

ROWAN COMPANIES PLC
Form 10-Q
November 07, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

1-5491

Commission File Number

Rowan Companies plc

(Exact name of registrant as specified in its charter)

England and Wales

(State or other jurisdiction of
incorporation or organization)

98-1023315

(I.R.S. Employer
Identification No.)

2800 Post Oak Boulevard, Suite 5450, Houston, Texas

(Address of principal executive offices)

(713) 621-7800

(Registrant's telephone number, including area code)

77056-6189

(Zip Code)

Inapplicable

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 Smaller reporting company

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

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

The number of Class A ordinary shares, \$0.125 par value, outstanding at October 31, 2014, was 124,538,858.

Table of Contents

ROWAN COMPANIES PLC

TABLE OF CONTENTS

	Page
<u>PART I</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited):</u>
	<u>Condensed Consolidated Balance Sheets – September 30, 2014, and December 31, 2013</u> 1
	<u>Condensed Consolidated Statements of Income – Three and nine months ended September 30, 2014 and 2013</u> 3
	<u>Condensed Consolidated Statements of Comprehensive Income – Three and nine months ended September 30, 2014 and 2013</u> 4
	<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2014 and 2013</u> 5
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity – Nine months ended September 30, 2014 and 2013</u> 6
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u> 7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 35
<u>Item 4.</u>	<u>Controls and Procedures</u> 35
<u>PART II</u>	<u>OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u> 36
<u>Item 1A.</u>	<u>Risk Factors</u> 36
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 36
<u>Item 6.</u>	<u>Exhibits</u> 37
	<u>SIGNATURES</u> 38

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$707,729	\$1,092,844
Receivables - trade and other	510,194	344,546
Prepaid expenses and other current assets	40,873	45,538
Deferred tax assets - net	41,899	22,137
Assets of discontinued operations	—	23,813
Total current assets	1,300,695	1,528,878
PROPERTY, PLANT AND EQUIPMENT:		
Drilling equipment	8,103,048	7,040,451
Construction in progress	1,287,158	1,009,380
Other property and equipment	150,385	147,884
Property, plant and equipment - gross	9,540,591	8,197,715
Less accumulated depreciation and amortization	2,032,020	1,811,960
Property, plant and equipment - net	7,508,571	6,385,755
Other assets	19,514	61,128
TOTAL ASSETS	\$8,828,780	\$7,975,761

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
 (In thousands, except shares)
 (Unaudited)

	September 30, 2014	December 31, 2013
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	\$100,453	\$123,976
Deferred revenues	31,803	54,515
Accrued pension and other postemployment benefits	5,310	49,659
Accrued compensation and related employee costs	74,834	59,096
Accrued income taxes	3,973	8,374
Accrued interest	35,578	27,841
Other current liabilities	10,141	11,001
Liabilities of discontinued operations	—	20,122
Total current liabilities	262,092	354,584
Long-term debt	2,807,540	2,008,700
Other liabilities	238,232	289,061
Deferred income taxes - net	410,925	429,655
Commitments and contingent liabilities (Note 4)	—	—
SHAREHOLDERS' EQUITY:		
Class A Ordinary Shares, \$0.125 par value, 124,828,807 and 124,778,407 shares issued at September 30, 2014, and December 31, 2013, respectively	15,604	15,597
Additional paid-in capital	1,430,612	1,407,031
Retained earnings	3,806,453	3,619,540
Cost of 300,689 and 542,475 treasury shares at September 30, 2014, and December 31, 2013, respectively	(7,227)	(5,962)
Accumulated other comprehensive loss	(135,451)	(142,445)
Total shareholders' equity	5,109,991	4,893,761
TOTAL LIABILITIES AND EQUITY	\$8,828,780	\$7,975,761

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of ContentsROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
REVENUES	\$467,692	\$382,808	\$1,268,172	\$1,185,929
COSTS AND EXPENSES:				
Direct operating costs (excluding items below)	246,907	211,827	711,854	637,340
Depreciation and amortization	81,503	69,274	230,054	200,421
Selling, general and administrative	33,040	33,263	92,057	95,957
Loss (gain) on disposals of property and equipment	58	(65)	1,720	(18,979)
Litigation settlement	—	—	(20,875)	—
Material charges and other operating expenses	—	—	8,300	—
Total costs and expenses	361,508	314,299	1,023,110	914,739
INCOME FROM OPERATIONS	106,184	68,509	245,062	271,190
OTHER INCOME (EXPENSE):				
Interest expense, net of interest capitalized	(25,656)	(17,111)	(74,308)	(53,377)
Interest income	372	417	1,721	1,144
Other - net	269	(368)	(627)	(1,605)
Total other income (expense) - net	(25,015)	(17,062)	(73,214)	(53,838)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	81,169	51,447	171,848	217,352
(Benefit) provision for income taxes	(38,428)	(453)	(36,165)	14,474
NET INCOME FROM CONTINUING OPERATIONS	119,597	51,900	208,013	202,878
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	—	—	4,023	—
NET INCOME	\$119,597	\$51,900	\$212,036	\$202,878
INCOME PER SHARE - BASIC:				
Income from continuing operations	\$0.96	\$0.42	\$1.68	\$1.64
Discontinued operations	\$—	\$—	\$0.03	\$—
Net income	\$0.96	\$0.42	\$1.71	\$1.64
INCOME PER SHARE - DILUTED:				
Income from continuing operations	\$0.96	\$0.42	\$1.67	\$1.63
Discontinued operations	\$—	\$—	\$0.03	\$—

