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ROWAN COMPANIES PLC
Form 10-Q
May 07, 2015
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 MARCH 31, 2015

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

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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 April 30, 2015, was 124,762,684, which excludes 1,166,123 shares held by an affiliated employee benefit trust.

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ROWAN COMPANIES PLC

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FORWARD-LOOKING STATEMENTS

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include words or phrases such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “could,” “might,” “should,” “will,” “forecast,” “potential,” “outlook,” “scheduled,” “predict,” “will be,” “will continue,” “will likely result,” and similar words and specifically include statements regarding expected financial performance; dividend and share repurchases; growth strategies; expected utilization, day rates, revenues, operating expenses, contract terms, contract backlog, capital expenditures, tax rates and positions, insurance coverages, access to financing and funding sources; the availability, delivery, mobilization, contract commencement, relocation or other movement of rigs and the timing thereof; future rig construction (including construction in progress and completion thereof), enhancement, upgrade or repair and costs and timing thereof; the suitability of rigs for future contracts; general market, business and industry conditions, trends and outlook; future operations; the impact of increasing regulatory requirements and complexity; expected contributions from our new rigs and our entry into the ultra-deepwater market; divestiture of selected assets; expense management; the likely outcome of legal proceedings or insurance or other claims and the timing thereof; activity levels in the offshore drilling market; customer drilling programs; and commodity prices. Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

- prices of oil and natural gas and industry expectations about future prices;

- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild drilling rigs and reactivation of rigs;

- variable levels of drilling activity and expenditures, whether as a result of actions by OPEC, global capital markets and liquidity, prices of oil and natural gas or otherwise, which may cause us to idle or stack additional rigs;

- drilling permit and operations delays, moratoria or suspensions, new and future regulatory, legislative or permitting requirements (including requirements related to certification and testing of blowout preventers and other equipment or otherwise impacting operations), future lease sales, changes in laws, rules and regulations that have or may impose increased financial responsibility, additional oil spill contingency plan requirements and other governmental actions that may result in claims of force majeure or otherwise adversely affect our existing drilling contracts;

- governmental regulatory, legislative and permitting requirements affecting drilling operations or compliance obligations in the areas in which our rigs operate;

- tax matters, including our effective tax rates, tax positions, results of audits, changes in tax laws, treaties and regulations, tax assessments and liabilities for taxes;

- downtime, lost revenue and other risks associated with drilling operations, operating hazards, or rig relocations and transportation, including rig or equipment failure, collisions, damage and other unplanned repairs, the limited availability of transport vessels, hazards, self-imposed drilling limitations and other delays due to weather conditions or otherwise, and the limited availability or high cost of insurance coverage for certain offshore perils or associated removal of wreckage or debris and other losses;

- access to spare parts, equipment and personnel to maintain, upgrade and service our fleet;

-

possible cancellation or suspension of drilling contracts as a result of economic conditions in the industry, force majeure, mechanical difficulties, delays, performance or other reasons;

potential cost overruns and other risks inherent to shipyard rig construction, repair or enhancement, unexpected delays in rig and equipment delivery and engineering or design issues following shipyard delivery, or delays in the dates our rigs will enter a shipyard, be transported and delivered, enter service or return to service;

changes or delays in actual contract commencement dates; contract terminations, contract extensions, contract option exercises, contract revenues, contract awards; the termination of contracts or renegotiation of contract terms by customers, or payment or operational delays by our customers;

potential delays for our recently delivered drillship, such as customer acceptance or readiness to drill;

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operating hazards, including environmental or other liabilities, risks, expenses or losses, whether related to well-control issues, or storm or hurricane damage, losses or liabilities (including wreckage or debris removal), collisions, or otherwise;

our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to competition from other contract drillers, labor regulations or otherwise; our ability to seek and receive visas for our personnel to work in our areas of operation in a timely manner;

governmental action and political and economic uncertainties, including uncertainty or instability resulting from civil unrest, political demonstrations, strikes, or outbreak or escalation of armed hostilities or other crises in oil or natural gas producing areas in which we operate, which may result in extended business interruptions, suspended operations, or claims by our customers of a force majeure situation and payment disputes;

