ROWAN COMPANIES PLC
Form 10-Q
November 01, 2016
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 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 incorporation or organization)	(I.R.S. Employer 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 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 (§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 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 Tuesday, October 25, 2016, was 125,439,127, which excludes 535,590 shares held by an affiliated employee benefit trust.

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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,” “wil 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;

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- 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.

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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.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	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	29.7	76.5	88.4
Loss on disposals of property and equipment	1.2	2.3	5.3	2.1
Material charges and other operating items	32.9	332.3	32.9	337.3
Total costs and expenses	345.8	716.0	1,014.2	1,474.3
INCOME (LOSS) FROM OPERATIONS	33.6	(170.6)	477.2	126.9
OTHER INCOME (EXPENSE):				
Interest expense, net of interest capitalized	(39.4)	(41.3)	(116.6)	(104.9)
Gain on extinguishment of debt	—	—	2.4	—
Interest income	1.2	0.2	2.1	0.8
Other - net	(2.1)	(1.8)	(5.4)	(2.9)
Total other (expense), net	(40.3)	(42.9)	(117.5)	(107.0)
INCOME (LOSS) BEFORE INCOME TAXES	(6.7)	(213.5)	359.7	19.9
Provision (benefit) for income taxes	(12.2)	25.9	14.7	50.9
NET INCOME (LOSS)	$5.5	$(239.4)	$345.0	$(31.0)
NET INCOME (LOSS) PER SHARE - BASIC	$0.04	$(1.92)	$2.75	$(0.25)
NET INCOME (LOSS) PER SHARE - DILUTED	$0.04	$(1.92)	$2.73	$(0.25)
CASH DIVIDENDS DECLARED PER SHARE	$—	$0.10	$—	$0.30

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
NET INCOME (LOSS)	$5.5	$(239.4)	$345.0	$(31.0)
OTHER COMPREHENSIVE INCOME:				
Net changes in pension and other postretirement plan assets and benefit obligations recognized in other comprehensive income, net of income tax expense of $10.3 for the three and nine months ended September 2016 (See Note 3)	19.2	—	19.2	—
Net reclassification adjustment for amounts recognized in net income (loss) as a component of net periodic benefit cost, net of income tax expense of $0.5 and $1.9 for the three months ended September 30, 2016 and 2015, and $3.2 and $5.5 for the nine months ended September 30, 2016 and 2015, respectively (See Notes 3 and 8)	1.0	3.4	6.0	10.2
	20.2	3.4	25.2	10.2
COMPREHENSIVE INCOME (LOSS)	$25.7	$(236.0)	$370.2	$(20.8)

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine months ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$345.0	$(31.0)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	301.2	290.1
Deferred income taxes	(21.9)	(0.7)
Provision for pension and other postretirement benefits	13.0	23.8
Share-based compensation expense	25.9	24.5
Loss on disposals of property and equipment	5.3	2.1
Other postretirement benefit claims paid	(6.6)	(3.5)
Contributions to pension plans	(16.1)	(11.0)
Noncash loss on debt extinguishment	0.3	—
Contingent payment derivative	(4.2)	—
Asset impairment charges	34.3	329.8
Changes in current assets and liabilities:		
Receivables - trade and other	(30.0)	36.9
Prepaid expenses and other current assets	2.1	(8.3)
Accounts payable	(18.3)	28.3
Accrued income taxes	13.6	3.2
Deferred revenues	45.3	12.0
Other current liabilities	(28.6)	(40.1)
Net changes in other noncurrent assets and liabilities	28.3	2.8
Net cash provided by operating activities	688.6	658.9
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(88.5)	(674.8)
Proceeds from disposals of property and equipment	1.1	5.1
Net cash used in investing activities	(87.4)	(669.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	—	220.0
Reductions of long-term debt	(47.9)	(220.0)
Dividends paid	—	(37.9)
Net cash used in financing activities	(47.9)	(37.9)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	553.3	(48.7)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	484.2	339.2
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,037.5	$290.5

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 millions)
(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, 2015	124.6	$ 15.6	$ 1,436.9	$ 3,467.0	$ (8.0)	$ (220.1)	$ 4,691.4
Net shares issued (acquired) under share-based compensation plans	0.2	0.1	0.4	—	(4.0)	—	(3.5)
Share-based compensation	—	—	18.3	—	—	—	18.3
Excess tax deficit from share-based compensation plans	—	—	(2.5)	—	—	—	(2.5)
Retirement benefit adjustments, net of taxes of $5.5	—	—	—	—	—	10.2	10.2
Dividends	—	—	—	(37.9)	—	—	(37.9)
Net loss	—	—	—	(31.0)	—	—	(31.0)
Balance, September 30, 2015	124.8	$ 15.7	$ 1,453.1	$ 3,398.1	$ (12.0)	$ (209.9)	$ 4,645.0
Balance, January 1, 2016	124.8	$ 15.7	$ 1,458.5	$ 3,509.8	$ (12.2)	$ (199.3)	$ 4,772.5
Net shares issued (acquired) under share-based compensation plans	0.6	—	(9.5)	—	5.1	—	(4.4)
Share-based compensation	—	—	16.3	—	—	—	16.3
Excess tax benefit from share-based compensation plans	—	—	2.6	—	—	—	2.6
Retirement benefit adjustments, net of taxes of $13.5	—	—	—	—	—	25.2	25.2
Net income	—	—	—	345.0	—	—	345.0
Balance, September 30, 2016	125.4	$ 15.7	$ 1,467.9	$ 3,854.8	$ (7.1)	$ (174.1)	$ 5,157.2

