DIAMOND OFFSHORE DRILLING INC
Form 10-K
February 23, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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	**76-0321760**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

15415 Katy Freeway

Houston, Texas 77094

(Address and zip code of principal executive offices)

(281) 492-5300

(Registrant s telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.01 par value per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes [Ö] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [Ö]

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 [Ö] 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 [Ö] No [ ]

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

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 [Ö]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	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 [Ö]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter.

As of June 30, 2011	$4,852,827,522

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

As of February 16, 2012	Common Stock, $0.01 par value per share	139,027,209 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the 2012 Annual Meeting of Stockholders of Diamond Offshore Drilling, Inc., which will be filed within 120 days of December 31, 2011, are incorporated by reference in Part III of this report.

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DIAMOND OFFSHORE DRILLING, INC.

FORM 10-K for the Year Ended December 31, 2011

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PART I

Item 1. Business.

General

Diamond Offshore Drilling, Inc. is a leading, global offshore oil and gas drilling contractor with a fleet of 49 offshore rigs, consisting of 32 semisubmersibles, 13 jack-ups and four dynamically positioned drillships, three of which are under construction with delivery expected in the second and fourth quarters of 2013 and in the second quarter of 2014. See *Fleet Enhancements and Additions.* Unless the context otherwise requires, references in this report to Diamond Offshore, we, us or our mean Diamond Offshore Drilling, Inc. and our consolidated subsidiarie We were incorporated in Delaware in 1989.

Our Fleet

Our diverse fleet enables us to offer a broad range of services worldwide in both the floater market (ultra-deepwater, deepwater and mid-water) and the non-floater, or jack-up, market.

Floaters. A floater rig is a type of mobile offshore drilling unit that floats and does not rest on the seafloor. This asset class includes self-propelled drillships and semisubmersible rigs. Semisubmersible rigs consist of an upper working and living deck resting on vertical columns connected to lower hull members. Such rigs operate in a semi-submerged position, remaining afloat, off bottom, in a position in which the lower hull is approximately 55 feet to 90 feet below the water line and the upper deck protrudes well above the surface. Semisubmersibles hold position while drilling by use of a series of small propulsion units or thrusters that provide dynamic positioning, or DP, to keep the rig on location, or with anchors tethered to the sea bed. While DP semisubmersibles are self-propelled, such rigs may be moved long distances with the assistance of tug boats, while non-DP, or moored, semisubmersibles require tug boats or the use of a heavy lift vessel to move between locations.

A drillship is an adaptation of a maritime vessel which is designed and constructed to carry out drilling operations by means of a substructure with a moon pool centrally located in the hull. Drillships are typically self-propelled and are positioned over a drillsite through the use of either an anchoring system or a dynamic-positioning system similar to those used on semisubmersible rigs.

Our floater fleet (semisubmersibles and drillships) can be further categorized based on the nominal water depth for each class of rig as follows:

Category	Nominal Water Depth [a] (in feet)	Number of Units in Our Fleet
Ultra-Deepwater	7,501 to 12,000	11 [b]
Deepwater	5,000 to 7,500	6 [c]
Mid-Water	400 to 4,999	19

[a] Nominal water depth for semisubmersibles and drillships reflects the current operating water depth capability for each drilling unit. However, individual rigs are capable of drilling, or have drilled, in marginally greater water depths depending on conditions (such as salinity of the ocean, weather and sea conditions). On a case by case basis, we may achieve even greater depth capacity by providing additional equipment.

[b] Includes three drillships under construction.

[c] Includes the *Ocean Onyx* to be constructed utilizing the hull of one of our existing mid-water floaters.

See *Fleet Enhancements and Additions* for further discussion of our rigs under construction.

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Jack-ups. Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor. Our jack-ups are used for drilling in water depths from 20 feet to 350 feet. The water depth limit in which a particular rig is able to operate is principally determined by the length of the rig s legs. The rig hull includes the drilling rig, jacking system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, heliport and other related equipment. A jack-up rig is towed to the drillsite with its hull riding in the sea, as a vessel, with its legs retracted. Once over a drillsite, the legs are lowered until they rest on the seabed and jacking continues with the legs penetrating the seabed until they are firm and stable, and resistance is sufficient to elevate the hull above the surface of the water. After completion of drilling operations, the hull is lowered until it rests in the water and then the legs are retracted for relocation to another drillsite. Most of our jack-up rigs are equipped with a cantilever system that enables the rig to cantilever or extend its drilling package over the aft end of the rig.

