

ATWOOD OCEANICS INC
Form 10-Q
May 04, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Form 10-Q

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

FOR QUARTERLY PERIOD ENDED MARCH 31, 2012

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

COMMISSION FILE NUMBER 1-13167

ATWOOD OCEANICS, INC.

(Exact name of registrant as specified in its charter)

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TEXAS
(State or other jurisdiction of
incorporation or organization)
15835 Park Ten Place Drive
Houston, Texas
(Address of principal executive offices)

74-1611874
(I.R.S. Employer Identification No.)

77084
(Zip Code)

281-749-7800
(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, and (2) has been subject to such filings 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 (§232.405 of this chapter) 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.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2011: 65,361,041 shares of common stock, \$1 par value

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ATWOOD OCEANICS, INC.

FORM 10-Q

For the Quarter Ended March 31, 2012

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****ATWOOD OCEANICS, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|---------------------------------|------------------|-------------------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| REVENUES: | | | | |
| Contract drilling | \$ 171,621 | \$ 159,085 | \$ 356,293 | \$ 305,371 |
| COSTS AND EXPENSES: | | | | |
| Contract drilling | 79,342 | 50,402 | 157,686 | 108,746 |
| Depreciation | 15,406 | 8,794 | 30,769 | 17,596 |
| General and administrative | 11,552 | 9,074 | 25,646 | 24,738 |
| Other, net | 863 | (16) | 863 | (77) |
| | 107,163 | 68,254 | 214,964 | 151,003 |
| OPERATING INCOME | 64,458 | 90,831 | 141,329 | 154,368 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net of capitalized interest | (1,080) | (459) | (1,683) | (1,137) |
| Interest income | 114 | 113 | 200 | 495 |
| Other | | | 1,577 | |
| | (966) | (346) | 94 | (642) |
| INCOME BEFORE INCOME TAXES | 63,492 | 90,485 | 141,423 | 153,726 |
| PROVISION FOR INCOME TAXES | 4,026 | 19,874 | 16,489 | 30,264 |
| NET INCOME | \$ 59,466 | \$ 70,611 | \$ 124,934 | \$ 123,462 |
| EARNINGS PER COMMON SHARE (NOTE 2): | | | | |
| Basic | 0.91 | 1.09 | 1.92 | 1.91 |
| Diluted | 0.90 | 1.08 | 1.90 | 1.89 |
| AVERAGE COMMON SHARES OUTSTANDING (NOTE 2): | | | | |
| Basic | 65,276 | 64,720 | 65,150 | 64,624 |
| Diluted | 65,781 | 65,409 | 65,660 | 65,297 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**ATWOOD OCEANICS, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED****STATEMENT OF COMPREHENSIVE INCOME**

| (In thousands) | Three Months Ended | | Six Months Ended | |
|-----------------------------------|--------------------|------------------|-------------------|-------------------|
| | March 31, | | March 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$ 59,466 | \$ 70,611 | \$ 124,934 | \$ 123,462 |
| Other comprehensive loss | | | | |
| Loss on interest rate swaps | (352) | | (560) | |
| Other comprehensive loss | (352) | | (560) | |
| Total comprehensive income | \$ 59,114 | \$ 70,611 | \$ 124,374 | \$ 123,462 |

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

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ATWOOD OCEANICS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| | March 31, 2012 | September 30, 2011 |
|---|-------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 131,627 | \$ 295,002 |
| Accounts receivable | 104,307 | 87,173 |
| Income tax receivable | 3,867 | 5,631 |
| Inventories of materials and supplies | 60,831 | 58,263 |
| Prepaid expenses and deferred costs | 6,837 | 14,862 |
| Total current assets | 307,469 | 460,931 |
| PROPERTY AND EQUIPMENT, net | 2,187,471 | 1,887,321 |
| LONG TERM ASSETS: | | |
| Other receivables | 11,875 | 11,875 |
| Deferred costs and other assets | 26,114 | 15,264 |
| Total long-term assets | 37,989 | 27,139 |
| Total assets | \$ 2,532,929 | \$ 2,375,391 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT ASSETS: | | |
| Accounts payable | \$ 57,824 | \$ 113,021 |
| Accrued liabilities | 23,710 | 30,680 |
| Notes payable | | 5,461 |
| Income tax payable | 13,141 | 8,461 |
| Deferred credits | 16,794 | 1,700 |
| Total current liabilities | 111,469 | 159,323 |
| LONG TERM LIABILITIES: | | |
| Long-term debt | 600,000 | 520,000 |
| Deferred income taxes | 9,355 | 9,780 |
| Deferred credits | 7,427 | 7,910 |
| Other | 19,344 | 25,591 |
| Total long-term liabilities | 636,126 | 563,281 |
| COMMITMENTS AND CONTINGENCIES (SEE NOTE 10) | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, no par value; 1,000 shares authorized, none outstanding | | |
| Common stock, \$1 par value, 90,000 shares authorized with 65,361 and 64,960 issued and outstanding at March 31, 2012 and September 30, 2011, respectively | 65,361 | 64,960 |
| Paid-in capital | 152,856 | 145,084 |

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| | | |
|--|---------------------|--------------|
| Retained earnings | 1,569,204 | 1,444,270 |
| Accumulated other comprehensive loss | (2,087) | (1,527) |
| Total shareholders' equity | 1,785,334 | 1,652,787 |
| Total liabilities and shareholders' equity | \$ 2,532,929 | \$ 2,375,391 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**ATWOOD OCEANICS, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

| | Six Months Ended March 31, | |
|---|-------------------------------|--------------------|
| | 2012 | 2011 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 124,934 | \$ 123,462 |
| Adjustments to reconcile net cash provided by operating activities: | | |
| Depreciation | 30,769 | 17,596 |
| Amortization of debt issuance costs | 1,562 | 404 |
| Amortization of deferred items | 791 | 3,941 |
| Provision for doubtful accounts | | |
| Provision for inventory obsolescence | 435 | 314 |
| Deferred income tax benefit | (425) | (443) |
| Share-based compensation expense | 4,931 | 3,316 |
| Other, net | 863 | (77) |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | (765) | (5,614) |
| Decrease in income tax receivable | 1,764 | 8,960 |
| Increase in inventory | (3,003) | (3,378) |
| Decrease in prepaid expenses | 6,285 | 5,444 |
| Increase in deferred costs and other assets | (14,220) | (7,690) |
| Increase in accounts payable | 10,465 | 245 |
| Increase (decrease) in accrued liabilities | (7,337) | 1,473 |
| Increase (decrease) in income tax payable | 4,680 | (12,162) |
| Increase (decrease) in deferred credits and other liabilities | (5,441) | 37,842 |
| Net cash provided by operating activities | 156,288 | 173,633 |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (397,444) | (420,829) |
| Proceeds from sale of assets | | 115 |
| Net cash used by investing activities | (397,444) | (420,714) |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of bonds | 450,000 | |
| Proceeds from credit facilities | 80,000 | 225,000 |
| Principal payments on credit facilities | (450,000) | |
| Principal payments on notes payable | (5,461) | |
| Proceeds from exercise of stock options | 3,242 | 3,559 |
| Net cash provided by financing activities | 77,781 | 228,559 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | \$ (163,375) | \$ (18,522) |
| CASH AND CASH EQUIVALENTS, at beginning of period | \$ 295,002 | \$ 180,523 |
| CASH AND CASH EQUIVALENTS, at end of period | \$ 131,627 | \$ 162,001 |

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Non-cash activities

| | | |
|---|-------------|----------|
| Increase (decrease) in accounts payable and accrued liabilities related to capital expenditures | \$ (65,662) | \$ 6,676 |
|---|-------------|----------|

