

DIAMOND OFFSHORE DRILLING INC

Form 10-Q

July 28, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-13926

DIAMOND OFFSHORE DRILLING, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
or organization)

76-0321760
(I.R.S. Employer
Identification No.)

15415 Katy Freeway
Houston, Texas
77094

(Address of principal executive offices)

(Zip Code)

(281) 492-5300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of July 21, 2011 Common stock, \$0.01 par value per share 139,027,039 shares

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QUARTER ENDED JUNE 30, 2011**

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements.****DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share and per share data)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 279,876	\$ 464,393
Marketable securities	700,486	612,346
Accounts receivable, net of allowance for bad debts	592,157	609,606
Prepaid expenses and other current assets	196,689	177,153
Total current assets	1,769,208	1,863,498
Drilling and other property and equipment, net of accumulated depreciation	4,159,542	4,283,792
Long-term receivable		35,361
Construction deposits	478,320	154,427
Other assets	323,553	389,906
Total assets	\$ 6,730,623	\$ 6,726,984
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 60,535	\$ 99,236
Accrued liabilities	278,897	469,190
Taxes payable	30,627	57,862
Total current liabilities	370,059	626,288
Long-term debt	1,495,707	1,495,593
Deferred tax liability	527,903	542,258
Other liabilities	197,357	201,133
Total liabilities	2,591,026	2,865,272

Commitments and contingencies (Note 9)**Stockholders' equity:**

Common stock (par value \$0.01, 500,000,000 shares authorized; 143,943,839 shares issued and 139,027,039 shares outstanding at June 30, 2011; 143,943,624 shares issued and 139,026,824 shares outstanding at December 31, 2010)

1,439

1,439

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Additional paid-in capital	1,975,465	1,972,550
Retained earnings	2,271,609	1,998,995
Accumulated other comprehensive gain	5,497	3,141
Treasury stock, at cost (4,916,800 shares at June 30, 2011 and December 31, 2010)	(114,413)	(114,413)
Total stockholders' equity	4,139,597	3,861,712
Total liabilities and stockholders' equity	\$ 6,730,623	\$ 6,726,984

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Contract drilling	\$ 869,646	\$ 811,739	\$ 1,658,519	\$ 1,656,177
Revenues related to reimbursable expenses	19,850	10,864	37,366	26,107
Total revenues	889,496	822,603	1,695,885	1,682,284
Operating expenses:				
Contract drilling, excluding depreciation	388,006	351,769	750,370	657,996
Reimbursable expenses	19,287	10,379	36,237	25,084
Depreciation	101,175	100,746	202,348	198,148
General and administrative	16,372	16,849	34,097	33,503
Bad debt recovery	(1,700)	(2,798)	(10,147)	(3,898)
Gain on disposition of assets	(1,240)	(149)	(3,881)	(1,033)
Total operating expenses	521,900	476,796	1,009,024	909,800
Operating income	367,596	345,807	686,861	772,484
Other income (expense):				
Interest income	1,091	477	1,541	1,759
Interest expense	(22,226)	(21,333)	(44,270)	(43,654)
Foreign currency transaction gain (loss)	(1,555)	(3,991)	(3,161)	(3,530)
Other, net	(880)	(34)	(96)	(121)
Income before income tax expense	344,026	320,926	640,875	726,938
Income tax expense	(77,440)	(96,533)	(123,677)	(211,692)
Net income	\$ 266,586	\$ 224,393	\$ 517,198	\$ 515,246
Income per share:				
Basic	\$ 1.92	\$ 1.61	\$ 3.72	\$ 3.71
Diluted	\$ 1.92	\$ 1.61	\$ 3.72	\$ 3.70

Weighted-average shares outstanding:

Shares of common stock	139,027	139,026	139,027	139,026
Dilutive potential shares of common stock	25	53	25	78
Total weighted-average shares outstanding	139,052	139,079	139,052	139,104

Cash dividends declared per share of common stock

\$.875	\$ 1.50	\$ 1.75	\$ 3.50
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The accompanying notes are an integral part of the consolidated financial statements.

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DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2011	2010
Operating activities:		
Net income	\$ 517,198	\$ 515,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	202,348	198,148
Gain on disposition of assets	(3,881)	(1,033)
Loss (gain) on sale of marketable securities, net	(782)	2
Gain on foreign currency forward exchange contracts	(7,231)	(457)
Deferred tax provision	(15,623)	11,921
Accretion of discounts on marketable securities	(231)	(200)
Amortization of debt issuance costs	439	449
Amortization of debt discounts	114	167
Stock-based compensation expense	2,920	3,719
Deferred income, net	(32,490)	56,593
Deferred expenses, net	54,789	(52,311)
Other assets, noncurrent	(217)	5,788
Other liabilities, noncurrent	424	7,712
Proceeds from settlement of foreign currency forward exchange contracts designated as accounting hedges	7,231	457
Changes in operating assets and liabilities:		
Accounts receivable	51,147	109,118
Prepaid expenses and other current assets	(24,137)	(20,045)
Accounts payable and accrued liabilities	(33,070)	8,666
Taxes payable	4,691	(149,635)
Net cash provided by operating activities	723,639	694,305
Investing activities:		
Capital expenditures	(100,521)	(221,890)
Deposits for construction of new rigs	(478,320)	
Deposits received on sale of rig		18,600
Proceeds from disposition of assets, net of disposal costs	4,205	1,258
Proceeds from sale and maturities of marketable securities	3,312,089	2,550,088
Purchases of marketable securities	(3,399,797)	(2,399,760)
Net cash used in investing activities	(662,344)	(51,704)
Financing activities:		
Redemption of zero coupon debentures		(4,238)

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Debt issuance costs and arrangement fees		(98)
Payment of dividends	(245,812)	(489,670)
Proceeds from stock plan exercises		107
Net cash used in financing activities	(245,812)	(493,899)
Net change in cash and cash equivalents	(184,517)	148,702
Cash and cash equivalents, beginning of period	464,393	376,417
Cash and cash equivalents, end of period	\$ 279,876	\$ 525,119

The accompanying notes are an integral part of the consolidated financial statements.

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**DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1. General Information

The unaudited consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries, which we refer to as Diamond Offshore, we, us or our, should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 1-13926).

As of July 21, 2011, Loews Corporation, or Loews, owned 50.4% of the outstanding shares of our common stock.
Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S., or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, pursuant to such rules and regulations, they do not include all disclosures required by GAAP for complete financial statements. The consolidated financial information has not been audited but, in the opinion of management, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated balance sheets, statements of operations and statements of cash flows at the dates and for the periods indicated. Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Reclassifications

Certain amounts applicable to the prior periods have been reclassified to conform to the classifications currently followed. Such reclassifications do not affect earnings.

We have presented \$154.4 million in Construction deposits in our Consolidated Balance Sheets at December 31, 2010, which was previously presented in Other assets.

Cash and Cash Equivalents, Marketable Securities

We consider short-term, highly liquid investments that have an original maturity of three months or less and deposits in money market mutual funds that are readily convertible into cash to be cash equivalents. See Note 6.

We classify our investments in marketable securities as available for sale and are stated at fair value in our Consolidated Balance Sheets. Accordingly, any unrealized gains and losses, net of taxes, are reported in our Consolidated Balance Sheets in Accumulated other comprehensive gain until realized. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and such adjustments are included in our Consolidated Statements of Operations in Interest income. The sale and purchase of securities are recorded on the date of the trade. The cost of debt securities sold is based on the specific identification method. Realized gains or losses, as well as any declines in value that are judged to be other than temporary, are reported in our Consolidated Statements of Operations in Other income (expense) Other, net.

The effect of exchange rate changes on cash balances held in foreign currencies was not material for the six months ended June 30, 2011 and 2010.

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Provision for Bad Debts

We record a provision for bad debts on a case-by-case basis when facts and circumstances indicate that a customer receivable may not be collectible. In establishing these reserves, we consider historical and other factors that predict collectability, including write-offs, recoveries and the monitoring of credit quality. Such provision is reported as a component of Operating expense in our Consolidated Statements of Operations. See Note 2.

Derivative Financial Instruments

Our derivative financial instruments consist of foreign currency forward exchange, or FOREX, contracts which we may designate as cash flow hedges. In accordance with GAAP, each derivative contract is stated in the balance sheet at its fair value with gains and losses reflected in the income statement except that, to the extent the derivative qualifies for and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions. We report such realized gains and losses as a component of Contract drilling, excluding depreciation expense in our Consolidated Statements of Operations to offset the impact of foreign currency fluctuations in our expenditures in local foreign currencies in the countries in which we operate.

Realized gains or losses upon settlement of derivative contracts not designated as cash flow hedges are reported as Foreign currency transaction gain (loss) in our Consolidated Statements of Operations. For the three-month and six-month periods ended June 30, 2011 and 2010, we recognized no foreign currency transaction gain (loss) attributable to FOREX contracts not designated as cash flow hedges. See Notes 5 and 6.

Impairment of Long-Lived Assets

We evaluate our property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable (such as cold stacking a rig or excess spending over budget on a new-build or major rig upgrade). We utilize a probability-weighted cash flow analysis in testing an asset for potential impairment. Our assumptions and estimates underlying this analysis include the following:

dayrate by rig;

utilization rate by rig (expressed as the actual percentage of time per year that the rig would be used);

the per day operating cost for each rig if active, ready-stacked or cold-stacked;

the estimated annual cost for rig replacements and/or enhancement programs;

the estimated maintenance, inspection or other costs associated with a rig returning to work;

salvage value for each rig; and

estimated proceeds that may be received on disposition of the rig.

Based on these assumptions and estimates, we develop a matrix using several different utilization/dayrate scenarios, to each of which we have assigned a probability of occurrence. The sum of our utilization scenarios (which include active, ready stacked and cold stacked) and probability of occurrence scenarios both equal 100% in the aggregate. We evaluate our cold stacked rigs annually, and we update the matrices for each of our cold stacked rigs at each year end and modify our assumptions giving consideration to the length of time the rig has been cold stacked, the current and expected market for the type of rig and expectations of future oil and gas prices. Further, to test sensitivity, we consider the impact of a 5% reduction in assumed dayrates for the cold stacked rigs (holding all other assumptions and estimates in the model constant). We would not necessarily record an impairment if the sensitivity analysis indicated potential cash flows would be insufficient to recover our carrying value. We would assess other qualitative factors including industry, regulatory and other relevant conditions to determine whether an impairment or further disclosure is warranted.

As of June 30, 2011, we had eight cold stacked rigs with an aggregate net book value of approximately \$91.0 million. Of our cold stacked rigs, four were jack-up rigs, consisting of three mat-supported rigs and one

independent-leg, cantilevered rig (all in the U.S. Gulf of Mexico, or GOM), and four were intermediate semisubmersible rigs (two in the GOM and two in Malaysia), including the *Ocean Epoch*, which was cold stacked in the first quarter of 2011. As of December 31, 2010, we had seven cold stacked rigs with an aggregate net book value of approximately \$78.0 million. We performed an impairment review for each of these rigs using the methodology described above. Based on our analyses, we have concluded that these rigs were not subject to impairment at June 30, 2011 and December 31, 2010, respectively.

Management's assumptions are an inherent part of our asset impairment evaluation and the use of different assumptions could produce results that differ from those reported.

Table of Contents*Comprehensive Income*

A reconciliation of net income to comprehensive income is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Net income	\$ 266,586	\$ 224,393	\$ 517,198	\$ 515,246
Other comprehensive gains (losses), net of tax:				
FOREX contracts:				
Unrealized holding (loss) gain	4,643	(3,397)	7,683	(3,260)
Reclassification adjustment for loss (gain) included in net income	(3,541)	356	(4,949)	(729)
Investments in marketable securities:				
Unrealized holding (loss) gain	(5)	(18)	1	(22)
Reclassification adjustment for loss (gain) included in net income	(5)	1	(379)	1
Comprehensive income	\$ 267,678	\$ 221,335	\$ 519,554	\$ 511,236

Foreign Currency

Our functional currency is the U.S. dollar. Foreign currency transaction gains and losses, including gains and losses from the settlement of FOREX contracts not designated as accounting hedges, are reported as Foreign currency transaction gain (loss) in our Consolidated Statements of Operations. For the three-month and six-month periods ended June 30, 2011, we recognized net foreign currency transaction (losses) of \$(1.6) million and \$(3.2) million, respectively. For the three-month and six-month periods ended June 30, 2010, we recognized net foreign currency transaction (losses) of \$(4.0) million and \$(3.5) million, respectively. See Note 5.

Revenue Recognition

Revenue from our dayrate drilling contracts is recognized as services are performed. In connection with such drilling contracts, we may receive fees (either lump-sum or dayrate) for the mobilization of equipment. These fees are earned as services are performed over the initial term of the related drilling contracts. We defer mobilization fees received, as well as direct and incremental mobilization costs incurred, and amortize each, on a straight line basis, over the term of the related drilling contracts (which is the period we estimate to be benefited from the mobilization activity). Straight line amortization of mobilization revenues and related costs over the initial term of the related drilling contracts (which generally range from 2 to 60 months) is consistent with the timing of net cash flows generated from the actual drilling services performed. Absent a contract, mobilization costs are recognized as incurred.

From time to time, we may receive fees from our customers for capital improvements to our rigs (either lump-sum or dayrate). We defer such fees received in Accrued liabilities and Other liabilities in our Consolidated Balance Sheets and recognize these fees into income on a straight-line basis over the period of the related drilling contract. We capitalize the costs of such capital improvements and depreciate them over the estimated useful life of the asset.

We record reimbursements received for the purchase of supplies, equipment, personnel services and other services provided at the request of our customers in accordance with a contract or agreement, for the gross amount billed to the customer, as Revenues related to reimbursable expenses in our Consolidated Statements of Operations.

