

ROWAN COMPANIES INC  
Form 10-Q  
August 04, 2011

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UNITED STATES  
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 JUNE 30, 2011

OR

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

1-5491  
Commission File Number

ROWAN COMPANIES, 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the

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preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The number of shares of common stock, \$0.125 par value, outstanding at July 31, 2011, was 127,427,323.

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ROWAN COMPANIES, INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

ROWAN COMPANIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except shares)  
(Unaudited)

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$711,327	\$437,479
Restricted cash	-	15,265
Receivables - trade and other	254,682	269,896
Prepaid expenses and other current assets	43,378	31,646
Deferred tax assets - net	2,955	36,945
Assets of discontinued operations (Note 2)	373,703	984,022
Total current assets	1,386,045	1,775,253
<b>PROPERTY, PLANT AND EQUIPMENT - at cost:</b>		
Drilling equipment	5,238,877	3,799,902
Construction in progress	1,046,138	1,584,802
Other property and equipment	137,649	145,698
Property, plant and equipment - gross	6,422,664	5,530,402
Less accumulated depreciation and amortization	1,260,330	1,185,880
Property, plant and equipment - net	5,162,334	4,344,522
Other assets	96,660	97,682
<b>TOTAL ASSETS</b>	<b>\$6,645,039</b>	<b>\$6,217,457</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS (continued)  
 (In thousands, except shares)  
 (Unaudited)

	June 30, 2011	December 31, 2010
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$52,149	\$52,166
Accounts payable - trade	69,829	66,766
Deferred revenues	20,916	7,748
Accrued compensation and related employee costs	40,118	77,926
Accrued income taxes	141,056	10,847
Accrued interest	25,712	25,962
Other current liabilities	6,184	9,804
Liabilities of discontinued operations (Note 2)	41,467	278,011
<b>Total current liabilities</b>	<b>397,431</b>	<b>529,230</b>
Long-term debt - less current maturities	1,107,983	1,133,745
Other liabilities	273,221	251,145
Deferred income taxes - net	587,729	551,027
Commitments and contingent liabilities (Note 6)	-	-
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$1.00 par value, 5,000,000 shares authorized, issuable in series:		
Series A Junior Preferred Stock, 1,500,000 shares authorized, none issued	-	-
Common stock, \$0.125 par value, 150,000,000 shares authorized; 127,519,095 shares and 126,346,627 shares issued at June 30, 2011 and December 31, 2010, respectively	15,940	15,794
Additional paid-in capital	1,465,419	1,433,999
Retained earnings	2,947,452	2,449,521
Cost of 114,447 and 52,408 treasury shares, respectively	(4,641 )	(1,509 )
Accumulated other comprehensive loss	(145,495 )	(145,495 )
<b>Total stockholders' equity</b>	<b>4,278,675</b>	<b>3,752,310</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$6,645,039</b>	<b>\$6,217,457</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>REVENUES</b>	\$223,497	\$282,180	\$429,463	\$570,680
<b>COSTS AND EXPENSES:</b>				
Direct operating costs (excluding items below)	104,517	105,444	215,791	209,907
Depreciation and amortization	40,807	33,928	78,961	67,382
Selling, general and administrative	21,729	18,626	42,543	34,617
Gain on disposals of property and equipment	(1,391 )	(17 )	(1,422 )	(288 )
Charges to settle litigation (Note 8)	6,100	4,500	6,100	4,500
Total costs and expenses	171,762	162,481	341,973	316,118
<b>INCOME FROM OPERATIONS</b>	51,735	119,699	87,490	254,562
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net of interest capitalized	(7,449 )	(5,251 )	(12,768 )	(10,930 )
Interest income	32	211	61	372
Other - net	365	291	(719 )	308
Total other income (expense) - net	(7,052 )	(4,749 )	(13,426 )	(10,250 )
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	44,683	114,950	74,064	244,312
Provision for income taxes	280	31,505	2,866	71,933
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	44,403	83,445	71,198	172,379
<b>DISCONTINUED OPERATIONS (Note 2):</b>				
Income (loss) from discontinued operations, net of tax	(3,017 )	7,471	2,260	(16,840 )
Gain on sale of discontinued operations, net of tax	424,473	-	424,473	-
Discontinued operations, net of tax	421,456	7,471	426,733	(16,840 )
<b>NET INCOME</b>	\$465,859	\$90,916	\$497,931	\$155,539
<b>INCOME (LOSS) PER SHARE - BASIC:</b>				
Income from continuing operations	\$0.35	\$0.74	\$0.57	\$1.53
Discontinued operations	\$3.34	\$0.07	\$3.39	\$(0.15 )
Net income	\$3.69	\$0.80	\$3.96	\$1.38
<b>INCOME (LOSS) PER SHARE - DILUTED:</b>				
Income from continuing operations	\$0.35	\$0.73	\$0.56	\$1.50
Discontinued operations	\$3.30	\$0.07	\$3.35	\$(0.15 )

