ATWOOD OCEANICS INC
Form 10-Q
August 03, 2017

UNITED STATES
SECURITIES AND
EXCHANGE
COMMISSION
WASHINGTON, DC 20549

(Mark One) Form 10-Q

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____to _____

Commission file number 1-13167

ATWOOD OCEANICS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Texas	74-1611874
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
15011 Katy Freeway, Suite 800, Houston, Texas	77094
(Address of Principal Executive Offices including Zip Code)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (281) 749-7800

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated

filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

As of July 28, 2017, there were 80,458,655 shares of common stock, $1.00 par value per share, outstanding.

ATWOOD OCEANICS, INC.
FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017
TABLE OF CONTENTS

Part I. Financial Information		
Item 1.	Unaudited Condensed Consolidated Financial Statements	Page
a)	Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months ended June 30, 2017 and 2016	3
b)	Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months ended June 30, 2017 and 2016	3
c)	Unaudited Condensed Consolidated Balance Sheets as of June 30, 2017 and September 30, 2016	5
d)	Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity for the Nine Months Ended June 30, 2017	6
e)	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2017 and 2016	7
f)	Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	27
Item 4.	Controls and Procedures	27
Part II. Other Information		
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 6.	Exhibits	31
Signatures		32

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands, except per share amounts)	2017	2016	2017	2016
REVENUES:				
Contract drilling	$111,803	$217,818	$423,906	$794,979
Revenues related to reimbursable expenses	5,431	9,979	18,590	36,988
Total revenues	117,234	227,797	442,496	831,967
COSTS AND EXPENSES:				
Contract drilling	48,182	80,524	178,129	301,094
Reimbursable expenses	3,245	5,489	14,521	22,898
Depreciation	38,500	41,084	121,751	124,964
General and administrative	15,557	12,028	43,193	38,693
Asset impairment	211	(659)	59,173	64,773
Loss on sale of assets	379	—	261	77
Other, net	—	16	—	(1,044)
	106,074	138,482	417,028	551,455
OPERATING INCOME	11,160	89,315	25,468	280,512
OTHER (EXPENSE) INCOME:				
Interest expense, net of capitalized interest	(13,636)	(19,674)	(43,464)	(50,533)
Interest income	708	9	975	19
Gains on extinguishment of debt	—	50,466	—	58,863
Other income	—	—	—	17,976
	(12,928)	30,801	(42,489)	26,325
(LOSS) INCOME BEFORE INCOME TAXES	(1,768)	120,116	(17,021)	306,837
PROVISION FOR INCOME TAXES	2,581	20,611	6,520	45,814
NET (LOSS) INCOME	$(4,349)	$99,505	$(23,541)	$261,023
(LOSS) EARNINGS PER COMMON SHARE (NOTE 3):				
Basic	$(0.05)	$1.54	$(0.32)	$4.03
Diluted	$(0.05)	$1.53	$(0.32)	$4.02
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (NOTE 3):				
Basic	80,542	64,795	74,515	64,750
Diluted	80,542	64,847	74,515	64,852

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
3

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Net (loss) income	$(4,349)	$99,505	$(23,541)	$261,023
Other comprehensive (loss) income:				
Derivative financial instruments:				
Unrealized holding (losses)/gains	(42)	(452)	960	(5,214)
Loss reclassified to net income	188	351	947	3,032
Total other comprehensive income (loss)	146	(101)	1,907	(2,182)
Comprehensive (loss) income	$(4,203)	$99,404	$(21,634)	$258,841

