YADKIN FINANCIAL Corp
Form 425
January 23, 2017

Filed by F.N.B. Corporation

Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934

Subject Company: Yadkin Financial Corporation

(SEC Registration Statement No. 333-213776)

Cautionary Statement Regarding Forward-Looking Information

This filing contains forward-looking statements which may contain F.N.B. Corporation s expectations or predictions of future financial or business performance or conditions. This filing may also contain certain forward-looking statements, including certain plans, goals, projections and statements about the proposed merger between F.N.B. Corporation (F.N.B.) and Yadkin Financial Corporation (Yadkin), plans relative to the proposed merger, objectives, expectations and intentions regarding the proposed merger, the expected timing of the completion of the proposed merger, and other statements that are not historical facts. Forward-looking statements, that do not describe historical or current facts, typically are identified by words such as, believe , plan , expect , anticipate , intend , outlook , forecast , will , should , project , goal , and other similar words and expressions. These forward-looking statements subject to numerous assumptions, risks and uncertainties. The forward-looking statements are intended to be subject to the safe harbor provided under Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Act of 1995.

In addition to factors previously disclosed in F.N.B. s reports filed with the Securities and Exchange Commission (SEC), the following risk factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: failure to obtain all regulatory approvals and meet other closing conditions to the proposed merger between F.N.B. and Yadkin on the expected terms and time schedule; delay in closing the proposed merger; potential risks and challenges attendant to the successful conversions of core data systems; difficulties and delays in integrating the F.N.B. and Yadkin businesses or fully realizing cost savings and other benefits; business disruption following the merger; changes in asset quality and credit risk; changes in general economic, political or industry conditions; uncertainty in U.S. fiscal policy and monetary policy, including interest rate policies of the Federal Reserve Board (FRB); the inability to sustain revenue and earnings growth; changes in interest rates and capital markets; inflation; customer acceptance of F.N.B. products and services; potential difficulties encountered by F.N.B. in expanding into a new and remote geographic market; customer borrowing, repayment, investment and deposit practices; customer disintermediation; the introduction, withdrawal, success and timing of business initiatives; competitive conditions; the inability to realize cost savings or revenues or to implement integration plans and other consequences associated with mergers, acquisitions and divestitures; the impact, extent and timing of technological changes, capital management activities, competitive pressures on product pricing and services; ability to keep pace with technological changes, including changes regarding maintaining cybersecurity; success, impact and timing of F.N.B. s business strategies, including market acceptance of any new products or services; and implementing F.N.B. s banking philosophy and strategies. Additional risks include the nature, extent, timing and results of governmental and regulatory actions, examinations, reviews, reforms, regulations and interpretations, including those related to the Dodd-Frank Wall Street Reform Act and Consumer Protection Act and Basel III regulatory or capital reforms (including DFAST stress-testing protocols), as well as those involving the Office of the Comptroller of the Currency (OCC), FRB, Federal Deposit Insurance Corporation (FDIC), and Consumer Financial Protection Board (CFPB), and the regulatory approval process associated with the proposed merger; the possibility that the anticipated benefits of the proposed merger are not realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy and competitive factors in the areas where F.N.B. does business; the possibility that the proposed merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events; diversion of management s attention from ongoing business operations and opportunities; potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the proposed merger; and other factors that may affect future results of F.N.B. There is no assurance that any of the risks, uncertainties or risk factors identified herein is complete and actual results or events may differ materially from those expressed or implied in the forward-looking statements contained in this document/communication/information.

Additional factors that could cause results to differ materially from those described above can be found in F.N.B. s Annual Report on Form 10-K for the year ended December 31, 2015, and in its subsequent Quarterly Reports on Form 10-Q, including quarters ended March 31, June 30 and September 30, 2016, each of which is on file with the SEC and available in the Investor Relations & Shareholder Services section of F.N.B. s website, http://www.fnbcorporation.com, under the heading Reports and Filings and in other documents F.N.B. files with the SEC.

All forward-looking statements speak only as of the date they are made and are based on information available at that time. F.N.B. does not assume any obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events except as required by federal securities laws. As forward-looking statements involve significant risks and uncertainties, caution should be exercised against placing undue reliance on such statements.

Additional Information About the Merger and Where to Find It

Communications in this document do not constitute an offer to sell or the solicitation of an offer to buy any securities. In connection with the proposed merger, F.N.B. Corporation has filed with the SEC a Registration Statement on Form S-4 (File No. 333-213776) and other relevant documents concerning the proposed merger.

SHAREHOLDERS OF F.N.B. CORPORATION AND YADKIN FINANCIAL CORPORATION ARE URGED TO READ THE REGISTRATION STATEMENT REGARDING THE PROPOSED MERGER AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED MERGER.

The Registration Statement and other relevant materials, and any other documents F.N.B. and Yadkin have filed with the SEC, may be obtained free of charge at the SEC s internet site, http://www.sec.gov. Copies of the documents F.N.B. has filed with the SEC may be obtained, free of charge, by contacting James G. Orie, Chief Legal Officer, F.N.B. Corporation, One F.N.B. Boulevard, Hermitage, PA 16148, telephone: (724) 983-3317; and copies of the documents Yadkin has filed with the SEC may be obtained free of charge at Yadkin s website at www.yadkinbank.com.

F.N.B. Corporation

Fourth Quarter 2016 Results Conference Call

January 19, 2017 at 10:30 a.m. Eastern

CORPORATE PARTICIPANTS

Vince Delie, *President and Chief Executive Officer*

Vince Calabrese, *Chief Financial Officer*

Gary Guerrieri, *Chief Credit Officer*

Matthew Lazzaro, *Investor Relations*

PRESENTATION

Operator

Welcome to the F.N.B. Corporation Fourth Quarter 2016 Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today s presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Matthew Lazzaro, Investor Relations. Mr. Lazzaro, please go ahead.

Matthew Lazzaro

Thank you. Good morning, everyone, and welcome to our earnings call. This conference call of F.N.B. Corporation and the reports it files with the Securities and Exchange Commission often contain forward-looking statements and non-GAAP financial measures. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP. Reconciliations of non-GAAP operating measures to the most directly comparable GAAP financial measures are included in our presentation materials and in our earnings release under the caption Non-GAAP Financial Measures and Key Performance Indicators. Please refer to these non-GAAP and forward-looking statement disclosures contained in our earnings release, related presentation materials, and in our reports and registration statements filed with the Securities and Exchange Commission and available on our corporate website. A replay of this call will be available until January 26, and a transcript and the webcast link will be posted to the About Us Investor Relations & Shareholder Services section of our corporate website.

I will now turn the call over to Vince Delie, President and Chief Executive Officer.

Vince Delie

Welcome to our conference call to discuss F.N.B. s results for the fourth quarter and the full year of 2016. Joining me today are Vince Calabrese, our Chief Financial Officer, and Gary Guerrieri, our Chief Credit Officer. We are very pleased to share the operating results of another excellent quarter for F.N.B.. Our fourth quarter EPS was 24 cents per share, reflecting 10 percent EPS growth compared to the year-ago quarter. We continued our streak of 30 consecutive quarters of organic loan growth and experienced increased annualized contributions from our fee-based businesses, notably capital markets, mortgage banking, wealth management, and insurance. These ongoing trends led to an outstanding year, where full-year EPS grew to 90 cents, and the efficiency ratio improved to 55.4 percent. On a full-year basis, total operating revenue increased $150 million, or 23 percent, as we generated another year of positive operating leverage with revenue growth outpacing expense growth.

Looking at the income statement on a full-year basis, non-interest income totaled $202 million, representing a 24 percent increase from the prior year. As discussed on prior calls, our strategic decision to expand the capabilities of our capital markets group and the scope of our mortgage banking business has translated into strong organic growth in these business units. 2016 mortgage banking revenues increased 40 percent, resulting from more-than-doubled production volume which was largely comprised of purchase money mortgages. Capital markets revenue, which includes syndications, international banking, and derivatives, ended the year nearly double that of 2015, reflecting an increase in fee-based product sales to our existing

F.N.B. Corporation

January 19, 2017 at 10:30 a.m. Eastern

1

customers and prospects. Full-year wealth management revenues totaled $35 million, as these businesses saw benefit from new relationships in the markets of Pittsburgh, Baltimore, Cleveland, and Harrisburg. Our fee-based areas continue to be a focus for F.N.B., in order to deepen customer relationships by providing high-value fee income services while adhering to our ultimate purpose of helping clients reach their financial goals. Further expansion in these businesses will continue to diversify our revenue mix. Non-interest income made up 25 percent of total revenue in 2016 and will be an area of strategic focus moving forward. New markets provide us with significant fee-based opportunities as we execute our acquisition strategy.

Looking at the balance sheet on a full-year basis, excluding acquisitions, average total organic loan growth was $929 million, or 8 percent, with equal contributions from the commercial and consumer segments. Commercial loans grew 7 percent, and commercial pipelines at year end remained at healthy levels, with about two-thirds of the total commercial pipeline concentrated in the Pittsburgh, Baltimore, and Cleveland markets. On an organic basis, total deposits grew 7 percent, in line with our guidance. This was led by growth in non-interest bearing deposits, as we continue to focus on further improving our deposit mix. We were able to post these strong results while continuing to invest in the future.

2016 saw the implementation of a number of significant technologies as part of our clicks-to-bricks strategy. We introduced digital kiosks in all of our branches and became one of the first banks to provide debit card controls in our mobile banking app. Most recently, we rolled out Touch ID, which allows customers to log into the F.N.B. Direct App on their mobile device with their fingerprint. Building on this platform, we will deploy additional upgrades in February. We are focused on integrating our physical branches and digital banking to provide our customers with the best possible experiences.

I d now like to provide an update for the pending Yadkin acquisition. In early December, we received approval from both Yadkin and F.N.B. shareholders. As I mentioned previously, we have secured the local leadership in the North Carolina markets and have internally announced our organizational structure. In mid-December, we announced the hiring of several experienced commercial and real estate banking professionals to lead our middle-market teams in North and South Carolina. We are excited to have these talented individuals onboard. The team is ready to compete, and we look forward to putting our expanded product set and capabilities in their hands. The incoming employees have been engaged in product and process training and will be prepared to have employee scorecards ready for day one. We expect the merger to take place during the first quarter, and I fully expect we will achieve our financial targets and add value for our shareholders. Additionally, merger-related expenses and the credit mark continue to track in line with our original expectations.

I want to thank all of our employees for another excellent year. One major highlight was the acquisition and successful conversion of Metro Bank, which significantly expanded our banking footprint in the Central Pennsylvania region. A key component to executing our acquisition strategy is our demonstrated ability to generate positive operating leverage and achieve modeled cost saving targets. If we look back at the Metro transaction, we achieved our modeled 40 percent cost save target, as evidenced in the consistent improvement in our efficiency ratio. We also enhanced our presence in the Pittsburgh MSA with the acquisition of 17 branches, introduced new technology solutions, and continued to invest in our people and processes, all while maintaining our focus on driving earnings growth. Looking ahead to Yadkin, we have a clear path to achieve the targeted cost savings of 25 percent, and with our broad product set and proforma assets of nearly $30 billion, F.N.B. is well positioned for success.

2

In summary, I am very pleased with what we accomplished this year both financially and strategically, and I m incredibly proud of our employees. Our continued growth would not be possible without their tireless efforts. F.N.B. has delivered another year of revenue growth and EPS expansion in a challenging operating environment. We look forward to another good year in 17 and the successful integration of the Yadkin acquisition.

With that, I will turn the call over to Gary so he can share asset quality results.

