

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

ATWOOD OCEANICS INC
Form 10-Q
February 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR QUARTERLY PERIOD ENDED DECEMBER 31, 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 (I.R.S. Employer Identification No.)
incorporation or organization)

15835 Park Ten Place Drive 77084
Houston, Texas (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 X 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 January 31, 2007: 31,093,040 shares of common stock, \$1 par value

ATWOOD OCEANICS, INC.

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

FORM 10-Q

For the Quarter Ended December 31, 2006

INDEX

Part I. Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements	Page
a) Condensed Consolidated Statements of Operations For the Three Months Ended December 31, 2006 and 2005.....	3
b) Condensed Consolidated Balance Sheets As of December 31, 2006 and September 30, 2006.....	4
c) Condensed Consolidated Statements of Cash Flows For the Three Months Ended December 31, 2006 and 2005.....	5
d) Condensed Consolidated Statement of Changes in Shareholders' Equity for the Three Months Ended December 31, 2006.....	6
e) Notes to Condensed Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	13
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	22
Item 4. Controls and Procedures.....	23
Part II. Other Information	
Item 6. Exhibits	24
Signatures.....	25
Certifications.....	27

2

PART I. ITEM I - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended December 31,	
	2006	2005
REVENUES:		
Contract drilling	\$ 86,242	\$ 55,414
Business interruption proceeds	2,558	-

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

	----- 88,800 -----	----- 55,414 -----
COSTS AND EXPENSES:		
Contract drilling	49,110	33,770
Depreciation	8,015	6,390
General and administrative	7,191	5,993
Gain on sale of equipment	(47)	(9,275)
	----- 64,269 -----	----- 36,878 -----
OPERATING INCOME	----- 24,531 -----	----- 18,536 -----
OTHER INCOME (EXPENSE)		
Interest expense	(537)	(1,740)
Interest income	469	231
	----- (68) -----	----- (1,509) -----
INCOME BEFORE INCOME TAXES	24,463	17,027
PROVISION FOR INCOME TAXES	3,378	2,504
NET INCOME	----- \$ 21,085 =====	----- \$ 14,523 =====
EARNINGS PER COMMON SHARE:		
Basic	\$ 0.68	\$ 0.47
Diluted	0.67	0.47
AVERAGE COMMON SHARES OUTSTANDING:		
Basic	31,060	30,738
Diluted	31,614	31,208

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 BALANCE SHEETS
(In thousands)

	December 31, 2006 -----	September 30, 2006 -----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40,419	\$ 32,276
Accounts receivable, net of an allowance of \$863 and \$750 at December 31, 2006 and September 30, 2006, respectively	80,376	80,222

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

Income tax receivable	848	65
Insurance receivable	4,150	550
Inventories of materials and supplies	22,603	22,124
Deferred tax assets	1,928	2,563
Prepaid expenses and deferred costs	7,555	9,873
	-----	-----
Total Current Assets	157,879	147,673
	-----	-----
NET PROPERTY AND EQUIPMENT	451,760	436,166
DEFERRED COSTS AND OTHER ASSETS	10,900	9,990
	-----	-----
	\$ 620,539	\$593,829
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of notes payable	\$ 36,000	\$ 36,000
Accounts payable	14,716	11,760
Accrued liabilities	19,060	13,201
Deferred credits	4,118	404
	-----	-----
Total Current Liabilities	73,894	61,365
	-----	-----
LONG-TERM DEBT,		
net of current maturities:	9,000	28,000
	-----	-----
	9,000	28,000
	-----	-----
LONG TERM LIABILITIES:		
Deferred income taxes	17,891	18,591
Deferred credits	34,194	23,284
Other	3,816	3,695
	-----	-----
	55,901	45,570
	-----	-----
COMMITMENTS AND CONTINGENCIES (SEE NOTE 7)		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value;		
1,000 shares authorized, none outstanding	-	-
Common stock, \$1 par value, 50,000 shares		
authorized with 31,080 and 31,046 issued		
and outstanding at December 31, 2006		
and September 30, 2006, respectively	31,080	31,046
Paid-in capital	117,647	115,916
Retained earnings	333,017	311,932
	-----	-----
Total Shareholders' Equity	481,744	458,894
	-----	-----
	\$ 620,539	\$593,829
	=====	=====