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

Rowan Companies plc, a public limited company incorporated under the laws of England and Wales, is a global provider of offshore contract drilling services to the international oil and gas industry. Our fleet currently consists of 31 mobile offshore drilling units, including 27 self-elevating jack-up drilling units and four ultra-deepwater drillships. We contract our drilling rigs, related equipment and work crews primarily on a day-rate basis in markets throughout the world, currently including the United States Gulf of Mexico (US GOM), the United Kingdom (U.K.) and Norwegian sectors of the North Sea, the Middle East and Trinidad.

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 direct and indirect subsidiaries. Unless the context otherwise requires, the terms "Rowan," "Company," "we," "us" and "our" are used to refer to Rowan plc and its consolidated subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

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 applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and notes have been condensed or omitted as permitted by those rules and regulations. The preparation of our condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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, 2015.

Customer Contract Termination and Settlement

On May 23, 2016, the Company reached an agreement with Freeport-McMoRan Oil and Gas LLC ("FMOG") and its parent company, Freeport-McMoRan Inc. ("FCX") in connection with the drilling contract for the drillship Rowan Relentless ("FMOG Agreement"), which was scheduled to terminate in June 2017. The FMOG Agreement provided that the drilling contract be terminated immediately, and that FCX pay the Company $215 million to settle outstanding receivables and early termination of the contract, of which $85 million was received through June 30, 2016 and the remaining $130 million was received in the third quarter 2016. In addition, the Company may also receive two additional contingent payments from FCX, payable on September 30, 2017, of $10 million and $20 million depending on the average price of West Texas Intermediate ("WTI") crude oil over a 12-month period beginning June 30, 2016. The $10 million payment will be due if the average price over the period is greater than $50 per barrel and the additional $20 million payment will be due if the average price over the period is greater than $65 per barrel ("FMOG Provision") (See Note 6). The Company warm-stacked the Rowan Relentless in order to reduce costs. During the quarter ended June 30, 2016, the Company recognized $173.2 million in revenue for the Rowan Relentless, including $130.9 million for the cancelled contract value, $6.2 million for the fair value of the derivative associated with the FMOG Provision (See Note 6), $5.6 million for previously deferred revenue related to the contract, and $30.5 million for operations through May 22, 2016.

Day Rate Concessions

On June 1, 2016, the Company executed a contract extension for the Rowan Viking of 270 days for $275,000 per day following the primary term of the original contract in exchange for day rate concessions reducing the day rate for the primary term from $345,528 per day to $275,000 per day. This reduced day rate was applied to January 1, 2016 through November 6, 2017, and as a result, the Company recorded a reduction to revenue for amounts earned under this contract during the period from January 1, 2016 through March 31, 2016 of $6.3 million in the second quarter of 2016.

Customer Contract Amendment

On September 15, 2016, the Company amended its contract with Cobalt International Energy, L.P. (“Cobalt”), for the drillship Rowan Reliance, which was scheduled to conclude on February 1, 2018. The amendment provides that the Company will receive cash settlement payments totaling $95.9 million, that the drillship remains at its current day rate of approximately $582,000 and that the drilling contract may be terminated as early as March 31, 2017. The Company received cash payments of $45.0 million on September 15, 2016 and $31.3 million on October 3, 2016, and expects to receive a final cash payment of $19.6 million on or before March 31, 2017. In addition, if Cobalt continues its operations with the Rowan Reliance after March 31, 2017, the day rate will be reduced to approximately $262,000 per day for the remaining operating days through February 1, 2018 (subject to further adjustment thereafter). Cobalt International Energy, Inc., the parent of Cobalt, also committed to use the Company as its exclusive provider of comparable drilling services for a period of five years. As the Company has the obligation and intent to have the drillship or a substitute available through the pre-amended contract scheduled end date, in certain circumstances, the $95.9 million settlement was recorded as a deferred revenue liability. As of September 30, 2016, $57.5 million and $38.4 million of the deferred revenue liability is classified as current and noncurrent, respectively, and is included in Deferred Revenue, and Other Liabilities, respectively, in the Condensed Consolidated Balance Sheet. Amortization of deferred revenue will begin on April 1, 2017 and extend no further than the pre-amended contract scheduled end date.

New Accounting Pronouncements

Revenue Recognition – 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. We will be required to adopt the new standard in annual and interim periods beginning January 1, 2018. The amendments may be applied using a retrospective, modified retrospective or prospective with a cumulative catch-up approach. We are evaluating the standard and have not yet determined our implementation method upon adoption or what impact adoption will have on our financial statements.