terrorism, piracy, cyber-breaches, outbreaks of any disease or epidemic and other related travel restrictions, political instability, hostilities, acts of war, nationalization, expropriation, confiscation or deprivation of our assets or military action impacting our operations, assets or financial performance in any of our areas of operations;

the outcome of legal proceedings, or other claims or contract disputes, including any inability to collect receivables or resolve significant contractual or day rate disputes, any purported renegotiation, nullification, cancellation or breach of contracts with customers or other parties, and any failure to negotiate or complete definitive contracts following announcements of receipt of letters of intent;

potential for additional long-lived asset impairments;

impacts of any global financial or economic downturn;

effects of accounting changes and adoption of accounting policies;

potential return to shareholders in the form of dividends and share repurchases;

costs and uncertainties associated with our redomestication, or changes in laws that could reduce or eliminate the anticipated benefits of the transaction;

potential unplanned expenditures and funding requirements, including investments in pension plans and other benefit plans; and

other important factors described from time to time in the reports filed by us with the Securities and Exchange Commission and the New York Stock Exchange.

In addition to the risks, uncertainties and assumptions described above, you should also carefully read and consider the risk factors and forward-looking statement disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2014. We disclaim any obligation to update or revise any forward-looking statements except as required by applicable law or regulation.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$56,792	\$339,154
Receivables - trade and other	503,151	545,204
Prepaid expenses and other current assets	24,903	29,253
Deferred tax assets - net	27,144	27,485
Total current assets	611,990	941,096
PROPERTY, PLANT AND EQUIPMENT:		
Drilling equipment	8,440,018	7,639,171
Construction in progress	737,298	1,023,646
Other property and equipment	138,623	137,365
Property, plant and equipment - gross	9,315,939	8,800,182
Less accumulated depreciation and amortization	1,451,913	1,367,970
Property, plant and equipment - net	7,864,026	7,432,212
Other assets	35,948	37,884
TOTAL ASSETS	\$8,511,964	\$8,411,192

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	March 31, 2015	December 31, 2014
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	\$118,073	\$102,773
Deferred revenues	37,352	36,189
Accrued pension and other postemployment benefits	26,219	26,219
Accrued compensation and related employee costs	53,798	88,186
Accrued income taxes	25,565	13,265
Accrued interest	35,363	47,414
Other current liabilities	21,863	19,175
Total current liabilities	318,233	333,221
Long-term debt	2,807,114	2,807,324
Other liabilities	373,373	368,266
Deferred income taxes - net	206,898	210,982
Commitments and contingent liabilities (Note 4)		
SHAREHOLDERS' EQUITY:		
Class A Ordinary Shares, \$0.125 par value, 125,928,807 and 124,828,807 shares issued at March 31, 2015, and December 31, 2014, respectively	15,741	15,604
Additional paid-in capital	1,440,690	1,436,910
Retained earnings	3,578,100	3,466,993
Cost of 1,165,394 and 264,903 treasury shares at March 31, 2015, and December 31, 2014, respectively	(11,453) (7,990
Accumulated other comprehensive loss	(216,732) (220,118
Total shareholders' equity	4,806,346	4,691,399
TOTAL LIABILITIES AND EQUITY	\$8,511,964	\$8,411,192

See Notes to Unaudited Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three months ended March 31,	
	2015	2014
REVENUES	\$547,039	\$377,602
COSTS AND EXPENSES:		
Direct operating costs (excluding items below)	255,734	220,369
Depreciation and amortization	89,690	70,873
Selling, general and administrative	27,586	29,875
(Gain) loss on disposals of property and equipment	(513) 803
Litigation settlement	—	(20,875
Total costs and expenses	372,497	301,045
INCOME FROM OPERATIONS	174,542	76,557
OTHER INCOME (EXPENSE):		
Interest expense, net of interest capitalized	(32,746) (20,960
Interest income	155	587
Other - net	(1,041) (351
Total other income (expense) - net	(33,632) (20,724
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	140,910	55,833
Provision for income taxes	17,241	281
NET INCOME FROM CONTINUING OPERATIONS	123,669	55,552
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	—	4,043
NET INCOME	\$123,669	\$59,595
INCOME PER SHARE - BASIC:		
Income from continuing operations	\$0.99	\$0.45
Discontinued operations	\$—	\$0.03
Net income	\$0.99	\$0.48
INCOME PER SHARE - DILUTED:		
Income from continuing operations	\$0.99	\$0.45
Discontinued operations	\$—	\$0.03
Net income	\$0.99	\$0.48
CASH DIVIDENDS DECLARED PER SHARE	\$0.10	\$—

