Weatherford International plc
Form 10-Q
August 01, 2017

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

(Mark One) Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
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 001-36504

Weatherford International public limited company
(Exact Name of Registrant as Specified in Its Charter)

Ireland	98-0606750
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
Weststrasse 1, 6340 Baar, Switzerland	CH 6340
(Address of Principal Executive Offices including Zip Code)	(Zip Code)

Registrant’s Telephone Number, Including Area Code: +41.22.816.1500
N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 þ	Accelerated filer o	Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company o	Emerging growth company o

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. o

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

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

As of July 18, 2017, there were 989,035,049 shares of Weatherford ordinary shares, $0.001 par value per share, outstanding.

Weatherford International public limited company
Form 10-Q for the Second Quarter and Six Months Ended June 30, 2017

TABLE OF CONTENTS

PAGE

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

WEATHERFORD INTERNATIONAL PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars and shares in millions, except per share amounts)	2017	2016	2017	2016
Revenues:				
Products	$488	$479	$999	$1,039
Services	875	923	1,750	1,948
Total Revenues	1,363	1,402	2,749	2,987
Costs and Expenses:				
Cost of Products	473	513	959	1,095
Cost of Services	716	725	1,436	1,617
Research and Development	36	41	75	86
Selling, General and Administrative Attributable to Segments	214	230	446	499
Corporate General and Administrative	32	34	65	76
Asset Write-Downs and Other	(12)	154	(15)	212
Restructuring Charges	31	51	106	128
Litigation Charges, Net	—	114	—	181
Total Costs and Expenses	1,490	1,862	3,072	3,894
Operating Loss	(127)	(460)	(323)	(907)
Other Income (Expense):				
Interest Expense, Net	(138)	(119)	(279)	(234)
Bond Tender Premium, Net	—	(78)	—	(78)
Warrant Fair Value Adjustment	127	—	65	—
Currency Devaluation Charges	—	—	—	(31)
Other Expense, Net	(10)	(7)	(21)	(6)
Loss Before Income Taxes	(148)	(664)	(558)	(1,256)
Income Tax (Provision) Benefit	(17)	102	(50)	203
Net Loss	(165)	(562)	(608)	(1,053)
Net Income Attributable to Noncontrolling Interests	6	3	11	10
Net Loss Attributable to Weatherford	$(171)	$(565)	$(619)	$(1,063)
Loss Per Share Attributable to Weatherford:				
Basic & Diluted	$(0.17)	$(0.63)	$(0.63)	$(1.24)
Weighted Average Shares Outstanding:				
Basic & Diluted	990	899	989	856

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

Table of Contents

WEATHERFORD INTERNATIONAL PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2017	2016	2017	2016
Net Loss	$(165)	$(562)	$(608)	$(1,053)
Currency Translation Adjustments	11	(10)	74	132
Defined Benefit Pension Activity	(21)	1	(41)	1
Other	—	—	—	1
Other Comprehensive Income (Loss)	(10)	(9)	33	134
Comprehensive Loss	(175)	(571)	(575)	(919)
Comprehensive Income Attributable to Noncontrolling Interests	6	3	11	10
Comprehensive Loss Attributable to Weatherford	$(181)	$(574)	$(586)	$(929)

The accompanying notes are an integral part of these condensed consolidated financial statements.
3

