



# **FORM 10-K405**

## **ROWAN COMPANIES INC - RDC**

**Filed: March 29, 1999 (period: December 31, 1998)**

Annual report. The Regulation S-K Item 405 box on the cover page is checked

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

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

Rowan Companies, Inc.

Incorporated in Delaware

Commission File  
Number 1-5491

I. R. S. Employer  
Identification:  
75-0759420

5450 Transco Tower  
2800 Post Oak Boulevard, Houston, Texas 77056-6196

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$.125 Par Value	New York Stock Exchange Pacific Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange Pacific Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value as of March 1, 1999 of the Common Stock held by non-affiliates of the registrant was approximately \$701 million.

The number of shares of Common Stock, \$.125 par value, outstanding at March 1, 1999 was 83,022,407.

DOCUMENTS INCORPORATED BY REFERENCE

Document -----	Part of Form 10-K -----
Annual Report to Stockholders for fiscal year ended December 31, 1998	Parts I, II and IV
Proxy Statement for the 1999 Annual Meeting of Stockholders	Part III

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## PART I

## ITEM 1. BUSINESS

Rowan Companies, Inc. (the "Company") is a major provider of international and domestic contract drilling and aviation services. The Company also operates a mini-steel mill, a manufacturing facility that produces heavy equipment for the mining, timber and transportation industries and a marine construction division that has designed and built over one-third of all mobile offshore jack-up drilling rigs. The Company was organized in 1947 as a Delaware corporation and a successor to a contract drilling business conducted since 1923 under the name Rowan Drilling Company, Inc.

Information regarding each of the Company's industry segments, including revenues, operating profit (loss), assets and foreign sales for 1996, 1997 and 1998, is incorporated herein by reference to Footnote 10 of the Notes to Consolidated Financial Statements on pages 29 and 30 of the Company's 1998 Annual Report to Stockholders ("Annual Report"), incorporated portions of which are filed as Exhibit 13 hereto.

## DRILLING OPERATIONS

The Company provides contract drilling services utilizing a fleet of 21 self-elevating mobile offshore drilling platforms ("jack-up rigs"), one mobile offshore floating platform ("semi-submersible rig") and 14 land drilling rigs. The Company's drilling operations are conducted primarily in the Gulf of Mexico, the North Sea, offshore eastern Canada and in Texas and Louisiana. In 1998, drilling operations generated an operating profit (income from operations before deducting general and administrative expenses) of \$180.1 million.

## Offshore Operations

Since 1970, the Company's drilling operations have featured jack-up rigs performing both exploratory and development drilling and, in certain areas, well workover operations. The Company operates larger, deep-water type jack-up rigs capable of drilling to depths of 20,000 to 30,000 feet in maximum water depths ranging from 225 to 550 feet, depending on the size of the rig and its location.

A jack-up rig is a floating hull with three independently elevating legs, drilling equipment, supplies, crew quarters, loading and unloading facilities, a helicopter landing deck and other related equipment. Drilling equipment includes engines, drawworks or hoist, derrick, pumps to circulate the drilling fluid, drill pipe and drilling bits. The Company's rigs are equipped with propulsion thrusters to assist in towing. At the drilling site, the legs are lowered until they penetrate the ocean floor and the hull is jacked-up on the legs to the desired elevation above the water. The hull then serves as a drilling platform until the well is completed at which time the hull is lowered into the water, the legs are elevated and the rig is towed to the next drilling site.

The Company's cantilever jack-ups can extend that portion of the hull containing the drilling equipment over fixed production platforms so that development or workover operations on the platforms can be carried out with a minimum of interruption to production. In 1989, the Company acquired and developed "skid base" technology enabling its conventional jack-up rigs to work over wells on a production platform that previously required a cantilever jack-up or platform rig.

At December 31, 1998, the Company's offshore drilling fleet included 13 cantilever jack-up rigs, featuring three harsh environment "Gorilla Class rigs" and one enhanced "Super Gorilla Class rig", eight conventional jack-up rigs, including five rigs with skid base capability, and one semi-submersible rig. The Company operates two of the cantilever jack-up rigs under sale/leaseback arrangements expiring during 2000.

The Company's Gorilla Class rigs, Gorillas II, III and IV, are a heavier-duty class of jack-up rig, intended to drill up to 30,000 feet in water depths up to 328 feet in extreme hostile environments (winds up to 100 miles per hour and seas up to 90 feet).

During the fourth quarter of 1998, the Company completed construction of the first of three Super Gorilla Class rigs, Rowan Gorilla V, which is an enhanced version of the Company's Gorilla Class rigs and the world's largest bottom supported mobile offshore drilling unit. Gorilla V is a combination drilling and production unit capable of operating year-round in 400 feet of water south of the 61st parallel in the North Sea, within the worst case combination of 100-year storm criteria for waves, wave periods, winds and currents. The Company financed \$153.1 million of the cost of Gorilla V through bank loans guaranteed by the U.S. Department of Transportation's Maritime Administration under its Title XI Program.

In October 1996, the Company announced plans for the construction of two additional Super Gorilla Class rigs, Rowan Gorilla VI and Rowan Gorilla VII. To date, the Company has assembled a significant portion of Gorilla VI and has ordered most long lead-time components for Gorilla VII. The Company has secured Title XI bank financing for up to \$171.0 million of the cost of Gorilla VI on terms and conditions similar to those obtained for Gorilla V. Gorilla VI should be completed by mid-2000 and Gorilla VII about one year thereafter.

This fleet expansion program began in 1995 and represents the Company's first new construction since the mid-1980s. Since that time, the Company's capital expenditures have been primarily for enhancements to existing drilling rigs and manufacturing facilities and for the purchase of aircraft. Of the Company's 17 remaining jack-up rigs, six cantilever rigs and one conventional rig have been modified to provide a degree of hostile environment operating capability, while five cantilever rigs and three conventional rigs can operate in water depths up to 350 feet.

The Company takes advantage of lulls in drilling activity, as is currently being experienced, to perform needed maintenance and make certain enhancements to its drilling fleet. Within the past six months, the Company has completed the following enhancements: upgrading solids control mud systems on all nine of the Company's Class 116-C jack-up rigs and one of its four Class 52 rigs; adding one to two engines to six of the Class 116-C rigs, each such rig now being equipped with six engines; installing new generation top-drives on four of the Class 116-C rigs and one of the Gorilla Class Rigs; upgrading the electrical systems on one of the Class 84 rigs; and reconditioning the subsea equipment on the Company's semi-submersible rig.

For a further discussion of the Company's availability of funds in 1999 to sustain operations, debt service and planned capital expenditures, including those related to construction of Gorillas VI and VII, see "Liquidity and Capital Resources" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 15, 16 and 17 of the Annual Report, which information is incorporated herein by reference. Also, see ITEM 2. PROPERTIES on page 11 of this Form 10-K for additional information with respect to the capabilities and operating status of the Company's rigs.

The Company's semi-submersible rig is utilized principally for offshore exploratory drilling from a floating position and is capable of drilling to a depth of 25,000 feet in water depths up to 1,200 feet. A semi-submersible drilling rig consists of a drilling platform raised above multiple hulls by columns. The hulls are flooded and submerged beneath the water surface, in which position the rig is anchored during drilling operations. The drilling platform contains the same type of equipment found on a jack-up rig. After completion of the well, the submerged hull is deballasted to reduce vessel draft and facilitate towing to another drilling location.

## Onshore Operations

The Company has drilling equipment, personnel and camps available on a contract basis for exploration and development of onshore areas. It currently owns 14 deep-well land rigs located as follows: two in Oklahoma, three in Texas, five in Louisiana, and four in Alaska, which are winterized. Three trailer-mounted land rigs, along with the Company's Argentina subsidiary, were sold in late-1996.

Three deep-well land rigs have worked fairly consistently since mid-1994 in Texas and Louisiana. Four additional rigs have been reactivated since mid-1996, two of which have worked sporadically in Louisiana. Two other deep-well land rigs have worked intermittently in Louisiana and Texas since returning from Argentina in 1997. The Company's five remaining deep-well land rigs based in Alaska and Oklahoma have been idle since mid-1988 due to inadequate rates, and remain "mothballed" at March 26, 1999. The cost of maintaining these rigs is modest and the remaining investment in the rigs is not significant.

The drilling equipment comprising an onshore rig consists basically of engines, drawworks or hoist, derrick, pumps to circulate the drilling fluid, drill pipe and drilling bits. The type of rig required by a customer depends upon the anticipated well depth, terrain and conditions in the drilling area.

## Contracts

The Company's drilling contracts generally provide for compensation on a day rate basis and are usually obtained either through competitive bidding or individual negotiations. A number of factors affect a drilling contractor's ability, both onshore and offshore, to obtain contracts at a profitable rate within an area. Such factors include the location and availability of equipment, its suitability for the project, the comparative cost of the equipment, the competence of personnel and the reputation of the contractor. Profitability may also be dependent upon receiving adequate compensation for the cost of moving equipment to drilling locations.

When weak market conditions characterized by declining drilling day rates prevail, as in the current environment, the Company generally accepts lower rate contracts in an attempt to maintain its competitive position and to offset the substantial costs of maintaining and reactivating stacked rigs. When drilling markets are strong and increasing rates prevail, the Company generally pursues short rather than long-term contracts for its offshore rigs to maximize its ability to obtain rate increases and pass through any cost increases to customers.

The Company's drilling contracts are either "well-to-well", "multiple well" or for a fixed term generally ranging from four to twelve months. Well-to-well contracts are cancelable by either party upon completion of drilling at any one site, and fixed-term contracts usually provide for termination by either party if drilling operations are suspended for extended periods by events of force majeure. While most fixed-term contracts are for relatively short periods, some fixed-term and well-to-well contracts continue for a longer period than the original term or for a specific series of wells. Many offshore contracts contain renewal or extension provisions exercisable at the option of the customer at prices agreeable to the Company and most require additional payments for mobilization and demobilization costs. The Company's contracts for work in foreign countries generally provide for payment in United States dollars except for minimal amounts required to meet local expenses.

From 1992 through early 1997, the Company pursued work on a turnkey basis where the Company's entire compensation was contingent upon it successfully drilling a well to a specified depth for a fixed price. In the event operational problems occurred that prevented the Company from reaching the specified turnkey depth, the Company was not entitled to any portion of the turnkey price, thereby causing it to absorb substantial out-of-pocket expenses. For this reason, wells drilled on a turnkey basis generally involved greater economic risk to the Company than wells drilled on a day rate basis. Due to the increasing demand for the Company's daywork drilling services and the unfavorable results of its

turnkey drilling operations during the recent past, the Company elected in early 1997 to focus on daywork drilling contracts. The Company is not pursuing additional turnkey work at this time.

The Company believes that the contract status of its onshore and offshore rigs is more informative than backlog calculations, and that backlog information is neither calculable nor meaningful given the cancellation options contained in, and the short duration of, fixed-term contracts and the indeterminable duration of well-to-well and multiple well contracts. See ITEM 2. PROPERTIES beginning on page 11 of this Form 10-K for the contract status of the Company's rigs as of March 26, 1999.

#### Competition

The Company competes with approximately 21 offshore drilling contractors having available to operate more than 500 mobile rigs, approximately 25 domestic drilling contractors having available about 100 deep-well land rigs, and five domestic drilling contractors having available about 19 winterized land rigs on the Alaskan North Slope. Some of the Company's competitors have greater financial and other resources and may be more able to make technological improvements to existing equipment or replace equipment that becomes obsolete.

Technological advances can create competitive advantages and eventually cause older, less capable equipment to be less suitable for certain drilling operations. As a result, during the 1980-1986 period, the Company carried out a drilling rig expansion program, culminating with the development of a heavier jack-up rig class known as the Gorilla rig. Since that time, the Company has employed a drilling rig modification and enhancement program designed to provide a fleet of jack-up rigs reflecting the latest technological advancements. In 1995, the Company began a drilling rig expansion program featuring the development of an enhanced version of the Gorilla Class rig.

The offshore markets in which the Company competes are characterized by their economic viability and political stability. At March 26, 1999, the Company had 13 jack-ups and its semi-submersible located in the Gulf of Mexico, six jack-ups in the North Sea and two jack-ups offshore eastern Canada. Relocation of drilling rigs from one geographic location to another is dependent upon changing market dynamics, with moves occurring only when the likelihood of higher returns makes such action economical.

The Company markets its drilling services by directly contacting present and potential customers, including large international energy companies, many smaller energy companies and foreign government-owned or controlled energy companies. Since 1992, with the many restructurings, downsizings and, more recently, mergers by major energy companies, followed by significant reductions in their domestic budgets, the Company has increased its marketing emphasis on independent operators.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 12 through 17 of the Company's Annual Report, the information under which caption is incorporated herein by reference, for a discussion of current industry conditions and their impact on operations.

#### Regulations and Hazards

The Company's drilling operations are subject to many hazards, including blowouts and well fires, which could cause personal injury, suspend drilling operations, seriously damage or destroy the equipment involved and cause substantial damage to producing formations and the surrounding areas. Offshore drilling operations are also subject to marine hazards, either while on site or under tow, such as vessel capsizing, collision or grounding. Raising and lowering the legs of jack-up rigs into the ocean bottom and ballasting semi-submersible units require skillful handling to avoid capsizing or other serious damage. Drilling into high pressure formations is a complex process and problems can frequently occur.

The Company believes that it is adequately insured for physical damage to its rigs, and for marine liabilities, worker's compensation, Maritime Employees Liability, automobile liability and for various other types of exposures customarily encountered in the Company's operations. Certain of the Company's liability insurance policies specifically exclude coverage for fines, penalties and punitive or exemplary damages. Under current conditions, the Company anticipates that its present insurance coverage will be maintained, but no assurance can be given that insurance coverage will continue to be available at rates considered reasonable, that self-insured amounts or deductibles will not increase or that certain types of coverage will be available at any cost.

Foreign operations are often subject to political, economic and other uncertainties not encountered in domestic operations, such as arbitrary taxation policies, onerous customs restrictions, unstable currencies and the risk of asset expropriation due to foreign sovereignty over operating areas. As noted previously, the Company attempts to minimize the risk of currency rate fluctuations by generally contracting for payment in United States dollars.

Many aspects of the Company's operations are subject to government regulation, as in the areas of equipping and operating vessels, drilling practices and methods and taxation. In addition, various countries (including the United States) have regulations relating to environmental protection and pollution control. Recent events have also increased the sensitivity of the oil and gas industry to environmental matters. The Company could become liable for damages resulting from pollution of offshore waters and, under United States regulations, must establish financial responsibility. Generally, the Company is substantially indemnified under its drilling contracts for pollution damages, except in certain cases of pollution emanating above the surface of land or water from spills of pollutants, or in the case of pollutants emanating from the Company's drilling rigs, but no assurance can be given regarding the enforceability of such indemnification provisions.

Under turnkey contracts, the Company assumed responsibility for certain risks that would customarily be assumed by the customer under a day rate contract, such as pollution resulting from a blowout or uncontrolled flow from the well bore, an underground blowout and the expense to redrill a well which has blown out. The Company carried insurance to cover such risks and generally obtained an indemnity from its customers for any liabilities exceeding the coverage amount.

The Company believes that it complies with all material legislation and regulations affecting the drilling of oil and gas wells and the discharge of wastes. To date, the Company has made significant modifications to its Gulf of Mexico rigs to reduce waste and rain water discharge and believes that it could operate those rigs at "zero discharge" without material additional expenditures. Otherwise, regulatory compliance has not materially affected the capital expenditures, earnings or competitive position of the Company to date, although such measures do increase drilling costs and may reduce drilling activity. Further regulations may reasonably be anticipated, but any effects thereof on the Company's drilling operations cannot be accurately predicted.

The Company is subject to the requirements of the Federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. OSHA's hazard communication standard, the Environmental Protection Agency's "community right-to-know" regulations and comparable state statutes require the Company to organize and report certain information about the hazardous materials used in its operations to employees, state and local government authorities and local citizens.

Since the exploration activities of the Company's present and potential customers are directly impacted by state, federal and foreign regulations associated with the production and transportation of oil and gas, the demand for the Company's drilling services is also affected.

## MANUFACTURING OPERATIONS

In 1994, LeTourneau, Inc. ("LeTourneau"), a wholly-owned subsidiary of the Company, acquired the net assets of Marathon LeTourneau Company, headquartered in Longview, Texas. LeTourneau operates a mini-steel mill that recycles scrap and produces steel plate; a manufacturing facility that produces heavy equipment such as front-end loaders with a 50-ton capacity; and a marine group that has designed and built over one-third of all mobile offshore jack-up drilling rigs, including all 21 operated by the Company. In 1998, the manufacturing division generated an operating profit of \$18.9 million. External manufacturing backlog for all product lines was approximately \$15 million at February 28, 1999, all of which should be realized in 1999, compared with \$70 million one year earlier. The Company holds a number of patents on its inventions and the "LeTourneau" name is considered to be significant to its product lines.

The mining equipment product line features front-end loaders with bucket capacities of 17, 22, 28 and 33 cubic yards and off-road trucks with capacities of 190 and 200 tons. LeTourneau's loaders and trucks are generally used in coal, gold, copper and iron ore mines and utilize LeTourneau's patented diesel electric-drive system with solid state controls. This system allows large, mobile equipment to stop, start and reverse without gear shifting and high maintenance braking. LeTourneau loaders can load LeTourneau rear-dump trucks and competitive trucks in the 85-ton to 310-ton range. LeTourneau's mining equipment and parts are distributed through a worldwide network of independent distributors and a Company-owned distribution network serving the western United States.

The timber equipment product line features diesel electric powered log stackers with either two or four wheel drive configurations and load capacities ranging from 35 to 65 tons. LeTourneau is the only manufacturer that sells electrically powered jib cranes rated from 25,000 to 52,000 lbs. at a reach of 100 to 150 feet and with a 360-degree rotation. LeTourneau's timber equipment is marketed primarily in North America through independent distributors and a Company-owned distribution network in the northwestern United States.

LeTourneau's transportation equipment line produces several different types of material handling equipment, such as 50-ton capacity, diesel electric, gantry cranes and large forklift-type vehicles, called side porters, used for lifting, transporting and stacking large shipping containers and trailers at ports and rail yards. Gantry cranes can span up to seven container rows plus a truck aisle and stack 9 1/2-feet tall containers up to five high. Gantry cranes equipped with a spreader can lift containers from the top and have retractable arms for loading and unloading piggyback trailers. LeTourneau's transportation equipment is marketed primarily in North America through independent distributors and a Company-owned distribution network in the northwestern United States.

LeTourneau also sells parts and components to repair and maintain mining, timber and transportation equipment. Equipment parts are marketed through one independent distributor and a Company-owned distribution network in the United States with 17 parts-stocking locations, one independent distributor in Canada with 19 parts-stocking locations, and 31 other international distributors with more than 50 parts-stocking locations.

LeTourneau's Longview, Texas mini-steel mill produces carbon, alloy and specialty steel plate products. LeTourneau concentrates on "niche" markets that require alloy, specialty steel grades, or "exotic" versions of carbon steel products, including mold steels, tool steels, aircraft quality steels, 400 series stainless steel and hydrogen-induced, crack-resistant steels. External steel sales, which are garnered through a direct sales force, consist primarily of steel plate, but also include forging ingots and value-added fabrication of steel products. Steel products are generally sold to steel service centers, fabricators, manufacturers and forge shops. The market for carbon steel plate products and fabricated products is regional and encompasses Texas, Oklahoma, Louisiana, Mississippi and Arkansas. LeTourneau ships alloy and specialty grades of plate products nationally and exports quantities to Mexico and Canada. The forging ingot market is concentrated in the Gulf Coast region of Texas. Carbon and alloy plate products are also used internally in the production of heavy equipment and parts.

LeTourneau's Vicksburg, Mississippi shipyard was reactivated during 1995-1996 following the Company's announcement of the planned construction of Rowan Gorilla V and is dedicated to providing equipment, spare parts and engineering support to the offshore drilling industry. The yard currently employs about 850, most of whom have been hired since 1995. Some rig component manufacturing and marine repair services, as well as marine design engineering, continue to be performed at the Company's Longview, Texas facility.

As noted previously, the marine group delivered Rowan Gorilla V in late-1998 and is currently constructing for the Company two additional Super Gorilla Class jack-up rigs. Also in 1998, the marine group completed two Super 116-C Class drilling rig kits for others.

LeTourneau engages in a limited amount of research and product development, primarily to increase the capacity of and provide innovative improvements to its product lines. The Company evaluates on an ongoing basis the LeTourneau product and service lines with the intention of making enhancements.

#### Raw Materials

The principal raw material utilized in LeTourneau's manufacturing operations is steel plate, most of which is supplied by LeTourneau's mini-steel mill. Other required materials are generally available in sufficient quantities to meet its manufacturing needs through purchases in the open market. LeTourneau does not believe that it is dependent on any single supplier.

#### Competition

LeTourneau's mining equipment competes worldwide with several competitors. LeTourneau's loader product line has only two direct competitors; however, the larger loader models compete with other types of loading equipment, primarily electric and hydraulic mining shovels. The LeTourneau truck competes with five truck manufacturers all of whom offer a broader range of truck sizes than LeTourneau, including trucks in the 240-ton class. Three competitors have models in the 260-ton to 310-ton class.

The market for LeTourneau's timber and transportation equipment is also characterized by vigorous competition. Though LeTourneau's jib crane is unique, it does encounter competition from other equipment manufacturers that offer alternative methods for meeting customer requirements. The number of major competitors by type of equipment is as follows: log stackers - four, jib cranes - three, side porters - six and gantry cranes - more than ten.

LeTourneau's mini-steel mill encounters competition from a total of eight major competitors, with the breakdown by product line being as follows: plate products - four; fabricated products - two and forging ingots - two.

The competition LeTourneau encounters in the parts business is extremely fragmented with only three other companies being considered to be direct competitors. Vendors supplying parts directly to end-users and well-fitters who obtain and copy parts for cheaper and lower quality substitutes provide more intense competition than LeTourneau's direct competitors.

To be competitive in the mining and timber equipment markets, LeTourneau offers warranties at the time of purchase and parts guarantees. The warranties extend for stipulated periods of ownership or hours of usage, whichever occurs first. Parts consumption guarantees and maintenance and repair contracts are made on the same basis. LeTourneau's parts return policy provides that returned parts must be in new, usable condition, be in current production and be readily resalable.

At present, LeTourneau has a limited number of competitors in the marine rig construction and support industry. However, if demand for marine rigs increases, new competitors can be expected to enter the market.

Historically, LeTourneau's customer base has been diverse, such that none of its product lines have been dependent upon any one customer or small group of customers.

#### Regulations and Hazards

LeTourneau's manufacturing operations and facilities are subject to regulation by a variety of local, state and federal agencies which regulate safety and the discharge of materials into the environment, including the Environmental Protection Agency (EPA), the Texas Natural Resources Conservation Commission (TNRCC) and the Mississippi Department of Environmental Quality. LeTourneau's manufacturing facilities are also subject to the requirements of OSHA and comparable state statutes.

Hazardous materials are generated at LeTourneau's Longview Texas plant in association with the steel making process. Industrial wastewater generated at the mini-steel mill facility for cooling purposes is recirculated and quality tests are conducted regularly. The facility has permits for wastewater discharges, solid waste disposal and air emissions. Waste products considered hazardous by the EPA are disposed of by shipment to an EPA or state approved waste disposal facility.

