury Stock	Total Stockholders' Equity	
	Shares	Amount	Capital	Earnings		Shares	Amount	
January 1, 2019	144,383,662	\$ 1,444	\$ 2,018,143	\$ 1,769,415	\$ 21	6,945,309	\$(204,370)	\$ 3,584,653
Net loss	—	—	—	(73,328)	—	—	—	(73,328)
Stock-based compensation, net of tax	223,330	2	1,412	—	—	81,480	(844)	570
Net loss on investments	—	—	—	—	(18)	—	—	(18)
Net loss on derivative financial instruments	—	—	—	—	(1)	—	—	(1)
March 31, 2019	144,606,992	\$ 1,446	\$ 2,019,555	\$ 1,696,087	\$ 2	7,026,789	\$(205,214)	\$ 3,511,876

	Three Months Ended March 31, 2018							
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Gains (Losses)	Treasury Stock	Total Stockholders' Equity	
	Shares	Amount	Capital	Earnings		Shares	Amount	
December 31, 2017	144,085,292	\$ 1,441	\$ 2,011,397	\$ 1,964,497	\$ (5)	6,857,510	\$(203,069)	\$ 3,774,261
Impact of change in accounting principle	—	—	—	(14,812)	—	—	—	(14,812)
Adjusted balance at January 1, 2018	144,085,292	\$ 1,441	\$ 2,011,397	\$ 1,949,685	\$ (5)	6,857,510	\$(203,069)	\$ 3,759,449
Net income	—	—	—	19,321	—	—	—	19,321
Stock-based compensation, net of tax	164,271	1	1,596	—	—	49,082	(733)	864
Net loss on derivative	—	—	—	—	(2)	—	—	(2)

financial
instruments

March 31, 2018	144,249,563	\$ 1,442	\$ 2,012,993	\$ 1,969,006	\$ (7)	6,906,592	\$(203,802)	\$ 3,779,632
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The accompanying notes are an integral part of the condensed consolidated financial statements.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Net (loss) income	\$(73,328)	\$19,321
Adjustments to reconcile net (loss) income to net cash provided by		
operating activities:		
Depreciation	86,898	81,825
Loss (gain) on disposition of assets	4,287	(510)
Deferred tax provision	(7,769)	(49,089)
Stock-based compensation expense	1,414	1,597
Contract liabilities, net	11,980	(500)
Contract assets, net	(1,922)	611
Deferred contract costs, net	(6,244)	10,827
Other assets, noncurrent	98	228
Other liabilities, noncurrent	(570)	(1,811)
Other	(1,517)	3,182
Changes in operating assets and liabilities:		
Accounts receivable	(20,761)	56,962
Prepaid expenses and other current assets	604	2,381
Accounts payable and accrued liabilities	13,329	(36,542)
Taxes payable	(3,637)	(4,713)
Net cash provided by operating activities	2,862	83,769
Investing activities:		
Capital expenditures	(85,890)	(31,483)
Proceeds from maturities of marketable securities	1,000,000	—
Purchase of marketable securities	(948,298)	—
Proceeds from disposition of assets, net of disposal costs	95	1,427
Net cash used in investing activities	(34,093)	(30,056)
Financing activities:		
Other	(2)	(66)
Net cash used in financing activities	(2)	(66)
Net change in cash and cash equivalents	(31,233)	53,647
Cash and cash equivalents, beginning of period	154,073	376,037
Cash and cash equivalents, end of period	\$122,840	\$429,684

The accompanying notes are an integral part of the condensed consolidated financial statements.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The unaudited condensed consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries, which we refer to as “Diamond Offshore,” “we,” “us” or “our,” should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 1-13926).

As of April 25, 2019, Loews Corporation owned approximately 53% of the outstanding shares of our common stock.

Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S., or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, pursuant to such rules and regulations, they do not include all disclosures required by GAAP for annual financial statements. The condensed consolidated financial information has not been audited but, in the opinion of management, includes all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Diamond Offshore’s condensed consolidated balance sheets, statements of operations, statements of comprehensive income or loss, statements of stockholders’ equity and statements of cash flows at the dates and for the periods indicated. Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2016-02, Leases (Topic 842), or ASU 2016-02, which (i) requires lessees to recognize a right of use asset and a lease liability on the balance sheet for most leases, (ii) updates previous accounting standards for lessors to align certain requirements with the updates to lessee accounting standards and the revenue recognition accounting standards and (iii) requires enhanced disclosure of qualitative and quantitative information about an entity's leasing arrangements.

