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ATWOOD OCEANICS INC
Form 10-Q
August 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR QUARTERLY PERIOD ENDED JUNE 30, 2006
COMMISSION FILE NUMBER 1-13167

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

ATWOOD OCEANICS, INC.

(Exact name of registrant as specified in its charter)

TEXAS

74-1611874

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

15835 Park Ten Place Drive
Houston, Texas

77084
(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code:
281-749-7800

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 X No___

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

Large accelerated filer Accelerated filer ___ Non-accelerated filer ___

Indicate by check mark whether the registrant is a shell company
(as defined in Rule 12b-2 of the Exchange Act.) Yes___ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 8, 2006: 31,042,472 shares of common stock, \$1 par value

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ATWOOD OCEANICS, INC.

FORM 10-Q

For the Quarter Ended June 30, 2006

INDEX

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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 June 30, | | Ni |
|--------------------------------|-------|-------|
| 2006 | 2005 | 20 |
| ----- | ----- | ----- |

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REVENUES:

| | | | |
|--------------------------------|-----------|-----------|-------|
| Contract drilling | \$ 71,865 | \$ 43,589 | \$ 1 |
| Business interruption proceeds | - | - | 1 |
| | ----- | ----- | ----- |
| | 71,865 | 43,589 | 1 |
| | ----- | ----- | ----- |

COSTS AND EXPENSES:

| | | | |
|----------------------------|---------|--------|-------|
| Contract drilling | 32,136 | 25,863 | 1 |
| Depreciation | 6,192 | 6,764 | |
| Gain on sale of equipment | (1,075) | - | (|
| General and administrative | 4,830 | 3,224 | |
| | ----- | ----- | ----- |
| | 42,083 | 35,851 | 1 |
| | ----- | ----- | ----- |

OPERATING INCOME

| | | |
|--------|-------|-------|
| 29,782 | 7,738 | |
| ----- | ----- | ----- |

OTHER INCOME (EXPENSE)

| | | | |
|---|---------|---------|-------|
| Interest expense, net of capitalized interest | (1,435) | (1,913) | |
| Interest income | 259 | 108 | |
| | ----- | ----- | ----- |
| | (1,176) | (1,805) | |
| | ----- | ----- | ----- |

INCOME BEFORE INCOME TAXES

| | | |
|--------|-------|--|
| 28,606 | 5,933 | |
|--------|-------|--|

PROVISION (BENEFIT) FOR INCOME TAXES

| | | |
|---------|-------|-------|
| (4,185) | (56) | |
| ----- | ----- | ----- |

NET INCOME

| | | |
|-----------|----------|-------|
| \$ 32,791 | \$ 5,989 | \$ |
| ===== | ===== | ===== |

EARNINGS PER COMMON SHARE (NOTE 2):

| | | |
|---------|---------|---------|
| Basic | \$ 1.06 | \$ 0.20 |
| Diluted | 1.04 | 0.19 |

AVERAGE COMMON SHARES OUTSTANDING

(NOTE 2):

| | | |
|---------|--------|--------|
| Basic | 31,037 | 30,484 |
| Diluted | 31,580 | 31,300 |

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

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| ASSETS | | |
|--|------------|------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 46,034 | \$ 18,982 |
| Accounts receivable, net of an allowance of \$642 and \$189 at June 30, 2006 and September 30, 2005, respectively | 52,009 | 39,865 |
| Income tax receivable | 1,782 | 3,278 |
| Inventories of materials and supplies | 18,916 | 15,640 |
| Deferred tax assets | 3,281 | 3,080 |
| Prepaid expenses and other | 3,135 | 11,208 |
| Total Current Assets | 125,157 | 92,053 |
| NET PROPERTY AND EQUIPMENT | 428,185 | 390,778 |
| ASSET HELD FOR SALE | - | 9,017 |
| DEFERRED COSTS AND OTHER ASSETS | 6,040 | 3,846 |
| | \$ 559,382 | \$ 495,694 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of notes payable | \$ 36,000 | \$ 36,000 |
| Accounts payable | 5,270 | 6,473 |
| Accrued liabilities | 17,129 | 11,088 |
| Deferred Credits | 77 | 2,598 |
| Total Current Liabilities | 58,476 | 56,159 |
| LONG-TERM DEBT, net of current maturities | 37,000 | 54,000 |
| | 37,000 | 54,000 |
| OTHER LONG TERM LIABILITIES: | | |
| Deferred income taxes | 18,760 | 20,140 |
| Deferred credits and other | 10,652 | 3,258 |
| | 29,412 | 23,398 |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, no par value; 1,000 shares authorized, none outstanding | - | - |
| Common stock, \$1 par value, 50,000 shares authorized with 31,042 and 30,682 issued and outstanding at June 30, 2006 and September 30, 2005, respectively | 31,042 | 30,682 |
| Paid-in capital | 114,699 | 105,645 |
| Retained earnings | 288,753 | 225,810 |
| Total Shareholders' Equity | 434,494 | 362,137 |

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\$ 559,382
=====

\$ 495,694
=====

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

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PART I. ITEM I - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Nine Months Ended |
|--|------------------------|
| | ----- 2006 ----- |
| CASH FLOW FROM OPERATING ACTIVITIES: | |
| Net Income | \$ 62,943 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | |
| Depreciation | 18,789 |
| Amortization of debt issuance costs | 603 |
| Amortization of deferred costs | 9,275 |
| Provision for doubtful accounts | 618 |
| Provision for inventory obsolescence | 474 |
| Deferred income tax benefit | (1,581) |
| Stock option compensation expense | 3,400 |
| Tax benefit from the exercise of stock options | - |
| Gain on disposal of assets | (10,350) |
| Changes in assets and liabilities: | |
| Decrease (increase) in accounts receivable | (12,762) |
| Decrease in income tax receivable | 1,496 |
| Increase in inventory | (3,750) |
| Decrease in prepaid expenses and other | 1,717 |
| Decrease (increase) in deferred costs and other assets | (5,716) |
| Decrease in accounts payable | (1,203) |
| Increase (decrease) in accrued liabilities | 6,041 |
| Increase (decrease) in deferred credits and other liabilities | 4,873 |
| Other | 8 |
| | ----- |
| Net cash provided by operating activities | 74,875 |
| | ----- |
| CASH FLOW FROM INVESTING ACTIVITIES: | |
| Capital expenditures | (62,357) |
| Collection of insurance receivable | - |
| Proceeds from sale of assets | 25,520 |
| | ----- |
| Net cash used by investing activities | (36,837) |
| | ----- |
| CASH FLOW FROM FINANCING ACTIVITIES: | |