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

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

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

	Three Months Ended December	
	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	\$ 21,085	\$ 14,5
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	8,015	6,3
Amortization of debt issuance costs	201	2
Amortization of deferred items	(8,788)	(1,0
Provision for doubtful accounts	113	
Deferred federal income tax benefit	(80)	(
Stock-based compensation expense	1,213	8
Gain on sale of equipment	(47)	(9,2
Changes in assets and liabilities:		
Increase in accounts receivable	(267)	(3,1
Increase in insurance receivable	(3,600)	(4
Increase in income tax receivable	(783)	
(Increase) decrease in inventory	(479)	4
(Increase) decrease in prepaid expenses	1,929	(7
Increase in deferred costs and other assets	(2,559)	(1,8
Increase in accounts payable	2,956	1
Increase in accrued liabilities	5,859	1,5
Increase in deferred credits and other liabilities	25,385	5,0
Other	(12)	
Net cash provided by operating activities	50,141	12,7
CASH FLOW FROM INVESTING ACTIVITIES:		
Capital expenditures	(23,606)	(6,5
Proceeds from sale of equipment	56	25,1
Net cash provided (used) by investing activities	(23,550)	18,5
CASH FLOW FROM FINANCING ACTIVITIES:		
Principal payments on debt	(19,000)	(9,0
Proceeds from exercise of stock options	498	1,8
Tax benefit from the exercise of stock options	54	5
Net cash used by financing activities	(18,448)	(6,6
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,143	24,7
CASH AND CASH EQUIVALENTS, at beginning of period	\$ 32,276	\$ 18,9
CASH AND CASH EQUIVALENTS, at end of period	\$ 40,419	\$ 43,7

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

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

5

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	Retained Earnings
September 30, 2006	31,046	\$ 31,046	\$ 115,916	\$ 311,932
Net income	-	-	-	21,080
Restricted stock awards	5	5	(5)	
Exercise of employee stock options	29	29	469	
Stock option and restricted stock award compensation expense			1,213	
Tax benefit from exercise of employee stock options	-	-	54	
December 31, 2006	31,080	\$ 31,080	\$ 117,647	\$ 333,012

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

6

PART I. ITEM 1 - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. UNAUDITED INTERIM INFORMATION

The unaudited interim condensed consolidated financial statements as of December 31, 2006 and for each of the three month periods ended December 31, 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, 2006. 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.

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

It is suggested 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, 2006. 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. SHARE-BASED COMPENSATION

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 December 31, 2006, unrecognized compensation cost, net of estimated forfeitures, related to stock options and restricted stock awards was approximately \$5.4 million and \$5.9 million, respectively, which we expect to recognize over a weighted average period of approximately 2.7 years. The recognition of share-based compensation expense for the three months ended December 31, 2006 and 2005 of \$1.2 million and \$0.8 million, respectively, had the following effect on our consolidated statements of operations (in thousands, except per share amounts):

	Three Months Ended December 31, 2006 -----	Three Months Ended December 31, 2005 -----
Increase in contract drilling expenses	\$ 260	\$ 150
Increase in general and administrative expenses	953	650
Decrease in income tax provision	(334)	(228)
	-----	-----
Decrease of net income	\$ 879	\$ 572
	=====	=====
Decrease in earnings per share:		
Basic	\$ 0.03	\$0.02
Diluted	\$ 0.03	\$0.02

7

Awards of restricted stock and stock options have both been granted under our stock incentive plans during the current quarter. We deliver newly issued shares of common stock for restricted stock awards upon vesting and upon exercise of stock options. All stock incentive plans currently in effect have been approved by the shareholders of our outstanding common stock.