During the Company's 1994 acquisition of the net assets of Marathon LeTourneau Company, the sellers agreed to remediate certain environmental conditions at the Longview, Texas and Vicksburg, Mississippi sites. In September 1996, the Company assumed certain environmental remediation obligations related to these facilities in exchange for \$4.0 million of cash and a \$5.5 million reduction in a promissory note. The remediation efforts include, among other things, post-closure care for a landfill at the Longview facility closed by Marathon LeTourneau Company prior to LeTourneau's acquisition.

LeTourneau jack-up designs are subject to regulatory approval by various agencies, depending upon the geographic areas where the rig will be qualified for drilling. The rules vary by location and are subject to frequent change, and primarily relate to safety and environmental issues in addition to those which classify the jack-up as a vessel.

LeTourneau may be liable for damages resulting from pollution of air, land and inland waters associated with its manufacturing operations. LeTourneau believes that compliance with environmental protection laws and regulations will have no material effect on its capital expenditures, earnings or competitive position during 1999. Further regulations may reasonably be anticipated, but any effects thereof on the Company's manufacturing operations cannot be accurately predicted.

As a manufacturing company, LeTourneau may be responsible for certain risks associated with the use of its products. These risks include product liability claims for personal injury and/or death, property damage, loss of product use, business interruption and necessary legal expenses to defend LeTourneau against such claims. LeTourneau carries insurance that it believes adequately covers such risks. LeTourneau did not assume certain liabilities of Marathon LeTourneau Company, such as product liability and tort claims, associated with all products manufactured, produced, marketed or distributed prior to the date of the acquisition.

LeTourneau anticipates incurring expenses associated with the warranty of its products. In the equipment business, dealers of LeTourneau's products perform the warranty work while in the marine business, LeTourneau generally performs warranty work directly.

#### AVIATION OPERATIONS

The Company's wholly-owned subsidiary, Era Aviation, Inc. ("Era"), provides contract and charter helicopter and fixed-wing aviation services principally in Alaska, the coastal areas of Louisiana and Texas, and the western United States, with its fleet consisting on March 26, 1999 of 92 helicopters and 18 fixed-wing aircraft. In 1998, the aviation division generated an operating profit of \$1.6 million.

The Company's helicopter services in recent years have featured flightseeing, forest fire control and support for oil and gas related operations from Era's primary bases in Alaska, Louisiana and Nevada. Services provided offshore Louisiana and Texas are primarily oil and gas-related while the majority of helicopter services in the western United States are provided to governmental agencies in support of forest fire control, construction, and onshore and offshore oil field support.

Based on the number of helicopters operating, the Company is the largest helicopter operator in Alaska. It provides charter services from bases at Anchorage, Deadhorse (on the North Slope), Juneau, Kenai and Valdez. The Company's charter and contract services are provided throughout Alaska with particular emphasis in the oil, mining and high density tourist regions within the state.

Helicopters are usually operated on a seasonal basis in Alaska because of the prevalent climatic conditions. The peak utilization period in Alaska is May through September, with the winter months comprising the least active period. The seasonal nature of the Alaska business has been ameliorated in prior years by moving helicopters on a limited basis to the Gulf of Mexico area and to the west and northwest regions of the United States and various overseas locations.

Since 1983, the Company has operated a scheduled commuter airline service in Alaska encompassing the transportation of passengers, mail and cargo. Era currently serves Valdez, Kenai, Homer, Kodiak, Iliamna and Cordova, with seasonal service to Whitehorse from its base hub in Anchorage. In addition, it services 17 remote villages from its hub in Bethel, Alaska. The Company operates under a code sharing agreement with Alaska Airlines which is the largest carrier of passengers from the contiguous United States to Alaska. The Company's commuter airline is the largest airline operation of that type within the state of Alaska and is the second largest carrier of passengers into and out of the Anchorage International Airport, including the large jet carriers.

Since 1979, the Company has been providing charter and contract helicopter services in the Gulf of Mexico area, primarily to the offshore oil and gas industry. Operations are conducted from the division office in Lake Charles, Louisiana and from bases in the Louisiana cities of Morgan City, Cameron, New Iberia, Intracoastal City, Venice, Fourchon, Houma, Schriever and Johnson Bayou and the Texas cities of Houston, Corpus Christi, Bay City and Sabine Pass. Based on the number of helicopters operating, the Company is the third largest helicopter operator in the Gulf of Mexico.

Since 1987, the Company has manufactured and marketed, from its Gulf Coast Division facility at Lake Charles, Louisiana, a composite external auxiliary fuel tank for use on several helicopters, including the Bell 205, 212 and 412, the military "Huey" and the American Eurocopter BK-117. The tank system provides enhanced flight range with nominal drag while increasing the passenger capacity. Sales to date have been to both civilian and military customers, including emergency float systems for US Army UH-1 Helicopters. Other aircraft accessories are also manufactured at the facility.

From 1991 until January 1998, the Company owned a 49% interest in KLM Helicopters B.V., a wholly-owned subsidiary of KLM Royal Dutch Airlines, as a means of gaining access to the North Sea aviation market. The joint venture company, KLM ERA Helicopters B.V. ("KLM ERA"), served principally the offshore oil and gas drilling, production and service companies operating in the Dutch and British Sectors of the North Sea with its fleet of as many as 15 helicopters. In January 1998, the Company agreed to terminate its ownership in KLM ERA in return for cash and equipment approximating the carrying value of its investment.

## Contracts

Era's flight services generally are provided through master service agreements, term contracts or day-to-day charter arrangements. Master service agreements require incremental payments based on usage, usually have fixed terms ranging from one month to one year and generally are cancelable upon notice by either party in 30 days or less. Term contracts generally are noncancelable and require payments, depending upon their duration, as follows: up to one month - either incremental payments based on usage or incremental payments plus a base daily rental; and one month to one year - incremental payments based on usage plus a base monthly rental. Day-to-day charters have the same compensation arrangements as up to one-month term contracts. Because master service agreements and day-to-day charters are Era's most prevalent contracts, the Company believes that the contract status of its aircraft as discussed in the following paragraph is more informative than backlog information, which it believes is neither calculable nor meaningful.

Era aircraft available for operation on March 26, 1999 consisted of 92 helicopters (including 46 based in Alaska and 46 in the Gulf of Mexico area) and 18 fixed-wing aircraft (based in Alaska). The fleet contract status at that date included 88 master helicopter service agreements and 34 term contracts. The remaining aircraft were being operated under day charters or were available for operation under day charter or contract arrangements.

## Competition

Approximately six other operators compete directly with the Company in Alaska on a contract or charter basis. Era competes over its scheduled airline routes with up to four other carriers. In the Gulf of Mexico area, the Company competes directly with five other operators and ranks third in the number of helicopters operating with approximately 8% of the market. A number of other helicopter operators compete with Era in the west and northwest regions of the United States and in overseas locations.

## Regulations and Hazards

The operation of a scheduled airline in the United States requires a certificate under the Federal Aviation Act of 1958, as presently administered by the Department of Transportation. The granting of a certificate is conditioned upon a demonstration of financial ability and operational expertise. A similar certificate authorizing the right to operate a charter service is not presently required by any jurisdiction in Era's operating areas.

Operation of helicopters and fixed-wing aircraft, particularly under weather conditions prevailing in Alaska, is considered potentially hazardous, although the Company conducts rigorous training and safety programs to minimize these hazards. The Company believes that it is adequately protected by public liability and property damage insurance, including hull insurance against loss of equipment, but carries no insurance against loss of earnings.

## EMPLOYEES

The total numbers of employees of the Company at March 9, 1999 and at December 31, 1998, 1997 and 1996 were as follows: 4,896, 4,978, 5,004 and 4,587, respectively. Some of the employees included in these numbers are not United States citizens. None of the Company's employees are covered by collective bargaining agreements with labor unions. The Company considers relations with its employees to be satisfactory.

## ITEM 2. PROPERTIES

The Company leases as its corporate headquarters 59,600 square feet of space in an office tower located at 2800 Post Oak Boulevard in Houston, Texas.

## DRILLING RIGS

The following is a summary of the principal drilling equipment owned or operated by the Company and in service at March 26, 1999. See "Liquidity and Capital Resources" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 15 through 17 in the Annual Report, which pages are incorporated herein by reference.

## OFFSHORE

Name/Class (a) -----	(b) Depth: Water/ Drilling -----	Year in Service -----	Location -----	Contracting Party/ (n) Type of Contract (o) Estimated Release Date -----
Cantilever Jack-up Rigs:				
Rowan Gorilla II 200-C (d) (f) (g)	328'/30,000'	1984	Eastern Canada	Mobil Oil Canadian Properties (n) Multiple Well (o) January 2000
Rowan Gorilla III 200-C (d) (f) (g)	328'/30,000'	1984	Eastern Canada	PanCanadian Petroleum Limited (n) Term (o) December 1999
Rowan Gorilla IV 200-C (d) (f) (g)	328'/30,000'	1986	North Sea	Phillips Petroleum Company Limited United Kingdom (n) Term (o) January 2000
Rowan Gorilla V 219-C (e) (f) (h)	400'/30,000'	1998	North Sea	Amoco (U.K.) Exploration Company (n) Term (contract is currently under dispute)
Rowan-California 116-C (c) (f)	225'/30,000'	1983	North Sea	Shell U.K. Limited (n) Term (o) April 1999
Rowan-Halifax 116-C (c) (f) (l)	225'/30,000'	1982	North Sea	Mobil North Sea Limited (n) Well-to-well (o) May 1999
Cecil Provine 116-C (c) (f) (m)	225'/30,000'	1982	North Sea	Not Committed
Arch Rowan 116-C (c) (f) (g)	225'/30,000'	1981	North Sea	BHP Petroleum Limited (n) Term (o) April 1999; Lasmo (ULX) Limited (n) Well-to-well (o) June 1999
Gilbert Rowe 116-C (c) (f) (g) (k)	350'/30,000'	1981	Gulf of Mexico	Anadarko Petroleum Corporation (n) Well-to-well (o) June 1999

## ITEM 2. PROPERTIES

## OFFSHORE (Continued)

Name/Class (a) -----	(b) Depth: Water/ Drilling -----	Year in Service -----	Location -----	Contracting Party/ (n) Type of Contract (o) Estimated Release Date -----
Cantilever Jack-up Rigs:				
Charles Rowan 116-C (c) (f) (g) (k)	350'/30,000'	1981	Gulf of Mexico	BP Amoco Corporation (n) Well-to-well (o) June 1999
Rowan-Paris 116-C (f) (g) (k)	350'/30,000'	1980	Gulf of Mexico	Not Committed
Rowan-Middletown 116-C (f) (g) (k)	350'/30,000'	1980	Gulf of Mexico	(n) Well-to-Well (o) August 1999
Rowan-Fort Worth 116-C (f) (g) (k)	350'/30,000'	1978	Gulf of Mexico	Not Committed
Conventional Jack-up Rigs:				
Rowan-Juneau 116 (c) (f) (i)	300'/30,000'	1977	Gulf of Mexico	Not Committed
Rowan-Odessa 116 (f) (i) (k)	350'/30,000'	1977	Gulf of Mexico	Anadarko Petroleum Corporation (n) Well-to-well (o) June 1999
Rowan-Louisiana 84 (f) (i) (k)	350'/30,000'	1975	Gulf of Mexico	Not Committed
Rowan-Alaska 84 (f) (i) (k)	350'/30,000'	1975	Gulf of Mexico	Not Committed
Rowan-Texas 52 (f)	250'/20,000'	1973	Gulf of Mexico	Hall Houston Oil Company (n) Multiple Well (o) May 1999
Rowan-Anchorage 52 (f)	250'/20,000'	1972	Gulf of Mexico	Equitable Resources Energy Co. (n) Well-to-well (o) April 1999

## ITEM 2. PROPERTIES

## OFFSHORE (Continued)

Name/Class (a)	(b) Depth: Water/ Drilling	Year in Service	Location	Contracting Party/ (n) Type of Contract (o) Estimated Release Date
Conventional Jack-up Rigs:				
Rowan-New Orleans 52 (f) (i) (j)	250'/20,000'	1971	Gulf of Mexico	(n) Multiple Well (o) May 1999
Rowan-Houston 52 (f)	250'/20,000'	1970	Gulf of Mexico	Coastal Oil & Gas Corp. (n) Multiple Well (o) April 1999
Semi-Submersible Rig:				
Rowan-Midland (f)	1,200'/25,000'	1976	Gulf of Mexico	Coastal Oil & Gas Corp. (n) Multiple Well (o) August 1999

- (a) Classes 219-C ("Super Gorilla"), 200-C ("Gorilla"), 116-C, 116, 84 and 52 are nomenclature assigned by LeTourneau, Inc. to jack-ups of its design and construction.
- (b) Indicates rated water depth in current location and rated drilling depth, respectively.
- (c) Unit modified to increase operating capability in hostile environments.
- (d) Gorilla Class unit designed for extreme hostile environment capability.
- (e) Super Gorilla Class Unit (an enhanced version of the Gorilla Class) designed for extreme hostile environment capability.
- (f) Unit equipped with a "top-drive" drilling system.
- (g) Unit equipped with three mud pumps.
- (h) Unit equipped with four mud pumps.
- (i) Unit equipped with a "skid base" unit.
- (j) Unit equipped with drilling/heavy-lift crane option.
- (k) Unit equipped with leg extensions.
- (l) Rig sold in December 1984 and leased back through September 2000.
- (m) Rig sold in December 1985 and leased back through December 2000.
- (n) Refer to "Contracts" on page 3 of this Form 10-K for a definition of types of contracts.
- (o) Indicates estimated completion date of work to be performed.

## ITEM 2. PROPERTIES

## ONSHORE (a)

Description -----	Maximum Drilling Depth -----	Location -----	Contracting Party/ (b) Type of Contract (c) Estimated Release Date -----
Rig 7	20,000'	Louisiana	Not Committed
Rig 9	25,000'	Louisiana	Not Committed
Rig 12	20,000'	Texas	Not Committed
Rig 14	30,000'	Louisiana	Chesapeake Operating, Inc. (b) Well-to-well (c) April 1999
Rig 15	30,000'	Oklahoma	Not Committed
Rig 18	30,000'	Oklahoma	Not Committed
Rig 26	25,000'	Louisiana	Snyder Oil Corporation (b) Well-to-well (c) April 1999
Rig 30	20,000'	Texas	Not Committed
Rig 31	30,000'	Louisiana	Panaco, Inc. (b) Well-to-well (c) April 1999
Rig 41	20,000'	Texas	Not Committed
Four rigs	25,000'	Alaska	Not Committed

(a) Onshore rigs were constructed at various dates between 1960 and 1982, utilizing, in some instances, new as well as used equipment. Most of the rigs have been substantially rebuilt subsequent to their respective dates of construction.

(b) Refer to "Contracts" on page 3 of this Form 10-K for definition of types of contracts.

(c) Indicates estimated completion date of work to be performed.

The Company's drilling division leases and, in some cases, owns various operating and administrative facilities generally consisting of office, maintenance and storage space in the states of Alaska, Texas and Louisiana and in the countries of Canada, England, Scotland and The Netherlands.

#### MANUFACTURING FACILITIES

LeTourneau's principal manufacturing facility and headquarters are located in Longview, Texas on approximately 2,400 acres with about 1.2 million square feet of covered working area. The facility contains:

- o a mini-steel mill with 330,000 square feet of covered working area; the mill has two 25-ton electric arc furnaces capable of producing 120,000 tons per year;
- o a fabrication shop with 300,000 square feet of covered working area; the shop has a 3,000 ton vertical bender for making roll-ups or flattening materials down to 2 1/2 inches thick by 11 feet wide;
- o a machine shop with 140,000 square feet of covered working area;
- o an assembly shop with 124,000 square feet of covered working area.

The marine group's facility is located in Vicksburg, Mississippi on 1,850 acres of land and has approximately 560,000 square feet of covered work area.

The Company-owned distributor of forest products in the northwestern United States is located on a six-acre site in Troutdale, Oregon with approximately 22,000 square feet of building space.

The Company-owned distributor of LeTourneau's mining equipment products in the western United States is located in a 20,000 square foot leased facility in Tucson, Arizona.

#### AIRCRAFT

At March 26, 1999, the Company's aviation division owned a fleet of 92 helicopters and 18 fixed-wing aircraft, consisting of the following:

- o 64 twin-engine turbine aircraft, including:
  - o 3 Sikorsky S-61Ns (26 passengers)
  - o 2 Eurocopter AS-332L Super Pumas (19 passengers)
  - o 16 Bell 212s (14 passengers)
  - o 14 Bell 412s (14 passengers)
  - o 2 Sikorsky S-76A+s (13 passengers)
  - o 27 Eurocopter BO-105CBSs (5 passengers)
- o 28 single-engine turbine aircraft, including:
  - o 5 Bell 206LRs (6 passengers)
  - o 23 Eurocopter AS350B-2 AStars (6 passengers)
- o 18 fixed-wing aircraft, including:
  - o 5 Convair 580s (50 passengers)
  - o 9 DeHavilland Twin Otters (9-19 passengers)
  - o 2 DeHavilland Dash 8s (37 passengers)
  - o 2 Douglas DC-3s (28 passengers).

Era's principal aircraft bases in Alaska, all located on leased property, are a fixed-wing air service center (57,000 square feet of hangar, repair and office facilities) at Anchorage International Airport, with two adjacent hangars housing the Company's helicopter and fixed-wing operations totaling approximately 45,000 square feet, and hangar, office and repair facilities at Fairbanks International Airport (13,000 square feet). The Company also maintains similar, smaller helicopter facilities in Alaska at Deadhorse, Juneau, Valdez and Yakutat.

Era's principal base for its Gulf of Mexico operations is located on leased property at Lake Charles Regional Airport. The facility has 63,000 square feet of space, including helicopter hangars, a repair facility and an operations and administrative building. The Company also operates a helicopter base (20,700 square feet of hangar, repair and office facilities) located on leased property at the Terrebonne Airport in Houma, Louisiana, a helicopter base (5,700 square feet of hangar, repair and office facilities) located on leased property in New Iberia, Louisiana and a helicopter base (10,000 square feet of hangar, repair and office facilities) located on leased property in Fourchon, Louisiana.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is involved from time to time in litigation arising in the normal course of the Company's business and other matters, not all of the potential liabilities from which are covered by the terms of the Company's insurance policies. While the Company is unable to predict the ultimate liabilities which may result from such litigation, the Company believes that no such litigation in which the Company was involved as of March 26, 1999 will have a material adverse effect on its financial position or results of operations.

On January 19, 1999, the Company received notice from Amoco (UK) Exploration Company that its one-year North Sea drilling contract for Gorilla V, which commenced in late-December 1998, was being terminated. Amoco alleged a performance breach relating to certain equipment problems as the basis for the termination. The Company believes that it did not breach the contract and is vigorously pursuing all legal remedies to enforce its rights under the contract.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's common stockholders during the fourth quarter of the fiscal year ended December 31, 1998.

## ADDITIONAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

The names, positions, years of credited service and ages of the officers of the Company and a certain officer of one of the Company's wholly-owned subsidiaries, LeTourneau Inc., as of March 26, 1999 are listed below. Officers of both entities are normally appointed annually by each entity's Board of Directors at the bylaws-prescribed meetings held in the spring and serve at the discretion of the Board of Directors. There are no family relationships among these officers, nor any arrangements or understandings between any officer and any other person pursuant to which the officer was selected.

Name ----	Position -----	Years of Credited Service -----	Age ---
EXECUTIVE OFFICERS:			
C. R. Palmer	Chairman of the Board, President and Chief Executive Officer	38	64
R. G. Croyle	Executive Vice President and Director	25	56
Paul L. Kelly	Senior Vice President, Special Projects	16	59
D. F. McNease	Senior Vice President, Drilling and Director	25	47
E. E. Thiele	Senior Vice President, Finance, Administration and Treasurer	29	59
John L. Buvens	Vice President, Legal	18	43
C. W. Johnson	Vice President, Aviation	21	55
Mark A. Keller	Vice President, Marketing - North American Drilling	7	46
Bill S. Person	Vice President, Industrial Relations	31	50
William C. Provine	Vice President, Investor Relations	12	52
OTHER OFFICERS:			
William H. Wells	Controller	5	36
Mark H. Hay	Secretary and Assistant Treasurer	20	54
P. G. Wheeler	Assistant Treasurer	24	51
Lynda A. Aycock	Assistant Treasurer and Assistant Secretary	27	52
CERTAIN OFFICER:			
Dan C. Eckermann	President and Chief Executive Officer - LeTourneau, Inc.	12	51

Each of the officers listed above continuously served in the position shown above for more than the past five years except as noted in the following paragraphs.

Since April 1996, Mr. Kelly's principal occupation has been in the position set forth. For more than five years prior to that time Mr. Kelly served as Vice President, Special Projects.

Since April 1994, Mr. Thiele's principal occupation has been in the position set forth. From January 1994 to April 1994, Mr. Thiele served in the position of Vice President, Finance, Administration and Treasurer. From February 1989 to January 1994, he served as Vice President, Finance and Administration.

Since April 1994, Mr. Johnson's principal occupation has been in the position set forth. From December 1993 to present, Mr. Johnson has also served in the position of President and Chief Operating Officer of Era Aviation, Inc., a subsidiary of the Company. For more than five years prior to that time, he served as Executive Vice President of Era.

Since April 1994, Mr. Keller's principal occupation has been in the position set forth. From July 1992 to present and April 1993 to present, Mr. Keller has also served in the positions of Vice President of Terminator, Inc. and Rowandrill, Inc., respectively, both subsidiaries of the Company.

Since joining the Company in March 1994, Mr. Wells' occupation has been in the position set forth. For more than five years prior to that time, Mr. Wells served in various positions with the independent accounting firm of Deloitte & Touche LLP, including Audit Manager and, most recently, Senior Audit Manager. Deloitte & Touche LLP is not a parent, subsidiary or affiliate of the Company but does serve as the Company's independent auditors.

Since April 1994, Ms. Aycock's principal occupation has been in the position set forth. From October 1993 to April 1994, Ms. Aycock served in the position of Assistant Treasurer. For more than five years prior to that time, Ms. Aycock served as an Accountant for the Company.

Since September 1996, Mr. Eckermann's principal occupation has been in the position set forth. From February 1994 to September 1996, Mr. Eckermann served in the position of President of LeTourneau Marine Group and Vice President, Operations of LeTourneau, Inc, a subsidiary of the Company. From May 1990 to February 1994, he served as President of Marathon LeTourneau Marine Company, a subsidiary of Marathon LeTourneau Company. Marathon LeTourneau was a company whose net assets were purchased by LeTourneau, Inc. in February 1994. Marathon LeTourneau was not, and is not now, a parent, subsidiary or affiliate of the Company.

In addition to serving in the position shown above, Mr. Wheeler has also served as Corporate Tax Director of the Company for more than five years.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information required hereunder regarding the Common Stock price range and cash dividend information for 1998 and 1997 and the number of holders of Common Stock is set forth on page 33 of the Company's Annual Report under the title "Common Stock Price Range, Cash Dividends and Stock Splits (Unaudited)", and is incorporated herein by reference, except for the final two paragraphs under such title. Also incorporated herein by reference to the Annual Report is the ninth full paragraph appearing on page 16 within "Management's Discussion and Analysis of Financial Condition and Results of Operations", which provides information pertinent to the Company's ability to pay cash dividends subject to certain restrictions. The Company's Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange.

