ROWAN COMPANIES PLC
Form 10-Q
August 08, 2014

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 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<br>(State or other jurisdiction of<br>incorporation or organization) | 98-1023315<br>(I.R.S. Employer<br>Identification No.) |
| 2800 Post Oak Boulevard, Suite 5450, Houston, Texas<br>(Address of principal executive offices) | 77056-6189<br>(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 þ 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 þ 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 þ 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 þ

The number of Class A ordinary shares, $0.125 par value, outstanding at July 31, 2014, was 124,503,567.

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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)
(Unaudited)

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $1,247,006 | $1,092,844 |
| Receivables - trade and other | 422,746 | 344,546 |
| Prepaid expenses and other current assets | 51,662 | 45,538 |
| Deferred tax assets - net | 20,467 | 22,137 |
| Assets of discontinued operations | — | 23,813 |
| Total current assets | 1,741,881 | 1,528,878 |
| | | |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Drilling equipment | 7,997,515 | 7,040,451 |
| Construction in progress | 817,284 | 1,009,380 |
| Other property and equipment | 147,834 | 147,884 |
| Property, plant and equipment - gross | 8,962,633 | 8,197,715 |
| Less accumulated depreciation and amortization | 1,953,007 | 1,811,960 |
| Property, plant and equipment - net | 7,009,626 | 6,385,755 |
| | | |
| Other assets | 67,378 | 61,128 |
| | | |
| TOTAL ASSETS | $8,818,885 | $7,975,761 |

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)

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable - trade | $117,534 | $123,976 |
| Deferred revenues | 37,743 | 54,515 |
| Accrued pension and other postretirement benefits | 22,838 | 49,659 |
| Accrued compensation and related employee costs | 59,393 | 59,096 |
| Accrued income taxes | 20 | 8,374 |
| Accrued interest | 46,767 | 27,841 |
| Other current liabilities | 10,132 | 11,001 |
| Liabilities of discontinued operations | — | 20,122 |
| Total current liabilities | 294,427 | 354,584 |
| | | |
| Long-term debt | 2,807,755 | 2,008,700 |
| Other liabilities | 292,510 | 289,061 |
| Deferred income taxes - net | 431,921 | 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 June 30, 2014, and December 31, 2013, respectively | 15,604 | 15,597 |
| Additional paid-in capital | 1,422,450 | 1,407,031 |
| Retained earnings | 3,699,423 | 3,619,540 |
| Cost of 333,356 and 542,475 treasury shares at June 30, 2014, and December 31, 2013, respectively | (7,301) | (5,962) |
| Accumulated other comprehensive loss | (137,904) | (142,445) |
| Total shareholders' equity | 4,992,272 | 4,893,761 |
| | | |
| TOTAL LIABILITIES AND EQUITY | $8,818,885 | $7,975,761 |

