

ROWAN COMPANIES INC
Form 10-Q
May 10, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

61-5491

Commission File
Number

ROWAN COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

75-0759420

(I.R.S. Employer
Identification No.)

2800 Post Oak Boulevard, Suite 5450 Houston, Texas

(Address of principal executive offices)

77056-6127

(Zip Code)

(713) 621-7800

Registrant's telephone number, including area code

Inapplicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

The number of shares of common stock, \$.125 par value, outstanding at April 30, 2006 was 110,221,350.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****ROWAN COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

ASSETS	March 31, 2006	December 31, 2005
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 553,219	\$ 675,903
Receivables - trade and other	336,922	253,194
Inventories - at cost:		
Raw materials and supplies	192,585	169,361
Work-in-progress	43,009	26,172
Finished goods	593	477
Prepaid expenses	17,867	17,041
Deferred tax assets - net	47,200	65,984
Total current assets	1,191,395	1,208,132
PROPERTY, PLANT AND EQUIPMENT - at cost:		
Drilling equipment	2,271,421	2,251,714
Manufacturing plant and equipment	178,579	165,185
Construction in progress	187,077	112,939
Other property and equipment	85,995	92,992
Total	2,723,072	2,622,830
Less accumulated depreciation and amortization	904,134	902,096
Property, plant and equipment - net	1,818,938	1,720,734
GOODWILL AND OTHER ASSETS	37,044	46,317
TOTAL	\$ 3,047,377	\$ 2,975,183

See Notes to Unaudited Consolidated Financial Statements.

ROWAN COMPANIES, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	March 31, 2006	December 31, 2005
LIABILITIES AND STOCKHOLDERS' EQUITY		(Unaudited)
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 64,922	\$ 64,922
Accounts payable - trade	104,791	82,935
Deferred revenues	92,192	74,490
Billings in excess of uncompleted contract costs and estimated profit	81,788	56,821
Other current liabilities	56,171	61,445
Total current liabilities	399,864	340,613
LONG-TERM DEBT - less current maturities	531,619	550,326
OTHER LIABILITIES	131,211	149,782
DEFERRED INCOME TAXES - net	324,281	314,723
STOCKHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value:		
Authorized 5,000,000 shares issuable in series:		
Series A Preferred Stock, authorized 4,800 shares, none outstanding		
Series B Preferred Stock, authorized 4,800 shares, none outstanding		
Series C Preferred Stock, authorized 9,606 shares, none outstanding		
Series D Preferred Stock, authorized 9,600 shares, none outstanding		
Series E Preferred Stock, authorized 1,194 shares, none outstanding		
Series A Junior Preferred Stock, authorized 1,500,000 shares, none issued		
Common stock, \$.125 par value:		
Authorized 150,000,000 shares; issued 110,115,845 shares at		
March 31, 2006 and 109,776,426 shares at		
December 31, 2005	13,764	13,722
Additional paid-in capital	974,615	970,256

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Retained earnings	755,683	724,096
Unearned equity compensation	-	(4,675)
Accumulated other comprehensive loss	(83,660)	(83,660)
Total stockholders' equity	1,660,402	1,619,739
TOTAL	\$ 3,047,377	\$ 2,975,183

See Notes to Unaudited Consolidated Financial Statements.

**ROWAN
COMPANIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
STATEMENTS OF
OPERATIONS
(IN THOUSANDS,
EXCEPT PER
SHARE AMOUNTS)**

For The Three Months
Ended March 31,
2006 2005
(Unaudited)

REVENUES:		
Drilling services	\$ 217,102	\$ 160,279
Manufacturing sales and services	82,685	62,113
Total	299,787	222,392
COSTS AND EXPENSES:		
Drilling services	108,795	89,425
Manufacturing sales and services	65,387	56,674
Depreciation and amortization	20,111	19,854
Selling, general and administrative	18,509	13,260
Gain on disposals of property and equipment	(2,544)	(590)
Total	210,258	178,623
INCOME FROM OPERATIONS	89,529	43,769
OTHER INCOME (EXPENSE):		
Interest expense	(6,997)	(5,856)
Less interest capitalized	1,359	771
Interest income	8,329	2,546
Gain on sale of investments	-	7,701
Other - net	132	336
Other income - net	2,823	5,498
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	92,352	49,267
Provision for income taxes	33,247	18,728
INCOME FROM CONTINUING OPERATIONS	59,105	30,539
Income from discontinued operations, net of tax	-	12,883
NET INCOME	\$ 59,105	\$ 43,422
PER SHARE AMOUNTS (Note 2):		
Income from continuing operations - basic	\$.54	\$.28
Income from continuing operations - diluted	\$.53	\$.28

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Income from discontinued operations - basic	\$	-	\$.12
Income from discontinued operations - diluted	\$	-	\$.12
Net income - basic	\$.54	\$.40
Net income - diluted	\$.53	\$.40

See Notes to Unaudited Consolidated Financial Statements.