Income Taxes

Certain of our international rigs are owned and operated, directly or indirectly, by Diamond Offshore International Limited, or DOIL, a Cayman Islands subsidiary which we wholly own. Since forming this subsidiary in 2002, it has been our intention to indefinitely reinvest the earnings of the subsidiary to finance foreign activities. Consequently, no U.S. federal income taxes have been provided on these earnings except to the extent that such earnings were

immediately subject to U.S. federal income taxes and except for the earnings of Diamond East Asia Limited, or DEAL, a wholly-owned subsidiary of DOIL. It had been our intention to repatriate the earnings of DEAL to the U.S. and, accordingly, we provided U.S. income taxes on its earnings. However, a tax law provision

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that expired at the end of 2009, but was subsequently signed back into law by the President of the United States on December 17, 2010, in conjunction with our decisions in late 2010 and the first half of 2011 to build three new drillships overseas, caused us to reassess our intent to repatriate the earnings of DEAL to the U.S. We now plan to reinvest the earnings of DEAL internationally through another of our foreign companies, and consequently, we are no longer providing U.S. income taxes on its earnings. During the six months ended June 30, 2011, we reversed approximately \$15.0 million of U.S. income taxes that had been provided in prior periods for the earnings of DEAL.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, or ASU 2011-05, which eliminates the option to present components of other comprehensive income, or OCI, as part of the statement of changes in stockholders' equity, requires the presentation of each component of net income and each component of OCI either in a single continuous statement or in two separate but consecutive statements and also requires presentation of reclassification adjustments on the face of the financial statement. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011; however, early adoption is permitted. The adoption of ASU 2011-05 will not have an effect on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, or ASU 2011-04. ASU 2011-04 clarifies existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We are in the process of reviewing the impact of this ASU on our financial statements and will incorporate any additional disclosures in our annual financial statements for the year ending December 31, 2012.

2. Supplemental Financial Information*Consolidated Balance Sheet Information*

Accounts receivable, net of allowance for bad debts, consists of the following:

	June 30, 2011	December 31, 2010
	(In thousands)	
Trade receivables	\$583,595	\$ 633,224
Value added tax receivables	7,442	5,003
Unbilled third party claims	106	45
Related party receivables	3,320	538
Other	1,123	2,704
	595,586	641,514
Allowance for bad debts	(3,429)	(31,908)
Total	\$592,157	\$ 609,606

During the three-month and six-month periods ended June 30, 2011, we recovered \$1.7 million and \$10.1 million, respectively, associated with reserves for bad debts recorded in previous years. During the three-month and six-month periods ended June 30, 2010, we recovered \$2.8 million and \$3.9 million, respectively, associated with the reserves for bad debts recorded in previous years. No additional allowances were deemed necessary for each of the three-month and six-month periods ended June 30, 2011 and 2010.

In addition, during the six months ended June 30, 2011, we offset \$18.4 million in previously reserved trade receivables against the allowance for bad debts as we had exhausted all methods of recovery against this customer.

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Prepaid expenses and other current assets consist of the following:

	June 30, 2011	December 31, 2010
	(In thousands)	
Rig spare parts and supplies	\$ 51,175	\$ 50,288
Deferred mobilization costs	60,396	76,868
Prepaid insurance	27,743	9,587
Deferred tax assets	9,557	9,557
Deposits	724	827
Prepaid taxes	32,865	20,347
FOREX contracts	8,410	4,326
Other	5,819	5,353
Total	\$ 196,689	\$ 177,153

Accrued liabilities consist of the following:

	June 30, 2011	December 31, 2010
	(In thousands)	
Accrued capital project/upgrade costs	\$ 6,848	\$ 28,947
Payroll and benefits	87,522	76,041
Deferred revenue	55,933	69,825
Rig operating expenses	71,901	81,820
Interest payable	21,219	21,219
Personal injury and other claims	8,563	11,758
Accrued drillship construction installment		154,427
Other	26,911	25,153
Total	\$ 278,897	\$ 469,190

At December 31, 2010, we had accrued the first installment payable under a turnkey construction agreement with Hyundai Heavy Industries Co., Ltd., or Hyundai, of \$154.4 million and recorded the related noncurrent asset in an equal amount in Construction deposits in our Consolidated Balance Sheets. See Note 9.

Consolidated Statement of Cash Flows Information

We paid interest on long-term debt totaling \$41.5 million and \$42.0 million for the six-month periods ended June 30, 2011 and 2010, respectively. During the six months ended June 30, 2010, we paid \$0.9 million in interest on assessments from the Internal Revenue Service.

We made estimated U.S. federal income tax payments of \$49.0 million and \$254.5 million during the six-month periods ended June 30, 2011 and 2010, respectively. We paid \$96.5 million and \$76.2 million in foreign income taxes, net of foreign tax refunds, during the six months ended June 30, 2011 and 2010, respectively. We paid state income taxes, net of refunds, of \$0.2 million and \$0.1 million during the six months ended June 30, 2011 and 2010, respectively.

Capital expenditures for the six months ended June 30, 2011 included \$28.9 million that was accrued but unpaid at December 31, 2010. Capital expenditures for the six months ended June 30, 2010 included \$64.9 million that was accrued but unpaid at December 31, 2009. Capital expenditures that were accrued but not paid as of June 30, 2011

totaled \$6.8 million. We have included this amount in Accrued liabilities in our Consolidated Balance Sheets at June 30, 2011.

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A reconciliation of the numerators and the denominators of our basic and diluted per-share computations follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Net income basic (numerator):	\$ 266,586	\$ 224,393	\$ 517,198	\$ 515,246
Effect of dilutive potential shares				
Convertible debentures		32		56
Net income including conversions diluted (numerator)	\$ 266,586	\$ 224,425	\$ 517,198	\$ 515,302
Weighted average shares basic (denominator):	139,027	139,026	139,027	139,026
Effect of dilutive potential shares				
Convertible debentures		32		42
Stock options and stock appreciation rights	25	21	25	36
Weighted average shares including conversions diluted (denominator)	139,052	139,079	139,052	139,104
Earnings per share:				
Basic	\$ 1.92	\$ 1.61	\$ 3.72	\$ 3.71
Diluted	\$ 1.92	\$ 1.61	\$ 3.72	\$ 3.70

The following table sets forth the share effects of stock options and the number of stock appreciation rights excluded from our computations of diluted earnings per share, or EPS, as the inclusion of such potentially dilutive shares would have been antidilutive for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Employee and director:				
Stock options	8	8	8	4
Stock appreciation rights	693	672	669	557

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We report our investments as current assets in our Consolidated Balance Sheets in Marketable securities, representing the investment of cash available for current operations. See Note 6.

Our investments in marketable securities are classified as available for sale and are summarized as follows:

	Amortized	June 30, 2011 Unrealized Gain (Loss) (In thousands)	Market Value
	Cost		
U.S. Treasury Bills (due within one year)	\$699,994	\$ (2)	\$699,992
Mortgage-backed securities	446	48	494
Total	\$700,440	\$ 46	\$700,486

	Amortized	December 31, 2010 Unrealized Gain (Loss) (In thousands)	Market Value
	Cost		
U.S. Treasury Bills (due within one year)	\$599,965	\$ 15	\$599,980
Corporate bonds	11,200	560	11,760
Mortgage-backed securities	553	53	606
Total	\$611,718	\$ 628	\$612,346

Proceeds from sales and maturities of marketable securities and gross realized gains and losses are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Proceeds from sales	\$ 73	\$ 35	\$ 12,089	\$ 88
Proceeds from maturities	1,950,000	1,350,000	3,300,000	2,550,000
Gross realized gains			784	
Gross realized losses	(1)	(1)	(2)	(2)

5. Derivative Financial Instruments*Foreign Currency Forward Exchange Contracts*

Our international operations expose us to foreign exchange risk associated with our costs payable in foreign currencies for employee compensation, foreign income tax payments and purchases from foreign suppliers. We may utilize FOREX contracts to manage our foreign exchange risk. Our FOREX contracts may obligate us to exchange predetermined amounts of foreign currencies on specified dates or to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date, which, for most of our contracts, is the average spot rate for the contract period.

We enter into FOREX contracts when we believe market conditions are favorable to purchase contracts for future settlement with the expectation that such contracts, when settled, will reduce our exposure to foreign currency gains/losses on foreign currency expenditures in the future. The amount and duration of such contracts is based on our monthly forecast of expenditures in the significant currencies in which we do business and for which there is a

financial market (*i.e.*, Australian dollars, Brazilian reais, British pounds sterling, Mexican pesos and Norwegian kroner). These forward contracts are derivatives as defined by GAAP.

We have adopted a hedging strategy whereby certain of our qualifying FOREX contracts are designated as cash flow hedges based on our expected future foreign currency requirements. These hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of our derivative financial instruments to their fair value are recorded as a component of Accumulated other comprehensive gain, or AOCG, in our Consolidated Financial Statements. The effective portion of the cash flow hedge will remain in AOCG until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. Adjustments to record the carrying value of the ineffective

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portion of our derivative financial instruments to fair value are recorded as Foreign currency transaction gain (loss) in our Consolidated Statements of Operations.

During the six months ended June 30, 2011 and 2010, we settled FOREX contracts with an aggregate notional value of approximately \$145.5 million and \$147.2 million, respectively, all of which were designated as accounting hedges. During the six-month periods ended June 30, 2011 and 2010, we did not enter into or settle any FOREX contracts that were not designated as accounting hedges.

The following table presents the amounts recognized in our Consolidated Statements of Operations related to our FOREX contracts designated as accounting hedges for the three-month and six-month periods ended June 30, 2011 and 2010.

Location of Gain (Loss) Recognized in Income	Amount of (Loss) Gain Recognized in Income			
	Three Months		Six Months Ended	
	Ended June 30, 2011	2010	June 30, 2011	2010
	(In thousands)			
Contract drilling expense	\$ 5,405	\$ (1,643)	\$ 7,231	\$ 457

As of June 30, 2011, we had FOREX contracts outstanding in the aggregate notional amount of \$122.4 million, consisting of \$36.9 million in Australian dollars, \$66.4 million in Brazilian reais, \$17.4 million in British pounds sterling and \$1.7 million in Norwegian kroner. These contracts generally settle monthly through December 2011. As of June 30, 2011, all outstanding derivative contracts had been designated as cash flow hedges. See Note 6.

The following table presents the fair values of our derivative FOREX contracts designated as hedging instruments at June 30, 2011 and December 31, 2010.

Location	Balance Sheet	Fair Value		Location	Balance Sheet	Fair Value	
		June 30,	December 31,			June 30,	December 31,
		2011	2010			2011	2010
		(In thousands)				(In thousands)	
Prepaid expenses and other current assets		\$8,410	\$ 4,326	Accrued liabilities		\$	\$ (121)

The following table presents the amounts recognized in our Consolidated Balance Sheets and Consolidated Statements of Operations related to our FOREX contracts designated as cash flow hedges for the three-month and six-month periods ended June 30, 2011 and 2010.

	For The Three Months Ended		For The Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(In thousands)			
Amount of gain (loss) recognized in AOCG on derivative (effective portion)	\$ 7,143	\$ (5,226)	\$ 11,820	\$ (5,015)
Location of gain (loss) reclassified from AOCG into income (effective portion)	Contract drilling	Contract drilling	Contract drilling	Contract drilling

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	expense	expense	expense	expense
Amount of gain (loss) reclassified from AOCG into income (effective portion)	\$ 5,448	\$ (548)	\$ 7,615	\$ 1,122
Location of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Foreign currency transaction gain (loss)	Foreign currency transaction gain (loss)	Foreign currency transaction gain (loss)	Foreign currency transaction gain (loss)
Amount of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	\$ 13	\$	\$	\$

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As of June 30, 2011, the estimated amount of net unrealized gains associated with our FOREX contracts that will be reclassified to earnings during the next twelve months was \$8.4 million. The net unrealized gains associated with these derivative financial instruments will be reclassified to contract drilling expense.

6. Financial Instruments and Fair Value Disclosures

Concentrations of Credit and Market Risk

Financial instruments which potentially subject us to significant concentrations of credit or market risk consist primarily of periodic temporary investments of excess cash, trade accounts receivable and investments in debt securities, including residential mortgage-backed securities. We place our excess cash investments in high quality short-term money market instruments through several financial institutions. At times, such investments may be in excess of the insurable limit. We periodically evaluate the relative credit standing of these financial institutions as part of our investment strategy.

A majority of our investments in debt securities are U.S. government securities with minimal credit risk. However, we are exposed to market risk due to price volatility associated with interest rate fluctuations.

Concentrations of credit risk with respect to our trade accounts receivable are limited primarily due to the entities comprising our customer base. Since the market for our services is the offshore oil and gas industry, this customer base consists primarily of major and independent oil and gas companies and government-owned oil companies. Our two customers in Brazil, Petróleo Brasileiro S.A. (a Brazilian multinational energy company that is majority-owned by the Brazilian government) and OGX Petróleo e Gás Ltda. (a privately owned Brazilian oil and natural gas company), accounted for \$132.5 million and \$68.3 million, or 23% and 12%, respectively, of our total consolidated gross trade accounts receivable balances as of June 30, 2011, and \$180.8 million and \$52.4 million, or 29% and 8%, respectively, as of December 31, 2010.

In general, before working for a customer with whom we have not had a prior business relationship and/or whose financial stability may be uncertain to us, we perform a credit review on that company. Based on that analysis, we may require that the customer present a letter of credit, prepay or provide other credit enhancements. Historically, we have not experienced significant losses on our trade receivables. We record a provision for bad debts on a case-by-case basis when facts and circumstances indicate that a customer receivable may not be collectible. Our allowance for bad debts was \$3.4 million and \$31.9 million at June 30, 2011 and December 31, 2010, respectively. See Note 2.

One of our drilling contracts obligates our customer to pay us, over the term of the drilling program, an aggregate drilling rate of \$560,000 per day, consisting of \$75,000 per day payable in accordance with our normal credit terms (due 30 days after receipt of invoice) and the remainder of the contractual dayrate, \$485,000 per day, payable through the conveyance of a 27% net profits interest, or NPI, in certain developmental oil-and-gas producing properties.

At June 30, 2011, \$80.7 million was payable to us from the NPI. Based on current production payout estimates, we expect to collect the entire \$80.7 million receivable within the next twelve months and have presented this amount in

Accounts receivable in our Consolidated Balance Sheets. At June 30, 2011, we believe that collectability of the amount owed pursuant to the NPI arrangement was reasonably assured.

At December 31, 2010, \$85.0 million was payable to us from the NPI, of which \$49.6 million and \$35.4 million are presented as Accounts receivable and Long-term receivable, respectively, in our Consolidated Balance Sheets.