Gary Guerrieri

Thank you, Vince, and good morning, everyone. We ended the fourth quarter with our loan portfolio favorably positioned, allowing us to close out another successful year. Our fourth quarter credit quality results on a GAAP basis were positive, with total delinquency remaining essentially flat at 1.34 percent, NPLs and OREO down to a low for the year at 79 basis points, and net charge-offs of 31 basis points annualized for the quarter and 28 basis points year to date. In total, we are pleased with our results for 2016, which has been marked by a favorably positioned loan portfolio and the successful integration of our largest acquisition to date.

Let s now review some of our quarterly results, after which I will then cover some of the highlights of our 2016 full-year performance and accomplishments and finally, provide an update on the Yadkin integration process.

Looking first at our originated portfolio, the level of delinquency at the end of December increased nominally by 4 basis points over the prior quarter, to end the year at a solid 1.04 percent. NPLs and OREO improved by 17 basis points on a linked-quarter basis at 91 basis points, with a reduction across both the non-performing loan and OREO categories. Net charge-offs for the fourth quarter were slightly elevated compared to historic results at $11.8 million, or 38 basis points annualized, which reflects the final resolution and exit of a non-performing credit that we provided for and discussed earlier in the year. The originated provision totaled $12.1 million, which covered charge-off activity in the quarter and organic loan growth, reflecting an ending originated reserve position that was down slightly from the prior quarter at 1.2 percent.

Turning next to our acquired book of business, this $2.3 billion portfolio performed well during the fourth quarter and is positioned favorably as we prepare for the upcoming Yadkin acquisition. Contractual delinquency on a linked-quarter basis was down nearly $7 million, totaling $68 million at quarter end. The reserve on the acquired portfolio was up slightly, ending December at $7.3 million. Inclusive of the credit mark, the total loan portfolio remained well covered at 1.71 percent at the end of the quarter.

Now, to touch briefly on our full-year performance, we are pleased with our 2016 credit quality results for the originated and acquired portfolios, which both remain at satisfactory levels at year end. The successful integration of the Metro book during the first quarter of 2016, which as I mentioned earlier was our largest acquisition to date, initially resulted in some elevated credit metrics, as we expected. We are very pleased with the progress we ve made in removing the majority of these sub-performing assets from the balance sheet in a very short period of time. The credit metrics across the originated portfolio did show some slight increases year over year, which was largely due to industry softness that some of our commodities-based borrowers faced during the year.

F.N.B. Corporation

January 19, 2017 at 10:30 a.m. Eastern

3

Next, I d like to provide an update on Yadkin and the progress we continue to make as we prepare for the merger. You ll recall that our credit and risk teams closely track the credit quality performance of the acquired loan portfolio leading up to conversion as part of our robust credit integration process. To date, Yadkin s credit quality has remained stable since our initial due diligence review, and our closing credit mark level continues to be in line with our expectations.

In closing, 2016 marks another successful year, as evidenced by our satisfactory credit portfolio results and the favorable position of our loan book as we enter 2017. In the year ahead and with the opportunities that Yadkin presents, our team of experienced bankers will continue to manage the growing loan book according to our core credit philosophies of consistently and prudently underwriting credit, remaining attentive and focused on managing risk, and proactively working out underperforming loans. We are excited to bring Yadkin onboard, and we look forward to managing the combined companies in 2017 and beyond.

I will now turn the call over to Vince Calabrese, our Chief Financial Officer, for his remarks.

Vincent Calabrese

Thanks, Gary, and good morning, everyone. Today I will discuss the fourth quarter and full year s operating performance and provide guidance for 2017, including the impact of the pending Yadkin acquisition. Looking at the balance sheet for the fourth quarter, loan growth momentum continued, with average loans growing 4.9 percent annualized, led by 10.3 percent annualized growth in consumer loans. The growth in the consumer portfolio was due to footprint-wide positive contributions across our residential and indirect portfolios. Average commercial growth totaled $26 million, or 1.2 percent annualized. The average originated commercial growth was largely offset by prepayment activity in the acquired portfolio and a number of planned real estate take-outs. We remain excited about the potential for new opportunities in Yadkin s high-growth North Carolina markets, notably the markets of Raleigh, Charlotte, and the Piedmont Triad.

Average total deposits increased $296 million, or 8 percent annualized, with growth in non-interest bearing deposits of $103 million, or 10 percent annualized. Average transaction deposits increased $324 million, or 10 percent annualized, mainly due to seasonally higher balances in business demand and premium sweep accounts. This growth in low-cost deposits further strengthened our funding mix, as 84 percent of total deposits were transaction-based at the end of the fourth quarter. From a total funding perspective, our relationship of loans to deposits was 93 percent at the end of December.

Turning to the income statement, net interest income grew $1.8 million, or 1.1 percent, due to the quarter s growth in earning assets and our ability to fund that growth with lower cost deposits.

Our net interest margin equaled 3.35 [percent] on a reported basis and 3.32 [percent] on a core basis, as we experienced a similar level of non-core accretable yield benefit compared to the prior quarter. Overall, we are pleased with the full-year core net interest margin of 3.34 [percent], given the extended low interest rate environment experienced throughout 2016.

Let s look now at non-interest income and expense. 2016 saw greater contributions from our mortgage banking business unit as our expanded operations led to a 40 percent increase in revenue. Our insurance group was another example of where our strategic investments are producing meaningful returns. In 2015, we restructured our insurance team and added revenue producers and key leadership personnel. 2016 s full-year growth of 13 percent reflects a full year-benefit of these initiatives.

As Vince discussed earlier, investments made to enhance the derivatives, syndications, and international banking platforms generated full-year capital markets revenue growth of 48 percent. Non-interest expense, excluding merger costs, increased $84 million, or 22 percent, due mostly to our larger organization and the reinvestment of a portion of acquisition-related cost savings in technology, risk management, and infrastructure that will serve us well in the future. Looking back over the last five years, a proof point of our acquisition strategy is the consistent improvement in our efficiency ratio, which is 55.4 percent in 2016 compared to over 60 percent in 2011. We were able to grow revenue organically, gain scale through acquisitions, and maintain a disciplined expense management approach, while continuing to reinvest in the organization to support future growth. Regarding income taxes, our overall effective tax rate for the quarter was 30.5 percent, in line with previous guidance.

Now, let s look at our guidance for 2017, beginning with organic growth assumptions, which includes the impact of the Yadkin acquisition. We are expecting to achieve proforma year-over-year organic total loan growth in the high single digits and organic total deposit growth in the mid-to-high single digits.

Given the size of Yadkin, it is helpful to remind you of a few key balance sheet items, using their 9/30/16 balance sheet. Total loans were $5.3 billion, total assets were $7.4 billion, and total deposits were $5.3 billion.

Switching to the income statement, the following figures are compared to the full year of 2016, excluding merger expenses. We expect full-year reported net interest income to increase $270 [million] to $290 million year over year, with total average earning assets expected to increase approximately $8 billion. Note that this is based on economists consensus estimate at the time of our planning process, for two rate increases in 2017.

We expect non-interest income to increase in the $60 [million] to $70 million range, year over year. As we continue to grow our fee-based businesses, over time we expect to increase non-interest income as a percentage of total revenue as we grow and further deepen customer relationships. We expect non-interest expense, excluding merger charges, to increase by $150 [million] to $160 million, from our $471 million 2016 core expense base. As Vince mentioned, we have a clear path to the 25 percent Yadkin target and expect Yadkin to add approximately $30 million per quarter, excluding amortization of intangibles, to our expense base beginning in the second half of the year.

Provision expense is expected to be between $72 [million] and $82 million for the full year, with relatively higher levels in the second half, commensurate with our planned high single digit loan growth. We expect to maintain our consistent underwriting standards and expect originated net-charge-offs to average loans to be in a more normalized 30 basis point range.

The overall effective tax rate for 2017 is expected to be in the 31-to-32 percent range.

Shares outstanding are expected to end the year at approximately 325 million shares, reflecting the shares issued for the Yadkin merger expected during the first quarter of 2017.

In summary, 2016 was another strong year of financial performance for F.N.B. as we continued to pursue the strategy of building our franchise through organic growth and acquisitions that create additional scale and long-term shareholder value. The ability to execute this strategy is

5

dependent on the quality of the people throughout our organization, and I am very proud of what our team accomplished in 2016 in the face of another challenging year for the banking industry as a whole.

Looking ahead to 2017, successful execution of the Yadkin acquisition and continued benefits from our organic growth strategy should drive further improvement in the efficiency ratio, increase deposits per branch, grow earnings per share, maintain our top quartile return on tangible common equity, and result in a long-term return on assets north of 1 percent. We feel very good about how the company is positioned to deliver sustained value for our customers, shareholders, and employees.

Now I would like to turn the call over to the Operator for your questions.

QUESTIONS AND ANSWERS

Operator

Yes. Thank you. We will now begin the question-and-answer session. To ask a question, please press star, then 1, on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time, we ll pause momentarily to assemble the roster.

And the first question comes from Bob Ramsey with FBR.

Bob Ramsey

Hey, good morning, guys. Just a couple quick questions first. From a modeling point of view, is it fair to model Yadkin at the end of the first quarter, or do you have any better sense of when in the first quarter the deal may close?

Vince Calabrese

First quarter. We re working towards closing it in the first quarter. I can t give you an exact date.

Bob Ramsey

Okay, fair enough. And then I know you provided expense guidance and said Yadkin adds $30 million excluding the tangible amortization. The expense guidance does include that intangible amortization, though, just to be clear. Is that right?

Vince Calabrese

Yes.

Bob Ramsey

Okay.

Vince Calabrese

Yeah, $30 [million] was a cash expense, Bob, but our all-in guidance is inclusive of everything.

Bob Ramsey

Perfect. Thinking about net interest margin and the trajectory over the year, I know you said the guidance includes a couple rate hikes. Is it fair that for each 25-basis point move, you guys get maybe one to two basis points of NIM benefit? Is that the right way to think about the relationship?

Vince Calabrese

Yeah, I would say just a few things on that topic. Our margin we feel very good about how the margin s held up throughout the year. If you look back at the fourth to first quarter 15 to 16, we picked up three basis points there, and there were some other dynamics going on. The core margin for this quarter was a little better than what we had guided to, a combination of higher reinvestment rates as well as some higher accretion, given the run-off in the acquired portfolio that we talked about. So the margin s held up very well. I would think that as we sit here, the fourth quarter core margin would probably be a bottom and that we would have some modest movement up from there. And your numbers it s probably two to three basis points for the Fed move. The December Fed move we just had is probably worth about two to three basis points in margin in the first quarter, and that s all baked into our guidance.

Bob Ramsey

Got it. And remind me, what is the Yadkin it may not be in the first quarter when the Yadkin comes onboard, what is the impact of the acquisition to the margin?

Vince Calabrese

Well, when we modeled it

Bob Ramsey

And are their margins wider than

Vince Calabrese

Yeah, they re a little bit wider. When we modeled it, when we were doing due diligence, it was going to add about four basis points, and that s going to ultimately be a function of when we do all the purchase accounting and get it booked and moved forward, but that just gives you a reference point.

Bob Ramsey

Okay. Got it. And then last question, and I ll hop out, but in terms of commercial loan growth, it obviously isn t running below the consumer piece. I m just curious what shift, if any, you guys have picked up in conversations with clients post-election, I guess particularly commercial clients, so whether there s any change in sentiment or willingness-to-borrow outlook, et cetera.

Vince Delie

Well, that s a good question, Bob. I ll take that one. We ve studied this pretty thoroughly. You know, the remarkable thing is the fourth quarter of this year for F.N.B. was really one of our highest levels in terms of new production for the company, so there s a lot of noise going on with the acquired book. There were exits that were planned that Gary was able to execute upon that really impacted the average balance in the fourth quarter, so when you look at it, if you were to make adjustments for what moved out in the acquired book, we would have had a growth rate of about 3 percent quarter on quarter. So it would have been more consistent with what we had delivered in the past. So from an opportunity perspective or focusing solely on new originations and fundings, we actually had a pretty good quarter, but because of the settling of the portfolio and the movement of assets out that essentially were largely planned, it really reduced the outright growth.