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| | |
|---|-----------|
| Proceeds from stock offering | - |
| Proceeds from exercise of stock options | 6,014 |
| Proceeds from debt | 10,000 |
| Principal payments on debt | (27,000) |
| | ----- |
| Net cash used by financing activities | (10,986) |
| | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 27,052 |
| CASH AND CASH EQUIVALENTS, at beginning of period | \$ 18,982 |
| | ----- |
| CASH AND CASH EQUIVALENTS, at end of period | \$ 46,034 |
| | ===== |

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

PART I. ITEM I - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

| (In thousands) | Common Stock Shares | Common Stock Amount | Paid-in Capital | Retain Earnings |
|---|------------------------|------------------------|--------------------|--------------------|
| September 30, 2005 | 30,682 | \$30,682 | \$105,645 | \$225,8 |
| Net income | - | - | - | 62,9 |
| Restricted stock awards | 4 | 4 | - | |
| Exercise of employee stock options | 356 | 356 | 5,654 | |
| Stock option and restricted stock award compensation expense | - | - | 3,400 | |
| | ----- | ----- | ----- | ----- |
| June 30, 2006 | 31,042 | \$31,042 | \$114,699 | \$288,7 |
| | ===== | ===== | ===== | ===== |

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

PART I. ITEM 1 - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. UNAUDITED INTERIM INFORMATION

The unaudited interim condensed consolidated financial statements as of June 30, 2006, and for each of the three and nine month periods ended June 30, 2006 and 2005, 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. The year end condensed consolidated balance sheet data was derived from the audited financial statements as of September 30, 2005. 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 year. We suggest that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report to Shareholders for the year ended September 30, 2005. In our opinion, the unaudited interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of our financial position and results of operations for the periods presented.

2. CAPITAL STOCK

On March 2, 2006, the Board of Directors declared a two-for-one stock split of our common stock effected in the form of a 100% common stock dividend. All shareholders of record on March 24, 2006 received one additional share of common stock for each share held on that date. The additional shares of common stock were distributed in the form of a stock dividend on April 7, 2006. All share and per share amounts in the accompanying condensed consolidated financial statements and related notes have been adjusted to reflect the stock split for all periods presented.

3. SHARE-BASED COMPENSATION

Effective October 1, 2005, we adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment", or SFAS 123(R), using the modified prospective application transition method. Under this method, stock-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 (generally the vesting period of the equity grant). In addition, stock-based compensation cost recognized includes compensation cost for unvested stock-based awards as of October 1, 2005. Prior to October 1, 2005, we accounted for share-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", or APB No. 25. No share-based employee compensation cost has been reflected in net income prior to October 1, 2005. Before that date, we reported the entire tax benefit related to the exercise of stock options as an operating cash flow. SFAS 123(R) requires us to report the tax benefit from the tax deduction that is in excess of recognized

compensation costs (excess tax benefits) as a financing cash flow rather than as an operating cash flow. The cumulative effect of the change in accounting principle from APB No. 25 to FAS 123(R) was not material.

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Under our Amended and Restated 2001 Stock Incentive Plan, or the 2001 Plan, up to 2,000,000 shares of common stock may be issued to eligible participants in the form of restricted stock awards or upon exercise of stock options granted pursuant to the 2001 Plan. Awards of restricted stock and grants of stock options may be made under the 2001 Plan through September 5, 2011. We also have another stock incentive plan, the 1996 Plan, under which there are outstanding stock options. However, no additional options or restricted stock will be awarded under the 1996 plan.

A summary of share and stock option data for our two stock incentive plans as of June 30, 2006 is as follows:

| | 2001 Plan | 1996 Plan |
|--|--------------|--------------|
| | ----- | ----- |
| Shares available for future awards or grants | 799,280 | - |
| Outstanding stock option grants | 946,400 | 471,050 |
| Outstanding unvested restricted stock awards | 77,600 | - |

Awards of restricted stock and stock options have both been granted under our stock incentive plans as of June 30, 2006. We deliver newly issued shares of common stock for restricted stock awards and upon exercise of stock options. All stock incentive plans currently in effect have been approved by the shareholders of our outstanding common stock.

The impact of adopting SFAS 123(R) had no effect on our cash flows for the nine month ended June 30, 2006, however, has had the following effect on our consolidated statements of operations (in thousands, except per share amounts):

| | Three Months Ended | Nine Months Ended |
|---|--------------------|-------------------|
| | ----- | ----- |
| June 30, 2006: | | |
| Increase in contract drilling expenses | \$ 350 | \$ 650 |
| Increase in general and administrative expenses | 775 | 2,750 |
| Decrease in income tax provision | (271) | (963) |
| | ----- | ----- |
| Decrease of net income | \$ 854 | 2,437 |
| | ===== | ===== |
| Decrease in earnings per share: | | |
| Basic | \$ 0.03 | \$ 0.08 |
| Diluted | \$ 0.03 | \$ 0.08 |

We recognize compensation expense on grants of share-based compensation awards on a straight-line basis over the required service period for each award. As of June 30, 2006, unrecognized compensation cost, net of estimated forfeitures, related to stock options and restricted stock awards was approximately \$5.0 million and \$2.3 million, respectively, which we expect to recognize over a weighted average period of approximately 2.4 years.

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Stock Options

Under our stock incentive plans, the exercise price of each stock option equals the fair market value of one share 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 under the 2001 Plan and from the end of the second to the fifth year from the date of grant under the 1996 Plan. 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 nine months ended June 30, 2006 and 2005 was \$17.70 and \$10.22, respectively. We estimated the fair value of each stock option on the date of grant using the Black-Scholes pricing model and the following assumptions:

| | Nine Months Ended June 30, | |
|-------------------------|-------------------------------|-------|
| | 2006 | 2005 |
| Risk-Free Interest Rate | 4.46% | 4.27% |
| Expected Volatility | 42% | 35% |
| Expected Life (Years) | 6 | 6 |
| Dividend Yield | None | 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 6-year historical volatility figure and determined the expected term of the stock options using 15 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.