### ITEM 6. SELECTED FINANCIAL DATA

The information required hereunder is set forth on pages 10 and 11 of the Company's Annual Report under the title "Ten-Year Financial Review" and is incorporated herein by reference except for the information for the years 1993, 1992, 1991, 1990 and 1989.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required hereunder is set forth on pages 12 through 17 under the title "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report and is incorporated herein by reference.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company believes that its exposure to risk of earnings loss due to changes in market interest rates is not significant. The Company did not enter into derivative financial instruments in 1996, 1997 or 1998.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Refer to ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K on pages 20 through 24 of this Form 10-K for a listing of financial statements of the registrant and its subsidiaries, all of which financial statements are incorporated by reference under this item.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information provided in the table spanning pages 2 and 3, in footnotes (1) and (3) on page 3 and in the paragraph under the caption, "Section 16(a) Beneficial Ownership Reporting Compliance" on page 14 of the Proxy Statement for the Company's 1999 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference. There are no family relationships among the directors or nominees for directors and the executive officers of the Company, nor any arrangements or understandings between any director or nominee for director and any other person pursuant to which such director or nominee for director was selected. Except as otherwise indicated, each director or nominee for director of the Company has been employed or engaged for the past five years in the principal occupation set forth opposite his name in the information incorporated by reference. See ADDITIONAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT on pages 17 and 18 of this Form 10-K for information relating to executive officers.

## ITEM 11. EXECUTIVE COMPENSATION

The standard arrangement for compensating directors described under the title, "Director Compensation" on page 4 of the Proxy Statement and the information appearing under the titles "Summary Compensation Table", "Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values", "Debentures Offered in Last Fiscal Year" and "Pension Plans" on pages 9 through 11 of the Proxy Statement are incorporated herein by reference. In accordance with the instructions to Item 402 of Regulation S-K, the information contained in the Proxy Statement under the titles "Board Compensation Committee Report on Executive Compensation" and "Stock Performance Graphs" shall not be deemed to be filed as part of this Form 10-K.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding security ownership of management of the Company set forth under the heading "Director and Officer Stock Ownership" appearing on page 6 and the information appearing under the title "Principal Stockholders" appearing on page 14 of the Proxy Statement is incorporated herein by reference.

The business address of all directors is the principal executive offices of the Company as set forth on the facing page of this Form 10-K.



## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain business relationships and transactions between the Company and certain of the directors of the Company under the heading "Compensation Committee Interlocks and Insider Participation; Certain Transactions" appearing on page 13 of the Proxy Statement is incorporated herein by reference.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

## (a) 1. Financial Statements

The following financial statements and independent auditors' report, included in the Annual Report, are incorporated herein by reference:

	Page of 1998 Annual Report
Consolidated Balance Sheet, December 31, 1998 and 1997 .....	18
Consolidated Statement of Income for the Years Ended December 31, 1998, 1997 and 1996 .....	19
Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 1998, 1997 and 1996 .....	20
Consolidated Statement of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996 .....	21
Notes to Consolidated Financial Statements .....	22
Independent Auditors' Report .....	32
Selected Quarterly Financial Data (Unaudited) for the Quarters Ended March 31, June 30, September 30 and December 31, 1998 and 1997 .....	33

## 2. Financial Statement Schedules

Financial Statement Schedules I, II, III, IV, and V are not included in this Form 10-K because such schedules are not required, not significant or because the required information is shown in Notes to the Consolidated Financial Statements of the Company's Annual Report.

## 3. Exhibits:

Unless otherwise indicated below as being incorporated by reference to another filing of the Company with the Securities and Exchange Commission, each of the following exhibits is filed herewith:

- 3a Restated Certificate of Incorporation of the Company, dated February 17, 1984, incorporated by reference to: Exhibit 3a to the Company's Form 10-K for the fiscal year ended December 31, 1983 (File No. 1-5491); Exhibit 4.2 to the Company's Registration Statement on Form S-3 (Registration No. 33-13544); and Exhibits 4a, 4b, 4c and 4d below.
- 3b Bylaws of the Company amended as of July 14, 1998, incorporated by reference to Exhibit 3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1998 (File No. 1-5491).
- 4a Certificate of Designation of the Company's Series III Preferred Stock dated November 30, 1994 incorporated by reference to Exhibit 4d to the Company's Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).

- 4b Certificate of Designation of the Company's Series A Junior Preferred Stock dated March 2, 1992 incorporated by reference to Exhibit 4d to the Company's Form 10-K for the fiscal year ended December 31, 1991 (File No. 1-5491).
- 4c Certificate of Designation of (and Certificate of Correction related thereto) the Company's Series A Preferred Stock dated August 5, 1998 and January 28, 1999, respectively.
- 4d Certificate of Elimination related to the Company's \$2.125 Convertible Exchangeable Preferred Stock, Series I Preferred Stock and Series II Preferred Stock.
- 4e Rights Agreement as amended between the Company and Citibank, N.A. as Rights Agent incorporated by reference to Exhibit 4d to the Company's Form 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
- 4f Specimen Common Stock certificate incorporated by reference to Exhibit 4h to the Company's Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
- 4g Form of Promissory Note dated November 30, 1994 between the purchasers of Series III Floating Rate Subordinated Convertible Debentures due 2004 and the Company incorporated by reference to Exhibit 4j to the Company's Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).
- 4h Form of Promissory Note date April 24, 1998 between the purchasers of Series A Floating Rate Subordinated Convertible Debentures due 2008 and the Company.
- 10a 1980 Nonqualified Stock Option Plan of the Company incorporated by reference to Exhibit 5.10 to the Company's Registration Statement on Form S-7 (Registration No. 2-68622).
- 10b Restated 1988 Nonqualified Stock Option Plan of the Company incorporated by reference to Exhibit 10a of the Company's Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
- 10c 1998 Nonemployee Director Stock Option Plan of the Company incorporated by reference to Exhibit 10b of the Company's Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
- 10d 1986 Convertible Debenture Incentive Plan of the Company as amended incorporated by reference to Exhibit 10h to the Company's Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
- 10e 1998 Convertible Debenture Incentive Plan of the Company incorporated by reference to Exhibit 10c to the Company's Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
- 10f Pension Restoration Plan of the Company incorporated by reference to Exhibit 10h to the Company's Form 10-K for the fiscal year ended December 31, 1992 (File No. 1-5491).
- 10g Pension Restoration Plan of LeTourneau, Inc. incorporated by reference to Exhibit 10j to the Company's Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).
- 10h Participation Agreement dated December 1, 1984 between the Company and Textron Financial Corporation et al. and Bareboat Charter dated December 1, 1984 between the Company and Textron Financial Corporation et al. incorporated by reference to Exhibit 10c to the Company's Form 10-K for the fiscal year ended December 31, 1985 (File No. 1-5491).

- 10i Participation Agreement dated December 1, 1985 between the Company and Eaton Leasing Corporation et. al. and Bareboat Charter dated December 1, 1985 between the Company and Eaton Leasing Corporation et. al. incorporated by reference to Exhibit 10d to the Company's Form 10-K for the fiscal year ended December 31, 1985 (File No.1-5491).
- 10j Amendment No. 4 dated January 1, 1998 to the Consulting Agreement between the Company and C. W. Yeargain.
- 10k Consulting Agreement as amended as of January 1, 1998 between the Company and C. W. Yeargain.
- 10l Consulting Agreement dated January 1, 1990 and Amendment No. 1 thereto dated August 30, 1994, but effective January 1, 1994, between Rowan Energy Investments Inc., wholly-owned subsidiary of the Company, and Hans M. Brinkhorst.
- 10m Commitment to Guarantee Obligations and First Preferred Ship Mortgage both dated December 17, 1996 between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10t to the Company's Form 10-K for fiscal year ended December 31, 1996 (File No. 1-5491).
- 10n Amendment No. 1 dated June 30, 1997 to Commitment to Guarantee Obligations between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10p to the Company's 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
- 10o Amendment No. 2 dated July 1, 1998 to Commitment to Guarantee Obligations between the Company and the Maritime Administration of the U.S. Department of Transportation.
- 10p Credit Agreement and Trust Indenture both dated December 17, 1996 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10u to the Company's Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
- 10q Amendment No. 1 to the Credit Agreement and Supplement No. 1 to Trust Indenture both dated July 1, 1997 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10r to the Company's Form 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
- 10r Supplement No. 2 to Trust Indenture dated July 1, 1998 between the Company and Citibank, N.A.
- 10s Commitment to Guarantee Obligations and First Preferred Ship Mortgage both dated September 29, 1998 between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10a to the Company's Form 10-Q for fiscal quarter ended September 30, 1998 (File No. 1-5491).
- 10t Credit Agreement and Trust Indenture both dated September 30, 1998 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10b to the Company's Form 10-Q for the fiscal quarter ended September 30, 1998 (File No. 1-5491).
- 10u Revolving Credit Agreement dated as of October 30, 1997 among the Company, Citibank, N.A., Christiania Bank og Kreditkasse (New York Branch), Arab Banking Corporation (B.S.C.), Wells Fargo Bank (Texas) National Association, Credit Lyonnais (New York Branch) and Sumitomo Bank Limited incorporated by reference to Exhibit 10s to the Company's Form 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).

- 11 Computation of Basic and Diluted Earnings Per Share for the years ended December 31, 1998, 1997 and 1996 appearing on page 26 in this Form 10-K.
- 13\* Annual Report to Stockholders for fiscal year ended December 31, 1998.
- 21 Subsidiaries of the Registrant as of March 26, 1999.
- 23 Independent Auditors' Consent.
- 24 Powers of Attorney pursuant to which names were affixed to this Form 10-K for the fiscal year ended December 31, 1998.
- 27 Financial Data Schedule for the year ended December 31, 1998.

The Company agrees to furnish to the Commission upon request a copy of all instruments defining the rights of holders of long-term debt of the Company and its subsidiaries.

\* Only portions specifically incorporated herein are deemed to be filed.

#### EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

Compensatory plans in which directors and executive officers of the Company participate are listed as follows:

- o 1980 Nonqualified Stock Option Plan of the Company incorporated by reference to Exhibit 5.10 to the Company's Registration Statement on Form S-7 (Registration No. 2-68622).
- o Restated 1988 Nonqualified Stock Option Plan of the Company incorporated by reference to Exhibit 10a to the Company's Form 10-Q for the fiscal year ended March 31, 1998 (File No. 1-5491).
- o 1998 Nonemployee Director Stock Option Plan of the Company incorporated by reference to Exhibit 10b of the Company's Form 10Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
- o 1986 Convertible Debenture Incentive Plan of the Company as amended included as Exhibit 10h of this Form 10-K incorporated by reference to Exhibit 10h to the Company's Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
- o 1998 Convertible Debenture Incentive Plan of the Company incorporated by reference to Exhibit 10c to the Company's Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
- o Pension Restoration Plan of the Company incorporated by reference to Exhibit 10i to the Company's Form 10-K for the fiscal year ended December 31, 1992 (File 1-5491).
- o Pension Restoration Plan of LeTourneau, Inc. incorporated by reference to Exhibit 10j to the Company's Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).

## (b) Reports on Form 8-K:

No reports on Form 8-K were filed by the Registrant during the fourth quarter of fiscal year 1998.

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into Registrant's Registration Statements on Form S-8 Nos. 2-67866 (filed May 22, 1980), 2-58700, as amended by Post-Effective Amendment No. 4 (filed June 11, 1980), 33-33755, as amended by Amendment No. 1 (filed March 29, 1990), 33-61444 (filed April 23, 1993), 33-51103 (filed November 18, 1993) 33-51105 (filed November 18, 1993), 33-51109 (filed November 18, 1993), 333-25041 (filed April 11, 1997) and 333-25125 (filed April 14, 1997):

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ C. R. PALMER  
-----  
(C. R. Palmer, Chairman of  
the Board, President and  
Chief Executive Officer)

Date: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature -----	Title -----	Date ----
/s/ C. R. PALMER ----- (C. R. Palmer)	Chairman of the Board, President and Chief Executive Officer	March 26, 1999
/s/ E. E. THIELE ----- (E. E. Thiele)	Principal Financial Officer	March 26, 1999
/s/ WILLIAM H. WELLS ----- (William H. Wells)	Principal Accounting Officer	March 26, 1999
* /s/ RALPH E. BAILEY ----- (Ralph E. Bailey)	Director	March 26, 1999
* /s/ HENRY O. BOSWELL ----- (Henry O. Boswell)	Director	March 26, 1999
* /s/ HANS M. BRINKHORST ----- (Hans M. Brinkhorst)	Director	March 26, 1999
* /s/ R. G. CROYLE ----- (R. G. Croyle)	Director	March 26, 1999
----- (H. E. Lentz)	Director	
* /s/ D. F. MCNEASE ----- (D. F. McNease)	Director	March 26, 1999
* /s/ LORD MOYNIHAN ----- (Lord Moynihan)	Director	March 26, 1999
* /s/ WILFRED P. SCHMOE ----- (Wilfred P. Schmoe)	Director	March 26, 1999
* /s/ CHARLES P. SIESS, JR. ----- (Charles P. Siess, Jr.)	Director	March 26, 1999
* /s/ C. W. YEARGAIN ----- (C. W. Yeargain)	Director	March 26, 1999
* By /s/ C. R. PALMER -----		



ROWAN COMPANIES, INC. AND SUBSIDIARIES  
 COMPUTATION OF BASIC AND  
 DILUTED EARNINGS PER SHARE  
 (in thousands except per share amounts)

	For the Year Ended December 31		
	1998	1997	1996
Weighted average shares of common stock outstanding	85,641	86,184	85,335
Stock options (treasury stock method)	804	1,803	1,580
Shares issuable from assumed conversion of floating rate subordinated debentures	844	1,236	1,186
Weighted average shares for diluted earnings per share calculation	87,289	89,223	88,101
Income before extraordinary charges	\$124,460	\$156,425	\$ 61,338
Extraordinary charges from early redemption of debt		9,766	
Net income for basic calculation	124,460	146,659	61,338
Subordinated debenture interest		172	323
Net income for diluted calculation	\$124,460	\$146,831	\$ 61,661
Basic earnings per share:			
Income before extraordinary charges	\$ 1.45	\$ 1.82	\$ .72
Extraordinary charges		.12	
Net income	\$ 1.45	\$ 1.70	\$ .72
Diluted earnings per share:			
Income before extraordinary charges	\$ 1.43	\$ 1.76	\$ .70
Extraordinary charges		.11	
Net income	\$ 1.43	\$ 1.65	\$ .70

Note: Reference is made to Note 1 to Consolidated Financial Statements regarding computation of per share amounts.

## EXHIBIT INDEX

FOOTNOTE REFERENCE	EXHIBIT NUMBER	EXHIBIT DESCRIPTION
(1)	3a	Restated Certificate of Incorporation of the Company, dated February 17, 1984, incorporated by reference to: Exhibit 3a to the Company's Form 10-K for the fiscal year ended December 31, 1983 (File No. 1-5491); Exhibit 4.2 to the Company's Registration Statement on Form S-3 (Registration No. 33-13544); and Exhibits 4a, 4b, 4c and 4d below.
(1)	3b	Bylaws of the Company amended as of July 14, 1998, incorporated by reference to Exhibit 3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1998 (File No. 1-5491).
(1)	4a	Certificate of Designation of the Companies Series III Preferred Stock dated November 30, 1994 incorporated by reference to Exhibit 4d to the Company's Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).
(1)	4b	Certificate of Designation of the Company's Series A Junior Preferred Stock dated March 2, 1992 incorporated by reference to Exhibit 4d to the Company's Form 10-K for the fiscal year ended December 31, 1991 (File No. 1-5491).
(2)	4c	Certificate of Designation of (and Certificate of Correction related thereto) the Company's Series A Preferred Stock dated August 5, 1998 and January 28, 1999, respectively.
(2)	4d	Certificate of Elimination related to the Company's \$2.125 Convertible Exchangeable Preferred Stock, Series I Preferred Stock and Series II Preferred Stock.
(1)	4e	Rights Agreement as amended between the Company and Citibank, N.A. as Rights Agent incorporated by reference to Exhibit 4d to the Company's Form 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
(1)	4f	Specimen Common Stock certificate incorporated by reference to Exhibit 4h to the Company's Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
(1)	4g	Form of Promissory Note dated November 30, 1994 between the purchasers of Series III Floating Rate Subordinated Convertible Debentures due 2004 and the Company incorporated by reference to Exhibit 4j to the Company's Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).
(2)	4h	Form of Promissory Note date April 24, 1998 between the purchasers of Series A Floating Rate Subordinated Convertible Debentures due 2008 and the Company.
(1)	10a	1980 Nonqualified Stock Option Plan of the Company together with form of Stock Option Agreement related thereto incorporated by reference to Exhibit 5.10 to the Company's Registration Statement on Form S-7 (Registration No. 2-68622).

## EXHIBIT INDEX

FOOTNOTE REFERENCE	EXHIBIT NUMBER	EXHIBIT DESCRIPTION
(1)	10b	Restated 1988 Nonqualified Stock Option Plan of the Company incorporated by reference to Exhibit 10a of the Company's Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
(1)	10c	1998 Nonemployee Director Stock Option Plan of the Company incorporated by reference to Exhibit 10b of the Company's Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
(1)	10d	1986 Convertible Debenture Incentive Plan of the Company as amended incorporated by reference to Exhibit 10h to the Company's Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
(1)	10e	1998 Convertible Debenture Incentive Plan of the Company incorporated by reference to Exhibit 10c to the Company's Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).
(1)	10f	Pension Restoration Plan of the Company incorporated by reference to Exhibit 10h to the Company's Form 10-K for the fiscal year ended December 31, 1992 (File No. 1-5491).
(1)	10g	Pension Restoration Plan of LeTourneau, Inc incorporated by reference to Exhibit 10j to the Company's Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).
(1)	10h	Participation Agreement dated December 1, 1984 between the Company and Textron Financial Corporation et al. and Bareboat Charter dated December 1, 1984 between the Company and Textron Financial Corporation et al. incorporated by reference to Exhibit 10c to the Company's Form 10-K for the fiscal year ended December 31, 1985 (File No. 1-5491).
(1)	10i	Participation Agreement dated December 1, 1985 between the Company and Eaton Leasing Corporation et. al. and Bareboat Charter dated December 1, 1985 between the Company and Eaton Leasing Corporation et. al. incorporated by reference to Exhibit 10d to the Company's Form 10-K for the fiscal year ended December 31, 1985 (File No.1-5491).
(2)	10j	Amendment No. 4 dated January 1, 1998 to the Consulting Agreement between the Company and C. W. Yeargain.
(2)	10k	Consulting Agreement as amended as of January 1, 1998 between the Company and C. W. Yeargain.
(2)	10l	Consulting Agreement dated January 1, 1990 and Amendment No. 1 thereto dated August 30, 1994, but effective January 1, 1994, between Rowan Energy Investments Inc., wholly-owned subsidiary of the Company, and Hans M. Brinkhorst.

## EXHIBIT INDEX

FOOTNOTE REFERENCE	EXHIBIT NUMBER	EXHIBIT DESCRIPTION
(1)	10m	Commitment to Guarantee Obligations and First Preferred Ship Mortgage both dated December 17, 1996 between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10t to the Company's Form 10-K for fiscal year ended December 31, 1996 (File No. 1-5491).
(1)	10n	Amendment No. 1 dated June 30, 1997 to Commitment to Guarantee Obligations between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10p to the Company's 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
(2)	10o	Amendment No. 2 dated July 1, 1998 to Commitment to Guarantee Obligations between the Company and the Maritime Administration of the U.S. Department of Transportation.
(1)	10p	Credit Agreement and Trust Indenture both dated December 17, 1996 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10u to the Company's Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
(1)	10q	Amendment No. 1 to the Credit Agreement and Supplement No. 1 to Trust Indenture both dated July 1, 1997 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10r to the Company's 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
(2)	10r	Supplement No. 2 to Trust Indenture dated July 1, 1998 between the Company and Citibank, N.A.
(1)	10s	Commitment to Guarantee Obligations and First Preferred Ship Mortgage both dated September 29, 1998 between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10a to the Company's Form 10-Q for fiscal quarter ended September 30, 1998 (File No. 1-5491).
(1)	10t	Credit Agreement and Trust Indenture both dated September 30, 1998 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10b to the Company's Form 10-Q for the fiscal quarter ended September 30, 1998 (File No. 1-5491).

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ROWAN COMPANIES, INC.  
CERTIFICATE OF DESIGNATIONS  
Providing for an Issue of Series A Preferred Stock  
Pursuant to Section 151 of the General Corporation Law  
of the State of Delaware

ROWAN COMPANIES, INC., a Delaware corporation (the "Corporation"), certifies that, pursuant to the authority contained in Article Fourth of its Certificate of Incorporation and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the 1998 Debenture Plan Committee of the Board of Directors duly approved at its April 23, 1998 meeting (at which a quorum was present), and the Board of Directors duly ratified and approved at its April 24, 1998 meeting (at which a quorum was present), the following resolutions creating and providing for the issuance of a series of shares of Preferred Stock as hereinafter described, and further providing for the voting powers, designations, preferences and relative, participating, optional or other rights thereof, and the qualifications, limitations or restrictions thereof, in addition to those set forth in said Certificate of Incorporation, all in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, and that such resolutions have at all times since remained in effect and are now in effect and unamended:

"RESOLVED, that pursuant to Paragraph A of Article Fourth of the Certificate of Incorporation of the Corporation, as amended (which creates and authorizes 5,000,000 shares of preferred stock, par value of \$1.00 per share, hereinafter called the "Preferred Stock"), the Board of Directors hereby establishes and provides for the issue of a series of 2,300 shares of Preferred Stock, designated as Series A Preferred Stock (the "Series Stock"), which shares shall be issuable only upon conversion of the Series A Floating Rate Subordinated Convertible Debentures (the "Related Debentures") of the Corporation and shall be convertible into shares of common stock, \$.125 par value, of the Corporation (the "Common Stock"), pursuant to the terms and conditions hereinafter set forth.

RESOLVED, that the voting powers, preferences and relative, participating, optional, conversion, and other rights of the shares of the Series Stock, and the qualifications, limitations or restrictions thereof, in addition to those set forth in said Article Fourth, are as follows:

Section 1. Dividends. The holders of shares of Series Stock shall not be entitled to receive cash dividends on such shares.

Section 2. Liquidation Preference. (A) Upon the complete liquidation, dissolution, or winding-up of the Corporation, whether voluntarily or involuntarily, the Series Stock shall be entitled, before any distribution is made to the holders of Common Stock and of any other capital stock of the Corporation which ranks

junior to the Series Stock in respect of distributions of assets on liquidation, dissolution or winding-up of the Corporation, to be paid \$1.00 per share, and shall not be entitled to any further payment.

(B) In case the net assets of the Corporation are insufficient to pay all outstanding shares of Series Stock, and any other class of stock of the Corporation ranking in parity upon a liquidation, dissolution, or winding-up with the Series Stock ("Parity Stock"), the liquidation preferences to which all such shares are entitled, then the entire net assets of the Corporation shall be distributed ratably to all outstanding shares of the Series Stock and Parity Stock, if any, in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution, or winding-up.

(C) The merger or consolidation of the Corporation into or with another corporation or the merger or consolidation of any other corporation into or with the Corporation, or the sale, lease or conveyance of all or substantially all the assets, property or business of the Corporation shall not be deemed to be a liquidation, dissolution, or winding-up of the Corporation within the meaning of this Section 2.

Section 3. Certain Restrictions. Without the consent of the holders of at least two-thirds of the total number of shares of Series Stock outstanding, given in person or by proxy, either in writing or by vote at a meeting called for the purpose, the Corporation shall not create or authorize any additional shares of Series Stock or amend, alter or repeal any of the rights, preferences or powers of the holders of Series Stock so as to affect adversely any such rights, preferences or powers; provided, however, that without the consent of the holders of all outstanding shares of Series Stock, the Corporation shall not amend the Series Stock to adversely affect the Conversion Ratio thereof.

