PACIFIC DRILLING S.A.

FORM 6-K
(Report of Foreign Issuer)

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

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2014

Commission File Number 001-35345

PACIFIC DRILLING S.A.

8-10, Avenue de la Gare
L-1610 Luxembourg
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ☐ No ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ☐ No ☒

Indicate by check mark whether the registrant by furnishing the information contained in this Form, is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐ No ☒

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

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PACIFIC DRILLING S.A.
Report on Form 6-K for the quarter ended March 31, 2014

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As used in this quarterly report on Form 6-K (this “Quarterly Report”), unless the context otherwise requires, references to “Pacific Drilling,” the “Company,” “we,” “us,” “our” and words of similar import refer to Pacific Drilling S.A. and its subsidiaries. Unless otherwise indicated, all references to “U.S. $” and “$” in this report are to, and amounts are represented in, United States dollars.

The information and the unaudited condensed consolidated financial statements in this Quarterly Report should be read in conjunction with our Annual Report on Form 20-F for the year ended December 31, 2013 (our “2013 Annual Report”) filed with the Securities and Exchange Commission (“SEC”) on March 4, 2014. We prepare our unaudited condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”).

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PART I — FINANCIAL INFORMATION

Item 1 — Financial Statements (Unaudited)

Unaudited Condensed Consolidated Financial Statements

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(in thousands, except per share information) (unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenues		
Contract drilling	$ 225,591	$ 175,016
Costs and expenses		
Contract drilling	(110,966)	(84,452)
General and administrative expenses	(12,533)	(11,028)
Depreciation expense	(46,154)	(36,503)
	(169,653)	(131,983)
Operating income	55,938	43,033
Other income (expense)		
Interest expense	(26,031)	(22,760)
Other income (expense)	(1,169)	192
Income before income taxes	28,738	20,465
Income tax expense	(6,508)	(5,403)
Net income	$ 22,230	$ 15,062
Earnings per common share, basic	$ 0.10	$ 0.07
Weighted-average number of common shares, basic	217,121	216,902
Earnings per common share, diluted	$ 0.10	$ 0.07
Weighted-average number of common shares, diluted	217,464	216,966

See accompanying notes to unaudited condensed consolidated financial statements.

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PACIFIC DRILLING S.A. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income
(in thousands) (unaudited)

	Three Months Ended March 31,	
	2014	2013
Net income	$ 22,230	$ 15,062
Other comprehensive income (loss):		
Unrecognized loss on derivative instruments	(7,741)	(94)
Reclassification adjustment for loss on derivative instruments realized in net income	1,163	5,466
Total other comprehensive income (loss)	(6,578)	5,372
Total comprehensive income	$ 15,652	$ 20,434

See accompanying notes to unaudited condensed consolidated financial statements.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(in thousands, except par value)

	March 31, 2014 (unaudited)	December 31, 2013
Assets:		
Cash and cash equivalents	$ 236,504	$ 204,123
Accounts receivable	176,393	206,078
Materials and supplies	74,045	65,709
Deferred financing costs	14,830	14,857
Current portion of deferred costs	43,099	48,202
Prepaid expenses and other current assets	27,111	13,889
Total current assets	571,982	552,858
Property and equipment, net	4,582,853	4,512,154
Deferred financing costs	50,161	53,300
Other assets	39,632	45,728
Total assets	$5,244,628	$ 5,164,040
Liabilities and shareholders' equity:		
Accounts payable	$ 71,898	$ 54,235
Accrued expenses	63,134	66,026
Current portion of long-term debt	307,500	7,500
Accrued interest	34,718	21,984
Derivative liabilities, current	6,781	4,984
Current portion of deferred revenue	94,566	96,658
Total current liabilities	578,597	251,387
Long-term debt, net of current maturities	2,121,766	2,423,337
Deferred revenue	125,023	88,465
Other long-term liabilities	950	927
Total long-term liabilities	2,247,739	2,512,729
Commitments and contingencies		
Shareholders' equity:		
Common shares, $0.01 par value per share, 5,000,000 shares authorized, 232,770 and 224,100 shares issued and 217,139 and 217,035 shares outstanding as of March 31, 2014 and December 31, 2013, respectively	2,171	2,170
Additional paid-in capital	2,361,573	2,358,858
Accumulated other comprehensive loss	(15,135)	(8,557)
Retained earnings	69,683	47,453
Total shareholders' equity	2,418,292	2,399,924
Total liabilities and shareholders' equity	$5,244,628	$ 5,164,040

See accompanying notes to unaudited condensed consolidated financial statements.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders' Equity
(in thousands) (unaudited)

	Common Shares		Treasury	Additional Paid-In	Accumulated Other Comprehensive	Retained	Total Shareholders'
	Shares	Amount	Shares	Capital	Loss	Earnings	Equity
Balance at December 31, 2013	217,035	$2,170	7,065	$2,358,858	$ (8,557)	$47,453	$ 2,399,924
Shares issued under share-based compensation plan	104	1	(104)	749	—	—	750
Issuance of common shares to treasury	—	—	8,670	—	—	—	—
Share-based compensation	—	—	—	1,966	—	—	1,966
Other comprehensive income	—	—	—	—	(6,578)	—	(6,578)
Net income	—	—	—	—	—	22,230	22,230
Balance at March 31, 2014	217,139	$2,171	15,631	$2,361,573	$ (15,135)	$69,683	$ 2,418,292

See accompanying notes to unaudited condensed consolidated financial statements.

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PACIFIC DRILLING S.A. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(in thousands) (unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flow from operating activities:		
Net income	$ 22,230	$ 15,062
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	46,154	36,503
Amortization of deferred revenue	(28,008)	(16,851)
Amortization of deferred costs	13,210	9,599
Amortization of deferred financing costs	2,578	3,687
Amortization of debt discount	173	—
Deferred income taxes	(12)	(677)
Share-based compensation expense	1,966	2,053
Changes in operating assets and liabilities:		
Accounts receivable	29,685	34,691
Materials and supplies	(8,336)	(1,408)
Prepaid expenses and other assets	(14,600)	(3,404)
Accounts payable and accrued expenses	(4,682)	(17,296)
Deferred revenue	62,474	10,188
Net cash provided by operating activities	122,832	72,147
Cash flow from investing activities:		
Capital expenditures	(88,826)	(134,959)
Increase in restricted cash	—	(7)
Net cash used in investing activities	(88,826)	(134,966)
Cash flow from financing activities:		
Proceeds from shares issued under share-based compensation plan	750	—
Proceeds from long-term debt	—	1,000
Payments on long-term debt	(1,875)	(54,687)
Payments for financing costs	(500)	(21,724)
Net cash used in financing activities	(1,625)	(75,411)
Increase (decrease) in cash and cash equivalents	32,381	(138,230)
Cash and cash equivalents, beginning of period	204,123	605,921
Cash and cash equivalents, end of period	$ 236,504	$ 467,691

See accompanying notes to unaudited condensed consolidated financial statements.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 — Nature of Business

Pacific Drilling S.A. and its subsidiaries ("Pacific Drilling," the "Company," "we," "us" or "our") is an international offshore drilling contractor committed to becoming the preferred provider of ultra-deepwater drilling services to the oil and natural gas industry through the use of high-specification rigs. Our primary business is to contract our ultra-deepwater rigs, related equipment and work crews, primarily on a dayrate basis, to drill wells for our clients. As of March 31, 2014, we were operating five drillships under client contract and have three drillships under construction at Samsung Heavy Industries ("SHI"), one of which is under client contract.

Note 2 — Significant Accounting Policies

Basis of Presentation — Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission. Pursuant to such rules and regulations, these financial statements do not include all disclosures required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the presented interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise identified. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 or for any future period. The accompanying unaudited condensed consolidated financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes of the Company for the year ended December 31, 2013.

Principles of Consolidation — The unaudited condensed consolidated financial statements include the accounts of Pacific Drilling S.A. and consolidated subsidiaries that we control by ownership of substantially all voting interest. We eliminate all intercompany transactions and balances in consolidation.