Table of Contents

WEATHERFORD INTERNATIONAL PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars and shares in millions, except par value)	June 30, 2017 (Unaudited)	December 31, 2016
Current Assets:		
Cash and Cash Equivalents	$ 584	$ 1,037
Accounts Receivable, Net of Allowance for Uncollectible Accounts of $91 in 2017 and $129 in 2016	1,165	1,383
Inventories, Net	1,728	1,802
Prepaid Expenses	233	263
Other Current Assets	408	402
Assets Held for Sale	929	23
Total Current Assets	5,047	4,910
Property, Plant and Equipment, Net of Accumulated Depreciation of $7,518 in 2017 and $7,362 in 2016	4,111	4,480
Goodwill	2,293	2,797
Other Intangible Assets, Net of Accumulated Amortization of $836 in 2017 and $801 in 2016	234	248
Equity Investments	63	66
Other Non-Current Assets	304	163
Total Assets	$ 12,052	$ 12,664
Current Liabilities:		
Short-term Borrowings and Current Portion of Long-term Debt	$ 152	$ 179
Accounts Payable	837	845
Accrued Salaries and Benefits	295	291
Income Taxes Payable	223	255
Other Current Liabilities	783	858
Liabilities Held for Sale	90	—
Total Current Liabilities	2,380	2,428
Long-term Debt	7,538	7,403
Other Non-Current Liabilities	610	765
Total Liabilities	10,528	10,596
Shareholders' Equity:		
Shares - Par Value $0.001; Authorized 1,356 shares, Issued and Outstanding 986 shares at June 30, 2017 and 983 shares at December 31, 2016	$ 1	$ 1
Capital in Excess of Par Value	6,612	6,571
Retained Deficit	(3,569)	(2,950)
Accumulated Other Comprehensive Loss	(1,577)	(1,610)
Weatherford Shareholders' Equity	1,467	2,012
Noncontrolling Interests	57	56
Total Shareholders' Equity	1,524	2,068
Total Liabilities and Shareholders' Equity	$ 12,052	$ 12,664

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

Table of Contents

WEATHERFORD INTERNATIONAL PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Six Months Ended June 30, 2017			2016		
Cash Flows From Operating Activities:						
Net Loss	$	(608	)	$	(1,053	)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:						
Depreciation and Amortization	412			499		
Employee Share-Based Compensation Expense	41			38		
Asset Write-Downs and Other Charges	34			164		
Inventory Charges	35			26		
Defined Benefit Pension Plan Gains	(41		)	—		
Litigation Charges	—			185		
Bond Tender Premium	—			78		
Deferred Income Tax Provision (Benefit)	4			(215		)
Currency Devaluation Charges	—			31		
Warrant Fair Value Adjustment	(65		)	—		
Other, Net	72			75		
Change in Operating Assets and Liabilities, Net of Effect of Businesses Acquired:						
Accounts Receivable	(12		)	170		
Inventories	(47		)	122		
Other Current Assets	69			67		
Accounts Payable	(16		)	(167		)
Accrued Litigation and Settlements	(62		)	(10		)
Other Current Liabilities	(16		)	(282		)
Other, Net	(41		)	(67		)
Net Cash Used in Operating Activities	(241		)	(339		)
Cash Flows From Investing Activities:						
	(82		)	(74		)

Capital Expenditures for Property, Plant and Equipment						
Acquisition of Assets Held for Sale	(243		)	—		
Acquisition of Intellectual Property	(9		)	(8		)
Insurance Proceeds Related to Asset Casualty Loss	—			30		
Proceeds from Sale of Assets	25			16		
Payment Related to Sale of Businesses, Net	(1		)	(20		)
Other Investing Activities	(5		)	—		
Net Cash Used in Investing Activities	(315		)	(56		)
Cash Flows From Financing Activities:						
Borrowings of Long-term Debt	251			3,156		
Repayments of Long-term Debt	(36		)	(1,880		)
Repayments of Short-term Debt, Net	(96		)	(1,381		)
Proceeds from Issuance of Ordinary Common Shares	—			623		
Bond Tender Premium	—			(78		)
Other Financing Activities	(20		)	(25		)
Net Cash Provided by Financing Activities	99			415		
Effect of Exchange Rate Changes on Cash and Cash Equivalents	4			(35		)
Net Decrease in Cash and Cash Equivalents	(453		)	(15		)
Cash and Cash Equivalents at Beginning of Period	1,037			467		
Cash and Cash Equivalents at End of Period	$	584		$	452	
Supplemental Cash Flow Information:						
Interest Paid	$	251		$	261	

Income Taxes Paid, Net of Refunds	$ 47	$ 120

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

1. General

The accompanying unaudited Condensed Consolidated Financial Statements of Weatherford International plc (the "Company") are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and include all adjustments which, in our opinion, are considered necessary to present fairly our Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016, and Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2017 and 2016 and Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016. When referring to "Weatherford" and using phrases such as "we," "us," and "our," the intent is to refer to Weatherford International plc, a public limited company organized under the law of Ireland, and its subsidiaries as a whole or on a regional basis, depending on the context in which the statements are made.
Although we believe the disclosures in these financial statements are adequate, certain information relating to our organization and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in this Form 10-Q pursuant to U.S. Securities and Exchange Commission ("SEC") rules and regulations. These financial statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2016 included in our Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results expected for the year ending December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to uncollectible accounts receivable, lower of cost or net realizable value for inventories, equity investments, derivative financial instruments, intangible assets and goodwill, property, plant and equipment (PP&E), income taxes, percentage-of-completion accounting for long-term contracts, self-insurance, foreign currency exchange rates, pension and post-retirement benefit plans, disputes, litigation, contingencies and share-based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Principles of Consolidation