Section 4. Conversion. Each share of the Series Stock may be converted at any time within thirty days of the issuance thereof, at the option of the holder thereof, into shares of Common Stock of the Corporation, on the terms and conditions set forth below in this Section 4.

(A) Subject to the provisions for adjustment hereinafter set forth, the number of shares of Common Stock which shall be deliverable upon conversion of a share of Series Stock shall not exceed the face value of the Related Debenture which was converted into such share of Series Stock divided by the mean of the high and low sales price of the Company's Common Stock on the date of sale of such Related Debenture. For the purpose of this subparagraph (A) of this Section 4, the terms "closing price" and "Trading Date" shall have the meanings attributed to them in subparagraph (B) (6) of this Section 4.

(B) The number of shares of Common Stock which shall be deliverable upon conversion of a share of Series Stock (the "Conversion Ratio") shall be adjusted from time to time as follows:

(1) In case the Corporation at any time or from time to time following the date of issuance of the Related Debentures which may be converted into shares of Series Stock shall pay or make a dividend or other distribution on any class of capital stock of the Corporation in Common Stock, the Conversion Ratio in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be increased by multiplying such Conversion Ratio by a fraction of which the numerator shall be the sum of the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the total number of shares of Common Stock constituting such dividend or other distribution, and the denominator shall be the total number of shares of Common Stock outstanding at the close of business on the date fixed for such determination, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this subparagraph (B)(1), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Corporation will not pay any dividend on shares of Common Stock held in the treasury of the Company.

(2) In case the Corporation shall issue rights or warrants to all holders of its Common Stock entitling them (for periods ending within 180 days) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share (determined as provided in subparagraph (B)(6) of this Section) of the Common Stock on the date fixed for the determination of stockholders entitled to receive such rights or warrants, the Conversion Ratio in effect at the opening of business on the day following the date fixed for such determination shall be increased by multiplying such Conversion Ratio by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase, and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase

at such current market price, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this subparagraph (B)(2), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Corporation will not issue any rights or warrants in respect of shares of Common Stock held in the treasury of the Corporation.

(3) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Ratio in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the Conversion Ratio in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately decreased, such increase or reduction, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(4) In case the Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness or assets (including securities, but excluding any rights or warrants referred to in subparagraph (B)(2) of this Section, any dividend or distribution paid in cash out of the earned surplus of the Company and any dividend or distribution referred to in subparagraph (B)(1) of this Section), the Conversion Ratio shall be adjusted so that the same shall equal that number determined by multiplying the Conversion Ratio in effect immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution by a fraction of which the numerator shall be the current market price per share (determined as provided in subparagraph (B)(6) of this Section) of the Common Stock on the date fixed for such determination and the denominator shall be such current market price per share of the Common Stock less the then fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a resolution of such Board of Directors) of the portion of the assets or evidences of indebtedness so distributed applicable to one share of Common Stock, such adjustment to become effective immediately prior to the opening of business on the day following the date fixed the determination of stockholders entitled to receive such distribution.

(5) The reclassification (including any reclassification upon a consolidation or merger in which the Corporation is the continuing corporation) of Common Stock into securities including other than Common Stock shall be deemed to involve (a) a distribution of such securities other than Common Stock to all holders of Common Stock (and the effective date of such reclassification shall be deemed to be "the date fixed for the determination of stockholders entitled to receive such distribution" and "the date fixed for such determination" within the meaning of subparagraph (B) (4) of this Section), and (b) a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number of shares of Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective," as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of subparagraph (B) (3) of this Section).

(6) For the purpose of any computation under subparagraphs (B) (2) and (B) (4) of this Section, the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the 15 consecutive "Trading Days" selected by the Company commencing not less than 20 nor more than 30 Trading Days before the day in question. The closing price for each day shall be the last reported sales price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation for that purpose. The term "Trading Date" shall mean a day on which the principal national securities exchange on which shares of the Common Stock are listed or admitted to trading is open for the transaction of business or, if not listed or admitted to trading on any national securities exchange, a Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the City of Houston, Texas are not authorized or obligated by law or executive order to close.

(7) The Corporation may make such increases in the Conversion Ratio, in addition to those required by subparagraphs (B) (1), (B) (2), (B) (3) and (B) (4) of this Section, as it considers to be advisable in order

that any event treated for Federal Income tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients.

(8) No adjustment in the Conversion Ratio shall be required unless such adjustment would require an increase or decrease of at least one percent in such Conversion Ratio; provided, however, that any adjustment which by reason of this subparagraph (B)(8) is not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article shall be made to the nearest 1/100 of a share.

(C) The holder of any shares of the Series Stock may exercise his option to convert such shares into shares of Common Stock by surrendering for such purpose to the Corporation, at its principal office or at such other office or agency maintained by the Corporation for that purpose, a certificate or certificates representing the shares of Series Stock to be converted accompanied by a written notice stating that such holder elects to convert all or a specified whole number of such shares in accordance with the provisions of this Section 4. As promptly as practicable, and in any event within five business days after the surrender of such certificates and the receipt of such notice relating thereto, the Corporation shall deliver or cause to be delivered (i) certificates representing the number of validly issued, fully paid and nonassessable shares of Common Stock of the Corporation to which the holder of the Series Stock so converted shall be entitled and (ii) if less than the full number of shares of the Series Stock evidenced by the surrendered certificate or certificates are being converted, a new certificate or certificates, of like tenor, for the number of shares evidenced by such surrendered certificate or certificates less the number of shares converted. Conversions shall be deemed to have been made at the close of business on the date of giving of such notice and of such surrender of the certificate or certificates representing the shares of the Series Stock to be converted so that the rights of the holder shall cease with respect to such surrendered certificates except for the right to receive Common Stock of the Corporation in accordance herewith, and the converting holder shall be treated for all purposes as having become the record holder of such Common Stock of the Corporation at such time.

(D) In connection with the conversion of any shares of the Series Stock, no fractions of shares or Common Stock shall be issued, but the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to the market value of such fractional interest. In such event, the market value of a share of Common Stock of the Corporation shall be the current market price per share (as defined in subparagraph (B)(6) of this Section 4) of such shares on the last Trading Date on which such shares were traded immediately preceding the date upon which such shares of Series Stock are deemed to have been converted.

(E) The Corporation shall at all times reserve and keep available out of its authorized Common Stock the full number of shares of Common Stock of the

Corporation issuable upon (a) the conversion of all outstanding shares of the Series Stock, and (b) the conversion or exercise of any other outstanding securities or rights convertible or exercisable into Common Stock, including outstanding Related Debentures.

Section 5. Adjustments for Certain Corporate Transactions. In case of any consolidation of the Corporation with, or merger of the Corporation into, any other corporation (other than a consolidation or merger in which the Corporation is the continuing corporation and in which no change is made in the outstanding Common Stock), or in case of any sale or transfer of all or substantially all of the assets of the Corporation, the corporation formed by such consolidation or the corporation resulting from such merger or the person which shall have acquired such assets, as the case may be, shall make adequate provision providing that the holder of each share of Series Stock then outstanding shall have the right thereafter to convert such Series Stock into the kind and amount of stock or other securities and property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock into which such Series Stock might have been converted immediately prior to such consolidation, merger, sale or transfer. Adequate provision shall also be made to provide for adjustments which, for events subsequent to such consolidation, merger, sale or transfer, shall be as nearly equivalent as may be practicable to the adjustments provided for in Section 4. The above provisions of this Section 5 shall similarly apply to successive consolidations, mergers, sales or transfers.

Section 6. Reports Of Adjustments. Whenever the Conversion Ratio is adjusted as provided in Sections 4 and 5, the Corporation shall promptly compute such adjustment and promptly mail to each registered holder of the Series Stock and the Related Debentures a certificate, signed by the chief financial officer of the Corporation, setting forth the number of shares of Common Stock into which each share of the Series Stock is convertible as a result of such adjustment, a brief statement of the facts requiring such adjustment and the computation thereof and when such adjustment will become effective.

Section 7. Voting. Except as otherwise provided elsewhere in the Certificate of Incorporation of the Corporation or required by law, the holders of Series Stock shall have no voting power in the election of directors or for any other purposes.

RESOLVED, that, before the Corporation shall issue any shares of the Series Stock, a certificate of designations pursuant to Section 151 of the General Corporation Law of the State of Delaware shall be made, executed, acknowledged, filed and recorded in accordance with the provisions of said Section 151; and the proper officers of the Corporation are hereby authorized and directed to do all acts and things which may be necessary or proper in their opinion to carry into effect the purposes and intent of this and the foregoing resolutions."

IN WITNESS WHEREOF, ROWAN COMPANIES, INC. has caused this Certificate to be duly executed by its Senior Vice President and attested to by its Secretary and has caused its corporate seal to be affixed hereto, this 5th day of August 1998.

ROWAN COMPANIES, INC.

By: \_\_\_\_\_  
Senior Vice President

[Corporate Seal]

ATTEST:

- \_\_\_\_\_  
Secretary

THE STATE OF TEXAS )  
                          )  
COUNTY OF HARRIS    )

Before me, a Notary Public, on this day personally appeared E. E. Thiele, known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of Rowan Companies, Inc., a Delaware corporation, that he has executed the same as the act of such corporation for the purposes and consideration therein expressed, and that the facts stated therein are true.

Given under my hand and seal of office this 5th day of August, 1998.

-----  
Notary Public, in and for  
the State of Texas

My Commission Expires:

- -----

## ROWAN COMPANIES, INC.

CERTIFICATE OF CORRECTION FILED TO CORRECT A  
CERTAIN ERROR IN THE CERTIFICATE OF DESIGNATIONS  
PROVIDING FOR THE ISSUE OF SERIES A PREFERRED STOCK  
FILED IN THE OFFICE OF THE SECRETARY OF STATE  
OF DELAWARE ON AUGUST 6, 1998

Rowan Companies, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

1. The name of the corporation is ROWAN COMPANIES, INC.
2. That a Certificate of Designations providing for the issue of Series A Preferred Stock was filed in the office of the Secretary of State of Delaware on August 6, 1998 and that said Certificate of Designations requires correction as permitted by Section 103 of The General Corporation Law of the State of Delaware.
3. The inaccuracy or defect of said Certificate of Designations to be corrected is as follows:

As a result of a subtotal mistakenly being construed to be the total, the number of shares of the Company's Series A Preferred Stock established and provided for in such Certificate of Designations was inadvertently shown as 2,300 instead of 4,800. To correct this misstatement, the first "Resolved" paragraph (the one and only paragraph or provision containing such number) in the Certificate of Designations is corrected to read as follow:

"RESOLVED, that pursuant to Paragraph A of Article Fourth of the Certificate of Incorporation of the Corporation, as amended (which creates and authorizes 5,000,000 shares of preferred stock, par value of \$1.00 per share, hereinafter called the "Preferred Stock"), the Board of Directors hereby establishes and provides for the issue of a series of 4,800 shares of Preferred Stock, designated as Series A Preferred Stock (the "Series Stock"), which shares shall be issuable only upon conversion of the Series A Floating Rate Subordinated Convertible Debentures (the "Related Debentures") of the Corporation and shall be convertible into shares of common stock, \$.125 par value, of the Corporation (the "Common Stock"), pursuant to the terms and conditions hereinafter set forth."

IN WITNESS WHEREOF, ROWAN COMPANIES, INC. has caused this Certificate to be duly executed by its Senior Vice President and attested to by its Secretary and has caused its corporate seal to be affixed hereto this 28th day of January 1999.

ROWAN COMPANIES, INC.

By: \_\_\_\_\_  
Senior Vice President  
E. E. Thiele

[Corporate Seal]

ATTEST:

- \_\_\_\_\_  
Secretary  
Mark H. Hay

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CERTIFICATE OF ELIMINATION  
OF  
ROWAN COMPANIES, INC.

Series I Preferred Stock  
\$2.125 Convertible Exchangeable Preferred Stock  
Series II Preferred Stock

Rowan Companies, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Company"), DOES HEREBY CERTIFY:

FIRST: At a duly constituted meeting of the Board of Directors of the Company held on April 24, 1998, resolutions were duly adopted setting forth the elimination of the Company's Series I Preferred Stock, \$2.125 Convertible Exchangeable Preferred Stock and Series II Preferred Stock (the "Preferred Issues"), and that such resolutions have not been amended or rescinded and are presently in full force and effect:

RESOLVED, that this Board hereby determines that none of the authorized shares of any series of the Preferred Issues are outstanding and none will be issued, and

FURTHER RESOLVED, that the proper officers of the Company are hereby empowered to execute, acknowledge, file and have recorded in the State of Delaware a Certificate of Elimination which, when filed and recorded in Delaware, shall have the effect of eliminating from the Restated Certificate of Incorporation all references to these Preferred Issues.

SECOND: None of the authorized shares of any series of the Preferred Issues are outstanding and none will be issued.

THIRD: In accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Restated Certificate of Incorporation is hereby amended to eliminate all references to the Preferred Issues.

In WITNESS WHEREOF, said Rowan Companies, Inc. has caused this certificate to be signed by Mark H. Hay, its Corporate Secretary, this 4th day of May, 1998.

ROWAN COMPANIES, INC.

By \_\_\_\_\_

Title Corporate Secretary  
\_\_\_\_\_

(Title)

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## PROMISSORY NOTE

Houston, Texas

April 24, 1998

\_\_\_\_\_, for value received, promises and agrees to pay on or before April 24, 2008 unto the order of Rowan Companies, Inc. (hereinafter called "Payee"), at the offices of the Payee in Houston, Texas in lawful money of the United States of America, the principal sum of \_\_\_\_\_ and No/100 Dollars (\$ \_\_\_\_\_), together with interest thereon, from and after the date hereof, on March 31, June 30, September 30 and December 31 of each year unless such day is not a business day, in which case it shall mean the immediately succeeding business day, the first such interest payment for the period beginning on and including the date hereof and ending on and excluding June 30, 1998, at the per annum interest rate announced publicly by Citibank, N.A. in New York, New York from time to time as its Base Rate plus 1/2% per annum; provided, that if any such interest rate shall be lower than the applicable interest rate for such period determined under Sections 483 and 1274 (d) of the Internal Revenue Code of 1954, as amended (the "Federal Rate"), such Federal Rate shall apply. The amount of interest payable for any such period is computed by multiplying the decimal equivalent of the applicable interest rate for such period by the actual number of days in such period, dividing by 360 and multiplying the resulting quotient by the principal amount hereof. If the principal of this Note is prepaid in whole or in part, all accrued and unpaid interest with respect to such principal amount prepaid is due and payable on the date of such prepayment.

Payment of this Note when due is secured by a pledge of and lien on the Series A Floating Rate Subordinated Convertible Debenture due 2008 of the Payee dated April 24, 1998 in the principal amount of \$ \_\_\_\_\_, issued in the name of the undersigned, which Debenture, accompanied by an executed transfer power for such Debenture and in proper form for transfer, has been delivered to the Payee.

In the event of the non-payment when due of any liability of the undersigned to the Payee hereunder, then, or at any time after the happening of such event, the holder of this Note may, without demand upon or notice to the undersigned (both of which are expressly waived by the undersigned), declare all sums owing hereon to be, and such sums shall become, due and payable. Upon such declaration, the Payee will, to the extent practicable, set off any amounts owing hereon by the undersigned with amounts owing by the Payee pursuant to the Series A Floating Rate Subordinated Debenture due 2008. This Note shall be construed according to and governed by the laws of the State of Texas.

By its acceptance hereof, the Payee of this promissory note, hereby acknowledges and agrees that if (i) Rowan Companies, Inc., a Delaware corporation (the "Company") fails, at any time, to fulfill its payment obligations owing in respect of its Series A Floating Rate Subordinated Convertible Debentures due 2008 (collectively, the "Debentures") or (ii) an Event of Default (as such term is defined in the Debentures) has occurred and is continuing, the payment obligations (with respect to principal and interest) of the undersigned maker of this promissory note under the terms hereof will, automatically be suspended and terminated until such time, if any, that the Company has fulfilled all of its payment obligations then due and owing in respect of the Debentures or such Event of Default no longer exists, as the case may be.

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## ROWAN COMPANIES, INC.

Amendment No. 4 to the Consultancy  
Agreement Dated March 1, 1991  
Between Rowan Companies, Inc.  
And C. W. Yeargain

Effective January 1, 1998:

(1) Section 2. Duties of the Consultant

Section 2 of the Agreement, Duties of the Consultant, is amended by adding an additional paragraph as follows:

(B) The Consultant also shall serve as a Director of LeTourneau, Inc. and as Chairman of the Board of Directors of LeTourneau, Inc. and shall provide such services as may be required, from time to time, in connection with serving in such capacities.

(C) The Consultant shall provide advice as may be required for the design and construction of the enhanced Gorilla design jack-up rigs, designated GORILLA V AND GORILLA VI.

(2) Section 4. Consideration and Expenses:

Section 4 of the Agreement, Consideration and Expenses, is hereby deleted and the following is substituted therefor:

(A) The Company shall pay \$300,000 annually (payable quarterly) for services rendered. Further, the Company shall reimburse to the Consultant all proper and reasonable out-of-pocket expenses (including, but not limited to, all travel and accommodation expenses).

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DATED MARCH 1, 1991  
ROWAN COMPANIES, INC. (1)  
-AND-  
C. W. YEARGAIN (2)

AGREEMENT  
FOR THE PROVISION OF CONSULTANCY SERVICES,  
AS AMENDED

THIS AGREEMENT is dated March 1, 1991 and is entered into BY and BETWEEN:

- (1) ROWAN COMPANIES, INC. OF 5450 Transco Tower Building, Houston, Texas 77056-6196 ("the Company"); and
- (2) C. W. YEARGAIN ("the Consultant") of #8 Tokeneke Trail, Houston, Texas 77024

NOW IT IS HEREBY AGREED as follows:

#### 1. Appointment

(A) The Company hereby engages the Consultant and the Consultant hereby agrees to act as consultant to the Company including any of its incorporated affiliates (hereafter referred to as "the Group") pursuant to the terms of this Agreement.

(B) The said engagement, which shall be deemed to have commenced on March 1, 1991, shall continue hereafter unless and until terminated (i) by either party by not less than three (3) months prior notice in writing given to the other party or (ii) pursuant to the provisions of clause 6.

#### 2. Duties of the Consultant

(A) The Consultant shall advise the Group on a when-requested basis in connection with matters pertaining to the Group's existing and prospective worldwide business operations.

(B) The Consultant also shall serve as a Director of LeTourneau, Inc. and as Chairman of the Board of Directors of LeTourneau, Inc. and shall provide such services as may be required, from time to time, in connection with serving in such capacities.

(C) The Consultant shall provide advice as may be required for the design and construction of the enhanced Gorilla design jack-up rigs, designated GORILLA V AND GORILLA VI.

#### 3. Conflict of Interest

(A) The Consultant hereby undertakes at all times to perform his obligations hereunder with the utmost good faith and shall not deliberately do or omit to do anything whereby a conflict is likely to arise between the interests of the Group and the Consultant's own interests or the interests of any other person or organization on whose behalf the Consultant is so employed.

(B) The Consultant shall not at any time knowingly make or cause or permit to be made any untrue or misleading statement in relation to the Group nor in particular after the termination of this Agreement represent or cause or permit any representation to be made that he is connected with the Group.

#### 4. Consideration and Expenses

(A) The Company shall pay \$300,000 annually (payable quarterly) for services rendered. Further, the Company shall reimburse to the Consultant all proper and reasonable out-of-pocket expenses (including, but not limited to, all travel and accommodation expenses).

(B) All payments to be made pursuant to this agreement shall be made by the Company upon receipt of an invoice from the Consultant specifying the amount payable.

#### 5. Confidentiality

(A) The Consultant undertakes that he shall not, either during or after the termination of this Agreement without limit in point of time:

- (i) divulge or communicate or cause or permit to be divulged or communicated whether directly or indirectly to any other person or persons (except to those of the officials of the Group whose province it is to know the same); or
- (ii) use for his own purposes or for any purpose other than those of the Group

any secret, confidential or other information:

- (a) relating to the private affairs of the Group;  
or
- (b) which the Group has obtained from any third party on terms restricting its disclosure or use

but these restrictions shall cease to apply to any information or knowledge which may come into the public domain (otherwise than through the default of the Consultant).

(B) All notes, memoranda, records and other documents made or created in relation to the performance by the Consultant of his duties hereunder shall be and remain the property of the Company and shall be handed over by the Consultant to the Company from time to time on demand and in any event on the termination of this Agreement.

#### 6. Events of Termination

The Company only on the occurrence of the events specified in (B) below and either party on the occurrence of the events specified in (A) below shall have the right at any time by giving notice in writing to the other party to terminate this Agreement forthwith:

(A) if the other party commits a material breach of any of the terms of this Agreement and fails to remedy the same within 30 days of being required in writing to do so by the party not in breach (if such breach shall be capable of remedy);

(B) upon the demise or incapacity of the Consultant;

(C) upon the termination of the engagement by not less than the period of notice provided for in clause 1 or upon the proper termination as provided in this clause 6, the Consultant shall not have any claims for damages or compensation of any nature whatsoever other than to any outstanding fees and properly documented expenses due pursuant to clause 4 hereof.

#### 7. Status of Agreement

Nothing herein contained shall be deemed to constitute a partnership between the parties hereto and the Consultant shall have no power to bind the Group or pledge its credit. Consultant agrees that he is an independent contractor and is solely responsible for the performance of any duties required under this Agreement. The Consultant agrees that he shall solely be responsible for any income tax liability asserted by any taxing jurisdiction upon payments of consideration received under this Agreement.

#### 8. Assignment

Neither party shall be entitled to assign its rights hereunder without the prior written consent of the other.

#### 9. Notice

All notices to be given under this Agreement shall be in writing and shall either be delivered personally or sent by first class registered post to the address of the party to be served given at the head of this Agreement or such other address as shall from time to time be notified to the other party and shall be deemed duly served (i) in the case of a notice delivered personally, at the time of delivery, and (ii) in the case of a notice sent by post, five clear business days after the date of dispatch.

#### 10. Entire Agreement

This Agreement constitutes the entire Agreement between the parties hereto with respect to its subject matter and shall have effect to the exclusion of any other memorandum, agreement or understanding of any kind between the parties hereto preceding the date of this Agreement and touching and concerning its subject matter.

#### 11. Amendments in Writing

This Agreement may be amended, superseded, cancelled or any of its terms and conditions waived only by written instrument signed by or on behalf of the Company and Consultant or, in the case of waiver, by the party which is waiving compliance.

12. Governing Law

This Agreement shall be governed by and construed in accordance with the Laws of the State of Texas and each of the parties hereto hereby agrees to submit to the non-exclusive jurisdiction of the courts of Texas in connection with any matter arising out of this Agreement.

IN WITNESS whereof this Agreement has been entered into the day and year first above written.

SIGNED BY duly authorized signatory for and on behalf of ROWAN COMPANIES, INC. in the presence of:	) /s/ C. R. Palmer )----- ) C. R. Palmer ----- President
--	--

/s/ Kitty Lindley  
-----

SIGNED BY C. W. Yeargain	) /s/ C. W. Yeargain )----- ) C. W. Yeargain
-----------------------------	--

In the presence of:

/s/ Mary H. Cocca  
-----

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DATED JANUARY 1, 1990

ROWAN ENERGY INVESTMENTS, INC. (1)

- AND -

H. M. BRINKHORST (2)

AGREEMENT

for the provision of consultancy services

THIS AGREEMENT is dated January 1, 1990 and is entered in BY and BETWEEN:-

- (1) ROWAN ENERGY INVESTMENTS, INC. of 5051 Westheimer, Suite 1900 Houston, Texas 77056 ("the Company"); and
- (2) H. M. BRINKHORST (the Consultant")

NOW IT IS HEREBY AGREED as follows:-

1. Appointment

(A) The Company hereby engages the Consultant and the Consultant hereby agrees to Act as consultant to the Company including any of its incorporated affiliates (hereafter referred to as "the Group") pursuant to the terms of this Agreement.