We currently are party to a Nigerian joint venture, Pacific International Drilling West Africa Limited ("PIDWAL"), which is fully controlled and 90% owned by us with 10% owned by Derotech Offshore Services Limited ("Derotech"), a privately-held Nigerian registered limited liability company. Derotech will not accrue the economic benefits of its interest in PIDWAL unless and until it satisfies certain outstanding obligations to us and a certain pledge is cancelled by us. Accordingly, we consolidate all PIDWAL interests and no portion of PIDWAL's operating results is allocated to the noncontrolling interests. In addition to the joint venture agreement, we are a party to marketing and logistic services agreements with Derotech and an affiliated company of Derotech. During the three months ended March 31, 2014 and 2013, we incurred fees of $3.0 million and $2.1 million under the marketing and logistic services agreements, respectively.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) — Continued

Note 3 — Property and Equipment

Property and equipment consists of the following as of:

	March 31, 2014	December 31, 2013
	(in thousands)	
Drillships and related equipment	$4,028,181	$ 4,020,792
Assets under construction	877,969	769,131
Other property and equipment	10,721	10,260
Property and equipment, cost	4,916,871	4,800,183
Accumulated depreciation	(334,018)	(288,029)
Property and equipment, net	$4,582,853	$ 4,512,154

On March 15, 2011, March 16, 2012 and January 25, 2013, we entered into contracts with SHI for the construction of the *Pacific Sharav* , the *Pacific Meltem* and the *Pacific Zonda* , respectively. The contracts for the *Pacific Sharav* , the *Pacific Meltem* and the *Pacific Zonda* provide for an aggregate purchase price of approximately $1.5 billion, payable in installments during the construction process, of which we have made payments of approximately $429.2 million through March 31, 2014. With respect to these three undelivered vessels, we anticipate making installment payments of approximately $756.3 million during the remainder of 2014 and approximately $336.4 million in 2015.

During the three months ended March 31, 2014 and March 31, 2013, we capitalized interest costs of $19.3 million and $18.2 million, respectively, on assets under construction.

Note 4 — Debt

A summary of debt is as follows:

	March 31, 2014	December 31, 2013
	(in thousands)	
Due within one year:		
2018 Senior Secured Term Loan B	$ 7,500	$ 7,500
2015 Senior Unsecured Bonds	300,000	—
Total current debt	307,500	7,500
Long-term debt:		
2015 Senior Unsecured Bonds	$ —	$ 300,000
2017 Senior Secured Bonds	498,007	497,892
2018 Senior Secured Term Loan B	733,759	735,445
Senior Secured Credit Facility	140,000	140,000
2020 Senior Secured Notes	750,000	750,000
Total long-term debt	2,121,766	2,423,337
Total debt	$2,429,266	$ 2,430,837

2015 Senior Unsecured Bonds

In February 2012, we completed a private placement of $300.0 million in aggregate principal amount of 8.25% senior unsecured U.S. dollar denominated bonds due 2015 (the “2015 Senior Unsecured Bonds”). The bonds bear interest at 8.25% per annum, payable semiannually on February 23 and August 23, and mature on February 23, 2015.

As of March 31, 2014, we were in compliance with all 2015 Senior Unsecured Bonds covenants.

2017 Senior Secured Notes

In November 2012, Pacific Drilling V Limited ("PDV"), an indirect, wholly-owned subsidiary of the Company, completed a private placement of $500.0 million in aggregate principal amount of 7.25% senior secured notes due 2017 (the "2017 Senior Secured Notes"). The 2017 Senior Secured Notes are fully and unconditionally guaranteed by the Company on a senior unsecured basis. The 2017 Senior Secured Notes were sold at 99.483% of par. The 2017 Senior Secured Notes bear interest at 7.25% per annum, payable semiannually on June 1 and December 1, commencing on June 1, 2013, and mature on December 1, 2017.

The 2017 Senior Secured Notes are secured by a first-priority security interest (subject to certain exceptions) in the *Pacific Khamsin* , and substantially all of the other assets of PDV, including an assignment of earnings and insurance proceeds related to the *Pacific Khamsin* .

As of March 31, 2014, we were in compliance with all 2017 Senior Secured Notes covenants.

Senior Secured Credit Facility Agreement

On February 19, 2013, Pacific Sharav S.à r.l. and Pacific Drilling VII Limited (collectively, the "SSCF Borrowers") and the Company, as guarantor, entered into a senior secured credit facility agreement, as amended and restated on September 13, 2013 and as further amended on March 27, 2014 (the "SSCF"), to finance the construction, operation and other costs associated with the *Pacific Sharav* and the *Pacific Meltem* (the "SSCF Vessels"). The SSCF consists of two principal tranches, one of which is divided into two sub-tranches: (i) a Commercial Tranche of $500.0 million provided by a syndicate of commercial banks and (ii) a Garanti — Instituttet for Eksportkreditt ("GIEK") Tranche of $500.0 million guaranteed by GIEK, comprised of (x) an Eksportkreditt Norge AS ("EKN") sub-tranche of $250.0 million and (y) a bank sub-tranche of $250.0 million.

Prior to delivery of each SSCF Vessel, the SSCF is primarily secured on a first priority basis by liens on the construction contracts and refund guarantees for the SSCF Vessels and a pledge of the equity of each of the SSCF Borrowers. Upon delivery of each SSCF Vessel, the SSCF will be primarily secured on a first priority basis by liens on such vessel, by an assignment of earnings and insurance proceeds relating thereto.

Borrowings under the Commercial Tranche bear interest at LIBOR plus a margin of 3.5%. Borrowings under the EKN sub-tranche bear interest, at the Company's option, at (i) LIBOR plus a margin of 1.25% (which margin may be reset on May 31, 2019) or (ii) at a Commercial Interest Reference Rate of 2.37%. Borrowings under the bank sub-tranche bear interest at LIBOR plus a margin of 1.25%. Borrowings under both sub-tranches will also be subject to a guarantee fee of 2% per annum. Undrawn commitments under the SSCF bear a fee equal to (i) in the case of the Commercial Tranche, 40% of the margin for such tranche and (ii) in the case of the GIEK Tranche, 40% of the applicable margin for such tranche. In addition, the GIEK Tranche bears a commitment fee equal to 40% of the guarantee fee. Interest is payable quarterly.

The Commercial Tranche matures on the earlier of (i) five years following the delivery of the *Pacific Meltem* and (ii) May 31, 2019. Loans made with respect to each vessel under the GIEK Tranche mature twelve years following the delivery of the applicable vessel. The GIEK Tranche contains a put option exercisable if the Commercial Tranche is not refinanced or renewed on or before February 28, 2019. If the GIEK Tranche put option is exercised, each SSCF Borrower must prepay, in full, the portion of all outstanding loans that relate to the GIEK Tranche, on or before May 31, 2019, without any premium, penalty or fees of any kind. Amortization payments under the SSCF are calculated on a 12 year repayment schedule and must be made every six months following the delivery of the relevant vessel.

As of March 31, 2014, we were in compliance with all SSCF covenants.

Project Facilities Agreement Refinancing Transactions

On September 9, 2010, certain of our subsidiaries entered into a project facilities agreement to finance the costs associated with the *Pacific Bora* , the *Pacific Mistral* , the *Pacific Scirocco* and the *Pacific Santa Ana* (the "PFA").

On June 3, 2013, we completed three related but distinct financing transactions totaling $2.0 billion. The transactions included (i) a $750.0 million private placement of 5.375% senior secured notes due 2020 (the "2020 Senior Secured Notes"), (ii) a $750.0 million senior secured institutional term loan with a 2018 maturity (the "Senior Secured Term Loan B") and (iii) a $500.0 million senior secured revolving credit facility maturing in 2018, as amended (the "Revolving Credit Facility"). The Revolving Credit Facility provides up to $200.0 million in future incremental funding intended for general corporate purposes, including working

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) — Continued

capital requirements, and the balance of $300.0 million is provided for the issuance of letters of credit, primarily anticipated to be used as credit support for the temporary importation bonds issued for our vessels working in Nigeria. A portion of the net proceeds from the 2020 Senior Secured Notes and the Senior Secured Term Loan B were used to fully repay the outstanding borrowings under the PFA, after which the PFA was terminated and all related collateral released.