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ATWOOD OCEANICS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

| | Common Stock | | Paid-in | Retained | Accumulated | Total |
|--|---------------|------------------|-------------------|---------------------|-------------------|---------------------|
| (In thousands) | Shares | Amount | Capital | Earnings | Other | Stockholders |
| | | | | | Comprehensive | Equity |
| | | | | | Loss | |
| September 30, 2011 | 64,960 | \$ 64,960 | \$ 145,084 | \$ 1,444,270 | \$ (1,527) | \$ 1,652,787 |
| Net income | | | | 124,934 | | 124,934 |
| Other comprehensive loss | | | | | (560) | (560) |
| Restricted stock awards | 207 | 207 | (207) | | | |
| Exercise of employee stock options | 194 | 194 | 3,048 | | | 3,242 |
| Stock option and restricted stock award compensation expense | | | 4,931 | | | 4,931 |
| March 31, 2012 | 65,361 | \$ 65,361 | \$ 152,856 | \$ 1,569,204 | \$ (2,087) | \$ 1,785,334 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**ATWOOD OCEANICS, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. UNAUDITED INTERIM INFORMATION**

The unaudited interim condensed consolidated financial statements of Atwood Oceanics, Inc. and its subsidiaries as of March 31, 2012, and for the three and six months ended March 31, 2012 and 2011, included herein, have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Unless otherwise indicated, references to we, us, our and the Company refer collectively to Atwood Oceanics, Inc., its subsidiaries and affiliates. The year-end condensed consolidated balance sheet data was derived from the audited financial statements as of September 30, 2011. Although these financial statements and related information have been prepared without audit, and certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, we believe that the note disclosures are adequate to make the information not misleading. The interim financial results may not be indicative of results that could be expected for a full fiscal year. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report to Shareholders for the year ended September 30, 2011. In our opinion, the unaudited interim financial statements reflect all adjustments considered necessary for a fair statement of our financial position, results of operations and cash flows for the periods presented.

2. EARNINGS PER COMMON SHARE

The computation of basic and diluted earnings per share is as follows (in thousands, except per share amounts):

| | Three Months Ended | | | Six Months Ended | | |
|--------------------------------|--------------------|--------|---------------------|------------------|--------|---------------------|
| | Net Income | Shares | Per Share Amount | Net Income | Shares | Per Share Amount |
| March 31, 2012: | | | | | | |
| Basic earnings per share | \$ 59,466 | 65,276 | \$ 0.91 | \$ 124,934 | 65,150 | \$ 1.92 |
| Effect of dilutive securities: | | | | | | |
| Stock options | | 505 | \$ (0.01) | | 510 | \$ (0.02) |
| Diluted earnings per share | \$ 59,466 | 65,781 | \$ 0.90 | \$ 124,934 | 65,660 | \$ 1.90 |
| March 31, 2011: | | | | | | |
| Basic earnings per share | \$ 70,611 | 64,720 | \$ 1.09 | \$ 123,462 | 64,624 | \$ 1.91 |
| Effect of dilutive securities: | | | | | | |
| Stock options | | 689 | \$ (0.01) | | 673 | \$ (0.02) |
| Diluted earnings per share | \$ 70,611 | 65,409 | \$ 1.08 | \$ 123,462 | 65,297 | \$ 1.89 |

The calculation of diluted earnings per share for the three and six months ended March 31, 2012 and 2011 excludes shares of common stock related to 562,000 and 702,000 outstanding stock options, respectively, because such options were anti-dilutive. These options could potentially dilute basic earnings per share in the future.

Table of Contents**3. SHARE-BASED COMPENSATION**

Share-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite service period, which is generally the vesting period of the equity award. As of March 31, 2012, unrecognized compensation cost, net of estimated forfeitures, related to stock options and restricted stock awards was approximately \$8.4 million and \$17.8 million, respectively, which we expect to recognize over a weighted average period of approximately 2.6 years.

Stock Options

Under our stock incentive plans, the exercise price of each stock option must be equal to or greater than the fair market value of our common stock on the date of grant, with all outstanding options having a maximum term of 10 years. Options vest ratably over a period from the end of the first to the fourth year from the date of grant. Each option is for the purchase of one share of our common stock.

The per share weighted average fair value of stock options granted during the six months ended March 31, 2012 was \$16.90. We estimated the fair value of each stock option then outstanding using the Black-Scholes pricing model and the following assumptions for the six months ended March 31, 2012:

| | |
|-------------------------|-------------|
| Risk-Free Interest Rate | 0.9% |
| Expected Volatility | 44% |
| Expected Life (Years) | 5.4 |
| Dividend Yield | None |

The average risk-free interest rate is based on the five-year U.S. treasury security rate in effect as of the grant date. We determined expected volatility using a six-year historical volatility figure and determined the expected term of the stock options using 10 years of historical data. The expected dividend yield is based on the expected annual dividend as a percentage of the market value of our common stock as of the grant date. We have never paid any cash dividends on our common stock.

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A summary of stock option activity during the six months ended March 31, 2012 is as follows:

| | Number of Options (000s) | Wtd. Avg. Exercise Price | Wtd. Avg. Remaining Contractual Life (Years) | Aggregate Intrinsic Value (000s) |
|-----------------------------------|-----------------------------|--------------------------------|---|--|
| Outstanding at September 30, 2011 | 1,480 | \$ 25.44 | 6.1 | \$ 13,198 |
| Granted | 320 | \$ 41.60 | | |
| Exercised | (194) | \$ 16.73 | | \$ 5,796 |
| Forfeited | (29) | \$ 36.51 | | |
| Outstanding at March 31, 2012 | 1,577 | \$ 29.59 | 6.6 | \$ 24,132 |
| Exercisable at March 31, 2012 | 978 | \$ 24.11 | 5.2 | \$ 20,323 |

Restricted Stock

We have awarded restricted stock under the 2007 Plan to certain employees and to our non-employee directors. All current awards of restricted stock to employees are subject to a vesting and restriction period ranging from three to four years, subject to early termination as provided in the 2007 Plan. In addition, certain awards of restricted stock are subject to market conditions. All awards of restricted stock to non-employee directors are subject to a vesting and restriction period of a minimum of 13 months, subject to early termination as provided in the 2007 Plan. We value restricted stock awards based on the fair market value of our common stock on the date of grant and also adjust fair market value for any awards subject to market conditions, where applicable.

A summary of restricted stock activity for the three months ended March 31, 2012 is as follows:

| | Number of Shares (000s) | Wtd. Avg. Fair Value |
|--------------------------------|----------------------------|-------------------------|
| Unvested at September 30, 2011 | 560 | \$ 34.54 |
| Granted | 388 | \$ 41.37 |
| Vested | (207) | \$ 33.06 |
| Forfeited | (23) | \$ 38.47 |
| Unvested at March 31, 2012 | 718 | \$ 38.53 |

Table of Contents**4. PROPERTY AND EQUIPMENT**

A summary of property and equipment by classification is as follows (in thousands):

| (In thousands) | March 31, 2012 | September 30, 2011 |
|--|---------------------|-----------------------|
| Drilling vessels and equipment | \$ 1,580,714 | \$ 1,578,592 |
| Construction work in progress | 1,061,157 | 736,827 |
| Drill pipe | 18,703 | 18,182 |
| Office equipment and other | 12,750 | 8,800 |
| | | |
| Cost | 2,673,324 | 2,342,401 |
| Less: Accumulated depreciation | (485,853) | (455,080) |
| | | |
| Drilling and other property and equipment, net | \$ 2,187,471 | \$ 1,887,321 |

Property and equipment are recorded at costs. Interest incurred related to property under construction is capitalized as a component of construction costs. Interest capitalized during the six months ended March 31, 2012 and 2011, was approximately \$15.9 million and \$2.4 million, respectively.

New Construction Projects

As of March 31, 2012, we had expended approximately \$1.0 billion towards the construction of our six drilling units currently under construction. Total remaining firm commitments for our six drilling units currently under construction are approximately \$1.3 billion.

