ROWAN COMPANIES INC
Form 10-Q
May 09, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM_____TO_____

þ1-5491
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)	77056-6189 (Zip Code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o Noþ

The number of shares of common stock, $.125 par value, outstanding at April 30, 2008 was 112,608,946.

ROWAN COMPANIES, INC.

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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, 2008 (Unaudited)	December 31, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 288,926	$ 284,458
Receivables - trade and other	438,417	478,017
Inventories - at cost:		
Raw materials and supplies	351,756	343,023
Work-in-progress	160,219	112,924
Finished goods	523	416
Prepaid expenses and other current assets	43,102	61,169
Deferred tax assets - net	22,926	22,960
Total current assets	1,305,869	1,302,967
RESTRICTED CASH	-	50,000
PROPERTY, PLANT AND EQUIPMENT - at cost:		
Drilling equipment	2,845,489	2,798,250
Manufacturing plant and equipment	250,798	244,731
Construction in progress	498,441	373,534
Other property and equipment	118,996	128,312
Total	3,713,724	3,544,827
Less accumulated depreciation and amortization	1,086,731	1,057,016
Property, plant and equipment - net	2,626,993	2,487,811
GOODWILL AND OTHER ASSETS	33,646	34,527
TOTAL	$ 3,966,508	$ 3,875,305

See Notes to Unaudited Consolidated Financial Statements.

ROWAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2008 (Unaudited)	December 31, 2007
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 64,922	$ 64,922
Accounts payable - trade	103,754	100,880
Deferred revenues	106,994	110,596
Billings in excess of uncompleted contract costs and estimated profit	54,236	69,867
Accrued compensation and related employee costs	84,388	84,859
Other current liabilities	78,602	64,465
Total current liabilities	492,896	495,589
LONG-TERM DEBT - less current maturities	401,775	420,482
OTHER LIABILITIES	195,965	197,865
DEFERRED INCOME TAXES - net	422,371	412,931
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 111,973,879 shares at March 31, 2008 and 111,288,285 shares at December 31, 2007	13,997	13,911
Additional paid-in capital	1,029,661	1,012,214
Retained earnings	1,506,947	1,419,417
Cost of 25,139 treasury shares	(979)	(979)
Accumulated other comprehensive loss	(96,125)	(96,125)

Total stockholders' equity	2,453,501	2,348,438
TOTAL	$ 3,966,508	$ 3,875,305

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, 2008	2007
	(Unaudited)	
REVENUES:		
Drilling services	$ 340,421	$ 288,254
Manufacturing sales and services	145,068	174,000
Total	485,489	462,254
COSTS AND EXPENSES:		
Drilling operations (excluding items shown below)	156,539	146,816
Manufacturing operations (excluding items shown below)	126,164	157,539
Depreciation and amortization	33,091	27,644
Selling, general and administrative	27,399	22,357
Gain on disposals of property and equipment	(5,375)	(24,101)
Total	337,818	330,255
INCOME FROM OPERATIONS	147,671	131,999
OTHER INCOME (EXPENSE):		
Interest expense	(5,566)	(6,681)
Less interest capitalized	4,839	1,507
Interest income	3,175	5,449
Other - net	335	295
Other income - net	2,783	570
INCOME BEFORE INCOME TAXES	150,454	132,569
Provision for income taxes	51,829	46,216
NET INCOME	$ 98,625	$ 86,353
PER SHARE AMOUNTS:		
Net income - basic	$ .88	$ .78
Net income - diluted	$ .88	$ .77

See Notes to Unaudited Consolidated Financial Statements.

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ROWAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	For The Three Months Ended March 31, 2008	2007
	(Unaudited)	
CASH PROVIDED BY (USED IN):		
Operations:		
Net income	$ 98,625	$ 86,353
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	33,091	27,644
Deferred income taxes	9,474	10,476
Provision for pension and postretirement benefits	7,972	8,296
Stock-based compensation expense	2,731	1,787
Contributions to pension plans	(221)	(173)
Postretirement benefit claims paid	(712)	(512)
Gain on disposals of property, plant and equipment	(5,375)	(24,101)
Changes in current assets and liabilities:		
Receivables- trade and other	39,600	47,216
Inventories	(56,135)	(49,492)
Other current assets	18,067	6,417
Accounts payable	(24,814)	(33,430)
Income taxes payable	15,194	17,519
Deferred revenues	(3,602)	6,833
Billings in excess of uncompleted contract costs and estimated profit	(15,631)	3,094
Other current liabilities	(1,528)	3,026
Net changes in other noncurrent assets and liabilities	(8,090)	19,291
Net cash provided by operations	108,646	130,244
Investing activities:		
Capital expenditures	(156,156)	(69,423)
Proceeds from disposals of property, plant and equipment	16,656	24,235
Change in restricted cash balance	50,000	106,077
Net cash provided by (used in) investing activities	(89,500)	60,889
Financing activities:		
Repayments of borrowings	(18,707)	(18,707)
Payment of cash dividends	(11,095)	(11,025)
	15,124	775

