

ROWAN COMPANIES PLC
Form 10-Q
November 01, 2016
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, 2016

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 98-1023315
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2800 Post Oak Boulevard, Suite 5450, Houston, Texas 77056-6189
(Address of principal executive offices) (Zip Code)
(713) 621-7800
(Registrant's telephone number, including area 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 Tuesday, October 25, 2016, was 125,439,127, which excludes 535,590 shares held by an affiliated employee benefit trust.

Table of Contents

ROWAN COMPANIES PLC
TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets – September 30, 2016, and December 31, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations – Three and nine months ended September 30, 2016 and 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and nine months ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Changes in Shareholders’ Equity – Nine months ended September 30, 2016 and 2015</u>	<u>7</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
<u>Item 4. Controls and Procedures</u>	<u>42</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>42</u>
<u>Item 1A. Risk Factors</u>	<u>42</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
<u>Item 6. Exhibits</u>	<u>44</u>
<u>SIGNATURES</u>	<u>45</u>

Table of Contents

FORWARD-LOOKING STATEMENTS

The information in this report contains various statements relating to future financial performance, results of operations and other statements, including certain projections and business trends, that are not historical facts. These statements constitute “forward-looking statements” within the meaning of the Securities Act of 1933, as amended (the “Securities Act”), the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995 about us that are subject to risks and uncertainties.

Forward-looking statements include words or phrases such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “could,” “may,” “might,” “should,” “will,” “forecast,” “potential,” “outlook,” “scheduled,” “predict,” “will be,” “will likely result,” and similar words and specifically include statements regarding expected financial performance; dividend payments, share repurchases or debt retirement; growth strategies; expected utilization, day rates, revenues, operating expenses, contract terms and 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, 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; rig demand and utilization; future operations; the impact of increasing regulatory requirements and complexity; expected contributions from our rigs and drillships; 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 and impacts of global financial or economic downturns;

changes in the offshore drilling market, including fluctuations in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild drilling units;

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

possible termination, suspension or renegotiation of drilling contracts (with or without cause) as a result of general and industry economic conditions, distressed financial condition of our customers, force majeure, mechanical difficulties, delays, labor disturbances, strikes, performance or other reasons; payment or operational delays by our customers; or restructuring or insolvency of significant customers;

changes or delays in actual contract commencement dates, contract option exercises, contract revenues, contract awards;

our ability to enter into, and the terms of, future drilling contracts for drilling units whose contracts are expiring and drilling units currently idled or stacked;

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 drilling contracts or operations;

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, tax disputes, changes in tax laws, treaties and regulations, tax assessments and liabilities for taxes;

economic volatility and political, legal and tax uncertainties following the vote in the U.K. to exit the European Union (“Brexit”) and any subsequent referendum in Scotland to seek independence from the U.K.;

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 availability of transport vessels, hazards, self-imposed drilling limitations and other delays due to weather conditions, work

stoppages or otherwise, and the availability or high cost of insurance coverage for certain offshore perils or associated removal of wreckage or debris and other losses;

1

Table of Contents

- access to spare parts, equipment and personnel to maintain, upgrade and service our fleet;
- potential cost overruns and other risks inherent to construction, repair, upgrades, inspections or enhancement of drilling units, unexpected delays in rig and equipment delivery and engineering or design issues following shipyard delivery, delays in acceptance by our customers, or delays in the dates our drilling units will enter a shipyard, be transported and delivered, enter service or return to service;
- operating hazards, including environmental or other liabilities, risks, expenses or losses, whether related to well-control issues, collisions, groundings, blowouts, fires, explosions, weather or hurricane delays or damage, losses or liabilities (including wreckage or debris removal) or otherwise;
- our ability to retain highly skilled personnel on commercially reasonable terms, whether due to competition, cost cutting initiatives, labor regulations, unionization 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, military or 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 expropriation, nationalization, confiscation or deprivation of assets, extended business interruptions, suspended operations, or suspension and/or termination of contracts and payment disputes based on force majeure events;
- 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 renegotiation, nullification, cancellation or breach of contracts with customers or other parties;
- potential for additional asset impairments;
- our liquidity, adequacy of cash flows to meet obligations, or our ability to access or obtain financing and other sources of capital, such as in the debt or equity capital markets;
- volatility in currency exchange rates and limitations on our ability to use or convert illiquid currencies;
- effects of accounting changes and adoption of accounting policies;
- 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.

Such risks and uncertainties are beyond our ability to control, and in many cases we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward-looking statements. Should one or more of these risks or uncertainties materialize or should our underlying assumptions prove incorrect, actual results may vary materially from those indicated. You should not place undue reliance on forward-looking statements. 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, 2015 and any subsequent Quarterly Reports on Form 10-Q. We disclaim any obligation to update or revise any forward-looking statements except as required by applicable law or regulation.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except par value)

(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,037.5	\$484.2
Receivables - trade and other	440.5	410.5
Prepaid expenses and other current assets	28.6	26.6
Total current assets	1,506.6	921.3
PROPERTY AND EQUIPMENT:		
Drilling equipment	8,955.8	8,930.4
Other property and equipment	134.6	137.7
Property and equipment - gross	9,090.4	9,068.1
Less accumulated depreciation and amortization	1,947.1	1,662.3
Property and equipment - net	7,143.3	7,405.8
Other assets	15.1	20.2
	\$8,665.0	\$8,347.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$357.1	\$—
Accounts payable - trade	82.2	109.6
Deferred revenues	78.4	33.1
Accrued liabilities	160.1	186.0
Total current liabilities	677.8	328.7
Long-term debt, less current portion	2,288.5	2,692.4
Other liabilities	356.7	357.9
Deferred income taxes - net	184.8	195.8
Commitments and contingent liabilities (Note 4)		
SHAREHOLDERS' EQUITY:		
Class A Ordinary Shares, \$0.125 par value, 126.0 and 125.9 shares issued at September 30, 2016, and December 31, 2015	15.7	15.7
Additional paid-in capital	1,467.9	1,458.5
Retained earnings	3,854.8	3,509.8
Cost of 0.6 and 1.1 treasury shares at September 30, 2016, and December 31, 2015, respectively	(7.1)	(12.2)
Accumulated other comprehensive loss	(174.1)	(199.3)
Total shareholders' equity	5,157.2	4,772.5
	\$8,665.0	\$8,347.3

See Notes to Unaudited Condensed Consolidated Financial Statements.

3

Table of Contents

ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

(Unaudited)

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
REVENUES	\$379.4	\$545.4	\$1,491.4	\$1,601.2
COSTS AND EXPENSES:				
Direct operating costs (excluding items below)	186.0	247.6	598.3	757.3
Depreciation and amortization	102.2	104.1	301.2	289.2
Selling, general and administrative	23.5			