2020 Senior Secured Notes

The 2020 Senior Secured Notes were sold at par. The 2020 Senior Secured Notes bear interest at 5.375% per annum, payable semiannually on June 1 and December 1, commencing on December 1, 2013, and mature on June 1, 2020.

The 2020 Senior Secured Notes are guaranteed by each subsidiary of the Company that owns the *Pacific Bora* , the *Pacific Mistral* , the *Pacific Scirocco* or the *Pacific Santa Ana* (the "Shared Collateral Vessels"), each subsidiary that owns equity in a Shared Collateral Vessel-owning subsidiary, certain other subsidiaries that are parties to charters in respect of the Shared Collateral Vessels and in the future will be guaranteed by certain other future subsidiaries. The indenture for the 2020 Senior Secured Notes allows for the issuance of up to $100.0 million of additional notes provided no default is continuing and the Company is otherwise in compliance with all applicable covenants.

The 2020 Senior Secured Notes are secured, on an equal and ratable, first priority basis, with the obligations under the Senior Secured Term Loan B, the Revolving Credit Facility and certain future obligations (together with the 2020 Senior Secured Notes, the "Pari Passu Obligations"), subject to payment priorities in favor of lenders under the Revolving Credit Facility pursuant to the terms of an intercreditor agreement (the "Intercreditor Agreement"), by liens on the Shared Collateral Vessels, a pledge of the equity of the entities that own the Shared Collateral Vessels, assignments of earnings and insurance proceeds with respect to the Shared Collateral Vessels, and certain other assets of the subsidiary guarantors (collectively, the "Shared Collateral").

As of March 31, 2014, we were in compliance with all 2020 Senior Secured Notes covenants.

2018 Senior Secured Institutional Term Loan – Term Loan B

The Senior Secured Term Loan B was issued at 99.5% of its face value and bears interest, at the Company's election, at either (1) LIBOR, which will not be less than a floor of 1% plus a margin of 3.5% per annum, or (2) a rate of interest per annum equal to the highest of (i) the prime rate for such day, (ii) the sum of the federal funds rate plus 0.5% and (iii) 1% per annum above the one-month LIBOR, in each case plus a margin of 2.5% per annum. Interest is payable quarterly. The Senior Secured Term Loan B requires quarterly amortization payments of $1.9 million and matures on June 3, 2018.

The Senior Secured Term Loan B has an accordion feature that would permit additional loans to be extended so long as the Company's total outstanding obligations in connection with the Senior Secured Term Loan B and the 2020 Senior Secured Notes do not exceed $1.7 billion.

The Senior Secured Term Loan B is secured by the Shared Collateral and subject to the terms and provisions of the Intercreditor Agreement.

As of March 31, 2014, we were in compliance with all Senior Secured Term Loan B covenants.

Revolving Credit Facility

Borrowings under the Revolving Credit Facility bear interest, at the Company's option, at either (1) LIBOR plus a margin ranging from 2.5% to 3.25% based on the Company's leverage ratio, or (2) a rate of interest per annum equal to the highest of (i) the prime rate for such day, (ii) the sum of the federal funds rate plus 0.5% and (iii) 1% per annum above the one-month LIBOR, in each case plus a margin ranging from 1.5% to 2.25% based on the Company's leverage ratio. Undrawn commitments accrue a fee ranging from 0.7% to 1% per annum based on the Company's leverage ratio. Interest is payable quarterly.

The Revolving Credit Facility permits loans to be extended up to a maximum sublimit of $200.0 million and permits letters of credit to be issued up to a maximum sublimit of $300.0 million. Outstanding but undrawn letters of credit accrue a fee at a rate equal to the margin on LIBOR loans minus 1%. The Revolving Credit Facility has a maturity date of June 3, 2018.

The Revolving Credit Facility is secured by the Shared Collateral and subject to the provisions of the Intercreditor Agreement.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) — Continued

As of March 31, 2014, no amounts were outstanding under the Revolving Credit Facility and approximately $192.6 million of letters of credit were issued under the Revolving Credit Facility as credit support for temporary import bonds issued in favor of the Government of Nigeria Customs Service.

As of March 31, 2014, we were in compliance with all Revolving Credit Facility covenants.

Note 5 — Share-Based Compensation

On March 4, 2014, the Board approved an amendment to the Company's 2011 Omnibus Stock Incentive Plan (the "2011 Plan") increasing the number of common shares reserved and available for issuance from 7.2 million to 15.9 million. On March 7, 2014, we filed a registration statement with the SEC on Form S-8 providing for the registration of the additional 8.7 million shares under the 2011 Plan.

Stock Options

During the three months ended March 31, 2014, the fair value of the options granted was calculated using the following weighted average assumptions:

	2014 Stock Options
Expected volatility	46.4%
Expected term (in years)	6.25
Expected dividends	—
Risk-free interest rate	1.9%

A summary of option activity under the 2011 Plan as of and for the three months ended March 31, 2014 is as follows:

	Number of Shares Under Option (in thousands)	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding — January 1, 2014	5,249	$ 9.91		
Granted	493	10.81		
Exercised	(84)	10.01		
Cancelled or forfeited	(433)	9.82		
Outstanding — March 31, 2014	5,225	$ 10.00	8.1	$ 4,581
Exercisable — March 31, 2014	3,100	$ 9.98	6.8	$ 2,803

The weighted-average grant-date fair value of options granted during the three months ended March 31, 2014 was $5.10. As of March 31, 2014, total compensation costs related to nonvested option awards not yet recognized were $9.3 million and are expected to be recognized over a weighted average period of 2.6 years.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) — Continued

Restricted Stock Units

A summary of restricted stock units activity under the 2011 Plan as of and for the three months ended March 31, 2014 is as follows:

	Number of Restricted Stock Units (in thousands)	Weighted-Average Grant-Date Fair Value (per share)
Nonvested — January 1, 2014	1,025	$ 9.93
Granted	855	10.80
Vested	(221)	9.73
Cancelled or forfeited	(52)	10.05
Nonvested — March 31, 2014	1,607	$ 10.41

As of March 31, 2014, total compensation costs related to nonvested restricted stock units not yet recognized were $12.7 million and are expected to be recognized over a weighted average period of 2.9 years.

Note 6 — Derivatives

We are currently exposed to market risk from changes in interest rates. From time to time, we may enter into a variety of derivative financial instruments in connection with the management of our exposure to fluctuations in interest rates. We do not enter into derivative transactions for speculative purposes; however, for accounting purposes, certain transactions may not meet the criteria for hedge accounting.

On May 30, 2013, we entered into an interest rate swap as a cash flow hedge against future fluctuations in LIBOR with an effective date of June 3, 2013. The interest rate swap has a notional value of $712.5 million, does not amortize and matures on December 3, 2017. On a quarterly basis, we pay a fixed rate of 1.56% and receive the maximum of 1% or three-month LIBOR.

On June 10, 2013, we entered into an interest rate swap as a cash flow hedge against future fluctuations in LIBOR with an effective date of July 1, 2014. The interest rate swap has a notional value of $400.0 million, does not amortize and matures on July 1, 2018. On a quarterly basis, we pay a fixed rate of 1.66% and receive three-month LIBOR.

The table below provides data about the fair values of derivatives that are designated as hedge instruments as of March 31, 2014 and December 31, 2013:

Derivatives Designated as Hedging Instruments	Balance Sheet Location	March 31, 2014	December 31, 2013
		(in thousands)	
Long-term—Interest rate swaps	Other assets	$ 9,105	$ 9,726
Short-term—Interest rate swaps	Derivative liabilities, current	(6,781)	(4,984)
Total		$ 2,324	$ 4,742

The Company has elected not to offset the fair value of derivatives subject to master netting agreements, but to report them gross on its condensed consolidated balance sheets.

PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) — Continued

The following table summarizes the cash flow hedge gains and losses for the three months ended March 31, 2014 and 2013:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Equity for the Three Months Ended March 31,		Amount of Loss Reclassified from Equity into Income for the Three Months Ended March 31,		Amount Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) for the Three Months Ended March 31,	
	2014	2013	2014	2013	2014	2013
	(in thousands)					
Interest rate swaps	$(6,578)	$5,372	$ 1,163	$ 5,466	$ —	$ —

As of March 31, 2014, the estimated amount of net losses associated with derivative instruments that would be reclassified from accumulated comprehensive loss to earnings during the next twelve months is $7.6 million. During the three months ended March 31, 2014 and 2013, we reclassified losses of $1.0 million and $5.3 million to interest expense and $0.2 million and $0.2 million to depreciation from accumulated other comprehensive income, respectively.