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. 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 three months ended December 31, 2006 was \$23.64. We estimated the fair value

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

of each stock option then outstanding using the Black-Scholes pricing model and the following assumptions for the three months ended December 31, 2006:

Risk-Free Interest Rate	4.5%
Expected Volatility	46%
Expected Life (Years)	5.25
Dividend Yield	None

The average risk-free interest rate is based on the five-year U.S. treasury security rate in effect as of the grant date. We determined expected volatility using a 6-year historical volatility figure and determined the expected term of the stock options using 10 years of historical data. The expected dividend yield is based on the expected annual dividend as a percentage of the market value of our common stock as of the grant date.

A summary of stock option activity during the three months ended December 31, 2006 is as follows:

	Number of Options (000s)	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life (Years)	Aggregat Intrinsi Value (00
	-----	-----	-----	-----
Outstanding at October 1, 2006	1,437	\$ 19.56		
Granted	79	\$ 49.97		
Exercised	(27)	\$ 17.12		\$ 88
Forfeited	(2)	\$ 24.62		

Outstanding at December 31, 2006	1,487	\$ 21.22	6.4	\$ 41,27

Exercisable at December 31, 2006	1,047	\$ 17.40	5.5	\$ 33,06

8

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 while awards of restricted stock to non-employee directors vest immediately. All restricted stock awards granted to date are restricted from transfer for three years from the date of grant, whether vested or unvested. 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 three months ended December 31, 2006, is as follows:

Number of Shares (000s)	Wtd. Avg. Fair Value
-----	-----

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

Unvested at September 30, 2006	93	\$ 38.07
Granted	76	\$ 49.97
Vested	(5)	\$ 49.97
Forfeited	-	\$ -

Unvested at December 31, 2006	164	\$ 43.24
	=====	

9

3. EARNINGS (LOSS) PER COMMON SHARE

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

	Three Months Ended		
	Net Income	Shares	Per Share Amount
December 31, 2006:			
Basic earnings per share	\$21,085	31,060	\$ 0.68
Effect of dilutive securities - Stock options	---	554	\$ 0.01
	-----	-----	-----
Diluted earnings per share	\$21,085	31,614	\$ 0.67
	=====	=====	=====
December 31, 2005:			
Basic earnings per share	\$14,523	30,738	\$ 0.47
Effect of dilutive securities - Stock options	---	470	\$ -
	-----	-----	-----
Diluted earnings per share	\$14,523	31,208	\$ 0.47
	=====	=====	=====

The calculation of diluted earnings per share for the three month period ending December 31, 2006 excludes consideration of shares of common stock related to 276,000 outstanding stock options because such options were anti-dilutive. These options could potentially dilute basic earnings per share in the future.

10

4. PROPERTY AND EQUIPMENT

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

	December 31, 2006	September 30, 2006
Drilling vessels and related equipment Cost	\$ 714,573	\$ 691,289

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

Accumulated depreciation	(269,292)	(261,682)
	-----	-----
Net book value	445,281	429,607
	-----	-----
Drill Pipe		
Cost	13,249	13,271
Accumulated depreciation	(8,576)	(8,257)
	-----	-----
Net book value	4,673	5,014
	-----	-----
Furniture and other		
Cost	8,115	7,920
Accumulated depreciation	(6,309)	(6,375)
	-----	-----
Net book value	1,806	1,545
	-----	-----
NET PROPERTY AND EQUIPMENT	\$ 451,760	\$ 436,166
	=====	=====

ATWOOD BEACON

During the current quarter, we completed the work to restore the ATWOOD BEACON to its original condition prior to the July 2004 incident offshore of Indonesia whereby all three legs and the derrick incurred damage while positioning for a well. The majority of the restoration work was completed in early calendar year 2005, at which time the rig was placed back into service. The current quarter repairs were needed to finish the final leg extensions to restore the rig to its original condition. We have insurance coverage to reimburse the costs of repairs and loss of hire coverage of \$70,000 per day. Approximately \$0.6 million of capitalized costs and \$1.0 million of other costs were incurred for the leg installation during the current quarter, while revenue recognized from the loss of hire coverage totaled \$2.6 million during the current quarter and is reflected as business interruption proceeds on the Consolidated Statement of Operations. We expect to collect the related insurance receivable during the next quarter.

