

Ship Finance International LTD
Form 6-K
June 03, 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 June 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 three months ended March 31, 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 MARCH 31, 2014

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Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

for the three month periods ended March 31, 2014 and March 31, 2013

and the year ended December 31, 2013

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

	Three Months Ended		Year ended
	March 31,	2013	December 31,
	2014		2013
Operating revenues			
Direct financing lease interest income - related parties	11,642	14,345	55,385
Direct financing lease interest income - other	—	1,564	4,231
Finance lease service revenues - related parties	11,700	13,637	52,390
Finance lease service revenues - other	—	—	1,846
Profit sharing revenues - related parties	12,219	—	770
Time charter revenues - related parties	2,362	—	5,647
Time charter revenues - other	18,422	20,297	77,778
Bareboat charter revenues - related parties	4,510	4,542	18,324
Bareboat charter revenues - other	10,664	10,530	42,705
Voyage charter revenues - other	10,251	—	9,724
Other operating income	901	172	2,060
Total operating revenues	82,671	65,087	270,860
Gain on sale of assets and termination of charters	10,152	18,025	18,025
Operating expenses			
Ship operating expenses - related parties	12,353	14,216	54,916
Ship operating expenses - other	16,540	9,115	50,618
Depreciation	15,111	14,033	58,436
Administrative expenses - related parties	251	116	439
Administrative expenses - other	1,932	1,851	7,110
Total operating expenses	46,187	39,331	171,519
Net operating income	46,636	43,781	117,366
Non-operating income / (expense)			
Interest income - related parties, associated companies	5,566	4,894	19,575
Interest income - related parties, other	944	—	482
Interest income - other	3,196	2,466	10,023
Interest expense - other	(20,606)	(23,191)	(87,225)
(Loss)/ gain on repurchase of bonds	(2)	(1,109)	(1,218)
Long-term investment impairment charge	—	—	—
Other financial items, net	(984)	(2,975)	2,003
Net income before equity in earnings of associated companies	34,750	23,866	61,006
Equity in earnings of associated companies	5,983	8,512	28,200
Net income	40,733	32,378	89,206
Per share information:			
Basic earnings per share	\$0.44	\$0.38	\$1.00
Diluted earnings per share	\$0.40	\$0.33	\$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 three month periods ended March 31, 2014 and March 31, 2013
and the year ended December 31, 2013
(in thousands of \$)

	Three Months Ended		Year ended December 31,
	March 31, 2014	2013	
Net income	40,733	32,378	89,206
Fair value adjustments to hedging financial instruments	(7,482	) 7,093	41,827
Fair value adjustments to hedging financial instruments in associated companies	(130	) 2,053	2,897
Reclassification into net income of previous fair value adjustments to hedging financial instruments	5,187	502	2,102
Fair value adjustments to available for sale securities	(753	) 247	699
Other comprehensive (loss)/income	19	(38	) (58
Other comprehensive income/(loss)	(3,159	) 9,857	47,467
Comprehensive income	37,574	42,235	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 March 31, 2014 and December 31, 2013

(in thousands of \$, except share data)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	36,982	58,641
Available for sale securities	60,658	76,925
Trade accounts receivable	2,511	8,362
Due from related parties	21,090	13,249
Other receivables	5,762	79,301
Inventories	7,890	6,607
Prepaid expenses and accrued income	3,002	3,971
Investment in direct financing and sales-type leases, current portion	45,127	45,148
Total current assets	183,022	292,204
Vessels and equipment, net	1,127,565	1,089,616
Newbuildings and vessel purchase deposits	149,921	126,008
Investment in direct financing and sales-type leases, long-term portion	848,285	858,260
Investment in associated companies	33,709	40,987
Loans to related parties - associated companies, long-term	543,217	530,715
Loans to related parties - others, long-term	46,903	48,847
Other long-term investments	1,234	1,235
Deferred charges	40,380	41,478
Financial instruments (long-term): at fair value	12,368	16,633
Total assets	2,986,604	3,045,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short term and current portion of long-term debt	436,676	389,888
Trade accounts payable	6,005	3,502
Due to related parties	1,522	13,965
Accrued expenses	12,544	13,832
Financial instruments (short-term): at fair value	6,362	5,705
Other current liabilities	3,400	5,548
Total current liabilities	466,509	432,440
Long-term liabilities		
Long-term debt	1,258,549	1,346,991
Financial instruments (long-term): at fair value	50,632	56,490
Other long-term liabilities	17,362	18,129
Total liabilities	1,793,052	1,854,050
Commitments and contingent liabilities		
Stockholders' equity		
Share capital (\$1 par value; 125,000,000 shares authorized; 93,285,000 and 93,260,000 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively)	93,285	93,260
Additional paid-in capital	285,805	285,632