Note 7 — Fair Value Measurements

We estimated fair value by using appropriate valuation methodologies and information available to management as of March 31, 2014 and December 31, 2013. Considerable judgment is required in developing these estimates, and accordingly, estimated values may differ from actual results.

The estimated fair value of accounts receivable, accounts payable and accrued expenses approximates their carrying value due to their short-term nature. The estimated fair value of our SSCF debt approximates carrying value because the variable rates approximate current market rates. The following table presents the carrying value and estimated fair value of our other long-term debt instruments:

	March 31, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
2015 Senior Unsecured Bonds	$300,000	$312,000	$300,000	$313,500
2017 Senior Secured Bonds	498,007	541,250	497,892	540,000
2020 Senior Secured Notes	750,000	746,250	750,000	756,563
2018 Senior Secured Term Loan B	741,259	751,875	742,945	758,910

We estimate the fair values of our variable-rate and fixed-rate debt using quoted market prices to the extent available and significant other observable inputs, which represent Level 2 fair value measurements.

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PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) — Continued

The following table presents the carrying value and estimated fair value of our financial instruments recognized at fair value on a recurring basis:

	March 31, 2014			
	Carrying Value	Fair Value Measurements Using Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Interest rate swaps	$ 9,105	—	$ 9,105	—
Liabilities:				
Interest rate swaps	$(6,781)	—	$ (6,781)	—

	December 31, 2013			
	Carrying Value	Fair Value Measurements Using Level 1	Level 2	Level 3
	(in thousands)			
Assets:				
Interest rate swaps	$ 9,726	—	$ 9,726	—
Liabilities:				
Interest rate swaps	$(4,984)	—	$ (4,984)	—

We use an income approach to value assets and liabilities for outstanding interest rate swaps. These contracts are valued using a discounted cash flow model that calculates the present value of future cash flows under the terms of the contracts using market information as of the reporting date, such as prevailing interest rates. The determination of the fair values above incorporated various factors, including the impact of the counterparty's non-performance risk with respect to the Company's financial assets and the Company's non-performance risk with respect to the Company's financial liabilities.

Refer to Note 6 for further discussion of the Company's use of derivative instruments and their fair values.

Note 8 — Commitments and Contingencies

Commitments — As of March 31, 2014, Pacific Drilling had no material commitments other than commitments related to deepwater drillship construction purchase commitments discussed in Note 3.

Our liquidity fluctuates depending on a number of factors, including, among others, our revenue efficiency and the timing of collecting accounts receivable as well as amounts paid for operating costs. We believe that our cash on hand and cash flows generated from operating and financing activities will provide sufficient liquidity over the next twelve months to fund our working capital needs, amortization payments on our long-term debt and capital expenditures.

Letters of Credit —As of March 31, 2014, we were contingently liable under certain performance, bid and custom bonds and letters of credit totaling approximately $277.7 million issued as security in the normal course of our business.

Contingencies — It is to be expected that we and our subsidiaries will be routinely involved in litigation and disputes arising in the ordinary course of our business. On April 16, 2013, Transocean filed a complaint against us in the United States District Court for the Southern District of Texas alleging infringement of their dual activity patents. Transocean seeks relief in the form of a permanent injunction, compensatory damages, enhanced damages, court costs and fees. We do not believe that ultimate liability, if any, resulting from any such pending litigation will have a material adverse effect on our financial condition, results of operations or cash flows.

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PACIFIC DRILLING S.A. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) — Continued

Note 9 — Earnings per Share

The following reflects the income and the share data used in the basic and diluted earnings per share computations:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in thousands, except per share amounts)	
Numerator:		
Net income, basic and diluted	$ 22,230	$ 15,062
Denominator:		
Weighted-average number of common shares outstanding, basic	217,121	216,902
Effect of share-based compensation awards	343	64
Weighted-average number of common shares outstanding, diluted	217,464	216,966
Earnings per share:		
Basic	$ 0.10	$ 0.07
Diluted	$ 0.10	$ 0.07

The following table presents the share effects of share-based compensation awards excluded from our computations of diluted earnings per share as their effect would have been anti-dilutive for the periods presented:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in thousands)	
Share-based compensation awards	6,489	5,328

Note 10 — Supplemental Cash Flow Information

Capital expenditures in our condensed consolidated statements of cash flows include the effect of changes in accrued capital expenditures, which are capital expenditures that were accrued but unpaid at period end. We have included these amounts in accounts payable, accrued expenses and accrued interest in our condensed consolidated balance sheets as of March 31, 2014 and 2013. During the three months ended March 31, 2014 and 2013, capital expenditures do not include the impact of an increase in accrued capital expenditures of $26.6 million and $4.1 million, respectively, in our condensed consolidated statements of cash flows.

During the three months ended March 31, 2014 and 2013, non-cash amortization of deferred financing costs and accretion of debt discount totaling $1.2 million and $1.5 million were capitalized to property and equipment, respectively. Accordingly, these amounts are excluded from capital expenditures in our condensed consolidated statements of cash flows for the three months ended March 31, 2014 and 2013.

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Item 2 — Operating and Financial Review and Prospects

Overview

We are an international offshore drilling contractor committed to becoming the preferred provider of ultra-deepwater drilling services to the oil and natural gas industry through the use of high-specification rigs. Our primary business is to contract our ultra-deepwater rigs, related equipment and work crews, primarily on a dayrate basis, to drill wells for our clients. Led by a team of seasoned professionals with significant experience in the oil services and ultra-deepwater drilling sectors, we specialize in the technically demanding segments of the offshore drilling business.

We are primarily focused on the ultra-deepwater segment of the rig market. The term "ultra-deepwater," as used in the drilling industry to denote a particular segment of the market, can vary and continues to evolve with technological improvements. We generally consider ultra-deepwater to begin at water depths of more than 7,500 feet and to extend to the maximum water depths in which rigs are capable of drilling, which is currently approximately 12,000 feet. Our drillships are all equipped to operate in ultra-deepwater. In addition, our drillships can and do operate effectively in water depths as shallow as 2,000 feet, and have advanced operational capabilities that make them attractive to clients in shallower water depths. While not currently a core focus for our business, our drillships are also capable of operating in harsh environment areas, where there are typically rougher sea conditions.

Our Fleet

Rig Name	Expected Delivery	Water Depth (in feet)	Drilling Depth (in feet)	Customer
Pacific Bora	Delivered	10,000	37,500	Chevron
Pacific Scirocco	Delivered	12,000	40,000	Total
Pacific Mistral	Delivered	12,000	37,500	Petrobras
Pacific Santa Ana	Delivered	12,000	40,000	Chevron
Pacific Khamsin	Delivered	12,000	40,000	Chevron
Pacific Sharav	May 2014	12,000	40,000	Chevron
Pacific Meltem	Early Third Quarter 2014	12,000	40,000	Available
Pacific Zonda	First Quarter 2015	12,000	40,000	Available

Drilling Contracts for our Fleet

The current status of our contracted drillships is as follows:

- The *Pacific Bora* entered service in Nigeria on August 26, 2011 under a three-year contract with a subsidiary of Chevron Corporation ("Chevron"). A signed conditional commitment has been entered into to extend the current contract on the *Pacific Bora* for an additional two years through August 2016, subject only to approval from our client's local partner. There is no assurance or guarantee that our client will receive this approval.
- The *Pacific Scirocco* entered service in Nigeria on December 31, 2011 under a one-year contract with a subsidiary of Total S.A. ("Total"). In April 2012, Total exercised an initial one-year option; in April 2013, Total exercised a subsequent one-year option; and in April 2014, Total exercised its final two-year option extending the contract term to January 2017.
- The *Pacific Mistral* entered service in Brazil on February 6, 2012 under a three-year contract with Petróleo Brasileiro S.A.
- The *Pacific Santa Ana* entered service in the U.S. Gulf of Mexico on May 4, 2012 under a five-year contract with a subsidiary of Chevron.
- The *Pacific Khamsin* entered service in Nigeria on December 17, 2013 under a two-year contract with a subsidiary of Chevron.
- Upon delivery, the *Pacific Sharav* is expected to enter service in the U.S. Gulf of Mexico in the third quarter of 2014 under a five-year contract with a subsidiary of Chevron.