Vince Calabrese

And the 3 [percent] is unannualized.

Vince Delie

Yes, the 3 [percent] is unannualized. It would have been 12 percent annualized.

Gary Guerrieri

We also had a few CRE exits take-outs to the permanent market, which were expected as well, Bob, so you had some of that in there also.

Vince Delie

So there was a lot of activity in the fourth quarter. Now, setting that aside, I think that has more to do with our positioning in the markets that we re in. Having a few years under our belt in Cleveland and Baltimore, we re seeing some good opportunities there. I would say in looking at the election, the other item that we studied was utilization on facilities. We saw a decline in borrowings on revolving facilities in the fourth quarter of about 1 percent, which was a little shocking, because we thought the opposite would occur, but I think that there s a great deal of optimism within the customer base, at least the customers that I ve had conversations with, principally because of the change in the tax rates and optimism about less regulation. There seems to be a lot of talk about potential expansion, larger capex. There are at least conversations occurring about larger capex opportunities within our customer base, which didn t happen before, so I think we re riding on that optimism, and I m hoping that that turns into fundings as we move forward.

Bob Ramsey

All right.

Vince Delie

That s pretty much what we re hearing. That s the loan growth story in total.

Bob Ramsey

Well, that s good to hear. Thank you very much for the color.

Vince Delie

Thank you.

Operator

Thank you. And the next question comes from Jason Oetting with J.P. Morgan.

Jason Oetting

Hey, good morning, everybody.

Multiple Speakers

Good morning, Jason.

Jason Oetting

I ll start with mortgage banking. I think in the prepared commentary, you said it was largely comprised of purchase money. I was just wondering if you had the split in the quarter and maybe how that compared to historical splits.

Vince Delie

Yeah, we re running at about 77 to 78 percent purchase money in this current quarter. It s ranged anywhere from, I d say, the high 60s to 80 percent.

Jason Oetting

Okay.

Vince Delie

So we tend to run higher on the purchase money side than the refinance side.

Jason Oetting

Okay. Yeah, because my follow-up question was going to be thinking out to 2017 and excluding Yadkin, how are you directionally thinking about that business in the face of a better a great outlook?

Vince Delie

Yeah, I think, actually, we re still somewhat optimistic about our business, because, as I said, it s mainly purchase money, and we re seeing some improvement in the housing market here locally and in Cleveland, so, while Baltimore was a little more frothy than those markets, we re starting to see more opportunities on the purchase money side, and I think we re very well positioned going into this year. So despite the fact that there will be rising rates, we re pretty optimistic about how we re positioned, and we re expecting to perform very well, and our pipeline would lead us to believe that what I m telling you is going to continue, at least through the first quarter.

Vince Calabrese

Yeah, and if you looked at the we pulled the MBA statistics this morning, just to see what the most current was, so while refinance is projected to be down 48 percent, purchase is actually projected to be up 16 [percent].

Vince Delie

Yeah.

Vince Calabrese

So that works well with our business model.

Vince Delie

And, really, our model s geared towards hiring the right mortgage loan originators. We re not really focusing on bringing people over that have lived off of refinance activity. We re bringing people in that are well connected with real estate agents and others that provide referrals, so that really has been the focus from day one, and our team has done a great job executing that plan.

Jason Oetting

Okay. Very good. You guys provided some long-term targets in the slide deck here, I was just curious, what timeframe are you thinking? Is this a two- to three-year outlook, or what exactly is long term?

Vince Calabrese

It s really designed to be over the cycle, and some of the items are more aspirational as far as where we want to get to. It s on a long term, three to five years, but some of it is longer than that, because to use the charge-offs, for instance, that s over the cycle. When we look back through the last downturn, we peaked at 50 basis points, 44 at the bank, with our consumer finance getting us to about 50, so that s meant to be really over the cycle. Some of the other goals would be over, I don t know, three to five years would be probably a reasonable timeframe to use.

Vince Delie

Yeah, we were reacting to some of the questions that we had seen over several quarters. People had asked us about the efficiency ratio, what our plans are branch rationalization so we thought we would throw some metrics out there. I wouldn t say that there s a hard-and-fast time horizon

Vince Calabrese

No, there s not, right.

Vince Delie

but we wanted to give you some insight directionally as to what we re strategically driving towards.

Vince Calabrese

Yeah, and fee income is a good example of that. The acquisitions we ve done, the banks we ve bought really haven t had much in the way of the fee income, so we build that, and then the acquisitions bring us back, and then we rebuild it, and I think the goal would be on a run rate basis to get that number to be closer to 30 and above from the 25 that it s at now.

Jason Oetting

Right. That s actually specifically what I was looking at. You guys have been building up mortgage banking, insurance, capital markets, are you seeing the desire for one of those to really be leading the pack, or is it more broad-based to get over 30 percent?

Vince Calabrese

Well, I would say it s a few things. We ve talked a lot about investments we ve made in several businesses. The capital markets category, which includes derivatives, syndications, and international banking, Vince mentioned earlier, it s up 48 percent, and that s a $5.2 million increase from full-year 15 to full-year 16. That s an area where the international and the syndications are relatively new, so those are now each contributing a million dollars and with nice growth rates. So I think there s a lot of growth still there, particularly once we bring in Yadkin, the mortgage banking piece, we think there will continue to be, as we roll that out to the bigger footprint, there s opportunity there, similarly with insurance. So I think with the investments we ve made and the people we ve brought in to help lead these operations and the sales folks that we ve brought in to add to the team all contribute to just keep moving that number higher.

Vince Delie

Yeah, and after Yadkin, when you look at it, we re going to be in Cleveland, Pittsburgh, Baltimore, Charlotte, D.C., Bethesda we have an operation in Bethesda that calls into D.C. Winston-Salem, Raleigh. We re going to have significant opportunities in these markets, and in five of these markets, we re going to have a top ten deposit share, so what that translates into over time is an incredible opportunity for us to lead syndications, to structure derivative transactions, to pursue international banking opportunities, and that s what we ve been positioning ourselves for, so now with a $30 billion balance sheet and being well positioned in these markets, we re going to start to really drive fee income in those categories, in those high- value fee income categories.

Jason Oetting

Okay, great. Thank you.

Operator

Thank you. And the next question comes from Casey Haire with Jeffries.

Casey Haire

Thanks. Good morning, guys.

Male Speaker

Good morning.

Casey Haire

I know it s tough to predict the close date of Yadkin, but I was just curious, what is the forward guide what is it baking in for a close date? Is it mid-quarter, or is it quarter end?

Vince Calabrese

It s first quarter, so we re working towards you know where we are in the quarter we re working towards getting final approvals and closing it in the first quarter. I can t really give you more specifics than that.

Vince Delie

Yeah, it s consistent with what we had modeled initially.

Vince Calabrese

Yeah.

Casey Haire

Okay. All right. The reason I m asking is because the fee guide, you know, up $60 [million], $70 [million], if I heard that correctly, that seems a little you re going to need to get some decent lifts, organically. You re going to have to average around $70 million, assuming we have a flat-fee quarter in the first quarter here. It just seems like a healthy uptick in fees. Understanding that Yadkin is coming onboard and is going to contribute roughly $15 million or so a quarter, I m just wondering what is the core driver underlying that fee guide organically?

Vince Delie

It s a whole combination of things, Casey. When you really drill down into it, there s significant opportunities across the board, so, remember, we re going to have three quarters of Yadkin onboard, we re going to have a fairly significant mortgage operation in the Yadkin acquisition that is integrated. We re going to have a number of derivative opportunities that have already started to pop up. They don t even offer derivatives. We have syndications opportunities that are starting to flow into the pipeline down there we re not even together and I think that s where it s going to come from across the board.

Vince Calabrese

Plus you pick up a full year of Metro. Remember, Metro

Vince Delie

Yeah, Metro is

Vince Calabrese

wasn t in here until February this year, so

Male Speaker

Yeah, so that

Male Speaker

that also

Casey Haire

Right. Yeah, I right.

Vince Delie

Just so you understand, when we modeled this and then gave our guidance, we included our assumptions in the Yadkin model in our overall guidance, so you re seeing the full picture.

Casey Haire

Okay. All right. And just following up on the loan growth guide, C&I obviously facing some headwinds in the back half of the year, what is your presumption on the mix of the loan growth guide in 17? Do we get a more favorable mix between consumer and commercial, given we have more shots on goal opportunities in the Carolinas with Yadkin onboard?

Vince Delie

Well, I think if we go back and look at historical growth rates, it s been pretty balanced between the two, and if we drill down into production for the fourth quarter, it was pretty much 50/50. While the C&I book showed there was more pressure on it, because of declines in working capital facilities. That has little to do with originations, but I think it was 45 percent, 55 percent, the exact breakdown, of the new production that came on. So I would expect the mix to stay fairly consistent, probably 50/50, CRE versus C&I moving forward, and I would expect both the consumer and the wholesale bank to contribute equally in the plan.

Gary Guerrieri

As far as the split of the portfolio post-transaction, Casey, we ll be 65/35 commercial to consumer. Today we re 60/40, so that balance sheet is going to change a little bit with bringing that portfolio onboard to a little heavier weight there as well.

Vince Delie

Yeah, that s true.

Casey Haire

Okay, understood, and just the last one for me, in terms of capital adequacy, the TCE ratio is near that 6 ½ floor that you guys have talked about. How are you guys feeling about your capital adequacy today, and any thought to potentially doing something proactively to shore it up?

Vince Calabrese

No, I would say the investment thesis that we ve managed to is still intact. We re going to manage capital efficiently, with Basel III and DFAS and all the other considerations, just as we have in the past. So the same operating levels I ve talked about in the past, we re still comfortable with those and comfortable with where we are post-Metro and Fifth Third and Yadkin. We re within our ranges for all of the ratios, and Yadkin is expected to come even a little higher on a TCE basis, or higher than we are today, they were at September 30, so that actually is accretive to the TCE ratio. So we re very comfortable with where we are today and where we ll be post-Yadkin.

Casey Haire

Okay. Great. Thanks, guys.

Multiple Speakers

Thank you very much.

Operator

Thank you. And the next question comes from Michael Young with SunTrust.

Michael Young

Hey, good morning.

Male Speaker

Good morning.

Male Speaker

Mike, how are you?

Michael Young

I just wanted to start off with the NAI guidance. The 272.90 increase year over year, that s on a core basis, excluding accretion. Is that right?

Vince Calabrese

It s on a core basis. It includes what we would call normal accretion but doesn t include if you have take-outs of specifically marked loans that create additional benefit is what s not in there, and that s the piece that tends to be the lumpy piece.

Michael Young

Okay. So just normal scheduled accretion?

Vince Calabrese

Yeah.

Michael Young

Okay. And then maybe a big-picture question here. With the increase in long-term rates from 160 on the ten-year up to about 240 now, does that change your appetite at all for any loan categories? And I m thinking specifically related to some of the indirect consumer areas.

Vince Delie

Well, I wouldn t say that it changes our appetite. Obviously, we re monitoring margin in these areas, particularly indirect, so we monitor credit quality and margin in that book of business, and as long as we can get adequate returns and the credit quality remains intact, we ll continue to move in the direction we re moving in. If we start to see changes in the returns on that portfolio, we ll change direction, but it s a small portfolio relative to the total, and our strategy has always been to grow in a variety of areas so we re not dependent on one particular asset class to drive growth for the company or one particular geography, as you can see from our acquisition strategy. So we re more focused on balance.

Gary Guerrieri

The average life in that portfolio as well, Michael, is relatively short at about 27, 28 months, so it turns very quickly.