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Net income	\$3.65	\$0.79	\$3.91	\$1.36
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See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2011	2010
<b>CASH PROVIDED BY (USED IN) OPERATIONS:</b>		
Net income	\$497,931	\$155,539
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	99,930	91,950
Material charges (Note 2)	-	42,024
Deferred income taxes	70,692	6,146
Provision for pension and postretirement benefits	16,664	19,329
Stock-based compensation expense	10,999	7,049
Gain on disposals of property, plant and equipment	(3,896 )	(95 )
Gain on sale of manufacturing operations	(660,877 )	-
Postretirement benefit claims paid	(1,388 )	(1,713 )
Contributions to pension plans	(35,837 )	(42,110 )
Changes in current assets and liabilities:		
Receivables - trade and other	9,962	(9,346 )
Inventories	(104,468 )	28,573
Prepaid expenses and other current assets	1,511	953
Accounts payable	44,820	(17,242 )
Accrued income taxes	130,210	(29,549 )
Deferred revenues	27,603	(23,357 )
Billings in excess of costs and estimated profits on uncompleted contracts	29,493	(3,624 )
Other current liabilities	4,461	(12,873 )
Net changes in other noncurrent assets and liabilities	8,089	(1,369 )
Net cash provided by operations	145,899	210,285
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Capital expenditures	(930,978 )	(210,383 )
Proceeds from sale of manufacturing operations	1,044,541	-
Decrease in restricted cash	15,265	-
Proceeds from disposals of property, plant and equipment	4,057	878
Net cash provided by (used in) investing activities	132,885	(209,505 )
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Repayments of borrowings	(26,083 )	(32,461 )
Excess tax benefits from stock-based compensation	4,664	15
Proceeds from stock options and other	16,483	2,924
Net cash used in financing activities	(4,936 )	(29,522 )
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>273,848</b>	<b>(28,742 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>437,479</b>	<b>639,681</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$711,327</b>	<b>\$610,939</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 (In thousands)  
 (Unaudited)

	Shares of common stock outstanding	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance, January 1, 2010	113,833	\$14,237	\$1,078,337	\$2,169,526	\$(1,409 )	\$ (150,321 )	\$ 3,110,370
Stock issued under share-based compensation plans	543	78	2,846	-	(2,577 )	-	347
Stock-based compensation	-	-	6,558	-	-	-	6,558
Excess tax benefit from stock-based compensation plans	-	-	15	-	-	-	15
Net income	-	-	-	155,539	-	-	155,539
Balance, June 30, 2010	114,376	\$14,315	\$1,087,756	\$2,325,065	\$(3,986 )	\$ (150,321 )	\$ 3,272,829
Balance, January 1, 2011	126,294	\$15,794	\$1,433,999	\$2,449,521	\$(1,509 )	\$ (145,495 )	\$ 3,752,310
Stock issued under share-based compensation plans	1,111	146	17,815	-	(3,132 )	-	14,829
Stock-based compensation	-	-	8,941	-	-	-	8,941
Excess tax benefit from stock-based compensation plans	-	-	4,664	-	-	-	4,664
Net income	-	-	-	497,931	-	-	497,931
Balance, June 30, 2011	127,405	\$15,940	\$1,465,419	\$2,947,452	\$(4,641 )	\$ (145,495 )	\$ 4,278,675



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ROWAN COMPANIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – General

The condensed 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. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Rowan believes the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are of a normal recurring nature unless otherwise noted, necessary for a fair statement of the results for the interim periods presented. Rowan’s results of operations and cash flows for the interim periods are not necessarily indicative of results to be expected for the full year.