Newbuild Drillships

The *Pacific Sharav* , the *Pacific Meltem* and the *Pacific Zonda* are currently under construction at SHI and are scheduled for delivery in May 2014, early third quarter 2014 and in the first quarter of 2015, respectively.

Significant Developments

On April 14, 2014, Total exercised its final two-year option to extend the firm contract term for the *Pacific Scirocco* to January 2017. The additional two-year term increased our contract backlog by approximately $364 million.

General Industry Trends and Outlook

Historically, operating results in the offshore contract drilling industry have been cyclical and directly related to the demand for and the available supply of drilling rigs, which are influenced by various factors. However, since factors that impact offshore exploration and development spending are beyond our control, and rig demand dynamics can shift quickly, it is difficult for us to predict future industry conditions, demand trends or operating results.

Drilling Rig Supply

During the first three months of 2014, offshore drilling contractors placed 4 shipyard orders to build additional ultra-deepwater semi-submersibles and drillships. We estimate there are approximately 59 ultra-deepwater rigs delivered or scheduled for delivery from April 1, 2014 until the end of 2016, 32 of which have not yet been announced as contracted to clients. Due to the long lead times involved in rig construction, the potential for additional orders to emerge and for shipyard delays to occur, especially among yards forecasted to make their first deliveries during this time frame, the supply of ultra-deepwater units through the end of 2016 can be estimated as a range between 185 and 195. Beyond this time frame, the supply is uncertain and any projections have diminished predictive value.

Drilling Rig Demand

Demand for our drillships is a function of the worldwide levels of offshore exploration and development spending by oil and gas companies, which is influenced by a number of factors. The type of projects that modern drillships undertake are generally located in deeper water, more remote locations and are more capital intensive and longer lasting than those of older or less capable drilling rigs. This makes these projects less sensitive to short-term oil price fluctuations. Therefore, dayrates and utilization for modern drillships are typically less sensitive to short-term oil price movements than those of older or less capable drilling rigs. Furthermore, long-term expectations about future oil and natural gas prices have historically been a key driver for deepwater and ultra-deepwater exploration and development spending. Our clients' drilling programs are also affected by the global economic and political climate, access to quality drilling prospects, exploration success, perceived future availability and lead time requirements for drilling equipment, emphasis on deepwater exploration and production versus other areas and advances in drilling technology.

The first three months of 2014 saw oil and global non-U.S. natural gas prices exhibit a level of volatility comparable to historical norms while continuing above the levels needed for sufficient return on investment for our clients. While questions remain regarding global economic stability, GDP growth continued to be positive in key emerging markets and North America. Deepwater tendering activity continued, albeit at a reduced pace from recent quarters, and there were no material adverse changes to regulations or other restrictions affecting our ability to operate in countries where we currently, or in the future, may operate.

Supply and Demand Balance

The foregoing factors resulted in a generally tight supply-demand balance for modern drillships in the first three months of 2014, with near 100% utilization. However, several major exploration and production companies have announced slower year-over-year growth for 2014 capital expenditure budgets, or, in some cases, declines. We estimate that from April 1, 2014 until the end of 2014, approximately 17 ultra-deepwater rigs will be available to commence operations, 10 of which have confirmed client contracts. Additionally, several older, lower-specification deepwater and mid-water drillships and semisubmersibles have recently completed contracts prior to engaging new ones. While we believe that the demand for high specification ultra-deepwater drillships like those in our fleet will continue to meet or exceed supply, these developments appear to have exerted some pricing pressure on the market. For more information on this and other risks to our business and our industry, please read "Risk Factors" in our 2013 Annual Report.

Contract Backlog

Our contract backlog includes commitments only, which are represented by signed agreements. As of May 1, 2014, our contract backlog was approximately $3.3 billion and was attributable to revenues we expect to generate on the *Pacific Bora* , the *Pacific Scirocco* , the *Pacific Mistral* , the *Pacific Santa Ana* , the *Pacific Khamsin* and the *Pacific Sharav* under drilling contracts with Chevron, Total and Petrobras. We calculate our contract backlog by multiplying the contractual dayrate by the minimum number of days committed under the contracts (excluding unexercised options to extend), assuming full utilization, and also including mobilization fees, upgrade reimbursements and other revenue sources as stipulated in the applicable contract.

The actual amounts of revenues earned and the actual periods during which revenues are earned may differ from the amounts and periods shown in the table below due to various factors, including shipyard and maintenance projects, downtime and other factors. Our contracts customarily provide for termination at the election of the client with an "early termination payment" to be paid to us if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, our bankruptcy, sustained unacceptable performance by us or delivery of a rig beyond certain grace and/or liquidated damages periods, an early termination payment is not required to be paid. Accordingly, the actual amount of revenues earned may be substantially lower than the backlog reported.

The commitments that comprise our $3.3 billion contract backlog as of May 1, 2014, are as follows:

Rig	Contracted Location	Client	Contract Backlog (a)	Contractual Dayrate	Average Contract Backlog Revenue Per Day (a)	Actual/Expected Contract Commencement	Expected Contract Duration
Pacific Bora	Nigeria	Chevron	$ 526,351,000	$ 474,700(b)	$566,000(b)	August 26, 2011	5 years (b)
Pacific Scirocco	Nigeria	Total	$ 488,965,000	$ 494,950(c)	$495,000(c)	December 31, 2011	5 years and 8 days (c)
Pacific Mistral	Brazil	Petrobras	$ 143,099,000	$ 458,000	$511,000	February 6, 2012	3 years
Pacific Santa Ana	U.S. Gulf of Mexico	Chevron	$ 600,506,000	$ 489,530	$552,000	March 21, 2012	5 years and 38 days
Pacific Khamsin	Nigeria	Chevron	$ 445,264,000	$ 660,000	$750,000	December 17, 2013	2 years
Pacific Sharav	U.S. Gulf of Mexico	Chevron	$1,075,875,000	$ 555,000	$590,000	Third Quarter 2014	5 years

(a) Rounded to the nearest $1,000. Based on signed drilling contracts and signed commitments as further described below.

(b) A signed conditional commitment was entered into to extend the current contract of the *Pacific Bora* for an additional two-year period at a dayrate of $615,000 following the expiration of the initial three-year term. The two-year extension remains subject to approval from our client's local partner, and there is no assurance or guarantee that our client will receive this approval. As of May 1, 2014, the contractual dayrate is $474,700 and average contract backlog revenue per day is approximately $566,000 through August 25, 2014. Subject to the aforementioned approval, on August 26, 2014 through the two-year additional contract period, the contractual dayrate will be $615,000 and average contract backlog revenue per day will be approximately $628,000. In the event the approval is not obtained, our contract backlog could be reduced.

(c) The contractual dayrate for the *Pacific Scirocco* is currently $494,950, which is the average contract backlog revenue per day through January 7, 2015. Starting on January 8, 2015, the contractual dayrate and average contract backlog revenue per day will be $498,990 through the two-year period ending January 2017.

Results of Operations

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

The following table provides an analysis of our condensed consolidated results of operations for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change	% Change
	(in thousands, except percentages)			
Revenues				
Contract drilling	$ 225,591	$ 175,016	$ 50,575	29%
Costs and expenses				
Contract drilling	(110,966)	(84,452)	(26,514)	31%
General and administrative expenses	(12,533)	(11,028)	(1,505)	14%
Depreciation expense	(46,154)	(36,503)	(9,651)	26%
	(169,653)	(131,983)	(37,670)	29%
Operating income	55,938	43,033	12,905	30%
Other income (expense)				
Interest expense	(26,031)	(22,760)	(3,271)	14%
Other income (expense)	(1,169)	192	(1,361)	(709)%
Income before income taxes	28,738	20,465	8,273	40%
Income tax expense	(6,508)	(5,403)	(1,105)	20%
Net income	$ 22,230	$ 15,062	$ 7,168	48%

Revenues. Revenues were $225.6 million for the three months ended March 31, 2014, compared to $175.0 million for the three months ended March 31, 2013. The increase in revenues during the three months ended March 31, 2014 resulted primarily from a full quarter of operations from our five operating drillships, including the *Pacific Khamsin* , which commenced earning revenues on December 17, 2013, as compared to the same period of 2013, during which we were operating only four drillships.