SALE OF EQUIPMENT

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 a gain of approximately \$9.3 million. We had no operations or revenues associated with these assets prior to their sale.

5. INCOME TAXES

Virtually all of our tax provision for each of the three months ended December 31, 2006 and 2005 relates to taxes in foreign jurisdictions. Accordingly, due to the high level of operating income earned in certain nontaxable and deemed profit tax jurisdictions during the first quarters of fiscal years 2007 and 2006, our effective tax rate for these periods is significantly less than the United States federal statutory rate.

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

6. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board 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.

In September 2005, the FASB issued SFAS No. 157, "Fair Value Measurements", or SFAS No. 157, which defines fair value, establishes methods used to measure fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal year beginning after November 15, 2007, and interim periods within those fiscal periods. We are currently analyzing the provisions of SFAS No. 157 and determining how it will affect accounting policies and procedures, but we have not yet made a determination of the impact the adoption will have on our consolidated financial position, results of operations and cash flows.

7. COMMITMENTS AND CONTINGENCIES

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.

12

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

This Form 10-Q for the quarterly period ended December 31, 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, and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

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

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

limited to:

- our dependence on the oil and gas industry;
- 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 gas industry, which is significantly affected by indications and expectations regarding the level and volatility of oil and 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 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;

13

- 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;

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

- 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 financing or other corporate transactions and other factors that could increase general and administrative expenses;
- the actions of our competitors in the offshore 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 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;

14

- the risks involved in the construction, upgrade and repair of our drilling units; and
- such other factors as may be discussed in this report and our other reports filed with the Securities and Exchange Commission, or SEC.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. The words "believe," "impact," "intend," "estimate," "anticipate," "plan," and similar expressions identify forward-looking statements. These forward-looking statements are found at various places throughout the Management's Discussion and Analysis in Part I, Item 2 hereof and elsewhere in this report. When considering any forward-looking statement, you should also keep in mind the risk factors described in other reports or filings we make with the SEC from time to time, including our Form 10K for the year ended September 30, 2006. 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.

15

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

MARKET OUTLOOK

Currently, we have approximately 95% of available rig days for the remainder of fiscal year 2007 contracted, with contracted rig days for fiscal year 2008 and 2009 at approximately 75% and 30%, respectively. A comparison of the average per day revenues for fiscal year 2006 and for the first three months of fiscal year 2007 for each of our eight drilling units to their current highest contracted dayrate commitments is as follows:

	Average Per Day Revenues (1)			
	Fiscal Year 2006	First Three Months of Fiscal Year 2007	Current Highest Contracted Dayrate Commitment	Percentage Change from First Three Months of Fiscal Year 2007
ATWOOD EAGLE	\$129,000	161,000	\$405,000	152%
ATWOOD HUNTER	172,000	193,000	245,000	27%
ATWOOD FALCON	83,000	97,000	200,000	106%
ATWOOD SOUTHERN CROSS	82,000	124,000	305,000	146%
ATWOOD BEACON	88,000	95,000	133,500	41%
VICKSBURG	82,000	92,000	154,000	67%
SEAHAWK	32,000	88,000	68,400 (2)	(2)---
RICHMOND	55,000	81,000	80,000	---