A summary of stock option activity during the nine months ended June 30, 2006 is as follows:

| | Number of Options | Wtd. Avg. Exercise Price | Wtd. Avg. Remaining Contractual Life (Years) | Ag In Va |
|--------------------------------|----------------------|--------------------------------|---|----------------|
| | ----- | ----- | ----- | ----- |
| Outstanding at October 1, 2005 | 1,703,300 | \$ 17.64 | | |
| Granted | 106,000 | \$ 37.15 | | |
| Exercised | (355,250) | \$ 16.95 | | \$ |
| Forfeited | (36,600) | \$ 22.64 | | |
| | ----- | ----- | | |
| Outstanding at June 30, 2006 | 1,417,450 | \$ 19.14 | 6.6 | \$ |
| | ===== | ===== | | |
| Exercisable at June 30, 2006 | 824,888 | \$ 16.70 | 5.6 | \$ |
| | ===== | ===== | | |

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Restricted Stock

We have also awarded restricted stock to certain employees and to our non-employee directors. The awards of restricted stock to employees are subject to three year vesting, and all restricted stock awards to date are restricted from transfer for three years from the date of grant. Pursuant to the amendments to our 2001 Plan approved by our shareholders on February 9, 2006, and as discussed in our definitive proxy statement sent to our shareholders relating to our annual shareholders meeting and filed with the SEC on January 13, 2006, during the quarter ended March 31, 2006, our non-employee directors were automatically granted stock awards totaling an aggregate of 4,220 shares of our common stock. We value restricted stock awards at fair market value of our common stock on the date of grant.

A summary of restricted stock activity for the nine months ended June 30, 2006, is as follows:

| | Number of Shares | Wtd. Avg. Fair Value |
|-----------------------------|---------------------|-------------------------|
| | ----- | ----- |
| Unvested at October 1, 2005 | - | --- |
| Granted | 86,220 | \$ 37.65 |
| Vested | (4,220) | \$ 47.40 |
| Forfeited | (4,400) | \$ 37.15 |
| | ----- | ----- |
| Unvested at June 30, 2006 | 77,600 | \$ 37.15 |
| | ===== | ===== |

Prior Year Pro Forma Expense

The following table illustrates the effect on net income and earnings per share as if the fair value-based method provided by SFAS 123(R) had been applied for all outstanding and unvested awards for periods prior to our adoption of SFAS 123(R) as of October 1, 2005 (in thousands, except per share amounts):

| | Three Months Ended | Nine Months Ended |
|--|--------------------|-------------------|
| | ----- | ----- |
| June 30, 2005: | | |
| Net income, as reported | \$5,989 | \$19,350 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 421 | 1,264 |
| | ----- | ----- |
| Pro Forma, net income | \$5,568 | \$18,086 |
| | ===== | ===== |
| Earnings per share: | | |
| Basic - as reported | \$0.20 | \$0.64 |
| Basic - pro forma | \$0.18 | \$0.60 |
| Diluted - as reported | \$0.19 | \$0.62 |
| Diluted - pro forma | \$0.18 | \$0.58 |

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4. 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 | | | Nine Mon |
|--|--------------------|--------|---------------------|---------------|
| | Net Income | Shares | Per Share Amount | Net Income |
| June 30, 2006: | | | | |
| Basic earnings per share | \$ 32,791 | 31,037 | \$ 1.06 | \$ 62,943 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock awards | --- | 543 | \$(0.02) | --- |
| Diluted earnings per share | \$ 32,791 | 31,580 | \$ 1.04 | \$ 62,943 |
| June 30, 2005: | | | | |
| Basic earnings per share | \$ 5,989 | 30,484 | \$ 0.20 | \$ 19,350 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock awards | --- | 816 | \$(0.01) | --- |
| Diluted earnings per share | \$ 5,989 | 31,300 | \$ 0.19 | \$ 19,350 |

The calculation of diluted earnings per share for the three and nine month period ending June 30, 2006, excludes consideration of common shares which would be issued upon the exercise of 101,000 stock options because such options were anti-dilutive. These options could potentially dilute basic earnings per share in the future.

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5. PROPERTY AND EQUIPMENT

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

| | June 30, 2006 | September 30, 2005 |
|--|------------------|-----------------------|
| Drilling vessels and related equipment Cost | \$ 679,401 | \$ 624,118 |

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| | | |
|----------------------------|------------|------------|
| Accumulated depreciation | (254,545) | (236,736) |
| | ----- | ----- |
| Net book value | 424,856 | 387,382 |
| | ----- | ----- |
| | | |
| Drill pipe | | |
| Cost | 9,889 | 10,742 |
| Accumulated depreciation | (7,878) | (8,407) |
| | ----- | ----- |
| Net book value | 2,011 | 2,335 |
| | ----- | ----- |
| | | |
| Furniture and other | | |
| Cost | 7,645 | 7,395 |
| Accumulated depreciation | (6,327) | (6,334) |
| | ----- | ----- |
| Net book value | 1,318 | 1,061 |
| | ----- | ----- |
| | | |
| NET PROPERTY AND EQUIPMENT | \$ 428,185 | \$ 390,778 |
| | ===== | ===== |

In October 2005, we sold our semisubmersible hull, SEASCOUT, which was reported as an asset held for sale in the consolidated balance sheet at September 30, 2005, for \$10.0 million (net after certain expenses) and our spare 15,000 P.S.I. BOP Stack for \$15.0 million, resulting in an aggregate gain of approximately \$10.1 million for both of these assets. Of this amount, \$9.3 million was recorded in the three months ended December 31, 2005, and \$0.8 million in the three months ended June 30, 2006. We had no operations or revenues associated with these assets prior to their sale.

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6. INCOME TAXES

Virtually all of our tax provision for each of the three and nine months ended June 30, 2006 and 2005, relates to taxes in foreign jurisdictions. During the current quarter, we reversed a \$1.8 million tax contingent liability due to the expiration of the statute of limitations in a foreign jurisdiction. In addition, we earned a high level of operating income earned in certain nontaxable and deemed profit tax jurisdictions during the three and nine months ended June 30, 2006. Subsequent to the end of the current quarter and as previously reported, on August 3, 2006, we were advised by a foreign tax authority that it had approved acceptance of certain amended prior year tax returns. The acceptance of these amended tax returns resulted in the recognition of a \$4.6 million tax benefit in the current quarter. As a result of these items, our effective tax rate for the three and nine months ended June 30, 2006 is significantly less than the U.S. statutory rate.

During the first quarter of fiscal year 2005, we received a \$1.7 million tax refund in Malaysia related to a previously reserved tax receivable. In addition, a \$1.0 million deferred tax benefit was recognized during the third quarter of fiscal year 2005 due to the filing, and subsequent acceptance by the local tax authority, of amended prior year tax returns. We also earned revenue from our loss of hire insurance coverage on the ATWOOD BEACON in a zero tax jurisdiction. As a result of these items, our effective tax rate for the three and nine months ended June 30, 2005, was significantly less than the U.S. statutory rate.