During the three months ended March 31, 2014, our operating fleet of drillships achieved an average revenue efficiency of 82.7% compared to 90.3% during the three months ended March 31, 2013. Revenue efficiency is defined as the actual contractual dayrate revenue (excludes mobilization fees, upgrade reimbursements and other revenue sources) divided by the maximum amount of total contractual dayrate revenue that could have been earned during such period.

The decline in revenue efficiency as compared to the first quarter of 2013 resulted primarily from lower than expected revenue efficiency during shakedown of the *Pacific Khamsin* during the first quarter of 2014 which reduced our average revenue efficiency by approximately 10.7%.

Contract drilling revenue for the three months ended March 31, 2014 and 2013 also included amortization of deferred revenue of $28.0 million and $16.9 million and reimbursable revenues of $6.9 million and $4.7 million, respectively. The increase in amortization of deferred revenue was primarily due to additional deferred revenue related to the *Pacific Khamsin* . Reimbursable revenues represent the gross amount earned related to costs for the purchase of supplies, equipment, personnel services and other services provided at the request of our clients that are beyond the initial scope of the drilling contract. The increase in reimbursable revenues was the result of corresponding increases in reimbursable costs incurred.

Contract drilling costs. Contract drilling costs were $111.0 million for the three months ended March 31, 2014, compared to $84.5 million for the three months ended March 31, 2013. The increase in contract drilling costs was primarily due to a full quarter of operations from our five operating drillships for the three months ended March 31, 2014, as compared to the comparable period of the prior year, during which we were operating only four drillships.

During the three months ended March 31, 2014 and March 31, 2013, direct rig related operating expenses were approximately $89.4 million and $69.3 million, respectively, including reimbursable costs of $6.7 million and $5.0 million, respectively. These reimbursable costs are not included under the scope of the drilling contract's initial dayrate, but are subject to reimbursement from our clients. Reimbursable costs can be highly variable between quarters. Because the reimbursement of these costs by our clients is recorded as additional revenue, they do not generally negatively affect our margins. During the three months ended March 31, 2014 and March 31, 2013, contract drilling costs also included approximately $8.4 million and $5.6 million of shore-based and other support costs, respectively. Excluding the impact of reimbursable costs, direct rig related operating expenses and shore-based and other support costs per operating rig per day were as follows:

	Three Months Ended March 31,	
	2014	**2013**
	(in thousands, amounts per operating rig per day)	
Direct rig related operating expenses, net	$ 183.8	$ 178.6
Shore-based and other support costs	18.6	15.5
Total	$ 202.4	$ 194.1

The increase in direct rig related operating expenses per operating rig per day excluding reimbursable costs during the three months ended March 31, 2014 as compared to the same period in the prior year was attributable to customary annual cost escalations and an increase to shore based support in our Nigerian office to support a third vessel operating in Nigeria in 2014.

Contract drilling costs for the first quarter of 2014 and 2013 additionally included $13.2 million and $9.6 million in amortization of deferred costs, respectively. The increase in the amortization of deferred costs was due to additional costs related to the *Pacific Khamsin* .

General and administrative expenses . General and administrative expenses were $12.5 million for the three months ended March 31, 2014, compared to $11.0 million for the three months ended March 31, 2013. The increase in general and administrative expenses was primarily related to planned employee headcount additions required to support our expanding fleet.

Depreciation expense . Depreciation expense was $46.2 million for the three months ended March 31, 2014, compared to $36.5 million for the three months ended March 31, 2013. The increase in depreciation expense related to a full quarter of depreciation expense incurred on the *Pacific Khamsin* .

Interest expense . Interest expense was $26.0 million for the three months ended March 31, 2014, compared to $22.8 million for the three months ended March 31, 2013.

The following table summarizes interest expense:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in thousands)	
Interest	$(44,287)	$(35,631)
Realized losses on interest rate swaps	(997)	(5,304)
Capitalized interest	19,253	18,175
Interest expense	$(26,031)	$(22,760)

The increase in interest expense for the quarter ended March 31, 2014 as compared to the same period of 2013 was primarily due to an increase in our overall level of indebtedness.

Other income (expense) . Other expense was approximately $1.2 million for the three months ended March 31, 2014, compared to other income of $0.2 million for the three months ended March 31, 2013. The increase in other expense primarily related to currency exchange fluctuations.

Income taxes . In accordance with GAAP, we estimate the full-year effective tax rate from continuing operations and apply this rate to our year-to-date income from continuing operations. In addition, we separately calculate the tax impact of unusual or infrequent items, if any. For the three months ended March 31, 2014 and 2013, our effective tax rate was 22.6% and 26.4%, respectively.

The relationship between our provision for or benefit from income taxes and our pre-tax book income can vary significantly from period to period considering, among other factors, (a) the overall level of pre-tax book income, (b) changes in the blend of income that is taxed based on gross revenues versus pre-tax book income, and (c) our rig operating structures. Consequently, our income tax expense does not necessarily change proportionally with our pre-tax book income. Significant decreases in our pre-tax book income typically result in higher effective tax rates, while significant increases in pre-tax book income can lead to lower effective tax rates, subject to the other factors impacting income tax expense noted above. The decrease in our effective tax rate for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013 was primarily the result of an increase in pre-tax book income without a proportional increase in tax, which was partially offset by an increase in the blend of income taxed based on gross revenues versus pre-tax book income.

Liquidity and Capital Resources

Liquidity

As of March 31, 2014, we had $236.5 million of cash and cash equivalents. Our liquidity requirements include funding ongoing working capital needs, repaying our outstanding indebtedness and anticipated capital expenditures, which are largely comprised of our progress payments for our ultra-deepwater drillship construction projects, and maintaining adequate credit facilities or cash balances to compensate for the effects of fluctuations in operating cash flows. Our ability to meet these liquidity requirements will depend in large part on our future operating and financial performance. Primary sources of funds for our short-term liquidity needs will be cash flow generated from operating and financing activities, which includes availability under our Revolving Credit Facility and SSCF and our available cash balances. Our liquidity fluctuates depending on a number of factors, including, among others, our revenue efficiency and the timing of collecting accounts receivable as well as payments for operating costs. We believe that our cash on hand and cash flows generated from operating and financing activities, including availability under our Revolving Credit Facility and our SSCF, will provide sufficient liquidity over the next twelve months to fund our working capital needs, amortization payments on our long-term debt and anticipated capital expenditures for our ultra-deepwater drillship construction projects. Our ability to meet our long-term liquidity requirements will depend in part on our ability to secure additional financing, which is uncommitted at this time, before repaying the 2015 Senior Unsecured Bonds and taking delivery of the *Pacific Zonda* in the first quarter of 2015.

Capital Expenditures and Working Capital Funding

In March 2011, we entered into a contract with SHI for the construction of our sixth advanced-capability, ultra-deepwater drillship, the *Pacific Sharav* . In March 2012, we entered into a contract with SHI for the construction of our seventh advanced-capability, ultra-deepwater drillship, the *Pacific Meltem* , and in January 2013, we entered into an additional contract with SHI for the construction of our eighth advanced-capability, ultra-deepwater drillship, the *Pacific Zonda* .

The SHI contracts for the *Pacific Sharav* , the *Pacific Meltem* and the *Pacific Zonda* provide for an aggregate purchase price of approximately $1.5 billion for the acquisition of these three vessels, payable in installments during the construction process, of which we have made payments of approximately $429.2 million through March 31, 2014. With respect to our three undelievered vessels, we anticipate making payments of approximately $756.3 million during the remainder of 2014 and $336.4 million in 2015.