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 June 30, 2014 | Three months ended June 30, 2013 | Six months ended June 30, 2014 | Six months ended June 30, 2013 |
|---|---|---|---|---|
| REVENUES | $422,878 | $408,883 | $800,480 | $803,121 |
| COSTS AND EXPENSES: | | | | |
| Direct operating costs (excluding items below) | 244,578 | 216,044 | 464,947 | 425,513 |
| Depreciation and amortization | 77,678 | 66,531 | 148,551 | 131,147 |
| Selling, general and administrative | 29,142 | 33,263 | 59,017 | 62,694 |
| Loss (gain) on disposals of property and equipment | 859 | (19,222) | 1,662 | (18,914) |
| Litigation settlement | — | — | (20,875) | — |
| Material charges and other operating expenses | 8,300 | — | 8,300 | — |
| Total costs and expenses | 360,557 | 296,616 | 661,602 | 600,440 |
| INCOME FROM OPERATIONS | 62,321 | 112,267 | 138,878 | 202,681 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net of interest capitalized | (27,692) | (17,685) | (48,652) | (36,266) |
| Interest income | 762 | 368 | 1,349 | 727 |
| Other - net | (545) | (443) | (896) | (1,237) |
| Total other income (expense) - net | (27,475) | (17,760) | (48,199) | (36,776) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 34,846 | 94,507 | 90,679 | 165,905 |
| Provision for income taxes | 1,982 | 11,663 | 2,263 | 14,927 |
| NET INCOME FROM CONTINUING OPERATIONS | 32,864 | 82,844 | 88,416 | 150,978 |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX | (20) | — | 4,023 | — |
| NET INCOME | $32,844 | $82,844 | $92,439 | $150,978 |
| INCOME PER SHARE - BASIC: | | | | |
| Income from continuing operations | $0.26 | $0.67 | $0.71 | $1.22 |
| Discontinued operations | $— | $— | $0.04 | $— |
| Net income | $0.26 | $0.67 | $0.75 | $1.22 |
| INCOME PER SHARE - DILUTED: | | | | |
| Income from continuing operations | $0.26 | $0.67 | $0.71 | $1.21 |
| Discontinued operations | $— | $— | $0.03 | $— |
| Net income | $0.26 | $0.67 | $0.74 | $1.21 |
| CASH DIVIDENDS DECLARED PER SHARE | $0.10 | $— | $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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| NET INCOME | $32,844 | $82,844 | $92,439 | $150,978 |
| OTHER COMPREHENSIVE INCOME: | | | | |
| Pension and other postretirement benefit adjustments, net of income taxes of $1,298 and $1,969 for the three months ended June 30, 2014 and 2013, and $2,585 and $3,922 for the six months ended June 30, 2014 and 2013, respectively: | | | | |
| Amortization of net loss | 3,153 | 4,447 | 6,280 | 8,859 |
| Amortization of prior service credit | (729) | (790) | (1,452) | (1,574) |
| Total other comprehensive income | 2,424 | 3,657 | 4,828 | 7,285 |
| COMPREHENSIVE INCOME | $35,268 | $86,501 | $97,267 | $158,263 |

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)

| | Six months ended June 30, 2014 | 2013 |
|---|---|---|
| CASH PROVIDED BY OPERATIONS: | | |
| Net income | $92,439 | $150,978 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 148,551 | 131,147 |
| Deferred income taxes | 1,063 | (1,037) |
| Provision for pension and postretirement benefits | 12,410 | 14,746 |
| Share-based compensation expense | 15,467 | 16,870 |
| Gain on disposals of property, plant and equipment | (251) | (18,914) |
| Postretirement benefit claims paid | (1,815) | (1,995) |
| Contributions to pension plans | (28,445) | (6,223) |
| Asset impairment charges | 8,300 | — |
| Changes in current assets and liabilities: | | |
| Receivables - trade and other | (78,200) | (21,575) |
| Prepaid expenses and other current assets | (6,081) | (11,668) |
| Accounts payable | (3,823) | (40) |
| Accrued income taxes | (8,354) | (20,257) |
| Deferred revenues | (16,772) | 2,744 |
| Other current liabilities | 15,819 | (20,432) |
| Net changes in other noncurrent assets and liabilities | (793) | 19,988 |
| Net cash provided by operations | 149,515 | 234,332 |
| | | |
| CASH USED IN INVESTING ACTIVITIES: | | |
| Capital expenditures | (787,296) | (298,655) |
| Proceeds from disposals of property, plant and equipment | 7,897 | 42,056 |
| Net cash used in investing activities | (779,399) | (256,599) |
| | | |
| CASH PROVIDED BY FINANCING ACTIVITIES: | | |
| Proceeds from borrowings | 793,380 | — |
| Dividends paid | (12,556) | — |
| Debt issue costs | (687) | — |
| Excess tax benefits from share-based compensation | (563) | 157 |
| Proceeds from exercise of share options | 4,472 | 2,180 |
| Other | — | 1,820 |
| Net cash provided by financing activities | 784,046 | 4,157 |
| | | |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 154,162 | (18,110) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,092,844 | 1,024,008 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $1,247,006 | $1,005,898 |