Michael Young

Okay. Great. And on the expense side, I think you guys have spent a good bit of money in the past on upping your technology as you ve grown at a rapid pace. Are we conceptually over the hump and we should expect maybe a more limited investment there, and we re shifting to more revenue-production investment from here?

Vince Delie

Yeah, we have always focused on revenue-production investment, so we ve done it in tandem. Our whole clicks-to-bricks strategy is retooling the delivery channel, both the physical delivery channel, how we onboard customers. Our focus in our strategic plan is to get to the point where customers who are agnostic to how they do business with us can go either channel and feel very comfortable, and it s very consistent. So creating digital content for the products and services and then over time developing our delivery of those products and services on the Web is part of our overall strategy. And we ve done a lot of work there as a company, and we re doing it in chunks so that we can get to the point where we have a virtual branch online, and the client will be able to do a lot of things, view videos on products, make choices, apply for products and services in an aggregate fashion very easily.

So we ve been focused on all of that, and that s been reflected in our capex budgets over the last few years, so I wouldn t say that it ends. I think the digital offering, the mobile offering we have is tremendous. When you look at our mobile offering, for us to be able to offer CardGuard, for example, our clients can turn on and off their debit card, set geographic constraints within the mobile app, or do a PopMoney transaction within the mobile app, the app has Touch ID. All the features that exist there are comparable to what other much larger institutions offer and well beyond what many of the regional and small competitors offer. So we ve made those investments, we re now focusing on monetizing that investment and getting the word out and focusing on the digital investment we ve made in mobile and online. We actually have an online banking upgrade coming in February which adds some additional features which are really cool. I ve had a chance to see it, so I don t think that ends. I think we have to invest in that channel. Obviously, we have to continue to rationalize the delivery, the physical delivery channel, but our goal is to make it so that they re connected, so the advertising s consistent, we have the digital kiosks in the branches, you can view the same video content online, and we re making it a more consistent experience. Anyway, that s the overall strategy.

Michael Young

Okay. Thank you.

Multiple Speakers

Thanks.

Operator

Thank you. And the next question comes from Collyn Gilbert with KBW.

January 19, 2017 at 10:30 a.m. Eastern

14

Collyn Gilbert

Thanks. Good morning, guys.

Male Speaker

Good morning, Collyn.

Collyn Gilbert

Just quickly on your comments, Vince, on growth and loan growth. How do you sort of see this either near term or longer term, the growth rates trending differently in the Yadkin markets versus your legacy markets?

Vince Delie

Yeah, we didn t model Yadkin differently, to be truthful, Collyn. We applied our own historical growth rates to those markets. That s what exists in the model. My expectation is over time we would see an acceleration in growth in those markets. So our product set, the people that we ve been able to secure, our ability to execute our business model in those higher growth markets should lead to more opportunities for us. And the sheer number of prospects that we ve disclosed to you in our due diligence, that s one of the reasons we were interested in those markets. While it is competitive, it s competitive everywhere. We think that we will do better in markets that have a better growth trajectory that also have the number of opportunities that exist in our lower growth, slower growth markets.

So I would expect us to outperform what we did over time. I think it will accelerate, and we re already starting to see there have been a number of inquiries with our team down in North Carolina, which have been filtered back to us, where clients are looking for us to take a larger position or take a lead role in credit relationships that they re in. So that s exciting, and I would expect that to help us over time.

Collyn Gilbert

Okay. That s very helpful. And then just one final housekeeping item. Just I want to make sure to confirm when you all are anticipating the timing of the merger charge and how that rolls in and then also just the rolling in of the cost saves, just to make sure we ve got that right.

Vince Calabrese

Yeah, the timing of the one-times usually happens over a couple of quarters, so I would expect to see some this quarter and some next quarter, and then the cost savings, by third quarter, we should be at a clean run rate from a cost saving perspective, similar to

Collyn Gilbert

Third quarter of 18?

Vince Calabrese

Oh, third quarter of 17 from a

Collyn Gilbert

17, you ll have cost savings.

Vince Calabrese

Right.

Collyn Gilbert

Got it. Okay.

Vince Calabrese

A similar path with Metro.

Collyn Gilbert

Okay. Okay, that s very helpful. Thank you.

Multiple Speakers

Thanks, Collyn.

Operator

Thank you. And, once again, please press star, then 1, if you would like to ask a question.

And the next question comes from Brian Martin with FIG Partners.

Brian Martin

Hey, guys.

Multiple Speakers

Hi, Brian.

Brian Martin

Most of my stuff was just asked here, but maybe just one clarification. You talked about that accretion income that s factored into your guidance. The $1.5 million or $1.9 million that was in there this quarter, is that what you guys are treating as core? That was not accelerated in this quarter? I m asking more for the future, but I just want to make sure I understand the current quarter, the accretion that s in there.

Vince Calabrese

No, the $1.5 million to $1.9 million is what we call the accretable yield adjustments or benefits that come out of resolving loans that we ve moved off at better than mark, so that s the non-core piece. Yeah, that s the extra piece, right.

Brian Martin

Okay. All right. Gotcha. And you did say and then just two clarifications. Maybe I missed it. In any of the guidance, did you talk about the effective tax rate and what assumptions you guys are making regarding that?

Vince Calabrese

Yeah, we said 31 to 32 [percent]

Brian Martin

Okay.

Vince Calabrese

in my prepared remarks.

Brian Martin

Okay, so no drop there, and then just the

Vince Delie

We re hoping for 15 [percent], though.

Vince Calabrese

Yeah, 15 [percent] would be nice.

Brian Martin

Okay, that s what I was getting at. And then just the maybe I just missed it on the average earning asset guidance, can you just restate what that was or just what your commentary was on that?

Vince Calabrese

We had said earning assets were going to increase about $8 billion year over year.

Brian Martin

Average earning assets were going to increase $8 [billion] total?

Male Speaker

Yeah.

Brian Martin

Okay. All right. And then just going back to your last comment on the loan growth, the thought is that if your outlook to guide is mid-single digits, given what you re doing down in North Carolina and the better nature of those markets, the guidance could be perceived as being somewhat conservative if those markets are higher growth markets and you execute as you expect to execute. Fair to say?

Vince Delie

Yeah, remember, we have a bigger balance sheet, and Gary is fairly selective, so the multiple markets help us manage risk, so I would stick to the guidance, and hopefully we do better in those markets than we do in our legacy markets.

Male Speaker

Over time.

Brian Martin

Okay.

Vince Delie

Over time over longer periods.

Brian Martin

Gotcha. Okay. And just the last two things for me is just can you give any numbers on the pipeline as far as where it stands today relative to last quarter, last year? And then just the last thing was on M&A. Given you ve got enough on your plate here, how do we think about additional potential M&A, and is that still a thought, or are you in the mode to get Yadkin integrated, completed before you pursue additional opportunities, or just any comment on those two would be helpful.

Vince Delie

Yeah, I ll start with M&A. I ve said on the last call, and I want to reiterate it, that our primary objective is to get Yadkin done and converted and moving forward. I think once that happens, we have a tremendous opportunity. I mentioned a number of large metropolitan areas where we ll have a top ten deposit share. We ve got just an incredible opportunity to drive market share gains in those markets without acquiring. So our focus is going to be on doing just that, so we re going to focus on driving growth. It s not really like it has been in the past. I think we have achieved the scale that we need to compete effectively. We ve made significant investments in our infrastructure and in our product set, so we re ready to go. We re going to make it happen.

I think from a loan growth perspective, I mentioned the quarter was a very strong quarter from a production and funding perspective for acquired clients. There was a lot of noise in the acquired portfolio, but I think given all of that, given the amount that was processed in the fourth quarter, we still have a very healthy pipeline in the first quarter, and it s in the $1.6 [billion] range, so, like I said, given what we moved off the pipeline and closed, that s a pretty healthy place to be, and that does not include anything from Yadkin. They re not part of us yet, so we re very pleased with where we sit.

Brian Martin

Okay. All right. I appreciate all the color. Thanks, guys.

Male Speaker

Thank you.

Male Speaker

Thanks, Brian.

Operator

Thank you. And as there are no more questions at the present time, I would like to return the call to management for any closing comments.

CONCLUSION

Vince Delie

No, I d just like to thank everybody. I d like to thank our employees in particular, because this year has been a tremendous year for us. We ve accomplished quite a bit, both strategically and in relation to converting acquisitions, and, once again, it was a great quarter, great year, and we re looking forward to delivering again in 17. So thank you very much.

Operator

Thank you. The conference is now concluded. Thank you for attending today s presentation. You may now disconnect. Have a nice day.

F.N.B. Corporation

January 19, 2017 at 10:30 a.m. Eastern

18

="left" nowrap valign="bottom" width="1%">

	2008	2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
(Unaudited)		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$64,922	$64,922
Accounts payable - trade	150,353	100,880
Deferred revenues	92,926	110,596
Billings in excess of uncompleted contract costs and estimated profit	37,466	69,867
Accrued compensation and related employee costs	83,334	84,859
Other current liabilities	50,331	64,465
Total current liabilities	479,332	495,589
LONG-TERM DEBT - less current maturities	388,021	420,482
OTHER LIABILITIES	198,014	197,865
DEFERRED INCOME TAXES - net	440,646	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 113,053,090 shares at June 30, 2008 and 111,288,285 shares at December 31, 2007	14,131	13,911
Additional paid-in capital	1,053,736	1,012,214
Retained earnings	1,616,305	1,419,417
Cost of treasury shares: 51,943 shares at June 30, 2008 and 25,139 shares at December 31, 2007	(2,080)	(979)
Accumulated other comprehensive loss	(96,125)	(96,125)
Total stockholders' equity	2,585,967	2,348,438
TOTAL	$4,091,980	$3,875,305

See Notes to Unaudited Consolidated Financial Statements.

-3-

ROWAN COMPANIES, INC. AND SUBSIDIARIES

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
REVENUES:				
Drilling operations	$ 367,380	$ 353,103	$ 707,801	$ 641,357
Manufacturing operations	219,762	153,901	364,830	327,901
Total	587,142	507,004	1,072,631	969,258
COSTS AND EXPENSES:				
Drilling operations (excluding items shown below)	163,238	144,608	319,777	291,424
Manufacturing operations (excluding items shown below)	179,417	130,376	305,581	287,915
Depreciation and amortization	33,461	28,814	66,552	56,458
Selling, general and administrative	30,773	22,931	58,172	45,288
Gain on disposals of property and equipment	(1,507)	(14,621)	(6,882)	(38,722)
Total	405,382	312,108	743,200	642,363
INCOME FROM OPERATIONS	181,760	194,896	329,431	326,895
OTHER INCOME (EXPENSE):				
Interest expense	(4,329)	(6,534)	(9,895)	(13,215)
Less interest capitalized	4,329	1,970	9,168	3,477
Interest income	1,189	5,481	4,364	10,930
Other - net	909	264	1,244	559
Other income - net	2,098	1,181	4,881	1,751
INCOME BEFORE INCOME TAXES	183,858	196,077	334,312	328,646
Provision for income taxes	63,250	67,953	115,079	114,169
NET INCOME	$ 120,608	$ 128,124	$ 219,233	$ 214,477
PER SHARE AMOUNTS:				

Net income - basic	$	1.07	$	1.16	$	1.95	$	1.94
Net income - diluted	$	1.06	$	1.14	$	1.94	$	1.92

See Notes to Unaudited Consolidated Financial Statements.