Proceeds from stock option and convertible debenture plans and other				
Net cash used in financing activities		(14,678)		(28,957)
INCREASE IN CASH AND CASH EQUIVALENTS		4,468		162,176
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		284,458		258,041
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	288,926	$	420,217

See Notes to Unaudited Consolidated Financial Statements.

ROWAN COMPANIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated financial statements of Rowan Companies, Inc. ("Rowan" or "the Company") 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. Rowan 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, 2007.

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, 2008 and the results of its operations and cash flows for the three months ended March 31, 2008 and 2007. Rowan's results of operations and cash flows for the three months ended March 31, 2008 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, 2008 and 2007 are as follows (in thousands except per share amounts):

	2008	2007
Weighted average shares of common stock outstanding	111,463	110,487
Dilutive securities:		
Stock options	892	804
Convertible debentures	221	214
Weighted average shares for diluted calculations	112,576	111,505
Net income	$ 98,625	$ 86,353
Net income per share:		
Basic	$ .88	$ .78
Diluted	$ .88	$ .77

Rowan had 2,098,337 and 2,971,160 stock options outstanding at March 31, 2008 and 2007, respectively. Another 726,393 and 1,105,718 shares, respectively, were issuable at those dates through the conversion of debentures.

3. Rowan had no items of other comprehensive income during the three months ended March 31, 2008 and 2007. Interest payments (net of amounts capitalized) were $2.5 million and $6.9 million for the three months ended March 31, 2008 and 2007, respectively. Tax payments (net of refunds) were $69.1 million and $1.7 million for the three months ended March 31, 2008 and 2007, respectively.

Stock-based compensation expense was $2.7 million and $1.8 million for the three months ended March 31, 2008 and 2007, respectively. At March 31, 2008, Rowan had approximately $13 million of unrecognized future stock-based compensation expense.

4. Rowan has three principal operating segments: the contract drilling of oil and gas wells, both onshore and offshore ("Drilling"), and two manufacturing segments. The Drilling Products and Systems segment provides equipment, parts and services for the drilling industry through two business groups: Offshore Products features jack-up rigs, rig kits and related components and parts; Drilling and Power Systems includes mud pumps, drawworks, top drives, rotary tables, other rig equipment, variable-speed motors, drives and other electrical components featuring AC, DC and Switch Reluctance technologies. The Mining, Forestry and Steel Products segment includes large-wheeled mining and timber equipment and related parts and carbon and alloy steel and steel plate.

Pursuant to Statement of Financial Accounting Standards No. 131, Rowan's reportable segments reflect an aggregation of separately managed, strategic business units for which financial information is separately prepared and monitored based upon qualitative and quantitative factors. The Company evaluates segment performance based upon income from operations.

Rowan's drilling operations are conducted in domestic and foreign areas. The Company's 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, 2008 and 2007 (in millions).

	Total Assets		Goodwill	
	2008	2007	2008	2007
Drilling	$ 3,204.5	$ 2,925.5	$ 1.5	$ 1.5
Manufacturing:				
Drilling Products and Systems	529.5	453.2	10.9	10.9
Mining, Forestry and Steel Products	232.5	175.9	-	-
Total	$ 3,966.5	$ 3,554.6	$ 12.4	$ 12.4

The following table presents certain financial information of Rowan by operating segment for the three months ended March 31, 2008 and 2007 (in millions).