(1) Includes dayrate and service revenues

(2) Does not include amortized deferred fees of approximately \$20,000 per day

The ATWOOD EAGLE is currently working offshore Australia for BHP Billiton Petroleum ("BHPB") on a drilling program expected to extend into October 2007. Immediately following the completion of the BHPB work, the rig has a one-well commitment at a dayrate of \$360,000 and a two-year commitment with Woodside Energy Limited ("Woodside") at a dayrate of \$405,000. The ATWOOD HUNTER is currently working offshore Mauritania for Woodside at a dayrate of \$240,000 and will move during the next quarter to Libya under the Woodside contract with a dayrate of \$245,000. The current Woodside contract extends to April/May 2008. The ATWOOD FALCON has contractual commitments offshore Malaysia with Shell that extend to July 2009, with an operating dayrate of \$113,000 until July 2007, then increasing to \$160,000 to \$200,000 per day for two years thereafter. The ATWOOD SOUTHERN CROSS currently has contractual commitments in the Black Sea with a dayrate ranging from \$125,000 to \$305,000. These commitments could extend into the second or third quarter of fiscal year 2008 if all option wells are exercised. Currently, the ATWOOD BEACON is working under a long-term contract commitment offshore India that extends to January 2009. The dayrate for the contract is \$113,000 to January 2008 and \$133,500 for one year thereafter. The VICKSBURG is currently working offshore Thailand under a contract commitment for Chevron which provides a dayrate of \$94,500 to June 2007 and \$154,000 for two years thereafter. The SEAHAWK has a contract commitment offshore Equatorial Guinea which extends to September 2008 at a dayrate of approximately \$68,400 plus amortized deferred fees of approximately \$20,000 per day. The RICHMOND, our only rig in the U.S. Gulf of Mexico, has a current contract commitment which should extend to May/June 2007 at a dayrate of \$80,000.

Our operating costs for the first quarter of fiscal year 2007 continue to reflect some degree of volatility. Factors impacting high operating costs during the first quarter of fiscal year 2007 were end of calendar year bonuses paid to rig shorebase personnel; start-up costs associated with rigs commencing

operations in new drilling areas (VICKSBURG in Thailand, ATWOOD BEACON in India and SEAHAWK in West Africa); additional costs associated with maintenance during shipyard periods (ATWOOD FALCON and ATWOOD BEACON) and higher than normal maintenance costs incurred on the ATWOOD HUNTER during the fourteen zero rate days in December when the rig was undergoing required regulatory inspections. At this time, there is no planned downtime for any of our rigs for the remainder of fiscal year 2007. The VICKSBURG and ATWOOD EAGLE currently have planned required regulatory inspections during the first quarter of fiscal year 2008 that could be moved forward to the fourth quarter of fiscal year 2007 depending upon each rig's operating schedule. With no planned downtime periods for the remainder of fiscal year 2007 (assuming the VICKSBURG and ATWOOD EAGLE required inspections remain as currently scheduled for the first quarter of fiscal year 2008), there should be less volatility in operating costs for the remainder of fiscal year 2007.

The ATWOOD FALCON had an average operating cost during the first quarter of fiscal year 2007 of \$95,000 per day due to maintenance costs incurred during its shipyard upgrade. With the expensing of these costs now complete, we expect ongoing operating costs for the ATWOOD FALCON to be between \$45,000 and \$50,000. The ATWOOD SOUTHERN CROSS is also expected to have average daily operating costs in the Black Sea between \$45,000 and \$50,000. Operating costs for the ATWOOD EAGLE and ATWOOD HUNTER are expected to be approximately \$85,000 and \$55,000, respectively. Operating costs for our bottom supported drilling units are expected to average between \$30,000 and \$35,000 per day for the ATWOOD BEACON and RICHMOND and \$35,000 to \$40,000 for the VICKSBURG, which is incurring higher operating costs in Thailand than when it worked in Malaysia. The SEAHAWK is expected to incur operating costs between \$60,000 and \$70,000 per day (including amortization of certain deferred costs) while continuing to work in a start-up environment offshore Equatorial Guinea. Operating costs will vary for all rigs depending upon each rig's specific operating activities. As shown from the high costs incurred in the first quarter of fiscal year 2007, the daily operating cost estimates provided above may increase when a rig is being relocated to a new drilling location, when a rig is undergoing required inspections or when a rig is undergoing extraordinary maintenance or equipment replacement.