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)
 (Unaudited)

	Three months ended March 31,	
	2015	2014
NET INCOME	\$123,669	\$59,595
OTHER COMPREHENSIVE INCOME:		
Net reclassification adjustment for amounts recognized in net income as a component of net periodic benefit cost, net of income tax expense of \$1,808 and \$1,287, respectively	3,386	2,404
COMPREHENSIVE INCOME	\$127,055	\$61,999

See Notes to Unaudited Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended March 31,	
	2015	2014
CASH PROVIDED BY OPERATIONS:		
Net income	\$ 123,669	\$ 59,595
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	90,564	70,873
Deferred income taxes	(7,541)	(1,489)
Provision for pension and other postemployment benefits	7,844	6,170
Share-based compensation expense	5,190	7,547
Gain on disposals of property, plant and equipment	(513)	(1,110)
Other postemployment benefit claims paid	(1,115)	(894)
Contributions to pension plans	(375)	(6,448)
Changes in current assets and liabilities:		
Receivables - trade and other	42,053	(39,090)
Prepaid expenses and other current assets	4,350	12,248
Accounts payable	6,894	(13,637)
Accrued income taxes	12,300	9,222
Deferred revenues	1,163	(13,502)
Other current liabilities	(47,075)	(11,037)
Net changes in other noncurrent assets and liabilities	7,358	2,075
Net cash provided by operations	244,766	80,523
CASH USED IN INVESTING ACTIVITIES:		
Capital expenditures	(514,265)	(532,518)
Proceeds from disposals of property, plant and equipment	1,680	6,600
Net cash used in investing activities	(512,585)	(525,918)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Proceeds from borrowings	—	793,380
Dividends paid	(12,562)	—
Debt issue costs	—	(687)
Excess tax benefit (deficit) from share-based compensation	(1,981)	(563)
Proceeds from exercise of share options	—	810
Net cash provided by (used in) financing activities	(14,543)	792,940
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(282,362)	347,545
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	339,154	1,092,844
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 56,792	\$ 1,440,389

See Notes to Unaudited Condensed Consolidated Financial Statements.

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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, 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	78	2	529	—	(4,381)	—	(3,850)
Share-based compensation	—	—	5,717	—	—	—	5,717
Excess tax benefit (deficit) from share-based compensation plans	—	—	(563)	—	—	—	(563)
Retirement benefit adjustments, net of taxes of \$1,287	—	—	—	—	—	2,404	2,404
Other	—	—	—	—	—	(287)	(287)
Net income	—	—	—	59,595	—	—	59,595
Balance, March 31, 2014	124,315	\$ 15,599	\$ 1,412,714	\$ 3,679,135	\$(10,343)	\$(140,328)	\$ 4,956,777
Balance, January 1, 2015	124,564	\$ 15,604	\$ 1,436,910	\$ 3,466,993	\$(7,990)	\$(220,118)	\$ 4,691,399
Net shares issued (acquired) under share-based compensation plans	199	137	—	—	(3,463)	—	(3,326)
Share-based compensation	—	—	5,761	—	—	—	5,761
Excess tax benefit (deficit) from share-based compensation plans	—	—	(1,981)	—	—	—	(1,981)
Retirement benefit adjustments, net of taxes of \$1,808	—	—	—	—	—	3,386	3,386
Dividends	—	—	—	(12,562)	—	—	(12,562)
Net income	—	—	—	123,669	—	—	123,669
Balance, March 31, 2015	124,763	\$ 15,741	\$ 1,440,690	\$ 3,578,100	\$(11,453)	\$(216,732)	\$ 4,806,346

See Notes to Unaudited Condensed Consolidated Financial Statements.

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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. 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, 2014.