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The amounts reported in our Consolidated Balance Sheets for cash and cash equivalents, marketable securities, accounts receivable, forward exchange contracts and accounts payable approximate fair value. Fair values and related carrying values of our debt instruments are shown below.

	June 30, 2011		December 31, 2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In millions)			
4.875% Senior Notes	\$271.1	\$249.7	\$270.0	\$ 249.7
5.15% Senior Notes	274.0	249.8	271.1	249.7
5.70% Senior Notes	492.6	496.8	493.1	496.8
5.875% Senior Notes	558.2	499.4	550.9	499.4

We have estimated the fair value amounts by using appropriate valuation methodologies and information available to management as of June 30, 2011 and December 31, 2010, respectively. Considerable judgment is required in developing these estimates, and accordingly, no assurance can be given that the estimated values are indicative of the amounts that would be realized in a free market exchange. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

Cash and cash equivalents The carrying amounts approximate fair value because of the short maturity of these instruments.

Marketable securities The fair values of the debt securities, including residential mortgage-backed securities, available for sale were based on the quoted closing market prices on June 30, 2011 and December 31, 2010, respectively.

Accounts receivable and accounts payable The carrying amounts approximate fair value based on the nature of the instruments.

Forward exchange contracts The fair value of our FOREX contracts is based on both quoted market prices and valuations derived from pricing models on June 30, 2011 and December 31, 2010, respectively.

Long-term receivable The carrying amount approximates fair value based on the nature of the instrument.

Long-term debt The fair value of our 5.70% Senior Notes due 2039, 5.875% Senior Notes due 2019, 4.875% Senior Notes due July 1, 2015, and 5.15% Senior Notes due September 1, 2014 is based on the quoted market prices from brokers of these instruments.

Certain of our assets and liabilities are required to be measured at fair value in accordance with GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices for identical instruments in active markets. Level 1 assets include short-term investments such as money market funds and U.S. Treasury Bills. Our Level 1 assets at June 30, 2011 consisted of cash held in money market funds of \$244.3 million and investments in U.S. Treasury Bills of \$700.0 million. Our Level 1 assets at December 31, 2010 consisted of cash held in money market funds of \$442.2 million

and investments in U.S. Treasury Bills of \$600.0 million.

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Level 2 Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 assets and liabilities include residential mortgage-backed securities and over-the-counter FOREX contracts. Our residential mortgage-backed securities were valued using a model-derived valuation technique based on the quoted closing market prices received from a financial institution. Our FOREX contracts are valued based on quoted market prices, which are derived from observable inputs including current spot and forward rates, less the contract rate multiplied by the notional amount. The inputs used in our valuation are obtained from a Bloomberg curve analysis which uses par coupon swap rates to calculate implied forward rates so that projected floating rate cash flows can be calculated. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 assets and liabilities generally include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation or for which there is a lack of transparency as to the inputs used.

Market conditions could cause an instrument to be reclassified from Level 1 to Level 2, or from Level 2 to Level 3. Our policy regarding fair value measurements of financial instruments transferred into and out of levels is to reflect the transfers as having occurred at the beginning of the reporting period.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	June 30, 2011			Assets at
	Fair Value Measurements Using			Fair
	Level 1	Level 2	Level 3	Value
	(In thousands)			
Assets:				
Short-term investments	\$ 944,290	\$	\$	\$ 944,290
FOREX contracts		8,410		8,410
Mortgage-backed securities		494		494
Total assets	\$ 944,290	\$ 8,904	\$	\$ 953,194

December 31, 2010				Assets at Fair Value
Fair Value Measurements Using				
Level 1	Level 2	Level 3		
(In thousands)				
Assets:				
Short-term investments	\$ 1,042,224	\$	\$	\$ 1,042,224
FOREX contracts		4,327		4,327
Corporate bonds		11,760		11,760

Mortgage-backed securities		606		606
Total assets	\$ 1,042,224	\$ 16,693	\$	\$ 1,058,917
Liabilities:				
FOREX contracts	\$	\$ (121)	\$	\$ (121)

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Table of Contents**7. Drilling and Other Property and Equipment**

Cost and accumulated depreciation of drilling and other property and equipment are summarized as follows:

	June 30, 2011	December 31, 2010
	(In thousands)	
Drilling rigs and equipment	\$ 7,235,894	\$ 7,163,196
Land and buildings	60,027	56,536
Office equipment and other	46,509	44,689
Cost	7,342,430	7,264,421
Less: accumulated depreciation	(3,182,888)	(2,980,629)
Drilling and other property and equipment, net	\$ 4,159,542	\$ 4,283,792

8. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2011	December 31, 2010
	(In thousands)	
5.15% Senior Notes (due 2014)	\$ 249,778	\$ 249,745
4.875% Senior Notes (due 2015)	249,751	249,724
5.875% Senior Notes (due 2019)	499,382	499,351
5.70% Senior Notes (due 2039)	496,796	496,773
Total	\$ 1,495,707	\$ 1,495,593

The aggregate maturities of long-term debt for each of the five years subsequent to June 30, 2011, are as follows:

	(Dollars in thousands)
2012	\$
2013	
2014	249,778
2015	249,751
2016	
Thereafter	996,178
Total	\$ 1,495,707

9. Commitments and Contingencies

Various claims have been filed against us in the ordinary course of business, including claims by offshore workers alleging personal injuries. We have assessed each claim or exposure to determine the likelihood that the resolution of the matter might ultimately result in an adverse effect on our financial condition, results of operations and cash flows. When we determine that an unfavorable resolution of a matter is probable and such amount of loss can be determined, we record a reserve for the estimated loss at the time that both of these criteria are met. Our management believes that we have established adequate reserves for any liabilities that may reasonably be expected to result from these claims.

Litigation. We are one of several unrelated defendants in lawsuits filed in the Circuit Courts of the State of Mississippi alleging that defendants manufactured, distributed or utilized drilling mud containing asbestos and, in our

case, allowed such drilling mud to have been utilized aboard our offshore drilling rigs. The plaintiffs seek, among other things, an award of unspecified compensatory and punitive damages. We expect to receive complete defense and indemnity from Murphy Exploration & Production Company pursuant to the terms of our 1992 asset purchase agreement with them. We are unable to estimate our potential exposure, if any, to these lawsuits at this time but do not believe that ultimate liability, if any, resulting from this litigation will have a material adverse effect on our financial condition, results of operations and cash flows.

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Various other claims have been filed against us in the ordinary course of business. In the opinion of our management, no pending or known threatened claims, actions or proceedings against us are expected to have a material adverse effect on our consolidated financial position, results of operations and cash flows.

We intend to defend these matters vigorously; however, we cannot predict with certainty the outcome or effect of any litigation matters specifically described above or any other pending litigation or claims. There can be no assurance as to the ultimate outcome of these lawsuits.

Personal Injury Claims. Our deductibles for marine liability coverage, including personal injury claims, which primarily result from Jones Act liability in the Gulf of Mexico, are currently \$10.0 million per the first occurrence, with no aggregate deductible, and vary in amounts ranging between \$5.0 million and, if aggregate claims exceed certain thresholds, up to \$100.0 million for each subsequent occurrence, depending on the nature, severity and frequency of claims which might arise during the policy year. The Jones Act is a federal law that permits seamen to seek compensation for certain injuries during the course of their employment on a vessel and governs the liability of vessel operators and marine employers for the work-related injury or death of an employee. We engage outside consultants to assist us in estimating our aggregate reserve for personal injury claims based on our historical losses and utilizing various actuarial models. We allocate a portion of the aggregate reserve to Accrued liabilities based on an estimate of claims expected to be paid within the next twelve months with the residual recorded as Other liabilities. At June 30, 2011, our estimated liability for personal injury claims was \$35.4 million, of which \$8.2 million and \$27.2 million were recorded in Accrued liabilities and Other liabilities, respectively, in our Consolidated Balance Sheets. At December 31, 2010, our estimated liability for personal injury claims was \$35.0 million, of which \$11.1 million and \$23.9 million were recorded in Accrued liabilities and Other liabilities, respectively, in our Consolidated Balance Sheets. The eventual settlement or adjudication of these claims could differ materially from our estimated amounts due to uncertainties such as:

the severity of personal injuries claimed;

significant changes in the volume of personal injury claims;

the unpredictability of legal jurisdictions where the claims will ultimately be litigated;

inconsistent court decisions; and

the risks and lack of predictability inherent in personal injury litigation.

Purchase Obligations. Since December 2010, we have entered into three separate turnkey contracts with Hyundai for the construction of three dynamically positioned, ultra-deepwater drillships, with deliveries scheduled for late in the second and fourth quarters of 2013 and in the second quarter of 2014. The aggregate cost of the three drillships, including commissioning, spares and project management, is expected to be approximately \$1.8 billion.

The contracted price of each drillship is payable in two installments. The first installments, aggregating \$478.3 million, were paid in the first and second quarters of 2011 and are reported in Construction deposits in our Consolidated Balance Sheets. At June 30, 2011 and December 31, 2010, we had no other purchase obligations for major rig upgrades or any other significant obligations, except for those related to our direct rig operations, which arise during the normal course of business.

Letters of Credit and Other. We were contingently liable as of June 30, 2011 in the amount of \$72.1 million under certain performance, bid, supersedeas, tax appeal and custom bonds and letters of credit, including \$4.3 million in letters of credit issued under our \$285 million, syndicated, senior unsecured revolving credit facility. At June 30, 2011, two of our outstanding bonds, totaling \$19.6 million, had been purchased from a related party after obtaining competitive quotes. Agreements relating to approximately \$56.8 million of performance bonds can require collateral at any time. As of June 30, 2011, we had not been required to make any collateral deposits with respect to these agreements. The remaining agreements cannot require collateral except in events of default. On our behalf, banks have issued letters of credit securing certain of these bonds.

Table of Contents**10. Segments and Geographic Area Analysis**

Although we provide contract drilling services with different types of offshore drilling rigs and also provide such services in many geographic locations, we have aggregated these operations into one reportable segment based on the similarity of economic characteristics among all divisions and locations, including the nature of services provided and the type of customers of such services, in accordance with FASB Accounting Standards Codification Topic 280, Segment Reporting.

Revenues from contract drilling services by equipment-type are listed below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
High-Specification Floaters	\$ 452,289	\$ 340,387	\$ 813,355	\$ 724,175
Intermediate Semisubmersibles	356,840	389,094	736,339	769,795
Jack-ups	60,512	82,223	108,730	162,172
Other	5	35	95	35
Total contract drilling revenues	869,646	811,739	1,658,519	1,656,177
Revenues related to reimbursable expenses	19,850	10,864	37,366	26,107
Total revenues	\$ 889,496	\$ 822,603	\$ 1,695,885	\$ 1,682,284

Geographic Areas

Our drilling rigs are highly mobile and may be moved to other markets throughout the world in response to market conditions or customer needs. At June 30, 2011, our drilling rigs were located offshore twelve countries in addition to the United States. Revenues by geographic area are presented by attributing revenues to the individual country or areas where the services were performed.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
United States	\$ 101,221	\$ 189,019	\$ 151,495	\$ 427,566
International:				
South America	441,221	312,207	885,324	595,323
Australia/Asia/Middle East	118,454	142,463	223,122	301,392
Europe/Africa/Mediterranean	209,102	140,078	399,150	276,683
Mexico	19,498	38,836	36,794	81,320
Total revenues	\$ 889,496	\$ 822,603	\$ 1,695,885	\$ 1,682,284

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

The following discussion should be read in conjunction with our unaudited consolidated financial statements (including the notes thereto) included elsewhere in this report and our audited consolidated financial statements and the notes thereto, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 1A, Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2010. References to Diamond Offshore, we, us or our mean Diamond Offshore Drilling, Inc., a Delaware corporation, and its subsidiaries.

We provide contract drilling services to the energy industry around the globe and are a leader in offshore drilling. Our current fleet of 46 offshore drilling rigs consists of 32 semisubmersibles, 13 jack-ups and one drillship. We currently have three drillships on order, two of which are expected to be delivered late in the second and fourth quarters of 2013. Our third drillship is expected to be delivered at the end of the second quarter of 2014.

Overview

Industry Conditions

U.S. Gulf of Mexico The U.S. government lifted the ban on certain drilling activities in the U.S. Gulf of Mexico, or GOM, on October 12, 2010. Currently, all drilling in the GOM is subject to compliance with the final Drilling Safety Rule (codification of Notice to Lessees, or NTL, 2010-N05), the Workplace Safety Rule on Safety and Environmental Management Systems and other requirements set forth in NTL 2010-N06 and NTL 2010-N10 (known as the Compliance and Review NTL). The Bureau of Ocean Energy Management, Regulation and Enforcement, or BOEMRE, recently announced that additional regulations are forthcoming and that multi-person inspection teams will now be utilized for offshore oil and gas inspections. In addition, the BOEMRE is in the process of a comprehensive review of its application of the National Environmental Policy Act of 1969, or NEPA, in reviewing drilling plans, lease sales and other drilling activities in the GOM, particularly the use of categorical exclusions under NEPA to preclude the requirement for or limit the scope of environmental assessments. We are not able to predict the likelihood, nature or extent of any additional rulemaking or the results of reviews by the BOEMRE.

In addition, in the aftermath of the April 20, 2010 Macondo incident, the number of new drilling permits issued by BOEMRE has been limited. Although the BOEMRE has announced that it is putting in place significant improvements in the oil and gas permit application process, we are unable to predict when or if the pace of permitting in the GOM will return to pre-Macondo levels. It has been reported that the industry currently has approximately 33 floating rigs in the GOM that have been impacted by the regulatory uncertainty that has followed the Macondo incident and that five floating rigs have left the GOM since the imposition of the moratorium in 2010, two of which rigs were ours. Absent an increase in permitting activity, weakness in the GOM market is likely to continue throughout 2011, with the possibility of additional rigs being cold stacked by us and others in the industry.

International Markets and Mexico Improving oil prices, which have climbed as high as \$114 per barrel since 2011 began, appear to be supporting demand for our equipment in international markets. As a result, dayrates for our international floater units appear to have stabilized, and we are encouraged by the increase in tender activity by our customers across all classes of floater units outside the GOM, although demand for our services has not yet risen sufficiently to provide pricing power on new contracts.