Presentation of Deferred Taxes – In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities to present deferred tax assets and deferred tax liabilities in balance sheets as noncurrent. We will be required to adopt the new standard in annual and interim periods beginning January 1, 2017. The amendments in this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We are evaluating the standard and have not yet determined our implementation method.

Lease Accounting – In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires the balance sheet recognition of lease assets and lease liabilities by lessees for leases previously classified as operating leases under prior GAAP. We will be required to adopt the new standard in annual and interim periods beginning January 1, 2019. Lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, including a number of optional practical expedients that entities may elect to apply. We are evaluating the standard and have not yet determined our implementation method upon adoption or what impact adoption will have on our consolidated financial statements.

Stock Compensation – In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-based Payment Accounting, which simplifies several aspects of accounting for employee share-based payment awards, including the accounting for income taxes, withholding taxes and forfeitures, as well as classification on the statement of cash flows. We will be required to adopt the amended guidance in annual and interim reports beginning January 1, 2017, with early adoption permitted. We are in the process of determining the method of adoption and the impact this amendment will have on our consolidated financial statements.

Financial Instruments – In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends the FASB's guidance on the impairment of financial instruments. The ASU adds to US GAAP an impairment model that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. We will be required to adopt the amended guidance in annual and interim reports beginning January 1, 2020, with early adoption permitted for fiscal years beginning after December 15, 2018. We are in the process of evaluating the impact this amendment will have on our consolidated financial statements.

Statement of Cash Flows - In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight cash flow classification issues with the objective of reducing differences in practice. We will be required to adopt the amendments in this ASU in annual and interim periods beginning January 1, 2018, with early adoption permitted. Adoption is required to be on a retrospective basis, unless impracticable for any of the amendments, in which case a prospective application is permitted. We are in the process of evaluating the impact these amendments will have on our consolidated financial statements.

Income Taxes - In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory, which eliminates the exception that prohibits the recognition of current and deferred income tax effects for intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. We will be required to adopt the amendments in this ASU in the annual and interim periods beginning January 1, 2018, with early adoption permitted at the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The application of the amendments will require the use of a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. We are evaluating the standard and the impact it will have on our consolidated financial statements.

Note 2 – Earnings Per Share

The following table sets forth a reconciliation of basic and diluted shares (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Average common shares outstanding	125.4	124.8	125.3	124.5
Effect of dilutive securities - share-based compensation	1.3	—	1.1	—
Average shares for diluted computations	126.7	124.8	126.4	124.5

Share options, share appreciation rights and restricted share units granted under share-based compensation plans are anti-dilutive 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 that can be exercised, or when the Company reports a net loss from continuing operations. Anti-dilutive shares, which could potentially dilute earnings per share in the future, are set forth below (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Share options and appreciation rights	1.6	1.3	1.7	1.4
Restricted share units	0.7	1.2	1.3	1.7
Total potentially dilutive shares	2.3	2.5	3.0	3.1

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.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service cost	$4.6	$4.3	$12.2	$12.7
Interest cost	6.7	8.0	19.7	23.8
Expected return on plan assets	(9.9)	(10.6)	(29.7)	(31.5)
Amortization of net loss	5.6	6.4	15.8	19.1
Amortization of prior service credit	(1.2)	(1.1)	(3.7)	(3.4)
Total net pension cost	$5.8	$7.0	$14.3	$20.7

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other postretirement benefit cost recognized during the periods included the following components (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Service cost	$—	$0.3	$0.2	$1.0
Interest cost	0.4	0.7	1.4	2.1
Amortization of net loss	0.2	—	0.2	—
Amortization of prior service credit	(2.9)	—	(3.1)	—
Total other postretirement benefit cost	$(2.3)	$1.0	$(1.3)	$3.1

On August 10, 2016, the Company communicated changes to the participants of its postretirement benefits plan that was previously frozen to new entrants in 2008. Based on these changes, effective as of January 1, 2017, eligible participants will now receive a health reimbursement account that provides a fixed dollar benefit per year. The impact of these changes to the plan and related, as of August 10, 2016, are presented in the table below (in millions):

	Liability increase (decrease)	Accumulated other comprehensive income (loss)	Deferred tax liability increase (decrease)
Plan change benefit	$ (39.9)	$ 25.9	$ 14.0
Remeasurement loss	5.2	(3.4)	(1.8)
Actuarial loss	5.2	(3.3)	(1.9)
Total	$ (29.5)	$ 19.2	$ 10.3

The Company records unrealized gains and losses related to net periodic pension and other postretirement benefit cost net of estimated taxes in Accumulated other comprehensive income (loss). The Company has a valuation allowance against its net U.S. deferred tax asset that is not expected to be realized. A portion of this valuation allowance is related to deferred tax benefits or expense as recorded in Accumulated other comprehensive income (loss).

During the nine months ended September 30, 2016, the Company contributed $22.7 million to its pension and other postretirement benefit plans and expects to make additional contributions to such plans totaling approximately $8.2 million for the remainder of 2016.