5. LONG-TERM DEBT

A summary of long-term debt is as follows (in thousands):

| | March 31, 2012 | September 30, 2011 |
|--|-------------------|-----------------------|
| Senior Notes, bearing fixed interest at 6.5% per annum | \$ 450,000 | \$ |
| 2011 credit facility, bearing interest (market adjustable) at approximately 3.3% per annum at March 31, 2012 and 3.1% per annum at September 30, 2011. | 150,000 | 520,000 |
| | | |
| | \$ 600,000 | \$ 520,000 |

Senior Notes

In January 2012, we issued \$450 million aggregate principal amount of 6.50% Senior Notes due 2020 (the Notes). We received net proceeds, after deducting underwriting discounts and estimated offering expenses, of approximately \$440 million. We used the net proceeds to reduce outstanding borrowings under our 2011 Credit Facility.

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The Notes are our senior unsecured obligations and are not currently guaranteed by any of our subsidiaries. Interest is payable on the Notes semi-annually in arrears. The indenture governing the Notes contains provisions that limit our ability and the ability of our restricted subsidiaries to incur or guarantee additional indebtedness or issue preferred stock; pay dividends or make other restricted payments; sell assets; make investments; create liens; enter into agreements that restrict dividends or other payments from our restricted subsidiaries to us; and consolidate, merge or transfer all or substantially all of our assets. Many of these restrictions will terminate if the Notes become rated investment grade. The indenture governing the Notes also contains customary events of default, including payment defaults; defaults for failure to comply with other covenants in the indenture; cross-acceleration and entry of final judgments in excess of \$50.0 million; and certain events of bankruptcy, in certain cases subject to notice and grace periods. We are required to offer to repurchase the Notes in connection with specified change in control events or with excess proceeds of asset sales not applied for permitted purposes.

2011 Credit Facility

As of March 31, 2012, we had \$150 million of outstanding borrowings under our five-year \$750 million senior secured revolving credit facility, which we entered into in May 2011. Our subsidiary, Atwood Offshore Worldwide Limited (AOWL), is the borrower under the credit facility, and we and certain of our other subsidiaries are guarantors under the facility. Borrowings under the credit facility bear interest at the Eurodollar rate plus a margin of 2.5% (approximately 3.3% per annum at March 31, 2012, after considering the impact of our interest rate swaps). Certain borrowings effectively bear interest at a fixed rate due to our interest rate swaps. The credit facility also provides for the issuance, when required, of standby letters of credit. The credit facility has a commitment fee of 1.0% per annum on the unused portion of the underlying commitment. Subject to the satisfaction of certain conditions precedent and the agreement by the lenders, the credit facility includes an accordion feature which, if exercised, will increase total commitments by up to \$350 million for a total commitment of up to \$1.1 billion.

The credit facility contains various financial covenants that impose a maximum leverage ratio of 4.0 to 1.0, a debt to capitalization ratio of 0.5 to 1.0, a minimum interest expense coverage ratio of 3.0 to 1.0 and a minimum collateral maintenance of 150% of the aggregate amount outstanding under the credit facility. In addition, the credit facility contains limitations on our and certain of our subsidiaries' ability to incur liens; merge, consolidate or sell substantially all assets; pay dividends (including restrictions on AOWL's ability to pay dividends to us); incur additional indebtedness; make advances, investments or loans; and transact with affiliates. The credit facility also contains customary events of default, including but not limited to delinquent payments, bankruptcy filings, material adverse judgments, guarantees or security documents not being in full effect, non-compliance with the Employee Retirement Income Security Act of 1974, cross-defaults under other debt agreements, or a change of control. The credit facility is secured primarily by first preferred mortgages on six of our active drilling units (the *Atwood Aurora*, the *Atwood Beacon*, the *Atwood Eagle*, the *Atwood Falcon*, the *Atwood Hunter*, and the *Atwood Osprey*), as well as liens on the equity interests of our subsidiaries that own, directly or indirectly, such drilling units. In addition, if the accordion feature is exercised, the credit facility requires that we provide a first preferred mortgage on the *Atwood Condor*, as well as a lien on the equity interests of our subsidiaries that own, directly or indirectly, the *Atwood Condor*. We were in compliance with all financial covenants under the credit facility at March 31, 2012.

As of March 31, 2012, we had one interest rate swap agreement in effect to fix the interest rate on \$50.0 million of our borrowings under the credit facility at 3.5% through September 2014.

Table of Contents**6. INTEREST RATE SWAPS**

Our credit facility exposes us to short-term changes in market interest rates as our interest obligations on these instruments are periodically re-determined based on the prevailing Eurodollar rate. We enter into interest rate swaps to limit our exposure to fluctuations and volatility in interest rates. We do not engage in derivative transactions for speculative or trading purposes and we are not a party to leveraged derivatives.

Currently, we have five executed interest rate swaps covering \$250 million of our borrowings under the credit facility. In February 2012, we temporarily suspended four swaps for periods ranging from two to five months due to the repayment of borrowings under the credit facility following the issuance of the Notes. As of March 31, 2012, we had one interest rate swap agreement in effect to fix the interest rate on \$50.0 million of our borrowings under the credit facility at 3.5%. The remaining four swaps became or will become active again between April and July 2012. After all swaps are active, the five swaps will fix the interest rate on \$250 million of borrowings under the credit facility at a weighted average 3.4% through September 2014.

Fair Value of Derivatives

The following table presents the fair value of our cash flow hedge derivative contracts included in the Consolidated Balance Sheets as of March 31, 2012 and September 30, 2011 (in thousands):

| Type of Contract | Balance Sheet Classification | March 31 2012 | September 30 2011 |
|--|-------------------------------------|--------------------------|------------------------------|
| Short term interest rate swaps | Accrued liabilities | \$ 1,289 | \$ 988 |
| Long term interest rate swaps | Other long-term liabilities | 824 | 631 |
| Total derivative contracts, net | | \$ 2,113 | \$ 1,619 |

We record the interest rate derivative contracts at fair value on our consolidated balance sheets (See Note 8). Hedging effectiveness is evaluated each quarter end using the Dollar Off-Set Method. Each quarter, changes in the fair values will adjust the balance sheet asset or a liability, with an offset to Other Comprehensive Income (OCI).

We recognized a loss of approximately \$0.6 million in Other Comprehensive Income (OCI) as a result of changes in fair value of our interest rate swaps as of March 31, 2012, net of realized losses incurred via settlement payments throughout the period, and as a result of a loss realized from hedge ineffectiveness.

For interest rate swaps, we evaluate all material terms between the swap and the underlying debt obligation. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. A \$0.4 million loss was recognized during the quarter ended March 31, 2012 due to hedge ineffectiveness.

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7. INCOME TAXES

Our consolidated effective income tax rate for the three and six months ended March 31, 2012 was approximately 6% and 12%, respectively, which includes an approximate \$6.4 million tax benefit recognized during the current quarter related to the settlement of a foreign tax examination.

We record estimated accrued interest and penalties related to uncertain tax positions as income tax expense. At March 31, 2012, we had approximately \$8.1 million of reserves for uncertain tax positions, including estimated accrued interest and penalties of \$2.1 million, which are included in Other Long Term Liabilities in the Consolidated Balance Sheet. None of our reserves for uncertain tax positions relate to timing differences. Accordingly, all \$8.1 million of the net uncertain tax liabilities would affect the effective tax rate if recognized.

Our United States tax returns for fiscal year 2008 and subsequent years remain subject to examination by tax authorities. As we conduct business globally, we have various tax years that remain open to examination in various international tax jurisdictions. We do not anticipate that any tax contingencies resolved during the next 12 months will have a material impact on our consolidated financial position, results of operations or cash flows.