During the second quarter of 2011, international demand for standard jack-ups remained stable with narrow profit margins, though there was a significant increase in tender activity for standard jack-up units in Mexico late in the period. However, high-specification new-build jack-up rigs coming to market are enjoying significantly higher utilization rates and better pricing than older existing equipment. This new-build activity could result in an oversupply of jack-up rigs and negatively impact the market for standard jack-ups, which comprise most of our jack-up fleet, during the remainder of 2011 and beyond.

Our Fleet

As of the date of this report, we actively market five rigs in the GOM market, consisting of three semisubmersible rigs and one jack-up rig, all of which are currently contracted in the GOM, as well as an additional jack-up rig that is ready stacked. We also have two intermediate floaters and four jack-up rigs cold stacked in the GOM. One of the three contracted semisubmersible units, the *Ocean Monarch*, is scheduled to leave the GOM in mid-August for work in Southeast Asia, and one of the jack-up rigs, the *Ocean Titan*, is expected to commence work in Mexico in

mid-November of this year. Given the continuing uncertainty with respect to drilling activity in the GOM, we are continuing to actively seek international opportunities to employ our rigs outside the GOM. However, we can provide no assurance that we will be successful in our efforts to

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employ our remaining impacted rigs in the GOM or elsewhere in the near term.

Since December 31, 2010 through the date of this report, we have entered into 33 new drilling contracts totaling approximately \$3.5 billion in backlog and ranging in duration from one well to five years. As of July 21, 2011, our contract backlog was approximately \$8.6 billion, of which our contracts in the GOM and Brazil represented approximately \$2.1 billion, or 24%, and \$5.0 billion, or 58%, respectively.

Floaters

Our intermediate and high-specification floater rigs, both domestic and international, accounted for approximately 93% of our revenue during the second quarter of 2011. This market remains stable with marketed industry floater utilization reportedly nearing 90%. Approximately 82% of the time for our intermediate and high-specification floater rigs is committed for the remainder of 2011. Additionally, 55% of the time on our floating rigs is committed in 2012.

During the second quarter of 2011, among other new drilling contracts, we announced two five-year agreements which will utilize two of our new-build drillships under construction, the *Ocean BlackHawk* and the *Ocean BlackHornet*. The two contracts, which are expected to commence in late 2013 and early 2014, respectively, are expected to generate combined maximum total revenue of approximately \$1.8 billion. In May, we executed a contract for the construction of a third new-build drillship, for delivery in the second quarter of 2014.

Ten other agreements were announced in mid-July 2011 following the close of the quarter which are expected to generate combined maximum total revenue of approximately \$1.1 billion and represent approximately 14.4 years of contract drilling backlog.

Jack-ups

As a result of a recent increase in tender activity in the Mexican Gulf of Mexico, we received new term contracts on two jack-up units currently working offshore Mexico, the *Ocean Nugget* and the *Ocean Summit*, and additional tendering activity is ongoing.

Contract Drilling Backlog

The following table reflects our contract drilling backlog as of July 21, 2011, February 1, 2011 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2010) and July 22, 2010 (the date reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010). Contract drilling backlog is calculated by multiplying the contracted operating dayrate by the firm contract period and adding one-half of any potential rig performance bonuses. Our calculation also assumes full utilization of our drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 95-98% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in our contract drilling backlog between periods are a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts.

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	July 21, 2011	February 1, 2011 (In thousands)	July 22, 2010 ⁽⁴⁾
Contract Drilling Backlog			
High-Specification Floaters ⁽¹⁾	\$6,022,000	\$3,838,000	\$4,705,000
Intermediate Semisubmersibles ⁽²⁾	2,369,000	2,700,000	3,322,000
Jack-ups ⁽³⁾	259,000	107,000	139,000
Total	\$8,650,000	\$6,645,000	\$8,166,000

- (1) Contract drilling backlog as of July 21, 2011 for our high-specification floaters includes (i) \$3.2 billion attributable to our contracted operations offshore Brazil for the years 2011 to 2016 and (ii) \$2.1 billion attributable to our contracted operations in the GOM for the years 2011 to 2019, including \$1.8 billion in the aggregate for the years 2013 to 2019 attributable to contracts for two of our drillships under construction.
- (2) Contract drilling backlog as of July 21, 2011 for our intermediate semisubmersibles includes (i) \$1.8 billion attributable to our contracted operations offshore Brazil for the years 2011 to 2015 and (ii) \$6.0 million attributable to our contracted operations in the GOM during 2011.
- (3) Contract drilling backlog as of July 21, 2011 for our jack-ups includes (i) \$29.0 million attributable to our contracted operations offshore Brazil for the years 2011 to 2012 and (ii) \$4.0 million attributable to our contracted operations in the GOM during 2011.
- (4) Contract drilling backlog as of July 22, 2010 included \$418.8 million attributable to a contract for the *Ocean Monarch* that we and the customer mutually agreed to terminate in May 2011.

The following table reflects the amount of our contract drilling backlog by year as of July 21, 2011.

	Total	For the Years Ending December 31, 2011 ⁽¹⁾				2014 - 2019
		2011	2012	2013		
Contract Drilling Backlog						
High-Specification Floaters ⁽²⁾	\$6,022,000	\$ 827,000	\$1,132,000	\$1,087,000		\$2,976,000
Intermediate Semisubmersibles ⁽³⁾	2,369,000	587,000	769,000	526,000		487,000
Jack-ups ⁽⁴⁾	259,000	76,000	92,000	69,000		22,000
Total	\$8,650,000	\$1,490,000	\$1,993,000	\$1,682,000		\$3,485,000

- (1) Represents a six-month period beginning July 1, 2011.
- (2) Contract drilling backlog as of July 21, 2011 for our high-specification floaters includes (i) \$397.0 million, \$787.0 million and \$866.0 million for the years 2011 to 2013, respectively, and \$1.2 billion in the aggregate for the years 2014 to 2016, attributable to our contracted operations offshore Brazil and (ii) \$80.0 million, \$99.0 million and \$117.0 million for the years 2011 to 2013, respectively, and \$1.8 billion in the aggregate for the years 2014 to 2019 attributable to our contracted operations in the GOM.

- (3) Contract drilling backlog as of July 21, 2011 for our intermediate semisubmersibles includes (i) \$356.0 million, \$541.0 million and \$402.0 million for the years 2011 to 2013, respectively, and \$459.0 million in the aggregate for the years 2014 to 2015, attributable to our contracted operations offshore Brazil and (ii) \$6.0 million for 2011 attributable to our contracted operations in the GOM.
- (4) Contract drilling backlog as of July 21, 2011 for our jack-ups includes (i) \$25.0 million and \$4.0 million for years 2011 and 2012, respectively, attributable to our contracted operations offshore Brazil and (ii) \$4.0 million for 2011 attributable to our contracted operations in the GOM.

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The following table reflects the percentage of rig days committed by year as of July 21, 2011. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in our fleet, to total available days (number of rigs multiplied by the number of days in a particular year). Total available days have been calculated based on the final commissioning dates for the *Ocean BlackHawk* and *Ocean BlackHornet* and does not include available days for our third drillship on order with Hyundai.

	For the Years Ending December 31,			
	2011 ⁽¹⁾	2012	2013	2014 - 2019
Rig Days Committed ⁽²⁾				
High-Specification Floaters	97%	71%	62%	20%
Intermediate Semisubmersibles	70%	43%	29%	4%
Jack-ups	48%	21%	15%	1%

(1) Represents a six-month period beginning July 1, 2011.

(2) Includes approximately 800 and 600 scheduled shipyard, survey and mobilization days for 2011 and 2012, respectively, and also includes 125 final commissioning and mobilization days for each of the years 2013 and 2014 for the *Ocean BlackHawk* and *Ocean BlackHornet*.

General

The two most significant variables affecting our revenues are dayrates for rigs and rig utilization rates, each of which is a function of rig supply and demand in the marketplace. Demand for drilling services is dependent upon the level of expenditures set by oil and gas companies for offshore exploration and development, as well as a variety of political, regulatory and economic factors. The availability of rigs in a particular geographical region also affects both dayrates and utilization rates. These factors are not within our control and are difficult to predict.

Demand affects the number of days our fleet is utilized and the dayrates earned. As utilization rates increase, dayrates tend to increase as well, reflecting the lower supply of available rigs. Conversely, as utilization rates decrease, dayrates tend to decrease as well, reflecting the excess supply of rigs. When a rig is idle, no dayrate is earned and revenues will decrease as a result. Revenues can also be affected as a result of the acquisition or disposal of rigs, required surveys and shipyard upgrades. In order to improve utilization or realize higher dayrates, we may mobilize our rigs from one market to another. However, during periods of mobilization, revenues may be adversely affected. As a response to changes in demand, we may withdraw a rig from the market by stacking it or may reactivate a rig stacked previously, which may decrease or increase revenues, respectively.

Operating Income. Our operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Our operating expenses represent all direct and indirect costs associated with the operation and maintenance of our drilling equipment. The principal components of our operating costs are, among other things, direct and indirect costs of labor and benefits, repairs and maintenance, freight, regulatory inspections, boat and helicopter rentals and insurance. Labor and repair and maintenance costs represent the most significant components of our operating expenses. In general, our labor costs increase primarily due to higher salary levels, rig staffing requirements and costs associated with labor regulations in the geographic regions in which our rigs operate. Costs to repair and maintain our equipment fluctuate depending upon the type of activity the drilling unit is performing, as well as the age and condition of the equipment and the regions in which our rigs are working.

Our operating income is negatively impacted when we perform certain regulatory inspections, which we refer to as a 5-year survey, or special survey, that are due every five years for each of our rigs. Operating revenue decreases because these special surveys are performed during scheduled downtime in a shipyard. Operating expenses increase as a result of these special surveys due to the cost to mobilize the rigs to a shipyard, inspection costs incurred and repair and maintenance costs. Repair and maintenance activities may result from the special survey or may have been previously planned to take place during this mandatory downtime. The number of rigs undergoing a 5-year survey will vary from year to year, as well as from quarter to quarter.

In addition, operating income may be negatively impacted by intermediate surveys, which are performed at interim periods between 5-year surveys. Intermediate surveys are generally less extensive in duration and scope than a 5-year survey. Although an intermediate survey may require some downtime for the drilling rig, it normally does not require dry-docking or shipyard time, except for rigs located in the United Kingdom, or U.K., and Norwegian sectors of the North Sea.

During the remainder of 2011, seven of our rigs will require 5-year surveys, and we expect that they will be out of service for approximately 425 days in the aggregate. We also expect to spend an additional approximately 390

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days during 2011 for intermediate surveys, the mobilization of rigs, contract preparation activities and extended maintenance projects. We can provide no assurance as to the exact timing and/or duration of downtime associated with regulatory inspections, planned rig mobilizations and other shipyard projects. See [Overview](#) [Contract Drilling Backlog](#).

We renewed our principal insurance policies effective May 1, 2011. Our coverage and policy limits for both physical damage and marine liability insurance are substantially similar to those of our previous policies. We believe that our current policy limit for our marine liability insurance is within the range that is customary for companies of our size in the offshore drilling industry and at levels appropriate for our business.

Under our protection and indemnity policy, which expires on May 1, 2012, we carry marine liability insurance covering certain legal liabilities, including coverage for certain personal injury claims, with no exclusions for pollution and/or environmental risk. Our deductibles for marine liability coverage, including for personal injury claims, are \$10.0 million for the first occurrence and vary in amounts ranging between \$5.0 million and, if aggregate claims exceed certain thresholds, up to \$100.0 million for each subsequent occurrence, depending on the nature, severity and frequency of claims which might arise during the policy year, which under our current policy commenced on May 1, 2011.

We are self-insured for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico. If a named windstorm in the U.S. Gulf of Mexico causes significant damage to our rigs or equipment, it could have a material adverse effect on our financial position, results of operations and cash flows. However, under our insurance policy that expires on May 1, 2012, we carry physical damage insurance for certain losses other than those caused by named windstorms in the U.S. Gulf of Mexico for which our deductible for physical damage is \$25.0 million per occurrence. We do not typically retain loss- of-hire insurance policies to cover our rigs.

Critical Accounting Estimates

Our significant accounting policies are discussed in Note 1 of our notes to unaudited consolidated financial statements included in Item 1 of Part I of this report and in Note 1 of our notes to audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. There were no material changes to these policies during the six months ended June 30, 2011 except that we no longer expect to repatriate the earnings of Diamond East Asia Limited, or DEAL, to the U.S. Accordingly, we are no longer providing U.S. income taxes on its earnings and have reversed U. S. income taxes on its earnings provided in previous years. For further discussion, see Note 1 [General Information](#) to our Consolidated Financial Statements in Item 1 of Part I of this report.

Table of Contents**Results of Operations**

Although we perform contract drilling services with different types of drilling rigs and in many geographic locations, there is a similarity of economic characteristics among all our divisions and locations, including the nature of services provided and the type of customers for our services. We believe that the combination of our drilling rigs into one reportable segment is the appropriate aggregation in accordance with applicable accounting standards on segment reporting. However, for purposes of this discussion and analysis of our results of operations, we provide greater detail with respect to the types of rigs in our fleet and the geographic regions in which they operate to enhance the reader's understanding of our financial condition, changes in financial condition and results of operations.