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. 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 our 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, and during 2014, we took delivery of the first three drillships: the Rowan Renaissance, which commenced drilling operations offshore West Africa in April 2014; the Rowan Resolute, which commenced operations in the United States Gulf of Mexico (US GOM) in October 2014; and the Rowan Reliance, which commenced operations in the US GOM in February 2015. Our fourth drillship, the Rowan Relentless, was delivered in late March 2015 and is expected to commence operations in the US GOM in July 2015.

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

The financial information as of December 31, 2014, 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, 2014, 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 (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which sets forth a global standard for revenue recognition and replaces most existing industry-specific guidance. As proposed, we would be required to adopt the new standard in annual and interim reports for periods beginning January 1, 2017; however, in April 2015,

the FASB voted for a one-year deferral of the effective date. We are currently evaluating the potential effect of the new standard.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis, which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. We will be required to adopt the new standard in annual and interim reports beginning January 1, 2016. We do not expect adoption of the new standard will have a material effect on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. Debt issuance costs incurred before the associated funding is received (i.e., the debt liability) should be reported on the balance sheet as deferred charges until the debt is recognized on the balance sheet. We will be required to adopt the new standard in annual and interim reports retrospectively for periods beginning January 1, 2016. We do not expect adoption of the new standard will have a material effect on our financial statements.

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Note 2 – Earnings Per Share

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

	Three months ended March 31,	
	2015	2014
Average common shares outstanding	124,294	123,707
Effect of dilutive securities - share-based compensation	806	970
Average shares for diluted computations	125,100	124,677

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

Share options, appreciation rights and restricted share units granted under share-based compensation plans are antidilutive and excluded from diluted earnings per share when the hypothetical number of shares that could be repurchased under the treasury stock method exceeds the number of shares to be exercised. Antidilutive shares, which could potentially dilute earnings per share in the future, are set forth below (in thousands):

	Three months ended March 31,	
	2015	2014
Share options and appreciation rights	1,456	1,108
Restricted share units	1,533	—
Total potentially dilutive shares	2,989	1,108

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.

Net periodic pension cost recognized during the periods included the following components (in thousands):

	Three months ended March 31,		
	2015	2014	
Service cost	\$4,189	\$3,620	
Interest cost	7,860	8,092	
Expected return on plan assets	(10,414) (10,251)
Amortization of net loss	6,311	4,231	
Amortization of prior service credit	(1,115) (1,110)
Total net pension cost	\$6,831	\$4,582	

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other postemployment benefit cost recognized during the periods included the following components (in thousands):

	Three months ended March 31,	
	2015	2014
Service cost	\$320	\$267
Interest cost	695	757
Amortization of net loss	(2) (39
Amortization of prior service credit	—	(8
Total other postemployment benefit cost	\$1,013	\$977

During the three months ended March 31, 2015, the Company contributed \$1.5 million to its pension and other postemployment benefit plans and expects to make additional contributions to such plans totaling approximately \$24.8 million for the remainder of 2015.

Note 4 – Commitments and Contingent Liabilities

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 September 2014 with respect to three of the four years under review in the amount of approximately \$36 million, including interest, which we collected in October 2014. A remaining year continues to be under examination. We plan to vigorously defend our position.

Other matters – On March 22, 2015, while working for Cobalt International Energy, Inc. (“Cobalt”) in the Gulf of Mexico, the Rowan Reliance drillship experienced a loss of seal in the riser connection system which resulted in a spill of approximately 2,200 barrels of synthetic-oil based mud. The drillship commenced operations on the well on February 1, 2015, and the well was plugged and abandoned on April 6, 2015. On April 22, 2015, we commenced drilling the next well under our existing contract. We had seven days of zero rate in the first quarter (with associated lost revenues of approximately \$4 million). We are in discussions with Cobalt to resolve this matter. It is reasonably possible that a resolution of the matter could result in the loss of day rate or a reduced operating rate for a period of time. Such additional lost revenue cannot be determined with certainty at this time but is not expected to have a material impact on our financial condition.

On April 21, 2015 the Bureau of Safety and Environmental Enforcement (BSEE) informed the Company it will conduct a Quality Control - Failure Incident Team (QC-FIT) evaluation of the incident, and the Company is cooperating with BSEE in the evaluation.