	2008	2007
Revenues:		
Drilling	$ 340.4	$ 288.3
Manufacturing:		
Drilling Products and Systems	91.1	120.1
Mining, Forestry and Steel Products	54.0	53.9
Total	$ 485.5	$ 462.3
Income from operations:		
Drilling	$ 143.6	$ 125.8
Manufacturing:		
Drilling Products and Systems	1.7	0.4
Mining, Forestry and Steel Products	2.4	5.8
Total	$ 147.7	$ 132.0

Excluded from the preceding table are the effects of transactions between segments. During the three months ended March 31, 2008 and 2007, the Drilling Products and Systems segment of Rowan's manufacturing division provided approximately $82 million and $41 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, 2008, the Company had eight offshore rigs and 29 land rigs located in domestic areas and 13 offshore rigs located in foreign areas.

Foreign source revenues for the three months ended March 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Drilling:		
Middle East	$ 109.6	$ 64.9
Europe	44.4	46.3
Trinidad and other	49.6	15.9
Mining, Forestry and Steel Products - Australia	8.2	7.7
Total	$ 211.8	$ 134.8

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, 2008 and December 31, 2007 (in millions):

	March 31, 2008	December 31, 2007
Total contract value of long-term projects (1)	$ 240.6	$ 238.9
Payments received	182.5	156.8
Revenues recognized	130.2	87.6
Costs recognized	85.5	56.6
Payments received in excess of revenues recognized	52.3	69.2
Billings in excess of uncompleted contract costs and estimated profit	$ 54.2	$ 69.8
Uncompleted contract costs and estimated profit in excess of billings (included in other current assets)	$ 1.9	$ 0.6

(1) Includes projects in progress and those not yet begun for which Rowan has received advanced payments.

During the three months ended March 31, 2008, Rowan recognized approximately $42.6 million of manufacturing revenues and $28.9 million of manufacturing costs related to long-term construction projects on the percentage-of-completion basis.

6. In October 2005, Rowan sold its only semi-submersible rig for approximately $60 million in cash. Payment for the rig occurred over a 15-month period ending in January 2007, at which point the title to the rig was transferred to the buyer. Rowan retained ownership of much of the drilling equipment on the rig, which was sold in 2006, and continued to provide (through February 2007) a number of operating personnel under a separate services agreement. The transaction was accounted for as a sales-type lease with the expected gain on the sale and imputed interest income of approximately $46 million deferred until the net book value of the rig had been recovered. During the three months ended March 31, 2007, we received all remaining payments totaling $24.0 million and recognized $23.4 million of gain on the sale.

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.

During the first quarter of 2008, Rowan contributed $0.9 million toward its pension and other benefit plans. Rowan currently expects to make additional payments totaling approximately $38 million during the remainder of 2008 for pension plan contributions and other benefit claims.

Rowan amended the benefit formula for new drilling plan entrants effective January 1, 2008 in order to reduce the rate at which the plan's liabilities are growing, though the Company expects to make additional pension contributions over the next several years even if plan assets perform as expected. Benefits paid from Rowan's pension plans are expected to average more than $28 million annually over the next ten years.

Net periodic pension cost for the three months ended March 31, 2008 and 2007 included the following components (in thousands):

	2008	2007
Service cost	$ 3,370	$ 3,070
Interest cost	7,650	6,238
Expected return on plan assets	(7,281)	(6,105)
Recognized actuarial loss	2,499	3,291
Amortization of prior service cost	(63)	55
Total	$ 6,175	$ 6,549

Other benefits cost for the three months ended March 31, 2008 and 2007 included the following components (in thousands):

	2008	2007
Service cost	$ 509	$ 490
Interest cost	1,104	962
Recognized actuarial loss	70	163
Amortization of transition obligation	165	181
Amortization of prior service cost	(51)	(49)
Total	$ 1,797	$ 1,747