We expect the project cost for the *Pacific Sharav* , the *Pacific Meltem* and the *Pacific Zonda* under construction to be approximately $662.9 million, $627.8 million and $634.1 million, respectively, or $1.9 billion in total. The estimate of the project costs includes commissioning and testing and other costs related to the drillships, but excludes capitalized interest. As of March 31, 2014, there were approximately $1.3 billion of remaining project costs for the *Pacific Sharav* , the *Pacific Meltem* and the *Pacific Zonda* of which approximately $1.1 billion is remaining contractual commitments to SHI. We intend to finance the approximately $759.7 million in remaining project costs for the *Pacific Sharav* and the *Pacific Meltem* by borrowing funds under the SSCF. We expect to finance the $543.4 million in remaining project costs for the *Pacific Zonda* with a combination of our existing cash balances, future operating cash flows and additional financing, which is uncommitted at this time. We have $200.0 million in available borrowings under our Revolving Credit Facility, which can also be used to fund project costs.

Sources and Uses of Cash

The following table provides an analysis of our cash flow from operating activities for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change
		(in thousands)	
Cash flow from operating activities:			
Net income	$ 22,230	$ 15,062	$ 7,168
Depreciation expense	46,154	36,503	9,651
Amortization of deferred revenue	(28,008)	(16,851)	(11,157)
Amortization of deferred costs	13,210	9,599	3,611
Amortization of deferred financing costs	2,578	3,687	(1,109)
Amortization of debt discount	173	—	173
Deferred income taxes	(12)	(677)	665
Share-based compensation expense	1,966	2,053	(87)
Changes in operating assets and liabilities, net	64,541	22,771	41,770
Net cash provided by operating activities	$122,832	$ 72,147	$ 50,685

The increase in net cash provided by operating activities was primarily due to increased collections from our clients, including the impact of the *Pacific Khamsin* commencing operations on December 17, 2013, as compared to the comparable period of the prior year, during which we were operating only four drillships.

The following table provides an analysis of our cash flow from investing activities for the three months ended March 31, 2014 and March 31, 2013:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change
		(in thousands)	
Cash flow from investing activities:			
Capital expenditures	$(88,826)	$(134,959)	$46,133
Increase in restricted cash	—	(7)	7
Net cash used in investing activities	$(88,826)	$(134,966)	$46,140

The decrease in capital expenditures resulted primarily from fewer payments for our drillships under construction during the first quarter of 2014 as compared to the same period in 2013.

The following table provides an analysis of our cash flow from financing activities for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014	2013	Change
	(in thousands)		
Cash flow from financing activities:			
Proceeds from shares issued under share-based compensation plan	$ 750	$ —	$ 750
Proceeds from long-term debt	—	1,000	(1,000)
Payments on long-term debt	(1,875)	(54,687)	52,812
Payments for financing costs	(500)	(21,724)	21,224
Net cash used in financing activities	$ (1,625)	$ (75,411)	$73,786

The decrease in cash used in financing activities during the three months ended March 31, 2014 as compared to the same period of 2013 resulted from the change in the Company's debt repayment profile attributable to the refinancing transactions completed in June 2013 and the elimination of quarterly amortization payments required under the PFA. During the three months ended March 31, 2013, we made $54.7 million in principal repayments on the PFA and paid $21.4 million in deferred financing costs related to the closing of the SSCF.

During the three months ended March 31, 2014, we made $1.9 million in principal repayments on our outstanding long-term debt.

Description of Indebtedness

8.25% Senior Unsecured Bonds due 2015 . In February 2012, we completed a private placement of $300.0 million in aggregate principal amount of 8.25% senior unsecured U.S. dollar denominated bonds due 2015 to eligible purchasers. The 2015 Senior Unsecured Bonds bear interest at 8.25% per annum, which is payable semiannually on February 23 and August 23, and mature on February 23, 2015. See Note 4 to the unaudited condensed consolidated financial statements.

7.25% Senior Secured Notes due 2017 . In November 2012, Pacific Drilling V Limited, an indirect, wholly-owned subsidiary of the Company, completed a private placement of $500.0 million in aggregate principal amount of 7.25% senior secured U.S. dollar denominated notes due 2017 to eligible purchasers. The 2017 Senior Secured Notes were sold at 99.483% of par, bear interest at 7.25% per annum, which is payable semiannually on June 1 and December 1, and mature on December 1, 2017. See Note 4 to the unaudited condensed consolidated financial statements.

Senior Secured Credit Facility Agreement. On February 19, 2013, Pacific Sharav S.à r.l. and Pacific Drilling VII Limited, and the Company, as guarantor, entered into a senior secured credit facility agreement with a group of lenders to finance the construction, operation and other costs associated with the *Pacific Sharav* and the *Pacific Meltem* . See Note 4 to the unaudited condensed consolidated financial statements.

5.375% Senior Secured Notes due 2020 . On June 3, 2013, we completed a private placement of $750.0 million in aggregate principal amount of 5.375% Senior Secured Notes due 2020 to eligible purchasers. The 2020 Senior Secured Notes were sold at par, bear interest at 5.375% per annum, which is payable semiannually on June 1, and December 1, and mature on June 1, 2020. See Note 4 to the unaudited condensed consolidated financial statements.

Senior Secured Term Loan B due 2018 . On June 3, 2013, the Company entered into a $750.0 million senior secured term loan. The maturity date for the Senior Secured Term Loan B is June 3, 2018. See Note 4 to the unaudited condensed consolidated financial statements.

Revolving Credit Facility . On June 3, 2013, we entered into a senior secured revolving credit facility with an aggregate principal amount of up to $500.0 million (permits loans to be extended up to a maximum sublimit of $200.0 million and permits letters of credit to be issued up to a maximum sublimit of $300.0 million). See Note 4 to the unaudited condensed consolidated financial statements.

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Letters of Credit

As of March 31, 2014, we were contingently liable under certain performance, bid and custom bonds and letters of credit totaling approximately $277.7 million related to letters of credit issued as security in the normal course of our business. See Note 8 to the unaudited condensed consolidated financial statements.

Derivative Instruments and Hedging Activities

We may enter into derivative instruments from time to time to manage our exposure to fluctuations in interest rates. We do not enter into derivative transactions for speculative purposes; however, for accounting purposes, certain transactions may not meet the criteria for hedge accounting. See Note 6 to the unaudited condensed consolidated financial statements.

Off-Balance Sheet Arrangements

Currently, we do not have any off-balance sheet arrangements.

Contractual Obligations

The table below sets forth our contractual obligations as of March 31, 2014:

Contractual Obligations	Remaining nine months 2014	For the years ending December 31, 2015-2016	2017-2018 (in thousands)	Thereafter	Total
Long-term debt [(a)]	$ 5,625	$315,000	$1,223,750	$890,000	$2,434,375
Interest on long-term debt [(b)]	123,814	282,936	210,405	65,248	682,403
Operating leases	1,023	2,171	1,824	1,600	6,618
Purchase obligations [(c)]	160,516	49,600	—	—	210,116
Ultra-deepwater drillships [(d)]	756,339	336,383	—	—	1,092,722
Total contractual obligations [(e)]	$1,047,317	$986,090	$1,435,979	$956,848	$4,426,234

(a) Includes current maturities of long-term debt. In the table above, the outstanding borrowings of $140.0 million under the SSCF as of March 31, 2014 are included under the column entitled “Thereafter.” We intend to borrow an additional $860.0 million under the SSCF and amortization payments will be established requiring principal repayments every six months based on a 12-year repayment schedule following the delivery of the relevant vessel.

(b) Interest payments are based on our existing outstanding borrowings. It is assumed there is not a refinancing of existing long-term debt and there are no prepayments. For fixed rate debt, interest has been calculated using stated rates. For variable rate LIBOR based debt, interest has been calculated using current LIBOR as of March 31, 2014 and includes the impact of our outstanding interest rate swaps. Interest on the SSCF is based on existing outstanding borrowings of $140.0 million as of March 31, 2014. As such, interest on long-term debt as presented in the table above excludes the impact of additional interest under the SSCF that will be incurred as the remaining $860.0 million is borrowed, which we anticipate will occur in full on or before the delivery of the *Pacific Meltem* currently expected in the early part of the third quarter of 2014. Under our Revolving Credit Facility, we record interest expense for fees on undrawn commitments and unused letter of credit capacity, approximately $307.4 million as of March 31, 2014, while our outstanding letters of credit, approximately $192.6 million as of March 31, 2014, accrue interest at a different rate. Interest on long-term debt as presented in the table above excludes the impact of additional interest that will be incurred under our Revolving Credit Facility if the Company issues additional letters of credit or borrows under the $200.0 million revolving sub-limit.