ROWAN COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	For The Six Months Ended June 30, 2008	2007
	(Unaudited)	
CASH PROVIDED BY (USED IN):		
Operations:		
Net income	$ 219,233	$ 214,477
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	66,552	56,458
Deferred income taxes	28,119	16,616
Provision for pension and postretirement benefits	14,911	15,532
Stock-based compensation expense	6,652	4,211
Contributions to pension plans	(13,259)	(496)
Postretirement benefit claims paid	(1,360)	(1,385)
Gain on disposals of property, plant and equipment	(6,882)	(38,722)
Changes in current assets and liabilities:		
Receivables- trade and other	(13,750)	80,820
Inventories	(65,509)	(62,009)
Other current assets	(23,786)	(26,943)
Accounts payable	20,919	(47,848)
Income taxes payable	(11,391)	16,149
Deferred revenues	(17,670)	4,291
Billings in excess of uncompleted contract costs and estimated profit	(32,401)	(488)
Other current liabilities	8,589	1,205
Net changes in other noncurrent assets and liabilities	(14,368)	19,171
Net cash provided by operations	164,599	251,039
Investing activities:		
Capital expenditures	(319,112)	(221,329)
Proceeds from disposals of property, plant and equipment	19,245	43,483
Change in restricted cash balance	50,000	106,077
Net cash used in investing activities	(249,867)	(71,769)
Financing activities:		
Repayments of borrowings	(32,461)	(32,461)
Payment of cash dividends	(22,345)	(22,115)
Proceeds from stock option and convertible debenture plans and other	34,689	7,027

Net cash used in financing activities	(20,117)	(47,549)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(105,385)	131,721
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	284,458	258,041
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 179,073	$ 389,762

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 June 30, 2008 and the results of its operations for the three and six months ended June 30, 2008 and 2007 and cash flows for six months ended June 30, 2008 and 2007. Rowan’s results of operations and cash flows for the six months ended June 30, 2008 are not necessarily indicative of results to be expected for the full year.

2. Rowan has three principal operating segments: the contract drilling of oil and gas wells, both onshore and offshore (“Drilling”), and two Manufacturing segments operating under LeTourneau Technologies, Inc. (“LTI”). The Drilling Products and Systems segment provides equipment, parts and services for the drilling industry featuring jack-up rigs, rig kits and related components and parts, mud pumps, drawworks, top drives, rotary tables, other rig equipment, variable-speed motors, drives and other electrical components. 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 by operating segment as of June 30, 2008 and 2007 (in millions).

	Total Assets		Goodwill	
	2008	2007	2008	2007
Drilling	$ 3,291.5.5	$ 3,008.9	$ 1.5	$ 1.5
Manufacturing:				
Drilling Products and Systems	563.7	442.6	10.9	10.9
Mining, Forestry and Steel Products	236.8	194.6	-	-

Total	$ 4,092.0	$ 3,646.1	$ 12.4	$ 12.4

The following table presents certain financial information by operating segment for the three and six month periods ended June 30, 2008 and 2007 (in millions).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
Drilling	$ 367.4	$ 353.1	$ 707.8	$ 641.4
Manufacturing:				
Drilling Products and Systems	158.2	112.6	249.3	232.7
Mining, Forestry and Steel Products	61.5	41.3	115.5	95.2
Total	$ 587.1	$ 507.0	$ 1,072.6	$ 969.3
Income from operations:				
Drilling	$ 158.0	$ 181.9	$ 301.6	$ 307.7
Manufacturing:				
Drilling Products and Systems	17.3	7.5	19.0	7.9
Mining, Forestry and Steel Products	6.4	5.5	8.8	11.3
Total	$ 181.7	$ 194.9	$ 329.4	$ 326.9

Excluded from the immediately preceding table are the effects of transactions between segments. During the three month periods ended June 30, 2008 and 2007, Rowan's Drilling Products and Systems segment provided approximately $101 million and $85 million, respectively, of products and services to its Drilling segment. During the six month periods ended June 30, 2008 and 2007, Rowan's Drilling Products and Systems segment provided approximately $180 million and $126 million, respectively, of products and services to its Drilling segment.

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 June 30, 2008, the Company had nine offshore rigs and 30 land rigs located in domestic areas and 12 offshore rigs located in foreign areas.

Foreign source revenues for the three and six months ended June 30, 2008 and 2007 were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Drilling:				
Middle East	$ 117.3	$ 111.9	$ 227.0	$ 176.8
Europe	41.4	68.7	85.8	115.0
West Africa	29.7	-	55.3	-
Trinidad	17.5	17.6	41.5	34.6
Canada	-	-	-	(1.2)

Mining, Forestry & Steel Products - Australia	19.9	3.0	28.0	10.7
Total	$ 225.8	$ 201.2	$ 437.6	$ 335.9

-7-

3. Rowan generally recognizes manufacturing sales and related costs when title passes as products are shipped. Revenues from longer-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. Costs are recorded separately for each project, and by significant activity or component within each project, and include materials issued to the project, labor expenses that are incurred directly for the project and overhead expenses that are allocated across all projects at consistent rates per labor hour. Incurred costs include only those that measure project work performed. Material costs incurred, for example, do not include materials purchased but remaining in inventory. Only when such materials have been used in production on the project are they included in incurred project costs. The determination of total estimated project costs is performed monthly based upon then current information. This process involves an evaluation of progress towards project milestones and an assessment of work left to complete each project activity or component, and is based on physical observations by project managers and engineers. An estimate of project costs is then developed for each significant activity or component based upon the assessment of project status, actual costs incurred to-date and outstanding commitments for project materials and services. 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 June 30, 2008 and December 31, 2007 (in millions):

	June 30, 2008	December 31, 2007
Total contract value of long-term projects (1)	$ 181.1	$ 238.9
Payments received	145.9	156.8
Revenues recognized	108.4	87.6
Costs recognized	69.8	56.6
Payments received in excess of revenues recognized	37.5	69.2
Billings in excess of uncompleted contract costs and estimated profit	$ 37.5	$ 69.9
Uncompleted contract costs and estimated profit in excess of billings (included in other current assets)	$ -	$ 0.7

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

During the three months ended June 30, 2008, Rowan recognized approximately $37.8 million of manufacturing revenues and $24.0 million of costs on the percentage-of-completion basis. During the six months ended June 30, 2008, Rowan recognized approximately $80.5 million of manufacturing revenues and $52.8 million of costs on the percentage-of-completion basis.

4. Rowan's computations of basic and diluted income per share for the three and six months ended June 30, 2008 and 2007 are as follows (in thousands, except per share amounts):

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Average common shares outstanding	112,921	110,802	112,192	110,645
Dilutive securities				
Stock options	874	1,036	903	953
Convertible debentures	47	357	200	288
Average shares for diluted calculations	113,842	112,195	113,295	111,886
Net income	$ 120,608	$ 128,124	$ 219,233	$ 214,477
Net income per share:				
Basic	$ 1.07	$ 1.16	$ 1.95	$ 1.94
Diluted	$ 1.06	$ 1.14	$ 1.94	$ 1.92

Rowan had 2,010,189 and 2,721,974 stock options outstanding at June 30, 2008 and 2007, respectively, and another 35,009 and 1,078,827 shares, respectively, were issuable at those dates through the conversion of debentures.

5. Rowan had no items of other comprehensive income during the three or six months ended June 30, 2008 and 2007. Interest payments (net of amounts capitalized) were $0.2 million and $3.5 million for the three months ended June 30, 2008 and 2007, respectively, and $2.7 million and $10.4 million for the six months ended June 30, 2008 and 2007, respectively. Tax payments (net of refunds) were $27.5 million and $56.4 million for the three months ended June 30, 2008 and 2007, respectively, and $96.7 million and $58.1 million for the six months ended June 30, 2008 and 2007, respectively.

During April 2008, Rowan issued 310,045 shares of restricted stock to 84 key employees, with an average fair value of $41.81 per share. Additionally, during April 2008, the Company awarded 127,000 performance shares to five key employees, under which as many as 254,000 (and as few as zero) shares of Rowan common stock will be issued in April 2011 based upon an equal weighting of the Company's relative total shareholder return ("TSR") ranking versus a selected industry peer group and return on capital employed ("ROCE") over the three-year period then ended. With respect to the TSR metric, the Company estimated a fair value of $45.25 per share, which is being recognized as compensation expense over the three-year performance period. With respect to the ROCE metric, the Company estimated compensation expense using the market value of the common stock on the date of the award of $42.66 per share and the target number of shares to be issued. Compensation expense will be re-measured annually using the expected number of shares to be issued based upon Rowan's relative ROCE performance.

During June 2008, Rowan issued 27,000 restricted stock units to its nonemployee directors, with an average fair value of $42.23 per unit.

Stock-based compensation expense was $4.0 million and $2.4 million for the three months ended June 30, 2008 and 2007, and $6.7 million and $4.2 million for the six months ended June 30, 2008 and 2007, respectively. At June 30, 2008, Rowan had approximately $28 million of unrecognized future stock-based compensation expense.

-9-

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

During the first half of 2008, Rowan contributed $14.6 million toward its pension and other benefit plans. Rowan currently expects to make additional payments totaling approximately $20 million during the remainder of 2008 for pension plan contributions and other benefit claims.

Rowan amended the benefit formula for new Drilling division 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 and six months ended June 30, 2008 and 2007 included the following components (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Service cost	$ 3,371	$ 3,308	$ 6,741	$ 6,378
Interest cost	7,650	7,199	15,300	13,437
Expected return on plan assets	(7,281)	(7,067)	(14,562)	(13,172)
Recognized actuarial loss	1,467	2,017	3,966	5,308
Amortization of prior service cost	(64)	(160)	(127)	(105)
Total	$ 5,143	$ 5,297	$ 11,318	$ 11,846

Other benefits cost for the three and six months ended June 30, 2008 and 2007 included the following components (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Service cost	$ 509	$ 546	$ 1,018	$ 1,036
Interest cost	1,105	1,131	2,209	2,093
Recognized actuarial loss	68	167	138	330
Amortization of transition obligation	164	147	329	328
Amortization of prior service cost	(50)	(52)	(101)	(101)
Total	$ 1,796	$ 1,939	$ 3,593	$ 3,686

7. 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 and, because the collectability of payments was not assured, the expected gain on the sale and imputed interest income of approximately $46 million were 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.

8. 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 the 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 the Company's policy renewal, the additional security provisions were modified. The Company's minimum restricted cash requirement was eliminated and its unrestricted cash requirement was reduced from $31 million to $25 million. Rowan 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 the Company is able to obtain windstorm coverage that satisfies the original terms of its debt agreements.

On June 23, 2008, Rowan entered into a three-year, $155 million revolving credit facility to be used, as necessary, for general corporate purposes, including capital expenditures, debt service requirements and distributions to the Company's stockholders. The underlying credit agreement limits new borrowings and other transactions and requires certain minimum cash flows. The Company was in compliance with each of its debt covenants at June 30, 2008. On July 7, 2008, at the conclusion of the Company's operating lease agreement covering the offshore drilling rig Cecil Provine, Rowan borrowed $80 million under the credit facility to complete the purchase of the rig for $119 million in cash. Such borrowing was repaid in full on August 4, 2008.

9. During 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 is seeking 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 $48 million difference between the owner's claim and the insurance coverage, including interest and costs to date. 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 June 30, 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 U. S. District Court, Eastern District 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. Subsequently, the case was transferred to U. S. District Court, Southern District of Texas, Houston Division. The Company intends to vigorously defend its position in this case but cannot estimate any potential liability at this time.

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 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 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 30% 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 styled Signal International LLC vs. LeTourneau, Inc. in the U.S. District Court, Southern District of Texas, Houston Division, alleging breach of contract and claiming unspecified damages for cost overruns. The Company expects that Signal will claim damages for amounts owed and additional costs incurred, 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 June 30, 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.

10. On January 8, 2008, Steel Partners II, L.P. (“Steel Partners”), 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 or private sale of all or a portion of LTI, the Company will repurchase at least $400 million of its outstanding common stock. The Company does not expect to disclose further developments regarding the LTI monetization process until definitive agreements are approved by the Board and executed by the Company.

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. On July 31, 2008, the Board of Directors of the Company declared a cash dividend of $.10 per share of common stock payable on August 29, 2008 to shareholders of record on August 14, 2008.