We periodically employ letters of credit in the normal course of our business, and had outstanding letters of credit of approximately \$24.5 million at March 31, 2015.

We are involved in various other legal proceedings incidental to our business and are vigorously defending our position in all such matters. Although the outcome of such proceedings cannot be predicted with certainty, we do not expect resolution of these matters to have a material effect on our financial position, results of operations or cash flows.

Note 5 – Share-Based Compensation

On February 26, 2015, the Company granted restricted share units (RSUs) to employees and officers for annual incentive awards pursuant to our long-term incentive plan with a grant-date fair value aggregating \$22.5 million. The awards vest ratably over three years except to the extent they may vest earlier under our retirement policy. The aggregate fair value, net of estimated forfeitures, was \$21.2 million, which will be recognized as compensation expense over a weighted-average period of 2.7 years from the grant date.

Each RSU awarded to employees is granted in tandem with a corresponding dividend equivalent which entitles the employee to receive an amount in cash equal to any cash dividends paid by the Company with respect to the underlying shares. Dividend

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

equivalents are payable as and when the RSUs vest. Any dividend equivalent amounts are forfeited if the corresponding RSUs are forfeited or do not vest. The Company began paying dividends in May 2014.

Additionally, on February 26, 2015, 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, 2017, 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, 2015, 2016, and 2017, respectively, and 25% of the P-Units' value is determined by the relative TSR ranking for the three-year period ending December 31, 2017. 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 \$9.0 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.

Estimated liabilities for all outstanding P-Unit obligations are classified between current and long-term liabilities and aggregated \$9.6 million and \$11.6 million, at March 31, 2015, and December 31, 2014, respectively.

At March 31, 2015, the Company had approximately \$60.4 million of estimated unrecognized share-based compensation, which is expected to be recognized as compensation expense over a remaining weighted-average period of 2.1 years.

Note 6 – Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by US GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

Level 1 – Quoted prices for identical instruments in active markets;

Level 2 – Quoted market prices for similar instruments in active markets; quoted prices for identical instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as those used in pricing models or discounted cash flow methodologies, for example.

The applicable level within the fair value hierarchy is the lowest level of any input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Carrying value	Estimated fair value measurements Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
March 31, 2015:				
Assets - cash equivalents	\$ 30,084	\$ 30,084	\$—	\$—
Other assets	14,945	14,945	—	—
December 31, 2014:				
Assets - cash equivalents	\$ 314,570	\$ 314,570	\$—	\$—
Other assets	16,304	16,304	—	—

At March 31, 2015 and December 31, 2014, we held Egyptian pounds in the amount of \$14.9 million and \$16.3 million, respectively, which are classified as other noncurrent assets. We ceased drilling operations in Egypt in 2014, and to date we have been unable to convert, utilize or repatriate such funds.

Trade receivables and trade payables, which are also required to be measured at fair value, have carrying values that approximate their fair values due to their short maturities.

Other Fair Value Measurements

Those financial instruments not required to be measured at fair value consist of the Company's publicly traded debt securities. Estimated fair values and related carrying values of our long-term debt securities aggregated \$2.694 billion and \$2.807, respectively, at March 31, 2015, compared to \$2.755 billion and \$2.807, respectively, at December 31, 2014. Fair values of the Company's debt securities were provided by a broker who makes a market in our debt securities and were measured using a market-approach valuation technique. Fair value was determined by adding a spread based on actual trades for that security (or a trader quote where actual trades were unavailable) to the applicable benchmark Treasury security with a comparable maturity in order to derive a current yield. The yield is then used to determine a price given the individual security's coupon rate and maturity. Such inputs are considered "significant other observable inputs" which are categorized as Level 2 inputs in the fair value hierarchy.

Note 7 – Shareholders' Equity

In February 2015, the Company issued 1.1 million shares of common stock, \$0.125 par value per share, in a noncash transaction. The shares were immediately transferred to an affiliated employee benefit trust for use in connection with the Company's share-based employee incentive plan. Shares held by the Company's employee benefit trust are not eligible to vote or to receive dividends and are classified as treasury shares in the condensed consolidated balance sheet.