Table of Contents**8. FAIR VALUE**

We have certain assets and liabilities that are required to be measured and disclosed at fair value in accordance with generally accepted accounting principles (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 established GAAP fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels. Priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Assets and liabilities measured at fair value are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The determination of the fair values, stated below, takes into account the market for our financial assets and liabilities, the associated credit risk and other considerations.

We have classified and disclosed fair value measurements using the following levels of the fair value hierarchy:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Measurement based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable for objective sources (i.e., supported by little or no market activity).

Fair value of Certain Assets and Liabilities

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of their short term maturities.

Fair Value of Financial Instruments

The fair value of financial instruments is determined by using quoted market prices when available. When quoted prices are not available, independent third party services may be used to determine the fair value with reference to observable inputs used. When independent third party services are used, we obtain an understanding of how the fair values are derived and selectively corroborate fair values by reviewing other readily available market based sources of information. Valuation policies and procedures are determined and monitored by our treasury department, which reports to our Senior Vice-President and Chief Financial Officer.

The following table sets forth the estimated fair value of certain financial instruments at March 31, 2012, which are measured and recorded at fair value on a recurring basis:

| | March 31, 2012 | | | | Estimated Fair Value |
|---------------------|-------------------------------|---------|----------|---------|-------------------------------------|
| | Fair Value Measurement | | | | |
| | Carrying Amount | Level 1 | Level 2 | Level 3 | |
| Interest rate swaps | \$ 2,113 | \$ | \$ 2,113 | \$ | \$ 2,113 |

Interest rate swaps - The fair values of our interest rate swaps are based upon valuations calculated by an independent third party. We review other readily available market prices for other similar derivative contracts as there is an active market for these contracts. Based on valuation inputs for fair value measurement, we have classified our derivative contracts as Level 2.

Long-term Debt Our long-term debt consists of both our 6.50% Senior Notes and our 2011 Credit Facility.

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2011 Credit Facility The carrying amounts of our variable-rate debt approximates fair value because such debt bears short-term, market-based interest rates. We have classified this instrument as Level 2 as valuation inputs for purposes of determining our fair value disclosure are readily available published Eurodollar rates.

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6.50% Senior Notes The carrying value of our 6.50% Senior Notes is \$450 million on the face of our financial statements. The fair value of our 6.50% Senior Notes due 2020, is \$472.5 million. We have classified this instrument as Level 2 as valuation inputs for fair value measurements are quoted market prices for our issuance obtained from independent third party sources on March 31, 2012. The fair value amount has been calculated using these quoted prices. However, no assurance can be given that the fair value would be the amount realized in an active market exchange.

9. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The amendment clarifies existing fair value measurement and disclosure requirements, amends certain fair value measurement principles and requires additional disclosures about fair value measurements. We adopted the accounting standard effective January 1, 2012, with no material impact to our financial statements or disclosures in our financial statements.

10. COMMITMENTS AND CONTINGENCIES

Litigation

We are party to a number of lawsuits which are ordinary, routine litigation incidental to our business, the outcome of which, individually, or in the aggregate, is not expected to have a material adverse effect on our financial position, results of operations, or cash flows.

Other Matters

The *Atwood Beacon* operated in India from early December 2006 to the end of July 2009. A service tax was enacted in India in 2004 on revenues derived from seismic and exploration activities. This service tax law was subsequently amended in June 2007 and again in May 2008 to state that revenues derived from mining services and drilling services were specifically subject to this service tax. The contract terms with our customer in India provided that any liability incurred by us related to any taxes pursuant to laws not in effect at the time the contract was executed in 2005 was to be reimbursed by our customer. We believe any service taxes assessed by the Indian tax authorities under the 2007 or 2008 amendments are an obligation of our customer. Our customer is disputing this obligation on the basis that revenues derived from drilling services were taxable under the initial 2004 law, and are, therefore, our obligation.

After reviewing the status of the drilling service we provided to our customer, the Indian tax authorities assessed service tax obligations on revenues derived from the *Atwood Beacon* commencing on June 1, 2007. The relevant Indian tax authority issued an extensive written ruling setting forth the application of the June 1, 2007 service tax regulation and confirming the position that the drilling services, including the services performed under our contract with our customer prior to June 1, 2007, were not covered by the 2004 service tax law. The ruling of the Indian tax authority is currently subject to the review of the Tax Appeal Tribunal.

As of March 31, 2012, we have paid to the Indian government \$10.1 million in service taxes and have accrued \$1.8 million of additional service tax obligations in accrued liabilities on our consolidated balance sheets, for a total of \$11.9 million relating to service taxes. We have recorded a corresponding \$11.9 million long-term other receivable due from our customer relating to service taxes due under the contract. We intend to pursue collection of such amounts from our customer.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as of March 31, 2012 and for the three and six months ended March 31, 2012 and 2011 included elsewhere herein, and with our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 and elsewhere in this Quarterly Report. See "Forward-Looking Statements" below.

OVERVIEW

The following discussion is intended to assist in understanding our financial position at March 31, 2012, and our results of operations for the three and six months ended March 31, 2012 and 2011. Financial and operating results for the three ended March 31, 2012, include:

Operating revenues totaling \$172 million on 584 operating days as compared to \$159 million on 540 operating days for the three months ended March 31, 2011;

Net income of \$59 million as compared to \$71 million for the three months ended March 31, 2011;

Net cash provided by operating activities of \$99 million as compared to \$89 million for the three months ended March 31, 2011; and

Capital expenditures of \$140 million as compared to \$284 million for the three months ended March 31, 2011.

MARKET OUTLOOK

Industry Conditions

Offshore drilling activity in the U.S. Gulf of Mexico is approaching levels the industry last experienced in April 2010 prior to the Macondo well incident. The number of drilling permits issued per month has increased steadily as the Bureau of Ocean Energy Management (BOEM) and Bureau of Safety and Environmental Enforcement (BSEE) appear more comfortable with the industry's response to safety and environmental stewardship and the industry's ability to prevent similar future disasters. Although risks remain, including the risks raised by third party environmental lawsuits targeting the permitting process and the risk of the enactment of new drilling regulations, we are encouraged by the level of permitting activity and, absent any significant safety or environmental event, expect drilling activity to continue to increase in the U.S. Gulf of Mexico.

Despite an uneven recovery from the global credit crisis, sustained strong oil prices appear to have motivated our customers to increase their annual exploration and production capital budgets. This increase has resulted in the offshore drilling industry continuing to enjoy strong and increasing marketed rig utilization levels and improving day rates across all rig segments. These positive conditions are particularly apparent in the ultra-deepwater segment where, due to numerous recent contract awards, there is no available rig capacity for the remainder of 2012. Conversely, however, high oil prices which result in higher gasoline and fuel prices in the U.S. and

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internationally may impede future economic growth. Any significant slowdown in global economic growth could result in an excess of oil supply over demand which may lead to lower oil prices in the future and may negatively impact the offshore drilling industry.

During the past quarter, additions to rig capacity have slowed significantly. This slowdown is primarily the result of having a limited number of offshore drilling contractors which already have 40 uncontracted floating rigs under construction, a lack of visibility as to the sustainability of the global economic recovery due to the continuation of European sovereign issues and the slowdown of GDP growth in China, and the reduction in available financing for speculative new build orders. For example, since the beginning of 2012, only four floating rigs (excluding Norwegian harsh-environment vessels and those ordered by Sete Brasil) and two jack-ups have been ordered. This decrease in the level of new build orders together with the ongoing slowdown in the shipping industry, has resulted in new build rigs prices remaining attractive as compared to new build prices during previous market cycles.

Deepwater and Ultra-deepwater

Deepwater rig utilization increased from 94% to 98% during the quarter ended March 31, 2012, while ultra-deepwater utilization remains effectively at full utilization. The near term shortage of ultra-deepwater rigs has driven recent day rates fixtures above \$650,000 for ultra-deepwater rigs with 2012 availability and to approximately \$550,000 for rigs with 2013 availability. Day rates for deepwater rigs have risen to above \$400,000 for recent fixtures.