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7. SIGNIFICANT ACCOUNTING POLICIES

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109." FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing uncertain tax positions within the financial statements. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We will be evaluating the impact of the adoption of FIN 48 on our consolidated financial position.

8. COMMITMENTS AND CONTINGENCIES

On May 3, 2006, we received notice from the Malaysian tax authorities regarding alleged non-compliance with withholding tax provisions of the Malaysian Income Tax Act for years of assessment 2001 to 2004. The alleged under withholding of tax is approximately \$2.1 million, which is also subject to a 100% penalty. This matter was settled with the Malaysian tax authorities during the current quarter with no assessment of withholding tax or related penalties.

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.

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PART I. ITEM 2 ATWOOD OCEANICS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q for the quarterly period ended June 30, 2006 includes statements about Atwood Oceanics, Inc. (which together with its subsidiaries is identified as the "Company," "we" or "our," unless the context requires otherwise) which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto) which are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements which are also forward-looking statements.

These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us, which we deem reasonable, but which therefore involve a number of risks and uncertainties. We can give no assurance that such expectations and assumptions will prove to be correct. 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.

Important factors that could cause our actual results of operations or our actual financial conditions to differ include, but are not necessarily limited to:

- our dependence on the oil and gas industry;

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- the operational risks involved in drilling for oil and gas;
- changes in rig utilization and dayrates in response to the level of activity in the oil and natural gas industry, which is significantly affected by indications and expectations regarding the level and volatility of oil and natural gas prices, which in turn are affected by such things as political, economic and weather conditions affecting or potentially affecting regional or worldwide demand for oil and natural gas, actions or anticipated actions by OPEC, inventory levels, deliverability constraints, and future market activity;
- the extent to which customers and potential customers continue to pursue deepwater drilling;
- exploration success or lack of exploration success by our customers and potential customers;
- the highly competitive and cyclical nature of our business, with periods of low demand and excess rig availability;
- the impact of the war with Iraq or other military operations, terrorist acts or embargoes elsewhere;
- our ability to enter into and the terms of future drilling contracts;
- the availability of qualified personnel;
- our failure to retain the business of one or more significant customers;

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- the termination or renegotiation of contracts by customers;
- the availability of adequate insurance at a reasonable cost;
- the occurrence of an uninsured loss;
- the risks of international operations, including possible economic, political, social or monetary instability, and compliance with foreign laws;
- the effect public health concerns could have on our international operations and financial results;
- compliance with or breach of environmental laws;
- the incurrence of secured debt or additional unsecured indebtedness or other obligations by us or our subsidiaries;
- the adequacy of sources of liquidity;
- currently unknown rig repair needs and/or additional opportunities to accelerate planned maintenance expenditures due to presently unanticipated rig downtime;
- higher than anticipated accruals for performance-based compensation due to better than anticipated performance by us, higher than anticipated severance expenses due to unanticipated employee terminations, higher than anticipated legal and accounting fees due to unanticipated

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financing or other corporate transactions and other factors that could increase general and administrative expenses;

- the actions of our competitors in the oil and gas drilling industry, which could significantly influence rig dayrates and utilization;
- changes in the geographic areas in which our customers plan to operate, which in turn could change our expected effective tax rate;
- changes in oil and natural gas drilling technology or in our competitors' drilling rig fleets that could make our drilling rigs less competitive or require major capital investments to keep them competitive;
- rig availability;
- the effects and uncertainties of legal and administrative proceedings and other contingencies;
- the impact of governmental laws and regulations and the uncertainties involved in their administration, particularly in some foreign jurisdictions;
- changes in accepted interpretations of accounting guidelines and other accounting pronouncements and tax laws; and
- the risks involved in the construction, upgrade and repair of our drilling units.

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You should also read the risk factors set forth in our Form 10K for the year ended September 30, 2005 filed with the Securities and Exchange Commission, or SEC. Undue reliance should not be placed on these forward-looking statements, which are applicable only on the date hereof. Neither we nor our representatives have a general 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.

MARKET OUTLOOK

There continues to be very strong demand for offshore drilling equipment, with all of our eight drilling units having contractual dayrate commitments that are the highest in their respective histories. Currently, we have 100% of available rig days for the remainder of fiscal year 2006 contracted, with contracted rig days for fiscal years 2007 and 2008 at 98% and 75%, respectively. A comparison of the average per day revenues for fiscal year 2005 and for the first nine months of fiscal year 2006 for each of our eight drilling units to their current highest contracted dayrate commitment is as follows:

| Average Per Day Revenues for | | | |
|------------------------------|---|--|---|
| Fiscal Year 2005 | First Nine Months Fiscal Year 2006 | Current Highest Contracted Dayrate Commitment | Percentage Change from First Nine Months Fiscal Year 2006 |
| ----- | ----- | ----- | ----- |
| | | | |

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| | | | | |
|-----------------------|----------|-----------|-----------|------|
| ATWOOD HUNTER | \$61,000 | \$158,000 | \$245,000 | 55% |
| ATWOOD EAGLE | 95,000 | 122,000 | 420,000 | 244% |
| ATWOOD FALCON | 82,000 | 80,000 | 200,000 | 150% |
| ATWOOD SOUTHERN CROSS | 42,000 | 85,000 | 305,000 | 259% |
| ATWOOD BEACON | 66,000 | 78,000 | 133,500 | 71% |
| VICKSBURG | 65,000 | 82,000 | 154,000 | 88% |
| SEAHAWK | 45,000 | 28,000 * | 68,430 | 144% |
| RICHMOND | 33,000 | 47,000 | 80,000 | 70% |

* Average per day revenue is low due to the rig earning no revenues during the current quarter while the rig was in a shipyard undergoing a life enhancing upgrade during the entire quarter.