ROWAN COMPANIES, INC. AND SUBSIDIARIES

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

RESULTS OF OPERATIONS

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Rowan generated net income of $219.2 million in the first half of 2008 compared to $214.5 million in the same period of 2007. This 2% improvement in profitability was largely due to effects of increased average drilling day rates and higher manufacturing sales, which more than offset the reduction in asset sales between periods.

A comparison of the revenues and income from Drilling, Manufacturing and consolidated operations for the first six months of 2008 and 2007, respectively, is reflected below (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	$ 707.8	$ 641.4	$ 249.3	$ 232.7	$ 115.5	$ 95.2	$ 1,072.6	$ 969.3
Percent of total	66%	66%	23%	24%	11%	10%	100%	100%
Operating costs (excluding items shown below)	$ 319.8	$ 291.4	$ 212.2	$ 213.0	$ 93.4	$ 74.9	$ 625.4	$ 579.3
Percent of revenues	45%	45%	85%	92%	81%	79%	58%	60%
Depreciation expense	$ 58.9	$ 49.4	$ 4.8	$ 4.6	$ 2.9	$ 2.5	$ 66.6	$ 56.5
Percent of revenues	8%	8%	2%	2%	3%	3%	6%	6%
SG&A expenses	$ 34.4	$ 31.7	$ 13.4	$ 7.2	$ 10.3	$ 6.4	$ 58.1	$ 45.3
Percent of revenues	5%	5%	5%	3%	9%	7%	5%	5%
Income from operations	$ 301.6	$ 307.7	$ 19.0	$ 7.9	$ 8.8	$ 11.3	$ 329.4	$ 326.9

Percent of revenues	43%	48%	8%	3%	8%	12%	31%	34%
Net income							$ 219.2	$ 214.5

As shown in the preceding table, our consolidated income from operations improved by $2.5 million or 1%, when comparing the first six months of 2008 and 2007, on a $103.3 million or 11% increase in revenues between periods.

Drilling operations – Our Drilling operations generated a $66.4 million or 10% increase in revenues between periods. Our average offshore day rate was $160,700 during the first six months of 2008, compared to $150,700 in the same period of 2007. Our offshore fleet was 94% utilized during the first six months of 2008, compared to 90% in the same period of 2007, with much of the downtime in both periods associated with the mobilization of rigs. We realized 150 or 4% more revenue-producing days between periods, and our foreign operations contributed 61% of the total during the first half of 2008, up from 55% in the same period of 2007.

Our fleet of 30 land rigs was 93% utilized during the first six months of 2008, compared to 94% in the same period of 2007, and revenue-producing days increased by 431 or 10% due to the addition of three new rigs between periods. Our average land day rates were $22,900 during the first six months of 2008, compared to $23,100 in the same period of 2007.

Drilling expenses during the first six months of 2008 increased by $28.4 million or 10% over the same period 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 $9.5 million or 19% between periods due primarily to the rig additions discussed above. Selling, general and administrative expenses incurred by our Drilling segment increased by $2.7 million or 9% between periods due primarily to incremental incentive-based compensation associated with the segment's improved operating results.

Our Drilling operations included $6.9 million of gains on property and equipment disposals during the first six months of 2008, compared to $38.8 million during the same period of 2007. The current period included a $5.4 million gain realized on the sale of our Fourchon, Louisiana service facility, while the prior-year period included $23.4 million of proceeds relating to the October 2005 sale of our semi-submersible rig and a $14.2 gain on the sale of our Alaska camps .

Thus, our Drilling operations experienced a $6.1 million or 2% decline in operating income between periods.

Drilling Products and Systems – Revenues increased by $16.6 million or 7%, primarily due to the following fluctuations between periods:

- $85.0 million from shipments of land rigs and component packages in 2008, up from $57.2 million in 2007;
- $80.5 million recognized on six offshore rig kit projects in 2008, up from $38.8 million in 2007;
- $22.3 million from shipments of individual top drives, drawworks and rotary tables in 2008, up from $2.8 million in 2007;
- $18.7 million from 27 mud pumps shipped in 2008, down from $26.2 million and 35 pumps in 2007;
- $16.0 million from parts sales in 2008, up from $15.2 million in 2007;
- $9.5 million related to drive and control system packages in 2008, down from $12.5 million in 2007; and
- $4.7 million from custom fabrication work in 2008, down from $21.4 million in 2007.

Our prior-year revenues included $41.7 million recognized on an external rig construction project which was completed in June 2007. There were no such revenues in the current period.

Our product revenues are greatly influenced by the timing of shipments, and our profitability is impacted by the mix of product sales. Original equipment sales, for example, typically yield 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 half 2007 operating results included a $15.8 million loss on the external rig construction project. Thus, as is shown in the preceding table, our average margin on operating costs increased to 15% of revenues in 2008 from 8% in 2007.

Depreciation expense incurred by Drilling Products and Systems increased by $0.1 million or 3% between periods, due to machinery, equipment and building additions to expand capacity at our manufacturing facilities. Selling, general and administrative costs increased by $6.2 million or 87% between periods, due to higher selling-related expenses, primarily incremental staffing.

Our Drilling Products and Systems operating results exclude the effects of approximately $180 million of products and services provided to our Drilling division during the first six months 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.

Mining, Forestry and Steel Products – Revenues increased by $20.3 million or 21% between periods. Shipments of front-end mining loaders and log stackers totaled 12 units during the first six months of 2008, which was unchanged from same period of 2007. Parts sales increased by $6.1 million or 22% between periods to $34.3 million during the first six months of 2008. Revenues from steel plate sales totaled $32.6 million during the first six months of 2008, up by $13.9 million or 74% between periods. The increased proportion of smaller and lower-margin loaders sales contributed to the decline in our average margin on operating costs, to 19% of revenues in 2008 from 21% in 2007.

Depreciation expense incurred by Mining, Forestry and Steel Products increased by $0.4 million or 16% 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 $3.9 million or 61% between periods, due to and increased amounts of professional fees and other shared administrative costs that are allocated between our Manufacturing segments based upon revenue.

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

Rowan generated net income of $120.6 million in the second quarter of 2008 compared to $128.1 million in the same period of 2007. This 6% reduction in profitability was largely due to fewer asset sales, which more than offset the effects of increased average drilling day rates and higher manufacturing sales between periods.

A comparison of the revenues and income from Drilling, Manufacturing and consolidated operations for the second quarters of 2008 and 2007, respectively, is reflected below (dollars in millions):

			Manufacturing					
	Drilling		Drilling Products and Systems		Mining, Forestry and Steel Products		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues	$ 367.4	$ 353.1	$ 158.2	$ 112.6	$ 61.5	$ 41.3	$ 587.1	$ 507.0
Percent of total	63%	70%	27%	22%	10%	8%	100%	100%
Operating costs (excluding items shown below)	$ 163.3	$ 144.6	$ 131.4	$ 98.9	$ 48.0	$ 31.4	$ 342.7	$ 274.9
Percent of revenues	44%	41%	83%	88%	78%	76%	58%	54%
Depreciation expense	$ 29.7	$ 25.3	$ 2.3	$ 2.5	$ 1.5	$ 1.1	$ 33.5	$ 28.9
Percent of revenues	8%	7%	1%	2%	2%	3%	6%	6%

SG&A expenses	$ 17.9	$ 16.0	$ 7.2	$ 3.6	$ 5.6	$ 3.3	$ 30.7	$ 22.9
Percent of revenues	5%	5%	5%	3%	9%	8%	5%	5%
Income from operations	$ 158.0	$ 181.9	$ 17.3	$ 7.5	$ 6.4	$ 5.5	$ 181.7	$ 194.9
Percent of revenues	43%	52%	11%	7%	10%	13%	31%	38%
Net income							$ 120.6	$ 128.1

As shown in the preceding table, our consolidated income from operations declined by $13.2 million or 7%, when comparing the second quarters of 2008 and 2007, on an $80.1 million or 16% increase in revenues between periods.

Drilling operations – Our Drilling operations generated a $14.0 million or 4% increase in revenues between periods. Our average offshore day rate was $161,600 during the second quarter of 2008, compared to $157,100 in the second quarter of 2007. Our offshore fleet was 96% utilized during the second quarter of 2008, compared to 97% in the second quarter of 2007, with much of the downtime in both periods associated with the mobilization of rigs. Our total number of revenue-producing days was virtually unchanged between periods at 1,840, and our foreign operations contributed 60% of the total during the second quarter of 2008, up from 59% in the same period of 2007.

Our fleet of 30 land rigs was 97% utilized during the second quarter of 2008, unchanged from the same period of 2007, though revenue-producing days increased by 227 or 10% due to the addition of three new rigs between periods. Our average land day rates were $22,600 during the second quarter of 2008, compared to $22,400 in the same period of 2007.

Drilling expenses during the second quarter of 2008 increased by $18.6 million or 13% over the same period 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 $4.4 million or 17% between periods due primarily to the rig additions discussed above. Selling, general and administrative expenses incurred by our Drilling segment increased by $1.9 million or 12% between periods due primarily to incremental incentive-based compensation associated with the segment's improved operating results.

Our Drilling operations included $1.5 million of gains on property and equipment disposals during the second quarter of 2008, compared to $14.6 million during the same period of 2007, with the prior-year amount primarily associated with the June 2007 sale of our Alaska drilling camps.

Thus, our Drilling operations experienced a $23.9 million or 13% decrease in operating income between periods.

Drilling Products and Systems – Revenues increased by $45.6 million or 40% between periods, primarily due to the following fluctuations between periods:

· $65.4 million from shipments of land rigs and component packages in 2008, up from $40.7 million in 2007;
· $37.8 million recognized on six offshore rig kit projects in 2008, up from $25.3 million in 2007;
· $18.1 million from shipments of individual top drives and drawworks in 2008, up from $1.0 million in 2007;
· $12.8 million from 18 mud pumps shipped in 2008, up from $10.9 million and 17 pumps in 2007;
· $8.7 million from parts sales in 2008, up from $6.3 million in 2007;
· $4.9 million related to drive and control system packages in 2008, up from $2.6 million in 2007; and
· $3.3 million from custom fabrication work in 2008, up from $1.8 million in 2007.

Our prior-year revenues included $15.8 million recognized on an external rig construction project which was completed in June 2007. There were no such revenues in the current period.

Our product revenues are greatly influenced by the timing of shipments, and 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 second quarter 2007 Drilling Products and Systems operating results included a $4.5 million loss on the external rig construction project. Thus, as is shown in the preceding table, our average margin on operating costs increased to 17% of revenues in 2008 from 12% in 2007.

Depreciation expense incurred by Drilling Products and Systems was relatively unchanged between periods. Selling, general and administrative costs increased by $3.6 million or 100% 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 $101 million of products and services provided to our Drilling division during the second 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.

Mining, Forestry and Steel Products – Revenues increased by $20.2 million or 49% between periods. Shipments of front-end mining loaders and log stackers totaled seven units during the second quarter of 2008, compared to four units in the same period of 2007. Parts sales increased by $2.9 million or 21% between periods to $16.9 million during the second quarter of 2008. Revenues from steel plate sales totaled $17.4 million during the second quarter of 2008, up by $8.6 million or 98% between periods. The increased proportion of smaller and lower-margin loaders sales contributed to the decline in our average margin on operating costs, to 22% of revenues in 2008 from 24% in 2007.

Depreciation expense incurred by Mining, Forestry and Steel Products increased by $0.4 million or 36% 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 $2.3 million or 70% 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 currently scheduled for delivery through 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 recent 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 through we have assumed more of the risk of certain losses. 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 nine jack-up rigs under construction or on order at present for delivery over the next three years. We currently anticipate funding construction of all these rigs through operating cash flows, but will consider available financing alternatives if necessary. 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, if available.