Fleet Enhancements and Additions. Our long-term strategy is to upgrade our fleet to meet customer demand for advanced, efficient and high-tech rigs by acquiring or building new rigs when possible to do so at attractive prices, and otherwise by enhancing the capabilities of our existing rigs at a lower cost and reduced construction period than newbuild construction would require. Since December 2010, we have 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 deliveries scheduled for the second and fourth quarters of 2013 and the second quarter of 2014. We expect the aggregate cost for the three drillships, including commissioning, spares and project management, to be approximately $1.8 billion.

During 2009, we acquired two new-build ultra-deepwater, dynamically positioned, semisubmersible drilling rigs, the *Ocean Courage* and the *Ocean Valor*. Including our rig acquisitions in 2009 and our three drillships on order, we have purchased, ordered or upgraded eight units with capabilities in nominal water depths of 10,000 feet over the last five years.

In January 2012, we announced the construction of a moored semisubmersible rig that will be designed to operate in water depths up to 6,000 feet. The rig, to be named the *Ocean Onyx*, will be constructed utilizing the hull of one of our mid-water floaters that previously operated as the *Ocean Voyager*. The rig will be constructed in Brownsville, Texas and is expected to be delivered in the third quarter of 2013 at an aggregate cost of approximately $300 million, including commissioning, spares and project management costs.

We will evaluate further rig acquisition and upgrade opportunities as they arise. However, we can provide no assurance whether, or to what extent, we will continue to make rig acquisitions or upgrades to our fleet. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Requirements in Item 7 of this report.

See *Fleet Status* for more detailed information about our drilling fleet as of January 30, 2012.

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Fleet Status

The following table presents additional information regarding our floater fleet at January 30, 2012:

Type and Name	Nominal Water Depth (in feet)	Attributes	Year Built/ Redelivered (a)	Current Location (b)	Customer (c)
Ultra-Deepwater Semisubmersibles (7):					
Ocean Valor	10,000	DP; 6R; 15K; 4M	2009	Brazil	Petrobras
Ocean Courage	10,000	DP; 6R; 15K; 4M	2009	Brazil	Petrobras
Ocean Confidence	10,000	DP; 6R; 15K; 4M	2001	Angola	Cobalt
Ocean Monarch	10,000	15K; 4M	2008	Vietnam	TNK Vietnam
Ocean Endeavor	10,000	15K; 4M	2007	Egypt	Burullus
Ocean Rover	8,000	15K; 4M	2003	Malaysia	Murphy Exploration
Ocean Baroness	8,000	15K; 4M	2002	Brazil	Petrobras
Ultra-Deepwater Drillships (4):					
Ocean BlackHawk	10,000	DP; 7R; 15K; 5M	Q2 2013	South Korea	Under construction/Anadarko [(d)]
Ocean BlackHornet	10,000	DP; 7R; 15K; 5M	Q4 2013	South Korea	Under construction/Anadarko [(d)]
Ocean BlackRhino	10,000	DP; 7R; 15K; 5M	Q2 2014	South Korea	Under construction
Ocean Clipper	7,875	DP; 15K	1997	Brazil	Petrobras
Deepwater Semisubmersibles (6)					
Ocean Onyx	6,000	15K	Q3 2013	GOM shipyard	Under construction [(e)]
Ocean Victory	5,500	15K	1997	GOM	Walter Oil & Gas
Ocean America	5,500	15K	1988	Australia	Woodside
Ocean Valiant	5,500	15K	1988	Equatorial Guinea	Hess
Ocean Star	5,500	15K	1997	Brazil	Perenco
Ocean Alliance	5,250	DP; 15K	1988	Brazil	Petrobras
Mid-Water Semisubmersibles (19):					
Ocean Winner	4,000		1976	Brazil	Petrobras
Ocean Worker	4,000		1982	Brazil	Petrobras
Ocean Quest	4,000	15K	1973	Brazil	OGX
Ocean Yatzy	3,300	DP	1989	Brazil	Petrobras
Ocean Patriot	3,000	15K	1983	Australia	PTTEP
Ocean Epoch	3,000		1977	Malaysia	Cold stacked
Ocean General	3,000		1976	Malaysia	Actively marketing
Ocean Yorktown	2,850		1976	Mexico	PEMEX
Ocean Concord	2,300		1975	Brazil	Petrobras
Ocean Lexington	2,200		1976	Brazil	OGX
Ocean Saratoga	2,200		1976	Guyana	CGX Energy
Ocean Whittington	1,650		1974	Brazil	Petrobras
Ocean Bounty	1,500		1976	Malaysia	Cold stacked
Ocean Guardian	1,500	15K	1985	In transit: North Sea/U.K.	DODI/Shell
Ocean New Era	1,500		1974	GOM	Cold stacked
Ocean Princess	1,500	15K	1975	North Sea/U.K.	Enquest
Ocean Vanguard	1,500	15K	1982	North Sea/Norway	Statoil
Ocean Nomad	1,200		1975	North Sea/U.K.	B G International
Ocean Ambassador	1,100		1975	Brazil	OGX

