

ROWAN COMPANIES PLC  
Form 10-Q  
November 08, 2012

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

FORM 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

E 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)

77056-6189  
(Zip Code)

(713) 621-7800  
(Registrant's telephone number, including area code)

Rowan Companies, Inc.  
(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 R 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

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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

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, 2012, was 124,194,069.

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ROWAN COMPANIES PLC

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$328,290	\$438,853
Receivables - trade and other	403,465	283,592
Prepaid expenses and other current assets	64,895	44,586
Deferred tax assets - net	42,899	27,023
Assets of discontinued operations	26,948	27,661
<b>Total current assets</b>	<b>866,497</b>	<b>821,715</b>
<b>PROPERTY, PLANT AND EQUIPMENT - at cost:</b>		
Drilling equipment	6,671,638	6,179,587
Construction in progress	738,439	711,558
Other property and equipment	136,955	138,177
Property, plant and equipment - gross	7,547,032	7,029,322
Less accumulated depreciation and amortization	1,525,083	1,350,609
<b>Property, plant and equipment - net</b>	<b>6,021,949</b>	<b>5,678,713</b>
Other assets	100,400	97,417
<b>TOTAL ASSETS</b>	<b>\$6,988,846</b>	<b>\$6,597,845</b>

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)

	September 30, 2012	December 31, 2011
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$-	\$45,023
Accounts payable - trade	90,101	111,082
Deferred revenues	35,975	36,220
Accrued pension and other postretirement benefits	14,515	55,244
Accrued compensation and related employee costs	41,520	31,205
Accrued income taxes	7,619	9,878
Accrued interest	17,682	25,477
Other current liabilities	21,036	9,237
Liabilities of discontinued operations	21,255	25,005
<b>Total current liabilities</b>	<b>249,703</b>	<b>348,371</b>
Long-term debt - less current maturities	1,393,151	1,089,335
Other liabilities	380,430	357,709
Deferred income taxes - net	487,251	476,443
Commitments and contingent liabilities (Note 6)	-	-
<b>SHAREHOLDERS' EQUITY:</b>		
Class A Ordinary Shares, \$0.125 par value, 124,734,407 shares issued at September 30, 2012	15,592	-
Common stock, \$0.125 par value, 150,000,000 shares authorized and 127,577,530 shares issued at December 31, 2011	-	15,947
Additional paid-in capital	1,367,208	1,478,233
Retained earnings	3,312,893	3,186,362
Cost of 548,264 and 3,996,465 treasury shares, respectively	(1,914 )	(128,884 )
Accumulated other comprehensive loss	(215,468 )	(225,671 )
<b>Total shareholders' equity</b>	<b>4,478,311</b>	<b>4,325,987</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$6,988,846</b>	<b>\$6,597,845</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN 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,	
	2012	2011	2012	2011
<b>REVENUES</b>	\$353,910	\$234,698	\$1,038,405	\$664,161
<b>COSTS AND EXPENSES:</b>				
Direct operating costs (excluding items below)	188,152	129,767	558,405	345,558
Depreciation and amortization	63,027	50,306	183,323	129,267
Selling, general and administrative	25,780	22,629	73,934	65,172
(Gain) loss on disposals of property and equipment	(559 )	14	(2,678 )	(1,408 )
Material charges and other operating expenses	18,174	20	30,871	6,120
<b>Total costs and expenses</b>	<b>294,574</b>	<b>202,736</b>	<b>843,855</b>	<b>544,709</b>
<b>INCOME FROM OPERATIONS</b>	<b>59,336</b>	<b>31,962</b>	<b>194,550</b>	<b>119,452</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net of interest capitalized	(13,690 )	(4,233 )	(37,940 )	(17,001 )
Loss on extinguishment of debt	(10,456 )	-	(22,223 )	-
Interest income	263	277	523	338
Other - net	(505 )	(458 )	710	(1,177 )
<b>Total other income (expense) - net</b>	<b>(24,388 )</b>	<b>(4,414 )</b>	<b>(58,930 )</b>	<b>(17,840 )</b>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>34,948</b>	<b>27,548</b>	<b>135,620</b>	<b>101,612</b>
Provision (benefit) for income taxes	8,533	(3,876 )	2,858	(1,010 )
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>26,415</b>	<b>31,424</b>	<b>132,762</b>	<b>102,622</b>
<b>DISCONTINUED OPERATIONS</b>				
Income (loss) from discontinued operations, net of tax	1,164	(1,213 )	(6,231 )	1,047
Gain on sale of discontinued operations, net of tax	-	163,598	-	588,071
	1,164	162,385	(6,231 )	589,118
<b>NET INCOME</b>	<b>\$27,579</b>	<b>\$193,809</b>	<b>\$126,531</b>	<b>\$691,740</b>
<b>INCOME (LOSS) PER SHARE - BASIC:</b>				
Income from continuing operations	\$0.21	\$0.25	\$1.08	\$0.82
Discontinued operations	\$0.01	\$1.30	\$(0.05 )	\$4.69
<b>Net income</b>	<b>\$0.22</b>	<b>\$1.55</b>	<b>\$1.03</b>	<b>\$5.51</b>
<b>INCOME (LOSS) PER SHARE - DILUTED:</b>				
Income from continuing operations	\$0.21	\$0.25	\$1.07	\$0.81

