

Ship Finance International LTD
Form 6-K
September 04, 2014

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

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934
For the month of September 2014
Commission File Number: 001-32199

Ship Finance International Limited
(Translation of registrant's name into English)

Par-la-Ville Place
14 Par-la-Ville Road
Hamilton, HM 08, Bermuda
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

INFORMATION CONTAINED IN THIS FORM 6-K REPORT

Attached hereto are the unaudited condensed interim financial statements and related Management's Discussion and Analysis of Financial Condition and Results of Operations of Ship Finance International Limited (the "Company") for the six months ended June 30, 2014. Also, attached hereto as Exhibit 99.1 is a list of the Company's significant subsidiaries.

This report on Form 6-K is hereby incorporated by reference into the Company's Registration Statements on Form F-3 (Registration No. 333-170598) and on Form F-3 (Registration No. 333-191406), each filed with the U.S. Securities and Exchange Commission (the "SEC") on November 15, 2010 and September 26, 2013, respectively.

SHIP FINANCE INTERNATIONAL LIMITED

REPORT ON FORM 6-K FOR THE PERIOD ENDED JUNE 30, 2014

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Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

for the six month periods ended June 30, 2014 and June 30, 2013

and the year ended December 31, 2013

(in thousands of \$, except per share amounts)

	Six months ended		Year ended
	June 30,	2013	December 31,
	2014		2013
Operating revenues			
Direct financing lease interest income - related parties	23,164	28,489	55,385
Direct financing lease interest income - other	—	3,018	4,231
Finance lease service revenues - related parties	23,530	26,650	52,390
Finance lease service revenues - other	—	825	1,846
Profit sharing revenues - related parties	14,290	100	770
Time charter revenues - related parties	4,846	1,935	5,647
Time charter revenues - other	37,045	38,937	77,778
Bareboat charter revenues - related parties	9,071	9,103	18,324
Bareboat charter revenues - other	24,539	21,177	42,705
Voyage charter revenues - other	16,866	—	9,724
Other operating income	2,305	844	2,060
Total operating revenues	155,656	131,078	270,860
Gain on sale of assets and termination of charters	15,197	18,025	18,025
Operating expenses			
Ship operating expenses - related parties	24,807	27,869	54,916
Ship operating expenses - other	32,935	19,360	50,618
Depreciation	31,661	28,337	58,436
Administrative expenses - related parties	495	233	439
Administrative expenses - other	3,523	3,678	7,110
Total operating expenses	93,421	79,477	171,519
Net operating income	77,432	69,626	117,366
Non-operating income / (expense)			
Interest income - related parties, associated companies	11,866	9,788	19,575
Interest income - related parties, other	1,868	—	482
Interest income - other	7,652	5,012	10,023
Interest expense - other	(42,573)	(44,184)	(87,225)
Loss on repurchase of bonds	(21)	(1,109)	(1,218)
Other financial items, net	(7,151)	2,779	2,003
Net income before equity in earnings of associated companies	49,073	41,912	61,006
Equity in earnings of associated companies	14,019	15,530	28,200
Net income	63,092	57,442	89,206
Per share information:			
Basic earnings per share	\$0.68	\$0.67	\$1.00
Diluted earnings per share	\$0.64	\$0.60	\$0.99

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

Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the six month periods ended June 30, 2014 and June 30, 2013
and the year ended December 31, 2013
(in thousands of \$)

	Six months ended		Year ended
	June 30, 2014	2013	December 31, 2013
Net income	63,092	57,442	89,206
Fair value adjustments to hedging financial instruments	(8,996	) 32,908	41,827
Fair value adjustments to hedging financial instruments in associated companies	(913	) 4,128	2,897
Reclassification into net income of previous fair value adjustments to hedging financial instruments	5,196	502	2,102
Fair value adjustments to available for sale securities	(346	) 218	699
Other comprehensive (loss)/income	3	(68	) (58
Other comprehensive income/(loss)	(5,056	) 37,688	47,467
Comprehensive income	58,036	95,130	136,673