Three and Six Months Ended June 30, 2011 and 2010

Comparative data relating to our revenue and operating expenses by equipment type are listed below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
CONTRACT DRILLING REVENUE				
High-Specification Floaters	\$ 452,289	\$ 340,387	\$ 813,355	\$ 724,175
Intermediate Semisubmersibles	356,840	389,094	736,339	769,795
Jack-ups	60,512	82,223	108,730	162,172
Other	5	35	95	35
Total Contract Drilling Revenue	\$ 869,646	\$ 811,739	\$ 1,658,519	\$ 1,656,177
Revenues Related to Reimbursable Expenses	\$ 19,850	\$ 10,864	\$ 37,366	\$ 26,107
CONTRACT DRILLING EXPENSE				
High-Specification Floaters	\$ 203,459	\$ 134,500	\$ 384,496	\$ 243,655
Intermediate Semisubmersibles	138,879	157,446	276,616	296,045
Jack-ups	38,552	51,717	80,652	105,345
Other	7,116	8,106	8,606	12,951
Total Contract Drilling Expense	\$ 388,006	\$ 351,769	\$ 750,370	\$ 657,996
Reimbursable Expenses	\$ 19,287	\$ 10,379	\$ 36,237	\$ 25,084
OPERATING INCOME				
High-Specification Floaters	\$ 248,830	\$ 205,887	\$ 428,859	\$ 480,520
Intermediate Semisubmersibles	217,961	231,648	459,723	473,750
Jack-ups	21,960	30,506	28,078	56,827
Other	(7,111)	(8,071)	(8,511)	(12,916)
Reimbursable expenses, net	563	485	1,129	1,023
Depreciation	(101,175)	(100,746)	(202,348)	(198,148)
General and administrative expense	(16,372)	(16,849)	(34,097)	(33,503)
Bad debt recovery	1,700	2,798	10,147	3,898
Gain on disposition of assets	1,240	149	3,881	1,033
Total Operating Income	\$ 367,596	\$ 345,807	\$ 686,861	\$ 772,484

Other income (expense):				
Interest income	1,091	477	1,541	1,759
Interest expense	(22,226)	(21,333)	(44,270)	(43,654)
Foreign currency transaction loss	(1,555)	(3,991)	(3,161)	(3,530)
Other, net	(880)	(34)	(96)	(121)
Income before income tax expense	344,026	320,926	640,875	726,938
Income tax expense	(77,440)	(96,533)	(123,677)	(211,692)
NET INCOME	\$ 266,586	\$ 224,393	\$ 517,198	\$ 515,246

Table of Contents***Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010***

Operating Income. Operating income during the second quarter of 2011 increased \$21.8 million, or 6%, compared to the same period of 2010. Contract drilling revenue during the second quarter of 2011 increased \$57.9 million, or 7%, compared to the second quarter of 2010, primarily as a result of an increase in average utilization of our high-specification floaters from 69% during the second quarter of 2010 to 94% during the second quarter of 2011, partially offset by a decline in contract drilling revenues earned by the remainder of our fleet. Revenue generated by our domestic and international high-specification floater rigs increased an aggregate \$111.9 million, or 33%, while revenue for our combined semisubmersible and jack-up fleets decreased \$32.3 million and \$21.7 million, or 8% and 26%, respectively, during the second quarter of 2011 compared to the same quarter in 2010. Results for the second quarter of 2011 reflected the return to work of three of our high specification floaters (two in international markets and one in the GOM) after being idled during the second quarter of 2010 following the Macondo incident in the GOM, as well as revenue generated by the newest addition to our floater fleet, the *Ocean Valor*, which began operating under contract offshore Brazil in the fourth quarter of 2010. In contrast, subsequent to the second quarter of 2010, we cold stacked two additional intermediate semisubmersible rigs and one jack-up rig, which negatively impacted revenue during the second quarter of 2011. Total contract drilling expense increased \$36.2 million, or 10%, during the second quarter of 2011, compared to the second quarter of 2010, and included normal operating costs for the *Ocean Valor*, as well as increased amortized mobilization costs and higher other operating costs associated with rigs operating internationally rather than domestically.

Income Tax Expense. Our estimated annual effective tax rate for the three months ended June 30, 2011 was 21.6%, compared to the 29.2% estimated annual effective tax rate for the same period in 2010. The lower effective tax rate in the current quarter is partially the result of differences in the mix of our domestic and international pre-tax earnings and losses, as well as the mix of international tax jurisdictions in which we operate. Also contributing to our lower effective tax rate in the 2011 quarter, compared to the prior year quarter, was the impact of a tax law provision that expired at the end of 2009 but was subsequently signed back into law by the President of the United States on December 17, 2010. This provision allows us to defer recognition of certain foreign earnings for U.S. income tax purposes. As a consequence of the extension of the tax law provision in December 2010, we were able to defer the recognition of certain of our foreign earnings for U.S. income taxes purposes in the second quarter of 2011 that we were unable to defer during the second quarter of 2010.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

Operating Income. Operating income during the first six months of 2011 decreased \$85.6 million, or 11%, compared to the same period of 2010. Revenue generated by our domestic and international high-specification floater rigs increased an aggregate \$89.2 million, or 12%, while revenue for our semisubmersible and jackup fleets decreased \$33.5 million and \$53.4 million, or 4% and 33%, respectively, during the first half of 2011 compared to the first half of 2010. The two newest additions to our floater fleet, the *Ocean Courage* and *Ocean Valor*, which began operating under contract late in the first quarter and in the fourth quarter of 2010, respectively, contributed incremental revenue of \$88.0 million during the first six months of 2011. However, as of the end of the first half of 2011, we had cold stacked eight rigs, consisting of four intermediate semisubmersible units and four jack-up rigs, including the semisubmersible *Ocean Epoch*, which was cold stacked in the first quarter of 2011. Total contract drilling expense increased \$92.4 million, or 14%, during the first six months of 2011, compared to the same period of 2010, and included a full six months of contract drilling expense for the *Ocean Courage* and *Ocean Valor*, as well as increased amortized mobilization costs and higher other operating costs associated with rigs operating internationally rather than domestically.

In addition, during the first half of 2011, we recovered \$8.4 million related to a previously established reserve for bad debt recorded in 2008 related to our operations in the U.K. We also recovered \$1.7 million and \$3.9 million during the first six months of 2011 and 2010, respectively, related to a reserve established in 2009 related to our operations in Egypt.

Income Tax Expense. Our estimated annual effective tax rate for the six months ended June 30, 2011 was 21.6%, compared to the 29.2% estimated annual effective tax rate for the same period in 2010. The lower effective tax rate in the current quarter is partially the result of differences in the mix of our domestic and international pre-tax earnings

and losses, as well as the mix of international tax jurisdictions in which we operate. Also contributing to our lower effective tax rate in the 2011 period, compared to the prior year period, was the impact of a tax law provision that expired at the end of 2009 but was subsequently signed back into law by the President of the United States on December 17, 2010. This provision allows us to defer recognition of certain foreign earnings for U.S. income tax purposes. As a consequence of the extension of the tax law provision in December 2010, we were able to defer the

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recognition of certain of our foreign earnings for U.S. income taxes purposes in the first half of 2011 that we were unable to defer during the first half of 2010.

As a result of the tax law provision enacted in December 2010, during early 2011, we reassessed our intent to repatriate the earnings of DEAL to the U.S. We no longer intend to repatriate the earnings of DEAL to a U.S. parent but instead we plan to reinvest its earnings internationally through another of our foreign companies. Consequently, we are no longer providing U.S. income taxes on the earnings of DEAL and, during the six months ended June 30, 2011, we reversed approximately \$15.0 million of U.S. income taxes provided in prior periods for the earnings of DEAL.

High-Specification Floaters.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except days, percentages and average daily revenue amounts)			
HIGH-SPECIFICATION FLOATERS:				
REVENUE EARNING DAYS ⁽¹⁾				
GOM	152	341	242	780
Australia/Asia/Middle East	179	103	286	192
Europe/Africa/Mediterranean	273	90	494	180
South America	597	351	1,197	672
UTILIZATION ⁽²⁾				
GOM	84%	87%	67%	80%
Australia/Asia/Middle East	98%	56%	79%	68%
Europe/Africa/Mediterranean	100%	99%	91%	99%
South America	94%	58%	94%	66%
AVERAGE DAILY REVENUE ⁽³⁾				
GOM	\$ 346,300	\$ 364,600	\$ 249,200	\$ 402,900
Australia/Asia/Middle East	388,600	447,500	384,900	449,100
Europe/Africa/Mediterranean	412,200	585,000	409,100	583,100
South America	339,200	306,100	342,800	298,400
CONTRACT DRILLING REVENUE				
GOM	\$ 52,641	\$ 124,677	\$ 60,318	\$ 314,797
Australia/Asia/Middle East	71,850	46,179	114,096	86,259
Europe/Africa/Mediterranean	121,427	56,386	220,099	112,707
South America	206,371	113,145	418,842	210,412
Total Contract Drilling Revenue	\$ 452,289	\$ 340,387	\$ 813,355	\$ 724,175
CONTRACT DRILLING EXPENSE				
GOM	\$ 21,506	\$ 39,203	\$ 31,875	\$ 81,144
Australia/Asia/Middle East	27,390	12,372	51,946	21,610
Europe/Africa/Mediterranean	40,973	11,232	79,140	22,233
South America	113,590	71,693	221,535	118,668

Total Contract Drilling Expense	\$ 203,459	\$ 134,500	\$ 384,496	\$ 243,655
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OPERATING INCOME	\$ 248,830	\$ 205,887	\$ 428,859	\$ 480,520
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- (1) A revenue earning day is defined as a 24-hour period during which a rig earns a dayrate after commencement of operations and excludes mobilization, demobilization and contract preparation days.
- (2) Utilization is calculated as the ratio of total revenue-earning days divided by the total calendar days in the period for all of the specified rigs in our fleet (including cold-stacked rigs).
- (3) Average daily revenue is defined as contract drilling revenue for all of the specified rigs in our fleet (excluding revenue for mobilization, demobilization and contract preparation) per revenue earning day.

Table of Contents**Rig Relocations:**

Rig	Relocation Details	Date
2011:		
<i>Ocean Confidence</i>	Europe/Africa/Mediterranean (Republic of Congo to Angola)	January 2011
2010:		
<i>Ocean Star</i>	GOM to South America (Brazil)	January 2010
<i>Ocean Valor</i>	Completion of construction and relocation from Singapore shipyard to South America (Brazil)	March 2010
<i>Ocean Courage</i>	GOM to South America (Brazil)	March 2010
<i>Ocean Baroness</i>	GOM to South America (Brazil)	March 2010
<i>Ocean America</i>	GOM to Australia/Asia/Middle East (Australia)	March 2010
<i>Ocean Confidence</i>	GOM to Europe/Africa/Mediterranean (Republic of Congo)	August 2010
<i>Ocean Endeavor</i>	GOM to Europe/Africa/Mediterranean (Egypt)	August 2010
<i>Ocean Rover</i>	Australia/Asia/Middle East (Malaysia to Indonesia)	November 2010

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

GOM. Revenue generated by our high-specification floaters operating in the GOM decreased \$72.0 million during the second quarter of 2011, compared to the same period in 2010, as a result of 189 fewer revenue earning days (\$68.9 million) and a decrease in average daily revenue earned (\$2.8 million) during the second quarter of 2011. The decrease in revenue earning days was primarily due to the relocation of two of our high-specification rigs out of the GOM subsequent to the second quarter of 2010 and unplanned downtime for the *Ocean Monarch* due to a force majeure assertion by one of our customers in the GOM, following the April 2010 Macondo well incident, that was settled in the second quarter of 2011. Contract drilling expense for our high-specification floaters in the GOM decreased \$17.7 million for the second quarter of 2011, compared to the second quarter of 2010, primarily due to a \$23.7 million reduction in expense attributable to the rigs which were relocated out of the GOM, partially offset by the recognition of \$9.8 million in deferred mobilization and contract preparation fees during the second quarter of 2011 associated with the *Ocean Monarch*'s contract in the GOM that we and the customer mutually agreed to terminate.

Australia/Asia/Middle East. Revenue from our high-specification rigs operating in the Australia/Asia/Middle East region increased \$25.7 million during the second quarter of 2011, compared to the same period of 2010, primarily due to the operation of the *Ocean America* offshore Australia, which did not begin drilling operations until late in the second quarter of 2010. The favorable effect of 76 incremental revenue earning days in the second quarter of 2011, primarily for the *Ocean America*, was partially offset by the impact of a decrease in average dayrate earned by the *Ocean Rover* operating offshore Indonesia during the 2011 quarter compared to the higher dayrate it earned while operating offshore Malaysia in the same period of 2010. Contract drilling expense for our operations in this region increased \$15.0 million during the second quarter of 2011 compared to the same period of 2010, primarily due to the inclusion of normal operating and amortized mobilization costs for the *Ocean America* (\$13.7 million).

Europe/Africa/Mediterranean. Revenue generated by our high-specification floaters operating in the Europe/Africa/Mediterranean region increased \$65.0 million during the second quarter of 2011, compared to the same period of 2010, primarily due to 183 incremental revenue earning days during the second quarter of 2011 (\$107.0 million), partially offset by lower average daily revenue earned (\$47.2 million). Our two additional rigs operating in this region in the second quarter of 2011, the *Ocean Endeavor* and *Ocean Confidence*, contributed 182 incremental revenue earning days; however the average dayrates for our rigs operating in this region declined as dayrates for our rigs operating offshore Egypt and the Republic of Congo were lower than the dayrate earned by the *Ocean Valiant*, which operated offshore Angola during both periods. Contract drilling expense for our operations in this region increased \$29.7 million during the second quarter of 2011, compared to the same period of 2010, due to the inclusion of normal operating and amortized mobilization costs for the additional rigs in the region during the 2011 period.

South America. Revenue earned by our high-specification floaters operating offshore Brazil during the second quarter of 2011 increased \$93.2 million, compared to the same period of 2010, primarily due to 246 incremental revenue earning days during the second quarter of 2011 (\$75.5 million) and an increase in average daily revenue earned (\$19.8 million) compared to the prior year quarter. The increase in revenue earning days during the second

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quarter of 2011 was primarily the result of the operation of the *Ocean Valor* and *Ocean Baroness* offshore Brazil for the majority of the second quarter of 2011 (\$57.9 million), compared to the second quarter of 2010 when the rigs were mobilizing from the GOM and undergoing customer acceptance. The *Ocean Alliance*, which was in the shipyard for a 5-year survey and thruster change out for the entire second quarter of 2010, contributed additional revenue of \$33.8 million. Contract drilling expense for our operations in Brazil increased \$41.9 million during the second quarter of 2011, compared to the same period in 2010, primarily due to the inclusion of normal operating costs and amortized mobilization costs for the rigs relocated into the region in 2010.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

GOM. Revenue generated by our high-specification floaters operating in the GOM decreased \$254.5 million during the first six months of 2011, compared to the same period in 2010, as a result of 538 fewer revenue earning days (\$217.0 million) and a decrease in average daily revenue earned (\$37.2 million) during the first half of 2011. The decrease in revenue earning days is primarily due to the relocation out of the GOM of six of our high-specification rigs since the first half of 2010 (three to Brazil and one each to Australia, the Republic of Congo and Egypt) and unplanned downtime for the *Ocean Monarch* due to a force majeure assertion by one of our customers in the GOM which has now been resolved. Contract drilling expense for our high-specification floaters in the GOM for the first half of 2011 decreased \$49.3 million, compared to the first half of 2010, reflecting a \$54.2 million reduction in expense attributable to rigs which relocated to other regions, partially offset by the recognition of \$9.8 million in deferred mobilization and contract preparation fees during the second quarter of 2011 associated with the *Ocean Monarch*'s contract in the GOM that we and the customer mutually agreed to terminate.