Attributes

DP = Dynamically Positioned/Self-Propelled
6R = Six ram blow out preventer
7R = Seven ram blow out preventer
15K = 15,000 psi well control system
4M = Four Mud Pumps
5M = Five Mud Pumps

(a) Represents year rig was (or is expected to be) built and originally placed in service or year redelivered with significant enhancements that enabled the rig to be classified within a different floater category than originally constructed.

(b) GOM means U.S. Gulf of Mexico.
(c) For ease of presentation in this table, customer names have been shortened or abbreviated.
(d) Drillship is contracted for future work upon completion of commissioning; unit is currently expected to commence drilling operations in the GOM.
(e) To be constructed utilizing the hull of an existing mid-water unit, which previously operated as the *Ocean Voyager*.

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The following table presents additional information regarding our jack-up fleet at January 30, 2012:

Type and Name	Nominal Water Depth (a) (in feet)	Attributes	Year Built	Current Location (b)	Customer (c)
Jack-ups (13):					
Ocean Scepter	350	IC; 15K	2008	Mexico	PEMEX
Ocean Titan	350	IC; 15K	1974	Mexico	PEMEX
Ocean King	300	IC	1973	Montenegro	Actively marketing
Ocean Nugget	300	IC	1976	Mexico	PEMEX
Ocean Summit	300	IC	1972	Mexico	PEMEX
Ocean Heritage	300	IC	1981	Egypt	Warm stacked
Ocean Spartan	300	IC	1980	GOM	Cold stacked
Ocean Spur	300	IC	1981	Egypt	WEPCO
Ocean Sovereign	300	IC	1981	Malaysia	Cold stacked
Ocean Champion	250	MS	1975	GOM	Cold stacked
Ocean Columbia	250	IC	1978	GOM	Walter Oil & Gas
Ocean Crusader	200	MC	1982	GOM	Cold stacked
Ocean Drake	200	MC	1983	GOM	Cold stacked

Attributes

IC = Independent-Leg Cantilevered Rig
MC = Mat-Supported Cantilevered Rig
MS = Mat-Supported Slot Rig
15K = 15,000 psi well control system

(a) Nominal water depth reflects the operating water depth capability for each drilling unit.
(b) GOM means U.S. Gulf of Mexico.
(c) For ease of presentation in this table, customer names have been shortened or abbreviated.

Markets

The principal markets for our offshore contract drilling services are the following:

South America, principally offshore Brazil;
Australia and Asia, including Malaysia, Indonesia, Thailand and Vietnam;
the Middle East, including Kuwait, Qatar and Saudi Arabia;
Europe, principally in the United Kingdom, or U.K., and Norway;
East and West Africa;
the Mediterranean Basin, including Egypt; and
the Gulf of Mexico, including the U.S. and Mexico.