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

Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

as at June 30, 2014 and December 31, 2013

(in thousands of \$, except share data)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	49,480	58,641
Available for sale securities	61,889	76,925
Trade accounts receivable	6,121	8,362
Due from related parties	30,204	13,249
Other receivables	28,795	79,301
Inventories	5,557	6,607
Prepaid expenses and accrued income	3,616	3,971
Investment in direct financing and sales-type leases, current portion	44,978	45,148
Total current assets	230,640	292,204
Vessels and equipment, net	1,185,825	1,089,616
Newbuildings and vessel purchase deposits	146,814	126,008
Investment in direct financing and sales-type leases, long-term portion	838,431	858,260
Investment in associated companies	40,962	40,987
Loans to related parties - associated companies, long-term	478,259	530,715
Loans to related parties - others, long-term	45,701	48,847
Other long-term investments	1,234	1,235
Deferred charges	37,600	41,478
Financial instruments (long-term): at fair value	7,320	16,633
Total assets	3,012,786	3,045,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short term and current portion of long-term debt	396,963	389,888
Trade accounts payable	1,060	3,502
Due to related parties	1,939	13,965
Accrued expenses	13,041	13,832
Financial instruments (short-term): at fair value	2,568	5,705
Other current liabilities	11,569	5,548
Total current liabilities	427,140	432,440
Long-term liabilities		
Long-term debt	1,333,052	1,346,991
Financial instruments (long-term): at fair value	59,980	56,490
Other long-term liabilities	16,592	18,129
Total liabilities	1,836,764	1,854,050
Commitments and contingent liabilities		
Stockholders' equity		
Share capital (\$1 par value; 125,000,000 shares authorized; 93,359,000 and 93,260,000 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	93,359	93,260
Additional paid-in capital	284,829	285,632

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Contributed surplus	583,888	581,569	
Accumulated other comprehensive loss	(38,994) (34,851)
Accumulated other comprehensive loss - associated companies	(3,192) (2,279)
Retained earnings	256,132	268,602	
Total stockholders' equity	1,176,022	1,191,933	
Total liabilities and stockholders' equity	3,012,786	3,045,983	

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

Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the six month periods ended June 30, 2014 and June 30, 2013

and the year ended December 31, 2013

(in thousands of \$)

	Six months ended		Year ended
	June 30,	2013	December 31,
	2014		2013
Operating activities			
Net income	63,092	57,442	89,206
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	31,661	28,337	58,436
Amortization of deferred charges	5,424	5,303	11,305
Amortization of seller's credit	(957)	) (996	) (1,983
Equity in earnings of associated companies	(14,019)	) (15,530	) (28,200
Gain on sale of assets and termination of charters	(15,197)	) (18,025	) (18,025
Adjustment of derivatives to fair value recognized in net income	2,705	(4,658	) (7,950
Loss on repurchase of bonds	21	1,109	1,218
Interest receivable in form of notes	(1,532)	) (1,326	) (2,767
Other	(1,960)	) (1,626	) (1,396
Changes in operating assets and liabilities			
Trade accounts receivable	2,241	(4,296	) (4,313
Due from related parties	(4,650)	) 53,537	49,189
Other receivables	(5,444)	) (1,738	) (740
Inventories	1,051	(312	) (3,656
Prepaid expenses and accrued income	355	(436	) (3,236
Trade accounts payable	(2,442)	) (1,161	) 2,047
Accrued expenses	(791)	) (154	) 271
Other current liabilities	(2,481)	) 752	718
Net cash provided by operating activities	57,077	96,222	140,124
Investing activities			
Repayments from investments in direct financing and sales-type leases	21,921	26,387	51,220
Additions to newbuildings and vessel purchase deposits	(84,239)	) (64,019	) (109,337
Purchase of vessels	(122,870)) —	—
Proceeds from sales of vessels and termination of charters	90,746	40,366	83,583
Net amounts received from/ (paid to) associated companies	44,402	(126,097	) (81,308
Proceeds of other long-term investments	50,000	—	—
Redemption/ (purchase) of available for sale securities	16,064	(9,668	) (18,140
Net cash provided by/ (used) in investing activities	16,024	(133,031	) (73,982
Financing activities			
Shares issued, net of issuance costs	463	128,880	128,880
Payments in lieu of issuing shares for exercised share options	(1,196)	) (448	) (448
Repurchase of bonds	(75,262)	) (248,109	) (254,132
Proceeds from issuance of short-term and long-term debt	397,332	514,747	705,347

Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the six month periods ended June 30, 2014 and June 30, 2013

and the year ended December 31, 2013

(in thousands of \$)

	Six months ended June 30,		Year ended December 31,
	2014	2013	2013
Repayments of short-term and long-term debt	(325,783	) (333,066	) (530,186
Debt fees paid	(2,254	) (8,343	) (8,390
Cash dividends paid	(75,562	) (36,371	) (109,114
Net cash (used) in/ provided by financing activities	(82,262	) 17,290	(68,043
Net change in cash and cash equivalents	(9,161	) (19,519	) (1,901
Cash and cash equivalents at start of the period	58,641	60,542	60,542
Cash and cash equivalents at end of the period	49,480	41,023	58,641
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalized interest	39,952	39,926	77,630

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

Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
for the six month periods ended June 30, 2014 and June 30, 2013
and the year ended December 31, 2013
(in thousands of \$, except number of shares)

	Six months ended		Year ended
	June 30,	2013	December 31,
	2014		2013
Number of shares outstanding			
At beginning of period	93,260,000	85,225,000	85,225,000
Shares issued	99,000	8,035,000	8,035,000
At end of period	93,359,000	93,260,000	93,260,000
Share capital			
At beginning of period	93,260	85,225	85,225
Shares issued	99	8,035	8,035
At end of period	93,359	93,260	93,260
Additional paid-in capital			
At beginning of period	285,632	144,258	144,258
Amortization of stock based compensation	29	140	220
Payments in lieu of issuing shares	(1,196	) (448	) (448
Shares issued	364	120,880	120,880
Equity component of convertible bond issuance, net	—	20,722	20,722
At end of period	284,829	285,552	285,632
Contributed surplus			
At beginning of period	581,569	561,372	561,372
Amortization of deferred equity contributions	2,319	6,385	20,197
At end of period	583,888	567,757	581,569
Accumulated other comprehensive loss			
At beginning of period	(34,851	) (79,421	) (79,421
Loss on hedging financial instruments reclassified into earnings	5,196	502	2,102
Fair value adjustments to hedging financial instruments	(8,996	) 32,908	41,827
Fair value adjustments to available for sale securities	(346	) 218	699
Other comprehensive (loss)/ income	3	(68	) (58
At end of period	(38,994	) (45,861	) (34,851
Accumulated other comprehensive loss - associated companies			
At beginning of period	(2,279	) (5,176	) (5,176
Fair value adjustment to hedging financial instruments	(913	) 4,128	2,897
At end of period	(3,192	) (1,048	) (2,279
Retained earnings			
At beginning of period	268,602	288,510	288,510
Net income	63,092	57,442	89,206
Dividends declared	(75,562	) (36,371	) (109,114
At end of period	256,132	309,581	268,602
Total Stockholders' Equity	1,176,022	1,209,241	1,191,933

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

SHIP FINANCE INTERNATIONAL LIMITED

Notes to the Unaudited Consolidated Financial Statements

1. INTERIM FINANCIAL DATA

The unaudited condensed interim financial statements of Ship Finance International Limited (“Ship Finance” or the “Company”) have been prepared on the same basis as the Company’s audited financial statements and, in the opinion of management, include all material adjustments, consisting only of normal recurring adjustments considered necessary in order to make the interim financial statements not misleading, in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The accompanying condensed interim unaudited financial statements should be read in conjunction with the annual financial statements and notes included in the Annual Report on Form 20-F for the year ended December 31, 2013. The results of operations for the interim period ended June 30, 2014 are not necessarily indicative of the results for the entire year ending December 31, 2014.