The *Atwood Condor*, a dynamically positioned, 10,000 foot water depth ultra-deepwater semisubmersible, is on schedule to be delivered from the Jurong shipyard in early July 2012 at a total cost, including project management, drilling, handling tools and spares, of approximately \$750 million. The *Atwood Condor* is contracted to Hess Corporation for 21 months in the U.S. Gulf of Mexico directly after mobilization from Singapore.

In April 2012, the *Atwood Osprey*, a moored 8,200 foot water depth ultra-deepwater semisubmersible, entered into a three-year extension of its contract with Chevron in Australia and is now contracted through mid-2017. The *Atwood Eagle* and *Atwood Falcon*, both deepwater semisubmersibles, are contracted through the second quarter of fiscal year 2014 and the first quarter of fiscal year 2015, respectively. The *Atwood Falcon* is currently at the SembCorp Marine shipyard in Singapore completing contract specific upgrades and other maintenance activities and is expected to commence its contract in Australia with Apache Corporation in June 2012. Finally, the *Atwood Hunter*, a deepwater semisubmersible, will complete its four-year contract with Noble Energy and Kosmos in October 2012. Thereafter the rig will proceed to a shipyard in Cameroon for 30 days to complete regulatory survey work and general maintenance activities. In April 2012, we signed a three well contract with Noble Energy which we expect to provide work into April 2013.

The *Atwood Advantage*, a DP-3 dynamically-positioned, dual derrick, ultra-deepwater drillship rated to operate in water depths up to 12,000 feet, is currently under construction at the DSME shipyard in South Korea. The *Atwood Advantage* will have enhanced technical capabilities, including a seven-ram blowout preventer (BOP), the ability to have two BOPs, three 100-ton knuckle boom cranes, a 165-ton active heave tree-running knuckle boom crane and 200 person accommodations. The *Atwood Advantage* is expected to be delivered in September 2013 at a total cost, including project management, drilling and handling tools and spares, of approximately \$600 million.

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The *Atwood Achiever*, which is also currently under construction at the DSME shipyard in South Korea, is identical in all material respects to the *Atwood Advantage*. The *Atwood Achiever* is scheduled for delivery in June 2014 at a total cost, including project management, drilling and handling tools and spares, of approximately \$600 million.

We have until July 31, 2012 to exercise our option to build an additional ultra-deepwater drillship with DSME. At this time, we have made no determination as to whether we will exercise this option.

Although we currently do not have drilling contracts for the *Atwood Advantage* or the *Atwood Achiever*, we expect that the demand for ultra-deepwater drilling capacity in established and emerging basins should provide us with opportunities to contract these two rigs prior to their delivery dates.

As of March 31, 2012, we had invested approximately \$937 million toward the construction of our three ultra-deepwater drilling units currently under construction.

Jack-ups

Although the bifurcation in day rates and utilization levels between standard and higher specification jack-up rigs has narrowed slightly from previous quarters, exploration and production companies appear to be willing to continue to pay higher day rates for higher specification equipment. Currently, higher specification jack-up rigs are achieving marketed utilization levels of approximately 94% as compared to 90% for the remainder of the global jack-up fleet. Higher specification rigs continue to represent less than 30% of the global jack-up fleet. We expect this bifurcation trend to become more accentuated in the remainder of 2012 as the majority of the older standard rigs are now contracted. There are currently 55 uncontracted high specification new build rigs scheduled for delivery through 2014.

Currently, the *Atwood Aurora* is contracted through October 2012 while the *Atwood Beacon* is contracted through February 2013. The *Vicksburg*, our only standard jack-up, is contracted through December 2012. Due to market bifurcation for high-specification jack-ups, we expect the *Atwood Beacon* and the *Atwood Aurora* to be contracted at higher day rates upon contract renewal in 2013.

We currently have three Pacific Class 400 high-specification jack-up drilling units, the *Atwood Mako*, the *Atwood Manta* and the *Atwood Orca*, under construction at the PPL Shipyard Pte. Ltd. (PPL) shipyard in Singapore. These new rigs will have a rated water depth of 400 feet, accommodations for 150 personnel and significant offline handling features. The three rigs are expected to cost approximately \$190 million each, including project management, drilling, handling tools and spares and capitalized interest, and are scheduled for delivery in September 2012, December 2012 and June 2013, respectively. These three rigs are currently ahead of their construction schedules with the *Atwood Mako* expected to be delivered two weeks ahead of schedule.

The *Atwood Mako* is contracted to Salamander in Thailand under a one-year contract directly after mobilization from the shipyard in Singapore and is expected to begin work in mid-September. We expect to contract the remaining two new build jack-up rigs prior to their delivery dates due to the preference of customers for these newer, more capable high-specification assets.

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As of March 31, 2012, we had invested approximately \$113 million toward the construction of our three jack-up units currently under construction.

Idled Rigs

During fiscal year 2010, the *Atwood Southern Cross*, *Richmond* and *Seahawk* completed their drilling contracts and were subsequently idled. In March 2012, we entered into an agreement to sell the *Richmond* for approximately \$7.0 million which approximates book value at March 31, 2012. We expect this sale to close in the third quarter of fiscal year 2012. With respect to the remaining two idled rigs, we do not anticipate these units returning to service during fiscal year 2012 due to the lack of sufficient continuous demand. Neither rig is being actively marketed at this time.

Contract Backlog

We maintain a backlog of commitments for contract drilling revenues. Our contract backlog at March 31, 2012 was approximately \$1.6 billion, representing a 45% increase compared to our contract backlog of \$1.1 billion at March 31, 2011. We calculate our contract backlog by multiplying the day rate under our drilling contracts by the number of days remaining under the contract, assuming full utilization. The calculation does not include any revenues related to other fees such as for mobilization, demobilization, contract preparation, customer reimbursables and bonuses. The amount of actual revenues earned and the actual periods during which revenues are earned will be different from the amounts disclosed in our backlog calculations due to various factors, including unscheduled repairs, maintenance, weather and other factors. Such factors may result in lower applicable day rates than the full contractual day rate. In addition, under certain circumstances, our customers may seek to terminate or renegotiate our contracts. See **Risks Related to our Business** Our business may experience reduced profitability if our customers terminate or seek to renegotiate our drilling contracts under Part I., Item 1A. in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

The following table sets forth, as of March 31, 2012, the amount of our contract drilling revenue backlog and the percent of available operating days committed for our actively-marketed drilling units for the periods indicated (dollars in millions):

| | Fiscal 2012 | Fiscal 2013 | Fiscal 2014 | Fiscal 2015 | Total |
|--|------------------------|------------------------|------------------------|------------------------|--------------|
| Contract Drilling Revenue Backlog | | | | | |
| Ultradeepwater and Deepwater | \$ 337 | \$ 705 | \$ 473 | \$ 24 | \$ 1,539 |
| Jack-ups | 64 | 31 | | | 95 |
| | \$ 401 | \$ 736 | \$ 473 | \$ 24 | \$ 1,634 |
| Percent of Available Operating Days Committed | 100% | 56% | 24% | 1% | |

As mentioned previously, during April 2012, we announced a three-year contract extension for the *Atwood Osprey* and a three well contract for the *Atwood Hunter* which has increased our contract backlog to approximately \$2.2 billion as of April 30, 2012.