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, 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 | 1 | 4 | 2,107 | — | (3,947) | — | (1,836) |
| Share-based compensation | — | — | 13,379 | — | — | — | 13,379 |
| Excess tax benefit from share-based compensation plans | — | — | 157 | — | — | — | 157 |
| Retirement benefit adjustments, net of taxes of $3,922 | — | — | — | — | — | 7,285 | 7,285 |
| Other | — | — | 1,820 | — | — | — | 1,820 |
| Net income | — | — | — | 150,978 | — | — | 150,978 |
| Balance, June 30, 2013 | 124,212 | $15,597 | $1,389,598 | $3,517,942 | $(5,833) | $(213,797) | $4,703,507 |
| | | | | | | | |
| 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 | 258 | 7 | 2,236 | — | (1,339) | — | 904 |
| Share-based compensation | — | — | 13,746 | — | — | — | 13,746 |
| Excess tax benefit (shortfall) from share-based compensation plans | — | — | (563) | — | — | — | (563) |
| Retirement benefit adjustments, net of taxes of $2,585 | — | — | — | — | — | 4,828 | 4,828 |
| Dividends | — | — | — | (12,556) | — | — | (12,556) |
| Other | — | — | — | — | — | (287) | (287) |
| Net income | — | — | — | 92,439 | — | — | 92,439 |
| Balance, June 30, 2014 | 124,495 | $15,604 | $1,422,450 | $3,699,423 | $(7,301) | $(137,904) | $4,992,272 |

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, 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 is expected to commence operations under a three-year contract in the United States Gulf of Mexico (US GOM) in November 2014. The Rowan Reliance is scheduled for delivery in late October 2014 and expected to commence operations under a three-year contract in the US GOM in late January 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.

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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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Average common shares outstanding - basic | 124,113 | 123,599 | 123,934 | 123,417 |
| Effect of dilutive securities - share-based compensation | 739 | 786 | 857 | 885 |
| Average common shares - diluted | 124,852 | 124,385 | 124,791 | 124,302 |

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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Share appreciation rights | 1,066 | 1,017 | 1,066 | 1,017 |
| Employee and director share options | 42 | 53 | 42 | 53 |
| Total potentially dilutive shares | 1,108 | 1,070 | 1,108 | 1,070 |

Note 3 – Pension and Other Postretirement 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Service cost | $3,660 | $2,881 | $7,280 | $5,731 |
| Interest cost | 8,183 | 7,388 | 16,275 | 14,695 |
| Expected return on plan assets | (10,364) | (9,567) | (20,615) | (19,028) |
| Amortization of net loss | 5,506 | 6,852 | 9,737 | 13,626 |
| Amortization of prior service credit | (1,122) | (1,181) | (2,232) | (2,349) |
| Total net pension cost | $5,863 | $6,373 | $10,445 | $12,675 |

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Service cost | $270 | $355 | $537 | $707 |
| Interest cost | 766 | 723 | 1,523 | 1,437 |
| Amortization of net loss | (40) | — | (79) | — |
| Amortization of prior service credit | (8) | (37) | (16) | (73) |
| Total other postretirement benefit cost | $988 | $1,041 | $1,965 | $2,071 |

During the six months ended June 30, 2014, the Company contributed $30.3 million to its pension and other postretirement benefit plans and expects to make additional contributions to such plans totaling approximately $28 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 June 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 June 30, 2014 | Projected costs for the remainder of 2014 | Projected costs in 2015 | Total future costs |
|---|---|---|---|---|---|---|
| Rowan Resolute | July 2014 | $734 | $342 | $392 | $— | $392 |
| Rowan Reliance | October 2014 | 742 | 234 | 501 | 7 | 508 |
| Rowan Relentless | March 2015 | 754 | 203 | 80 | 471 | 551 |
| | | $2,230 | $779 | $973 | $478 | $1,451 |

The Company expects to incur an additional approximately $135 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 $25.4 million at June 30, 2014.