The ATWOOD HUNTER is currently working offshore Mauritania for Woodside Energy Limited ("Woodside") at a dayrate of \$240,000 under a contract commitment that extends to May 2008. The ATWOOD EAGLE is currently working offshore Australia on the last well under its current contract commitment with Woodside. Upon completion of drilling this well, the rig will commence a ten-well program for BHP Billiton Petroleum ("BHPB") which is estimated to take until August 2007 to complete with a dayrate for most of this period at approximately \$158,000. BHPB also has the option to drill three additional wells at a dayrate of approximately \$168,000 which could take until late first quarter of fiscal year 2008 to complete if exercised. Immediately following the completion of the BHPB work, the rig has a one-well commitment at a dayrate of \$360,000 and a one-year commitment with Woodside at a dayrate of \$420,000; however, before the middle of October 2006, this one-year commitment can be extended at Woodside's option to a two or three year commitment at a dayrate of \$405,000. The ATWOOD FALCON has contractual commitments offshore Malaysia with Shell that extend to July 2009, with operating dayrates of \$93,000 to \$113,000 until July 2007, then increasing to \$160,000 to \$200,000 per day for two years thereafter. This contractual commitment requires the rig to undergo an upgrade to extend its water depth drilling capabilities from 3,700 to 5,000 feet. Shell is contractually obligated to pay \$24 million of the upgrade costs (expected to be approximately \$32 million) along with payment of \$90,000 per day (for up to 85 days) during the

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upgrade period. The ATWOOD SOUTHERN CROSS is currently working offshore Italy at a dayrate of \$70,000 on a drilling program that is expected to extend into September 2006. Immediately upon completion of this drilling program, we expect to relocate the rig to the Black Sea to work for four customers at dayrates ranging from \$125,000 to \$305,000. This work could extend into the second or third quarter of fiscal year 2008 if all option wells are exercised. Currently, the ATWOOD BEACON is working offshore Vietnam at a dayrate of \$110,000 on a drilling program that is expected to extend to September 2006. Immediately upon completion of its current drilling program, we plan to have the final section of legs installed on the ATWOOD BEACON at a shipyard in Singapore before relocating the rig to India to commence a 25-month contract at dayrates ranging from \$113,000 to \$133,500. The VICKSBURG is currently working offshore Malaysia at dayrates ranging from \$82,000 to \$87,000. Following completion of its work in Malaysia (estimated November 2006), the rig will move to Thailand to work under a contract commitment for Chevron which provides a dayrate of \$94,500 for the first eight months and \$154,000 for two years thereafter. The SEAHAWK is expected to arrive offshore Equatorial Guinea in early August 2006 to commence a two-year firm commitment (plus four six-month options) drilling program at a operating dayrate of \$68,430. The RICHMOND, our only rig in the U.S. Gulf of Mexico, has a current contract commitment which should extend to July 2007 at a dayrate of \$80,000.

The current strong market environment is not only supporting high equipment utilization with historical high dayrate commitments, but also has resulted in a

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significant increase in our operating costs. Over the next few months, we expect daily operating costs for the ATWOOD EAGLE to average between \$75,000 and \$80,000. The ATWOOD HUNTER, during the time it works offshore Mauritania and Libya, is expected to incur daily operating costs between \$50,000 and \$55,000. We expect that the ATWOOD FALCON and ATWOOD SOUTHERN CROSS to have average daily operating costs of around \$45,000, with daily operating costs for the ATWOOD BEACON, VICKSBURG and RICHMOND of around \$30,000. The daily operating costs of the SEAHAWK, when it returns to work in August 2006 offshore Equatorial Guinea, is now expected to be between \$45,000 and \$50,000 per day; however, there should be some decline in the level of operating costs after the initial start-up period. Overall we expect our average operating costs for fiscal year 2006 to reflect an average increase of approximately 25% over operating costs for fiscal year 2005. Despite the increase in operating costs, our operating margin for the quarter ended June 30, 2006 was 55%.

Our ninth mobile offshore drilling unit, an ultra-premium class jack-up to be named the ATWOOD AURORA, is currently under construction in Brownsville, Texas, with delivery to occur by September 30, 2008. We estimate the total costs of construction (including administrative and overhead costs and capitalized interest) will be around \$160 million. We intend to finance the construction of the new rig primarily from expected cash on hand balances; however, if and when necessary, the \$100 million revolving portion of our Credit Facility may provide some funding for the new rig. As of August 8, 2006 and taking into account a borrowing in July 2006, we have \$15 million outstanding under the revolving portion of our Credit Facility.

We will continue to explore opportunities for growth. Revenues, operating cash flows and earnings for fiscal year 2006 are expected to be the highest in our history. With our backlog of contracted days providing increasing revenue expectations, we anticipate that operating results for fiscal year 2007 and 2008 will reflect significant improvement over fiscal year 2006 operating results.

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RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Revenues for the three and nine months ended June 30, 2006 increased 65% and 50%, respectively, compared to the three and nine months ended June 30, 2005. A comparative analysis of revenues is as follows:

| | REVENUES (In millions) | | | | |
|-----------------------------------|-----------------------------|--------|----------|-------------------|---------|
| | Three Months Ended June 30, | | | Nine Months Ended | |
| | 2006 | 2005 | Variance | 2006 | 2005 |
| ATWOOD HUNTER | \$21.0 | \$ 5.6 | \$15.4 | \$ 43.4 | \$ 16.4 |
| ATWOOD SOUTHERN CROSS | 6.6 | 2.8 | 3.8 | 23.3 | 9.1 |
| ATWOOD EAGLE | 11.9 | 8.7 | 3.2 | 33.3 | 26.7 |
| ATWOOD BEACON | 8.4 | 5.9 | 2.5 | 21.4 | 18.2 |
| VICKSBURG | 7.9 | 5.8 | 2.1 | 22.3 | 17.8 |
| RICHMOND | 4.7 | 3.0 | 1.7 | 12.8 | 8.3 |
| ATWOOD FALCON | 8.4 | 7.7 | 0.7 | 21.8 | 20.8 |
| SEAHAWK | 0.1 | 2.4 | (2.3) | 7.6 | 9.6 |
| AUSTRALIA MANAGEMENT CONTRACTS | 2.9 | 1.7 | 1.2 | 8.9 | 3.1 |

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| | | | | |
|--------|--------|--------|---------|---------|
| ----- | ----- | ----- | ----- | ----- |
| \$71.9 | \$43.6 | \$28.3 | \$194.8 | \$130.0 |
| ===== | ===== | ===== | ===== | ===== |