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Operating Revenues Revenues for the three months and six months ended March 31, 2012 increased approximately \$12.5 million, or 8%, and \$50.9 million, or 17%, respectively, compared to the three and six months ended March 31, 2011. A comparative analysis of revenues is as follows:

| | REVENUES (In millions) | | | | | |
|----------------------|------------------------------|----------|----------|----------------------------|----------|----------|
| | Three Months Ended March 31, | | | Six Months Ended March 31, | | |
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| <i>Atwood Osprey</i> | \$ 38.5 | \$ | \$ 38.5 | \$ 79.4 | \$ | \$ 79.4 |
| <i>Atwood Aurora</i> | 13.0 | 11.7 | 1.3 | 25.7 | 22.4 | 3.3 |
| <i>Atwood Hunter</i> | 50.6 | 50.0 | 0.6 | 95.3 | 99.8 | (4.5) |
| <i>Atwood Beacon</i> | 11.5 | 11.2 | 0.3 | 23.0 | 21.9 | 1.1 |
| <i>Vicksburg</i> | 8.8 | 8.7 | 0.1 | 17.9 | 16.8 | 1.1 |
| <i>Atwood Eagle</i> | 35.1 | 38.0 | (2.9) | 70.6 | 64.9 | 5.7 |
| <i>Atwood Falcon</i> | 14.1 | 39.5 | (25.4) | 44.4 | 79.6 | (35.2) |
| | \$ 171.6 | \$ 159.1 | \$ 12.5 | \$ 356.3 | \$ 305.4 | \$ 50.9 |

Our newest active drilling rig, the *Atwood Osprey*, commenced drilling operations in late May 2011 offshore Australia, and thus, earned no revenue in the prior fiscal periods.

The increase in revenues for the *Atwood Aurora* is due to the rig working on a higher day rate contract during the three and six months ended March 31, 2012, as compared to the prior fiscal periods. The rig worked offshore Egypt through most of fiscal year 2011 and relocated in late September 2011 to work offshore West Africa.

Revenues for the *Atwood Hunter*, *Atwood Beacon* and *Atwood Vicksburg* remained relatively consistent during the three months ended March 31, 2012 when compared to the prior fiscal periods. Revenues for the *Atwood Beacon* and *Atwood Vicksburg* remained relatively consistent during the six months ended March 31, 2012 when compared to the prior fiscal periods. Revenues decreased for the *Atwood Hunter* for the six months ended March 31, 2012 when compared to the prior fiscal period due to lower revenue efficiency.

The decrease in revenues for the *Atwood Eagle* during the three months ended March 31, 2012 is due primarily to the rig working on a lower day rate contract as compared to the prior fiscal period. Revenues were lower for the six months ended March 31, 2011 for the *Atwood Eagle* due to an extended downtime period for regulatory inspections during the prior fiscal period.

The decrease in revenues for the *Atwood Falcon* during the three and six months ended March 31, 2012 is due primarily to the rig working at a lower day rate when compared to the prior fiscal period and the rig undergoing a shipyard upgrade project commencing in February 2012.

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Contract Drilling Costs Contract drilling costs for the three and six months ended March 31, 2012, increased approximately \$28.9 million, or 57%, and \$49.0 million, or 45%, respectively, compared to the three and six months ended March 31, 2011. An analysis of contract drilling costs by rig is as follows:

| | CONTRACT DRILLING COSTS | | | | | |
|----------------------|--------------------------------|---------|----------|----------------------------|----------|----------|
| | (In millions) | | | | | |
| | Three Months Ended March 31, | | | Six Months Ended March 31, | | |
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| <i>Atwood Osprey</i> | \$ 16.3 | \$ | \$ 16.3 | \$ 32.2 | \$ | \$ 32.2 |
| <i>Atwood Hunter</i> | 13.6 | 8.6 | 5.0 | 25.9 | 18.8 | 7.1 |
| <i>Atwood Falcon</i> | 12.2 | 7.4 | 4.8 | 20.4 | 15.1 | 5.3 |
| <i>Atwood Aurora</i> | 8.4 | 5.5 | 2.9 | 17.2 | 10.9 | 6.3 |
| <i>Atwood Beacon</i> | 8.5 | 7.5 | 1.0 | 15.9 | 16.4 | (0.5) |
| <i>Vicksburg</i> | 5.1 | 4.2 | 0.9 | 10.4 | 8.3 | 2.1 |
| <i>Atwood Eagle</i> | 14.6 | 15.7 | (1.1) | 32.8 | 32.7 | 0.1 |
| <i>Other</i> | 0.6 | 1.5 | (0.9) | 2.9 | 6.5 | (3.6) |
| | \$ 79.3 | \$ 50.4 | \$ 28.9 | \$ 157.7 | \$ 108.7 | \$ 49.0 |

Our newest active drilling rig, the *Atwood Osprey*, commenced drilling operations in late May 2011 offshore Australia, and, therefore, had no contract drilling costs in the prior fiscal periods. Costs should remain relatively consistent during the second half of the fiscal year when compared to first half of the fiscal year.

The increase in contract drilling costs for the *Atwood Hunter* for the three and six months ended March 31, 2012 is due primarily to increased equipment related costs associated with maintenance projects as compared to the prior fiscal periods. We expect costs to moderate during the second half of the fiscal year.

The increase in contract drilling costs for the *Atwood Falcon* for the three and six months ended March 31, 2012 is due to its current shipyard project for contract upgrades and maintenance activities.

The increase in contract drilling costs for the *Atwood Aurora* for the three and six months ended March 31, 2012 is attributable primarily to increased costs for monthly amortization charges for mobilization of the rig from Italy to Equatorial Guinea and personnel costs due to the remote location of the rig offshore West Africa. We expect costs to moderate during the second half of the fiscal year.

The increase in contract drilling costs for the *Atwood Beacon* for the three months ended March 31, 2012 is due primarily to increased equipment related costs associated with maintenance projects performed as compared to the prior fiscal period. Drilling costs for the *Atwood Beacon* for the six months ended March 31, 2012 were relatively consistent with the same prior fiscal year period and should remain relatively consistent during the second half of the fiscal year.

The increase in contract drilling costs for the *Vicksburg* for the three months and six months ended March 31, 2012 is attributable primarily to increased equipment costs related to a planned regulatory inspection and general increased equipment related costs associated with maintenance projects as compared to the prior fiscal year periods. Costs should remain relatively consistent during the second half of the fiscal year when compared to first half of the fiscal year.

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Drilling costs for the *Atwood Eagle* remained relatively consistent compared to the prior fiscal periods and should remain relatively consistent during the second half of the fiscal year.

Other drilling costs for the three and six months ended March 31, 2012 decreased due primarily to lower operating costs incurred for our three stacked rigs during the current fiscal year.

Depreciation Depreciation expense for the three months and six months ended March 31, 2012 increased approximately \$6.6 million, or 75%, and \$13.2 million, or 75%, respectively, compared to the three and six months ended March 31, 2011. A comparative analysis of depreciation expense by rig is as follows:

| | DEPRECIATION EXPENSE | | | | | |
|----------------------|------------------------------|--------|----------|----------------------------|---------|----------|
| | (In millions) | | | | | |
| | Three Months Ended March 31, | | | Six Months Ended March 31, | | |
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| <i>Atwood Opsrey</i> | \$ 6.2 | \$ | \$ 6.2 | \$ 12.4 | \$ | \$ 12.4 |
| <i>Atwood Eagle</i> | 1.4 | 1.2 | 0.2 | 2.7 | 2.4 | 0.3 |
| <i>Atwood Beacon</i> | 1.2 | 1.1 | 0.1 | 2.4 | 2.3 | 0.1 |
| <i>Atwood Aurora</i> | 1.9 | 1.8 | 0.1 | 3.8 | 3.7 | 0.1 |
| <i>Atwood Hunter</i> | 1.6 | 1.6 | | 3.2 | 3.2 | |
| <i>Atwood Falcon</i> | 1.3 | 1.3 | | 2.6 | 2.6 | |
| <i>Vicksburg</i> | 0.5 | 0.5 | | 1.0 | 1.0 | |
| Other | 1.3 | 1.3 | | 2.6 | 2.4 | 0.2 |
| | \$ 15.4 | \$ 8.8 | \$ 6.6 | \$ 30.8 | \$ 17.6 | \$ 13.2 |

The *Atwood Osprey*, which was placed into service in late May 2011, incurred no depreciation expense in the prior fiscal year periods.