Australia/Asia/Middle East. Revenue from our high-specification rigs operating in the Australia/Asia/Middle East region increased \$27.8 million during the first half of 2011, compared to the same period of 2010, primarily due to 94 incremental revenue earning days in the region, including 96 additional days for the *Ocean America*, which relocated to Australia in March 2010 and contributed \$39.1 million in incremental revenue. The effect on revenue of the incremental revenue earning days was partially offset by the impact of a decrease in average dayrate earned by the *Ocean Rover* operating offshore Indonesia during the first six months of 2011 (\$13.0 million) compared to the previous dayrate it earned operating offshore Malaysia during the same period in 2010. Contract drilling expense for our operations in this region increased \$30.3 million during the first half of 2011, compared to the same period of 2010, primarily due to the inclusion of normal operating and amortized mobilization costs for the *Ocean America* (\$28.3 million).

Europe/Africa/Mediterranean. Revenue and contract drilling expense generated by our high-specification floaters operating in the Europe/Africa/Mediterranean region increased \$107.4 million and \$56.9 million, respectively, during the first half of 2011, compared to the same period of 2010, primarily due to incremental revenue and expense attributable to our two additional rigs operating in the region. The *Ocean Confidence* and *Ocean Endeavor* generated incremental revenue and incurred contract drilling expense of \$103.2 million and \$56.1 million, respectively, during the first half of 2011.

South America. Revenue earned by our high-specification floaters operating offshore Brazil during the first half of 2011 increased \$208.4 million, compared to the first half of 2010, primarily due to 525 additional revenue earning days during the first six months of 2011 (\$156.5 million) and higher average daily revenue earned (\$53.2 million). The increase in revenue earning days during the first half of 2011 was the result of additional rigs operating in this region compared to the prior year period. Contract drilling expense for our operations in Brazil increased \$102.9 million during the first half of 2011, compared to the same period in 2010, primarily due to the inclusion of normal operating costs and amortized mobilization costs for the relocated rigs for the entire first half of 2011 and higher repair and maintenance costs for the *Ocean Quest*.

Table of Contents*Intermediate Semisubmersibles.*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except days, percentages and average daily revenue amounts)			
INTERMEDIATE SEMISUBMERSIBLES:				
REVENUE EARNING DAYS ⁽¹⁾				
GOM	90	168	180	266
Mexico		77		165
Australia/Asia/Middle East	182	239	398	499
Europe/Africa/Mediterranean	268	218	532	398
South America	780	715	1,578	1,422
UTILIZATION ⁽²⁾				
GOM	33%	92%	33%	88%
Mexico		84%		69%
Australia/Asia/Middle East	50%	66%	55%	69%
Europe/Africa/Mediterranean	98%	80%	98%	73%
South America	95%	87%	97%	87%
AVERAGE DAILY REVENUE ⁽³⁾				
GOM	\$ 200,300	\$ 192,900	\$ 201,600	\$ 195,200
Mexico		187,300		227,900
Australia/Asia/Middle East	228,500	322,500	249,300	324,700
Europe/Africa/Mediterranean	286,700	305,800	297,400	334,700
South America	274,500	267,800	272,400	259,700
CONTRACT DRILLING REVENUE				
GOM	\$ 18,100	\$ 32,464	\$ 36,351	\$ 52,016
Mexico		14,379		38,131
Australia/Asia/Middle East	41,584	77,064	99,176	162,092
Europe/Africa/Mediterranean	76,812	66,548	158,277	133,085
South America	220,344	198,639	442,535	384,471
Total Contract Drilling Revenue	\$ 356,840	\$ 389,094	\$ 736,339	\$ 769,795
CONTRACT DRILLING EXPENSE				
GOM	\$ 4,591	\$ 15,403	\$ 8,770	\$ 21,831
Mexico	93	5,714	165	16,566
Australia/Asia/Middle East	18,353	24,752	41,969	49,576
Europe/Africa/Mediterranean	24,911	28,789	45,654	51,210
South America	90,931	82,788	180,058	156,862
Total Contract Drilling Expense	\$ 138,879	\$ 157,446	\$ 276,616	\$ 296,045

OPERATING INCOME	\$ 217,961	\$ 231,648	\$ 459,723	\$ 473,750
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- (1) A revenue earning day is defined as a 24-hour period during which a rig earns a dayrate after commencement of operations and excludes mobilization, demobilization and contract preparation days.
- (2) Utilization is calculated as the ratio of total revenue-earning days divided by the total calendar days in the period for all of the specified rigs in our fleet (including cold-stacked rigs).
- (3) Average daily revenue is defined as contract drilling revenue for all of the specified rigs in our fleet (excluding revenue for mobilization, demobilization and contract preparation) per revenue earning day.

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Table of Contents***Rig Relocations:***

Rig	Relocation Details	Date
2011:		
<i>Ocean Epoch</i>	Australia/Asia/Middle East (cold stacked February 2011)	February 2011
<i>Ocean General</i>	Australia/Asia/Middle East (Vietnam to Indonesia)	May 2011

2010:

<i>Ocean Voyager</i>	Mexico to GOM (cold stacked June 2010)	March 2010
<i>Ocean New Era</i>	Mexico to GOM (cold stacked September 2010)	August 2010

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

GOM. Revenue and contract drilling expense for our intermediate semisubmersible rigs working in the GOM decreased \$14.4 million and \$10.8 million, respectively, during the second quarter of 2011, compared to the same quarter of 2010, primarily due to a decrease in utilization of our GOM fleet from 92% in the second quarter of 2010 to 33% in the second quarter of 2011. We currently have only one semisubmersible unit operating in the GOM; two other semisubmersible floaters were cold stacked during 2010 after their return from Mexico.

Mexico. The *Ocean New Era* operated offshore Mexico during the second quarter of 2010 and generated revenue and incurred contract drilling expense of \$14.4 million and \$5.7 million, respectively. The rig was relocated to the GOM and subsequently cold stacked after completing its contract offshore Mexico during the third quarter of 2010.

Australia/Asia/Middle East. Revenue generated by our intermediate semisubmersibles working in the Australia/Asia/Middle East region decreased \$35.5 million during the second quarter of 2011, compared to the same period of 2010, as a result of 57 fewer revenue earning days (\$18.4 million) combined with a decrease in average daily revenue earned (\$17.1 million) during the second quarter of 2011. The decrease in revenue during the second quarter of 2011 was primarily the result of fewer revenue earning days in the region due to cold stacking the *Ocean Epoch* after completion of its contract, as well as a lower contracted dayrate earned by the *Ocean Patriot*, both of which occurred in the first quarter of 2011. Contract drilling expense decreased \$6.4 million during the second quarter of 2011, compared to the same period in 2010, primarily due to reduced costs for the cold stacked *Ocean Epoch*.

Europe/Africa/Mediterranean. Revenue earned by our intermediate semisubmersibles working in the Europe/Africa/Mediterranean region increased \$10.3 million during the second quarter of 2011, compared to the same period in 2010, primarily due to 50 additional revenue earning days (\$15.4 million) partially offset by a reduction in average daily revenue earned (\$5.1 million) during the second quarter of 2011. The net increase in revenue earned during the second quarter of 2011 was primarily attributable to 43 incremental revenue earning days for the *Ocean Vanguard*, which operated for most of the 2011 quarter but was in the shipyard for much of the second quarter of 2010. The favorable impact of the additional revenue earning days in the 2011 quarter was partially offset by a lower contracted dayrate earned by the *Ocean Princess* as a result of a contract extension during the second quarter of 2011.

South America. Both revenue earning days and average daily revenue earned by our intermediate semisubmersible fleet working in the South America region increased during the second quarter of 2011, compared to the same quarter of the prior year, and contributed total incremental revenue of \$17.2 million and \$5.2 million, respectively. The increase in revenue earning days was primarily attributable to the nearly full utilization of the *Ocean Winner* (Brazil) during the second quarter of 2011 compared to only partial utilization of the rig during the same quarter of 2010, when the rig was undergoing a shipyard project. Contract drilling expense increased \$8.1 million during the second quarter of 2011, compared to the prior year quarter, due to higher operating costs in the region, including labor and related costs, repair costs and freight during the second quarter of 2011.

Table of Contents***Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010***

GOM. Revenue and contract drilling expense for our rigs working in the GOM decreased \$15.7 million and \$13.1 million, respectively, during the first six months of 2011, compared to the same period of 2010, primarily due to a decrease in utilization of our GOM semisubmersible fleet from 88% in the first half of 2010 to 33% in the first half of 2011. The *Ocean Voyager* generated \$14.6 million in revenue and incurred contract drilling expense of \$12.7 million during the first half of 2010 prior to being cold stacked.

Mexico. Our two intermediate semisubmersible rigs operating offshore Mexico during the first half of 2010 generated revenue and incurred contract drilling expense of \$38.1 million and \$16.6 million, respectively, prior to being relocated to the GOM after the completion of their contracts offshore Mexico during 2010.

Australia/Asia/Middle East. Revenue generated by our intermediate semisubmersibles working in the Australia/Asia/Middle East region decreased \$62.9 million during the first half of 2011, compared to the same period of 2010, as a result of 101 fewer revenue earning days (\$32.9 million) combined with a decrease in average daily revenue earned (\$30.0 million) during the first half of 2011. The decrease in revenue during the first half of 2011 was primarily due to the early 2011 cold stacking of the *Ocean Epoch*, as well as a lower dayrate earned by the *Ocean Patriot*. Contract drilling expense decreased \$7.6 million during the first half of 2011, compared to the same period of the prior year. Reduced costs for the cold stacked *Ocean Bounty* and *Ocean Epoch* were partially offset by increased contract drilling expense for the *Ocean Patriot*, primarily for personnel-related expenditures, equipment rental and freight.

Europe/Africa/Mediterranean. Revenue earned by our intermediate semisubmersibles working in the Europe/Africa/Mediterranean region increased \$25.2 million during the first six months of 2011, compared to the same period in 2010, primarily due to 134 additional revenue earning days (\$45.1 million), partially offset by a reduction in average daily revenue earned (\$19.9 million) during the first half of 2011. The net increase in revenue earned during the first half of 2011, compared to the prior year period, was primarily attributable to 93 incremental revenue earning days for the *Ocean Nomad* (\$22.5 million), which was ready stacked for the first three months of 2010, and 42 incremental revenue earning days for the *Ocean Vanguard* (\$16.4 million), which began a shipyard project in mid-May 2010 and did not return to service until the third quarter of 2010. The favorable impact of the additional revenue earning days in 2011 was partially offset by the effect of lower contracted dayrates earned by the *Ocean Vanguard* and *Ocean Princess*.

South America. Both revenue earning days and average daily revenue earned by our intermediate semisubmersible fleet working in the South America region increased during the first half of 2011, compared to the same period of the prior year, and contributed total incremental revenue of \$40.2 million and \$20.1 million, respectively. The increase in revenue earning days was attributable to the full utilization of the *Ocean Guardian* (Falkland Islands) and the *Ocean Lexington* (Brazil) during the first half of 2011, compared to the prior year period when the rigs were mobilizing to their respective operating locations. Utilization for the *Ocean Winner* increased during the first six months of 2011, compared to the same period of 2010, due to the completion of shipyard projects in late 2010. In addition, during March 2010, the *Ocean Winner* began operating under a contract extension at a higher dayrate than its previous contract resulting in the generation of \$22.0 million in incremental revenue in the first half of 2011 compared to the prior year period. Contract drilling expense increased \$23.2 million during the first half of 2011, due to higher operating costs in the region, including labor and related costs, repair costs and freight.

Table of Contents*Jack-Ups.*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands, except days, percentages and average daily revenue amounts)			
JACK-UPS:				
REVENUE EARNING DAYS ⁽¹⁾				
GOM	169	332	274	582
Mexico	181	178	340	313
Australia/Asia/Middle East	91	182	143	362
Europe/Africa/Mediterranean	182	273	362	500
South America	91		150	
UTILIZATION ⁽²⁾				
GOM	31%	52%	25%	46%
Mexico	100%	98%	94%	86%
Australia/Asia/Middle East	100%	100%	79%	100%
Europe/Africa/Mediterranean	67%	100%	67%	92%
South America	100%		83%	
AVERAGE DAILY REVENUE ⁽³⁾				
GOM	\$ 62,900	\$ 63,200	\$ 63,500	\$ 59,500
Mexico	107,600	135,000	108,200	135,100
Australia/Asia/Middle East	55,200	105,600	58,300	146,500
Europe/Africa/Mediterranean	59,700	62,800	57,400	61,700
South America	135,000		137,400	
CONTRACT DRILLING REVENUE				
GOM	\$ 10,626	\$ 20,980	\$ 17,366	\$ 34,612
Mexico	19,498	24,456	36,794	43,188
Australia/Asia/Middle East	5,019	19,220	9,849	53,041
Europe/Africa/Mediterranean	10,863	17,143	20,774	30,891
South America	14,506	424	23,947	440
Total Contract Drilling Revenue	\$ 60,512	\$ 82,223	\$ 108,730	\$ 162,172
CONTRACT DRILLING EXPENSE				
GOM	\$ 5,985	\$ 21,062	\$ 12,535	\$ 41,179
Mexico	8,552	9,003	18,397	20,046
Australia/Asia/Middle East	4,235	11,974	9,271	23,736
Europe/Africa/Mediterranean	9,410	9,422	20,306	18,924
South America	10,370	256	20,143	1,460
Total Contract Drilling Expense	\$ 38,552	\$ 51,717	\$ 80,652	\$ 105,345

OPERATING INCOME	\$ 21,960	\$ 30,506	\$ 28,078	\$ 56,827
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- (1) A revenue earning day is defined as a 24-hour period during which a rig earns a dayrate after commencement of operations and excludes mobilization, demobilization and contract preparation days.
- (2) Utilization is calculated as the ratio of total revenue-earning days divided by the total calendar days in the period for all of the specified rigs in our fleet (including cold-stacked rigs).
- (3) Average daily revenue is defined as contract drilling revenue for all of the specified rigs in our fleet (excluding revenue for mobilization, demobilization and contract preparation) per revenue earning day.