We actively market our rigs worldwide. From time to time our fleet operates in various other markets throughout the world. See Note 15 Segments and Geographic Area Analysis to our Consolidated Financial Statements in Item 8 of this report.

We believe our presence in multiple markets is valuable in many respects. For example, we believe that our experience with safety and other regulatory matters in the U.K. has been beneficial in Australia and other international areas in which we operate, while production experience we have gained through our Brazilian and North Sea operations has potential application worldwide. Additionally, we believe our performance for a customer in one market segment or area enables us to better understand that customer s needs and better serve that customer in different market segments or other geographic locations.

Offshore Contract Drilling Services

Our contracts to provide offshore drilling services vary in their terms and provisions. We typically obtain our contracts through a competitive bid process, although it is not unusual for us to be awarded drilling contracts following direct negotiations. Our drilling contracts generally provide for a basic fixed dayrate regardless of whether or not such drilling results in a productive well. Drilling contracts may also provide for reductions

in rates during periods when the rig is being moved or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other circumstances. Under dayrate contracts, we generally pay the operating expenses of the rig, including wages and the cost of incidental supplies. Historically, dayrate contracts have accounted for the majority of our revenues. In addition, from time to time, our dayrate contracts may also provide for the ability to earn an incentive bonus from our customer based upon performance.

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The duration of a dayrate drilling contract is generally tied to the time required to drill a single well or a group of wells, in what we refer to as a well-to-well contract, or a fixed period of time, in what we refer to as a term contract. Many drilling contracts may be terminated by the customer in the event the drilling unit is destroyed or lost, or if drilling operations are suspended for an extended period of time as a result of a breakdown of equipment or, in some cases, due to events beyond the control of either party to the contract. Certain of our contracts also permit the customer to terminate the contract early by giving notice; in most circumstances, this requires the payment of an early termination fee by the customer. The contract term in many instances may also be extended by the customer exercising options for the drilling of additional wells or for an additional length of time, generally at competitive market rates and mutually agreeable terms at the time of the extension. See Risk Factors *Our business involves numerous operating hazards which could expose us to significant losses and significant damage claims. We are not fully insured against all of these risks and our contractual indemnity provisions may not fully protect us,* Risk Factors *The terms of our drilling contracts may limit our ability to attain profitability in a declining market or to benefit from increasing dayrates in an improving market,* Risk Factors *Our drilling contracts may be terminated due to events beyond our control* and Risk Factors *We have elected to self-insure for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico* in Item 1A of this report, which are incorporated herein by reference. For a discussion of our contract backlog, see Management s Discussion and Analysis of Financial Condition and Results of Operations Overview *Contract Drilling Backlog* in Item 7 of this report, which is incorporated herein by reference.

Customers

We provide offshore drilling services to a customer base that includes major and independent oil and gas companies and government-owned oil companies. During 2011, 2010 and 2009, we performed services for 52, 46 and 47 different customers, respectively. During 2011, 2010 and 2009, one of our customers in Brazil, Petróleo Brasileiro S.A., or Petrobras (a Brazilian multinational energy company that is majority-owned by the Brazilian government), accounted for 35%, 24% and 15% of our annual total consolidated revenues, respectively. OGX Petróleo e Gás Ltda., or OGX (a privately owned Brazilian oil and natural gas company), accounted for 14% of our annual total consolidated revenues in each of the years ended December 31, 2011 and 2010. No other customer accounted for 10% or more of our annual total consolidated revenues during 2011, 2010 or 2009.

Brazil is one of the most active floater markets in the world today. As of the date of this report, the greatest concentration of our operating assets is offshore Brazil, where we have 14 rigs currently working. Our contract backlog attributable to our expected operations offshore Brazil is $1.3 billion, $1.2 billion and $1.0 billion for the years 2012, 2013 and 2014, respectively, and $607.0 million in the aggregate for the years 2015 to 2016. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview *Contract Drilling Backlog* included in Item 7 of this report.

We principally market our services in North and South America through our Houston, Texas office. We market our services in other geographic locations principally from our regional offices in Aberdeen, Scotland and Perth, Australia. We provide technical and administrative support functions from our Houston office.