The following table sets forth the significant amounts reclassified out of each component of accumulated other comprehensive loss and their effect on net income for the period. The amounts reclassified are included in the computation of net periodic pension costs. (See Note 3 – Pension and Other Postemployment Benefits.) Amounts in parentheses are charges against income (in thousands):

	Three months ended March 31,
	2015 2014

Amounts recognized as a component of net periodic pension and other
postretirement benefit cost:

Amortization of net loss	\$(6,309)	\$(4,811)
Amortization of prior service credit	1,115		1,120	
Total before income taxes	(5,194)	(3,691)
Income tax benefit	1,808		1,287	
Total reclassifications for the period, net of income taxes	\$(3,386)	\$(2,404)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On January 29, 2015, the Board of Directors approved a quarterly cash dividend of \$0.10 per share, paid on March 3, 2015, to shareholders of record at the close of business on February 9, 2015.

On May 1, 2015, the Board of Directors approved a quarterly cash dividend of \$0.10 per share, payable on May 26, 2015, to shareholders of record at the close of business on May 12, 2015.

Note 8 – Other Financial Statement Disclosures

Accounts Receivable – The following table sets forth the components of Receivables - trade and other (in thousands):

	March 31, 2015	December 31, 2014
Trade	\$486,265	\$524,712
Income tax	5,186	6,315
Other	11,700	14,177
Total receivables - trade and other	\$503,151	\$545,204

Discontinued Operations – In February 2014, the Company sold a land rig it retained in the 2011 sale of its manufacturing operations. The net carrying value was \$4.1 million, consisting of a \$24.2 million asset previously classified as assets of discontinued operations, less \$20.1 million of deferred revenues previously classified as liabilities of discontinued operations. The Company received \$6.0 million in cash resulting in a \$4.0 million gain, net of tax effects, which was recognized in the quarter ended March 31, 2014.

Supplemental Cash Flow Information – Accrued capital expenditures, which are excluded from capital expenditures in the Condensed Consolidated Statements of Cash Flows until settlement, totaled \$57.1 million and \$39.0 million at March 31, 2015 and 2014, respectively. Interest capitalized in connection with rig construction projects totaled \$7.5 million and \$17.5 million in the three months ended March 31, 2015 and 2014, respectively.

Income Taxes – In accordance with US GAAP for interim reporting, the Company estimates its full-year effective tax rate and applies this rate to its year-to-date pretax income. In addition, the Company separately calculates the tax impact of unusual items, if any. We provide for income taxes based upon the tax laws and rates in effect in the countries in which we conduct operations. The amounts of our provisions are impacted by such laws and rates and the availability of deductions, credits and other benefits in each of the various jurisdictions. Our overall effective tax rate may therefore vary considerably from quarter to quarter and from year to year based on the actual or projected location of operations and other factors.

Our effective tax rate was 12.2% for the three months ended March 31, 2015, compared to 0.5% for the three months ended March 31, 2014. The higher effective rate for the current-year period was due to additional income in high-tax jurisdictions and limitations on interest expense deductions in the U.S.

The Company has not provided for deferred income taxes on undistributed earnings of its non-U.K. subsidiaries, including non-U.S. entities under Rowan Companies, Inc. (RCI), except for a portion of its Saudi Arabia operating entity that is expected to be distributed in 2015. It is the Company's policy and intention, except as noted above, to permanently reinvest outside the U.S. the earnings of non-U.S. entities directly or indirectly owned by RCI. Generally, earnings of non-U.K. entities in which RCI does not have a direct or indirect ownership interest can be distributed to the Company without imposition of either U.K. or local country tax.

In December 2014, the U.K. Treasury released a draft proposal that would impose tax on groups that use certain tax planning techniques that are perceived as diverting profits from the U.K. The Diverted Profit Tax rule was included in the 2015 Finance Bill and on March 26, 2015 the legislation received Royal Assent with an effective date of April 1, 2015. We currently do not know what the financial impact is from this legislation but do not believe it will have a material impact on our financial statements.