(B) The said engagement, which shall be deemed to have commenced on January 1, 1990, shall continue hereafter unless and until terminated (I) by either party by not less than 3 months' prior notice in writing given to the other party or (ii) pursuant to the provisions of clause 6.

2. Duties of the Consultant

The Consultant shall advise the Group on a when-requested basis in connection with matters pertaining to the Group's existing and prospective worldwide business operations.

3. Conflict of Interest

(A) The Consultant hereby undertakes at all times to perform his obligations hereunder with the utmost good faith and shall not deliberately do or omit to do anything whereby a conflict is likely to arise between the interests of the Group and the Consultant's own interests or the interests of any other person or organization on whose behalf the Consultant is so employed.

(B) The Consultant shall not at any time knowingly make or cause or permit to be made any untrue or misleading statement in relation to the Group nor in particular after the termination of this Agreement represent or cause or permit any representation to be made that he is connected with the Group.

4. Consideration and Expenses

(A) In consideration of the performance by the Consultant of his obligations hereunder, the Consultant shall be entitled to receive from the

Company during the continuance of this Agreement the sum of US\$ 12,000 (Twelve Thousand Dollars) per annum (or such higher rate as the parties may from time to time agree) such remuneration to be payable in equal quarterly payments thereafter in arrears.

(B) The Company shall reimburse to the Consultant all proper and reasonable out-of-pocket expenses (including, but not limited to, all traveling and accommodation expenses) plus the per diem rate of US\$ 500 (Five Hundred Dollars) for services rendered.

(C) The payments provided for in this clause are exclusive of Value Added Tax. All payments to be made pursuant to this agreement shall be made by the Company upon receipt of an invoice from the Consultant specifying the amount payable.

#### 5. Confidentiality

(A) The Consultant undertakes that he shall not, either during or after the termination of this Agreement without limit in point of time:-

- (i) divulge or communicate or cause or permit to be divulged or communicated whether directly or indirectly to any person or persons (except to those of the officials of the Group whose province it is to know the same); or
- (ii) use for his own purposes or for any purpose other than those of the Group

any secret, confidential or other information:-

- (a) relating to the private affairs of the Group; or
- (b) which the Group has obtained from any third party on terms restricting its disclosure or use

but these restrictions shall cease to apply to any information or knowledge which may come into the public domain (otherwise than through the default of the Consultant).

(B) All notes, memoranda, records and other documents made or created in relation to the performance by the Consultant of his duties hereunder shall be and remain the property of the Company and shall be handed over by the Consultant to the Company from time to time on demand and in any event on the termination of this Agreement.

#### 6. Events and Termination

The Company only on the occurrence of the events specified in (C) and (D) below and either party on the occurrence of the events specified in (A) and (B) below shall have the right at any time by giving notice in writing to the other party to terminate this Agreement forthwith:-

(A) if the other party commits a material breach of any of the terms of this Agreement and fails to remedy the same within 30 days of being required in writing to do so by the party not in breach (if such breach shall be capable of remedy);

(B) if the other party is unable to pay its debts as they fall due or a resolution is passed for the winding up of the other party or if the other party compounds with its creditors generally or has a receiver appointed over all or a substantial part of its assets;

(C) if the Consultant shall commit an act of bankruptcy or compound with his creditors generally or be guilty of conduct tending to bring himself or the Company into disrepute;

(D) upon the demise or incapacity of the Consultant;

(E) upon the termination of the engagement by not less than the period of notice provided for in clause 1 or upon the proper termination as provided in this clause 6, the Consultant shall not have any claims for damages or compensation of any nature whatsoever other than to any outstanding fees and properly documented expenses due pursuant to clause 4 hereof.

#### 7. Status of Agreement

Nothing herein contained shall be deemed to constitute a partnership between the parties hereto and the Consultant shall have no power to bind the Group or pledge its credit. Consultant agrees that he is an independent contractor and is solely responsible for the performance of any duties required under this Agreement. The Consultant agrees that he shall solely be responsible for any income tax liability asserted by any taxing jurisdiction upon payments of consideration received under this Agreement.

#### 8. Assignment

Neither party shall be entitled to assign its rights hereunder without the prior written consent of the other.

#### 9. Notice

All notices to be given under this Agreement shall be in writing and shall either be delivered personally or sent by first class registered post to the address of the party to be served given at the head of this Agreement or such other address as shall from time to time be notified to the other party and shall be deemed duly served (i) in the case of a notice delivered personally, at the time of delivery, and (ii) in the case of a notice sent by post, five clear business days after the date of dispatch.

#### 10. Entire Agreement

This Agreement constitutes the entire Agreement between the parties hereto with respect to its subject matter and shall have effect to the exclusion of any other memorandum, agreement or understanding of any kind between the parties hereto preceding the date of this Agreement and touching and concerning its subject matter.

#### 11. Amendments in Writing

This Agreement may be amended, superseded, cancelled or any of its terms and conditions waived only by written instrument signed by or on behalf of the Company and Consultant or, in the case of waiver, by the party which is waiving compliance.

#### 12. Governing Law

This Agreement shall be governed by and construed in accordance with the Laws of the State of Texas and each of the parties hereto hereby agrees to submit to the non-exclusive jurisdiction of the courts of Texas in connection with any matter arising out of this Agreement.

IN WITNESS whereof this Agreement has been entered into the day and year first above written.

SIGNED BY )  
Duly authorized signatory )  
For and on behalf of )-----  
ROWAN ENERGY INVESTMENTS, INC. C. R. Palmer

In the presence of: Vice President  
-----

-----  
R. E. McWilliams of  
Houston, Texas

SIGNED BY )  
H. M. Brinkhorst, Esq. )  
in the presence of:- )-----  
----- H. M. Brinkhorst

AMENDMENT NO. 1

This Amendment No. 1 dated this 30th day of August 1994, but effective as of January 1, 1994, constitutes an amendment to the Consultant Agreement for the Provision of Consultancy Services ("the Agreement") dated January 1, 1990 between Rowan Energy Investments, Inc., ("the Company") and H. M. Brinkhorst (the "Consultant"). The parties hereby agree that Article 4 of the Agreement shall be amended in its entirety as follows:

4. Consideration and Expenses

(A) In consideration of the performance by the Consultant of his obligations hereunder, the Consultant shall be entitled to receive from the Company during the continuance of this Agreement the sum of \$500.00 per day (or such higher rate as the parties may from time to time agree) for each day the Consultant renders services to the Company.

(B) The Company shall reimburse to the Consultant all proper and reasonable out-of-pocket expenses (including, but not limited to, all traveling and accommodation expenses) for services rendered.

(C) The payments provided for in Article 4 shall be exclusive of Value Added Tax. All payments to be made pursuant to this Agreement shall be made by the Company upon receipt of an invoice from the Consultant specifying the amount payable.

All other terms of the Agreement shall remain in full force and effect as originally written.

H. M. Brinkhorst

WITNESS: \_\_\_\_\_

\_\_\_\_\_

Rowan Energy Investments, Inc.

WITNESS: \_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

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AMENDMENT NO. 2  
TO  
COMMITMENT TO GUARANTEE OBLIGATIONS

THIS AMENDMENT NO. 2, dated as of July 1, 1998 (the "Amendment"), to that certain Commitment to Guarantee Obligations, dated as of December 17, 1996 (the "Commitment") as amended by Amendment No. 1 dated June 30, 1997, is by and between the United States of America, represented by the Secretary of Transportation, acting by and through the Maritime Administration (the "Secretary"), and ROWAN COMPANIES, INC. (the "Shipowner", and together with the Secretary, the "Parties").

WHEREAS, on December 17, 1996, the Shipowner executed the Indenture, and issued thereunder a Floating Rate Note designated, "United States Government Guaranteed Ship Financing Obligations, GORILLA V Series" (the "Initial Transaction") with a maximum principal amount of \$153,091,000;

WHEREAS, on July 1, 1997, the Shipowner executed Supplement No. 1 to the Indenture, and issued thereunder a Fixed Rate Note designated, "United States Government Guaranteed Ship Financing Obligations, GORILLA V Series" (the "Second Transaction") in the principal amount of \$67,000,000; and

WHEREAS, on July 1, 1997, the Floating Rate Note dated December 17, 1996 was cancelled and a new Floating Rate Note was issued in the maximum amount of \$86,091,000;

WHEREAS, pursuant to Title XI of the Merchant Marine Act, 1936, the Secretary guaranteed the payment of outstanding principal of and interest on the Floating Rate Note and Fixed Rate Note ("the Obligations"); and

WHEREAS, Article Fourth of the Special Provisions of the Trust Indenture provides that the Shipowner may redeem or repay the Floating Rate Note, in whole or in part, on a Redemption Date designated by the Shipowner, from the proceeds of the issuance of a fixed rate note; and

WHEREAS, the Parties wish to amend certain documents relating to the Initial Transaction and Second Transaction in order to provide for the complete redemption of the Floating Rate Note and for the escrow funding contemplated by section 2.03 hereof, by the issuance of a second fixed rate note in the aggregate amount of \$86,091,000;

NOW THEREFORE, in consideration of the mutual rights and obligations set forth herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

SECTION 1.01 Annexed to each counterpart of this Amendment No. 2 to the Commitment to Guarantee Obligations are the forms of the Obligation Purchase Agreement, Supplement No. 2 to the Trust Indenture, Amendment No. 2 to the Security Agreement, and the Obligations to be issued July 1, 1998, the forms of which are hereby approved by the Secretary.

SECTION 1.02 Article III of the Commitment shall be amended pursuant to Article VI thereof, as follows:

The Obligations to be issued as a second fixed rate note shall be as provided in the Indenture and in the form of the Fixed Rate Note annexed as Exhibit 3B to the Indenture. The Obligations shall be subject to all of the terms and conditions set forth in the Indenture. Supplement No. 2 to the Trust Indenture, Amendment No. 2 to the Security Agreement, and the Obligations to be issued as a second fixed rate note shall be executed and delivered by the Shipowner on the Second Effective Date.

Except as so amended, the provisions of the Commitment shall apply to and govern this Amendment No. 2 to Commitment to Guarantee Obligations.

Capitalized terms not specifically defined herein shall have the respective meanings stated in Schedule A to the Trust Indenture dated as of December 17, 1996, as amended, between the Shipowner and the Indenture Trustee.

This Amendment No. 2 to Commitment to Guarantee Obligations may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Notwithstanding any provision herein, in the event there are any inconsistencies between the original of this document held by the Secretary, and an original held by any other party to this transaction, the provisions of the original held by the Secretary shall prevail.

IN WITNESS WHEREOF, this Amendment No. 2 to Commitment to Guarantee Obligations has been executed and sealed by the United States and accepted and sealed by the Shipowner on the day and year first above written.

UNITED STATES OF AMERICA  
SECRETARY OF TRANSPORTATION

BY: MARITIME ADMINISTRATOR

(SEAL)

ATTEST:

-----  
Secretary

-----  
Assistant Secretary

ROWAN COMPANIES, INC.

(SEAL)

By: -----  
Senior Vice President

ATTEST:

-----  
Secretary

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SUPPLEMENT NO. 2  
TO  
TRUST INDENTURE

THIS SUPPLEMENT NO. 2, dated as of July 1, 1998 ("Supplement No. 2"), to that certain Trust Indenture dated as of December 17, 1996 as amended as of June 30, 1997 effective July 1, 1997 ("Supplement No. 1") (the "Indenture") is by and between CITIBANK, N.A., a national banking association, as indenture trustee (the "Indenture Trustee"), and ROWAN COMPANIES, INC. (the "Shipowner", and together with the Indenture Trustee, the "Parties").

WHEREAS, on December 17, 1996, the Shipowner executed the Indenture, and issued thereunder a Floating Rate Note designated, "United States Government Guaranteed Ship Financing Obligations, GORILLA V Series" (the "Initial Transaction") with a maximum principal amount of \$153,091,000;

WHEREAS, Article Fourth of the Special Provisions of the Indenture provides that the Shipowner may redeem or repay the Floating Rate Note, in whole or in part, on a Redemption Date designated by the Shipowner, from the proceeds of the issuance of a fixed rate note;

WHEREAS, the Parties by Supplement No. 1 amended certain documents relating to the Initial Transaction in order to provide for the redemption of a part of the Floating Rate Note by the Shipowner's issuance of a fixed rate note (the "Second Transaction"); and

WHEREAS, the Parties wish to further amend certain documents relating to the Initial Transaction and Second Transaction in order to provide for the complete redemption of the Floating Rate Note and for the escrow funding contemplated by section 2.03 hereof, by the issuance of a second fixed rate note in the aggregate amount of \$86,091,000.

NOW THEREFORE, in consideration of the mutual rights and obligations set forth herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

## ARTICLE FIRST

SECTION 1.01 SCHEDULE A. Schedule A to the Indenture is hereby amended by adding the following definitions:

"Second Effective Date" means July 1, 1998.

"Fixed Rate Note" shall mean an Obligation substantially in the form of Exhibit 3A or 3B to the Indenture, appropriately completed.

All other capitalized terms used herein have the meanings set forth in Schedule A to the Indenture, as amended.

## ARTICLE SECOND

The Indenture shall be amended as follows:

Section 2.01 The Obligations. Article Second (a) of the Special Provisions of the Indenture is restated in its entirety as follows:

(a) The Obligations issued hereunder shall be designated "United States Government Guaranteed Ship Financing Obligations, GORILLA V Series," and shall be in the forms of Exhibits 3A and 3B to this Indenture; and, the aggregate principal amount of Obligations which may be issued under this Indenture shall not exceed \$153,091,000 except as provided in Sections 2.09, 2.10, 2.12 and 3.10(b) of Exhibit 1 hereto.

Section 2.02 Endorsement of Floating Rate Note. On the Second Effective Date, the Floating Rate Note issued on July 1, 1997 shall be endorsed to show the redemption of the remaining outstanding amount and thereupon shall be cancelled.

Section 2.03 Escrow Fund. Approximately \$2,494,932 of the proceeds of the Fixed Rate Note issued on July 1, 1998 is being placed in the Escrow Fund and will not be disbursed to the Shipowner until the Actual Cost of the Vessel equals or exceeds \$175,042,902. In the estimation of the Shipowner, the Actual Cost of the Vessel will exceed \$175,042,902. In the event that the Actual Cost of the Vessel does not equal or exceed \$175,042,902, a special redemption of the Fixed Rate Obligations dated July 1, 1998 will occur on a pro rata basis. Notwithstanding anything to the contrary in the Indenture, in the event that a special redemption occurs, such funds will be pre-paid on the Second Fixed Rate Note issued July 1, 1998 and will not affect the

First Fixed Rate Note issued July 1, 1997 and the Shipowner will pay a Make-Whole Premium in connection therewith.

Section 2.04 Forms of Fixed Rate Notes. The form of Fixed Rate Note attached as Exhibit 3 to the Indenture is renumbered as Exhibit 3A and the form of Fixed Rate Note attached as an Exhibit to this Amendment is designated as Exhibit 3B to the Indenture.

Section 2.05 Issuance of Fixed Rate Notes. On and after the Second Effective Date, the Shipowner shall issue and deliver to the Holders thereof Fixed Rate Note(s) in accordance with the Indenture in the form of Exhibit 3B to the Indenture.

Except as so amended, the provisions of the Indenture are hereby confirmed, and shall remain in full force and effect.

This Supplement No. 2 to the Indenture may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Notwithstanding any provision herein, in the event there are any inconsistencies between the original of this document held by the Secretary, and an original held by any other party to this transaction, the provisions of the original held by the Secretary shall prevail.

IN WITNESS WHEREOF, this Supplement No. 2 to the Indenture has been duly executed by the Parties as of the day and year first above written.

(SEAL)

ROWAN COMPANIES, INC.

ATTEST:

By: \_\_\_\_\_  
Senior Vice President

-----  
Secretary

(SEAL)

CITIBANK, N.A.  
Indenture Trustee

ATTEST:

By: \_\_\_\_\_  
Arthur W. Aslanian  
Title: Vice President

-----  
Carol Ng  
Vice President

CONSENT:

Pursuant to Section 10.05 of the General Provisions Incorporated into the Trust Indenture by Reference attached as Exhibit 1 to the Trust Indenture, the Secretary hereby consents to this Supplement No. 2 to the Trust Indenture.

ATTEST:

UNITED STATES OF AMERICA,  
SECRETARY OF TRANSPORTATION

BY: MARITIME ADMINISTRATION

By: \_\_\_\_\_  
Secretary

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## ROWAN COMPANIES, INC. AND SUBSIDIARIES

## TEN-YEAR FINANCIAL REVIEW

(In thousands except per share amounts and ratios)	1998	1997	1996	1995
	-----	-----	-----	-----
<b>OPERATIONS</b>				
Revenues:				
Drilling services	\$ 431,664	\$ 434,004	\$ 316,123	\$ 250,080
Manufacturing sales and services	158,913	154,852	143,768	133,755
Aviation services	115,773	106,396	111,269	87,462
	-----	-----	-----	-----
Total	706,350	695,252	571,160	471,297
	-----	-----	-----	-----
Costs and expenses:				
Drilling services	219,628	217,935	202,878	207,934
Manufacturing sales and services	134,542	134,422	131,665	120,378
Aviation services	101,899	96,390	93,473	79,993
Depreciation and amortization	49,703	47,078	47,882	50,555
General and administrative	18,366	16,971	16,591	14,692
	-----	-----	-----	-----
Total	524,138	512,796	492,489	473,552
	-----	-----	-----	-----
Income (loss) from operations	182,212	182,456	78,671	(2,255)
	-----	-----	-----	-----
Other income (expense):				
Interest expense	(17,500)	(26,208)	(27,547)	(27,702)
Less interest capitalized	16,264	9,966	2,516	
Gain on disposals of property, plant and equipment	5,125	1,541	2,359	6,598
Interest income	7,205	5,190	4,157	5,209
Other - net	395	343	374	468
	-----	-----	-----	-----
Other income (expense) - net	11,489	(9,168)	(18,141)	(15,427)
	-----	-----	-----	-----
Income (loss) before income taxes	193,701	173,288	60,530	(17,682)
Provision (credit) for income taxes	69,241	16,863	(808)	754
	-----	-----	-----	-----
Income (loss) before extraordinary charges	124,460	156,425	61,338	(18,436)
Extraordinary charges from redemption of debt		9,766		
	-----	-----	-----	-----
Net income (loss)	\$ 124,460	\$ 146,659	\$ 61,338	\$ (18,436)
	-----	-----	-----	-----
Per share of common stock:				
Net income (loss):				
Basic	\$ 1.45	\$ 1.70 (1)	\$ .72	\$ (.22)
	-----	-----	-----	-----
Diluted	\$ 1.43	\$ 1.65 (1)	\$ .70	\$ (.22)
	-----	-----	-----	-----
Cash dividends	\$ --	\$ --	\$ --	\$ --
	-----	-----	-----	-----
<b>FINANCIAL POSITION</b>				
Working capital	\$ 286,059	\$ 330,852	\$ 232,045	\$ 200,588
	-----	-----	-----	-----
Property, plant and equipment - at cost:				
Drilling equipment	1,238,361	965,292	954,249	944,021

Aircraft and related equipment	211,313	202,044	188,681	189,954
Manufacturing plant and equipment	75,949	60,902	37,377	25,037
Construction in progress	127,075	195,996	77,318	
Other property and equipment	108,353	94,476	94,517	91,089
Total	1,761,051	1,518,710	1,352,142	1,250,101
Property, plant and equipment - net	877,197	677,160	546,200	487,039
Total assets	1,249,108	1,122,135	899,308	802,488
Capital expenditures	247,747	180,066	117,947	33,881
Long-term debt	310,250	256,150	267,321	247,744
Common stockholders' equity	729,996	653,098	496,219	429,155

STATISTICAL INFORMATION

Current ratio	4.59	5.06	3.72	3.75
Long-term debt/total capitalization	.30	.28	.35	.37
Book value per share of common stock	\$ 8.77	\$ 7.53	\$ 5.80	\$ 5.06
Price range of common stock	\$ 9-32 1/2	\$16 3/4-43 15/16	\$ 8 7/8-24 1/2	\$ 5 3/8-10

(In thousands except per share amounts and ratios)

	1994	1993	1992	1991
<b>OPERATIONS</b>				
<b>Revenues:</b>				
Drilling services	\$ 245,917	\$ 271,022	\$ 162,121	\$ 170,739
Manufacturing sales and services	96,664			
Aviation services	95,578	82,174	87,877	101,433
Total	438,159	353,196	249,998	272,172
<b>Costs and expenses:</b>				
Drilling services	207,577	211,095	162,816	147,853
Manufacturing sales and services	87,382			
Aviation services	79,955	68,882	74,347	82,364
Depreciation and amortization	50,790	51,918	51,367	52,954
General and administrative	13,862	13,940	12,092	11,739
Total	439,566	345,835	300,622	294,910
Income (loss) from operations	(1,407)	7,361	(50,624)	(22,738)
<b>Other income (expense):</b>				
Interest expense	(27,530)	(25,361)	(26,254)	(21,379)
Less interest capitalized				
Gain on disposals of property, plant and equipment	1,344	1,955	731	1,660
Interest income	4,813	2,348	2,658	4,763
Other - net	260	150	165	127
Other income (expense) - net	(21,113)	(20,908)	(22,700)	(14,829)
Income (loss) before income taxes	(22,520)	(13,547)	(73,324)	(37,567)
Provision (credit) for income taxes	469	(288)	429	1,174
Income (loss) before extraordinary charges	(22,989)	(13,259)	(73,753)	(38,741)
Extraordinary charges from redemption of debt				5,627
Net income (loss)	\$ (22,989)	\$ (13,259)	\$ (73,753)	\$ (44,368)

## Per share of common stock:

## Net income (loss):

Basic	\$	(.27)	\$	(.17)	\$	(1.01)	\$	(.61) (2)
Diluted	\$	(.27)	\$	(.17)	\$	(1.01)	\$	(.61) (2)
Cash dividends	\$	--	\$	--	\$	--	\$	--

## FINANCIAL POSITION

Working capital	\$	195,945	\$	172,117	\$	61,397	\$	125,996
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## Property, plant and equipment - at cost:

Drilling equipment		961,391		950,538		939,793		913,379
Aircraft and related equipment		176,874		166,791		162,001		158,361
Manufacturing plant and equipment		18,955						
Construction in progress								
Other property and equipment		86,883		81,636		79,801		76,251
Total		1,244,103		1,198,965		1,181,595		1,147,991
Property, plant and equipment - net		506,121		507,193		537,819		552,481
Total assets		805,179		765,263		684,301		895,889
Capital expenditures		43,377		21,989		39,528		85,618
Long-term debt		248,504		207,137		212,907		220,764
Common stockholders' equity		442,347		460,300		375,754		445,368

## STATISTICAL INFORMATION

Current ratio		4.39		4.90		2.47		1.71 (3)
Long-term debt/total capitalization		.36		.31		.36		.33
Book value per share of common stock	\$	5.25	\$	5.49	\$	5.13	\$	6.11
Price range of common stock	\$	5 3/4 - 9 1/4	\$	6 5/8 - 10 3/4	\$	4 5/8 - 9 3/8	\$	4 3/4 - 11 3/8