8. During the third quarter of 2005, Rowan lost four offshore rigs, including the Rowan-Halifax, and incurred significant damage on a fifth as a result of Hurricanes Katrina and Rita. The Company leased the Rowan-Halifax under a charter agreement that commenced in 1984 and was scheduled to expire in March 2008. The rig was insured for $43.4 million, a value that Rowan believes satisfied the requirements of the charter agreement, and by a margin sufficient to cover the $6.3 million carrying value of Rowan equipment installed on the rig. However, the owner of the rig claimed that the rig should have been insured for its fair market value and sought recovery from Rowan for compensation above the insured value. Thus, Rowan assumed no insurance proceeds related to the Rowan-Halifax and recorded a charge during 2005 for the full carrying value of its equipment. On November 3, 2005, the Company filed a declaratory judgment action styled Rowan Companies, Inc. vs. Textron Financial Corporation and Wilmington Trust Company as Owner Trustee of the Rowan-Halifax 116-C Jack-Up Rig in the 215th Judicial District Court of Harris County, Texas. The owner filed a similar declaratory judgment action, claiming a value of approximately $83 million for the rig. The owner’s motion for summary judgment was granted on January 25, 2007 which, unless overturned on appeal, would make Rowan liable for the approximately $40 million difference between the owner’s claim and the insurance coverage, plus interest and costs. The Company continues to believe its interpretation of the charter agreement is correct and is vigorously pursuing an appeal to overturn the summary judgment ruling in the Texas Court of Appeals. The Company does not, therefore, believe that it is probable that it has incurred a loss, nor one that is estimable, and has made no accrual for such at March 31, 2008.

During 2004, Rowan learned that the Environmental and Natural Resources Division, Environmental Crimes Section of the U.S. Department of Justice (DOJ) had begun conducting a criminal investigation of environmental matters involving several of the Company’s offshore drilling rigs, including a rig known as the Rowan-Midland, which at various times operated at locations in the Gulf of Mexico. On October 9, 2007, the Company entered into a plea agreement (“Plea”) with the DOJ, under which the Company pled guilty to three felony charges relating to operations on the Rowan-Midland between 2002 and 2004: (i) causing the discharge of a pollutant, abrasive sandblast media, into U.S. navigable waters, thereby violating the Clean Water Act, (ii) failing to immediately report the discharge of waste hydraulic oil from the Rowan-Midland into U.S. navigable waters, thereby violating the Clean Water Act, and (iii) discharging garbage from the Rowan-Midland in violation of the Act to Prevent Pollution from Ships. As part of the Plea, the Company paid a fine of $7 million and completed community service payments totaling $2 million to various organizations. In anticipation of such payments, the Company recognized a $9 million charge to its fourth quarter 2006 operations. Under the Plea, the Company would have been subject to unsupervised probation for a period of two years. The Plea was submitted for approval to the United States District Court for the Eastern District of Texas. On November 8, 2007, the Company entered into an amended plea agreement with the DOJ extending the unsupervised probationary period from two to three years, which was then approved by the court on November 9, 2007. During the period of unsupervised probation, the Company must ensure that it commits no further criminal violations of federal, state, or local laws or regulations and must also continue to implement its comprehensive Environmental Management System Plan. Subsequent to the conduct at issue, the Company sold the Rowan-Midland to a third party.

The Environmental Protection Agency has approved a compliance agreement with Rowan which, among other things, contains a certification that the conditions giving rise to the violations to which the Company entered guilty pleas have been corrected. The Company believes that if it fully complies with the terms of the compliance agreement, it will not be suspended or debarred from entering into or participating in contracts with the U.S. Government or any of its agencies.

On January 3, 2008, a civil lawsuit styled State of Louisiana, ex. rel. Charles C. Foti, Jr. , Attorney General vs. Rowan Companies, Inc. was filed in the Eastern District Court of Texas, Marshall Division, seeking damages, civil penalties and costs and expenses for alleged commission of maritime torts and violations of environmental and other laws and regulations involving the Rowan-Midland and other facilities in areas in or near Louisiana. The Company intends to vigorously defend its position in this case but cannot estimate any potential liability at this time.

During 2005, the Company learned that the DOJ was conducting an investigation of potential antitrust violations among helicopter transportation providers in the Gulf of Mexico. Rowan's former aviation subsidiary, which was sold effective December 31, 2004, received a subpoena in connection with the investigation. The Company has not been contacted by the DOJ, but the purchaser claimed that Rowan is responsible for any exposure it may have. The Company has disputed that claim.

In June 2007, the Company received a subpoena for documents from the U.S. District Court in the Eastern District of Louisiana relating to a grand jury hearing. The agency requesting the information is the U.S. Department of the Interior, Office of Inspector General Investigations. The documents requested include all records relating to use of the Company entertainment facilities and entertainment expenses for a former employee of the Minerals Management Service, U.S. Department of Interior, and other records relating to items of value provided to any official or employee of the U.S. Government. The Company has fully cooperated with the subpoena and has received no further requests.