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 capitalized interest) will be approximately \$160 million. We intend to finance the construction of the new rig primarily from expected operating cash flows and 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 February 7, 2007, we have no outstanding borrowing under the \$100 million revolving credit portion of our credit facility.

We will continue to explore opportunities for growth. Revenues, operating cash flows and earnings for fiscal year 2006 were 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.

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

Revenues for the three months ended December 31, 2006 increased 60% compared to the three months ended December 31, 2005. A comparative analysis of revenues is as follows:

	REVENUES (In millions)		
	----- Three Months Ended December 31, -----		
	2006	2005	Variance
	-----	-----	-----
ATWOOD HUNTER	\$17.8	\$10.3	\$ 7.5
ATWOOD EAGLE	14.8	8.0	6.8
ATWOOD SOUTHERN CROSS	11.4	6.0	5.4
RICHMOND	7.5	3.9	3.6
SEAHAWK	8.1	4.6	3.5
ATWOOD BEACON	8.7	5.9	2.8
ATWOOD FALCON	8.9	6.8	2.1
VICKSBURG	8.5	6.7	1.8
AUSTRALIA MANAGEMENT CONTRACTS	3.1	3.2	(0.1)
	-----	-----	-----
	\$88.8	\$55.4	\$33.4
	=====	=====	=====

The increase in fleetwide revenues is primarily attributable to the increase in average dayrates due to improving market conditions and strong demand for offshore drilling equipment as previously discussed in Market Outlook. Thus, increases in revenues for the ATWOOD HUNTER, ATWOOD EAGLE, ATWOOD SOUTHERN CROSS, RICHMOND, SEAHAWK, ATWOOD BEACON, ATWOOD FALCON and the VICKSBURG were related to each of these drilling units working under higher dayrate contracts during the current quarter compared to the first quarter of the prior fiscal year while the AUSTRALIA MANAGEMENT CONTRACTS experienced a consistent level of revenues for the current quarter when compared to the prior year quarter.

18

Contract drilling costs for the three months ended December 31, 2006 increased 45% compared to the three months ended December 31, 2005. An analysis of contract drilling costs by rig is as follows:

	CONTRACT DRILLING COSTS (In millions)		
	----- Three Months Ended December 31, -----		
	2006	2005	Variance
	-----	-----	-----
ATWOOD FALCON	\$ 8.7	\$ 3.8	\$ 4.9
SEAHAWK	6.8	2.4	4.4
ATWOOD HUNTER	5.9	3.7	2.2
ATWOOD EAGLE	7.9	6.0	1.9
ATWOOD BEACON	4.0	2.4	1.6

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

RICHMOND	3.1	2.4	0.7
VICKSBURG	3.8	3.5	0.3
ATWOOD SOUTHERN CROSS	5.3	5.5	(0.2)
AUSTRALIA MANAGEMENT CONTRACTS	2.5	2.8	(0.3)
OTHER	1.1	1.3	(0.2)
	-----	-----	-----
	\$49.1	\$33.8	\$15.3
	=====	=====	=====

On a fleetwide basis, wage increases and increased headcount have resulted in higher personnel costs during the first quarter of fiscal year 2007 for virtually every rig when compared to the prior year first quarter. The increase in drilling costs for the ATWOOD FALCON is primarily attributable to planned maintenance during its water depth upgrade which was completed in November 2006. With the SEAHAWK and ATWOOD HUNTER currently working offshore West Africa, both rigs have experienced increased travel, freight and shorebase costs due to higher transportation and living expenses in West Africa. Contract drilling costs for the SEAHAWK also reflect amortization of approximately \$1.4 million of deferred expenses in the first quarter of fiscal year 2007 compared to none in the first quarter of fiscal year 2006. The ATWOOD HUNTER incurred additional maintenance costs during a planned regulatory inspection period in December 2006. In addition to the rising personnel costs mentioned above, the ATWOOD EAGLE and RICHMOND incurred higher maintenance costs during the first quarter of fiscal year 2007 due to the amount and timing of certain maintenance projects when compared to the same period in the prior year. The ATWOOD BEACON also experienced higher maintenance costs during the first quarter of fiscal year 2007 while it was in a Singapore shipyard having its last leg sections reattached. The VICKSBURG, ATWOOD SOUTHERN CROSS, AUSTRALIA MANAGEMENT CONTRACTS and other drilling costs have remained relatively consistent when compared to the first quarter of the prior fiscal year.