**ROWAN
COMPANIES,
INC. AND
SUBSIDIARIES**

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS
(IN THOUSANDS)**

For The Three Months
Ended March 31,
2006 2005
(Unaudited)

CASH PROVIDED BY (USED IN):

Operations:

Net income	\$ 59,105	\$ 43,422
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Adjustments to reconcile net income to net cash
provided by (used in) operations:

Deferred income taxes	28,342	23,094
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Depreciation and amortization	20,111	19,913
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Provision for pension and postretirement benefits	7,669	6,797
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Compensation expense	3,190	1,009
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Contributions to pension plans	(154)	(60,931)
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Postretirement benefit claims paid	(1,100)	(829)
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Gain on disposals of property, plant and equipment	(2,544)	(590)
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Gain on sale of boat purchase options	-	(20,866)
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Gain on sales of investments	-	(7,701)
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Changes in current assets and liabilities:

Receivables- trade and other	(52,866)	(22,027)
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Inventories	(40,177)	(5,925)
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Other current assets	(20,219)	(7,078)
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Current liabilities	18,810	(2,244)
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Net changes in other noncurrent assets and liabilities	(2,229)	35
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Net cash provided by (used in) operations	17,938	(33,921)
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Investing activities:

Capital expenditures	(108,988)	(32,274)
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Proceeds from disposals of property, plant and equipment	8,622	816
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Proceeds from sale of boat purchase options	-	20,866
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Proceeds from sales of investments	-	7,701
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Net cash used in investing activities	(100,366)	(2,891)
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Financing activities:

Payment of cash dividend	(27,435)	(26,935)
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Repayments of borrowings	(18,707)	(18,707)
Proceeds from stock option and convertible debenture plans	5,285	12,466
Proceeds from borrowings	-	12,589
Excess tax benefits from stock-based compensation	601	-
Net cash used in financing activities	(40,256)	(20,587)
DECREASE IN CASH AND CASH EQUIVALENTS	(122,684)	(57,399)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	675,903	465,977
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 553,219	\$ 408,578

See Notes to Unaudited Consolidated Financial Statements.

ROWAN COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated financial statements of Rowan included in this Form 10-Q have been prepared without audit in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission. Certain information and notes have been condensed or omitted as permitted by those rules and regulations. The Company believes that the disclosures included herein are adequate, but suggests that you read these consolidated financial statements in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Rowan believes the accompanying unaudited consolidated financial statements contain all adjustments, which are of a normal recurring nature, necessary to present fairly its financial position as of March 31, 2006 and the results of its operations and cash flows for the three months ended March 31, 2006 and 2005.

Rowan's results of operations and cash flows for the three months ended March 31, 2006 are not necessarily indicative of results to be expected for the full year.

2. Rowan's computations of basic and diluted income per share for the three months ended March 31, 2006 and 2005 are as follows (in thousands except per share amounts):

	2006	2005
Weighted average shares of common stock outstanding	109,944	107,812
Dilutive securities:		
Stock options	1,377	1,215
Convertible debentures	454	225
Weighted average shares for diluted calculations	111,775	109,252
Income from continuing operations	\$ 59,105	\$ 30,539
Income from continuing operations per share:		
Basic	\$.54	\$.28
Diluted	\$.53	\$.28
Income from discontinued operations	\$ -	\$ 12,883
Income from discontinued operations per share:		
Basic	\$ -	\$.12
Diluted	\$ -	\$.12
Net income	\$ 59,105	\$ 43,422
Net income per share:		
Basic	\$.54	\$.40
Diluted	\$.53	\$.40

Rowan had 3,197,305 and 4,678,006 stock options outstanding at March 31, 2006 and 2005, respectively. Another 1,141,274 and 1,212,386 shares, respectively, were issuable at those dates through the conversion of debentures.

3. Rowan has two principal operating segments: contract drilling of oil and gas wells, both onshore and offshore (“Drilling”) and the manufacture and sale of heavy equipment for the mining and timber industries, alloy steel and steel plate and drilling products (“Manufacturing”). Drilling services are provided in domestic and foreign areas. Manufacturing operations are primarily conducted in Longview and Houston, Texas and Vicksburg, Mississippi, though products are shipped throughout the United States and to many foreign locations.