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

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	June 30, 2017 (Unaudited)	September 30, 2016
ASSETS		
Cash	$474,313	$145,427
Accounts receivable, net	78,140	113,091
Income tax receivable	2,769	6,095
Inventories of materials and supplies, net	102,444	109,925
Prepaid expenses, deferred costs and other current assets	13,617	18,504
Total current assets	671,283	393,042
Property and equipment, net	4,137,741	4,127,696
Other receivables	11,831	11,831
Deferred income taxes	165	165
Deferred costs and other assets	7,174	7,058
Total assets	$4,828,194	$4,539,792
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$35,822	$25,299
Accrued liabilities	11,034	7,868
Interest payable	13,571	7,096
Income tax payable	7,239	8,294
Deferred credits and other liabilities	8,663	799
Total current liabilities	76,329	49,356
Long-term debt	1,298,136	1,227,919
Deferred income taxes	1,815	1,202
Deferred credits	12,429	—
Other	39,663	30,929
Total long-term liabilities	1,352,043	1,260,050
Commitments and contingencies (Note 9)		
Preferred stock, no par value, 1,000 shares authorized, none outstanding	—	—
Common stock, $1.00 par value, 180,000 shares authorized with 80,544 issued (Note 10) and outstanding as of June 30, 2017 and 180,000 shares authorized and 64,799 shares issued and outstanding as of September 30, 2016	80,544	64,799
Paid-in capital	413,831	237,542
Retained earnings	2,905,334	2,929,839
Accumulated other comprehensive loss	113	(1,794)
Total shareholders' equity	3,399,822	3,230,386
Total liabilities and shareholders' equity	$4,828,194	$4,539,792

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

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(In thousands)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
September 30, 2016	64,799	$64,799	$237,542	$2,929,839	$ (1,794)	$3,230,386
Net loss	—	—	—	(23,541)	—	(23,541)
Cumulative effect of accounting change (Note 1)	—	—	964	(964)	—	—
Other comprehensive income	—	—	—	—	1,907	1,907
Vesting of restricted stock and performance unit awards	220	220	(773)	—	—	(553)
Stock compensation expense	—	—	10,657	—	—	10,657
Common stock equity issuance	15,525	15,525	165,441	—	—	180,966
June 30, 2017	80,544	$80,544	$413,831	$2,905,334	$ 113	$3,399,822

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
6

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30,	
(In thousands)	2017	2016
Cash flows from operating activities:		
Net (loss) income	$(23,541)	$261,023
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	121,751	124,964
Amortization	4,357	2,407
Provision for doubtful accounts	2,472	4,619
Deferred income tax benefit	86	(378)
Share-based compensation expense	10,657	8,224
Asset impairment	59,173	64,753
Loss (gain) on sale of assets	261	(71)
Gain on extinguishment of debt	—	(58,863)
Other, net	—	(1,137)
Changes in assets and liabilities:		
Accounts receivable	32,479	121,964
Income tax receivable	3,326	511
Inventories of materials and supplies	(891)	12,988
Prepaid expenses, deferred costs and other current assets	6,324	19,377
Deferred costs and other assets	(6,440)	(1,019)
Accounts payable	911	(33,674)
Accrued liabilities	10,400	(3,274)
Income tax payable	(1,055)	(376)
Deferred credits and other liabilities	28,558	(6,623)
Net cash provided by operating activities	248,828	515,415
Cash flows from investing activities:		
Capital expenditures	(173,246)	(198,248)
Proceeds from sale of assets	2,338	20,813
Net cash used in investing activities	(170,908)	(177,435)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	125,000	45,000
Principal payments on long-term debt	(55,000)	(290,110)
Dividends paid	—	(21,746)
Payments related to exercise of stock options	—	(930)
Proceeds from issuance of common stock	180,966	—
Windfall tax benefits from share-based payment arrangements	—	14,797
Net cash provided by (used in) financing activities	250,966	(252,989)
Net increase in cash and cash equivalents	328,886	84,991
Cash and cash equivalents, at beginning of period	145,427	113,983
Cash and cash equivalents, at end of period	$474,313	$198,974
Non-cash activities:		
Increase in accounts payable related to capital expenditures	$9,612	$7,902

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
7

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—UNAUDITED INTERIM INFORMATION

The accompanying unaudited condensed consolidated financial statements of Atwood Oceanics, Inc. and its subsidiaries as of June 30, 2017 and for the three and nine months ended June 30, 2017 and 2016, have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Unless otherwise indicated, references to “we”, “us”, “our” and the “Company” refer collectively to Atwood Oceanics, Inc. and subsidiaries. The year-end Consolidated Balance Sheet data was derived from the audited financial statements as of September 30, 2016. 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 accounting principles generally accepted in the United States of America ("U.S.") have been condensed or omitted, we believe that the note disclosures are adequate to make the information not misleading. The interim financial results may not be indicative of results that could be expected for a full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended September 30, 2016. In our opinion, the unaudited interim financial statements reflect all adjustments considered necessary for a fair statement of our financial position, results of operations, changes in shareholders' equity, and cash flows for the periods presented.