19

Depreciation expense for the three months ended December 31, 2006 increased 25% compared to the three months ended December 31, 2005. An analysis of depreciation expense by rig is as follows:

DEPRECIATION EXPENSE			
(In millions)			

Three Months Ended December 31,			

	2006	2005	Variance
	-----	-----	-----
SEAHAWK	\$1.5	\$0.2	\$ 1.3
ATWOOD FALCON	0.9	0.7	0.2
ATWOOD SOUTHERN CROSS	0.8	0.7	0.1
ATWOOD HUNTER	1.4	1.3	0.1
ATWOOD BEACON	1.3	1.3	-
VICKSBURG	0.7	0.7	-
RICHMOND	0.2	0.2	-
ATWOOD EAGLE	1.1	1.2	(0.1)
OTHER	0.1	0.1	-
	-----	-----	-----
	\$8.0	\$6.4	\$ 1.6
	=====	=====	=====

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

Depreciation expense has increased for the SEAHAWK and ATWOOD FALCON as both rigs recently finished their upgrades, which were completed subsequent to the first quarter of the prior fiscal year, while depreciation expense for all other rigs have has remained relatively consistent with the prior year quarter. The SEAHAWK was almost fully depreciated prior to its upgrade, accordingly, ongoing quarterly depreciation expense will approximate first quarter fiscal year 2007 levels.

General and administrative expenses for the first quarter of fiscal year 2007 increased compared to the first quarter of the prior fiscal year primarily due to an approximate \$0.7 million increase in annual bonus compensation. Interest expense has decrease primarily due to the reduction of our outstanding debt and due to \$0.8 million of capitalized interest charges related to the construction of the ATWOOD AURORA. Interest income has increased when compared to the first quarter of fiscal year 2006 due to higher interest rates earned on higher cash balances.

Virtually all of our tax provision for each of the three months ended December 31, 2006 and 2005 relates to taxes in foreign jurisdictions. Accordingly, due to the high level of operating income earned in certain nontaxable and deemed profit tax jurisdictions during the first quarter of fiscal year 2007 and 2006, our effective tax rate for both quarters is significantly less than the United States federal statutory rate. Excluding any discrete items that may be incurred, we expect our effective tax rate to be between 13% and 18% for the entire fiscal year 2007.

20

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 2001 through 2006, net cash provided by operating activities ranged from a low of approximately \$13.7 million in fiscal year 2003 to a high of approximately \$85.5 million in fiscal year 2006. For the three months ended December 31, 2006, net cash provided by operating activities totaled approximately \$50.1 million. Our operating cash flows are primarily driven by our operating income, which reflects dayrates and rig utilization. With approximately 95% and 75% of our available operating rig days committed for fiscal years 2007 and 2008, respectively, at historically high dayrates, we anticipate significant increases in cash flows and earnings during fiscal years 2007 and 2008. Other than our expected capital expenditures of around \$115 million (including funding for the construction of our new jack-up rig), the only additional firm cash commitment for fiscal year 2007, 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 2007. We expect to generate sufficient cash flows from operations to satisfy these obligations.

As of December 31, 2006, we had \$45 million outstanding under the term portion of our credit facility and no funds borrowed under the \$100 million revolving portion of our credit facility. We are in compliance with all financial covenants under our credit facility at December 31, 2006, and expect to remain in compliance with all financial covenants during the remainder of fiscal year 2007. 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.

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

At December 31, 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 December 31, 2006 totaling approximately \$399 million). We are not required to maintain compensating balances; however, we are required to pay a fee of approximately 0.60% per annum on the unused portion of the revolving portion of our credit facility and certain other administrative costs.