Litigation Settlement – In the first quarter of 2014, the Company settled its litigation with the owners and operators of a tanker that collided with the Rowan EXL I in May 2012 and received \$20.9 million in cash as compensation for damages incurred in 2012 for repair costs to and loss of use of the rig. Such amount was recognized as a component of operating income in the three months ended March 31, 2014.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 9 – Guarantees of Registered Securities

Rowan plc and its 100%-owned subsidiary, RCI, have entered into agreements providing for, among other things, the full, unconditional and irrevocable guarantee by Rowan plc of the prompt payment when due of any amount owed to the holders of RCI's 5% Senior Notes due 2017, 7.875% Senior Notes due 2019, 4.875% Senior Notes due 2022, 4.75% Senior Notes due 2024, 5.4% Senior Notes due 2042, and 5.85% Senior Notes due 2044 (the "Senior Notes").

The condensed consolidating financial information that follows is presented on the equity method of accounting in accordance with Rule 3-10 of Regulation S-X in connection with Rowan plc's guarantee of the Senior Notes and reflects the corporate ownership structure as of March 31, 2015. Financial information for the three months ended March 31, 2014, has been recast to reflect changes to the corporate ownership structure that occurred in the third quarter of 2014 and is presented as though the structure at March 31, 2015, was in place at January 1, 2014.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
March 31, 2015
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	\$895	\$2,946	\$52,951	\$—	\$56,792
Receivables - trade and other	76	5,617	497,458	—	503,151
Other current assets	212	43,565	8,270	—	52,047
Total current assets	1,183	52,128	558,679	—	611,990
Property, plant and equipment - gross	—	550,095	8,765,844	—	9,315,939
Less accumulated depreciation and amortization	—	228,765	1,223,148	—	1,451,913
Property, plant and equipment - net	—	321,330	7,542,696	—	7,864,026
Investments in subsidiaries	4,754,045	6,196,899	—	(10,950,944)	—
Due from affiliates	57,359	1,556,471	246,421	(1,860,251)	—
Other assets	—	17,792	18,156	—	35,948
	\$4,812,587	\$8,144,620	\$8,365,952	\$(12,811,195)	\$8,511,964
CURRENT LIABILITIES:					
Accounts payable - trade	\$229	\$14,576	\$103,268	\$—	\$118,073
Deferred revenues	—	—	37,352	—	37,352
Accrued liabilities	321	85,130	77,357	—	162,808
Total current liabilities	550	99,706	217,977	—	318,233
Long-term debt	—	2,807,114	—	—	2,807,114
Due to affiliates	1,081	245,024	1,614,146	(1,860,251)	—
Other liabilities	4,610	306,343	62,420	—	373,373
Deferred income taxes - net	—	517,836	162,544	(473,482)	206,898
Shareholders' equity	4,806,346	4,168,597	6,308,865	(10,477,462)	4,806,346
	\$4,812,587	\$8,144,620	\$8,365,952	\$(12,811,195)	\$8,511,964

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
December 31, 2014
(in thousands)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	\$45,909	\$48,580	\$244,665	\$—	\$339,154
Receivables - trade and other	26	4,317	540,861	—	545,204
Other current assets	424	47,986	8,328	—	56,738
Total current assets	46,359	100,883	793,854	—	941,096
Property, plant and equipment - gross	—	610,063	8,190,119	—	8,800,182
Less accumulated depreciation and amortization	—	271,293	1,096,677	—	1,367,970
Property, plant and equipment - net	—	338,770	7,093,442	—	7,432,212
Investments in subsidiaries	4,624,874	5,863,509	—	(10,488,383)	—
Due from affiliates	36,586	1,412,860	71,867	(1,521,313)	—
Other assets	—	18,103	19,781	—	37,884
	\$4,707,819	\$7,734,125	\$7,978,944	\$(12,009,696)	\$8,411,192
CURRENT LIABILITIES:					
Accounts payable - trade	\$912	\$8,576	\$93,285	\$—	\$102,773
Deferred revenues	—	—	36,189	—	36,189
Accrued liabilities	400	100,167	93,692	—	194,259
Total current liabilities	1,312	108,743	223,166	—	333,221
Long-term debt	—	2,807,324	—	—	2,807,324
Due to affiliates	9,282	45,457	1,466,574	(1,521,313)	—
Other liabilities	5,826	312,575	49,865	—	368,266
Deferred income taxes - net	—	507,281	167,094	(463,393)	210,982
Shareholders' equity	4,691,399	3,952,745	6,072,245	(10,024,990)	4,691,399
	\$4,707,819	\$7,734,125	\$7,978,944	\$(12,009,696)	\$8,411,192