The following table presents certain financial information of Rowan by operating segment as of March 31, 2006 and 2005 and for the three month periods then ended (in thousands). See Note 8 for further information regarding Rowan’s discontinued operations.

	Drilling	Manufacturing	Discontinued Operations	Consolidated
2006				
Total assets	\$ 2,628,509	\$ 418,868	\$ -	\$ 3,047,377
Goodwill	1,493	10,863	-	12,356
Revenues	217,102	82,685	-	299,787
Income from operations	79,639	9,890	-	89,529
2005				
Total assets	\$ 2,147,919	\$ 310,119	\$ 7,665	\$ 2,465,703
Goodwill	1,493	10,863	-	12,356
Revenues	160,279	62,113	-	222,392
Income from operations	45,371	(1,602)	-	43,769

Excluded from the preceding table are the effects of transactions between segments. During the three months ended March 31, 2006 and 2005, Rowan’s manufacturing division provided approximately \$43 million and \$17 million, respectively, of products and services to its drilling division.

Assets are ascribed to a segment based upon their direct use. Rowan classifies its drilling rigs as domestic or foreign based upon the rig’s operating location. Accordingly, drilling rigs operating in or offshore the United States are considered domestic assets and rigs operating in other areas are deemed foreign assets. At March 31, 2006, the Company had 13 offshore rigs and 17 land rigs located in domestic areas and seven offshore rigs located in foreign areas.

Foreign source revenues for the three months ended March 31, 2006 and 2005 were as follows (in thousands):

	2006	2005
Drilling services:		
Europe	\$ 26,860	\$ 16,925
Canada	12,579	-
Manufacturing sales and services	7,027	3,056
Total	\$ 46,466	\$ 19,981

4. Rowan had no items of other comprehensive income during the three months ended March 31, 2006 and 2005. Interest payments (net of amounts capitalized) were \$7.0 million and \$6.8 million for the three months ended March 31, 2006 and 2005, respectively. Tax payments (net of refunds) were \$5.1 million and \$0.1 million for the three months ended March 31, 2006 and 2005, respectively. During the three months ended March 31, 2005, Rowan received approximately \$7.7 million from the sale of marketable investment securities that had a nominal carrying cost.
5. Rowan generally recognizes manufacturing sales and related costs when title passes as products are shipped. Revenues from long-term manufacturing projects such as rigs and rig kits are recognized on the percentage-of-completion basis using costs incurred relative to total estimated costs. The Company does not recognize any estimated profit until such projects are at least 10% complete, though a full provision is made immediately for any anticipated losses.

The following table summarizes the status of Rowan's long-term construction projects in process at March 31, 2006 and December 31, 2005 (in millions):

	March 31, 2006	December 31, 2005
Total contract value of long-term projects in process	\$ 333.1	\$ 261.4
Payments received	126.0	90.2
Revenues recognized	44.2	36.1
Costs recognized	36.6	29.8
Payments received in excess of revenues recognized	81.8	54.1
Billings in excess of uncompleted contract costs and estimated profit	\$ 81.8	\$ 56.8
Uncompleted contract costs and estimated profit in excess of billings	\$ -	\$ 2.7

During the three months ended March 31, 2006, Rowan recognized approximately \$8.1 million of manufacturing revenues and \$6.8 million of costs related to long-term construction projects on the percentage-of-completion basis.

6. Rowan's 2005 Long-Term Incentive Plan ("LTIP") authorizes the Company's Board of Directors to issue, through April 22, 2015, up to 3,400,000 shares of Rowan common stock in a variety of forms, including stock options, restricted stock, restricted stock units, performance shares, stock appreciation rights and common stock grants, whose terms are governed by the LTIP. The LTIP replaced and superseded previous Rowan plans under which nonqualified stock options had been issued and remained outstanding. At March 31, 2006, awards covering 529,300 shares had been made under the LTIP, all of which occurred during 2005.

Restricted Stock Awards and Units

Restricted stock represents a full share of Rowan common stock issued with a restrictive legend that prevents its sale until the restriction is later removed. The restrictions will generally lapse over a four-year service period to the extent of 25% per year. The Company measures total compensation related to each share based upon the market value of the common stock on the date of the award and recognizes the resulting expense on a straight-line basis over the service period. During 2005, Rowan issued 242,100 shares of restricted stock to 77 key employees, with an average fair value of \$25.09 per share. The total related compensation was measured at \$6.1 million, of which \$1.9 million had been recognized at March 31, 2006.