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Discontinued operations	\$0.01	\$1.28	\$(0.05	) \$4.64
Net income	\$0.22	\$1.53	\$1.02	\$5.45

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 September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<b>NET INCOME</b>	\$27,579	\$193,809	\$126,531	\$691,740
<b>Other comprehensive income, net of tax:</b>				
Pension and other postretirement benefit adjustments, net of income taxes of \$1,845 and \$5,494, respectively:				
Amortization of net loss	4,131	-	12,305	-
Amortization of transition obligation	77	-	231	-
Amortization of prior service cost	(782 )	-	(2,333 )	-
<b>OTHER COMPREHENSIVE INCOME</b>	3,426	-	10,203	-
<b>COMPREHENSIVE INCOME</b>	\$31,005	\$193,809	\$136,734	\$691,740

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

Nine months ended  
 September 30,  
 2012                      2011

**CASH PROVIDED BY (USED IN) OPERATIONS:**

Net income	\$126,531	\$691,740
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	183,323	150,236
Deferred income taxes	(5,068 )	(30,880 )
Provision for pension and postretirement benefits	27,813	12,059
Stock-based compensation expense	20,108	14,264
Gain on disposals of property, plant and equipment	(2,678 )	(3,932 )
Gain on sale of manufacturing operations	-	(662,448 )
Gain on sale of land drilling operations	-	(214,803 )
Postretirement benefit claims paid	(3,050 )	(2,188 )
Contributions to pension plans	(41,761 )	(53,169 )
Asset impairment charges	2,896	-
Write-off of deferred debt issuance costs	690	-
Changes in current assets and liabilities:		
Receivables - trade and other	(115,873 )	(41,570 )
Inventories	-	(104,468 )
Prepaid expenses and other current assets	(20,029 )	(3,538 )
Accounts payable	(1,115 )	60,785
Accrued income taxes	(2,259 )	212,352
Deferred revenues	(245 )	44,929
Billings in excess of costs and estimated profits on uncompleted contracts	-	29,493
Other current liabilities	10,349	(7,449 )
Net changes in other noncurrent assets and liabilities	9,870	36,596
Net cash provided by operations	189,502	128,009

**CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:**

Capital expenditures	(566,089 )	(1,155,108)
Proceeds from sale of manufacturing operations	-	1,050,720
Proceeds from sale of land drilling operations	-	509,818
(Increase) decrease in restricted cash	-	15,265
Proceeds from disposals of property, plant and equipment	10,553	5,478
Net cash provided by (used in) investing activities	(555,536 )	426,173

**CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:**

Proceeds from borrowings	493,415	-
Debt issue costs	(799 )	-
Repayments of borrowings	(238,453 )	(38,412 )
Payments to acquire treasury stock	-	(80,924 )
Excess tax benefits from share-based compensation	1,153	5,128

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Proceeds from stock options	155	15,107
Net cash provided by (used in) financing activities	255,471	(99,101 )
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(110,563 )</b>	<b>455,081</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	438,853	437,479
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 328,290	\$ 892,560

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, 2011	126,294	\$15,794	\$1,433,999	\$2,449,521	\$(1,509 )	\$ (145,495 )	\$ 3,752,310
Shares issued under share-based compensation plans	1,178	150	14,957	-	(1,604 )	-	13,503
Shares reacquired	(2,508 )	-	-	-	(80,924 )	-	(80,924 )
Share-based compensation	-	-	16,766	-	-	-	16,766
Excess tax benefit from share-based compensation plans	-	-	5,128	-	-	-	5,128
Net income	-	-	-	691,740	-	-	691,740
Balance, September 30, 2011	124,964	\$15,944	\$1,470,850	\$3,141,261	\$(84,037 )	\$ (145,495 )	\$ 4,398,523
Balance, January 1, 2012	123,581	\$15,947	\$1,478,233	\$3,186,362	\$(128,884 )	\$ (225,671 )	\$ 4,325,987
Shares issued under share-based compensation plans	553	64	(21,362 )	-	17,483	-	(3,815 )
Share-based compensation	-	-	18,252	-	-	-	18,252
Excess tax benefit from share-based compensation plans	-	-	1,153	-	-	-	1,153