Note 4 – Commitments and Contingent Liabilities

Uncertain tax positions – We have been advised by the U.S. Internal Revenue Service of proposed unfavorable tax adjustments of $85 million including applicable penalties for the open tax years 2009 through 2012. The unfavorable tax adjustments primarily related to the following items: 2009 tax benefits recognized as a result of applying the facts of a third-party tax case that provided favorable tax treatment for certain foreign contracts entered into in prior years to the Company’s situation; transfer pricing; and domestic production activity deduction. We have submitted a formal protest in response to these unfavorable proposed tax adjustments. In years subsequent to 2012, we have similar positions that could be subject to adjustments for the open years. We have provided for amounts that we believe will be ultimately payable under the proposed adjustments and intend to vigorously defend our positions; however, if we determine the provisions for these matters to be inadequate due to new information or we are required to pay a significant amount of additional U.S. taxes and applicable penalties and interest in excess of amounts that have been provided for these matters, our consolidated results of operations and cash flows could be materially and adversely affected.

The gross unrecognized tax benefits excluding penalties and interest are $119 million and $65 million as of September 30, 2016 and December 31, 2015, respectively. The increase to gross unrecognized tax benefits was primarily due to tax positions taken of $7 million related to current year-to-date anticipated transfer pricing positions and $42 million related to prior year U.S. interest deductions. Reversal of net unrecognized tax benefits excluding penalties and interest would impact our tax by $66 million.
It is reasonable that the existing liabilities for the unrecognized tax benefits may increase or decrease over the next 12 months as a result of audit closures and statute expirations, however, the ultimate timing of the resolution and/or closure of audits is highly uncertain.

Letters of credit – We periodically employ letters of credit in the normal course of our business, and had outstanding letters of credit of approximately $9.5 million at September 30, 2016.

Pending or threatened litigation – We are involved in various 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 25, 2016, the Company granted restricted share units (“RSUs”) to employees for annual incentive awards pursuant to our long-term incentive plan with a grant-date fair value aggregating $19.3 million. The awards vest ratably over three years except to the extent they may vest earlier under our retirement policy. The aggregate grant-date fair value, net of estimated forfeitures, was $18.2 million, which will be recognized as compensation expense over a weighted-average period of 2.6 years from the grant date.

Additionally, on February 25, 2016, 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”) relative to a group of peer companies over a three-year period ending December 31, 2018, 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, 2016, 2017, and 2018, respectively, and 25% of the P-Units’ value is determined by the relative TSR ranking for the three-year period ending December 31, 2018. The P-Units cliff vest on the third anniversary following the grant date. Settlement may be in cash or shares at the Board's discretion.

The grant-date fair value of the P-Units was estimated to be $8.6 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 P-Units as of September 30, 2016, included $9.8 million and $10.6 million classified as current and noncurrent, respectively, compared to $7.6 million and $11.4 million, respectively, at December 31, 2015. Current and noncurrent estimated P-Unit liabilities are included in Accrued Liabilities, and Other Liabilities, respectively, in the Condensed Consolidated Balance Sheets.

At September 30, 2016, estimated unrecognized share-based compensation totaled approximately $36.9 million, which is expected to be recognized as compensation expense over a remaining weighted-average period of 1.7 years.

Note 6 – Derivatives

The Company determined that the FMOG Provision of the FMOG Agreement is a freestanding financial instrument and that it met the criteria of a derivative instrument (“Contingent Payment Derivative”). The Contingent Payment Derivative was initially recorded to revenue at a fair value of $6.2 million on May 23, 2016, and will be revalued at each reporting date with changes in the fair value reported as non-operating income or expense. The fair value of the Contingent Payment Derivative was determined using a Monte Carlo simulation (See Note 7).

The following table provides the fair value of the Company’s derivative as reflected in the Condensed Consolidated Balance Sheet (in millions):

Balance sheet classification	Fair value September 30, 2016
Derivative:	
Contingent Payment Derivative	
Prepaid expenses and other current assets	$ 4.2

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table provides the revaluation effect of the Company's derivative on the Condensed Consolidated Statements of Operations (in millions):

Derivative	Classification of gain (loss) recognized in income (loss)	Amount of gain (loss) recognized in income (loss)	
		Three months ended September 30, 2016	Nine months ended September 30, 2016
Contingent Payment Derivative	Other - net	$ (2.2)	$ (2.0)

Note 7 – 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.

Derivative

The fair value of the Contingent Payment Derivative (Level 3) was estimated using a Monte Carlo simulation model, which calculates the probabilities of the daily closing WTI spot price exceeding the $50 price target and the $65 price target ("Price Targets"), respectively, on a daily averaging basis during the 12-month payment measurement period ending on June 30, 2017. The probabilities are applied to the payout at each Price Target to calculate the probability-weighted expected payout. The following are the significant inputs used in the valuation of the Contingent Payment Derivative: the WTI Spot Price on the valuation date, the expected volatility, and the risk-free interest rate, and the slope of the WTI forward curve, which were $47.48, 37.5%, 0.765% and 5.5% at May 23, 2016, respectively and $48.24, 34.85%, 0.589%, and 9.25% at September 30, 2016, respectively. The expected volatility was estimated from the implied volatility rates of WTI Crude Futures. The risk-free rate was based on yields of U.S. Treasury securities commensurate with the remaining term of the Contingent Payment Derivative.