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Table of Contents**Rig Relocations:**

Rig	Relocation Details	Date
2011:		
None		
2010:		
<i>Ocean Shield</i>	Sold	July 2010
<i>Ocean Scepter</i>	GOM to South America (Brazil)	August 2010
<i>Ocean Spartan</i>	Cold stacked (GOM)	September 2010

Three Months Ended June 30, 2011 Compared to Three Months ended June 30, 2010

GOM. Revenue generated by our jack-up rigs operating in the GOM decreased \$10.4 million during the second quarter of 2011 compared to the second quarter of 2010. The decrease in revenue during the second quarter of 2011 was primarily the result of 163 fewer revenue earning days (\$10.3 million) compared to the prior year quarter, primarily as a result of the relocation of the *Ocean Scepter* out of the GOM and the cold stacking of the *Ocean Spartan*, both of which occurred in the third quarter of 2010. Contract drilling expense for our jack-ups in the GOM decreased \$15.1 million during the second quarter of 2011, compared to the same period of 2010, consistent with the reduction in revenue.

Mexico. Revenue earned by our jack-up fleet operating offshore Mexico during the second quarter of 2011 decreased \$5.0 million, compared to same quarter of 2010, primarily due to a decrease in average daily revenue earned by the *Ocean Summit* as a result of a decrease in its contracted dayrates earned beginning in November 2010.

Australia/Asia/Middle East. Revenue generated by our jack-up rigs operating in the Australia/Asia/Middle East region decreased \$14.2 million during the second quarter of 2011, compared to the same period in 2010, primarily due to 91 fewer revenue earning days as a result of the sale of the *Ocean Shield* in the third quarter of 2010 (\$9.8 million). Revenue generated by the *Ocean Sovereign*, our only remaining jack-up rig in the region, decreased \$4.4 million during the second quarter of 2011, compared to the prior year quarter, due to a decrease in contracted dayrate, combined with the rig working at a reduced repair dayrate during a portion of the second quarter of 2011. Contract drilling expense decreased \$7.7 million due to the absence costs for the *Ocean Shield* in the second quarter of 2011.

Europe/Africa/Mediterranean. Revenue earned by our jack-up rigs operating in the Europe/Africa/Mediterranean region decreased \$6.3 million during the second quarter of 2011, compared to the same period in 2010, primarily due to a decrease of 91 revenue earning days (\$5.7 million) as a result of the completion of the *Ocean King*'s bareboat charter in the third quarter of 2010.

South America. Contract drilling revenue and expense for our sole jack-up rig in the region were \$14.5 million and \$10.4 million, respectively, during the second quarter of 2011. The *Ocean Scepter* relocated to offshore Brazil in the third quarter of 2010 and began operating under contract in the first quarter of 2011.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

GOM. Revenue generated by our jack-up rigs operating in the GOM decreased \$17.2 million during the first six months of 2011, compared to the same period of 2010, primarily due to 308 fewer revenue earning days during the first half of 2011 (\$18.3 million), primarily as a result of the relocation of the *Ocean Scepter* to Brazil and the cold stacking of the *Ocean Spartan*. Contract drilling expense for our jack-ups in the GOM decreased \$28.6 million during the first half of 2011, compared to the same period of 2010, primarily due to such rig relocation and cold stacking, as well as the absence of inspection and related repair costs for the *Ocean Columbia* during the first half of 2011.

Mexico. Revenue earned by our jack-up fleet operating offshore Mexico during the first half of 2011 decreased \$6.4 million, compared to same period of 2010, primarily due to a decrease in average daily revenue earned (\$9.1 million) as a result of a lower dayrate earned by the *Ocean Summit*. The decrease in revenue for the first six months of 2011 was partially offset by the favorable effect of 27 additional revenue earning days in the 2011 period (\$3.7 million) resulting from fewer downtime days for inspections and repairs.

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Australia/Asia/Middle East. Revenue generated by our jack-up rigs operating in the Australia/Asia/Middle East region decreased \$43.2 million during the first half of 2011, compared to the same period in 2010, primarily due to the sale of the *Ocean Shield* in 2010 (\$30.3 million). Revenue generated by the *Ocean Sovereign* decreased \$12.9 million during the first half of 2011, compared to the prior year period, due to a lower contracted dayrate beginning in May 2010 combined with 38 days of unpaid downtime, primarily related to weather conditions, during 2011. Contract drilling expense decreased \$14.5 million during the first half of 2011, compared to the same period in 2010, primarily due to an absence of costs for the *Ocean Shield* (\$15.2 million).

Europe/Africa/Mediterranean. Revenue earned by our jack-up rigs operating in the Europe/Africa/Mediterranean region decreased \$10.1 million during the first half of 2011, compared to the same period in 2010, primarily due to a 138-day decrease in revenue earning days (\$8.5 million) and a decrease in average daily revenue earned (\$1.6 million) during the first half of 2011. The *Ocean King*, which completed its bareboat charter in Croatia at the end of July 2010, earned revenue of \$8.8 million during the first half of 2010. Contract drilling expense increased \$1.4 million during the first half of 2011, compared to the same period in 2010, primarily due to higher overhead and repair costs for our three rigs marketed in this region.

South America. Contract drilling revenue earned and expense incurred by the *Ocean Scepter* increased \$23.5 million and \$18.7 million, respectively, during the first half of 2011 compared to same period in 2010. Minimal costs were incurred in the region during the first half of 2010 prior to the rig's arrival in mid-August 2010.

Sources of Liquidity and Capital Resources

Our principal sources of liquidity and capital resources are cash flows from our operations and our cash reserves. We may also make use of our \$285 million credit facility for cash liquidity. See *\$285 Million Revolving Credit Facility*.

At June 30, 2011, we had \$279.9 million in Cash and cash equivalents and \$700.5 million in Investments and marketable securities, representing our investment of cash available for current operations.

\$285 Million Revolving Credit Facility. We maintain a \$285 million syndicated, senior unsecured revolving credit facility, or Credit Facility, for general corporate purposes, including loans and performance or standby letters of credit. The Credit Facility, which contains customary covenants, will mature on November 2, 2011, and at this time we have no plans to replace it.

Based on our current credit ratings at June 30, 2011, the applicable margin on LIBOR loans would have been 0.24%. As of June 30, 2011, there were no loans outstanding under the Credit Facility; however \$4.3 million in letters of credit were issued and outstanding under the Credit Facility.

Liquidity and Capital Requirements

Our liquidity and capital requirements are primarily a function of our working capital needs, capital expenditures and debt service requirements. We determine the amount of cash required to meet our capital commitments by evaluating the need to upgrade rigs to meet specific customer requirements, our ongoing rig equipment replacement and enhancement programs, and our obligations relating to the construction of our new drillships. As a result of our intention to indefinitely reinvest the earnings of our wholly owned subsidiary Diamond Offshore International Limited, or DOIL, to finance our foreign activities, we do not expect such earnings to be available for distribution to our stockholders or to finance our domestic activities. However, we believe that the operating cash flows generated by and cash reserves of DOIL, and the operating cash flows available to and cash reserves of Diamond Offshore Drilling, Inc., will be sufficient to meet their respective working capital requirements and capital commitments over the next twelve months. We will, however, continue to make periodic assessments based on industry conditions and will adjust capital spending programs if required.

In addition, we may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses or for general corporate purposes. Our ability to access the capital markets by issuing debt or equity securities will be dependent on our results of operations, our current financial condition, current market conditions and other factors beyond our control.

Table of Contents*Contractual Cash Obligations.*

The following table sets forth our contractual cash obligations at June 30, 2011.

Contractual Obligations	Total	Payments Due By Period				After 5 years
		Less than 1 year	1 3 years (In thousands)	4 5 years		
Long-term debt (principal and interest) ⁽¹⁾	\$2,647,090	\$41,470	\$ 165,876	\$ 652,931		\$1,786,813
Construction contracts	1,116,079		720,660	395,419		
Operating leases	3,300	1,900	1,400			
Total obligations	\$3,766,469	\$43,370	\$ 887,936	\$1,048,350		\$1,786,813

⁽¹⁾ See Note 8 Long-Term Debt to our Consolidated Financial Statements in Item 1 of Part I of this report.

In December 2010 and during the first and second quarters of 2011, we entered into three separate turnkey contracts with Hyundai Heavy Industries Co., Ltd., or Hyundai, for the construction of three dynamically positioned, ultra-deepwater drillships with delivery of the first two drillships scheduled for late in the second and fourth quarters of 2013 and the third drillship in the second quarter of 2014. See Note 9 Commitments and Contingencies *Purchase Obligations* to our Consolidated Financial Statements in Item 1 of Part I of this report.

At June 30, 2011, we had foreign currency forward exchange, or FOREX, contracts in the aggregate notional amount of \$122.4 million outstanding. See further information regarding these contracts in Item 3, Quantitative and Qualitative Disclosures About Market Risk *Foreign Exchange Risk* and Note 5 Derivative Financial Instruments to our Consolidated Financial Statements in Item 1 of Part I of this report.

As of June 30, 2011, the total unrecognized tax benefit related to uncertain tax positions was \$52.2 million. In addition, we have recorded a liability, as of June 30, 2011, for potential penalties and interest of \$29.6 million and \$10.8 million, respectively, related to the tax benefit related to uncertain tax positions. Due to the high degree of uncertainty regarding the timing of future cash outflows associated with the liabilities recognized in this balance, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities.

We had no other purchase obligations for major rig upgrades or any other significant obligations at June 30, 2011, except for those related to our direct rig operations, which arise during the normal course of business.

Other Commercial Commitments Letters of Credit.

We were contingently liable as of June 30, 2011 in the amount of \$72.1 million under certain performance, bid, supersedeas, tax appeal and custom bonds and letters of credit. We purchased two of these bonds totaling \$19.6 million from a related party after obtaining competitive quotes. Agreements relating to approximately \$56.8 million of performance bonds can require collateral at any time. As of June 30, 2011, we had not been required to make any collateral deposits with respect to these agreements. The remaining agreements cannot require collateral except in events of default. Banks have issued letters of credit on our behalf securing certain of these bonds. The table below provides a list of these obligations in U.S. dollar equivalents and their time to expiration.

Other Commercial Commitments	Total	For the Years Ending December 31,		
		2011	2012	Thereafter
		(In thousands)		
Customs bonds	\$ 659	\$ 559	\$ 100	\$
Performance bonds	37,340	10,609	22,864	3,867
Other	34,110	2,960	31,150	

Total obligations	\$72,109	\$14,128	\$54,114	\$3,867
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Credit Ratings.

Our current credit rating is Baa1 for Moody's Investors Services and A- for Standard & Poor's. Although our long-term ratings continue at investment grade levels, lower ratings would result in higher rates for borrowings under our Credit Facility and could also result in higher interest rates on future debt issuances.

Table of Contents*Capital Expenditures.*

We expect to spend approximately \$320 million during 2011 on capital expenditures associated with our ongoing rig equipment replacement and enhancement programs and other corporate requirements. During the first half of 2011, we spent approximately \$100.5 million toward these programs.

In addition, in the first half of 2011, we paid \$478.3 million to Hyundai as the first of two installment payments for the construction of our three new, ultra-deepwater drillships. The final installments of the contracted price are payable to Hyundai upon delivery of each respective vessel. The total cost of the three drillships, including commissioning, spares and project management, is expected to be approximately \$1.8 billion in the aggregate. We also have a fixed-price option from Hyundai for the construction of a fourth drillship that expires September 15, 2011.

We expect to finance our 2011 capital expenditures through the use of our existing cash balances or internally generated funds.

Off-Balance Sheet Arrangements.

At June 30, 2011 and December 31, 2010, we had no off-balance sheet debt or other arrangements.

Historical Cash Flows

The following is a discussion of our historical cash flows from operating, investing and financing activities for the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

Net Cash Provided by Operating Activities.

	Six Months Ended June 30, 2011	2010 (In thousands)	Change
Net income	\$517,198	\$515,246	\$ 1,952
Net changes in operating assets and liabilities	(1,369)	(51,896)	50,527
Proceeds from settlement of FOREX contracts designated as accounting hedges	7,231	457	6,774
Deferred tax provision	(15,623)	11,921	(27,544)
Depreciation and other non-cash items, net	216,202	218,577	(2,375)
	\$723,639	\$694,305	\$ 29,334

Our cash flows from operations during the first half of 2011 increased \$29.3 million compared to the same period in 2010. This increase was primarily due to a decrease in net cash required to satisfy working capital requirements in the first half of 2011 compared to the same period in 2010.

We used \$50.5 million less cash to satisfy our working capital requirements during the first half of 2011 compared to the first half of 2010, primarily due to lower estimated income taxes paid in the U.S. federal jurisdiction. During the first half of 2011, we made U.S. federal income tax payments and paid foreign income taxes, net of refunds, of \$49.0 million and \$96.5 million, respectively. During the first half of 2010, we made U.S. federal income tax payments and paid foreign income taxes, net of refunds, of \$254.5 million and \$76.2 million, respectively. Trade and other receivables generated cash of \$51.1 million during the first six months of 2011 compared to \$109.1 million during the same period of 2010. We used \$41.7 million more cash during the first six months of 2011 to satisfy accounts payable and accrued liability needs compared to the first six months of 2010.