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Contributed surplus	582,730	581,569	
Accumulated other comprehensive loss	(37,880) (34,851)
Accumulated other comprehensive loss - associated companies	(2,409) (2,279)
Retained earnings	272,021	268,602	
Total stockholders' equity	1,193,552	1,191,933	
Total liabilities and stockholders' equity	2,986,604	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 three month periods ended March 31, 2014 and March 31, 2013

and the year ended December 31, 2013

(in thousands of \$)

	Three Months Ended		Year ended
	March 31,	2013	December 31,
	2014		2013
Operating activities			
Net income	40,733	32,378	89,206
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	15,111	14,033	58,436
Amortization of deferred charges	2,678	2,591	11,305
Amortization of seller's credit	(479)	) (499)	) (1,983)
Equity in earnings of associated companies	(5,983)	) (8,512)	) (28,200)
Gain on sale of assets and termination of charters	(10,152)	) (18,025)	) (18,025)
Adjustment of derivatives to fair value recognized in net income	(1,510)	) 1,978	(7,950)
Loss/ (gain) on repurchase of bonds	2	1,109	1,218
Interest receivable in form of notes	(747)	) (646)	) (2,767)
Other	(1,077)	) (982)	) (1,396)
Changes in operating assets and liabilities			
Trade accounts receivable	5,852	(1,666)	) (4,313)
Due from related parties	(6,259)	) 53,910	49,189
Other receivables	139	(1,481)	) (740)
Inventories	(1,283)	) (73)	) (3,656)
Prepaid expenses and accrued income	969	(742)	) (3,236)
Trade accounts payable	2,503	(189)	) 2,047
Accrued expenses	(1,288)	) (1,890)	) 271
Other current liabilities	(2,148)	) (3,294)	) 718
Net cash provided by operating activities	37,061	68,000	140,124
Investing activities			
Repayments from investments in direct financing and sales-type leases	10,961	13,731	51,220
Additions to newbuildings	(48,167)	) (17,739)	) (109,337)
Purchase of vessels	(53,060)) —	—
Proceeds from sales of vessels and termination of charters	59,135	40,366	83,583
Net amounts (paid)/ received from associated companies	(11,452)	) 33,959	(81,308)
Proceeds/ (costs) of other long-term investments	50,000	—	—
Purchase of available for sale securities	16,200	—	(18,140)
Net cash (used)/ provided by investing activities	23,617	70,317	(73,982)
Financing activities			
Shares issued, net of issuance costs	170	79	128,880
Payments in lieu of issuing shares for exercised share options	—	—	(448)
Repurchase of bonds	(671)	) (248,109)	) (254,132)
Proceeds from issuance of short-term and long-term debt	192,055	385,000	705,347

Ship Finance International Limited

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three month periods ended March 31, 2014 and March 31, 2013

and the year ended December 31, 2013

(in thousands of \$)

	Three Months Ended March 31,		Year ended December 31,
	2014	2013	2013
Repayments of short-term and long-term debt	(234,762	) (263,177	) (530,186
Debt fees paid	(1,815	) (7,832	) (8,390
Cash dividends paid	(37,314	) —	) (109,114
Net cash used in financing activities	(82,337	) (134,039	) (68,043
Net change in cash and cash equivalents	(21,659	) 4,278	(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	36,982	64,820	58,641
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalized interest	21,022	22,434	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 three month periods ended March 31, 2014 and March 31, 2013
and the year ended December 31, 2013
(in thousands of \$, except number of shares)