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 $357 million at June 30, 2008, compared to $365 million at June 30, 2007, and included $282 million from Drilling Products and Systems. The backlog featured $138 million associated with land rigs and component packages, $73 million related to five long-term rig kit construction projects in-process and the remaining $146 million related to mining loaders, log stackers, drilling equipment and related parts orders. We remain confident that our collective Manufacturing operations 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. 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 definitive agreements are approved by the Board and executed by the Company. In connection with this announcement, we also agreed that if the monetization is accomplished through an initial public offering or private sale of all or a portion of our Manufacturing operations, we will repurchase at least $400 million of our outstanding common stock.

LIQUIDITY AND CAPITAL RESOURCES

A comparison of key balance sheet amounts and ratios as of June 30, 2008 and December 31, 2007 is as follows (dollars in millions):

	June 30, 2008	December 31, 2007
Cash and cash equivalents	$ 179.1	$ 284.5
Current assets	$ 1,300.2	$ 1,303.0
Current liabilities	$ 479.3	$ 495.6
Current ratio	2.71	2.63
Current maturities of long-term debt	$ 64.9	$ 64.9
Long-term debt	$ 388.0	$ 420.5
Stockholders' equity	$ 2,586.0	$ 2,348.4
Long-term debt/total capitalization	.13	.15

Reflected in the comparison above are the effects of the following sources and uses of cash and cash equivalents during the first six months of 2008, with amounts shown for the comparable period of 2007:

SOURCES (USES) OF CASH AND CASH EQUIVALENTS	2008	2007
Net operating cash flows	$ 164.6	$ 251.0
Net change in restricted cash balance	50.0	106.1
Net proceeds from asset disposals	19.2	43.5
Proceeds from equity compensation and debenture plans and other	34.7	7.0
Capital expenditures	(319.1)	(221.3)
Debt repayments	(32.5)	(32.5)
Cash dividend payments	(22.3)	(22.1)
Total sources (uses)	$ (105.4)	$ 131.7

Operating Cash Flows

Operating cash flows during the first six months of 2008 included non-cash or non-operating adjustments to our net income totaling $94.7 million, less a net investment in working capital of $135.0 million. Non-cash or non-operating adjustments included depreciation expense of $66.6 million, deferred income taxes of $28.1 million and stock-based compensation expense of $6.7 million partially offset by net gains on asset disposals of $6.9 million. Inventories increased by $65.5 million primarily in connection with our growing manufacturing backlog. Receivables increased by $13.8 million due primarily to revenue growth and as-yet unreimbursed hurricane-related salvage costs. Other current assets increased by $23.8 million in connection with insurance premium prepayments. Deferred revenues and Billings in excess of uncompleted contract costs and estimated profit decreased by a collective $50.1 million due primarily to progress made on longer-term manufacturing projects.

Capital Expenditures

Capital expenditures during the first six months of 2008 included $104.3 million for progress towards the construction of the first two of four 240C class jack-up rigs, at our Vicksburg, Mississippi shipyard. The 240C class will be equipped for high pressure/high temperature drilling in water depths of up to 400 feet. The 240-C was designed to be a significant upgrade of the original 116C class, which has been the "workhorse" of the global drilling industry since its introduction in the late 1970s. The 240C will have more deck space, higher variable load, more drilling (hook-load) capacity, more cantilever reach and greater personnel capacity than the 116C. The Rowan-Mississippi is expected to be completed during the fourth quarter of 2008 while the Ralph Coffman should be delivered during the third quarter of 2009. Delivery of the two additional 240C class jack-up rigs is expected in 2010 and 2011.

Capital expenditures during the first six months of 2008 also included $36.5 million towards construction of our fourth Tarzan Class jack-up rig, the J.P. Bussell, which should be completed during the fourth quarter of 2008. See further discussion below under Contingent Liabilities.

We have contracts with Keppel AmFELS, Inc. to have four Super 116E class rigs constructed at their Brownsville, Texas shipyard, with delivery expected in 2010 and 2011. The Super 116E class will employ the latest technology to enable drilling of high-pressure, high-temperature and extended-reach wells in most prominent jack-up markets throughout the world. Each rig will be equipped with the hook-load and horsepower required to efficiently drill beyond 30,000 feet. Capital expenditures during the first six months of 2008 included $64.2 million towards construction of the Super 116E class rigs.

Capital expenditures during the first six months of 2008 also included $25.3 million for progress towards the construction of four new 2000 horsepower land rigs, following the 12 new land rigs that were delivered during 2006 and 2007. One new rig commenced operations in late May 2008, a second rig is expected during the third quarter and two additional rigs should be completed during the fourth quarter. The remainder of our first half 2008 capital expenditures was primarily for major enhancements to existing offshore rigs and manufacturing facilities.

On July 7, 2008, following the conclusion of our operating lease agreement covering the offshore drilling rig Cecil Provine, we completed the purchase of the rig for $119 million in cash.

We currently estimate that all other remaining 2008 capital expenditures will be between $210 million and $225 million, including approximately $25 million towards the completion of the J. P. Bussell and $15-20 million towards the completion of the Rowan-Mississippi. We currently anticipate funding our remaining 2008 capital expenditures through operating cash flows, but will consider available financing alternatives as necessary. Should our cash flows prove to be insufficient, we could be forced to delay or halt our rig construction program.

Long-Term Debt

Our debt agreements contain provisions that require minimum levels of working capital and stockholders' equity and limit the amount of long-term debt and, in the event of noncompliance, restrict investment activities, asset purchases and sales, lease obligations, borrowings and mergers or acquisitions. Our debt agreements also specify the minimum insurance coverage for our financed rigs. 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 our April 2006 policy renewal, we determined that windstorm coverage meeting the requirements of our existing debt agreements was cost-prohibitive. We obtained from MARAD a waiver of the original insurance requirements in return for providing additional security, including restricted and unrestricted cash balances. On March 31, 2008, in connection with our policy renewal, the additional security provisions were modified and our restricted cash requirement was eliminated. In addition, our unrestricted cash requirement was reduced from $31 million to $25 million. We remain subject to restrictions on the use of certain insurance proceeds should we experience further losses. Each of these additional security provisions will be released by MARAD if we are able to obtain windstorm coverage that satisfies the original terms of our debt agreements.

On June 23, 2008, we entered into a three-year $155 million revolving credit facility, which we intend to use, as necessary, for general corporate purposes, including capital expenditures, debt service requirements and distributions to our stockholders. The underlying credit agreement limits new borrowings, requires minimum cash flows and otherwise contains restrictions similar those noted above. We were in compliance with each of our debt covenants at June 30, 2008. On July 7, 2008, we borrowed $80 million under the credit facility to complete the Cecil Provine purchase, and repaid such amount in full on August 4, 2008.

-23-

Pension Obligations

We have contributed more than $160 million to our defined benefit pension plans over the past five years. Minimum contribution amounts are determined based upon actuarial calculations of pension assets and liabilities that involve, among other things, assumptions about long-term asset returns and interest rates. Similar calculations were used to estimate pension costs and obligations as reflected in our consolidated financial statements, which showed an unfunded pension liability of $123.5 million at December 31, 2007. We have amended the benefit formula for new Drilling division plan entrants effective January 1, 2008 in order to reduce the rate at which the plan's liabilities are growing, though we expect to make additional pension contributions over the next several years even if plan assets perform as expected. The Pension Protection Act of 2006 generally requires that plans be fully funded within seven years, and we currently estimate pension contributions of approximately $31 million for 2008. Retirement benefits to be paid from our pension plans are expected to average over $28 million annually over the next ten years.

Cash Dividends

During 2007 and the first six months of 2008, we paid a regular quarterly dividend of $.10 per common share. At June 30, 2008, we had approximately $154 million of retained earnings available for distribution to stockholders under the most restrictive provisions of our debt agreements. On July 31, 2008, we announced a dividend of $.10 per common share payable on August 29, 2008 to stockholders of record on August 14, 2008.

Proceeds from Asset Disposals

During the first six months of 2008, we sold our Fourchon, Louisiana service facility for approximately $18 million in cash and recognized a $5.4 million gain on the sale. We had received some of the proceeds as a down payment in the fourth quarter of 2007. During the first six months of 2007, we received remaining payments totaling $23.4 million from the October 2005 sale of our semi-submersible rig and recognized such amount as additional gain on the sale, and realized another $14.2 million gain on the June 2007 sale of our Alaska drilling camps.

Contingent Liabilities

During 2005, we lost four offshore rigs, including the Rowan-Halifax, and incurred significant damage on a fifth as a result of Hurricanes Katrina and Rita. Since that time, we have been working to locate the lost or damaged rigs, salvage related equipment, remove debris, wreckage and pollutants from the water, mark or clear navigational hazards and clear rights of way. At June 30, 2008, we had incurred $169.3 million of costs related to such efforts, of which $134.5 million had been reimbursed through insurance, leaving $34.8 million included in Receivables. We expect to incur additional costs in the near term to fulfill our obligations to remove wreckage and debris in amounts that will depend on the extent and nature of work ultimately required and the duration thereof. Previously, we reported the filing of a lawsuit styled Rowan Companies, Inc. vs. Certain Underwriters at Lloyd's and Insurance Companies Subscribing to Cover Note ARS 4183 in the 215th Judicial District Court of Harris County, Texas. The lawsuit was withdrawn following the agreement by such underwriters to reimburse us for the reasonable cost of removing wreckage and debris remaining on the drilling locations. We also previously reported that certain of our insurance underwriters at higher limits of liability had notified us that they were reserving their right to deny coverage for any costs incurred in wreckage and debris removal activities that they believed were outside the scope of their policy. This "reservation of rights" letter has now been withdrawn and our coverage for costs at these higher limits of liability has been reaffirmed. At this time, we believe that we have adequate insurance coverage and will be reimbursed for costs incurred and to be incurred.

We leased the jack-up 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 prior to being lost during Hurricane Rita in 2005. We believe the insured value satisfied the requirements of the charter agreement, and by a margin sufficient to cover the $6.3 million carrying value of our 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 is seeking recovery from us for compensation above the insured value. Thus, we assumed no insurance proceeds related to the Rowan-Halifax and recorded a charge during 2005 for the full carrying value of our equipment. On November 3, 2005, we 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 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 us liable to the owner for the approximately $48 million difference between the owner’s claim and the insurance coverage, including interest and costs to date. We continue to believe that our interpretation of the charter agreement is correct, and we are vigorously pursuing an appeal to overturn the summary judgment ruling. We do not believe, therefore, that it is probable that we have incurred a loss, nor one that is estimable, and have made no accrual for such at June 30, 2008.

During 2004, we 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 our 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, we entered into a Plea agreement (“Plea”) with the DOJ, under which we 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, we paid a fine of $7 million and made community service payments totaling $2 million to various organizations. In anticipation of such payments, we recognized a $9 million charge to our fourth quarter 2006 operations. Under the Plea, we 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, we 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, we must ensure that we commit no further criminal violations of federal, state, or local laws or regulations and must also continue to implement our comprehensive Environmental Management System Plan. Subsequent to the conduct at issue, we sold the Rowan-Midland to a third party.

The Environmental Protection Agency has approved a compliance agreement with us which, among other things, contains a certification that the conditions giving rise to the violations to which we entered guilty pleas have been corrected. If we fully comply with the terms of the compliance agreement, we believe that we 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 U. S. District Court, Eastern District 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. Subsequently, the case was transferred to U. S. District Court, Southern District of Texas, Houston Division. We intend to vigorously defend our position in this case but cannot estimate any potential liability at this time.

In June 2007, we 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 our 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. We have fully cooperated with the subpoena and have received no further requests.