(In thousands except per share amounts and ratios)

1990 1989

## OPERATIONS

## Revenues:

Drilling services	\$	180,118	\$	128,818
Manufacturing sales and services				
Aviation services		111,992		97,446
Total		292,110		226,264

## Costs and expenses:

Drilling services		130,845		119,182
Manufacturing sales and services				
Aviation services		88,182		75,943
Depreciation and amortization		50,702		52,062
General and administrative		9,549		7,690
Total		279,278		254,877

Income (loss) from operations		12,832		(28,613)
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## Other income (expense):

Interest expense		(21,601)		(23,682)
Less interest capitalized				
Gain on disposals of property, plant and equipment		3,996		2,320

Interest income	8,635	12,709
Other - net	178	161
	-----	-----
Other income (expense) - net	(8,792)	(8,492)
	-----	-----
Income (loss) before income taxes	4,040	(37,105)
Provision (credit) for income taxes	2,081	672
	-----	-----
Income (loss) before extraordinary charges	1,959	(37,777)
Extraordinary charges from redemption of debt		
	-----	-----
Net income (loss)	\$ 1,959	\$ (37,777)
	-----	-----
Per share of common stock:		
Net income (loss):		
Basic	\$ .03	\$ (.52)
	-----	-----
Diluted	\$ .03	\$ (.52)
	-----	-----
Cash dividends	\$ --	\$ --
	-----	-----
FINANCIAL POSITION		
Working capital	\$ 134,393	\$ 143,963
	-----	-----
Property, plant and equipment - at cost:		
Drilling equipment	885,264	867,540
Aircraft and related equipment	138,327	107,985
Manufacturing plant and equipment		
Construction in progress		
Other property and equipment	73,504	70,598
	-----	-----
Total	1,097,095	1,046,123
	-----	-----
Property, plant and equipment - net	549,608	542,995
Total assets	739,133	737,826
Capital expenditures	59,905	22,945
Long-term debt	153,621	163,473
Common stockholders' equity	485,748	479,287
	-----	-----
STATISTICAL INFORMATION		
Current ratio	4.00	4.55
Long-term debt/total capitalization	.24	.25
Book value per share of common stock	\$ 6.69	\$ 6.64
Price range of common stock	\$9 7/8 - 15 7/8	\$5 5/8 - 11 7/8
	-----	-----

- (1) After extraordinary charges from early debt redemption of \$.12 and \$.11 per share, respectively.
- (2) After extraordinary charge from early debt redemption of \$.08 per share.
- (3) At December 31, 1991, the \$125,000,000 principal amount of the Company's 13 3/4% Senior Notes had been called for redemption and appeared as a current liability. If redemption had occurred prior to year end, the current ratio would have been 3.61.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following analysis highlights the Company's operating results for the years indicated (in millions):

	1998 -----	1997 -----	1996 -----
Revenues:			
Drilling	\$ 431.7	\$ 434.0	\$ 316.1
Manufacturing	158.9	154.9	143.8
Aviation	115.8	106.4	111.3
Total	\$ 706.4 -----	\$ 695.3 -----	\$ 571.2 -----
Operating Profit (Loss)*:			
Drilling	\$ 180.1	\$ 185.0	\$ 79.3
Manufacturing	18.9	16.3	9.5
Aviation	1.6	(1.9)	6.5
Total	\$ 200.6 -----	\$ 199.4 -----	\$ 95.3 -----
Net Income	\$ 124.5 -----	\$ 146.7 -----	\$ 61.3 -----

\* Income (loss) from operations before deducting general and administrative expenses.

The return of weakness and instability to oil and gas prices during 1998 had significantly curtailed worldwide drilling activity by year end, effectively reversing, in a period of months, the substantial industry improvements realized over the previous three years.

During the 1995-1997 period, worldwide demand for energy products grew, the spread between oil and natural gas prices and the cost of finding and recovering reserves remained attractive and the availability of capable equipment continually declined. Such increasingly favorable economic conditions prompted a surge in drilling activity throughout the period that enabled the Company to achieve record revenues and profitability in 1997. With its existing offshore drilling fleet virtually 100% utilized from mid-1995 through mid-1998, and at continually increasing drilling day rates, the Company implemented during this period a strategic plan aimed at significantly expanding its revenue base through the construction of newer and more capable offshore drilling equipment and the reactivation of its domestic land drilling business.

Nineteen ninety-eight began with oil prices in decline, but still at traditionally profitable levels. However, months of increased worldwide production coupled with stagnant global demand kept downward pressure on oil prices. When per barrel prices approached \$15.00 during the second quarter, market conditions began to measurably weaken. At that point, energy companies began suspending portions of their drilling programs and reducing their 1998 drilling budgets. By mid-year, the Company began experiencing curtailed drilling assignments in its most prominent market, the Gulf of Mexico, and was forced to offer significantly reduced day rates. During the latter part of 1998, with oil prices at historical lows, the Company's domestic day rates were at levels less than half of that obtained earlier in the year, and its fleet utilization suffered dramatically. Though the Company's 1998 drilling operations yielded revenues and results comparable to the record levels attained in 1997, the trend over the last half of the year was decidedly unfavorable.

The Company's manufacturing division has continued to provide meaningful returns while assuming a lead role in the Company's offshore drilling fleet expansion program. During 1998, the manufacturing division delivered the

Company's Gorilla V jack-up and completed for others the design and major components comprising a "kit" for two new jack-up rigs. Also, during 1998, the manufacturing division achieved significant progress on Gorilla VI and ordered most long lead-time components for Gorilla VII.

During the past three years, the Company's aviation division has continued to diversify its flight services and the variances in revenues and operating results reflected above were largely due to fluctuating forest fire control activities.

Results for 1998 included higher provisions for income taxes due primarily to the availability, in prior years, of offsetting tax credit and loss carryforwards.

From late-1995 through early-1997, the Company's results were impaired by unsuccessful turnkey drilling operations. In early-1997, the Company ceased turnkey drilling activities and recognized a \$20.2 million loss on its one well in progress. Turnkey operations incurred a loss of \$4.0 million in 1996. The Company is not pursuing any turnkey work at this time.

During 1997, the Company redeemed early its \$200 million of 11 7/8% Senior Notes and incurred \$9.8 million of net extraordinary charges consisting primarily of redemption premiums.

Drilling Operations. The Company's drilling operating results are generally a function of rig rates and activity achieved in its offshore drilling business conducted primarily in the Gulf of Mexico, the North Sea and offshore eastern Canada. Such rates and activity are primarily determined by the level of offshore expenditures by energy companies and the availability of competitive equipment.

Market conditions in the offshore drilling industry deteriorated in 1998 after improving almost continuously during the previous two years. For most of the 1996-1997 period, the demand for offshore drilling equipment effectively equaled or exceeded the supply, particularly in the areas in which the Company operates. Throughout 1996, both the Gulf of Mexico and North Sea markets offered improving returns primarily due to growing worldwide demand for oil and natural gas. Activity and day rates in the Gulf of Mexico were enhanced by strong natural gas prices, while North Sea utilization held at virtually 100% due to the scarcity of harsh environment drilling equipment.

During this period, technological advances such as horizontal drilling and production techniques and 3-D seismic took hold and substantially enhanced the economics of oil and gas exploration and production. As a result, deep-water prospects in the Gulf of Mexico became economically viable, budding drilling markets such as west Africa, southeast Asia and The Netherlands strengthened and drilling assignments began to lengthen. The tightening of drilling markets worldwide continued throughout 1997 and the Company's operations, featuring long-legged jack-ups designed for harsh environments, yielded record results.

In 1998, the dramatic weakening of oil and natural gas prices caused a substantial decline in offshore drilling, especially in the highly competitive Gulf of Mexico market. During the second quarter, energy companies began reducing their drilling expenditures by first allowing options on the primarily short-term contracts to lapse and eventually canceling planned drilling projects. Activity was further impaired following announcements of several energy company mergers due to the uncertainty created within the merging companies' drilling staffs, plans and budgets. The more exclusive markets like the North Sea, with premium equipment and generally longer-term contracts, were more resilient, though by year end, indications of future deterioration, such as the early cancellation of term contracts, became apparent. As a result, the Company's Gulf of Mexico fleet suffered a 20% decline to 79% utilization in 1998 while its six North Sea rigs were 90% utilized. The Company's efforts to maintain Gulf of Mexico day rates provided a nominal increase in average day rates in 1998 compared to 1997, though average rates still declined by as much as 50% during 1998, while the North Sea fleet averaged a 44% increase in day rates between years. The Company expanded its Canadian presence during 1998 with the relocation of Gorilla II and that market remained relatively strong throughout the year.

Overall, the Company's worldwide fleet of 21 jack-ups (two of which are leased) was utilized 85%, 99% and 97% in 1998, 1997 and 1996, respectively, while the Company's semi-submersible achieved utilization of 62%, 99% and 100%, respectively. The Company considers only revenue-producing days in computing rig utilization.

The effects of fluctuations in activity and day rates are shown in the following analysis of changes in the Company's contract drilling revenues (in millions):

	1997 to 1998 -----	1996 to 1997 -----
Utilization	\$ (54.4) -----	\$ 11.7 -----
Drilling rates	52.1 -----	124.5 -----

These fluctuations yielded a \$2.3 million or less than 1% decrease in 1998 drilling revenues compared to 1997, which was 37% higher than 1996. Contract drilling expenses were about 11% higher in 1998 compared to 1997, which was 7% higher than 1996, primarily as a result of wage increases for operating personnel and higher rig mobilization costs.

The Company's land drilling operations experienced a 25% decline in activity in 1998 for the reasons noted previously, though average day rates were maintained near 1997 levels. Two of the Company's deep-well land rigs were under contract in Louisiana for most of 1998 and five other rigs worked sporadically throughout the year in Louisiana and Texas.

During 1998, the Company completed the refurbishment of two additional land

rigs. These two rigs and the Company's five remaining land rigs were idle during 1998. The cost of maintaining the idle rigs is modest and the remaining investment in such rigs is not significant.

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Perceptible trends existing in the offshore drilling markets in which the Company operates are shown below:

GULF OF MEXICO - Reduced exploration and development activity in the near term

NORTH SEA - Generally reduced levels of drilling activity for jack-up rigs

EASTERN CANADA - Generally stable demand

The drilling markets in which the Company competes frequently experience significant fluctuations in the demand for drilling services, as measured by the level of exploration and development expenditures, and the supply of capable drilling equipment. These expenditures, in turn, are affected by many factors such as existing and newly discovered oil and natural gas reserves, political and regulatory policies, seasonal weather patterns, contractual requirements under leases or concessions, trends in finding and extraction costs and, probably most influential, oil and natural gas prices. The volatile nature of such factors prevents the Company from being able to accurately predict whether existing market conditions or the perceptible market trends reflected in the preceding table will continue beyond the near term. In response to fluctuating market conditions, the Company can, as it has done in the past, relocate its drilling rigs from one geographic area to another, but only when such moves are economically justified.

With historically low oil prices, virtually every energy company significantly reduced its 1998 drilling program and has since announced further reductions in its 1999 drilling budget. The Company experienced several curtailed drilling assignments in 1998 and, as noted below, is currently litigating a cancelled drilling contract. Currently, only seven of the Company's 14 Gulf of Mexico rigs are working, and at rates well below those averaged during 1998, and two of the Company's six North Sea rigs are idle. At current levels, the Company's drilling operations may not be profitable. There can be no assurance that the Company's operations will not be more adversely affected should current market conditions persist or that such conditions will not deteriorate further. The Company is taking advantage of the current lull in activity by utilizing its drilling personnel to make enhancements to and carryout necessary maintenance on its idle rigs.

In January 1999, the Company received notification from a customer that its one-year North Sea drilling contract for Gorilla V was being terminated for an alleged performance breach relating to certain equipment problems. The Company believes it did not breach the contract and will vigorously pursue all legal remedies to enforce its rights under the contract.

Aviation Operations. Although the aviation division's operating results are still heavily influenced by oil and natural gas exploration and production, principally in the Gulf of Mexico, and seasonal weather conditions, primarily in Alaska, the division has continued to diversify its flight services. The Company offers, among other services, forest fire control, commuter airline services and flightseeing, and has developed and sold auxiliary fuel tanks for helicopters.

Aviation revenues increased by 9% in 1998 compared to 1997, which was 4% lower than 1996. Aviation division expenses in 1998 were up by 6% over 1997, which was 3% higher than 1996. During 1998, the Company enjoyed increased activity in virtually all markets, including a 149% increase in forest fire control revenues and a 16% increase in tourism-related revenues. Flying for energy companies in the Gulf of Mexico improved by about 16% in 1998 as a late-1997 rate increase and the addition of longer-range aircraft to serve primarily deep-water customers combined to offset the effects of the generally deteriorating offshore drilling business.

The number of aircraft operated by the Company at the end of each of the last three years and the revenue hours for each of those years are reflected in the following table:

	1998 -----	1997 -----	1996 -----
Twin-engine helicopters:			
Number	64	63	62
Revenue hours	30,124	32,504	34,848
Single-engine helicopters:			

Number	26	31	26
Revenue hours	14,422	14,652	11,466
Fixed-wing aircraft:			
Number	21	21	21
Revenue hours	22,465	22,042	20,669
	-----	-----	-----

On January 30, 1998, the Company agreed to terminate its ownership in KLM ERA Helicopters, its Dutch affiliate, in return for cash and equipment approximating the carrying value of its 49% interest.

Perceptible trends existing in the principal aviation markets in which the Company operates are shown below:

ALASKA - Generally stable market conditions

GULF OF MEXICO - Generally stable market conditions

The Company cannot predict whether these market trends will continue. Changes in energy company exploration and production activities, seasonal weather patterns and other factors can affect the demand for flight services in the aviation markets in which the Company competes. The Company can, as it has done in the past, move aircraft from one market to another, but only when the likelihood of higher returns makes such action economical. Assuming the foregoing trends continue, the aviation division should contribute positive operating results in 1999.

Manufacturing Operations. The Company's manufacturing division generated a 3% increase in revenues in 1998 compared to 1997, which was 8% higher than 1996, and a 16% increase in profitability between periods, while devoting substantial efforts towards the design and construction of the Company's Gorilla V and Gorilla VI jack-up rigs.

A 62% increase in marine group sales, primarily reflecting delivery of the bulk of two Super 116-C jack-up rig kits, combined with a 13% increase in steel sales, on a 10% increase in external shipments, more than offset a 14% decline in heavy equipment group sales. Weak commodities prices constrained the heavy equipment group to sales of 30 new cranes, mining loaders, log stackers and container stackers during 1998, compared to 37 units in 1997, and no real increase in parts sales over the prior year.

Consolidated manufacturing operations exclude approximately \$109 million of products and services provided to the Company's drilling division in 1998, most of which was attributable to construction progress on Gorillas V and VI, compared to \$83 million in 1997. The marine group completed and delivered Gorilla V during the fourth quarter.

External manufacturing backlog at December 31, 1998 was approximately \$8 million, or \$50 million less than a year ago, with the decline most prominent in the marine group following completion of the two rig kits. Though considerably less volatile than its drilling and aviation operations, the Company's manufacturing operations are being adversely impacted by depressed world commodities prices to such an extent that the Company believes that if such prices do not improve, its manufacturing operations may not be profitable in 1999.

#### LIQUIDITY AND CAPITAL RESOURCES

Key balance sheet amounts and ratios for 1998 and 1997 were as follows (dollars in millions):

December 31,	1998	1997
	-----	-----
Cash and cash equivalents	\$ 148.8	\$ 108.3
Current assets	\$ 365.7	\$ 412.4
Current liabilities	\$ 79.6	\$ 81.5
Current ratio	4.59	5.06
Current maturities of long-term debt	\$ 12.8	
Long-term debt	\$ 310.3	\$ 256.2
Stockholders' equity	\$ 730.0	\$ 653.1
Long-term debt/total capitalization	.30	.28
	-----	-----

Reflected in the comparisons above are the effects of the following: net cash provided by operations of \$247.7 million; capital expenditures of \$247.7 million; proceeds from borrowings of \$103.0 million; debt repayments of \$36.2 million; repurchases of stock totaling \$55.6 million and cash proceeds from the disposition of the Company's investment in KLM ERA Helicopters of \$19.6 million.

Capital expenditures for 1998 included \$84.0 million for the completion of Rowan Gorilla V, an enhanced version of the Company's Gorilla Class jack-ups featuring a combination drilling and production capability for harsh environments like the North Sea in water depths of up to 400 feet. The Company financed \$153.1 million of the cost of Gorilla V through two fixed-rate bank notes guaranteed by the U.S. Department of Transportation's Maritime Administration under its Title XI Program. The Company made the first of 24 semi-annual repayments in January 1999 and the outstanding notes, which are secured by Gorilla V and a Company guarantee, bear interest through July 2010 as follows: \$64.2 million at 6.94% and \$82.5 million at 6.15%.

Capital expenditures during 1998 also included \$67.3 million towards construction of Rowan Gorilla VI and \$20.7 million for Rowan Gorilla VII, each rig to be a harsh environment drilling and production unit like Gorilla V. Construction of Gorilla VI is proceeding at the Company's Vicksburg, Mississippi facility and should be completed by mid-2000. The Company has secured Title XI

bank financing for up to 87.5% of the cost of Gorilla VI on terms and conditions similar to those obtained for Gorilla V.

Under the Title XI Program, the Company obtains funding for Gorilla VI as construction progress is achieved and outstanding borrowings initially bear interest at .30% above a short-term LIBOR rate. The Company may fix the interest rate at any time and must fix the rate on all outstanding principal amounts on the earlier of September 15, 2002 or two years following completion of construction. Interest is payable semi-annually beginning March 15, 1999 and the principal will be repaid in semi-annual installments commencing September 15, 2000. Gorilla VI and a Company guarantee are pledged as security for the government guarantee. At December 31, 1998, the Company had drawn down about \$60 million of the \$171 million total credit facility, with interest rates averaging 5.4% at year end.

The Company has ordered the majority of long lead-time items for Gorilla VII and expects construction to be completed about one year following delivery of Gorilla VI. The Company intends to pursue outside financing for Gorilla VII if necessary, but believes internally generated working capital may continue to be sufficient to fund its construction. However, given current and anticipated near-term operating conditions, there can be no assurance that working capital will be adequate throughout the period required to complete construction or that outside financing will be available. The Company expects the combined construction cost of Gorillas V, VI and VII to be around \$600 million.

Capital expenditures encompass new assets or enhancements to existing assets as expenditures for routine maintenance and major repairs are charged to operations as incurred. The remainder of 1998 capital expenditures was primarily for major enhancements to existing rigs and manufacturing facilities and purchases of aircraft and components. The Company estimates 1999 capital expenditures will be between \$150 and \$175 million, including \$100-125 million for Gorillas VI and VII. The Company may also spend amounts to acquire additional aircraft as market conditions justify or to upgrade existing offshore rigs.

At December 31, 1998, the Company had available \$45 million under a \$155 million bank revolving credit facility maturing in October 2000. The \$110 million outstanding under the credit line bore interest at rates averaging about 6% during 1998, including 5.78% at December 31, 1998. The Company currently has no other available credit facilities.

Despite current weak operating levels and the previously discussed market trends, management believes that 1999 operations, together with existing working capital and available financial resources, will generate sufficient cash flow to sustain planned capital expenditures and debt service requirements at least through the remainder of 1999.

In March 1998, the Company repaid the balance of \$36.2 million of promissory notes originally issued in February 1994 in connection with the acquisition of its manufacturing operations. One of the five-year notes had been reduced by \$5.5 million in 1996 when the Company assumed, from the previous owners, certain environmental remediation obligations related to its manufacturing facilities. The Company also received \$4 million in cash in the exchange. The Company believes it has adequately accrued for environmental liabilities. See Notes 1 and 9 of the Notes to Consolidated Financial Statements.

On April 1, 1997, the Company redeemed \$50 million of its 11 7/8% Senior Notes due 2001 and paid a 6% prepayment premium from existing funds. On December 3, 1997, using proceeds from a newly established revolving credit facility and existing funds, the Company redeemed the remaining \$150 million of Senior Notes and paid a 4% prepayment premium. As a result of such transactions, the Company recorded extraordinary charges totaling \$9.8 million, net of income taxes, in 1997.

The Company believes that its exposure to risk of earnings loss due to changes in market interest rates is not significant.

The Company did not pay any dividends on its common stock during the 1996-1998 period. At December 31, 1998, approximately \$156 million of the Company's retained earnings was available for distribution under the most restrictive provisions of the Company's debt agreements. See Note 5 of the Notes to Consolidated Financial Statements.

During 1998, the Company repurchased in the open market 4,051,400 shares or almost 5% of its outstanding common stock. The Company may purchase up to eight million shares under its Share Repurchase Program begun in June 1998 and expanded in October. In the first two months of 1999, the Company has repurchased another 250,000 shares of its outstanding common stock.

The Company follows the provisions of Accounting Principles Board Opinion No. 25 for measurement

and recognition of employee stock-based compensation. The Company estimates that the alternative accounting provisions of Statement of Financial Accounting Standards No. 123, if adopted, would not have materially affected reported amounts of net income and earnings per share in 1998, 1997 and 1996. See Note 3 of the Notes to Consolidated Financial Statements.

Effective December 15, 1997, the Company adopted Statements of Financial Accounting Standards No. 128, "Earnings per Share", No. 129, "Disclosure of Information about Capital Structure" and No. 131, "Disclosures about Segments of an Enterprise and Related Information". In accordance with the provisions of Statements 128 and 131, the Company restated its earnings per share and segment information for all prior periods presented. See Notes 1 and 10 of the Notes to Consolidated Financial Statements. The provisions of Statement 129 did not materially affect the form or content of the Company's financial statements.

The Company's adoption, effective January 1, 1998, of Statements of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", and No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits", did not materially affect its financial statement disclosure. See Notes 1 and 6 of the Notes to Consolidated Financial Statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". Statement 133 generally requires recognition of derivative financial instruments as assets or liabilities, measured at fair value. The Company held no derivatives in 1998, 1997 or 1996 and believes Statement 133, when adopted effective January 1, 2000, will not materially impact its financial position or result of operations.

The Company believes that its exposure to potential year 2000 ("Y2K") computer-related problems is limited and the costs associated with readying its information systems and computer-controlled equipment will not materially impact its financial position or results of operations.

Over the past several years, the Company has devoted substantial efforts towards upgrading and enhancing its drilling and aviation information systems as a matter of course. Such modifications necessarily contemplated Y2K compliance, the cost of which has been expensed as incurred, but is not separately identifiable. These upgrades and enhancements are substantially complete and the Company believes its drilling and aviation information systems will be fully Y2K compliant by March 31, 1999.

Modifications to the Company's manufacturing information systems have been undertaken only during the past two to three years. The Company estimates the cost of Y2K compliance for its manufacturing systems will be approximately \$2.5 million, \$1.4 million of which has been expensed to date. The Company believes that all necessary modifications will be completed by mid-1999, though some third party software installation may slip into the third quarter.

The Company will continue to assess and test its computer-controlled equipment for Y2K compatibility, but has heretofore discovered no significant deficiencies. The Company generally maintains materials and supplies which may be needed in the near term and its operations are not highly dependent upon any single customer or vendor. As a result, the Company believes that the risk of a material interruption in its business as a result of Y2K software problems associated with a single customer or vendor is remote.

Although the Company expects to be Y2K compliant by mid-1999, in a "most-reasonably-likely-worst-case-scenario", failure by the Company or by third parties to fully implement appropriate Y2K plans could adversely affect the Company's operations.