(c) Purchase obligations are agreements to purchase goods and services that are enforceable and legally binding, that specify all significant terms, including the quantities to be purchased, price provisions and the approximate timing of the transactions, which includes our purchase orders for goods and services entered into in the normal course of business.

(d) Amounts for ultra-deepwater drillships include amounts due under construction contracts.

(e) Contractual obligations do not include approximately $0.9 million of liabilities from unrecognized tax benefits related to uncertain tax positions, inclusive of interest and penalties, included on our condensed consolidated balance sheet as of March 31, 2014. We are unable to specify with certainty the future periods in which we may be obligated to settle such amounts.

Some of the figures included in the table above are based on estimates and assumptions about these obligations, including their duration and other factors. The contractual obligations we will actually pay in future periods may vary from those reflected in the tables because the estimates and assumptions are subjective.

Critical Accounting Estimates and Policies

The preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions impact the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the balance sheet date and the amounts of revenues and expenses recognized during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those related to allowance for doubtful accounts, financial instruments, depreciation of property and equipment, impairment of long-lived assets, income taxes, share-based compensation and contingencies. We base our estimates and assumptions on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from such estimates.

Our critical accounting estimates are important to the portrayal of both our financial condition and results of operations and require us to make difficult, subjective or complex assumptions or estimates about matters that are uncertain. We would report different amounts in our unaudited condensed consolidated financial statements, which could be material, if we used different assumptions or estimates. We have discussed the development and selection of our critical accounting estimates with our Board of Directors and the Board of Directors has reviewed the disclosure of our critical accounting estimates. During the three months ended March 31, 2014, we have not made any material changes in accounting methodology.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our unaudited condensed consolidated financial statements, see Item 5, “Operating and Financial Review and Prospects—Critical Accounting Estimates and Policies” in our 2013 Annual Report. During the three months ended March 31, 2014, there have been no material changes to the judgments, assumptions and estimates, upon which our critical accounting estimates are based. Significant accounting policies and recently issued accounting standards are discussed in Note 2 to our unaudited condensed consolidated financial statements in this Quarterly Report and in Note 2 to our consolidated financial statements included in our 2013 Annual Report.

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements that involve risks and uncertainties. Where any forward-looking statement includes a statement about the assumptions or bases underlying the forward-looking statement, we caution that, while we believe these assumptions or bases to be reasonable and made in good faith, assumed facts or bases almost always vary from the actual results, and the differences between assumed facts or bases and actual results can be material, depending upon the circumstances. Where, in any forward-looking statement, our management expresses an expectation or belief as to future results, such expectation or belief is expressed in good faith and is believed to have a reasonable basis. We cannot assure you, however, that the statement of expectation or belief will result or be achieved or accomplished. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. Forward-looking statements can be identified by their use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “predict,” “project,” “subject to,” “will” and similar terms and phrases, and negatives of such terms and phrases, including references to assumptions. Forward-looking statements involve risks and uncertainties that may cause actual future activities and results of operations to be materially different from those suggested or described in this Quarterly Report. These risks include the risks that are identified in the “Risk Factors” section of our 2013 Annual Report, and also include, among others, risks associated with the following:

- the oil and gas market and its impact on demand for our services, including supply and demand for oil and gas and expectations regarding future energy prices;
- our limited number of assets and small number of clients;
- delays and cost overruns in construction projects and rig deliveries;
- our ability to enter into and negotiate favorable terms for future client contracts or extensions;
- operating hazards in the oilfield services industry;
- unplanned downtime or repairs of our drillships;
- competition within our industry;
- oversupply of rigs competing with our rigs;
- our substantial level of indebtedness;
- termination of our client contracts;
- non-compliance with the Foreign Corrupt Practices Act or any other anti-bribery laws;
- non-compliance with governmental, tax, permitting, environmental and safety regulations;
- restrictions on offshore drilling;
- strikes and work stoppages;
- timely access to spare parts equipment or personnel required to maintain and service our fleet;
- corruption, militant activities, political instability, ethnic unrest and regionalism in Nigeria and other countries where we may operate;
- changes in tax laws, treaties or regulations;
- our ability to incur additional indebtedness and compliance with restrictions and covenants in our debt agreements;
- our levels of operating and maintenance costs;
- our ability to attract and retain skilled workers on commercially reasonable terms;
- reduced expenditures by oil and natural gas exploration and production companies;
- general global economic conditions and conditions in the oil and natural gas industry;
- our dependence on key personnel;
- adequacy of insurance coverage in the event of a catastrophic event;
- our ability to obtain indemnity from clients;
- regulatory or other required approvals;
- the volatility of the price of our common shares;
- effects of new products and new technology in our industry;
- our incorporation under the laws of Luxembourg and the limited rights to relief for shareholders that may be available compared to

other countries, including the United States; and

- potential conflicts of interest between our controlling shareholder and our public shareholders.

Any forward-looking statements contained in this Quarterly Report should not be relied upon as predictions of future events. No assurance can be given that the expectations expressed in any forward-looking statements will prove to be correct. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions or expectations proves to be inaccurate or is not realized. You should thoroughly read this Quarterly Report with the understanding that our actual future results may be materially different from and worse than what we expect. Other sections of this Quarterly Report include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. Some important factors that could cause actual results to differ materially from those in the forward-looking statements are, in certain instances, included with such forward-looking statements and in “Risk Factors” in our 2013 Annual Report. Additionally, new risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of the forward-looking statements by these cautionary statements.

Readers are cautioned not to place undue reliance on the forward-looking statements contained in this Quarterly Report, which represent the best judgment of our management. Such statements, estimates and projections reflect various assumptions made by us concerning anticipated results, which are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond our control and which may or may not prove to be correct. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3 — Quantitative and Qualitative Disclosure about Market Risk

We are exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. These risks arise primarily as a result of potential changes in the fair market value of financial instruments that would result from adverse fluctuations in interest rates and foreign currency exchange rates as discussed below. We have entered, and in the future may enter, into derivative financial instrument transactions to manage or reduce market risk, but we do not enter into derivative financial instrument transactions for speculative or trading purposes.

Interest Rate Risk . We are exposed to changes in interest rates through our variable rate long-term debt. We use interest rate swaps to manage our exposure to interest rate risks. Interest rate swaps are used to convert floating rate debt obligations to a fixed rate in order to achieve an overall desired position of fixed and floating rate debt. See Note 6 and Note 7 to the unaudited condensed consolidated financial statements. As of March 31, 2014, our net exposure to floating interest rate fluctuations on our outstanding debt was $171.9 million, based on floating rate debt of $884.4 million less the $712.5 million notional principal of our floating to fixed interest rate swaps. Our net exposure to floating interest rate fluctuations excludes the Revolving Credit Facility as no amounts were borrowed under the facility subject to floating interest rates as of March 31, 2014. A 1% increase or decrease to the overall variable interest rate charged to us would thus increase or decrease our interest expense by approximately $1.7 million on an annual basis as of March 31, 2014.

Foreign Currency Exchange Rate Risk . We are exposed to foreign exchange risk associated with our international operations. For a discussion of our foreign exchange risk, see Item 11, “Quantitative and Qualitative Disclosures About Market Risk” in our 2013 Annual Report. There have been no material changes to these previously reported matters during the three months ended March 31, 2014.

PART II — OTHER INFORMATION

Item 1 — Legal Proceedings

See Note 8 to the unaudited condensed consolidated financial statements.

Item 1A — Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors previously disclosed under Item 3, “Risk Factors” in our 2013 Annual Report, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or future results.

Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 — Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not applicable.

Item 5 — Other Information

None.

Item 6 — Exhibits

None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pacific Drilling S.A.
(Registrant)

Dated: May 6, 2014

By /s/ Kinga E. Doris
Kinga E. Doris
Vice President, General Counsel and Secretary