The construction of Rowan's fourth Tarzan Class jack-up rig, the J. P. Bussell, was originally subcontracted to an outside Gulf of Mexico shipyard, Signal International LLC (Signal), and scheduled for delivery in the third quarter of 2007 at a total cost of approximately $145 million. As a result of various problems encountered on the project, the expected completion of the rig is now at least one year behind schedule and its expected final cost is at least 20% over the original estimate. Accordingly, Rowan declared Signal in breach of contract and initiated court proceedings styled Rowan Companies, Inc. and LeTourneau Technologies, Inc. vs. Signal International LLC in the 269th Judicial District Court of Harris County, Texas to recover the cost to complete the rig over and above the agreed contract price, as well as other damages, plus interest. Signal filed a counterclaim against the Company, alleging breach of contract and claiming unspecified damages for amounts owed and additional costs incurred. Based upon correspondence and other information received from Signal, the Company believes Signal will pursue a claim for damages totaling in excess of $20 million. The Company intends to vigorously defend and prosecute its rights under the contract. The Company does not believe that it is probable that Rowan has incurred a loss, nor one that is estimable, and has made no accrual for such at March 31, 2008.

Rowan is involved in various legal proceedings incidental to its businesses and is vigorously defending its position in all such matters. The Company believes that there are no other known contingencies, claims or lawsuits that could have a material adverse effect on its financial position, results of operations or cash flows.

9. The extent of hurricane damage sustained throughout the Gulf Coast area in recent years has dramatically increased the cost and reduced the availability of insurance coverage for windstorm losses. During the Company's April 2006 policy renewal, it determined that windstorm coverage meeting the requirements of its existing debt agreements was cost-prohibitive. As all of Rowan's debt is government-guaranteed through the Title XI program of U.S. Department of Transportation's Maritime Administration (MARAD), the Company obtained from MARAD a waiver of the original insurance requirements in return for providing additional security.

On March 31, 2008, in connection with Rowan's policy renewal, the additional security provisions were modified. The Company's minimum restricted cash balance was reduced from $50 million to zero. The Company's unrestricted cash requirement was reduced from $31 million to $25 million. The Company remains subject to restrictions on the use of certain insurance proceeds should it experience further losses. Each of these additional security provisions will be released by MARAD if Rowan is able to obtain windstorm coverage that satisfies the original terms of its debt agreements.

10. On January 8, 2008, Steel Partners II, L.P., which currently reports beneficial ownership of approximately 9.4% of the Company's common stock, delivered a notice to the Company nominating three candidates to stand for election to the Company's Board of Directors at the 2008 Annual Meeting of Stockholders.

Following discussions between the Company and Steel Partners, on March 30, 2008, the Company and Steel Partners entered into a letter agreement (the "Agreement") pursuant to which Steel Partners withdrew its slate of three nominees and agreed not to engage in the solicitation of proxies in connection with the 2008 Annual Meeting. The Agreement provides that if the Company does not monetize its wholly-owned manufacturing subsidiary, LTI, by December 31, 2008, either Warren Lichtenstein or another person designated by Steel Partners will be added to the Company's Board of Directors effective January 1, 2009. The Company also agreed that if the LTI monetization is accomplished through an initial public offering of LTI's shares or a private sale of LTI, the Company will repurchase at least $400 million of its outstanding common stock.

The Company will reimburse Steel Partners for its reasonable, documented, out-of-pocket expenses incurred in connection with Steel Partners' intended solicitation of proxies from the Company's stockholders at the Annual Meeting and the negotiation of the Agreement, in an aggregate amount not to exceed $100,000.

11. Our adoption, effective January 1, 2008, of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which establishes a framework for measuring fair value and expands disclosures about fair value measurements, did not have a material impact on our financial statements.

Effective January 1, 2008, we adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115. SFAS No. 159, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, did not have a material impact on our financial statements.

12. Effective May 1, 2008, we agreed to purchase the offshore drilling rig Cecil Provine for $119 million in cash, following the conclusion of our current operating lease on or about July 7, 2008, and subject to execution of a definitive purchase and sale agreement and all applicable government and regulatory approvals.

ROWAN COMPANIES, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Rowan generated net income of $98.6 million in the first quarter of 2008, compared to $86.4 million in the same period of 2007. This improvement was largely due to effects of rig fleet additions and increased average drilling day rates between periods.