In June 2011, the Company completed the sale of its manufacturing operations and committed to a plan to sell its land drilling operations. Results of manufacturing and land drilling operations have consequently been reclassified to discontinued operations for all periods presented (see Note 2).

Note 2 – Discontinued Operations

On June 22, 2011, the Company completed the sale of its wholly owned manufacturing subsidiary, LeTourneau Technologies, Inc. (“LeTourneau”), at a price of \$1.1 billion in cash, subject to certain post-closing working capital adjustments, and recognized a gain on sale of \$660.9 million (\$424.5 million, net of tax) in the second quarter of 2011.

The operations of LeTourneau previously comprised the “Drilling Products and Systems” segment and the “Mining, Forestry and Steel Products” segment and, accordingly, have been included in “Discontinued operations, net of tax,” in the Condensed Consolidated Statements of Income for all periods presented.

In connection with the sale, the Company entered into certain other agreements with LeTourneau including a facilities lease agreement, an employee services agreement, and an amendment to the construction contract for the Joe Douglas drilling rig currently under construction in Vicksburg, Mississippi, in order for the Company to direct the completion of construction, commissioning and delivery of such rig. The lease and employee services agreements shall terminate at the earliest of (i) 120 days following completion of construction, (ii) one year following the Closing Date or (iii) the effective date of any other termination of the lease or employee services agreements pursuant to the agreements. Costs incurred in connection with the facilities lease and employee services agreements will be capitalized as part of the cost of the rig.

Additionally, on July 19, 2011, the Company entered into an agreement to sell its land drilling services business for \$510 million in cash, plus a working capital adjustment currently estimated to be approximately \$30 million, and expects to recognize a gain on sale of approximately \$200 million (\$132 million, net of tax) upon closing, which is expected to occur in the third quarter of 2011. The land drilling services business was previously a component of the Company’s Drilling Services segment, and, accordingly, results of land drilling services have been reclassified to discontinued operations for all periods presented.



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## ROWAN COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the components of “Discontinued operations, net of tax,” for the three and six months ended June 30, 2011 and 2010 (in thousands):

	2011			2010		
	Manufacturing	Drilling	Total	Manufacturing	Drilling	Total
Three months ended June 30:						
Revenues	\$ 110,242	\$ 48,445	\$ 158,687	\$ 161,759	\$ 46,097	\$ 207,856
Pretax income (loss)	\$(3,113 )	\$ 3,770	\$ 657	\$ 4,725	\$ 4,240	\$ 8,965
Provision (benefit) for taxes on income	2,295	1,379	3,674	(36 )	1,530	1,494
Income (loss) from discontinued operations, net of tax	(5,408 )	2,391	(3,017 )	4,761	2,710	7,471
Pretax gain on sale of discontinued operations	660,877	-	660,877	-	-	-
Provision for tax on gain on sale	236,404	-	236,404	-	-	-
Gain on sale of discontinued operations, net of tax	424,473	-	424,473	-	-	-
Discontinued operations, net of tax	\$ 419,065	\$ 2,391	\$ 421,456	\$ 4,761	\$ 2,710	\$ 7,471
Six months ended June 30:						
Revenues	\$ 224,488	\$ 92,514	\$ 317,002	\$ 263,180	\$ 88,581	\$ 351,761
Pretax income (loss)	\$(950 )	\$ 9,654	\$ 8,704	\$(32,518 )	\$ 6,273	\$(26,245 )
Provision (benefit) for taxes on income	3,006	3,438	6,444	(11,647 )	2,242	(9,405 )
Income (loss) from discontinued operations, net of tax	(3,956 )	6,216	2,260	(20,871 )	4,031	(16,840 )
Pretax gain on sale of discontinued operations	660,877	-	660,877	-	-	-
	236,404	-	236,404	-	-	-

Provision for tax on gain on sale						
Gain on sale of discontinued operations, net of tax	424,473	-	424,473	-	-	-
Discontinued operations, net of tax	\$420,517	\$6,216	\$426,733	\$(20,871 )	\$4,031	\$(16,840 )

During the first quarter of 2010, the Drilling Products and Systems Manufacturing segment performed an assessment of its Houston-based raw materials and supplies inventory. As a result, the Company increased its inventory valuation reserve by approximately \$42.0 million and recorded a corresponding charge to its operations during the period to reflect a reduction in the estimated realizable value of items that were deemed to be nonconforming or slow-moving. Such amount is included in discontinued operations for manufacturing for the three and six months ended June 30, 2010.