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 millions):

	Fair value	Estimated fair value measurements		
		Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
September 30, 2016:				
Assets - cash equivalents	$1,022.8	$1,022.8	$ —	$ —
Derivative	4.2	—	—	4.2
Other assets	9.1	9.1	—	—

December 31, 2015:				
Assets - cash equivalents	$465.4	$465.4	$ —	$ —
Other assets	13.5	13.5	—	—

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At September 30, 2016, the Company held a Contingent Payment Derivative in the amount of $4.2 million, which is classified as Prepaid Expenses and Other Current Assets on the Condensed Consolidated Balance Sheet.
At September 30, 2016 and December 31, 2015, we held Egyptian pounds in the amount of $9.1 million and $13.5 million, respectively, which are classified as Other Assets on the Condensed Consolidated Balance Sheets. We ceased drilling operations in Egypt in 2014, and are currently working to obtain access to the funds for use outside Egypt to the extent they are not utilized. We can provide no assurance we will be able to convert or utilize such funds in the future.
Trade receivables and trade payables, which are required to be measured at fair value, have carrying values that approximate their fair values due to their short maturities.
Assets Measured at Fair Value on a Nonrecurring Basis
Assets measured at fair value on a nonrecurring basis and whose carrying values were remeasured during the nine months ended September 30 are set forth below (in millions):

	Fair value	Estimated fair value measurements Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total gains (losses)
2016:					
Property and equipment, net (1)	$9.3	$ —	$ —	$ 9.3	$(34.3)
2015:					
Property and equipment, net (2)	$128.0	$ —	$ —	$ 128.0	$(329.8)

(1) This represents a non-recurring fair value measurement made at September 30, 2016 for five of our jack-up drilling units.
(2) This represents a non-recurring fair value measurement made at September 30, 2015 for ten of our jack-up drilling units.
During the quarter ended September 30, 2016, we conducted an impairment test of our assets and determined that the carrying values for five of our jack-up drilling units were not recoverable from their undiscounted cash flows and exceeded the rigs' estimated fair values measured under an income approach. As a result, we recognized a noncash impairment charge of $34.3 million which is included in Material Charges and Other Operating Items on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016.
During the quarter ended September 30, 2015, we conducted an impairment test of our assets and determined that the carrying values for ten of our jack-up drilling units were not recoverable from their undiscounted cash flows and exceeded the rigs' estimated fair values measured under an income approach. As a result, we recognized a noncash impairment charge of $329.8 million which is included in Material Charges and Other Operating Items on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015.
In each case, our estimate of fair value required us to use significant unobservable inputs, which are internally developed assumptions not observable in the market, including assumptions related to future demand for drilling services, estimated availability of rigs, and future day rates, among others.
Other Fair Value Measurements

Financial instruments not required to be measured at fair value consist of the Company's publicly traded debt securities. Our publicly traded debt securities had a carrying value of $2.646 billion at September 30, 2016, and an estimated fair value at that date aggregating $2.223 billion, compared to a carrying and fair value of $2.692 billion and $2.072 billion, respectively, at December 31, 2015. Fair values of our publicly traded debt securities were provided by a broker who makes a market in such securities and were measured using a market-approach valuation technique, which is a Level 2 fair value measurement.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 8 – Shareholders' Equity
Reclassifications from Accumulated Other Comprehensive Loss – The following table sets forth the significant amounts reclassified out of each component of accumulated other comprehensive loss and the effect on net income (loss) for the period (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Amounts recognized as a component of net periodic pension and other postretirement benefit cost:				
Amortization of net loss	$(5.8)	$(6.5)	$(16.0)	$(19.1)
Amortization of prior service credit	4.3	1.2	6.8	3.4
Total before income taxes	(1.5)	(5.3)	(9.2)	(15.7)
Income tax benefit	0.5	1.9	3.2	5.5
Total reclassifications for the period, net of income taxes	$(1.0)	$(3.4)	$(6.0)	$(10.2)

The Company records unrealized gains and losses related to net periodic pension and other postretirement benefit cost net of estimated taxes in Accumulated other comprehensive income (loss). The Company has a valuation allowance against its net U.S. deferred tax asset that is not expected to be realized. A portion of this valuation allowance is related to deferred tax benefits or expense as recorded in Accumulated other comprehensive income (loss).
Note 9 – Other Financial Statement Disclosures
Accounts Receivable – The following table sets forth the components of receivables - trade and other (in millions):

	September 30, 2016	December 31, 2015
Trade	$ 426.9	$ 395.7
Income tax	6.6	4.5
Other	7.0	10.3
Total receivables - trade and other	$ 440.5	$ 410.5

Accrued Liabilities – The following table sets forth the components of accrued liabilities (in millions):