During the first three months of fiscal year 2007, we used internally generated cash to expend approximately \$13 million toward the construction of the ATWOOD AURORA, approximately \$8 million on completing the water depth upgrade and equipment maintenance of the ATWOOD FALCON and approximately \$3 million in other capital expenditures. We had cash and cash equivalents on hand at December 31, 2006 of approximately \$40 million. We estimate that our total capital expenditures for the last three quarters of fiscal year 2007 will be around \$95 million, with approximately \$70 million of these estimated expenditures relating to the construction of the ATWOOD AURORA. In fiscal year 2008, we expect to expend approximately \$45 million in completing the construction of the ATWOOD AURORA. We anticipate using internally generated funds to satisfy these obligations.

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 \$0.9 million allowance for doubtful accounts at December 31, 2006.

21

Insurance receivables increased by \$3.6 million during the current quarter due to the completion of the work to restore the ATWOOD BEACON to its original condition prior to the July 2004 incident when the legs were damaged. The majority of the restoration work was completed in early calendar year 2005, at which time the rig was placed back into service. The current quarter repairs were needed to finish the final leg extensions to restore the rig to their original condition. We have insurance coverage to reimburse the costs of repairs and loss of hire coverage of \$70,000 per day. Approximately \$0.6 million of capitalized costs and \$1.0 million of other costs were incurred for the leg installation during the current quarter, while revenue recognized from the loss of hire coverage totaled \$2.6 million during the current quarter and is reflected as business interruption proceeds on the Consolidated Statement of Operations. We expect to collect the related insurance receivable during the next quarter.

Long-term deferred credits have increased by \$10.9 million during the current quarter primarily due to deferred fees associated with the upgrade of the ATWOOD FALCON. Lump sum fees received for upgrade costs reimbursed by our customers are reported as deferred credits in the accompanying Consolidated Balance Sheets and are recognized as earned on a straight-line method over the term of the related drilling contract.

22

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

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

All of the \$45 million of long-term debt outstanding at December 31, 2006, was floating rate debt. As a result, our annual interest costs in fiscal year 2007 will fluctuate based on interest rate changes. Because the interest rate on our long-term debt is a floating rate and due to our debt maturing in 2008, the fair value of our long-term debt approximated carrying value as of December 31, 2006. The impact on annual cash flow of a 10% change in the floating rate (approximately 70 basis points) would be approximately \$0.3 million, which we believe to be immaterial. We did not have any open derivative contracts relating to our floating rate debt at December 31, 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 December 31, 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 gain of approximately \$0.3 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 December 31, 2006.

23

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, regulations 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

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

affected, or is reasonably likely to materially affect, our internal control over financial reporting.

24

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

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 of Atwood Oceanics, Inc. 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 Fourth Amendment to Credit Agreement dated June 15, 2005 among the Company, Atwood Oceanics Pacific Limited and Nordea Bank Finland Plc and other Financial Institutions (Incorporated herein by reference to Exhibit 10.1 of our Form 8-K filed July 8, 2005).
- 10.2 Atwood Oceanics, Inc. Retention Plan for Certain Salaried Employees dated as of January 1, 2007 (Incorporated herein by reference to Exhibit 10.2.2 of our Form 10-K filed December 13, 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.

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

*Filed herewith

25

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: February 8, 2007

/s/JAMES M. HOLLAND_

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

26

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 of Atwood Oceanics, Inc. 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

Edgar Filing: ATWOOD OCEANICS INC - Form 10-Q

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 Fourth Amendment to Credit Agreement dated June 15, 2005 among the Company, Atwood Oceanics Pacific Limited and Nordea Bank Finland Plc and other Financial Institutions (Incorporated herein by reference to Exhibit 10.1 of our Form 8-K filed July 8, 2005).
- 10.2 Atwood Oceanics, Inc. Retention Plan for Certain Salaried Employees dated as of January 1, 2007 (Incorporated herein by reference to Exhibit 10.2.2 of our Form 10-K filed December 13, 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