Uncertain tax positions – In 2009, the Company recognized a $25.4 million tax benefit 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. This position is currently under audit and has been challenged by field agents of the U.S. Internal Revenue Service. We have appealed their findings and expect to come to a conclusion within the next twelve months. We plan to vigorously defend our position and continue to believe that we will more likely than not prevail.

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.

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.

At June 30, 2014, the Company had approximately $46.6 million of estimated unrecognized share-based compensation, which is expected to be recognized as compensation expense over a remaining weighted-average period of 1.9 years.

Note 6 – Other Financial Statement Disclosures

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Trade | $357,198 | $323,679 |
| Income tax | 49,966 | 6,759 |
| Other | 15,582 | 14,108 |
| Total receivables - trade and other | $422,746 | $344,546 |

Assets of 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. The gain is classified as discontinued operations in the condensed consolidated statement of income for the six months ended June 30, 2014.

Long-term Debt – On January 15, 2014, Rowan plc, as guarantor, and its 100%-owned subsidiary, Rowan Companies, Inc. ("RCI"), as issuer, completed the issuance and sale in a public offering of $400 million aggregate principal amount of 4.75% Senior Notes due 2024 at a price to the public of 99.898% of the principal amount (the "2024 Notes"), and $400 million aggregate principal amount of 5.85% Senior Notes due 2044 at a price to the public of 99.972% of the principal amount (the "2044 Notes," and together, the "notes"). Net proceeds of the offering were approximately $792 million, which the Company intends to use in its rig construction program and for general corporate purposes.

Interest on the notes is payable on January 15 and July 15 of each year, beginning on July 15, 2014. No principal payments are due with respect to the 2024 Notes or the 2044 Notes until their final maturity date of January 15, 2024 and 2044, respectively.

The notes are redeemable in whole or in part at any time at a price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date for redemptions prior to October 15, 2023, with respect to the 2024 Notes, and prior to July 15, 2043, with respect to the 2044 Notes. On or after such dates, the notes may be redeemed at a price of 100% plus accrued and unpaid interest to the redemption date.

The notes are fully and unconditionally guaranteed on a senior and unsecured basis by Rowan plc.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On January 23, 2014, the Company amended and restated its credit agreement to increase the borrowing capacity under the revolving credit facility from $750 million to $1.0 billion, among other things. There were no amounts drawn under the revolving credit facility at June 30, 2014.

Fair Values of Financial Instruments – 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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Certain of our assets and liabilities are required to be measured at fair value on a recurring basis. Assets and liabilities measured at fair value are summarized below (in thousands):

| | | Estimated fair value measurements | | |
|---|---|---|---|---|
| | Carrying value | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant other unobservable inputs (Level 3) |
| June 30, 2014: | | | | |
| Assets - cash equivalents | $1,195,531 | $1,195,531 | $— | $— |
| December 31, 2013: | | | | |
| Assets - cash equivalents | $1,063,500 | $1,063,500 | $— | $— |

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.

Those financial instruments not required to be measured at fair value consist of the Company's publicly traded debt securities. Fair values of the Company's debt securities were provided by one to two brokers who make 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. Estimated fair values and related carrying values of our long-term debt securities are shown below (in thousands):

| | June 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Fair value | Carrying value | Fair value | Carrying value |
| 5% Senior Notes, due 2017 | $435,134 | $399,102 | $433,879 | $398,961 |
| 7.875% Senior Notes, due 2019 | 612,553 | 498,335 | 603,177 | 498,171 |
| 4.875% Senior Notes, due 2022 | 755,946 | 712,430 | 711,816 | 713,208 |
| 4.75% Senior Notes, due 2024 | 422,587 | 399,611 | — | — |
| 5.4% Senior Notes, due 2042 | 403,997 | 398,388 | 368,602 | 398,360 |
| 5.85% Senior Notes, due 2044 | 429,451 | 399,889 | — | — |
| | $3,059,668 | $2,807,755 | $2,117,474 | $2,008,700 |

Shareholders' Equity – The Company had accumulated other comprehensive losses (AOCL) totaling $137.9 million and $213.8 million at June 30, 2014 and 2013, respectively, which were solely attributable to pension and other postretirement benefits.  All amounts reclassified from AOCL during the three and six months ended June 30, 2014 and 2013, were attributable to amortization of pension and postretirement benefit cost and totaled $2.4 million and $3.7 million for the three months ended June 30, 2014 and 2013, respectively, and $4.8 million and $7.3 million for the six months ended June 30, 2014 and 2013, respectively, net of tax (see Note 3).