The Company has not yet deemed necessary any Y2K contingency plans, but will continue to monitor its own Y2K status as well as that of its customers and vendors and, if warranted, develop any necessary contingency plans.

This report contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements as to the expectations, beliefs and future expected financial performance of the Company that are based on current expectations and are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected by the Company. Among the factors that could cause actual results to differ materially are the following:

- o oil and natural gas prices
- o the level of offshore expenditures by energy companies
- o the general economy, including inflation
- o weather conditions in the Company's principal operating areas
- o environmental and other laws and regulations

Other relevant factors have been disclosed in the Company's filings with the



## CONSOLIDATED BALANCE SHEET

(In thousands except share amounts)

December 31,	1998	1997
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 148,834	\$ 108,332
Receivables - trade and other	81,097	133,627
Inventories:		
Raw materials and supplies	84,797	69,621
Work-in-progress	26,494	25,974
Finished goods	2,625	6,321
Prepaid expenses	10,478	7,694
Deferred tax assets - net (Note 7)	11,327	60,809
	-----	-----
Total current assets	365,652	412,378
	-----	-----
Investment in and advances to 49% owned company		25,737
	-----	-----
Property, plant and equipment - at cost:		
Drilling equipment	1,238,361	965,292
Aircraft and related equipment	211,313	202,044
Manufacturing plant and equipment	75,949	60,902
Construction in progress	127,075	195,996
Other property and equipment	108,353	94,476
	-----	-----
Total	1,761,051	1,518,710
Less accumulated depreciation and amortization	883,854	841,550
	-----	-----
Property, plant and equipment - net	877,197	677,160
	-----	-----
Other assets and deferred charges	6,259	6,860
	-----	-----
Total	\$ 1,249,108	\$ 1,122,135
	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt (Note 2)	\$ 12,756	
Accounts payable - trade	17,744	\$ 22,839
Other current liabilities (Note 4)	49,093	58,687
	-----	-----
Total current liabilities	79,593	81,526
	-----	-----
Long-term debt - less current maturities (Note 2)	310,250	256,150
	-----	-----
Other liabilities (Notes 6 and 9)	51,264	50,457
	-----	-----
Deferred credits:		
Income taxes - net (Note 7)	75,255	74,956
Gain on sale/leaseback transactions (Note 9)	2,750	5,948
	-----	-----
Total deferred credits	78,005	80,904
	-----	-----
Commitments and contingent liabilities (Note 9)		
	-----	-----
Stockholders' equity (Notes 3 and 5):		
Preferred stock, \$1.00 par value:		
Authorized 5,000,000 shares issuable in series:		
Series III Preferred Stock, authorized 10,300 shares, none outstanding		

Series A Preferred Stock, authorized 4,800 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		
88,752,976 shares at December 31, 1998		
and 88,162,101 shares at December 31, 1997	11,094	11,020
Additional paid-in capital	420,767	411,812
Retained earnings	357,211	232,751
Less cost of 5,509,319 and 1,457,919 treasury shares, respectively	59,076	2,485
	-----	-----
Total stockholders' equity	729,996	653,098
	-----	-----
Total	\$ 1,249,108	\$ 1,122,135
	-----	-----

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF INCOME

(In thousands except per share amounts)

For the years ended December 31,	1998	1997	1996
	-----	-----	-----
Revenues:			
Drilling services	\$ 431,664	\$ 434,004	\$ 316,123
Manufacturing sales and services	158,913	154,852	143,768
Aviation services	115,773	106,396	111,269
	-----	-----	-----
Total	706,350	695,252	571,160
	-----	-----	-----
Costs and expenses:			
Drilling services	219,628	217,935	202,878
Manufacturing sales and services	134,542	134,422	131,665
Aviation services	101,899	96,390	93,473
Depreciation and amortization	49,703	47,078	47,882
General and administrative	18,366	16,971	16,591
	-----	-----	-----
Total	524,138	512,796	492,489
	-----	-----	-----
Income from operations	182,212	182,456	78,671
	-----	-----	-----
Other income (expense):			
Interest expense	(17,500)	(26,208)	(27,547)
Less interest capitalized	16,264	9,966	2,516
Gain on disposals of property, plant and equipment	5,125	1,541	2,359
Interest income	7,205	5,190	4,157
Other - net	395	343	374
	-----	-----	-----
Other income (expense) - net	11,489	(9,168)	(18,141)
	-----	-----	-----
Income before income taxes	193,701	173,288	60,530
Provision (credit) for income taxes (Note 7)	69,241	16,863	(808)
	-----	-----	-----
Income before extraordinary charges	124,460	156,425	61,338
	-----	-----	-----
Extraordinary charges from early redemption of debt (net of income taxes of \$1,207) (Note 2)		9,766	
	-----	-----	-----
Net income	\$ 124,460	\$ 146,659	\$ 61,338
	-----	-----	-----
Per share of common stock (Note 1):			
Basic:			
Income before extraordinary charges	\$ 1.45	\$ 1.82	\$ .72
Extraordinary charges from early redemption of debt		.12	
	-----	-----	-----
Net income	\$ 1.45	\$ 1.70	\$ .72
	-----	-----	-----
Diluted:			
Income before extraordinary charges	\$ 1.43	\$ 1.76	\$ .70
Extraordinary charges from early redemption of debt		.11	
	-----	-----	-----
Net income	\$ 1.43	\$ 1.65	\$ .70
	-----	-----	-----

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands) For the years ended December 31, 1998, 1997 and 1996	Common Stock				Additional Paid-in Capital	Retained Earnings
	Issued		In Treasury			
	Shares	Amount	Shares	Amount		
Balance, January 1, 1996	86,354	\$ 10,794	1,458	\$ 2,485	\$ 396,092	\$ 24,754
Exercise of stock options	626	78			548	
Value of services rendered by participants in the Nonqualified Stock Option Plans (Note 3)					4,600	
Conversion of subordinated debentures	74	10			490	
Net income						61,338
Balance, December 31, 1996	87,054	10,882	1,458	2,485	401,730	86,092
Exercise of stock options	623	78			1,247	
Value of services rendered by participants in the Nonqualified Stock Option Plans (Note 3)					4,720	
Conversion of subordinated debentures	485	60			4,115	
Net income						146,659
Balance, December 31, 1997	88,162	11,020	1,458	2,485	411,812	232,751
Exercise of stock options	591	74			1,624	
Value of services rendered by participants in the Nonqualified Stock Option Plans (Note 3)					7,331	
Treasury stock purchases			4,051	56,591		
Net income						124,460
Balance, December 31, 1998	88,753	\$ 11,094	5,509	\$ 59,076	\$ 420,767	\$ 357,211

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

For the years ended December 31,	1998	1997	1996
	-----	-----	-----
Cash provided by (used in):			
Operations:			
Net income	\$ 124,460	\$ 146,659	\$ 61,338
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	49,703	47,078	47,882
Gain on disposals of property, plant and equipment	(5,125)	(1,541)	(2,359)
Compensation expense	5,028	4,720	4,600
Change in sale/leaseback payable	(1,131)	(4,796)	(1,232)
Amortization of sale/leaseback gain	(3,198)	(3,198)	(3,198)
Provision for pension and postretirement benefits	4,517	5,922	1,217
Deferred income taxes	49,781	12,373	(2,372)
Extraordinary charges from early redemption of debt		10,973	
Other - net	144	2,370	2,162
Changes in current assets and liabilities:			
Receivables - trade and other	52,530	(20,791)	(28,658)
Inventories	(10,541)	(13,243)	(13,052)
Other current assets	(2,784)	10,891	2,713
Current liabilities	(15,953)	10,165	11,033
Net changes in other noncurrent assets and liabilities	262	(1,881)	3,673
	-----	-----	-----
Net cash provided by operations	247,693	205,701	83,747
	-----	-----	-----
Investing activities:			
Property, plant and equipment additions	(247,747)	(180,066)	(117,947)
Proceeds from disposals of property, plant and equipment	8,090	3,846	6,829
Proceeds from disposition of investment in 49% owned company	19,550		
Repayments from affiliates		229	32
Proceeds from sale of a subsidiary			6,946
	-----	-----	-----
Net cash used in investing activities	(220,107)	(175,991)	(104,140)
	-----	-----	-----
Financing activities:			
Proceeds from borrowings	103,012	190,985	29,009
Repayments of borrowings	(36,156)	(202,488)	(2,355)
Payments to acquire treasury stock	(55,638)		
Premiums on redemption of debt		(9,000)	
Other - net	1,698	1,900	626
	-----	-----	-----
Net cash provided by (used in) financing activities	12,916	(18,603)	27,280
	-----	-----	-----
Increase in cash and cash equivalents	40,502	11,107	6,887
Cash and cash equivalents, beginning of year	108,332	97,225	90,338
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 148,834	\$ 108,332	\$ 97,225
	-----	-----	-----

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include the accounts of Rowan Companies, Inc. and all of its wholly and majority owned subsidiaries, hereinafter referred to as "the Company".

The Company accounts for its investment in 49% owned companies using the equity method. The excess of cost over the net assets of subsidiaries at dates of acquisitions (\$8,452,000) is being amortized over a 30-year period. At December 31, 1998, the unamortized excess cost was \$2,183,000.

Intercompany balances and transactions are eliminated in consolidation.

On January 30, 1998, the Company agreed to terminate its North Sea helicopter joint venture, KLM ERA Helicopters. The Company received a distribution of KLM ERA's assets approximating the carrying value of its 49% interest, including \$19.6 million in cash, two Sikorsky S-61N helicopters valued at \$4.7 million and spare engines and parts valued at \$1.4 million.

Revenue Recognition. Most drilling contracts provide for payment on a day rate basis, and revenues and expenses are recognized as the work progresses. The Company has also operated under turnkey drilling contracts where revenues and expenses are recognized on a completed contract basis.

The Company's aviation services generally are provided under master service agreements calling for incremental payments based on usage, term contracts, or day-to-day charter arrangements. Aviation revenues and expenses are recognized as services are rendered.

Manufacturing sales and related costs are generally recognized as products are shipped. Revenues and costs and expenses included sales and costs of sales of \$152,992,000 and \$110,550,000, \$148,348,000 and \$110,476,000, and \$134,929,000 and \$111,973,000 in 1998, 1997 and 1996, respectively. Revenues from longer-term manufacturing projects such as rig kits are recognized on a percentage-of-completion basis using costs incurred relative to total estimated costs.

Full provision is made for any anticipated losses on turnkey drilling or manufacturing projects.

Earnings Per Common Share. "Basic" earnings per share is determined as income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. "Diluted" earnings per share reflects the issuance of additional shares in connection with the assumed conversion of stock options and other convertible securities, and corresponding adjustments to income for any charges related to such securities.

The computation of basic and diluted earnings per share for each of the past three years is as follows (in thousands except per share amounts):

Year ended December 31,	Income Before Extraordinary Charges	Shares	Per Share Amount
	-----	-----	-----
1998:			
Basic income per share	\$ 124,460	85,641	\$ 1.45
Effect of dilutive securities:			
Convertible debentures		844	
Stock options		804	
	-----	-----	
Diluted income per share	\$ 124,460	87,289	\$ 1.43
	-----	-----	-----

1997:

Basic income per share	\$ 156,425	86,184	\$ 1.82
Effect of dilutive securities:			
Convertible debentures	172	1,236	
Stock options		1,803	
	-----	-----	
Diluted income per share	\$ 156,597	89,223	\$ 1.76
	-----	-----	-----
1996:			
Basic income per share	\$ 61,338	85,335	\$ .72
Effect of dilutive securities:			
Convertible debentures	323	1,186	
Stock options		1,580	
	-----	-----	
Diluted income per share	\$ 61,661	88,101	\$ .70
	-----	-----	-----

Statement of Cash Flows. The Company generally considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Noncash financing activities excluded from the Company's Consolidated Statement of Cash Flows were as follows: the reduction in 1998 of \$2,303,000 of tax benefits related to employee stock options; the purchase in 1998 of \$953,000 of treasury stock which was unsettled at year end; the conversion in 1997 of the remaining \$3,600,000 of the Series II Floating Rate Convertible Subordinated Debenture into 400,000 shares of common stock; the retirement in 1996 of \$4,684,000 of debt through the disposition of aviation equipment; and a \$5,500,000 reduction in debt in 1996 in exchange for the assumption of certain environmental obligations. See Notes 2, 3 and 9 for further information.

Inventories. Manufacturing inventories are stated principally at the lower of average cost or market. Drilling and aviation materials and supplies are carried at average cost.

Property and Depreciation. The Company provides depreciation under the straight-line method from the date an asset is placed into service until it is sold or becomes fully depreciated based on the following estimated lives and salvage values:

	Years -----	Salvage Value -----
Offshore drilling equipment:		
Super Gorillas	25	20%
Semi-submersible	15	20%
Gorilla and other cantilever jack-ups	15	20%
Conventional jack-ups	12	20%
Land drilling equipment	12	20%
Drill pipe and tubular equipment	4	10%
Aviation equipment:		
Aircraft	7 to 10	15 to 25%
Other	2 to 10	various
Manufacturing plant and equipment:		
Buildings and improvements	10 to 25	10 to 20%
Other	2 to 12	various
Other property and equipment	3 to 40 -----	various -----

Expenditures for new property or enhancements to existing property are capitalized. Expenditures for routine maintenance and major repairs are charged to operations as incurred. See Note 10 for further information. The Company capitalizes, during the construction period, interest cost incurred during the period required to complete the asset. The Company's long-lived assets are reviewed for impairment whenever circumstances indicate their carrying amounts may not be recoverable.

Environmental Matters. Environmental remediation costs are accrued based on estimates of known remediation requirements even if uncertainties about the ultimate cost of the remediation exist. Ongoing environmental compliance costs are expensed as incurred and expenditures to mitigate or prevent future environmental contamination are capitalized. The Company's estimated liability is not discounted. See Note 9 for further information.

Income Taxes. The Company accounts for income taxes under an asset and liability approach that recognizes deferred income tax assets and liabilities for the estimated future tax consequences of differences between the financial statement and tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets which are not likely to be realized. See Note 7 for further information.

Comprehensive Income. The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", effective January 1, 1998. Statement 130 essentially requires prominent disclosure of all non-shareholder changes in equity during a period. The Company had no items of "other comprehensive income", as defined in Statement 130, during 1998, 1997 or 1996.

Derivatives. Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", issued in June 1998, requires recognition of derivative financial instruments as assets or liabilities, measured at fair value. The Company held no derivatives in 1998, 1997 or 1996 and believes Statement 133, when adopted effective January 1, 2000, will not materially impact its financial position or results of operations.

Management Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain reclassifications have been made in the 1997 and 1996 amounts to conform with the 1998 presentations.

## NOTE 2 LONG-TERM DEBT

Long-term debt consisted of (in thousands):

December 31,	1998	1997
	-----	-----
\$155 million bank revolving credit facility maturing in 2000	\$ 110,000	\$ 110,000
6.94% Title XI note payable due 2010; secured by Gorilla V	67,000	67,000
6.15% Title XI note payable due 2010; secured by Gorilla V	86,091	
Floating-rate Title XI note payable; secured by Gorilla V		42,994
Floating-rate Title XI note payable; secured by Gorilla VI	59,915	
7% notes payable due 1999		36,156
	-----	-----
Total	323,006	256,150
Less current maturities	12,756	
	-----	-----
Remainder	\$ 310,250	\$ 256,150
	-----	-----

Maturities of long-term debt for the five years ending December 31, 2003 are as follows: 1999-\$12,756,000, 2000-\$125,252,000, 2001-\$17,749,000, 2002-\$17,749,000 and 2003-\$17,749,000.

At December 31, 1998, the Company had available \$45,000,000 under a \$155,000,000 unsecured bank revolving credit facility maturing in October 2000. Advances under the facility currently bear interest at either .40% above a short-term LIBOR rate or the higher of a prime commercial lending rate or .50% above a 3-month certificate of deposit rate, depending upon the Company's election. The facility currently requires a commitment fee of .325% on the average daily amount of the commitment. Interest and the commitment fee are generally payable quarterly. Outstanding advances at December 31, 1998 totaled \$110,000,000 and bore interest at 5.78%. See Note 5 for further information.

The Company has financed \$153,091,000 of the cost of Rowan Gorilla V through two fixed-rate bank notes guaranteed by the U.S. Department of Transportation's Maritime Administration ("MARAD") under its Title XI Program. On July 1, 1997, the Company fixed \$67,000,000 of outstanding borrowings at 6.94% until July 2010. On July 1, 1998, the Company fixed the remaining \$86,091,000 principal amount at 6.15% until July 2010. Interest is payable semi-annually and the principal will be repaid in 24 semi-annual installments commencing January 1, 1999. Rowan Gorilla V and a Company guarantee are pledged as security for the government guarantee.

In September 1998, the Company obtained financing for up to \$171,007,000 of the cost of designing and constructing Rowan Gorilla VI through a 12-year bank loan guaranteed by MARAD under its Title XI Program. The Company obtains funding as construction progress is achieved and outstanding borrowings initially bear interest at .30% above a short-term LIBOR rate. The Company may fix the interest rate at any time and must fix the rate on all outstanding principal by the earlier of September 15, 2002 or two years following completion of construction. Interest is payable semi-annually beginning March 15, 1999 and the principal will be repaid in semi-annual installments commencing September 15, 2000. Rowan Gorilla VI and a Company guarantee are pledged as security for the government guarantee. At December 31, 1998, the Company had borrowed about \$59,915,000, which bore interest at floating rates ranging from 5.36% to 5.55%.

In April 1998, the Company issued \$4,800,000 of Series A Floating Rate Subordinated Convertible Debentures. The debentures are ultimately convertible into common stock at the rate of \$29.75 per share for each \$1,000 principal amount of debenture through April 24, 2008 as follows, unless earlier redeemed or the conversion privilege is terminated: \$1,200,000 on or after April 24, 1999, \$2,400,000 on or after April 24, 2000, \$3,600,000 on or after April 24, 2001 and \$4,800,000 on or after April 24, 2002. At December 31, 1998, the Company also had \$8,625,000 principal amount of Series III Floating Rate Convertible Subordinated Debentures outstanding which are ultimately convertible

into common stock at the rate of \$6.75 per share for each \$1,000 principal amount of debenture through November 30, 2004. The Series A and Series III debentures were originally issued in exchange for promissory notes containing provisions for setoff. Accordingly, the debentures and notes, and the related interest amounts, have been offset in the consolidated financial statements. See Note 3 for further information.

In March 1998, the Company repaid the balance of \$36,156,000 of 7% promissory notes originally issued in February 1994 in connection with the acquisition of its manufacturing operations.

During April and December 1997, the Company redeemed \$50,000,000 and \$150,000,000, respectively, of its 11 7/8% Senior Notes due 2001. These transactions resulted in extraordinary charges of \$9,766,000, or \$.11 per diluted share, comprised of

\$9,000,000 of prepayment premiums and \$1,973,000 of unamortized issue costs, net of \$1,207,000 of income tax benefits.

Interest payments in 1998 were less than interest capitalized by \$1,088,000 and exceeded interest capitalized by \$14,222,000 and \$24,557,000 in 1997 and 1996, respectively.

The Company's debt agreements contain provisions that require an excess of current assets over current liabilities, an excess of stockholders' equity over consolidated debt and minimum levels of stockholders' equity and cash flow, and restrict investments, sale/leaseback transactions, mergers, consolidations, sales of assets, borrowings, creation of liens, purchases of the Company's capital stock and common stock dividend payments. The Company believes it was in compliance with each of its debt covenants at December 31, 1998. See Note 5 for further information.

#### NOTE 3 STOCKHOLDERS' EQUITY

The Company has two nonqualified stock option plans through which options have been granted to certain key employees.

The Company's 1980 Nonqualified Stock Option Plan authorized the Board of Directors to grant, through January 25, 1990, options to purchase a total of 1,000,000 shares of the Company's common stock. Under the terms of the 1988 Nonqualified Stock Option Plan, as amended, the Board of Directors may grant, before January 21, 2008, options to purchase a total of 10,000,000 shares of the Company's common stock.

At December 31, 1998, options for 8,004,704 shares had been granted at exercise prices ranging from \$1.00 to \$19.75 per share, or a weighted average of \$4.63 per share, and 366 active, key employees had been granted options. Options become exercisable over a four-year service period to the extent of 25% per year, and all options not exercised expire ten years after the date of grant.

In April 1998, following stockholder approval, the Company implemented the 1998 Nonemployee Directors Stock Option Plan, which provides for the issuance to nonemployee Directors of the Company of nonqualified options to purchase up to 200,000 shares of the Company's common stock. At December 31, 1998, 40,000 shares had been granted under the plan at exercise prices ranging from \$17.47-\$29.75. Options are 100% exercisable after one year and all options not exercised expire five years after the date of grant.

Stock option activity for the last three years was as follows:

	Number of Shares		
	1998	1997	1996
Options outstanding, January 1	2,568,025	2,498,288	2,499,700
Changes during the year:			
Granted:			
at \$7.63-\$9.81 per share		621,000	550,000
at \$15.25-\$19.75 per share	739,200	196,000	177,000
at \$29.75 per share	35,000		
Exercised:			
at \$1.00 per share	(456,250)	(522,013)	(626,162)
at \$7.63-\$9.81 per share	(128,375)	(95,500)	
at \$15.25-\$19.63 per share	(6,250)	(5,375)	
Forfeited	(79,525)	(124,375)	(102,250)

Options outstanding, December 31	2,671,825	2,568,025	2,498,288
Options exercisable, December 31	847,525	690,400	564,476
Options available for grant, December 31	3,796,021	1,291,446	1,984,071

The Company determines compensation expense for each option pursuant to Accounting Principles Board Opinion No. 25 as the difference between the market price per share and the option price per share on the date of grant. The compensation is recognized as expense and additional paid-in capital over the period in which the employee performs services to earn the right to exercise the option. The Company estimates that the accounting provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", which provides an alternative method for measuring compensation cost, would have reduced reported amounts of net income by approximately \$1,152,000 in 1998, \$627,000 in 1997 and \$341,000 in 1996, or \$.01 per share in 1998 and less than \$.01 per share in each of 1997 and 1996.

The Rowan Companies, Inc. 1986 Convertible Debenture Incentive Plan provided for the issuance to key employees of up to \$20,000,000 in aggregate principal amount of the Company's floating rate subordinated convertible debentures. The debentures are initially convertible into preferred stock which has no voting rights (except as required by law or the Company's charter), no dividend and a

nominal liquidation preference. The preferred stock is immediately convertible into common stock.

Under the plan, debentures in the aggregate principal amount of \$19,925,000 were issued by the Company. At December 31, 1998, all \$5,125,000 of Series I debentures issued in 1986 and the \$4,500,000 Series II debenture issued in 1987 had been converted into an aggregate 1,391,304 shares of the Company's common stock at \$5.75 per share and \$9.00 per share, respectively. Of the \$10,300,000 principal amount of Series III debentures issued in 1994, \$8,625,000 were outstanding at December 31, 1998 and are ultimately convertible into 1,277,778 shares of the Company's common stock.

The Rowan Companies, Inc. 1998 Convertible Debenture Incentive Plan, approved at the Company's 1998 annual meeting of stockholders, provides for the issuance to key employees of up to \$30,000,000 in floating rate subordinated convertible debentures. The debentures are initially convertible into preferred stock which has no voting rights (except as required by law or the Company's charter), no dividend and a nominal liquidation preference. The preferred stock is immediately convertible into common stock. The initial issuance under the plan of \$4,800,000 principal amount of debentures was outstanding at December 31, 1998. This amount is ultimately convertible into 161,345 shares of the Company's common stock.