	Three Months Ended March 31,		Year ended December 31,
	2014	2013	2013
Number of shares outstanding			
At beginning of period	93,260,000	85,225,000	85,225,000
Shares issued	25,000	25,000	8,035,000
At end of period	93,285,000	85,250,000	93,260,000
Share capital			
At beginning of period	93,260	85,225	85,225
Shares issued	25	25	8,035
At end of period	93,285	85,250	93,260
Additional paid-in capital			
At beginning of period	285,632	144,258	144,258
Amortization of stock based compensation	28	93	(448)
Payments in lieu of issuing shares	—	—	220
Shares issued	145	54	120,880
Equity component of convertible bond issuance, net	—	20,756	20,722
At end of period	285,805	165,161	285,632
Contributed surplus			
At beginning of period	581,569	561,372	561,372
Amortization of deferred equity contributions	1,161	3,998	20,197
At end of period	582,730	565,370	581,569
Accumulated other comprehensive loss			
At beginning of period	(34,851)	(79,421)	(79,421)
Loss on hedging financial instruments reclassified into earnings	(7,482)	502	2,102
Fair value adjustments to hedging financial instruments	5,187	7,093	41,827
Fair value adjustments to available for sale securities	(753)	247	699
Other comprehensive (loss)/ income	19	(38)	(58)
At end of period	(37,880)	(71,617)	(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	(130)	2,053	2,897
At end of period	(2,409)	(3,123)	(2,279)
Retained earnings			
At beginning of period	268,602	288,510	288,510
Net income	40,733	32,378	89,206
Dividends declared	(37,314)	—	(109,114)
At end of period	272,021	320,888	268,602
Total Stockholders' Equity	1,193,552	1,061,929	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 March 31, 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

No new accounting pronouncements issued or effective during the interim period ended March 31, 2014 have had or are expected to have a material impact on the 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 \$15 million was received in the first quarter and the remaining balance is scheduled to be paid in three installments during 2014. The Company recorded gains of \$10.2 million relating to amounts received in the period ended March 31, 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 \$)	March 31, 2014	December 31, 2013
Amortized cost	60,143	75,657
Accumulated net unrealized gain	515	1,268
Carrying value	60,658	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 March 31, 2014 was \$0.5 million (December 31, 2013: net unrealized accumulated gain of \$1.3 million).

4. VESSELS AND EQUIPMENT, NET

(in thousands of \$)	March 31, 2014	December 31, 2013
Cost	1,413,666	1,360,605
Accumulated depreciation	(286,101	) (270,989
Vessels and equipment, net	1,127,565	1,089,616

During the quarter, the Company acquired three second hand container vessels at a total cost of \$53.1 million.

5. NEWBUILDINGS AND VESSEL PURCHASE DEPOSITS

During the quarter, the Company paid a total deposit of \$5.0 million in relation to four of the six second hand container vessels it agreed to acquire in March 2014. In addition, the Company cancelled one of 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 were fully refunded by March 31, 2014. The shipyard also agreed to pay interest thereon which was received subsequent to the quarter end.

6. INVESTMENTS IN DIRECT FINANCING AND SALES-TYPE LEASES

As at March 31, 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 March 31, 2014.

(in thousands of \$)	March 31, 2014	December 31, 2013
Total minimum lease payments to be received	1,455,169	1,490,111
Less: amounts representing estimated executory costs including profit thereon, included in total minimum lease payments	(420,763	) (432,463
Net minimum lease payments receivable	1,034,406	1,057,648
Estimated residual values of leased property (un-guaranteed)	278,152	278,152
Less: unearned income	(306,916	) (318,910
	1,005,642	1,016,890
Less: deferred deemed equity contribution	(105,216	) (106,377
Less: unamortized gains	(7,014	) (7,105
Total investment in direct financing and sales-type leases	893,412	903,408

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Current portion	45,127	45,148
Long-term portion	848,285	858,260
	893,412	903,408

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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 March 31, 2014, March 31, 2013 and December 31, 2013, the Company has the following participation in investments that are recorded using the equity method:

	March 31, 2014	March 31, 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	% —	—	
SFL Linus Ltd ("SFL Linus")	100.00	% —	—	

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

As of March 31, 2014							
(in thousands of \$)	TOTAL	Bluelot	Corte Real	SFL West Polaris	SFL Deepwater	SFL Hercules	SFL Linus
Current assets	216,508	—	—	34,920	88,736	51,611	41,241
Non-current assets	1,854,296	—	—	451,401	418,503	422,059	562,333
Total assets	2,070,804	—	—	486,321	507,239	473,670	603,574
Current liabilities	193,751	—	—	38,293	85,208	29,044	41,206
Non-current liabilities	1,843,344	—	—	444,058	395,864	438,908	564,514
Total Liabilities	2,037,095	—	—	482,351	481,072	467,952	605,720
Total stockholders' equity	33,709	—	—	3,970	26,167	5,718	(2,146)

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	1,521,115	—	—	451,384			