Depreciation expense for all other rigs has remained relatively consistent during the three and six months ended March 31, 2012, when compared to the prior fiscal year periods.

General and Administrative For the three and six months ended March 31, 2012, general and administrative expenses increased by approximately \$2.5 million, or 27%, and \$0.9 million, or 4%, respectively, compared to the three and six months ended March 31, 2011, primarily due to increased compensation costs related to an increase in support personnel, which was partially offset by higher expenses in the prior fiscal periods in connection with transition of executive leadership.

Income Taxes Our effective tax rate was 6% and 12% for the three and six months ended March 31, 2012, respectively, compared to 22% and 20% for the three and six months ended March 31, 2011, respectively. The effective tax rates were lower due in part to an approximate \$6.4 million tax benefit recognized during the three months ended March 31, 2012 related to the settlement of a foreign tax examination. Additionally, the rates from the prior fiscal periods included a \$6.1 million increase in our liability for uncertain tax positions. Our effective tax rates were lower than the statutory rate of 35% as a result of working in certain foreign nontaxable and deemed profit tax jurisdictions.

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LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures totaled \$397 million for the six months ended March 31, 2012. During the six months ended March 31, 2012, our capital expenditures and working capital needs were funded by cash flows from operations, borrowings under our credit facility and a reduction of cash and cash equivalents. The reduction in cash and cash equivalents was partially offset by a decrease in accounts payable of \$55 million, resulting in a decrease in our working capital to \$196 million as of March 31, 2012 from \$302 million as of September 30, 2011.

To date, general inflationary trends have not had a material effect on our operating revenues or expenses.

Revolving Credit Facility

As of March 31, 2012, we had \$150 million of outstanding borrowings under our five-year \$750 million senior secured revolving credit facility. Including the \$450 million aggregate principal amount of our senior notes, we had a total debt to capitalization ratio of 25%. As of May 1, 2012, no additional funds had been borrowed under our credit facility subsequent to March 31, 2012. Our subsidiary, Atwood Offshore Worldwide Limited (AOWL), is the borrower under the credit facility, and we and certain of our other subsidiaries are guarantors under the facility. Borrowings under the credit facility bear interest at the Eurodollar rate plus a margin of 2.50% (approximately 3.3% per annum at March 31, 2012, after considering the impact of our interest rate swaps). Certain borrowings effectively bear interest at a fixed rate due to our interest rate swaps. The credit facility also provides for the issuance, when required, of standby letters of credit. The credit facility has a commitment fee of 1.0% per annum on the unused portion of the underlying commitment. Subject to the satisfaction of certain conditions precedent and the agreement by the lenders, the credit facility includes an accordion feature which, if exercised, will increase total commitments by up to \$350 million for a total commitment of up to \$1.1 billion.

The credit facility contains various financial covenants that impose a maximum leverage ratio of 4.0 to 1.0, a debt to capitalization ratio of 0.5 to 1.0, a minimum interest expense coverage ratio of 3.0 to 1.0 and a minimum collateral maintenance of 150% of the aggregate amount outstanding under the credit facility. In addition, the credit facility contains limitations on our and certain of our subsidiaries' ability to incur liens; merge, consolidate or sell substantially all assets; pay dividends (including restrictions on AOWL's ability to pay dividends to us); incur additional indebtedness; make advances, investments or loans; and transact with affiliates. The credit facility also contains customary events of default, including but not limited to delinquent payments, bankruptcy filings, material adverse judgments, guarantees or security documents not being in full effect, non-compliance with the Employee Retirement Income Security Act of 1974, cross-defaults under other debt agreements, or a change of control. The credit facility is secured primarily by first preferred mortgages on six of our active drilling units (the *Atwood Aurora*, the *Atwood Beacon*, the *Atwood Eagle*, the *Atwood Falcon*, the *Atwood Hunter*, and the *Atwood Osprey*), as well as liens on the equity interests of our subsidiaries that own, directly or indirectly, such drilling units. In addition, if the accordion feature is exercised, the credit facility requires that we provide a first preferred mortgage on the *Atwood Condor*, as well as a lien on the equity interests of our subsidiaries that own, directly or indirectly, the *Atwood Condor*. We were in compliance with all financial covenants under the credit facility at March 31, 2012.

Table of Contents**Senior Notes**

In January 2012, we issued \$450 million aggregate principal amount of 6.50% Senior Notes due 2020 (the Notes). We received net proceeds, after deducting underwriting discounts and estimated offering expenses, of approximately \$440 million. We used the net proceeds to reduce outstanding borrowings under our credit facility.

The Notes are our senior unsecured obligations and are not initially guaranteed by any of our subsidiaries. Interest is payable on the Notes semiannually in arrears. The indenture governing the Notes contains provisions that limit our ability and the ability of our restricted subsidiaries to incur or guarantee additional indebtedness or issue preferred stock; pay dividends or make other restricted payments; sell assets; make investments; create liens; enter into agreements that restrict dividends or other payments from our restricted subsidiaries to us; and consolidate, merge or transfer all or substantially all of our assets. Many of these restrictions will terminate if the Notes become rated investment grade. The indenture governing the Notes also contains customary events of default, including payment defaults; defaults for failure to comply with other covenants in the indenture; cross-acceleration and entry of final judgments in excess of \$50.0 million; and certain events of bankruptcy, in certain cases subject to notice and grace periods. We are required to offer to repurchase the Notes in connection with specified change in control events or with excess proceeds of asset sales not applied for permitted purposes.

Capital Expenditures

We estimate that our total capital expenditures, including maintenance capital expenditures, for fiscal year 2012 will be approximately \$780 million, substantially all of which is contractually committed. As of March 31, 2012, we had incurred approximately \$397 million of our total expected capital expenditures. The remaining capital expenditures are expected to be funded with existing cash balances on hand, cash flows from operations and additional borrowings under our credit facility.

As of March 31, 2012, we had expended approximately \$1.0 billion on our six drilling units under construction at that time. The expected remaining costs for our six drilling units currently under construction are as follows (in millions):

Remaining**Fiscal****2012**

\$334

| Fiscal | Fiscal | Fiscal | Total |
|---------------|---------------|---------------|--------------|
| 2013 | 2014 | 2015 | |
| \$ 362 | \$ 805 | \$ | \$ 1,501 |

With the issuance of the Notes in January 2012, we believe that we will be able to fund all additional construction costs with cash on hand, cash flow from operations and borrowings under our revolving credit facility, which has provisions to increase the total commitment to \$1.1 billion as described above.

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Other

From time to time, we may seek possible expansion and acquisition opportunities relating to our business, which may include the construction or acquisition of rigs or other businesses in addition to those described in this Quarterly Report. Such determinations will depend on market conditions and opportunities existing at that time, including with respect to the market for drilling contracts and day rates and the relative costs associated with such expansions or acquisitions. The timing, success or terms of any such efforts and the associated capital commitments are not currently known. In addition to cash on hand, cash flow from operations and borrowings under our revolving credit facility, we may seek to access the capital markets to fund such opportunities. Our ability to access the capital markets depends on a number of factors, including, among others, our credit rating, industry conditions, general economic conditions, market conditions and market perceptions of us and our industry. In addition, we continually review the possibility of disposing of assets that we do not consider core to our long-term business plan.

In addition, in the future, we may seek to redeploy our assets to more active regions if we have the opportunity to do so on attractive terms. We frequently bid for or negotiate with customers regarding multi-year contracts that could require significant capital expenditures and mobilization costs. We expect to fund these opportunities primarily with cash on hand, cash flow from operations and borrowings under our revolving credit facility.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as that term is defined in Item 303(a)(4)(ii) of Regulation S-K.