The following table highlights Rowan’s operating results from drilling, manufacturing and consolidated operations for the first quarters of 2008 and 2007, respectively (dollars in millions):

	Drilling		Manufacturing: Drilling Products and Systems		Manufacturing: Mining, Forestry and Steel Products		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues	$ 340.4	$ 288.3	$ 91.1	$ 120.1	$ 54.0	$ 53.9	$ 485.5	$ 462.3
Percent of total	70%	62%	19%	26%	11%	12%	100%	100%
Operating costs (excluding items shown below)	$ 156.5	$ 146.8	$ 80.8	$ 114.0	$ 45.4	$ 43.5	$ 282.7	$ 304.3
Percent of revenues	46%	51%	89%	95%	84%	81%	58%	66%
Depreciation expense	$ 29.2	$ 24.1	$ 2.4	$ 2.2	$ 1.5	$ 1.4	$ 33.1	$ 27.7
Percent of revenues	9%	8%	3%	2%	3%	3%	7%	6%
SG&A expenses	$ 16.5	$ 15.7	$ 6.2	$ 3.6	$ 4.7	$ 3.1	$ 27.4	$ 22.4
Percent of revenues	5%	5%	7%	3%	9%	6%	6%	5%
Income from operations	$ 143.6	$ 125.8	$ 1.7	$ 0.4	$ 2.4	$ 5.8	$ 147.7	$ 132.0
Percent of revenues	42%	44%	2%	0%	4%	11%	30%	29%
Net income							$ 98.6	$ 86.4

As shown in the preceding table, our consolidated income from operations increased by $15.7 million or 12%, when comparing the first quarters of 2008 and 2007, on a $23.2 million or 5% increase in revenues between periods.

Drilling operations – Our drilling operations generated a $52.1 million or 18% increase in revenues between periods. Our average offshore day rate was $159,700 during the first quarter of 2008, compared to $143,300 in the first quarter of 2007. Our offshore fleet was 91% utilized during the first quarter of 2008, compared to 84% in the first quarter of 2007, with much of that downtime in each period associated with rigs that were being prepared for long-term assignments overseas. We realized 158 or 10% more revenue-producing days between periods, and foreign operations contributed 61% of the total during the first quarter of 2008, up from 50% in the first quarter of 2007.

Our fleet of 29 land rigs was 89% utilized during the first quarter of 2008, compared to 92% in the first quarter of 2007, though revenue-producing days increased by 204 or 9% due to the addition of four new rigs between periods. Our average day land rates were $23,200 during the first quarter of 2008, compared to $23,900 in the first quarter of 2007.

Drilling expenses during the first quarter of 2008 increased by $9.7 million or 7% over the first quarter of 2007 due to higher labor, overhead, rig maintenance and towing costs associated with our redeployment of several offshore rigs to foreign markets and the growth in our land rig fleet between periods. Drilling depreciation expense increased by $5.1 million or 21% between periods due primarily to the rig additions discussed above. Selling, general and administrative expenses incurred by our Drilling segment increased by $0.8 million or 5% between periods due primarily to incremental incentive-based compensation associated with the segment's improved operating results.

Our Drilling operations included $5.4 million of gains on property and equipment disposals during the first quarter of 2008, compared to $24.1 million during the first quarter of 2007, with the prior-year amount primarily due to collections relating to the October 2005 sale of our semi-submersible rig.

Thus, our Drilling operations yielded a $17.8 million or 14% improvement in operating income between periods.

Drilling Products and Systems – Revenues decreased by $29.0 million or 24% between periods primarily due to the completion in June 2007 of our $130 million external rig construction project. This project had contributed revenues of $25.9 million during the first quarter of 2007. Revenues also included the following fluctuations between periods:

- $42.6 million recognized on six rig kit projects in 2008, up from $13.4 million in 2007;
- $19.7 million from shipments of land rigs and component packages in 2008, up from $16.5 million in 2007;
- $7.3 million from parts sales in 2008, down from $9.0 million in 2007;
- $5.9 million from 9 mud pumps shipped in 2008, down from $15.3 million and 18 pumps in 2007;
- $4.7 million related to drive and control system packages in 2008, down from $9.9 million in 2007;
- $1.4 million from custom fabrication work in 2008, down from $19.8 million in 2007.