The increase in revenue for the ATWOOD HUNTER was due to an increase in average dayrates from \$61,000 and \$60,000 during each of the three and nine months ended June 30, 2005, respectively, to \$228,000 and \$159,000 during the three and nine months ended June 30, 2006, respectively. During the current quarter and year-to-date period, the ATWOOD SOUTHERN CROSS earned \$70,000 per day at 100% utilization and \$69,000 per day at approximately 80% utilization, respectively, compared to \$37,000 at approximately 80% utilization and \$38,000 at approximately 90% utilization during the third quarter and year-to-date period of the prior fiscal year, respectively. During the current year-to-date period, the ATWOOD SOUTHERN CROSS also recognized \$8.1 million from the amortization of up front mobilization fees which were previously received compared to none in the prior fiscal year. The increase in revenue for the ATWOOD EAGLE was due to an increase in average dayrates from \$95,000 and \$97,000 during each of the three and nine months ended June 30, 2005, respectively, to \$129,000 and \$122,000 during the three and nine months ended June 30, 2006, respectively. During the current quarter and year-to-date period, the ATWOOD BEACON earned \$92,000 and \$79,000 per day, respectively, compared to \$64,000 and \$67,000 during the third quarter and year-to-date period of the prior fiscal year, respectively. The increase in revenue for the VICKSBURG was due to an increase in average dayrates from \$63,000 and \$65,000 during the quarter and year-to-date period ended June 30, 2005, respectively, to \$85,000 and \$82,000 during the quarter and year-to-date period ended June 30, 2006, respectively. The increase in revenue for the RICHMOND was also due to an increase in average dayrates from \$32,000 and \$30,000 during each of the three and nine months ended June 30, 2005, respectively, to \$51,000 and \$47,000 during the three and nine months ended June 30, 2006, respectively. While the ATWOOD FALCON has experienced a consistent level of revenues for the current quarter and year-to-date period as compared to the same periods in the prior fiscal year, third quarter and year-to-date fiscal year 2006 revenues for the SEAHAWK decreased when compared to the prior fiscal year as the rig was in the shipyard for the entire quarter undergoing a life enhancing upgrade in preparation for

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its next contract in West Africa. As one of our managed platform rigs in Australia commenced a new drilling program during the current fiscal year, service activities for our management contracts for the three and nine months ended June 30, 2006 have increased accordingly as compared to the same periods for the prior fiscal year.

Contract drilling costs for the three and nine months ended June 30, 2006, increased 24% and 38%, respectively, compared to the three and nine months ended June 30, 2005. An analysis of contract drilling costs by rig is as follows:

| CONTRACT DRILLING COSTS (In millions) | | | | |
|--|-------|----------|-------------------|-------|
| Three Months Ended June 30, | | | Nine Months Ended | |
| 2006 | 2005 | Variance | 2006 | 2005 |
| ----- | ----- | ----- | ----- | ----- |

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| | | | | | |
|-----------------------|---------|--------|--------|---------|--------|
| ATWOOD HUNTER | \$ 5.2 | \$ 3.1 | \$ 2.1 | \$ 12.9 | \$ 8.6 |
| ATWOOD EAGLE | 6.8 | 5.3 | 1.5 | 19.0 | 16.0 |
| ATWOOD SOUTHERN CROSS | 4.1 | 2.7 | 1.4 | 20.2 | 8.0 |
| ATWOOD BEACON | 2.6 | 2.1 | 0.5 | 7.8 | 6.4 |
| VICKSBURG | 2.6 | 2.2 | 0.4 | 8.6 | 6.6 |
| ATWOOD FALCON | 4.1 | 3.9 | 0.2 | 11.3 | 10.0 |
| RICHMOND | 2.5 | 2.5 | - | 7.4 | 6.6 |
| SEAHAWK | 0.4 | 2.5 | (2.1) | 4.4 | 7.3 |
| AUSTRALIA MANAGEMENT | | | | | |
| CONTRACTS | 2.1 | 1.4 | 0.7 | 7.3 | 3.0 |
| OTHER | 1.7 | 0.2 | 1.5 | 4.3 | 2.2 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 32.1 | \$25.9 | \$ 6.2 | \$103.2 | \$74.7 |
| | ===== | ===== | ===== | ===== | ===== |

In addition to the items discussed below, the increase in fleetwide drilling costs was primarily attributable to four areas: rising personnel costs due to wage increases, increased repairs and maintenance expenses and freight costs due to the amount and timing of various repairs and maintenance projects and equipment enhancements and rising insurance costs due to increased premiums. The increase in drilling costs for the ATWOOD HUNTER also includes higher agent commissions due to increased revenues for the three and nine months ended June 30, 2006, compared to same periods of the prior fiscal year. Drilling costs for the ATWOOD EAGLE for the current quarter and year-to-date period also include a higher amount of allocated costs from Australian support centers when compared to the prior fiscal year. The increase in drilling costs for the ATWOOD SOUTHERN CROSS is also due to \$8.8 million of mobilization expense amortization during the year-to-date period of fiscal year 2006, while there was none during the prior fiscal year. An insurance recovery, during the third quarter of fiscal year 2005, of previously expensed costs contributed to the increase in current quarter drilling costs for the ATWOOD BEACON while the current year-to-date period also includes assessed value-added tax and the related interest and penalties from a foreign tax authority relating to a prior contract. Before relocating to its next contract, the VICKSBURG entered a shipyard for approximately five days during the first quarter of the current fiscal year to undergo planned inspections and maintenance which contributed to the increase in current year-to-date costs. Other than the fleetwide items mentioned above, the ATWOOD FALCON and RICHMOND experienced a relatively consistent level of operations when compared to the prior fiscal year, while the decrease in drilling costs for the SEAHAWK is primarily due to lower operating costs during the entire current quarter as the rig was in a shipyard undergoing a life

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enhancing upgrade in preparing for its next contract in West Africa. As previously mentioned, one of our managed platform rigs in Australia commenced a new drilling program during current fiscal year, and service activities for our management contracts for the three and nine months ended June 30, 2006, have increased accordingly. Other drilling costs for the current quarter and year-to-date period ended June 30, 2006, have also increased due to the recording of stock option compensation expense for field personnel during the current quarter and year-to-date period compared to none in the prior fiscal year.

An analysis of depreciation expense by rig for the three and nine months ended June 30, 2006, compared to the three and nine months ended June 30, 2005, is as follows:

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DEPRECIATION EXPENSE
(In millions)

| | Three Months Ended June 30, | | | Nine Months Ended Jun | | |
|-----------------------|-----------------------------|--------|----------|-----------------------|--------|---|
| | 2006 | 2005 | Variance | 2006 | 2005 | V |
| RICHMOND | \$ 0.3 | \$ 0.2 | \$ 0.1 | \$ 0.7 | \$ 0.7 | |
| ATWOOD BEACON | 1.3 | 1.3 | - | 4.0 | 3.9 | |
| ATWOOD FALCON | 0.7 | 0.7 | - | 2.1 | 2.0 | |
| VICKSBURG | 0.7 | 0.7 | - | 2.1 | 2.0 | |
| ATWOOD HUNTER | 1.4 | 1.4 | - | 4.0 | 4.0 | |
| ATWOOD EAGLE | 1.1 | 1.2 | (0.1) | 3.5 | 3.5 | |
| SEAHAWK | - | 0.2 | (0.2) | 0.2 | 0.4 | |
| ATWOOD SOUTHERN CROSS | 0.7 | 1.1 | (0.4) | 2.1 | 3.3 | |
| OTHER | - | - | - | 0.1 | 0.1 | |
| | ----- | ----- | ----- | ----- | ----- | |
| | \$ 6.2 | \$ 6.8 | \$ (0.6) | \$18.8 | \$19.9 | |
| | ===== | ===== | ===== | ===== | ===== | |

In accordance with our company policy, no depreciation expense was recorded during the month of December 2005 and part of January 2006 for the SOUTHERN CROSS, as the rig was undergoing a life enhancing upgrade whereby the useful life of the rig was extended from approximately two to five years in January 2006. Effective October 1, 2004, we extended the remaining depreciable life of the SEAHAWK from 2 months to 5 years, based upon entry into a contract that extended the rig's commercial viability for up to 5 years, coupled with our intent to continue marketing and operating the rig beyond 2 months. During the current quarter, no depreciation expense was recorded for the SEAHAWK, as the rig was undergoing a life enhancing upgrade as a result of the previously mentioned contract.