The construction of our fourth Tarzan Class jack-up rig, the J. P. Bussell, was originally subcontracted to 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 30% over the original estimate. Accordingly, we 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 us styled Signal International LLC vs. LeTourneau, Inc. in the U.S. District Court, Southern District of Texas, Houston Division, alleging breach of contract and claiming unspecified damages for cost overruns. We expect that Signal will claim damages for amounts owed and additional costs incurred, totaling in excess of $20 million. We intend to vigorously defend and prosecute our rights under the contract. We do not believe that it is probable that we have incurred a loss, nor one that is estimable, and have made no accrual for such at June 30, 2008.

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

Critical Accounting Policies and Management Estimates

Rowan's significant accounting policies are outlined in Note 1 of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2007. These policies, and management judgments, assumptions and estimates made in their application, underlie reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. We believe that our most critical accounting policies and management estimates involve revenue recognition (primarily upfront service fees for equipment moves and modifications and longer-term manufacturing projects), property and depreciation (particularly capitalizable costs, useful lives and salvage values) and pension and other postretirement benefit liabilities and costs (specifically assumptions used in actuarial calculations), as changes in such policies and/or estimates would produce significantly different amounts from those reported herein.

Revenue recognition. Our drilling contracts generally provide for payment on a day rate basis, and revenues are recognized as the work progresses with the passage of time. We frequently receive lump-sum payments at the outset of a drilling assignment as upfront service fees for equipment moves or modifications, and such payments (and related costs) are recognized as drilling revenues (and expenses) over the contract period. At June 30, 2008, we had deferred $75.6 million of revenues and $53.7 million of costs related to such upfront service fees, with such amounts primarily related to mobilization and modification activities in connection with Middle East drilling contracts.

We also recognize revenue for certain "rebillable" costs. Each rebillable item and amount is stipulated in our drilling contract with the customer, and such items and amounts frequently vary between contracts. We have recognized rebillable costs on the gross basis, as both revenues and expenses, as we are the primary obligor in the arrangement, we have discretion in supplier selection, we are involved in determining product or service specifications and we assume full credit risk related to the rebillable costs.

We generally recognize manufacturing sales and related costs when title passes as products are shipped. Revenues from longer-term manufacturing projects such as rigs and rig kits are recognized on the percentage-of-completion basis using project costs incurred relative to total estimated project costs. A rig kit includes selected rig components and parts manufactured over a six-to-nine month period in our Longview, Texas facility. A rig construction project typically occurs over a two-year period at our Vicksburg, Mississippi shipyard and includes a significant labor cost component for fabrication and assembly. Costs are recorded separately for each project, and by significant activity or component within each project, and include materials issued to the project, labor expenses that are incurred directly for the project and overhead expenses that are allocated across all projects at consistent rates per labor hour. Incurred costs include only those that measure project work performed. Material costs incurred, for example, do not include materials purchased but remaining in inventory. Only when such materials have been used in production on the project are they included in incurred project costs. The determination of total estimated project costs is performed monthly based upon then current information. This process involves an evaluation of progress towards project milestones and an assessment of work left to complete each project activity or component, and is based on physical observations by project managers and engineers. An estimate of project costs is then developed for each significant activity or component based upon the assessment of project status, actual costs incurred to-date and outstanding commitments for project materials and services. We do not recognize any estimated profit until such projects are at least 10% complete, though a full provision is made immediately for any anticipated losses.

During the first six months of 2007, we recognized a $15.8 million loss on our external rig construction project, bringing the total loss on the project to approximately $17.9 million. This was the first rig construction project for an external customer that we had performed in over a decade, and we have no further plans for additional external rig construction projects at this time. With respect to our rig kits, due to the smaller size and duration of the projects and lesser labor cost component, we have not experienced any significant fluctuations in the percentage of completion measurements, nor have we incurred any losses on such projects. During the first six months of 2008, we recognized $80.5 million of manufacturing revenues and $52.8 million of costs related to rig kit projects on the percentage-of-completion basis.

Property and depreciation. We provide depreciation under the straight-line method from the date an asset is placed into service based upon estimated service lives ranging up to 40 years and salvage values ranging up to 20%. We continue to operate 14 offshore jack-up rigs that were placed into service at various dates during the 1971-1986 period. Many of those rigs had met or far exceeded their assigned useful lives of 12-15 years when our next rig, the Super Gorilla class Gorilla V, was delivered in 1998. The Super Gorilla class and the subsequent Tarzan Class have been assigned 25-year useful lives and are specifically designed to achieve greater drilling performance while encountering tougher well conditions. Each class of rig employs technological advances in load-bearing capability, power distribution and solids control designed to provide more efficient drilling to greater depths, which should help to ensure its continuing economic life to the Company.

Expenditures for new property or enhancements to existing property are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. Capitalized cost includes labor expended during installation and, on newly constructed assets, a portion of interest cost incurred during the construction period. Long-lived assets are reviewed for impairment whenever circumstances indicate their carrying amounts may not be recoverable, such as following a sustained deficit in operating cash flows caused by a prominent decline in overall rig activity and average day rates.

Pension and other postretirement benefit liabilities and costs. As previously mentioned, our pension and other postretirement benefit liabilities and costs are based upon actuarial computations that reflect our assumptions about future events, including long-term asset returns, interest rates, annual compensation increases, mortality rates and other factors. Key assumptions for December 31, 2007 included discount rates ranging from 6.37% to 6.55%, an expected long-term rate of return on pension plan assets of 8% and annual healthcare cost increases ranging from 10% in 2008 to 5% in 2012 and beyond. The assumed discount rate is based upon the average yield for Moody's Aa-rated corporate bonds and the rate of return assumption reflects a probability distribution of expected long-term returns that is weighted based upon plan asset allocations. A 1-percentage-point decrease in the assumed discount rate would increase our recorded pension and other postretirement benefit liabilities by approximately $81 million, while a 1-percentage-point change in the expected long-term rate of return on plan assets would change annual net benefits cost by approximately $3 million. A 1-percentage-point increase in the assumed healthcare cost trend rate would increase 2008 other benefits costs by $0.6 million.

New Accounting Pronouncements

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.

FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” as defined by the Securities and Exchange Commission (SEC). Such statements are those concerning contemplated transactions and strategic plans, expectations and objectives for future operations. These include, without limitation:

- statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future;
- statements relating to future financial performance, future capital sources and other matters; and
- any other statements preceded by, followed by or that include the words “anticipates”, “believes”, “expects”, “plans” “intends”, “estimates”, “projects”, “could”, “should”, “may”, or similar expressions.

Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Form 10-Q are reasonable, we can give no assurance that such plans, intentions and expectations will be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate in the circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. You are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. Among the factors that could cause actual results to differ materially are the following:

- demand for oil, natural gas and other commodities
- oil and natural gas prices
- the level of exploration and development expenditures by energy companies
- the general economy, including inflation
- weather conditions in our principal operating areas
- environmental and other laws and regulations
- domestic and international tax policies
- political and military conflicts in oil-producing areas and the effects of terrorism

All forward-looking statements contained in this report only speak as of the date of this document. We undertake no obligation to update or revise publicly any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report, or to reflect the occurrence of unanticipated events.

Details of these and other relevant factors have been disclosed in our previous filings with the U.S. Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Rowan believes that its exposure to risk of earnings loss due to changes in market interest rates is not significant. The Company's outstanding debt at June 30, 2008 was comprised as follows: $240.8 million of fixed-rate notes bearing a weighted average annual interest rate of 4.44% and $212.2 million of floating-rate notes bearing a weighted average annual interest rate of 2.89%. In addition, virtually all of the Company's transactions are carried out in U. S. dollars. Thus, Rowan's foreign currency exposure is not material. Fluctuating commodity prices materially affect Rowan's future earnings only to the extent that they influence demand for the Company's products and services. Rowan does not hold or issue derivative financial instruments.

Item 4. Controls and Procedures

The Company's management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures, as of the end of the period covered by this report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer, along with the Company's Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2008.

Our management is responsible for establishing and maintaining internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations, and therefore can only provide reasonable assurance with respect to financial statement preparation and presentation.

Effective January 1, 2008, we migrated certain financial applications to our new enterprise resource planning ("ERP") system. Effective July, 1, 2008, we migrated additional applications to the new ERP system. As a result, several process level control procedures were changed in order to conform to the new ERP system. While we believe that the new ERP system will ultimately strengthen our internal control over financial reporting, there are inherent weaknesses in implementing any new system and we could experience control and implementation issues that impact our financial reporting. In the event that such an issue occurs, we have manual procedures in place which would allow us to continue to record and report results from the new ERP system. We are continuing to implement additional features and aspects of our new ERP system and will continue to monitor, test and evaluate the impact and effect of the new ERP system on our internal controls and procedures as part of our evaluation of our internal control over financial reporting for 2008. Except for the new ERP system implementation, there were no changes made in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

During 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 is seeking 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 $48 million difference between the owner's claim and the insurance coverage, including interest and costs to date. 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 June 30, 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 U. S. District Court, Eastern District 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. Subsequently, the case was transferred to U. S. District Court, Southern District of Texas, Houston Division. The Company intends to vigorously defend its position in this case but cannot estimate any potential liability at this time.

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 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 30% 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 styled Signal International LLC vs. LeTourneau, Inc. in the U.S. District Court, Southern District of Texas, Houston Division, alleging breach of contract and claiming unspecified damages for cost overruns. The Company expects that Signal will claim damages for amounts owed and additional costs incurred, 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 June 30, 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.

Item 1A. Risk Factors

You should carefully consider the risk factors set forth in our Part I, Item IA. of our Annual Report on Form 10-K for the year ended December 31, 2007 before deciding to invest in Rowan Common Stock.

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

During the first six months of 2008, the Company acquired 26,804 shares of its outstanding common stock from employees in connection with the vesting of restricted stock awards. Under the terms of a Share Repurchase Program begun in June 1998, the Company was authorized, at June 30, 2008, to buy back up to approximately 1.5 million shares of its common stock.

At June 30, 2008, Rowan had approximately $154 million of retained earnings available for distribution to stockholders under the most restrictive provisions of our debt agreements.

Item 4. Submission of Matters to a Vote of Security Holders

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, LeTourneau Technologies, Inc. (“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 or private sale of all or a portion of LTI, the Company will repurchase at least $400 million of its outstanding common stock. The Company does not expect to disclose further developments regarding the LTI monetization process until definitive agreements are approved by the Board and executed by the Company.

The Company has reimbursed Steel Partners for $100,000 of its out-of-pocket expenses incurred in connection with the intended solicitation of proxies from the Company’s stockholders at the Annual Meeting and the negotiation of the Agreement.

Item 5. Other Information

The Company purchases equipment and related services from S&N Pump Co. (S&N) from time to time, in the ordinary course of business. S&N employs the sister and brother-in-law of John L. Buvens, the Company’s Executive Vice President – Legal. S&N is owned and operated by the family of Mr. Buvens’ brother-in-law. Mr. Buvens has no role in purchases by the Company from S&N. The Company believes the amounts paid to S&N for equipment and services purchased were reasonable and reflected prices comparable to those charged by S&N to third parties for similar equipment and services. In 2006 and 2007, amounts paid to S&N were approximately $1.5 million (approximately 14% of S&N revenues) and $1.1 million (approximately 5% of S&N revenues), respectively.

-33-

Item 6. Exhibits

The following is a list of Exhibits filed with this Form 10-Q:

31 Rule 13a-14(a)/15d-14(a) Certifications (Section 302 of the Sarbanes-Oxley Act of 2002)

32 Section 1350 Certifications (Section 906 of the Sarbanes-Oxley Act of 2002)

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.

	ROWAN COMPANIES, INC.
	(Registrant)
Date: August 11, 2008	/s/ W. H. WELLS
	W. H. Wells
	Vice President - Finance
	and Chief Financial Officer
Date: August 11, 2008	/s/ GREGORY M. HATFIELD
	Gregory M. Hatfield
	Controller
	(Chief Accounting Officer)