Our product revenues are greatly influenced by the timing of shipments, and our first quarter 2008 revenues were adversely impacted by land rig shipment delays. Our profitability is impacted by the mix of product sales. Original equipment sales, for example, have traditionally yielded lower margins than the related after-market parts sales. A rig construction project takes longer to complete and involves a significantly greater labor effort than a rig kit, and thus typically yields a lower margin. Our first quarter 2007 Drilling Products and Systems operating results included an $11.3 million loss on the external rig construction project. Thus, as is shown in the preceding table, our average margin on operating costs increased to 11% of revenues in 2008 from 5% in 2007.

Depreciation expense incurred by Drilling Products and Systems increased by $0.2 million or 9% between periods, due to machinery, equipment and building additions to expand capacity at our manufacturing facilities. Selling, general and administrative costs increased by $2.6 million or 72% between periods, due to higher selling-related expenses, incremental staffing and increased amounts of professional fees and other shared administrative costs that are allocated between our manufacturing segments based upon revenues.

Our Drilling Products and Systems operating results exclude the effects of approximately $82 million of products and services provided to our drilling division during the first quarter of 2008, most of which was attributable to construction progress on the Company's three in-process newbuild jack-ups, the J. P. Bussell, Rowan-Mississippi and Ralph Coffman, compared to about $41 million in the same period of 2007.

Mining, Forestry and Steel Products – Revenues increased by $0.1 million or less than 1% between periods. Shipments of front-end mining loaders and log stackers totaled five units during the first quarter of 2008, compared to eight units in the first quarter of 2007. Parts sales increased by $3.2 million or 22% between periods to $17.4 million during the first quarter of 2008. Revenues from steel plate sales totaled $15.1 million during the first quarter of 2008, up by $5.3 million or 54% between periods. The increased proportion of smaller and lower-margin loaders sales contributed to the decline in our average margin on operating costs, to 16% of revenues in 2008 from 19% in 2007.

Depreciation expense incurred by Mining, Forestry and Steel Products increased by $0.1 million or 7% between periods, due to the expansion of our steel mill along with machinery and equipment additions to increase capacity at our manufacturing facilities. Selling, general and administrative costs increased by $1.6 million or 52% between periods, due to higher selling-related expenses.

Outlook

Worldwide rig demand is inherently volatile and has historically varied from one market to the next, as has the supply of competitive equipment. Exploration and development expenditures are affected by many local factors, such as political and regulatory policies, seasonal weather patterns, lease expirations, new oil and gas discoveries and reservoir depletion. In the end, however, the level and expected direction of oil and natural gas prices are what most impact drilling activity, and oil and gas prices are ultimately a function of the supply of and demand for those commodities. With consistently high prices in recent years, most energy companies have realized substantial cash flows while also struggling to sustain production and replace reserves. We believe, therefore, that investments will continue to be made in additional drilling projects throughout the world.

Currently, the worldwide jack-up market appears to be as strong as it's ever been, with over 90% of the competitive fleet under contract. In addition, the expected demand for jack-ups exceeds the current supply of rigs in the Middle East, Southeast Asia, West Africa and the Mediterranean. We believe that these markets will absorb many of the more than 80 newbuild jack-up rigs scheduled for delivery during 2008-2011, though the migration of high specification drilling equipment from mature jack-up markets like the Gulf of Mexico and the North Sea may also continue in the near-term. Our term contracts obtained over the past two years in the Middle East, North Sea and West Africa have brought significantly more global diversification and revenue visibility to our drilling operations and we will continue to pursue overseas assignments that we believe will maximize the contribution of our offshore rigs and enhance our operating results.

The 2005 hurricanes caused tremendous damage to drilling and production equipment and facilities throughout the Gulf Coast, and we suffered a significant loss of prospective revenues from the total destruction of four rigs. During 2006, there was a noticeable decline in demand for drilling equipment that coincided with the onset of hurricane season in June and grew more pronounced as growing natural gas inventories caused prices to weaken during the third and early fourth quarters. This ultimately forced jack-up contractors, including Rowan, to accept reduced rates in certain cases in order to keep less capable rigs fully utilized. These conditions – reduced drilling opportunities during hurricane season and natural gas price volatility – were repeated in 2007, and utilization and day rates for available rigs weakened further over the last half of the year. Currently, Gulf of Mexico rig demand remains well below peak 2006 levels, but appears to be strengthening. We are encouraged by early 2008 developments in the ultra deep gas market; specifically, our contract to re-enter the Blackbeard Prospect with the Gorilla IV and the commencement of drilling on the Eldorado Prospect by the Bob Palmer.