On July 31, 2014, the Board of Directors declared a quarterly cash dividend of $0.10 per share, payable on August 26, 2014, to shareholders of record at the close of business on August 11, 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 $46.6 million and $36.4 million at June 30, 2014 and 2013, respectively.  Interest capitalized in connection with rig construction projects totaled $13.0 million and $30.5 million in the three and six months ended June 30, 2014, as compared to $11.5 million and $22.2 million, respectively, in the comparable period of the prior year.

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.

The Company has not provided deferred income taxes on undistributed earnings of its non-U.K. subsidiaries, including non-U.S. subsidiaries of RCI.  It is the Company’s policy and intention to permanently reinvest the earnings of non-U.S. subsidiaries of RCI outside the U.S.  Generally, earnings of non-U.K. subsidiaries that are not subsidiaries of RCI can be distributed to the Company without imposition of either U.K. or local country tax.

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 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 six months ended June 30, 2014.

Material Charges and Other Operating Expenses – During the three months ended June 30, 2014, we recognized an $8.3 million noncash impairment charge for the carrying value of the company's sole aircraft, which has been used to support operations. The asset had a carrying value of $12.7 million prior to the write-down. The amount of the impairment was based on actual sales prices for similar equipment obtained from a third-party dealer of such equipment.

Note 7 – 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 June 30, 2014. Financial information for the three and six months ended June 30, 2013, has been recast to reflect changes to the corporate ownership structure that occurred in the first quarter of 2014 and is presented as though the structure at June 30, 2014, was in place at January 1, 2013.

During the quarter ended March 31, 2014, we identified certain immaterial misclassifications in our guarantor financial information at December 31, 2013, and prior periods primarily relating to the allocation of noncurrent income tax liabilities and deferred tax assets and liabilities between RCI and the non-guarantor subsidiaries. These errors had no impact on our consolidated financial statements. We have revised the consolidating balance sheet at December 31, 2013, and the consolidating income statements for the three and six months ended June 30, 2013, presented herein, to conform to the current period presentation. A summary of the changes at December 31, 2013, follows (in thousands):

| | RCI (Issuer) | Non-guarantor subsidiaries |
|---|---|---|
| Condensed Consolidating Balance Sheets December 31, 2013: | | |
| Other current assets: | | |
| As reported | $45,031 | $22,355 |
| As corrected | 43,611 | 23,775 |
| Due from affiliates: | | |
| As reported | $1,439,112 | $579,501 |
| As corrected | 1,436,736 | 542,331 |
| Accrued liabilities: | | |
| As reported | $101,478 | $54,493 |
| As corrected | 99,102 | 56,869 |
| Due to affiliates: | | |
| As reported | $575,184 | $1,421,553 |
| As corrected | 546,690 | 1,410,501 |
| Other liabilities (noncurrent): | | |
| As reported | $194,966 | $85,960 |
| As corrected | 235,779 | 45,147 |

| | | |
|---|---|---|
| Deferred income taxes (noncurrent liability): | | |
| As reported | $126,681 | $302,974 |
| As corrected | 115,376 | 314,279 |
| | | |
| Retained earnings: | | |
| As reported | $4,795,441 | $5,908,071 |
| As corrected | 4,793,007 | 5,910,505 |

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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
June 30, 2014
(in thousands)
(unaudited)

| | Rowan plc (Parent) | RCI (Issuer) | Non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | $97,907 | $187,377 | $ | | |