General and administrative expenses for the third quarter and year-to-date period of fiscal year 2006 increased compared to the third quarter and year-to-date period of the prior fiscal year primarily due to the recording approximately \$0.8 million and \$2.8 million of stock option compensation expense, respectively. Year-to-date amounts for the current fiscal year also include an approximate \$0.6 million increase in annual bonus compensation, and \$1.5 million increase in professional fees primarily related to higher Sarbanes-Oxley compliance costs. We expect our general and administrative expenses to remain at a higher level than reported in prior periods due to stock option compensation expense as described in Note 3 to our unaudited financial statements included in this report and due to a high level of professional fees. Although the level of our outstanding debt has been reduced significantly from the prior fiscal year, interest expense has only decreased slightly due to rising interest rates.

Virtually all of our tax provision for each of the three and nine months ended June 30, 2006 and 2005, relates to taxes in foreign jurisdictions. During the current quarter, we reversed a \$1.8 million tax contingent liability due to the expiration of the statute of limitations in a foreign jurisdiction. In addition, we earned a high level of operating income earned in certain nontaxable and deemed profit tax jurisdictions during the three and nine months

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ended June 30, 2006. Subsequent to the end of the current quarter and as previously reported, on August 2, 2006, we were advised by a foreign tax authority that it had approved acceptance of certain amended prior year tax returns. The acceptance of these amended tax returns resulted in the recognition of a \$4.6 million tax benefit in the current quarter. As a result of these items, our effective tax rate for the three and nine months ended June 30, 2006 is significantly less than the U.S. statutory rate.

During the first quarter of fiscal year 2005, we received a \$1.7 million tax refund in Malaysia related to a previously reserved tax receivable. In addition, a \$1.0 million deferred tax benefit was recognized during the third quarter of fiscal year 2005 due to the filing, and subsequent acceptance by the local tax authority, of amended prior year tax returns. We also earned revenue from our loss of hire insurance coverage on the ATWOOD BEACON in a zero tax jurisdiction. As a result of these items, our effective tax rate for the three and nine months ended June 30, 2005, was significantly less than the U.S. statutory rate.

Excluding any other discrete items that may occur, we expect our effective tax rate to be approximately 11-13% for the fourth quarter of fiscal year 2006 and approximately 4-6% for fiscal year 2006.

LIQUIDITY AND CAPITAL RESOURCES

Since we operate in a very cyclical industry, maintaining high equipment utilization in up, as well as down, cycles is a key factor in generating cash to satisfy current and future obligations. For fiscal years 2000 through 2005, net cash provided by operating activities ranged from a low of approximately \$13.7 million in fiscal year 2003 to a high of approximately \$62.3 million in fiscal year 2001. For the nine months ended June 30, 2006, net cash provided by operating activities totaled approximately \$75 million. Our operating cash flows are primarily driven by our operating income, which reflects dayrates and rig utilization. As 100% and 98% of our available operating rig days are committed for fiscal years 2006 and 2007, respectively, at historically high dayrates, we anticipate significant improvement in cash flows and earnings during fiscal years 2006 and 2007. Other than our expected capital expenditures of \$90 million to \$95 million (including funding for the construction of the new jack-up rig), the only additional firm cash commitment for fiscal year 2006, outside of funding current rig operations, is our required quarterly repayments under the term portion of our senior secured Credit Facility which will total \$36 million for fiscal year 2006, and of which \$9 million will be due in the fourth quarter of fiscal year 2006. We expect to generate sufficient cash flows from operations to satisfy most of these obligations; however, some funding from the revolving portion of our Credit Facility may be required.

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As of June 30, 2006, we had \$63 million outstanding under the term portion of our Credit Facility and \$10 million outstanding under the \$100 million revolving portion of our Credit Facility. We are in compliance with all financial covenants under our Credit Facility at June 30, 2006, and expect to remain in compliance with all financial covenants during the remainder of fiscal year 2006. Aside from unforeseen noncompliance with the financial covenants, no other provisions exist in the Credit Facility that could result in acceleration of the April 1, 2008 maturity date.

At June 30, 2006, the collateral for our Credit Facility consists primarily of preferred mortgages on all eight of our active drilling units (with an aggregate net book value at June 30, 2006 totaling approximately \$385 million). We are not required to maintain compensating balances; however, we are required to pay a fee of approximately 0.70% per annum on the unused portion of the

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revolving portion of our Credit Facility and certain other administrative costs.

In October 2005, we sold our semisubmersible hull, SEASCOUT, for \$10 million (net after certain expenses) and our spare 15,000 P.S.I. BOP Stack for approximately \$15 million. For the 2006 fiscal year-to-date period, gains on the sales of certain excess equipment totaled approximately \$10.4 million in the aggregate. The approximate \$25 million in cash received from the sales of excess equipment, plus borrowings under the Revolving Credit Facility (\$10 million outstanding at June 30, 2006) along with increasing operating cash flows, has allowed us to expend approximately \$28 million toward the construction of the ATWOOD AURORA, approximately \$15 million on upgrading the SEAHAWK, approximately \$5 million in completing the ATWOOD SOUTHERN CROSS upgrade, approximately \$6 million toward the ATWOOD FALCON upgrade and approximately \$8 million in other capital expenditures during the first nine months of fiscal year 2006 and have cash and cash equivalents remaining on hand at June 30, 2006 of approximately \$46 million.

Our accounts receivable have increased by \$12.1 million since September 30, 2005, primarily due to our increased rig utilization, higher dayrates, and also due to winding down contracts with certain customers. Our portfolio of accounts receivable is comprised of major international corporate entities with stable payment experience. Historically, we have not encountered significant difficulty in collecting receivables and typically do not require collateral for our receivables; however, we have a \$0.6 million allowance for doubtful accounts at June 30, 2006.