We consolidate all wholly-owned subsidiaries, controlled joint ventures and variable interest entities where the Company has determined it is the primary beneficiary. Investments in affiliates in which we exercise significant influence over operating and financial policies are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year cash flow amounts have been reclassified to conform to the current year presentation related to the adoption of new accounting standards. Net income and shareholders' equity were not affected by these reclassifications. See “Note 17 – New Accounting Pronouncements” for additional details.

Table of Contents

Revenue Recognition

In the second quarter of 2017, the Company changed its accounting for revenue related to an implied financing arrangement with our largest customer in Venezuela. We determined that beginning in the third quarter of 2016, the duration of time expected to collect revenue for goods and services provided to this customer significantly exceeded the contractual payment terms and represents an implied financing arrangement. Accordingly, we have modified our revenue recognition with this customer to record a discount reflecting the time value of money and accreting the discount as interest income over the expected collection period using the effective interest method. In connection with this development, the Company corrected this immaterial error for the three and six month periods ended June 30, 2017. The impact of the correction decreased revenue and increased interest income by approximately $31 million and $4 million, respectively, for the three month period ended June 30, 2017 and reduced accounts receivable by approximately $27 million as of June 30, 2017. As of June 30, 2017, to reflect the impact of payment delays and expectation that the time to collect may exceed one year, we have reclassified $150 million of our total $153 million "Accounts Receivable, Net of Allowance for Uncollectible Accounts" with this customer to "Other Non-Current Assets" on the accompanying Condensed Consolidated Balance Sheets. While we are continuing to experience delays with collections on our outstanding receivables with this customer, we believe the amounts are fully collectible.

This change in accounting would not have affected our compliance with financial covenants under our senior revolving and term loan credit facilities if it had been recorded in the prior periods, and the adjustment has no impact to cash flow from operating activities or any other cash flow measures.

Currency Devaluation Charges

Currency devaluation charges are included in current earnings in "Currency Devaluation Charges" on the accompanying Condensed Consolidated Statements of Operations. In the first six months of 2016, currency devaluation charges of $31 million reflected the impact of the devaluation of the Angolan kwanza. In the second quarter and first six months of 2017, we had no currency devaluation charges.

2. Business Combinations and Divestitures

Held for Sale

On March 24, 2017, we entered a master formation agreement with affiliates of Schlumberger Limited ("Schlumberger") to form a joint venture named "OneStim[SM]," which will provide completion products and services for the development of unconventional land reservoirs in the United States and Canada. Under the terms of the master formation agreement, both parties will contribute their respective pressure pumping assets, multistage completions, and pump-down perforating businesses on land in the lower contiguous 48 states of the United States and the provinces of British Columbia, Saskatchewan, Manitoba and Alberta in Canada. In addition, we will contribute manufacturing facilities and supply chain resources to OneStim, and Schlumberger will provide the joint venture with access to its surface and downhole technologies and advanced geo-engineered workflows. At closing, we will own a 30% equity interest in the OneStim joint venture, and Schlumberger will own 70%, and we will also receive a one-time $535 million cash payment from Schlumberger. The transaction is expected to close in the second half of 2017 and is subject to regulatory approvals and other customary closing conditions. The carrying amounts of the major classes of assets and liabilities from our North America segment to be contributed to OneStim have been classified as held for sale in the table below.

Table of Contents

(Dollars in millions)	June 30, 2017
Assets Held for Sale:	
Other Current Assets	$4
Inventory, Net	83
Property, Plant and Equipment, Net	260
Goodwill	555
Total Assets	$902
Liabilities Held for Sale:	
Other Current Liabilities	$8
Long-term Debt	29
Other Non-Current Liabilities	53
Total Liabilities	$90

As of June 30, 2017, we also had $27 million of PP&E held for sale unrelated to the OneStim joint venture.