	September 30, 2016	December 31, 2015
Pension and other postretirement benefits	$ 14.0	$ 31.4
Compensation and related employee costs	61.1	73.6
Interest	34.2	44.3
Income taxes	37.6	23.9
Other	13.2	12.8
Total accrued liabilities	$ 160.1	$ 186.0

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Long-term Debt – Long-term debt consisted of the following (in millions):

	September 30, 2016	December 31, 2015
5% Senior Notes, due September 2017 ($357.7 million and $366.6 million principal amount, respectively; 5.2% effective rate)	$ 357.1	$ 365.5
7.875% Senior Notes, due August 2019 ($396.5 million and $435.5 million principal amount, respectively; 8.0% effective rate)	394.7	432.9
4.875% Senior Notes, due June 2022 ($700 million principal amount; 4.7% effective rate)	705.5	706.2
4.75% Senior Notes, due January 2024 ($400 million principal amount; 4.8% effective rate)	397.3	397.1
5.4% Senior Notes, due December 2042 ($400 million principal amount; 5.4% effective rate)	394.9	394.7
5.85% Senior Notes, due January 2044 ($400 million principal amount; 5.9% effective rate)	396.1	396.0
Total carrying value	2,645.6	2,692.4
Current portion	357.1	—
Carrying value, less current portion	$ 2,288.5	$ 2,692.4

In the first quarter of 2016, we paid $15.9 million in cash to retire $16.5 million aggregate principal amount of the 5% Senior Notes due 2017 and 7.875% Senior Notes due 2019, plus accrued interest, and recognized a $0.6 million gain on early extinguishment of debt.

Also during the first quarter of 2016, we repurchased an additional $21.4 million aggregate principal amount of the 5% and 7.875% Senior Notes, which settled in April 2016 and resulted in a $1.2 million gain on early extinguishment of debt in the second quarter of 2016.

In April 2016, we repurchased $10.0 million aggregate principal amount of the 7.875% Senior Notes which resulted in a $0.6 million gain on early extinguishment of debt in the second quarter of 2016.

Supplemental Cash Flow Information – Accrued capital expenditures, which are excluded from capital expenditures in the Condensed Consolidated Statements of Cash Flows until settlement, totaled $23.2 million and $36.5 million at September 30, 2016 and 2015, respectively. Interest capitalized in connection with rig construction projects totaled $16.2 million in the nine months ended September 30, 2015. We did not capitalize any interest for the three months ended September 30, 2015 and the three and nine months ended September 30, 2016.

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, levels of income, our consolidated effective income tax rate, deferred intercompany gains or losses, and other factors.

We recognized tax benefits of $12.2 million and tax expense of $14.7 million for the three and nine months ended September 30, 2016, respectively, compared to tax expense of $25.9 million and $50.9 million for the comparable periods in 2015.

Our effective tax rate was 181.2% as a result of a tax benefit on a pre-tax loss and 4.1% as a result of tax expense on pre-tax income, respectively, for the three and nine months ended September 30, 2016, compared to (12.2)% as a result of tax expense on a pre-tax loss and 256.2% as a result of tax expense on pre-tax income, respectively, for the comparable prior-year periods ended September 30, 2015.

The decrease in tax expense of $38.1 million resulting in a tax benefit and the decrease in tax expense of $36.2 million for the three and nine month periods compared to the prior-year periods is primarily attributed to:

- the prior-year period's discrete tax expense for the establishment of a full valuation allowance on the U.S. deferred tax assets;

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- the current period discrete tax benefit for the decrease in the U.S. valuation allowance due to additional current earnings in other comprehensive income related to the change in our postretirement benefit plan;
- a change in the geographic mix of earnings including a reduction of income in the high tax jurisdictions; and
- a partial offset by the prior-year period's discrete additional tax benefit for the U.S. -impaired assets.

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"). It is the Company's policy and intention 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.

Material Charges and Other Operating Items – Material charges for the three and nine months ended September 30, 2016 include (i) non-cash asset impairment charges totaling $34.3 million on five jack-up drilling units (See Note 7) and (ii) a $1.4 million reversal of an estimated liability for settlement of a withholding tax matter during a tax amnesty period which was related to a legal settlement for a 2014 termination of a contract for refurbishment work on the Rowan Gorilla III, as noted below in the 2015 periods. Payment of such withholding taxes during the tax amnesty period resulted in the waiver of applicable penalties and interest.

Material charges for the three and nine months ended September 30, 2015 includes (i) non-cash asset impairment charges totaling $329.8 million on ten jack-up drilling units (See Note 7) and (ii) adjustments of $2.6 million and $7.6 million, respectively, to an estimated liability for the 2014 contract termination in connection with refurbishment work on the Rowan Gorilla III. A settlement agreement for this matter was signed during the third quarter of 2015.

Note 10 – Segment Information

We operate in two principal operating segments – deepwater, which consists of our drillship operations, and jack-ups. Both segments provide one service – contract drilling. The Company evaluates performance primarily based on income from operations.