Basis of accounting

The condensed consolidated financial statements are prepared in accordance with US GAAP. The condensed consolidated financial statements include the assets and liabilities and results of operations of the Company and its subsidiaries including variable interest entities in which the Ship Finance is deemed to be the primary beneficiary. All inter-company balances and transactions have been eliminated on consolidation.

The condensed consolidated financial statements are prepared in accordance with the accounting policies described in the Company’s Annual Report on Form 20-F for the year ended December 31, 2013.

New Accounting Pronouncements

Accounting Standards Update No. 2014-09-Revenue from Contracts with Customers (Topic 606). The Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. To meet those objectives, the FASB is amending the FASB Accounting Standards Codification and creating a new Topic 606, Revenue from Contracts with Customers, and the IASB is issuing IFRS 15, Revenue from Contracts with Customers. The issuance of these documents completes the joint effort by the FASB and the IASB to meet those objectives and improve financial reporting by creating common revenue recognition guidance for US GAAP and IFRS. The amendments in this Update are effective for the Company for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently considering the impact of these amendments on its consolidated financial statements.

2. GAIN ON SALE OF ASSETS AND TERMINATION OF CHARTERS

In March 2014, the Company agreed to a settlement of a claim relating to four Handysize dry bulk carriers which were redelivered in 2012, before the expiry of their charters. The total settlement amount is approximately \$30 million, of which approximately \$20 million was received in the period and the remaining balance is scheduled to be paid in two installments during 2014. The Company recorded gains of \$15.2 million relating to amounts received in the six months ended June 30, 2014.

3. AVAILABLE FOR SALE SECURITIES

Marketable securities held by the Company are debt securities considered to be available-for-sale securities.

(in thousands of \$)	June 30, 2014	December 31, 2013
Amortized cost	60,967	75,657
Accumulated net unrealized gain	922	1,268
Carrying value	61,889	76,925

The Company's investment in marketable securities consists of investments in secured notes. The net unrealized accumulated gain on available-for-sale securities included in other comprehensive income as at June 30, 2014 was \$0.9 million (December 31, 2013: net unrealized accumulated gain of \$1.3 million).

4. VESSELS AND EQUIPMENT, NET

(in thousands of \$)	June 30, 2014	December 31, 2013
Cost	1,488,475	1,360,605
Accumulated depreciation	(302,650	) (270,989
Vessels and equipment, net	1,185,825	1,089,616

During the period, the Company acquired nine second hand container vessels at a total cost of \$127.9 million.

5. NEWBUILDINGS AND VESSEL PURCHASE DEPOSITS

During the period, the Company paid a total installment of \$68 million in relation to four 8,700 TEU newbuilding container vessels, currently under construction in Korea. In addition, a total deposit of \$9.3 million was paid in relation to two second hand 82,000 dwt Kamsarmax dry-bulk carriers it agreed to acquire in May 2014. The Company also cancelled the three remaining 4,800 twenty-foot equivalent units ("TEU") newbuilding container vessels under construction in China due to excessive delays. The installments paid to the shipyard for two out of the three cancellations were fully refunded by June 30, 2014. The shipyard also agreed to pay interest thereon which was received subsequent to the period end.

6. INVESTMENTS IN DIRECT FINANCING AND SALES-TYPE LEASES

As at June 30, 2014, 20 of the Company's double-hull VLCCs and Suezmax tankers were chartered to Frontline Shipping Limited ("Frontline Shipping") and Frontline Shipping II Limited ("Frontline Shipping II") on long-term, fixed rate time charters which extend for various periods depending on the age of the vessels, ranging from approximately four to 13 years. Frontline Shipping and Frontline Shipping II are subsidiaries of Frontline Ltd. ("Frontline"), a related party, and the terms of the charters do not provide them with an option to terminate the charters before the end of their terms.