Commitments and Contractual Obligations

For additional information about our commitments and contractual obligations as of September 30, 2011, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Commitments and Contractual Obligations in our Annual Report to Shareholders for fiscal year 2011, filed as exhibit 13.1 to our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. As of March 31, 2012, other than with respect to the issuance of the Notes and the repayment of borrowings under our credit facility with the net proceeds, there were no material changes to this disclosure regarding our commitments and contractual obligations.

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FORWARD-LOOKING STATEMENTS

Statements included in this quarterly report regarding future financial performance, capital sources and results of operations and other statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Such statements are those concerning strategic plans, expectations and objectives for future operations and performance. When used in this report, the words believes, expects, anticipates, plans, intends, estimates, projects, could, should, expressions are intended to be among the statements that identify forward-looking statements.

Such statements are subject to numerous risks, uncertainties and assumptions that are beyond our ability to control, including, but not limited to:

prices of oil and natural gas and industry expectations about future prices;

market conditions, expansion and other development trends in the drilling industry and the global economy in general;

the operational risks involved in drilling for oil and gas;

the highly competitive and volatile nature of our business;

the impact of governmental or industry regulation, both in the United States and internationally;

the risks of and disruptions to international operations, including political instability and the impact of terrorist acts, acts of piracy, embargoes, war or other military operations;

our ability to enter into, and the terms of, future drilling contracts, including contracts for our new build units;

our ability to retain the business of one or more significant customers;

our ability to obtain and retain qualified personnel to operate our vessels;

timely access to spare parts, equipment and personnel to maintain and service our fleet;

the termination or renegotiation of contracts by customers or payment or other delays by our customers;

customer requirements for drilling capacity and customer drilling plans;

the adequacy of sources of liquidity for us and for our customers;

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changes in tax laws, treaties and regulations;

the risks involved in the construction, upgrade, and repair of our drilling units;

unplanned downtime and repairs on our rigs; and

such other risks discussed in Part I, Item 1A. Risk Factors in our Form 10-K for fiscal year 2011 and in our other reports filed with the SEC.

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Forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements. Undue reliance should not be placed on these forward-looking statements, which are applicable only on the date hereof. We undertake no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof or to reflect the occurrence of unanticipated events.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, interest rate risk and foreign currency exchange risk as discussed below:

Interest Rate Risk

The provisions of our credit facility provide for a variable interest rate cost on our \$150 million outstanding as of March 31, 2012. However, we employed an interest rate risk management strategy that utilizes derivative instruments with respect to \$50 million as of March 31, 2012 in order to minimize or eliminate unanticipated fluctuations in earnings and cash flows arising from changes in, and volatility of, interest rates. Effectively, only \$100 million of our variable long-term debt outstanding at March 31, 2012 is subject to changes in interest rates. Thus, a 10% change in the interest rate on the floating rate debt would have an immaterial impact on our annual earnings and cash flows.

Foreign Currency Risk

As a multinational company, we conduct business in numerous foreign countries. Our functional currency is the U.S. dollar. Certain of our subsidiaries have monetary assets and liabilities that are denominated in a currency other than our functional currency. Based on March 31, 2012 amounts, a decrease in the value of 10% in foreign currencies relative to the U.S. dollar would have an immaterial effect to our annual earnings and cash flows. We did not have any open derivative contracts relating to foreign currencies at March 31, 2012.

Market Risk

Our Senior Notes due 2020 are maintained at a fixed interest rate whose fair value will fluctuate based on changes in prevailing market interest rates and market perceptions of our credit risk. The fair value of those notes was approximately \$473 million at March 31, 2012.

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ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report have been designed and are effective at the reasonable assurance level so that the information required to be disclosed by us in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, regulations and forms and have been accumulated and communicated to our management, including executive and financial officers, as appropriate, to allow timely decisions regarding required disclosures. We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the most recent fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have certain actions, claims and other matters pending as set forth in Note 10 to Unaudited Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report, which is incorporated by reference in response to this item. As of March 31, 2012, we were also involved in a number of lawsuits which have arisen in the ordinary course of business and for which we do not expect the liability, if any, resulting from these lawsuits to have a material adverse effect on our current consolidated financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of these matters described above or any such other proceeding or threatened litigation or legal proceedings. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or other matters will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

ITEM 1A. RISK FACTORS

For additional information about our risk factors, see Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

ITEM 5. OTHER INFORMATION

In March 2012, our board of directors approved a standard form of indemnification agreement to be entered into by each of our directors and executive officers. The indemnification agreement generally provides that we will, to the fullest extent permitted by applicable law, indemnify an indemnitee that, by reason of the fact that the indemnitee is or was a director or officer or serving in another specified capacity at our request, is or is threatened to be made a party to or a participant in any civil, criminal, administrative or investigative proceeding (other than proceedings by or in the right of our company) against all expenses, judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred by the indemnitee in connection with any such proceeding. The indemnity agreement also provides that we will, to the fullest extent permitted by applicable law, advance to an indemnitee reasonable expenses incurred in connection with any such proceeding to which he is a party and is successful on the merits or otherwise. The rights provided by the indemnification agreement will be in addition to any other rights to indemnification or advancement of expenses to which the indemnitee may be entitled under applicable law or our bylaws.

ITEM 6. EXHIBITS

(a) Exhibits

4.1 Indenture dated January 18, 2012 between Atwood Oceanics, Inc. and Wells Fargo Bank, National Association, as trustee, relating to senior debt securities (Incorporated herein by reference to Exhibit 4.1 of our Form 10-Q for the quarter ended December 31, 2011).

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| | |
|--------|--|
| 4.2 | First Supplemental Indenture dated January 18, 2012 between Atwood Oceanics, Inc. and Wells Fargo Bank, National Association, as trustee, including the form of 6.50% Senior Note due 2020 (Incorporated herein by reference to Exhibit 4.2 of our Form 10-Q for the quarter ended December 31, 2011). |
| * 10.1 | Form of Indemnification Agreement for Directors and Executive Officers. |
| * 10.2 | Atwood Oceanics, Inc. Restricted Stock Agreement with Robert J. Saltiel dated December 15, 2009. |
| * 10.3 | Atwood Oceanics, Inc. Amended and Restated Restricted Stock Agreement with Robert J. Saltiel dated December 21, 2010. |
| * 10.4 | Atwood Oceanics, Inc. Clarifying Amendment to Restricted Stock Award with Robert J. Saltiel dated April 20, 2012. |
| * 10.5 | Atwood Oceanics, Inc. Restricted Stock Agreement with Mark Mey dated August 11, 2010. |
| * 10.6 | Atwood Oceanics, Inc. Amended and Restated Restricted Stock Agreement with Mark Mey dated December 21, 2010. |
| * 10.7 | Atwood Oceanics, Inc. Clarifying Amendment to Restricted Stock Award with Mark Mey dated April 20, 2012. |
| 10.8 | Second Amendment to Credit Agreement, dated January 18, 2012 among Atwood Oceanics, Inc., Atwood Offshore Worldwide Limited, various lenders and Nordea Bank Finland Plc, New York Branch (Incorporated herein by reference to Exhibit 10.1 of our Form 10-Q for the quarter ended December 31, 2011). |
| *31.1 | Certification of Chief Executive Officer. |
| *31.2 | Certification of Chief Financial Officer. |
| **32.1 | Certificate of Chief Executive Officer pursuant to Section 906 of Sarbanes Oxley Act of 2002. |
| **32.2 | Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes Oxley Act of 2002. |
| **101 | Interactive data files. |

- * Filed herewith
- ** Furnished herewith
- Management contract or compensatory plan or arrangement

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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.

ATWOOD OCEANICS, INC.

(Registrant)

Date: May 4, 2012

/s/ MARK L. MEY
Mark L. Mey
Senior Vice President and Chief

Financial Officer