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Three months ended March 31, 2015
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	\$—	\$ 15,046	\$ 547,351	\$(15,358)	\$ 547,039
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	1,697	268,291	(14,254)	255,734
Depreciation and amortization	—	4,580	84,861	249	89,690
Selling, general and administrative	4,212	642	24,085	(1,353)	27,586
Gain on disposals of property and equipment	—	(342)	(171)	—	(513)
Total costs and expenses	4,212	6,577	377,066	(15,358)	372,497
INCOME (LOSS) FROM OPERATIONS	(4,212)	8,469	170,285	—	174,542
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(32,746)	(2,449)	2,449	(32,746)
Interest income	134	2,467	3	(2,449)	155
Other - net	5,604	(5,523)	(1,122)	—	(1,041)
Total other income (expense) - net	5,738	(35,802)	(3,568)	—	(33,632)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,526	(27,333)	166,717	—	140,910
Provision for income taxes	—	390	28,749	(11,898)	17,241
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	1,526	(27,723)	137,968	11,898	123,669
DISCONTINUED OPERATIONS, NET OF TAX	—	—	—	—	—
EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX	122,143	22,078	—	(144,221)	—
NET INCOME (LOSS)	\$ 123,669	\$(5,645)	\$ 137,968	\$(132,323)	\$ 123,669

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Three months ended March 31, 2014
(in thousands)
(unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	\$—	\$16,162	\$376,494	\$(15,054)	\$377,602
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	3,156	232,267	(15,054)	220,369
Depreciation and amortization	—	4,562	66,311	—	70,873
Selling, general and administrative	5,820	1,229	22,826	—	29,875
Loss on disposals of property and equipment	—	17	786	—	803
Litigation settlement	—	—	(20,875)	—	(20,875)
Total costs and expenses	5,820	8,964	301,315	(15,054)	301,045
INCOME (LOSS) FROM OPERATIONS	(5,820)	7,198	75,179	—	76,557
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(20,960)	(240)	240	(20,960)
Interest income	109	447	271	(240)	587
Other - net	3,500	(3,494)	(357)	—	(351)
Total other income (expense) - net	3,609	(24,007)	(326)	—	(20,724)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,211)	(16,809)	74,853	—	55,833
(Benefit) provision for income taxes	—	(8,949)	16,406	(7,176)	281
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,211)	(7,860)	58,447	7,176	55,552
DISCONTINUED OPERATIONS, NET OF TAX	—	4,043	—	—	4,043
EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX	61,806	25,380	—	(87,186)	—
NET INCOME	\$59,595	\$21,563	\$58,447	\$(80,010)	\$59,595

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
 Statements of Comprehensive Income
 Three months ended March 31, 2015
 (in thousands)
 (unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME (LOSS)	\$ 123,669	\$(5,645)	\$ 137,968	\$(132,323)	\$ 123,669
OTHER COMPREHENSIVE INCOME: Net reclassification adjustments for amount recognized in net income as a component of net periodic benefit cost, net of income taxes	3,386	3,386	—	(3,386)	3,386
COMPREHENSIVE INCOME (LOSS)	\$ 127,055	\$(2,259)	\$ 137,968	\$(135,709)	\$ 127,055

Rowan Companies plc and Subsidiaries
 Statements of Comprehensive Income
 Three months ended March 31, 2014
 (in thousands)
 (unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
NET INCOME	\$ 59,595	\$ 21,563	\$ 58,447	\$(80,010)	\$ 59,595
OTHER COMPREHENSIVE INCOME: Net reclassification adjustments for amount recognized in net income as a component of net periodic benefit cost, net of income taxes	2,404	2,404	—	(2,404)	2,404
COMPREHENSIVE INCOME	\$ 61,999	\$ 23,967	\$ 58,447	\$(82,414)	\$ 61,999

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Consolidating Statements of Cash Flows
Three months ended March 31, 2015
(in thousands)
(unaudited)

Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments
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