Restricted stock units are awards that may be settled through the issuance of Rowan common stock or the payment of cash where vesting generally occurs over a defined service period but the restriction lapses only upon termination of service. The Company measures compensation related to each unit based upon the fair market value of the underlying common stock on the date of the award and recognizes the resulting expense and liability on a straight-line basis over the service period. During 2005, Rowan issued 36,900 restricted stock units to its nonemployee directors, with an average fair value of \$25.12 per unit. At March 31, 2006, Rowan had accrued \$0.8 million toward future settlement of restricted stock units.

Performance Shares

Performance shares are shares of Rowan common stock whose future issuance is contingent upon the achievement of certain performance criteria. During 2005, the Company awarded 99,500 performance shares to 12 key employees, under which as many as 199,000 (and as few as zero) shares of Rowan common stock will be issued in May 2008 depending upon the Company's total shareholder return (TSR) versus a selected industry peer group over the three-year period then ended. The Company measures and recognizes compensation expense at each period-end using the market value of the common stock on the date of the award and the expected number of shares to be issued based upon Rowan's relative TSR performance. At March 31, 2006, Rowan had recognized \$0.2 million of compensation expense related to performance shares.

Stock Options

Stock options generally become exercisable in four equal annual installments and all options not exercised expire ten years after the date of grant. Stock option activity for the three months ended March 31, 2006 was as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Life (Yrs)
Outstanding at January 1, 2006	3,466,393	\$ 18.93		
Granted	-	-		
Exercised	(268,307)	16.93		
Forfeited	(781)	10.14		
Outstanding at March 31, 2006	3,197,305	\$ 19.10	\$ 11.70	6.0
Exercisable at March 31, 2006	2,131,601	\$ 19.06		

At March 31, 2006, Rowan had \$7.1 million of unrecognized future compensation expense related to stock options.

On January 1, 2006, Rowan adopted Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment", as amended, which requires recognition as expense over future service or vesting periods of stock-based compensation cost measured based upon grant date fair value. Prior to 2006, Rowan accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, whereby cost was measured based upon intrinsic value, or the difference, if any, between the quoted market price on the date of grant and the amount the employee was required to pay for the common stock. Accordingly, Rowan did not recognize compensation expense for stock options having an exercise price equal to the market price on the date of grant. The provisions of the original Statement 123 required a fair value measurement for all option awards, and disclosure of the effects of any stock-based compensation cost not recognized on that basis.

Rowan selected the modified prospective method of adoption, whereby the provisions of Statement 123R are applied to all stock-based awards made on or after January 1, 2006 and any outstanding but unvested awards as of that date. Accordingly, the Company's consolidated financial statements as of and for the three months ended March 31, 2005 have not been restated to give effect to Statement 123R. In addition, there was no material cumulative effect to be recognized upon adoption of Statement 123R. The adoption of Statement 123R did impact the Company's Stockholders' equity components as the \$4.7 million balance of Unearned equity compensation, which originated in connection with the 2005 restricted stock awards, was reclassified to, and reduced the balance of, Additional paid-in capital effective January 1, 2006.

For the three months ended March 31, 2006, Rowan recognized stock-based compensation expense of \$3.1 million, including \$2.4 million related to stock options, \$0.5 million related to restricted stock and \$0.2 million related to performance shares. As the Company made no stock-based awards during the period, these amounts reflect compensation cost for all unvested awards outstanding as of January 1, 2006, based upon original grant date fair value measurements made under Statement 123. Thus, the provisions of Statement 123R reduced the Company's first quarter 2006 net income by approximately \$1.2 million or \$.01 per share. The following table illustrates the estimated effects of Statement 123R on results for the comparable period of the 2005.

	For the Three Months Ended March 31, 2005
Net income as reported	\$ 43,422
Stock-based compensation, net of tax effects:	
As recorded under APB 25	629
Pro forma under SFAS 123	(1,791)
Pro forma net income	\$ 42,260
Net income per share:	
Basic - as reported	\$ 0.40
Diluted - as reported	\$ 0.39
Basic - pro forma	\$ 0.40
Diluted - pro forma	\$ 0.39

7. Since 1952, Rowan has sponsored defined benefit pension plans covering substantially all of its employees. In addition, Rowan provides certain health care and life insurance benefits for retired drilling and aviation employees.

Net periodic pension cost for the three months ended March 31, 2006 and 2005 included the following components (in thousands):

	2006	2005
Service cost	\$ 2,970	\$ 2,774
Interest cost	6,047	5,337
Expected return on plan assets	(6,077)	(5,658)
Recognized actuarial loss	3,004	2,884
Amortization of prior service cost	42	42
Total	\$ 5,986	\$ 5,379

Other benefits cost for the three months ended March 31, 2006 and 2005 included the following components (in thousands):

	2006	2005
Service cost	\$ 486	\$