Edgar Filing: ROWAN COMPANIES PLC - Form 10-Q

Net income	\$0.96	\$0.42	\$1.70	\$1.63
CASH DIVIDENDS DECLARED PER SHARE	\$0.10	\$—	\$0.20	\$—

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of ContentsROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
NET INCOME	\$119,597	\$51,900	\$212,036	\$202,878
OTHER COMPREHENSIVE INCOME:				
Pension and other postemployment benefit adjustments, net of income taxes of \$1,313 and \$1,993 for the three months ended September 30, 2014 and 2013, and \$3,899 and \$5,915 for the nine months ended September 30, 2014 and 2013, respectively:				
Amortization of net loss	3,190	4,500	9,470	13,359
Amortization of prior service credit	(737)	(799)	(2,189)	(2,373)
Total other comprehensive income	2,453	3,701	7,281	10,986
COMPREHENSIVE INCOME	\$122,050	\$55,601	\$219,317	\$213,864

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of ContentsROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2014	2013
CASH PROVIDED BY OPERATIONS:		
Net income	\$212,036	\$202,878
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	230,054	200,421
Deferred income taxes	(42,678	) (9,928)
Provision for pension and other postemployment benefits	18,715	22,810
Share-based compensation expense	23,904	27,319
Gain on disposals of property, plant and equipment	(193	) (18,979)
Other postemployment benefit claims paid	(3,129	) (2,759)
Contributions to pension plans	(54,251	) (18,609)
Asset impairment charges	8,300	—
Changes in current assets and liabilities:		
Receivables - trade and other	(165,648	) (49,233)
Prepaid expenses and other current assets	4,708	(137)
Accounts payable	(23,162	) 16,032
Accrued income taxes	(4,401	) (18,653)
Deferred revenues	(22,712	) 15,360
Other current liabilities	18,198	(24,118)
Net changes in other noncurrent assets and liabilities	481	49,628
Net cash provided by operations	200,222	392,032
CASH USED IN INVESTING ACTIVITIES:		
Capital expenditures	(1,367,414	) (455,164)
Proceeds from disposals of property, plant and equipment	9,767	42,295
Net cash used in investing activities	(1,357,647	) (412,869)
CASH PROVIDED BY FINANCING ACTIVITIES:		
Proceeds from borrowings	793,380	—
Dividends paid	(25,123) —
Debt issue costs	(687) —
Excess tax benefits from share-based compensation	15	977
Proceeds from exercise of share options	4,725	2,911
Other	—	1,820
Net cash provided by financing activities	772,310	5,708
DECREASE IN CASH AND CASH EQUIVALENTS	(385,115	) (15,129)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,092,844	1,024,008
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$707,729	\$1,008,879

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Shares outstanding	Class A ordinary shares/ Common stock	Additional paid-in capital	Retained earnings	Treasury shares	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, January 1, 2013	124,211	\$15,593	\$1,372,135	\$3,366,964	\$(1,886)	\$(221,082)	\$4,531,724
Net shares issued (acquired) under share-based compensation plans	26	4	2,331	—	(4,053)	—	(1,718)
Share-based compensation	—	—	20,918	—	—	—	20,918
Excess tax benefit from share-based compensation plans	—	—	977	—	—	—	977
Retirement benefit adjustments, net of taxes of \$5,915	—	—	—	—	—	10,986	10,986
Other	—	—	1,820	—	—	—	1,820
Net income	—	—	—	202,878	—	—	202,878
Balance, September 30, 2013	124,237	\$15,597	\$1,398,181	\$3,569,842	\$(5,939)	\$(210,096)	\$4,767,585
Balance, January 1, 2014	124,237	\$15,597	\$1,407,031	\$3,619,540	\$(5,962)	\$(142,445)	\$4,893,761
Net shares issued (acquired) under share-based compensation plans	291	7	1,566	—	(1,265)	—	308
Share-based compensation	—	—	22,000	—	—	—	22,000
Excess tax benefit (shortfall) from share-based compensation plans	—	—	15	—	—	—	15
Retirement benefit adjustments, net of taxes of \$3,899	—	—	—	—	—	7,281	7,281
Dividends	—	—	—	(25,123)	—	—	(25,123)
Other	—	—	—	—	—	(287)	(287)
Net income	—	—	—	212,036	—	—	212,036
Balance, September 30, 2014	124,528	\$15,604	\$1,430,612	\$3,806,453	\$(7,227)	\$(135,451)	\$5,109,991