One of the Company's offshore supply vessels is chartered on a long-term bareboat charter to DESS Cyprus Limited, a wholly-owned subsidiary of Deep Sea Supply Plc., a related party. Another of the Company's offshore supply vessels is chartered on a long term bareboat charter to Deep Sea Supply Shipowning II B.V., a wholly owned subsidiary of Deep Sea Supply BTG B.V., which is a joint venture owned 50% by Deep Sea Supply Plc. and 50% by BTG Pactual Oil & Gas Empreendimentos e Participacoes S.A., or BTG Pactual. We refer to Deep Sea Supply Plc. and Deep Sea Supply BTG B.V. together as "Deep Sea". The terms of the charters provide the charterer with various call options to acquire the vessels at certain dates throughout the charters, which expire in 2020.

The above assets (22 vessels) of the Company were accounted for as direct financing leases, all of which are leased to related parties. The following lists the components of the investments in direct financing leases as at June 30, 2014.

(in thousands of \$)	June 30, 2014	December 31, 2013
Total minimum lease payments to be received	1,420,226	1,490,111
Less: amounts representing estimated executory costs including profit thereon, included in total minimum lease payments	(408,932)	(432,463)
Net minimum lease payments receivable	1,011,294	1,057,648
Estimated residual values of leased property (un-guaranteed)	278,152	278,152
Less: unearned income	(295,057)	(318,910)
	994,389	1,016,890
Less: deferred deemed equity contribution	(104,057)	(106,377)
Less: unamortized gains	(6,923)	(7,105)
Total investment in direct financing and sales-type leases	883,409	903,408
Current portion	44,978	45,148
Long-term portion	838,431	858,260
	883,409	903,408

7. INVESTMENT IN ASSOCIATED COMPANIES

The Company has certain wholly-owned subsidiaries which are accounted for using the equity method, as it has been determined under ASC 810 that they are variable interest entities in which Ship Finance is not the primary beneficiary. At June 30, 2014, June 30, 2013 and December 31, 2013, the Company has the following participation in investments that are recorded using the equity method:

	June 30, 2014	June 30, 2013	December 31, 2013	
SFL West Polaris Limited ("SFL West Polaris")	100.00	% 100.00	% 100.00	%
SFL Deepwater Ltd ("SFL Deepwater")	100.00	% 100.00	% 100.00	%
Bluelot Shipping Company Limited ("Bluelot")	—	100.00	% 100.00	%
SFL Corte Real Limited ("Corte Real")	—	100.00	% 100.00	%
SFL Hercules Ltd ("SFL Hercules")	100.00	% 100.00	% 100.00	%
SFL Linus Ltd ("SFL Linus")	100.00	% 100.00	% 100.00	%

Summarized balance sheet information of the Company's equity method investees is as follows:

(in thousands of \$)	As of June 30, 2014						
	TOTAL	Bluelot	Corte Real	SFL West Polaris	SFL Deepwater	SFL Hercules	SFL Linus
Current assets	206,247	—	—	33,298	74,020	45,939	52,990
Non-current assets	1,821,527	—	—	442,708	411,647	414,065	553,107
Total assets	2,027,774	—	—	476,006	485,667	460,004	606,097
Current liabilities	215,193	—	—	38,583	85,065	37,282	54,263
Non-current liabilities	1,771,619	—	—	432,169	372,421	415,000	552,029
Total Liabilities	1,986,812	—	—	470,752	457,486	452,282	606,292
Total stockholders' equity	40,962	—	—	5,254	28,181	7,722	(195)

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As of December 31, 2013

(in thousands of \$)	TOTAL	Bluelot	Corte Real	SFL West Polaris	SFL Deepwater	SFL Hercules	SFL Linus
Current assets	205,916	9,780	9,857	34,412	94,981	56,886	—
Non-current assets	1,516,033	—	—	458,558	432,755	429,720	195,000
Total assets	1,721,949	9,780	9,857	492,970	527,736	486,606	195,000
Current liabilities	159,847	3,523	3,646	38,337	85,240	29,101	—
Non-current liabilities							