On February 25, 1992, the Company adopted a Stockholder Rights Agreement to protect against coercive takeover tactics. The agreement, as amended, provides for the distribution to the Company's stockholders of one Right for each outstanding share of common stock. Each Right entitles the holder to purchase from the Company one one-hundredth of a share of Series A Junior Preferred Stock of the Company at an exercise price of \$75. In addition, under certain circumstances, each Right will entitle the holder to purchase securities of the Company or an acquiring entity at 1/2 market value. The Rights are exercisable only if a person or group acquires 15% or more of the Company's outstanding common stock or makes a tender offer for 30% or more of the Company's outstanding common stock. The Rights will expire on February 25, 2002. The Company may generally redeem the Rights at a price of \$.01 per Right at any time until the 10th business day following public announcement that a 15% position has been acquired.

#### NOTE 4 OTHER CURRENT LIABILITIES

Other current liabilities consisted of (in thousands):

December 31,	1998	1997
	-----	-----
Gain on sale/leaseback transactions	\$ 3,198	\$ 3,198
Customer deposits	2,784	14,927
Accrued liabilities:		
Income taxes	839	425
Compensation and related employee costs	21,106	22,027
Interest	5,944	3,765
Taxes and other	15,222	14,345
	-----	-----
Total	\$ 49,093	\$ 58,687
	-----	-----

#### NOTE 5 RESTRICTIONS ON RETAINED EARNINGS

Under the terms of its three-year revolving credit facility maturing in October 2000, the Company's ability to declare dividends or make any distribution on its common stock in any quarter is limited to the sum of a) \$20,000,000, plus b) 50% of cumulative consolidated net income, if positive, subsequent to December 31, 1996, plus c) the net proceeds from the sale of any class of capital stock after December 31, 1996, less d) 100% of cumulative consolidated net income, if negative, subsequent to December 31, 1996. Under this restriction, approximately \$155,560,000 of the Company's retained earnings was available for distribution at December 31, 1998. Subject to this and other restrictions, the Board of Directors will determine payment, if any, of future dividends or distributions in light of conditions then existing, including the Company's earnings, financial condition and requirements, opportunities for reinvesting earnings, business conditions and other factors.

NOTE 6 BENEFIT PLANS

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

During 1998, the Company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits", which essentially standardizes and simplifies disclosures required about pension and other postretirement benefit plans. Changes in

plan assets and obligations during 1998 and 1997 and the funded status of the plans at December 31, 1998 and 1997 were as follows (in thousands):

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
<b>BENEFIT OBLIGATIONS</b>				
Balance, January 1	\$ 155,935	\$ 136,721	\$ 36,075	\$ 33,512
Service cost	6,423	5,471	1,542	1,666
Interest cost	11,599	10,340	2,416	2,528
Plan changes			(5,067)	(324)
Actuarial loss	19,523	9,490	4,750	
Benefits paid	(6,527)	(6,087)	(941)	(1,307)
Balance, December 31	186,953	155,935	38,775	36,075
<b>PLAN ASSETS</b>				
Fair value, January 1	168,699	142,017		
Actual return	(14,232)	32,769		
Employer contributions	624			
Benefits paid	(6,527)	(6,087)		
Fair value, December 31	148,564	168,699		
Funded status	(38,389)	12,764	(38,775)	(36,075)
Unrecognized amounts:				
Actuarial (gain) loss	23,748	(26,087)	11,711	7,182
Transition (asset) obligation	(1,211)	(2,422)	10,590	11,347
Prior service cost	209	324	(4,755)	
Accrued benefit cost	\$ (15,643)	\$ (15,421)	\$ (21,229)	\$ (17,546)

The plans' assets consist primarily of equity securities and U.S. Treasury bonds and notes and, at December 31, 1998, included 1,500,000 shares of the Company's common stock at an average cost of \$4.81 per share. At December 31, 1998, \$11,462,000 of the plans' assets were invested in a dedicated bond fund. The plans had a basis in these assets of \$7,633,000 yielding approximately 4.5% to maturity.

Net periodic pension cost included the following components (in thousands):

	1998 -----	1997 -----	1996 -----
Service cost	\$ 6,423	\$ 5,471	\$ 5,757
Interest cost	11,599	10,340	9,477
Expected return on plan assets	(15,734)	(13,225)	(9,819)
Recognized actuarial gain	(347)		
Amortization:			
Prior service cost	115	115	115
Transition asset	(1,211)	(1,211)	(1,211)
Total	\$ 845	\$ 1,490	\$ 4,319

Other benefits cost included the following components (in thousands):

	1998 -----	1997 -----	1996 -----
Service cost	\$ 1,542	\$ 1,666	\$ 1,686
Interest cost	2,416	2,528	2,269
Amortization of transi- tion obligation	664	1,053	1,129
Total	\$ 4,622	\$ 5,247	\$ 5,084

Assumptions used in actuarial calculations were as follows:

	1998 -----	1997 -----	1996 -----
Discount rate	6.75%	7.25%	7.50%
Expected return on plan assets	9.5%	9.5%	9.0%
Rate of compensation increase	4.0%	4.0%	4.0%

The assumed increase in per capita health care costs ranged from 8.25% in 1998 to 5% in 2003 and thereafter. To demonstrate the significance of this assumption, a one-percentage-point change in assumed health care cost trend rates would change reported amounts as follows:

	1-Percentage-point Change -----	
	Increase	Decrease
	-----	-----
INCREASE (DECREASE) IN:		
Service and interest cost	\$ 592	\$ (486)

Postretirement benefit obligation	5,119	(4,273)
	-----	-----

The Company also sponsors pension restoration plans to supplement the benefits for certain key executives that would otherwise be limited by section 415 of the Internal Revenue Code. The plans are unfunded and had projected benefit obligations at December 31, 1998 and 1997 of \$4,278,000 and \$3,791,000, respectively. The net pension liabilities included in the Company's consolidated balance sheet were \$3,462,000 and \$2,846,000 at December 31, 1998 and 1997, respectively. Net pension cost was \$652,000 in 1998, \$530,000 in 1997 and \$508,000 in 1996.

The Company also sponsors defined contribution 401(k) plans covering all employees. The Company contributed to the plans about \$2,621,000 in 1998, \$2,207,000 in 1997 and \$2,007,000 in 1996.

## NOTE 7 INCOME TAXES

The detail of income tax provisions (credits) is presented below (in thousands):

Year ended December 31,	1998	1997	1996
	-----	-----	-----
Current:			
Federal	\$ 17,915	\$ 3,296	\$ 1,236
Foreign	1,285	78	141
State	260	128	187
	-----	-----	-----
Total current provision	19,460	3,502	1,564
Deferred	49,781	13,361	(2,372)
	-----	-----	-----
Total	\$ 69,241	\$ 16,863	\$ (808)
	-----	-----	-----

The Company's provision (credit) for income taxes differs from that determined simply by applying the federal income tax rate (statutory rate) to income before extraordinary charges, as follows (in thousands):

Year ended December 31,	1998	1997	1996
	-----	-----	-----
Statutory rate	35%	35%	35%
Tax at statutory rate	\$ 67,795	\$ 60,651	\$ 21,186
Increase (decrease) in taxes resulting from:			
Change in valuation allowance		(38,415)	(30,863)
Foreign companies' operations	41	(10,443)	(2,761)
Expiration of tax credits		9,593	12,772
Other - net	1,405	(4,523)	(1,142)
	-----	-----	-----
Total provision (credit)	\$ 69,241	\$ 16,863	\$ (808)
	-----	-----	-----

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities at December 31, 1998 and 1997, were as follows (in thousands):

December 31,	1998		1997	
	Current	Noncurrent	Current	Noncurrent
	-----	-----	-----	-----
Deferred tax assets:				
Sale/leaseback gain	\$ 1,119	\$ 967	\$ 1,119	\$ 2,086

Accrued employee benefit plan costs	315	13,997	315	12,295
Alternative minimum tax	5,017		5,165	
Net operating losses			24,723	
Investment tax credits	2,862		27,130	
Other	2,014	4,539	2,446	5,375
	-----	-----	-----	-----
	11,327	19,503	60,898	19,756
	-----	-----	-----	-----
Deferred tax liabilities:				
Property, plant and equipment		93,818		94,511
Other		940	89	201
	-----	-----	-----	-----
		94,758	89	94,712
	-----	-----	-----	-----
Deferred tax asset (liability)	\$ 11,327	\$ (75,255)	\$ 60,809	\$ (74,956)
	-----	-----	-----	-----

The Company did not deem necessary a valuation allowance against its deferred tax assets at December 31, 1998 and 1997.

At December 31, 1998, the Company had \$2,397,000 of regular investment tax credits and \$465,000 of ESOP (Employee Stock Ownership Plan) tax credits available for application against future federal taxes payable. Total credits, if not utilized, will expire as follows: 2001-\$2,634,000 and 2002-\$228,000.

Deferred income taxes not provided on undistributed earnings of foreign subsidiaries, because such earnings are considered permanently invested abroad, amounted to approximately \$16,422,000 at December 31, 1998.

Income before income taxes consisted of \$189,207,000, \$154,313,000 and \$58,573,000 of domestic earnings, and \$4,494,000, \$18,975,000 and \$1,957,000 of foreign earnings in 1998, 1997 and 1996, respectively.

Income tax payments exceeded refunds by \$16,743,000 in 1998, \$3,781,000 in 1997 and \$1,747,000 in 1996.

## NOTE 8 FAIR VALUES OF FINANCIAL INSTRUMENTS

At December 31, 1998, the carrying amounts of the Company's cash and cash equivalents, receivables and payables approximated their fair values due to the short maturity of such financial instruments. The carrying amount of the Company's long-term debt was estimated to approximate its fair value at December 31, 1998 based upon quoted market prices for similar issues.

## NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

During 1984 and 1985, the Company sold two cantilever jack-ups, Rowan-Halifax and Cecil Provine, for a total of \$126,500,000 in cash and leased each rig back under operating leases at effective interest rates of 9.3% and 8.0%, respectively. Each basic lease term expires in 2000, at which time the Company can purchase each rig at its existing fair market value or renew each lease at the lesser of a) 50% of the weighted average semi-annual installments during the basic term, or b) a fair market rental renewal. Each sale resulted in a gain which is being recognized over the respective basic lease term.

Total payments to be made under the sale/leaseback agreements are being expensed on a straight-line basis. Current and other liabilities at December 31, 1998 and 1997 included the excess of inception-to-date sale/leaseback expenses over related payments of \$6,930,000 and \$8,061,000, respectively.

The Company has operating leases covering aircraft hangars, offices and computer equipment and the sale/leaseback rigs. Net rental expense under all operating leases was \$21,874,000 in 1998, \$21,619,000 in 1997 and \$20,820,000 in 1996.

As of December 31, 1998, the future minimum payments to be made under noncancelable operating leases were (in thousands):

1999	\$24,021
2000	18,852
2001	562
2002	306
2003	160
Later years	505
Total	\$44,406

In September 1996, the Company assumed certain environmental liabilities related to its manufacturing facilities in exchange for \$4,000,000 in cash and a \$5,500,000 reduction in a promissory note. The measurement of remediation costs is subject to uncertainties, including the evolving nature of environmental regulations and the extent of any agreements to mitigate remediation costs. Other liabilities at December 31, 1998 and 1997 included \$8,684,000 and \$8,650,000, respectively, related to environmental matters. The Company believes that it has adequately accrued for environmental liabilities.

The Company is involved in various legal proceedings incidental to its business. The Company is vigorously pursuing such matters and is of the opinion that there are no contingencies, claims or lawsuits against the Company which will have a material adverse effect on its financial position, results of operations or cash flows.

The Company estimates 1999 capital expenditures will be between \$150,000,000 and \$175,000,000, including \$100,000,000 to \$125,000,000 toward construction of the offshore rigs Gorillas VI and VII.

## NOTE 10 SEGMENTS OF BUSINESS

The Company has three principal operating segments: contract drilling of oil and gas wells, both onshore and offshore ("Drilling"), helicopter and fixed-wing aircraft services ("Aviation") and the manufacture and sale of heavy equipment for the mining, timber and transportation industries, alloy steel and steel plate and marine drilling equipment ("Manufacturing"). The Company's reportable segments reflect separately managed, strategic business units that provide different products and services, and for which financial information is

separately prepared and monitored. The accounting policies of each segment are as described in the Company's summary of significant accounting policies. See Note 1 for further information.

Drilling services are provided both onshore and offshore in domestic and foreign areas. Aviation services are provided primarily in Alaska, the western United States and along the Gulf Coast and include commuter airline, flightseeing and forest fire control services as well as oil and gas related flying. Manufacturing operations are primarily conducted in Longview, Texas and Vicksburg, Mississippi, though products are shipped throughout the United States and to many foreign locations.

Assets are ascribed to a segment based upon their direct use. The Company 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.

The Company's total assets are identified by operating segment and its fixed assets are shown geographically as follows (in thousands):

December 31,	1998	1997	1996
	-----	-----	-----
Consolidated assets:			
Drilling services	\$ 942,158	\$ 803,747	\$ 618,441
Manufacturing sales			
and services	176,145	163,113	135,750
Aviation services	130,805	155,275	145,117
	-----	-----	-----
Total	\$1,249,108	\$1,122,135	\$ 899,308
	-----	-----	-----
Property, plant and equipment - net:			
Domestic	\$ 480,005	\$ 551,853	\$ 411,408
Foreign	397,192	125,307	134,792
	-----	-----	-----
Total	\$ 877,197	\$ 677,160	\$ 546,200
	-----	-----	-----

At December 31, 1998, 28 drilling rigs, including 14 offshore rigs, were located in domestic areas and eight offshore rigs were operating in foreign locations. Aviation services assets included the Company's investment in KLM ERA Helicopters in 1997 and 1996.

Information regarding revenues and profitability by operating segment is as follows (in thousands):

Year ended December 31,	1998	1997	1996
	-----	-----	-----
Revenues:			
Drilling services	\$ 431,664	\$ 434,004	\$ 316,123
Manufacturing sales			
and services	158,913	154,852	143,768
Aviation services	115,773	106,396	111,269
	-----	-----	-----
Consolidated	\$ 706,350	\$ 695,252	\$ 571,160
	-----	-----	-----
Operating profit (loss):*			
Drilling services	\$ 180,091	\$ 185,037	\$ 79,247
Manufacturing sales			
and services	18,902	16,294	9,468
Aviation services	1,585	(1,904)	6,547
	-----	-----	-----
Consolidated	\$ 200,578	\$ 199,427	\$ 95,262
	-----	-----	-----

\* Income (loss) from operations before deducting general and administrative

expenses.

Excluded from the preceding table are the effects of transactions between segments. During 1998, 1997 and 1996 the Company's manufacturing division provided approximately \$108,981,000, \$82,707,000 and \$39,804,000, respectively, of products and services to the drilling division and the Company's aviation division provided approximately \$1,313,000, \$2,859,000 and \$2,749,000, respectively, of flight services to the drilling division.

Foreign-source revenues were as follows (in thousands):

Year ended December 31,	1998	1997	1996
	-----	-----	-----
Drilling services	\$ 194,839	\$ 127,479	\$ 105,010
Manufacturing sales and services	1,129	2,124	1,968
Aviation services	2,406	5,027	4,109
Total	----- \$ 198,374	----- \$ 134,630	----- \$ 111,087

The Company did not have any customers which accounted for 10% or more of consolidated revenues during 1998, 1997 or 1996.

The Company believes that it has no significant concentrations of credit risk. The Company has never experienced any significant credit losses and its drilling and aviation services customers have heretofore primarily been large energy companies and government bodies. The addition of manufacturing operations in 1994 has diversified the Company's operations and attendant credit risk. Further, the Company retains the ability to relocate its major drilling and aviation assets over significant distances on a timely basis in response to changing market conditions.

Certain other financial information for each of the Company's principal operating segments is summarized as follows (in thousands):

Year ended December 31,	1998	1997	1996
	-----	-----	-----
Depreciation and amortization:			
Drilling	\$ 31,945	\$ 31,032	\$ 33,998
Aviation	12,289	11,910	11,248
Manufacturing	5,469	4,136	2,636
Capital expenditures:			
Drilling	217,725	146,760	87,927
Aviation	16,256	16,977	8,913
Manufacturing	13,766	16,329	21,107
Maintenance and repairs:			
Drilling	33,083	29,643	32,125
Aviation	23,408	21,293	18,248
Manufacturing	12,241	13,865	9,389

## NOTE 11 RELATED PARTY TRANSACTIONS

Two members of the Company's Board of Directors served in similar capacities for one of the Company's drilling customers during 1998. Transactions with this customer were on terms and conditions, and involved day rates and operating costs, which were comparable to those experienced by the Company in connection with third party contracts for similar rigs. Because of the aforementioned relationships, the contracts between the Company and this customer were reviewed and ratified by the full Board of Directors of the Company. Related 1998 revenues were approximately \$968,000.

## NOTE 12 SUBSEQUENT EVENT

On January 19, 1999, the Company received notice from a customer that its one-year North Sea drilling contract for Gorilla V, which commenced in late-December 1998, was being terminated. The customer alleged a performance breach relating to certain equipment problems as the basis for termination. The Company believes it did not breach the contract and will vigorously pursue all legal remedies to enforce its rights under the contract.

## INDEPENDENT AUDITORS' REPORT

ROWAN COMPANIES, INC. AND SUBSIDIARIES:

We have audited the accompanying consolidated balance sheet of Rowan Companies, Inc. and Subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
DELOITTE & TOUCHE LLP

Houston, Texas  
March 1, 1999

## SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following unaudited information for the quarters ended March 31, June 30, September 30 and December 31, 1997 and 1998 includes, in the Company's opinion, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of such amounts (in thousands except per share amounts):

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
1997:				
Revenues	\$ 144,765	\$ 164,785	\$ 195,456	\$ 190,246
Operating profit	15,278	51,327	67,775	65,047
Income before extra- ordinary charges	7,631	40,580	54,287	53,927
Net income	4,153	40,580	54,287	47,639
Per common share:				
Basic:				
Income before extra- ordinary charges	.09	.47	.63	.62
Net income	.05	.47	.63	.55
Diluted:				
Income before extra- ordinary charges	.09	.46	.61	.60
Net income	.05	.46	.61	.53
1998:				
Revenues	\$ 183,914	\$ 204,240	\$ 183,470	\$ 134,726
Operating profit	69,020	71,001	51,865	8,692
Net income	42,759	44,389	32,495	4,817
Net income per common share:				
Basic	.49	.51	.38	.06
Diluted	.48	.50	.38	.06

During the first and fourth quarters of 1997, the Company redeemed early its 11 7/8% Senior Notes due 2001 and recognized extraordinary charges on each transaction comprised primarily of prepayment premiums.

The sum of the per share amounts for the quarters may not equal the per share amounts for the full year since the quarterly and full year per share computations are made independently.

## COMMON STOCK PRICE RANGE, CASH DIVIDENDS AND STOCK SPLITS (UNAUDITED)

The price range below is as reported by the New York Stock Exchange on the Composite Tape. On March 1, 1999 there were approximately 3,200 holders of record.

Quarter	1998		1997	
	High	Low	High	Low
First	\$ 32.00	\$ 22.44	\$ 29.00	\$ 18.63
Second	32.50	18.75	28.63	16.75
Third	20.63	9.00	36.88	28.19
Fourth	15.94	9.13	43.94	26.50

The Company did not pay any dividends on its common stock during 1998 and 1997. See Note 5 of the Notes to the Consolidated Financial Statements for restrictions on dividends.

Stock splits and stock dividends since the Company became publicly owned in 1967 have been as follows: 2 for 1 stock splits on January 25, 1973, December 16, 1976 and May 13, 1980; 2 for 1 stock splits effected in the form of a stock dividend on February 6, 1978 and January 20, 1981; and a 5% stock dividend on May 21, 1975.

On the basis of these splits and dividends, each share acquired prior to January 25, 1973 would be represented by 33.6 shares if still owned at present.

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## SUBSIDIARIES OF THE REGISTRANT

The following is a list of subsidiaries of the Registrant:

Registrant and Parent:  
Rowan Companies, Inc.

Wholly-Owned Subsidiaries of Registrant:  
Era Aviation, Inc., a Washington corporation  
Rowan International, Inc., a Panamanian corporation  
Rowandrift, Inc., a Texas corporation  
Rowan Drilling Company, Inc., a Texas corporation  
Atlantic Maritime Services, Inc., a Texas corporation  
Rowan Petroleum, Inc., a Texas corporation  
LeTourneau, Inc., a Texas corporation

Note: Certain subsidiaries have been omitted from this listing because such subsidiaries, when considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

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## INDEPENDENT AUDITORS' CONSENT

Rowan Companies, Inc.:

We consent to the incorporation by reference in Post-Effective Amendment No. 4 to Registration Statement No. 2-58700, Amendment No. 1 to Registration Statement No. 33-33755, Registration Statement No. 33-61444, Registration Statement No. 33-51103, Registration Statement No. 33-51105, Registration Statement No. 33-51109, Registration Statement No. 333-25041 and Registration Statement No. 333-25125, each on Form S-8, and to the incorporation by reference in Amendment No. 1 to Registration Statement No 33-15721, Amendment No. 2 to Registration Statement No. 33-30057, Amendment No. 2 to Registration Statement No. 33-61696, and Amendment No. 1 to Registration Statement No. 33-62885, each on Form S-3 of Rowan Companies Inc., of our report dated March 1, 1999, incorporated by reference in this Annual Report on Form 10-K of Rowan Companies, Inc., for the year ended December 31, 1998, and to the reference to us under the heading "Experts" in the Amendment No. 1 to Registration Statement No. 33-62885.

DELOITTE & TOUCHE LLP  
DELOITTE & TOUCHE LLP

Houston, Texas  
March 26, 1999

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Form 10-K for the Year Ended December 31, 1998  
The Exchange Act of 1934

-----  
Power of Attorney

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. R. Palmer or E. E. Thiele, or either of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign to the Company's Form 10-K for the year ended December 31, 1998 and any or all amendments, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

-----  
Pursuant to the requirement of the Exchange Act of 1934, the Company's Form 10-K for the year ended December 31, 1998 or amendment has been signed below by the following persons in the capacities and on the dates indicated:

Signature -----	Title -----	Date ----
----- (C. R. Palmer)	President, Chairman of the Board and Chief Executive Officer	
RALPH E. BAILEY (Ralph E. Bailey)	Director	March 26, 1999
HENRY O. BOSWELL (Henry O. Boswell)	Director	March 26, 1999
HANS M. BRINKHORST (Hans M. Brinkhorst)	Director	March 26, 1999
R. G. CROYLE (R. G. Croyle)	Director	March 26, 1999
----- (H. E. Lentz)	Director	
D. F. MCNEASE (D. F. McNease)	Director	March 26, 1999
LORD MOYNIHAN (Lord Moynihan)	Director	March 26, 1999
WILFRED P. SCHMOE (Wilfred P. Schmoe)	Director	March 26, 1999
CHARLES P. SIESS, JR. (Charles P. Siess, Jr.)	Director	March 26, 1999
C. W. YEARGAIN (C. W. Yeargain)	Director	March 26, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF ROWAN COMPANIES, INC. FOR THE YEAR ENDED DECEMBER 31, 1998 INCLUDED IN ITS 1998 ANNUAL REPORT TO STOCKHOLDERS AND INCORPORATED BY REFERENCE IN THIS ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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