See Notes to Unaudited Condensed Consolidated Financial Statements.

6

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Nature of Operations

The financial statements included in this Form 10-Q are presented in United States (U.S.) dollars and include the accounts of Rowan Companies plc ("Rowan plc") and its subsidiaries, all of which are wholly owned. Intercompany balances and transactions are eliminated in consolidation. Unless the context otherwise requires, the terms "Company," "we," "us" and "our" are used to refer to Rowan plc and its consolidated subsidiaries.

The financial statements included in this Form 10-Q have been prepared without audit in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission. Certain information and notes have been condensed or omitted as permitted by those rules and regulations. Management believes the accompanying financial statements contain all adjustments, which are of a normal recurring nature unless otherwise noted, necessary for a fair statement of the results for the interim periods presented. The Company's results of operations and cash flows for the interim periods are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

We are a global provider of offshore oil and gas contract drilling services utilizing a fleet of 30 self-elevating mobile offshore "jack-up" drilling units and four ultra-deepwater drillships, two of which are currently under construction. Historically, our primary focus has been on high-specification and premium jack-up rigs, which our customers use for exploratory and development drilling and associated drilling services. In 2009, we began executing a new strategic plan that included divesting non-core assets and investing in ultra-deepwater assets, with a goal of balancing earnings from jack-ups and deepwater rigs over the long term. In 2011 and 2012, we entered into contracts for the construction of four ultra-deepwater drillships. In January 2014, we took delivery of the first of these drillships, the Rowan Renaissance, which commenced drilling operations under a three-year contract offshore West Africa in April 2014. The Rowan Resolute was delivered in late July 2014 and commenced operations under a three-year contract in the United States Gulf of Mexico (US GOM) on October 16, 2014. The Rowan Reliance is scheduled for delivery in mid November 2014 and expected to commence operations under a three-year contract in the US GOM in late February 2015. The Rowan Relentless is scheduled for delivery in late March 2015 and expected to commence operations under a two-year contract in the US GOM in the third quarter of 2015.

The Company conducts offshore drilling operations in various markets throughout the world including the United Kingdom (U.K.) and Norwegian sectors of the North Sea, the Middle East, the US GOM, Southeast Asia, West and North Africa and Trinidad.

The financial information as of December 31, 2013, presented in this report does not constitute the Company's statutory accounts for that year within the meaning of the U.K. Companies Act 2006 (the "Companies Act"). Statutory accounts as required by the Companies Act for the year ended December 31, 2013, have been delivered to the Registrar of Companies in the U.K. The auditors reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Sections 498(2) or (3) of the Companies Act.

New Accounting Standards – In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, which sets forth a global standard for revenue

recognition and replaces most existing industry-specific guidance. We will be required to adopt the new standard in annual and interim reports for periods beginning January 1, 2017. We are currently evaluating the potential effect of the new guidance.

7

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 2 – Earnings Per Share

A reconciliation of basic and diluted shares follows (in thousands):

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013	2013	2013	2013
Average common shares outstanding - basic	124,256	123,635	124,011	123,468
Effect of dilutive securities - share-based compensation	794	966	835	915
Average common shares - diluted	125,050	124,601	124,846	124,383

There were no adjustments to net income required for purposes of computing diluted earnings per share.

Share options and appreciation rights granted under share-based compensation plans are antidilutive and excluded from diluted earnings per share when their exercise or strike price exceeds the average market price during the period. The following table sets forth antidilutive shares excluded from diluted earnings per share. Such securities could potentially dilute earnings per share in the future (in thousands):

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013	2013	2013	2013
Share appreciation rights	1,050	978	1,050	1,012
Employee and director share options	42	53	42	53
Total potentially dilutive shares	1,092	1,031	1,092	1,065

Note 3 – Pension and Other Postemployment Benefits

The Company provides defined-benefit pension, health care and life insurance benefits upon retirement for certain full-time employees.