This increased global demand for drilling equipment in recent years has led to greater requirements for parts, supplies and people, which have in turn increased the cost of each. In addition, drilling equipment running near capacity for extended periods ultimately requires more extensive maintenance and repairs. We expect these inflationary pressures to continue throughout 2008 which, unless we are able to recover the increased costs through higher day rates, will impair our future operating results. In addition, the cost of insurance in the Gulf of Mexico is still significantly higher than it was in 2005. Though we were recently able to obtain further rate reductions for our offshore operations and fleet, the cost of our coverage is still much higher than the pre-storm level even after we assumed more of the risk of certain losses. On the other hand, our relocation of rigs from the Gulf of Mexico has helped to offset the increase in insurance rates.

Thus, our drilling operations are currently benefiting from predominantly favorable market conditions worldwide and are profitable. There is no assurance, however, that such conditions will be sustained beyond the near-term or that our drilling operations will remain profitable. The market may not be able to fully absorb the more than 80 jack-ups currently under construction or on order for delivery by 2011, and our drilling operations will be adversely affected if market conditions otherwise deteriorate. Additionally, as previously reported, we have recently committed to build six additional jack-up rigs over the next three years, giving us nine total rigs either under construction or on order at present. We currently anticipate funding construction of all these rigs through operating cash flows, but will consider attractive financing alternatives. If market conditions deteriorate, our cash flows may be insufficient, and we could be forced to accept unfavorable financing terms in order to complete construction.

Our manufacturing operations are also impacted by world commodities prices; in particular, prices for copper, iron ore, coal and gold. In addition, the prospects for our Drilling Products and Systems segment are closely tied to the condition of the overall drilling industry and its demand for equipment, parts and services. Many commodity prices continue to be at or near historically high levels due to strong worldwide demand.

Our external manufacturing backlog, which consists of executed contracts and customer commitments, was approximately $437 million at March 31, 2008, compared to $462 million at March 31, 2007, and included $367 million from Drilling Products and Systems. The backlog featured $184 million associated with land rigs and component packages that should be delivered in 2008, $110 million related to seven long-term rig kit construction projects in-process that are expected to run through early 2009 and the remaining $143 million related to mining loaders, log stackers, ad-hoc drilling equipment and related parts orders that we expect to fulfill during 2008. As noted previously, our first quarter 2008 revenues were adversely impacted by land rig shipment delays. We believe this to be a short-term timing issue and remain confident that we will achieve our stated goal of $900 million of external revenues in 2008.

We are optimistic that commodity prices will remain firm, sustaining the demand for the types of equipment and services that we provide, and that our increased volumes will yield improved profitability. We cannot, however, accurately predict the duration of current business conditions or their impact on our operations. It is possible that the drop in backlog discussed above is indicative of decreasing demand for our manufactured products. Our manufacturing operations will be adversely affected if conditions deteriorate. Thus far, we have been able to pass along the effects of raw material and labor cost increases to our customers in the form of higher sales prices.

On March 31, 2008, we announced that our Board of Directors had decided to pursue a monetization of our investment in manufacturing operations during 2008. We do not expect to disclose further developments regarding the process until the completion of a review and decision by the Board regarding a transaction or course of action. In connection with this announcement, we also agreed that if the monetization is accomplished through an initial public offering or a private sale of our manufacturing operations, we will repurchase at least $400 million of our outstanding common stock.

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LIQUIDITY AND CAPITAL RESOURCES

A comparison of key balance sheet amounts and ratios as of March 31, 2008 and December 31, 2007 is as follows (dollars in millions):

	March 31, 2008	December 31, 2007
Cash and cash equivalents	$ 288.9	$ 284.5
Current assets	$ 1,305.9	$ 1,303.0
Current liabilities	$ 492.9	$ 495.6
Current ratio	2.65	2.63
Current maturities of long-term debt	$ 64.9	$ 64.9
Long-term debt	$ 401.8	$ 420.5
Stockholders’ equity	$ 2,453.5	$ 2,348.4
Long-term debt/total capitalization		