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Retirement benefit adjustments, net of taxes of \$5,494	-	-	-	-	-	10,203	10,203
Cancellation of treasury shares	-	(419 )	(109,068 )	-	109,487	-	-
Other	52	-	-	-	-	-	-
Net income	-	-	-	126,531	-	-	126,531
Balance, September 30, 2012	124,186	\$15,592	\$1,367,208	\$3,312,893	\$(1,914 )	\$ (215,468 )	\$ 4,478,311

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 – Nature of Operations and Basis of Presentation

On May 4, 2012, Rowan Companies plc, a public limited company incorporated under the laws of England and Wales (“Rowan UK”), became the successor issuer to Rowan Companies, Inc. (“Rowan Delaware”) pursuant to an agreement and plan of merger and reorganization (the “redomestication”) approved by the stockholders of Rowan Delaware on April 16, 2012. As a result of the redomestication, Rowan UK became the parent company of the Rowan group of companies and our place of incorporation was effectively changed from Delaware to the United Kingdom. We remain subject to the Securities and Exchange Commission reporting requirements, the mandates of the Sarbanes-Oxley Act and the applicable corporate governance rules of the NYSE, and we will continue to report our consolidated financial results in U.S. dollars and in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). We also must comply with additional reporting requirements of English law. The redomestication was accounted for as an internal reorganization of entities under common control; therefore, for purposes of these consolidated financial statements, the carrying values of assets and liabilities of the merged entities were carried forward without adjustment. Unless the context otherwise requires, the terms “Company,” “we,” “us” and “our” are used to refer to Rowan UK (or Rowan Delaware for periods prior to the redomestication) and its consolidated subsidiaries.

The Company is a major provider of international and domestic offshore oil and gas contract drilling services and provides its services utilizing a fleet of 31 self-elevating mobile offshore “jack-up” drilling units. The Company’s primary focus is on high-specification and premium jack-up rigs, which its customers use for exploratory and development drilling and, in certain areas, well workover operations. Additionally, the Company has four ultra-deepwater drillships under construction, the first of which is scheduled for delivery in late 2013.

The Company conducts offshore drilling operations in various markets throughout the world including the North Sea, Middle East, Southeast Asia and U.S. Gulf of Mexico, among others.

The financial statements included in this Form 10-Q are presented in U.S. dollars and include the accounts of the Company and its subsidiaries, all of which are wholly owned. Intercompany balances and transactions are eliminated in consolidation.

The financial statements included in this Form 10-Q have been prepared without audit in accordance with 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. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, as amended by Form 8-K filed with the Securities and Exchange Commission on May 16, 2012.

In June and September 2011, the Company completed the sales of its manufacturing subsidiary, LeTourneau Technologies, Inc (“LeTourneau”) and its land drilling operations, respectively. Manufacturing operations were previously reported as the “Drilling Products and Systems” and the “Mining, Forestry and Steel Products” segments, and land drilling operations were previously reported as a component of the “Drilling Services” segment. The Company

does not currently segment its continuing offshore drilling business for reporting purposes. Results of the former manufacturing and land drilling operations are classified as discontinued operations in the statement of income (see Note 2, "Discontinued Operations"). As permitted under US GAAP, the Company has chosen not to separately disclose cash flows pertaining to discontinued operations in the Condensed Consolidated Statement of Cash Flows.

The financial information as of December 31, 2011, 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. Statutory accounts as required by the Companies Act 2006 for the year ended December 31, 2011 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 s498(2) or (3) Companies Act 2006.

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## ROWAN COMPANIES PLC AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## Note 2 – Discontinued Operations

In June and September 2011, the Company completed the sales of its manufacturing and land drilling operations, respectively. Discontinued operations for the 2012 periods primarily consisted of write-offs of receivables assumed and a working capital adjustment to the sale price of the land drilling business, among other items. The following table sets forth the components of “Discontinued operations, net of tax” (in thousands):

	2012			2011		
	Manufacturing	Drilling	Total	Manufacturing	Drilling	Total
Three months ended September 30:						
Revenues	\$-	\$-	\$-	\$-	\$35,804	\$35,804
Pretax income (loss)	\$1,666	\$(23 )	\$1,643	\$(8,449 )	\$6,429	\$(2,020 )
Provision (benefit) for taxes on income	2,090	(1,611 )	479	(312 )	(495 )	(807 )
Income (loss) from discontinued operations, net of tax	(424 )	1,588	1,164	(8,137 )	6,924	(1,213 )
Pretax gain on sale of discontinued operations	-	-	-	9,571	214,803	224,374
Provision for tax on gain on sale	-	-	-	990	59,786	60,776
Gain on sale of discontinued operations, net of tax	-	-	-	8,581	155,017	163,598