Recognized net periodic pension cost included the following components (in thousands):

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2013	2013	2013	2013
Service cost	\$3,701	\$3,102	\$10,981	\$8,833
Interest cost	8,272	7,558	24,547	22,253
Expected return on plan assets	(10,479)	) (9,658)	) (31,094)	) (28,686)
Amortization of net loss	4,947	7,171	14,684	20,797
Amortization of prior service credit	(1,134)	) (1,194)	) (3,366)	) (3,543)
Total net pension cost	\$5,307	\$6,979	\$15,752	\$19,654

Recognized other postemployment benefit cost included the following components (in thousands):

8

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Service cost	\$272	\$365	\$809	\$1,072
Interest cost	774	757	2,297	2,194
Amortization of net loss	(40	) —	(119) —
Amortization of prior service credit	(8	) (37	) (24	) (110
Total other postemployment benefit cost	\$998	\$1,085	\$2,963	\$3,156

During the nine months ended September 30, 2014, the Company contributed \$57.4 million to its pension and other postemployment benefit plans and expects to make additional contributions to such plans totaling approximately \$1.3 million for the remainder of 2014.

Note 4 – Commitments and Contingent Liabilities

The following table presents the status of the Company's ultra-deepwater drillship construction program as of September 30, 2014. Amounts include capitalized interest and an estimate for project contingencies (in millions):

	Actual/scheduled delivery date	Total estimated project costs	Total costs incurred through September 30, 2014	Projected costs for the remainder of 2014	Projected costs in 2015	Total future costs
Rowan Resolute	July 2014	\$723	\$682	\$41	\$—	\$41
Rowan Reliance	November 2014	742	277	458	7	465
Rowan Relentless	March 2015	755	232	38	485	523
		\$2,220	\$1,191	\$537	\$492	\$1,029

The Company expects to incur an additional approximately \$77 million of capital expenditures for the remainder of 2014 for mobilization, commissioning, riser gas-handling equipment, software certifications and drillship fleet spares to support its deepwater operations.

The Company periodically employs letters of credit in the normal course of its business, and had outstanding letters of credit of approximately \$25.6 million at September 30, 2014.

Uncertain tax positions – In 2009, the Company recognized certain tax benefits as a result of applying the facts of a third-party tax case to the Company's situation. That case provided a more favorable tax treatment for certain foreign contracts entered into in prior years. Our position was challenged by the U.S. Internal Revenue Service. We appealed their findings and reached a settlement agreement in the third quarter of 2014 with respect to three of the four years under review. As a result of the agreement, we recognized a current income tax receivable at September 30, 2014, in the amount of \$35 million, reduced long-term receivables by approximately \$47 million and reduced other long-term liabilities by approximately \$58 million, resulting in a net benefit to income taxes of approximately \$46 million. We collected the current receivable in the fourth quarter of 2014. A remaining year continues to be under examination. We

plan to vigorously defend our position.

We are involved in various other legal proceedings incidental to our business and are vigorously defending our position in all such matters. Management believes that there are no known contingencies, claims or lawsuits, other than those described above, that could have a material effect on the Company's financial position, results of operations or cash flows.

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 5 – Share-Based Compensation

On March 5, 2014, the Company granted restricted share units under its long-term incentive plan with a grant-date fair value aggregating \$21.3 million. The aggregate fair value, net of estimated forfeitures, was \$20.2 million, which will be recognized as compensation expense over a weighted-average period of 2.7 years from the grant date.

Additionally, on March 5, 2014, the Company granted to certain members of management performance units (P-Units) that have a target value of \$100 per unit. The amount ultimately earned with respect to the P-Units will depend on the Company's total shareholder return (TSR) ranking compared to a group of peer companies over a three-year period ending December 31, 2016, and could range from zero to \$200 per unit depending on performance. Twenty-five percent of the P-Units' value is determined by the Company's relative TSR ranking for each one-year period ended December 31, 2014, 2015, and 2016, respectively, and 25% of the P-Units' value is determined by the relative TSR ranking for the three-year period ending December 31, 2016. Vesting of awards and any payment with respect to the P-Units would not occur until the third anniversary following the grant date and would be settled in cash.

The grant-date fair value of the P-Units was estimated to be \$8.5 million. Fair value was estimated using a Monte Carlo simulation model, which considers the probabilities of the Company's TSR ranking at the end of each performance period, and the amount of the payout at each rank to determine the probability-weighted expected payout. The Company uses liability accounting to account for the P-Units. Compensation is recognized on a straight-line basis over a maximum period of three years from the grant date and is adjusted for changes in fair value through the vesting date. In the event there is no payout of the P-Units for any 25% tranche as the result of a failure to meet the performance thresholds, any previously recognized expense relating to that tranche would be reversed at the end of the tranche's performance period.