Competition

The offshore contract drilling industry is highly competitive with numerous industry participants, none of which at the present time has a dominant market share. The offshore contract drilling industry has experienced consolidation in recent years and may experience additional consolidation, which could create additional large competitors. Some of our competitors may have greater financial or other resources than we do. We compete with offshore drilling contractors that together have almost 760 mobile rigs available worldwide.

The offshore contract drilling industry is influenced by a number of factors, including global economies and demand for oil and natural gas, current and anticipated prices of oil and natural gas, expenditures by oil and gas companies for exploration and development of oil and natural gas and the availability of drilling rigs.

Drilling contracts are traditionally awarded on a competitive bid basis. Price is typically the primary factor in determining which qualified contractor is awarded a job. Customers may also consider rig availability and location, a drilling contractor s operational and safety performance record, and condition and suitability of equipment. We believe we compete favorably with respect to these factors.

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We compete on a worldwide basis, but competition may vary significantly by region at any particular time. See Markets. Competition for offshore rigs generally takes place on a global basis, as these rigs are highly mobile and may be moved, at a cost that may be substantial, from one region to another. It is characteristic of the offshore contract drilling industry to move rigs from areas of low utilization and dayrates to areas of greater activity and relatively higher dayrates. Significant new rig construction and upgrades of existing drilling units could also intensify price competition. See Risk Factors *Our industry is highly competitive and cyclical, with intense price competition* in Item 1A of this report, which is incorporated herein by reference.

Governmental Regulation

Our operations are subject to numerous international, foreign, U.S., state and local laws and regulations that relate directly or indirectly to our operations, including regulations controlling the discharge of materials into the environment, requiring removal and clean-up under some circumstances, or otherwise relating to the protection of the environment, and may include laws or regulations pertaining to climate change, carbon emissions or energy use. See Risk Factors *Governmental laws and regulations, both domestic and international, may add to our costs or limit our drilling activity* and Risk Factors *Compliance with or breach of environmental laws can be costly and could limit our operations* in Item 1A of this report, which are incorporated herein by reference.

Operations Outside the United States

Our operations outside the U.S. accounted for approximately 90%, 81% and 66% of our total consolidated revenues for the years ended December 31, 2011, 2010 and 2009, respectively. See Risk Factors *A significant portion of our operations are conducted outside the United States and involve additional risks not associated with domestic operations*, Risk Factors *We may enter into drilling contracts that expose us to greater risks than we normally assume* and Risk Factors *Fluctuations in exchange rates and nonconvertibility of currencies could result in losses to us* in Item 1A of this report, which are incorporated herein by reference.

Employees

As of December 31, 2011, we had approximately 5,300 workers, including international crew personnel furnished through independent labor contractors.

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Executive Officers of the Registrant

We have included information on our executive officers in Part I of this report in reliance on General Instruction G(3) to Form 10-K. Our executive officers are elected annually by our Board of Directors to serve until the next annual meeting of our Board of Directors, or until their successors are duly elected and qualified, or until their earlier death, resignation, disqualification or removal from office. Information with respect to our executive officers is set forth below.

Name	Age as of January 31, 2012	Position
Lawrence R. Dickerson	59	President, Chief Executive Officer and Director
John M. Vecchio	61	Executive Vice President
Gary T. Krenek	53	Senior Vice President and Chief Financial Officer
William C. Long	45	Senior Vice President, General Counsel & Secretary
Beth G. Gordon	56	Controller Chief Accounting Officer
Lyndol L. Dew	57	Senior Vice President Worldwide Operations

Lawrence R. Dickerson has served as our President and a Director since March 1998 and as our Chief Executive Officer since June 2008. Mr. Dickerson served as our Chief Operating Officer from March 1998 to June 2008. Mr. Dickerson served on the United States Commission on Ocean Policy from 2001 to 2004.

John M. Vecchio has served as Executive Vice President since August 2009. Mr. Vecchio previously served as our Senior Vice President Technical Services from April 2002 to July 2009.

Gary T. Krenek has served as a Senior Vice President and our Chief Financial Officer since October 2006. Mr. Krenek previously served as our Vice President and Chief Financial Officer since March 1998.

William C. Long has served as a Senior