Recently adopted accounting pronouncements
In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The ASU is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented in the statement of cash flows. The new guidance clarifies the classification of cash activity related to: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate and bank-owned life insurance policies, (6) distributions received from equity-method investments, and (7) beneficial interests in securitization transactions. This update is effective for annual and interim periods beginning after December 15, 2017. Effective October 1, 2016, we elected to early adopt ASU 2016-15. The adoption of ASU 2016-15 did not have an impact on our Unaudited Condensed Consolidated Statements of Cash Flows.
In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as part of its simplification initiative. The ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, classification of excess tax benefits on the statements of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities, and classification of employee taxes paid on the statements of cash flows when an employer withholds shares for tax-withholding purposes. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The standard contains various amendments, each requiring a specific method of adoption, and designates whether each amendment should be adopted using a retrospective, modified retrospective, or prospective transition method. Effective October 1, 2016, we elected to early adopt the ASU. The amendments within the ASU relate to the timing of when excess tax benefits are recognized and the accounting for forfeitures. We adopted this ASU using a modified retrospective method. In accordance with this method, we have recorded a cumulative-effect adjustment in our Unaudited Condensed Consolidated Balance Sheet as of October 1, 2016, relating to the timing of recognition of excess tax benefits, of $6.6 million to the beginning Retained earnings that was offset by an equal increase to Deferred tax assets valuation allowance of the same amount resulting in no impact on Retained earnings. We also recorded a cumulative-effect adjustment in our Unaudited Condensed Consolidated Balance Sheet as of October 1, 2016, to reflect actual forfeitures versus the previously-estimated forfeiture rate, of $1.0 million reduction to the Retained earnings with an offset to Paid-in capital. The amendments within the ASU related to the recognition of excess tax

benefits and tax shortfalls in the income statement and presentation of excess tax benefits on the statements of cash flows were adopted prospectively, with no impact to prior periods.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Amendments for the Balance Sheet Classification of Deferred Income Taxes. The amended guidance requires the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Deferred tax assets and liabilities will continue to be offset and presented as a single amount under the amended guidance. The effective date for public business entities is for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Effective October 1, 2016, we elected to early adopt the ASU on a prospective basis. The adoption of the ASU did not have a material impact on our Condensed Consolidated Balance Sheet.

Recently issued accounting pronouncements

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The new guidance clarifies that no new measurement date will be required if there is no change to the fair value, vesting conditions, and classification. This update is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The ASU eliminates the exception to defer the tax effect for all intra-entity sales of assets other than inventory until the transferred asset is sold to a third party or otherwise recovered through use. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer’s jurisdiction would also be recognized at the time of the transfer. This update is effective for annual and interim periods beginning after December 15, 2017. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other
financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt
securities and other financial assets measured at fair value through other comprehensive income/(loss), and (4) beneficial interests in securitized financial assets. This update is effective for annual and interim periods beginning after December 15, 2019. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842): Amendments to the FASB Accounting Standards Codification. The amendments require an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key qualitative and quantitative information about the entity's leasing arrangements. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. A modified retrospective approach is required. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The new guidance requires management to assess a company’s ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Disclosures are required when conditions give rise to substantial doubt. Substantial doubt is deemed to exist when it is probable that the company will be unable to meet its obligations within one year from the financial statement issuance date. The new guidance is effective for the annual period ending after December 15, 2016, and all annual and interim periods thereafter. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenues from Contracts with Customers (Topic 606): A new guidance intended to change the criteria for recognition of revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to clients in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We have not yet adopted nor selected a transition method and are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

NOTE 2—ACCOUNTS RECEIVABLE AND LONG TERM CONTRACTS

Accounts Receivable

We record accounts receivable at the amount we invoice our clients. Our clients are major international corporate entities and government organizations with stable payment experience. Historically, our uncollectible accounts receivable have been immaterial, and typically, we do not require collateral for our receivables. We provide an allowance for uncollectible accounts, as necessary, on a specific identification basis. Our allowance for doubtful accounts as of June 30, 2017 and September 30, 2016

was $2.4 million and $1.2 million, respectively. Our provision for doubtful accounts for the three and nine months ended June 30, 2017 was $0.1 million and $2.5 million, and for the three and nine months ended June 30, 2016 was $3.4 million and $4.6 million, respectively. The provision for doubtful accounts is reported as a component of Contract drilling costs in our Unaudited Condensed Consolidated Statements of Operations.