Depreciation and amortization and selling, general and administrative expenses related to our corporate function and other administrative offices have not been allocated to our operating segments for purposes of measuring segment operating income and are included in "Unallocated costs and other." "Other operating items" consists of non-cash impairment charges, and gains and losses on equipment sales and litigation and related.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Segment information for the three and nine months ended September 30, 2016 and 2015 is set forth below (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Deepwater:				
Revenues	$135.1	$220.9	$699.0	$529.7
Operating expenses:				
Direct operating costs (excluding items below)	52.4	77.8	175.4	207.3
Depreciation and amortization	28.8	27.6	86.0	66.4
Selling, general and administrative	—	—	—	—
Other operating items	0.1	—	0.4	—
Income from operations	$53.8	$115.5	$437.2	$256.0
Jack-ups:				
Revenues	$244.3	$324.5	$792.4	$1,071.5
Operating expenses:				
Direct operating costs (excluding items below)	133.6	169.8	422.9	550.0
Depreciation and amortization	71.5	73.2	211.0	213.2
Selling, general and administrative	—	—	—	—
Other operating items	33.6	333.5	37.3	338.5
Income (loss) from operations	$5.6	$(252.0)	$121.2	(30.2)
Unallocated costs and other:				
Revenues	$—	$—	$—	$—
Operating expenses:				
Direct operating costs (excluding items below)	—	—	—	—
Depreciation and amortization	1.9	3.3	4.2	9.6
Selling, general and administrative	23.5	29.7	76.5	88.4
Other operating items	0.4	1.1	0.5	0.9
Loss from operations	$(25.8)	$(34.1)	$(81.2)	$(98.9)
Consolidated:				
Revenues	$379.4	$545.4	$1,491.4	$1,601.2
Operating 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	29.7	76.5	88.4
Other operating items	34.1	334.6	38.2	339.4
Income (loss) from operations	$33.6	$(170.6)	$477.2	$126.9

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 11 – Guarantees of Registered Securities
RCI, a 100%-owned Delaware subsidiary of Rowan plc, is the issuer of all of our publicly traded debt securities consisting of the following series: 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 Senior Notes and amounts outstanding under our revolving credit facility are guaranteed by Rowan plc on a full, unconditional and irrevocable basis.
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.
Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
September 30, 2016
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$5.1	$359.8	$ 672.6	$—	$ 1,037.5
Receivables - trade and other	—	1.3	439.2	—	440.5
Prepaid expenses and other current assets	0.5	18.4	9.7	—	28.6
Total current assets	5.6	379.5	1,121.5	—	1,506.6
Property and equipment - gross	—	616.5	8,473.9	—	9,090.4
Less accumulated depreciation and amortization	—	264.6	1,682.5	—	1,947.1
Property and equipment - net	—	351.9	6,791.4	—	7,143.3
Investments in subsidiaries	5,155.9	6,186.8	—	(11,342.7)	—
Due from affiliates	0.7	578.9	58.2	(637.8)	—
Other assets	—	4.8	10.3	—	15.1
	$5,162.2	$7,501.9	$ 7,981.4	$(11,980.5)	$ 8,665.0
CURRENT LIABILITIES:					
Current portion of long-term debt	$—	$357.1	$ —	$—	$ 357.1
Accounts payable - trade	0.6	18.9	62.7	—	82.2
Deferred revenues	—	—	78.4	—	78.4
Accrued liabilities	0.3	90.1	69.7	—	160.1
Total current liabilities	0.9	466.1	210.8	—	677.8
Long-term debt, less current portion	—	2,288.5	—	—	2,288.5
Due to affiliates	0.1	59.1	578.6	(637.8)	—
Other liabilities	4.0	277.2	75.5	—	356.7
Deferred income taxes - net	—	540.3	144.0	(499.5)	184.8
Shareholders' equity	5,157.2	3,870.7	6,972.5	(10,843.2)	5,157.2
	$5,162.2	$7,501.9	$ 7,981.4	$(11,980.5)	$ 8,665.0

ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
December 31, 2015
(In millions)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
CURRENT ASSETS:					
Cash and cash equivalents	$17.3	$9.5	$ 457.4	$—	$ 484.2
Receivables - trade and other	0.1	1.4	409.0	—	410.5
Prepaid expenses and other current assets	0.4	19.3	6.9	—	26.6
Total current assets	17.8	30.2	873.3	—	921.3
Property and equipment - gross	—	592.8	8,475.3	—	9,068.1
Less accumulated depreciation and amortization	—	242.7	1,419.6	—	1,662.3
Property and equipment - net	—	350.1	7,055.7	—	7,405.8
Investments in subsidiaries	4,763.3	6,028.2	—	(10,791.5)	—
Due from affiliates	0.6	1,218.2	55.8	(1,274.6)	—
Other assets	—	5.0	15.2	—	20.2
	$4,781.7	$7,631.7	$ 8,000.0	$(12,066.1)	$ 8,347.3
CURRENT LIABILITIES:					
Accounts payable - trade	$1.0	$19.1	$ 89.5	$—	$ 109.6
Deferred revenues	—	—	33.1	—	33.1
Accrued liabilities	0.7	119.4	65.9	—	186.0
Total current liabilities	1.7	138.5	188.5	—	328.7
Long-term debt, less current portion	—	2,692.4	—	—	2,692.4
Due to affiliates	2.9	55.8	1,215.9	(1,274.6)	—
Other liabilities	4.6	304.7	48.6	—	357.9
Deferred income taxes - net	—	522.9	150.8	(477.9)	195.8
Shareholders' equity	4,772.5	3,917.4	6,396.2	(10,313.6)	4,772.5
	$4,781.7	$7,631.7	$ 8,000.0	$(12,066.1)	$ 8,347.3