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## ROWAN COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following assets and liabilities have been segregated and included in “Assets of discontinued operations” and “Liabilities of discontinued operations,” as appropriate, in the Condensed Consolidated Balance Sheets at June 30, 2011, and December 31, 2010 (in thousands):

	June 30, 2011			December 31, 2010		
	Manufacturing	Drilling	Total	Manufacturing	Drilling	Total
Cash and cash equivalents	\$-	\$-	\$-	\$-	\$-	\$-
Receivables - trade and other	-	46,914	46,914	106,705	41,280	147,985
Inventories - raw materials and supplies	-	-	-	277,527	-	277,527
Inventories - work-in-progress	-	-	-	70,114	-	70,114
Inventories - finished goods	-	-	-	212	-	212
Prepaid expenses and other current assets	-	-	-	37,368	332	37,700
Property and equipment, net	-	299,994	299,994	137,624	311,291	448,915
Other assets	26,795	-	26,795	1,569	-	1,569
Assets of discontinued operations	\$26,795	\$346,908	\$373,703	\$631,119	\$352,903	\$984,022
Accounts payable - trade	\$-	\$5,452	\$5,452	\$44,223	\$5,876	\$50,099
Deferred revenues	20,122	1,479	21,601	143,950	1,748	145,698
Billings in excess of costs and estimated profits on uncompleted contracts	-	-	-	7,915	-	7,915
Accrued compensation and related costs	-	2,587	2,587	20,217	2,738	22,955
Other current liabilities	10,600	1,227	11,827	47,737	3,607	51,344
Liabilities of discontinued operations	\$30,722	\$10,745	\$41,467	\$264,042	\$13,969	\$278,011

In connection with the sale of LeTourneau, the Company took ownership of a land rig that LeTourneau was constructing on behalf of a customer, plus a related customer deposit. The Company is holding the asset for sale. The asset and related deposit are classified as other assets and deferred revenues, respectively, at June 30, 2011, in the table above.

At June 30, 2011, estimated accrued transaction costs in connection with the sale of manufacturing operations totaled \$10.6 million, which is classified as other current liabilities in the table above.

## Note 3 – Earnings Per Share

A reconciliation of basic and diluted shares for the three and six months ended June 30, 2011 and 2010 follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Average common shares outstanding - basic	126,252	113,171	125,793	113,016
Effect of dilutive securities - stock-based compensation	1,331	1,827	1,516	1,758
Average common shares - diluted	127,583	114,998	127,309	114,774

There were no adjustments to net income required for purposes of computing diluted earnings per share.

Options and other potentially dilutive securities are antidilutive and excluded from the dilutive calculations when their exercise or conversion price exceeds the average stock market price during the period. The following table sets forth the shares excluded from the diluted calculations for the three and six months ended June 30, 2011 and 2010, because they were antidilutive. Such securities could potentially dilute earnings per share in the future (in thousands):

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## ROWAN COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Employee and director stock options	42	164	42	164
Stock appreciation rights and other	313	180	218	169
Total potentially dilutive shares	355	344	260	333

## Note 4 – Pension and Other Postretirement Benefits

Rowan sponsors defined benefit pension plans covering substantially all of its employees, and provides health care and life insurance benefits upon retirement for certain employees. In December 2010, the Company amended certain plans with respect to its manufacturing operations in order to freeze benefits as of December 31, 2010, which resulted in a curtailment gain of \$5.4 million at that date. The curtailment gain was recorded as a reduction to accumulated other comprehensive loss.

Net periodic pension cost recognized for the three and six months ended June 30, 2011 and 2010 included the following components (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Service cost	\$3,107	\$3,969	\$6,181	