Our accrued liabilities have increased by \$6.0 million since September 30, 2005, primarily due to purchases related to the upgrades of the SEAHAWK and ATWOOD FALCON compared to no upgrades in progress that date.

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PART I. ITEM 3 ATWOOD OCEANICS, INC. AND SUBSIDIARIES QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including adverse changes in interest rates and foreign currency exchange rates as discussed below.

INTEREST RATE RISK

With the interest rate on our long-term debt under our Credit Facility at a floating rate, the outstanding debt of \$73 million at June 30, 2006 approximates its fair value. The impact on annual cash flow of a 10% change in the floating rate (approximately 70 basis points) would be approximately \$0.5 million, which we do not believe to be material. We did not have any open derivative contracts relating to our floating rate debt at June 30, 2006.

FOREIGN CURRENCY RISK

Certain of our subsidiaries have monetary assets and liabilities that are denominated in a currency other than their functional currencies. Based on June 30, 2006 amounts, a decrease in the value of 10% in the foreign currencies relative to the U.S. dollar from the year-end exchange rates would result in a foreign currency transaction loss of approximately \$0.8 million. Thus, we consider our current risk exposure to foreign currency exchange rate movements, based on net cash flows, to be immaterial. We did not have any open derivative contracts relating to foreign currencies at June 30, 2006.

PART I. ITEM 4
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
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 and forms. 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 fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
ATWOOD OCEANICS, INC. AND SUBSIDIARIES

ITEM 5. OTHER INFORMATION

- (b) We have not made any material changes in the procedures by which our security holders may recommend nominees to our Board of Directors. However, we have clarified and reconfirmed the procedures for communications between interested parties, including the holders of our common stock, as previously disclosed on our current report on Form 8-K, filed May 23, 2006 with the SEC, as set forth below.

We have a specific process for communications between interested parties and either the Board of Directors as a whole or the non-management members of the Board of Directors. The interested party may submit such communications in care of our Secretary, James M. Holland, at the address of our

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headquarters, which is 15835 Park Ten Place Drive, Suite 200, Houston, Texas 77084. Each written communication intended for the Board of Directors as a whole or the non-management members of the Board of Directors and received by the Secretary, will be promptly forwarded to the specified party.

The interested party may alternatively submit such communications through the MySafeWorkplace system. The MySafeWorkplace system can be contacted via telephone at 1-800-461-9330 or on the internet at www.MySafeWorkplace.com. The interested party should click on the "Incident Type" button and then select "Communicate with non-employee directors". The communication process is also further detailed on our website, www.atwd.com, along with other of our corporate governance guidelines.

ITEM 6. EXHIBITS

(a) Exhibits

- 3.1 Amended and Restated Certificate of Formation dated February 9, 2006 (Incorporated herein by reference to Exhibit 3.1 of our Form 8-K filed February 14, 2006).
 - 3.2 Second Amended and Restated By-Laws, dated May 5, 2006 (Incorporated herein by reference to Exhibit 3.2 of our Form 10-Q filed May 10, 2006).
 - 4.1 Rights Agreement dated effective October 18, 2002 between the Company and Continental Stock & Transfer & Trust Company (Incorporated herein by reference to Exhibit 4.1 of our Form 8-A filed October 21, 2002).
 - 4.2 Certificate of Adjustment dated as of March 17, 2006 (Incorporated herein by reference to Exhibit 4.1 of our Form 8-K filed March 23, 2006).
 - 4.3 See Exhibit Nos. 3.1 and 3.2 for provisions of our Amended and Restated Certificate of Formation and Second Amended and Restated By-Laws defining the rights of our shareholders (Incorporated herein by reference to Exhibit 3.1 of our Form 8-K filed February 14, 2006 and Exhibit 3.2 of our Form 10-Q filed May 10, 2006).
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- 10.1 Form of Non-Employee Director Restricted Stock Award Agreement Amended and Restated Atwood Oceanics, Inc. 2001 Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed June 1, 2006).
 - *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.

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*Filed herewith

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SIGNATURES

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

ATWOOD OCEANICS, INC.
(Registrant)

Date: August 9, 2006

/s/JAMES M. HOLLAND

James M. Holland
Senior Vice President, Chief Financial
Officer, Chief Accounting Officer and Secretary

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EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION |
|-------------|---|
| 3.1 | Amended and Restated Certificate of Formation dated February 9, 2006 (Incorporated herein by reference to Exhibit 3.1 of our Form 8-K filed February 14, 2006). |
| 3.2 | Second Amended and Restated By-Laws, dated May 5, 2006 (Incorporated herein by reference to Exhibit 3.2 of our Form 10-Q filed May 10, 2006). |
| 4.1 | Rights Agreement dated effective October 18, 2002 between the Company and Continental Stock & Transfer & Trust Company (Incorporated herein by reference to Exhibit 4.1 of our Form 8-A filed October 21, 2002). |
| 4.2 | Certificate of Adjustment dated as of March 17, 2006 (Incorporated herein by reference to Exhibit 4.1 of our Form 8-K filed March 23, 2006). |
| 4.3 | See Exhibit Nos. 3.1 and 3.2 for provisions of our Amended and Restated Certificate of Formation and Second Amended and Restated By-Laws defining the rights of our shareholders (Incorporated herein by reference to Exhibit 3.1 of our Form 8-K filed February 14, 2006 and Exhibit 3.2 of our Form 10-Q filed May 10, 2006). |
| 10.1 | Form of Non-Employee Director Restricted Stock Award Agreement Amended and Restated Atwood Oceanics, Inc. 2001 Stock Incentive Plan (Incorporated herein by reference to Exhibit |

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10.1 to our Form 8-K filed June 1, 2006).

- *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.

*Filed herewith

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EXHIBIT 31.1

CERTIFICATIONS

I, John R. Irwin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Atwood Oceanics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure

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controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ JOHN R. IRWIN

John R. Irwin
Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATIONS

I, James M. Holland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Atwood Oceanics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other

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financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ JAMES M. HOLLAND

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James M. Holland
Chief Financial Officer

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EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Atwood Oceanics, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Irwin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

Date: August 9, 2006

/s/ JOHN R. IRWIN

John R. Irwin
President and Chief Executive Officer

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EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Atwood Oceanics, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Holland, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350,

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as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

Date: August 9, 2006

/s/JAMES M. HOLLAND

James M. Holland
Senior Vice President and
Chief Financial Officer