We adopted ASU 2016-02 effective January 1, 2019 using an optional transition method requiring leases existing at, or entered into after, January 1, 2019 to be recognized and measured under the new accounting standard. Prior period amounts have not been adjusted and continue to be reflected in accordance with our historical accounting for leases. In our adoption of ASU 2016-02, we also utilized a transition practical expedient package whereby we did not reassess (i) whether any of our expired or existing contracts contain a lease, (ii) the classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The adoption of this standard resulted in the recording of operating lease assets and offsetting operating lease liabilities of \$146.8 million as of January 1, 2019, with no related impact on our unaudited Condensed Consolidated Statements of Stockholders’ Equity. See Note 9.

Upon adoption of ASU 2016-02, we concluded that our drilling contracts contain a lease component for the use of our drilling rigs based on the updated definition of a lease. However, ASU 2016-02 provides for a practical expedient for lessors whereby, under certain circumstances, the lessor may combine the lease and non-lease components and account for the combined component in accordance with the accounting treatment for the predominant component. We have determined that our current drilling contracts qualify for this practical expedient and have combined the lease and service components of our standard drilling contracts. We continue to account for the combined component under ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606) and its related amendments, or collectively Topic 606.

2. Revenue from Contracts with Customers

The activities that primarily drive the revenue earned from our drilling contracts include (i) providing a drilling rig and the crew and supplies necessary to operate the rig, (ii) mobilizing and demobilizing the rig to and from the drill site and (iii) performing rig preparation activities and/or modifications required for the contract. We account for these integrated services provided within our drilling contracts as a single performance obligation satisfied over time and comprised of a series of distinct time increments in which we provide drilling services.

Dayrate and other revenue for activities, which correspond to a distinct time increment within the contract term, are recognized in the period when the services are performed. Consideration for activities that are not distinct within the context of our contracts and do not correspond to a distinct time increment within the contract term is allocated across the single performance obligation and recognized ratably in proportion to the actual services performed over the initial term of the contract (which is the period we estimate to be benefited from the corresponding activities and generally ranges from two to 60 months). Such consideration may include mobilization, demobilization, contract preparation and capital modification revenue that is stipulated in our drilling contracts.

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from our contracts with customers (in thousands):

	March 31, 2019	December 31, 2018
Trade receivables	\$ 179,805	\$ 160,463
Current contract assets ⁽¹⁾	8,755	6,832
Noncurrent contract assets ⁽¹⁾	2,107	2,107
Current contract liabilities (deferred revenue) ⁽¹⁾	(6,840)	(2,803)
Noncurrent contract liabilities (deferred revenue) ⁽¹⁾	(25,667)	(17,723)

⁽¹⁾Contract assets and contract liabilities may reflect balances which have been netted together on a contract basis. Net current contract asset and liability balances are included in "Prepaid expenses and other current assets" and "Accrued liabilities," respectively, and net noncurrent contract asset and liability balances are included in "Other assets" and "Other liabilities," respectively, in our unaudited Condensed Consolidated Balance Sheets.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows (in thousands):

	Net Contract Balances
Contract assets at January 1, 2019	\$8,939
Contract liabilities at January 1, 2019	(20,526)
Net balance at January 1, 2019	(11,587)
Decrease due to amortization of revenue included in the beginning contract liability balance	2,049
Increase due to cash received, excluding amounts recognized as revenue during the period	(14,029)
Increase due to revenue recognized during the period but contingent on future performance	1,922

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Net balance at March 31, 2019	\$(21,645)
Contract assets at March 31, 2019	\$10,862
Contract liabilities at March 31, 2019	(32,507)

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Transaction Price Allocated to Remaining Performance Obligations

The following table reflects revenue expected to be recognized in the future related to unsatisfied performance obligations as of March 31, 2019 (in thousands):

	For the Years Ending December 31,				
	2019(1)	2020	2021	2022	Total
Mobilization and contract preparation revenue	\$2,691	\$351	\$510	\$124	\$3,676
Capital modification revenue	5,651	4,524	—		