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Operations
Three months ended September 30, 2016
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	$ —	$5.4	$ 378.5	$ (4.5)	$ 379.4
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	(2.0)	191.3	(3.3)	186.0
Depreciation and amortization	—	5.3	96.7	0.2	102.2
Selling, general and administrative	5.7	—	19.2	(1.4)	23.5
Loss on disposals of property and equipment	—	0.5	0.7	—	1.2
Material charges and other operating items	—	—	32.9	—	32.9
Total costs and expenses	5.7	3.8	340.8	(4.5)	345.8
INCOME (LOSS) FROM OPERATIONS	(5.7)	1.6	37.7	—	33.6
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(39.4)	(0.6)	0.6	(39.4)
Interest income	—	1.0	0.8	(0.6)	1.2
Other - net	5.4	(5.4)	(2.1)	—	(2.1)
Total other income (expense), net	5.4	(43.8)	(1.9)	—	(40.3)
INCOME (LOSS) BEFORE INCOME TAXES	(0.3)	(42.2)	35.8	—	(6.7)
Benefit for income taxes	—	(2.9)	(5.2)	(4.1)	(12.2)
Equity in earnings of subsidiaries, net of tax	5.8	(158.1)	—	152.3	—
NET INCOME (LOSS)	$ 5.5	$(197.4)	$ 41.0	$ 156.4	$ 5.5

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Operations
Three months ended September 30, 2015
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	$—	$15.9	$ 543.5	$ (14.0)	$ 545.4
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	1.0	259.4	(12.8)	247.6
Depreciation and amortization	—	6.8	97.2	0.1	104.1
Selling, general and administrative	5.5	(1.8)	27.3	(1.3)	29.7
Loss on disposals of property and equipment	—	0.5	1.8	—	2.3
Material charges and other operating items	—	—	332.3	—	332.3
Total costs and expenses	5.5	6.5	718.0	(14.0)	716.0
INCOME (LOSS) FROM OPERATIONS	(5.5)	9.4	(174.5)	—	(170.6)
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(41.3)	(14.0)	14.0	(41.3)
Interest income	0.6	13.1	0.5	(14.0)	0.2
Other - net	5.6	(5.7)	(1.7)	—	(1.8)
Total other income (expense), net	6.2	(33.9)	(15.2)	—	(42.9)
INCOME (LOSS) BEFORE INCOME TAXES	0.7	(24.5)	(189.7)	—	(213.5)
Provision (benefit) for income taxes	—	24.8	(11.8)	12.9	25.9
Equity in earnings of subsidiaries, net of tax	(240.1)	(182.1)	—	422.2	—
NET LOSS	$(239.4)	$(231.4)	$ (177.9)	$ 409.3	$ (239.4)

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Statements of Operations
Nine months ended September 30, 2016
(In millions)
(Unaudited)

	Rowan plc (Parent)	RCI (Issuer)	Non-guarantor subsidiaries	Consolidating adjustments	Consolidated
REVENUES	$—	$41.3	$ 1,488.0	$ (37.9)	$ 1,491.4
COSTS AND EXPENSES:					
Direct operating costs (excluding items below)	—	5.2	627.0	(33.9)	598.3
Depreciation and amortization	—	14.0	286.5	0.7	301.2
Selling, general and administrative	19.5	—	61.7	(4.7)	76.5
Loss on disposals of property and equipment	—	0.6	4.7	—	5.3
Material charges and other operating items	—	—	32.9	—	32.9
Total costs and expenses	19.5	19.8	1,012.8	(37.9)	1,014.2
INCOME (LOSS) FROM OPERATIONS	(19.5)	21.5	475.2	—	477.2
OTHER INCOME (EXPENSE):					
Interest expense, net of interest capitalized	—	(116.6)	(3.7)	3.7	(116.6)
Interest income	—	4.2	1.6	(3.7)	2.1
Gain on extinguishment of debt	—	2.4	—	—	2.4
Other - net	15.8	(15.8)	(5.4)	—	(5.4)
Total other income (expense), net	15.8	(125.8)	(7.5)	—	(117.5)
INCOME (LOSS) BEFORE INCOME TAXES	(3.7)	(104.3)	467.7	—	359.7
Provision for income taxes	—	19.3	17.3	(21.9)	14.7
Equity in earnings of subsidiaries, net of tax	348.7	30.8	—	(379.5)	—
NET INCOME (LOSS)	$345.0	$(92.8)	$ 450.4	$	