3. Restructuring Charges

Due to the ongoing lower than anticipated levels of exploration and production spending, we continue to reduce our overall cost structure and workforce to better align with current activity levels. The ongoing cost reduction plans which began in 2016 (the "2016 Plan") included a workforce reduction and other cost reduction measures initiated across our geographic regions.

In connection with the 2016 Plan, we recognized restructuring charges of $31 million and $106 million in the second quarter and the first six months of 2017, respectively, which include termination (severance) charges of $22 million and $56 million, respectively, and other restructuring charges of $9 million and $38 million, respectively. The first six months of 2017 also includes restructuring related asset charges of $12 million. Other restructuring charges include contract termination costs, relocation and other associated costs.

Also in connection with the 2016 Plan, we recognized restructuring charges of $51 million and $128 million in the second quarter and the first six months of 2016, respectively, which include termination (severance) charges of $36 million and $108 million, respectively, and other restructuring charges of $15 million and $20 million, respectively. Other restructuring charges also include contract termination costs, relocation and other associated costs.

The following tables present the components of restructuring charges by segment for the second quarter and the first six months of 2017 and 2016.

	Three Months Ended June 30, 2017		
(Dollars in millions) 2016 Plan	Severance Charges	Other Charges	Total Severance and Other Charges
North America	$2	$ 6	$ 8
MENA/Asia Pacific	4	1	5
Europe/SSA/Russia	6	2	8

Latin America	8	—	8
Subtotal	20	9	29
Land Drilling Rigs	1	—	1
Corporate and Research and Development	1	—	1
Total	$22	$ 9	$ 31

8

Table of Contents

(Dollars in millions) 2016 Plan	Three Months Ended June 30, 2016 Severance Charges	Other Charges	Total Severance and Other Charges
North America	$5	$ 10	$ 15
MENA/Asia Pacific	9	2	11
Europe/SSA/Russia	8	2	10
Latin America	11	1	12
Subtotal	33	15	48
Land Drilling Rigs	1	—	1
Corporate and Research and Development	2	—	2
Total	$36	$ 15	$ 51

(Dollars in millions) 2016 Plan	Six Months Ended June 30, 2017 Severance Charges	Other Charges	Total Severance and Other Charges
North America	$2	$ 21	$ 23
MENA/Asia Pacific	8	1	9
Europe/SSA/Russia	8	21	29
Latin America	13	3	16
Subtotal	31	46	77
Land Drilling Rigs	2	—	2
Corporate and Research and Development	23	4	27
Total	$56	$ 50	$ 106

(Dollars in millions) 2016 Plan	Six Months Ended June 30, 2016 Severance Charges	Other Charges	Total Severance and Other Charges
North America	$24	$ 15	$ 39
MENA/Asia Pacific	18	2	20
Europe/SSA/Russia	23	2	25
Latin America	26	1	27
Subtotal	91	20	111
Land Drilling Rigs	5	—	5
Corporate and Research and Development	12	—	12
Total	$108	$ 20	$ 128

Table of Contents

The severance and other restructuring charges gave rise to certain liabilities, the components of which are summarized below, and largely relate to the severance accrued as part of earlier 2014 and 2015 Plans and the 2016 Plan and other executive severance matters that will be paid pursuant to the respective arrangements and statutory requirements.

	At June 30, 2017				
	2016 Plan		2015 and 2014 Plans		Total
(Dollars in millions)	Severance Liability	Other Liability	Severance Liability	Other Liability	Severance and Other Liability
North America	$1	$ 20	$ —	$ —	$ 21
MENA/Asia Pacific	5	2	—	—	7
Europe/SSA/Russia	3	10	—	7	20
Latin America	1	—	—	—	1
Subtotal	10	32	—	7	49
Land Drilling Rigs	—	—	—	—	—
Corporate and Research and Development	29	—	—	—	29
Total	$39	$ 32	$ —	$ 7	$ 78

The following table presents the restructuring liability activity for the first six months of 2017.

	Six Months Ended June 30, 2017				
(Dollars in millions)	Accrued Balance at December 31, 2016	Charges	Cash Payments	Other	Accrued Balance at June 30, 2017
2016 Plan:					
Severance liability	$ 52				