Table of Contents*Net Cash Used in Investing Activities.*

	Six Months Ended June 30,		
	2011	2010	Change
		(In thousands)	
Purchase of marketable securities	\$ (3,399,797)	\$ (2,399,760)	\$ (1,000,037)
Proceeds from sale and maturities of marketable securities	3,312,089	2,550,088	762,001
Capital expenditures	(100,521)	(221,890)	121,369
Deposits for construction of new rigs	(478,320)		(478,320)
Proceeds from disposition of assets	4,205	1,258	2,947
Deposit received on sale of rig		18,600	(18,600)
	\$ (662,344)	\$ (51,704)	\$ (610,640)

Our investing activities used \$662.3 million during the first six months of 2011 compared to \$51.7 million during the same period in 2010. During the first half of 2011 we purchased marketable securities, net of sales, of \$87.7 million compared to net sales of \$150.3 million during the same period in 2010. Our level of investment activity is dependent on our working capital and other capital requirements during the year, as well as a response to actual or anticipated events or conditions in the securities markets.

During the first half of 2011, we paid \$478.3 million to Hyundai as first installments towards the construction of our three drillships. See *Liquidity and Capital Requirements Contractual Cash Obligations* and *Liquidity and Capital Requirements Capital Expenditures*.

We spent approximately \$100.5 million during the first six months of 2011 related to our ongoing capital maintenance programs, including rig modifications to meet contractual requirements, compared to \$221.9 million during the same period in 2010. Capital expenditures during the first six months of 2010 included commissioning and initial outfitting costs of the *Ocean Courage* and *Ocean Valor*.

Net Cash Used in Financing Activities.

	Six Months Ended June 30,		
	2011	2010	Change
		(In thousands)	
Payment of dividends	\$ (245,812)	\$ (489,670)	\$ 243,858
Redemption of zero coupon debentures		(4,238)	4,238
Other		9	(9)
	\$ (245,812)	\$ (493,899)	\$ 248,087

During the first half of 2011, we paid cash dividends totaling \$245.8 million, consisting of regular and special cash dividends of \$34.8 million and \$211.0 million, respectively. During the first half of 2010, we paid cash dividends totaling \$489.7 million, consisting of regular and special cash dividends of \$34.8 million and \$454.9 million, respectively.

On July 20, 2011, we declared a regular quarterly cash dividend and a special cash dividend of \$0.125 and \$0.75, respectively, per share of our common stock. Both the quarterly and special cash dividends are payable on September 1, 2011 to stockholders of record on August 1, 2011.

Our Board of Directors has adopted a policy to consider paying special cash dividends, in amounts to be determined, on a quarterly basis. Our Board of Directors may, in subsequent quarters, consider paying additional special cash dividends, in amounts to be determined, if it believes that our financial position, earnings, earnings

outlook, capital spending plans and other relevant factors warrant such action at that time.

Depending on market conditions, we may, from time to time, purchase shares of our common stock in the open market or otherwise. We did not repurchase any shares of our outstanding common stock during the six-month periods ended June 30, 2011 and 2010.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2011-05, Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*, or ASU 2011-05, which

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eliminates the option to present components of other comprehensive income, or OCI, as part of the statement of changes in stockholders' equity, requires the presentation of each component of net income and each component of OCI either in a single continuous statement or in two separate but consecutive statements and also requires presentation of reclassification adjustments on the face of the financial statement. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011; however, early adoption is permitted. The adoption of ASU 2011-05 will not have an effect on our financial position, results of operations and cash flows.

In May 2011, the FASB issued ASU, No. 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, or ASU 2011-04. ASU 2011-04 clarifies existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We are in the process of reviewing the impact of this ASU on our financial statements and will incorporate any additional disclosures in our annual financial statements for the year ending December 31, 2012.

Forward-Looking Statements

We or our representatives may, from time to time, either in this report, in periodic press releases or otherwise, make or incorporate by reference certain written or oral statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain or be identified by the words expect, intend, plan, predict, anticipate, estimate, believe, should, might, will, will be, will continue, will likely result, project, forecast, budget and similar expressions. In statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by or against us, which may be provided by management, are also forward-looking statements as so defined. Statements made by us in this report that contain forward-looking statements include, but are not limited to, information concerning our possible or assumed future results of operations and statements about the following subjects:

future market conditions and the effect of such conditions on our future results of operations;

future uses of and requirements for financial resources;

interest rate and foreign exchange risk;

future contractual obligations;

future operations outside the United States including, without limitation, our operations in Mexico, Egypt and Brazil;

effects of the Macondo well blowout, including, without limitation, the impact of the moratorium and its aftermath on drilling in the U.S. Gulf of Mexico, related delays in permitting activities and related regulations and market developments;

business strategy;

growth opportunities;

competitive position;

expected financial position;

future cash flows and contract backlog;

future regular or special dividends;

financing plans;

market outlook;

tax planning;

debt levels, including impacts of the financial crisis and restrictions in the credit market;

budgets for capital and other expenditures;

timing and duration of required regulatory inspections for our drilling rigs;

timing and cost of completion of rig upgrades, construction projects (including, without limitation, our three drillships under construction) and other capital projects;

delivery dates and drilling contracts related to rig conversion or upgrade projects, construction projects or rig acquisitions;

plans and objectives of management;

idling drilling rigs or reactivating stacked rigs;

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asset impairment evaluations;

performance of contracts;

outcomes of legal proceedings;

compliance with applicable laws; and

availability, limits and adequacy of insurance or indemnification.

These types of statements are based on current expectations about future events and inherently are subject to a variety of assumptions, risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those expected, projected or expressed in forward-looking statements. These risks and uncertainties include, among others, the following:

those described under Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010;

general economic and business conditions, including the extent and duration of the recent financial crisis and restrictions in the credit market, the worldwide economic downturn and recession;

worldwide demand for oil and natural gas;

changes in foreign and domestic oil and gas exploration, development and production activity;

oil and natural gas price fluctuations and related market expectations;

the ability of the Organization of Petroleum Exporting Countries, commonly called OPEC, to set and maintain production levels and pricing, and the level of production in non-OPEC countries;

policies of various governments regarding exploration and development of oil and gas reserves;

our inability to obtain contracts for our rigs that do not have contracts;

the cancellation of contracts included in our reported contract backlog;

advances in exploration and development technology;

the worldwide political and military environment, including in oil-producing regions;

casualty losses;

operating hazards inherent in drilling for oil and gas offshore;

the risk of physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico;

industry fleet capacity;

market conditions in the offshore contract drilling industry, including dayrates and utilization levels;

competition;

changes in foreign, political, social and economic conditions;

risks of international operations, compliance with foreign laws and taxation policies and expropriation or nationalization of equipment and assets;

risks of potential contractual liabilities pursuant to our various drilling contracts in effect from time to time;

the ability of customers and suppliers to meet their obligations to us and our subsidiaries;

the risk that a letter of intent may not result in a definitive agreement;

foreign exchange and currency fluctuations and regulations, and the inability to repatriate income or capital;

risks of war, military operations, other armed hostilities, terrorist acts and embargoes;

changes in offshore drilling technology, which could require significant capital expenditures in order to maintain competitiveness;

regulatory initiatives and compliance with governmental regulations including, without limitation, regulations pertaining to climate change, carbon emissions or energy use;

compliance with environmental laws and regulations;

potential changes in accounting policies by the Financial Accounting Standards Board, the Securities and Exchange Commission, or SEC, or regulatory agencies for our industry which may cause us to revise our financial accounting and/or disclosures in the future, and which may change the way analysts measure our business or financial performance;

development and exploitation of alternative fuels;

customer preferences;

effects of litigation, tax audits and contingencies and the impact of compliance with judicial rulings and jury verdicts;

cost, availability, limits and adequacy of insurance;

invalidity of assumptions used in the design of our controls and procedures;

the results of financing efforts;

the risk that future regular or special dividends may not be declared;

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adequacy of our sources of liquidity;

risks resulting from our indebtedness;

public health threats;

negative publicity;

impairments of assets;

the availability of qualified personnel to operate and service our drilling rigs; and

various other matters, many of which are beyond our control.

The risks and uncertainties included here are not exhaustive. Other sections of this report and our other filings with the SEC include additional factors that could adversely affect our business, results of operations and financial performance. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements included in this report speak only as of the date of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in our expectations or beliefs with regard to the statement or any change in events, conditions or circumstances on which any forward-looking statement is based.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

The information included in this Item 3 is considered to constitute forward-looking statements for purposes of the statutory safe harbor provided in Section 27A of the Securities Act and Section 21E of the Exchange Act. See Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements in Item 2 of Part I of this report.

Our measure of market risk exposure represents an estimate of the change in fair value of our financial instruments. Market risk exposure is presented for each class of financial instrument held by us at June 30, 2011 and December 31, 2010, assuming immediate adverse market movements of the magnitude described below. We believe that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss or any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since our investment portfolio is subject to change based on our portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results that may occur.

Exposure to market risk is managed and monitored by our senior management. Senior management approves the overall investment strategy that we employ and has responsibility to ensure that the investment positions are consistent with that strategy and the level of risk acceptable to us. We may manage risk by buying or selling instruments or entering into offsetting positions.

Interest Rate Risk

We have exposure to interest rate risk arising from changes in the level or volatility of interest rates. Our investments in marketable securities are primarily in fixed maturity securities. We monitor our sensitivity to interest rate risk by evaluating the change in the value of our financial assets and liabilities due to fluctuations in interest rates. The evaluation is performed by applying an instantaneous change in interest rates by varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the recorded market value of our investments and the resulting effect on stockholders' equity. The analysis presents the sensitivity of the market value of our financial instruments to selected changes in market rates and prices which we believe are reasonably possible over a one-year period.

The sensitivity analysis estimates the change in the market value of our interest sensitive assets and liabilities that were held on June 30, 2011 and December 31, 2010, due to instantaneous parallel shifts in the yield curve of 100 basis

points, with all other variables held constant.

The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Accordingly, the analysis may not be indicative of, is not intended to provide, and does not provide a precise forecast of the effect of changes in market interest rates on our earnings or stockholders' equity. Further, the computations do not contemplate any actions we could undertake in response to changes in interest rates.

Loans under our \$285 million syndicated, senior unsecured revolving Credit Facility bear interest at our option at a rate per annum equal to (i) the higher of the prime rate or the federal funds rate plus 0.5% or (ii) LIBOR plus an

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applicable margin, varying from 0.20% to 0.525%, based on our current credit ratings. As of June 30, 2011 and December 31, 2010, there were no loans outstanding under the Credit Facility (however, \$4.3 million and \$21.9 million in letters of credit were issued and outstanding under the Credit Facility at June 30, 2011 and December 31, 2010, respectively).

Our long-term debt, as of June 30, 2011 and December 31, 2010, was denominated in U.S. dollars. Our debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts. The impact of a 100-basis point increase in interest rates on fixed rate debt would result in a decrease in market value of \$113.5 million and \$117.0 million as of June 30, 2011 and December 31, 2010, respectively. A 100-basis point decrease would result in an increase in market value of \$131.3 million and \$135.5 million as of June 30, 2011 and December 31, 2010, respectively.

Foreign Exchange Risk

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. It is customary for us to enter into foreign currency forward exchange, or FOREX, contracts in the normal course of business. These contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date, which for certain contracts is the average spot rate for the contract period. As of June 30, 2011, we had FOREX contracts outstanding in the aggregate notional amount of \$122.4 million, consisting of \$36.9 million in Australian dollars, \$66.4 million in Brazilian reais, \$17.4 million in British pounds sterling and \$1.7 million in Norwegian kroner. These contracts generally settle monthly through December 2011.

At June 30, 2011, we have presented the fair value of our outstanding FOREX contracts as a current asset of \$8.4 million in Prepaid expenses and other current assets in our Consolidated Balance Sheets. At December 31, 2010, we have presented the fair value of our outstanding FOREX contracts as a current asset of \$4.3 million in Prepaid expenses and other current assets and a current liability of \$(0.1) million in Accrued liabilities in our Consolidated Balance Sheets.

The following table presents our exposure to market risk by category (interest rates and foreign currency exchange rates):

	Fair Value Asset (Liability)		Market Risk	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
	(In thousands)			
Interest rate:				
Marketable securities	\$ 700,500 (a)	\$ 612,300 (a)	\$ (500) (b)	\$ (1,100) (b)
Foreign Exchange:				
FOREX contracts receivable positions.	8,400 (c)	4,300 (c)	(23,600) (d)	(23,500) (d)
FOREX contracts liability positions	(c)	(100) (c)	(d)	(2,100) (d)

(a) The fair market value of our investment in marketable securities, excluding repurchase agreements, is based on the quoted closing market prices on June 30, 2011 and December 31, 2010.

(b) The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of an increase in interest rates of 100 basis points at June 30, 2011 and December 31, 2010.

(c)

The fair value of our FOREX contracts is based on both quoted market prices and valuations derived from pricing models on June 30, 2011 and December 31, 2010.

- (d) The calculation of estimated foreign exchange risk assumes an instantaneous 20% decrease in the foreign currency exchange rates versus the U.S. dollar from their values at June 30, 2011 and December 31, 2010, with all other variables held constant.

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ITEM 4. Controls and Procedures.

We maintain a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by us in reports that we file or submit under the federal securities laws, including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us under the federal securities laws is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure.

Our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2011. Based on their participation in that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2011.

There were no changes in our internal control over financial reporting identified in connection with the foregoing evaluation that occurred during our second fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. Exhibits.

See the Exhibit Index for a list of those exhibits filed or furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIAMOND OFFSHORE DRILLING, INC.

(Registrant)

Date July 28, 2011

By: \s\ Gary T. Krenek
Gary T. Krenek
Senior Vice President and Chief Financial
Officer

Date July 28, 2011

\s\ Beth G. Gordon
Beth G. Gordon
Controller (Chief Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Diamond Offshore Drilling, Inc. (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003) (SEC File No. 1-13926).
3.2	Amended and Restated By-laws (as amended through March 15, 2011) of Diamond Offshore Drilling, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed March 16, 2011).
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Label Linkbase Document.
101.PRE**	XBRL Presentation Linkbase Document.
*	Filed or furnished herewith.
**	The documents formatted in XBRL (Extensible Business Reporting Language) and attached as Exhibit 101 to this report are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act, and otherwise, not subject to liability under these sections.