Long Term Contracts

In January 2017, the client for the Atwood Achiever exercised its option provided as part of the "blend and extend" agreement we entered into in October 2015 to revert the contract to the original operating day rate and original end date. Exercise of this option resulted in a one-time payment to us of $48.1 million that includes the difference in day rates, taxes, and administrative fees covering the time periods for which the reduced day rate was applicable for previously provided drilling services, and is reported as a component of Contract drilling revenue in our Unaudited Condensed Consolidated Statements of Operations for the nine months ended June 30, 2017. Effective February 1, 2017 and continuing until the contract end date of approximately November 12, 2017, the operating day rate is $595,000.

NOTE 3—EARNINGS (LOSS) PER COMMON SHARE

The computation of basic and diluted earnings (loss) per share for the three and nine months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended			Nine Months Ended		
(In thousands, except per share amounts)	Net (Loss) Income	Shares	Per Share Amount	Net (Loss) Income	Shares	Per Share Amount
June 30, 2017						
Basic (loss) earnings per share	$(4,349)	80,542	$ (0.05)	$(23,541)	74,515	$ (0.32)
Effect of dilutive securities:						
Restricted stock and performance units	—	—	—	—	—	—
Diluted (loss) earnings per share	$(4,349)	80,542	$ (0.05)	$(23,541)	74,515	$ (0.32)
June 30, 2016						
Basic earnings per share	$99,505	64,795	1.54	261,023	64,750	$ 4.03
Effect of dilutive securities:						
Restricted stock and performance units	—	52	(0.01)	—	102	(0.01)
Diluted earnings per share	$99,505	64,847	$ 1.53	$261,023	64,852	$ 4.02

Potential dilutive common shares outstanding for stock-based awards totaling 716 thousand and 481 thousand Shares were considered in the calculation of diluted weighted-average shares for the three and nine months ended June 30, 2017, respectively; however, due to our net loss position, those shares have not been reflected above because they would be anti-dilutive.

For the purpose of calculating diluted earnings per share for the three and nine months ended June 30, 2017, there were approximately 2,811,956 and 3,046,982 anti-dilutive securities, respectively, and for the three and nine months ended June 30, 2016, there were approximately 2,377,436 and 2,070,774 anti-dilutive securities, respectively.

NOTE 4—PROPERTY AND EQUIPMENT

A summary of property and equipment by classification is as follows:

(In thousands)	June 30, 2017	September 30, 2016
Drilling vessels and equipment	$3,775,450	$ 3,898,686
Construction work in progress	1,010,092	857,572

Drill pipe	51,334	52,543
Office equipment and other	39,173	39,213
Total cost	4,876,049	4,848,014
Less: Accumulated depreciation	(738,308)	(720,318)
Property and equipment, net	$4,137,741	$4,127,696

Impairments

In February 2017, we agreed with Woodside Energy Ltd (“Woodside”) to (i) substitute the Atwood Condor for the Atwood Osprey, offshore Australia, for approximately 550 days starting, at the latest, March 2018 and (ii) utilize the Atwood Osprey for an additional exploration well with an estimated duration of approximately 100 days. As a result, the Atwood Condor was joining the Atwood Osprey and the Atwood Eagle as one of our three rigs available to provide drilling services to clients in the Australian/Southeast Asian markets. Due to the age, specifications and marketability of the Atwood Eagle relative to the Atwood Condor and Atwood Osprey, the Atwood Eagle was positioned behind each of those two rigs to bid for contracting opportunities in the Australian/Southeast Asian markets at such time. Based on the foregoing and our ongoing review of market conditions in the region, we determined that the Atwood Eagle was less likely to obtain future drilling contracts that would provide sufficient financial returns to justify keeping the drilling rig in a marketable condition within our existing fleet. Based on our analysis, we concluded that the Atwood Eagle and its materials and supplies were impaired as of March 31, 2017, and we wrote them down to their approximate salvage value. We recorded a non-cash impairment charge of approximately $59.2 million ($57.8 million, net of tax, or $0.72 per diluted share), which is included in Asset Impairment on the Unaudited Condensed Consolidated Statement of Operations for the nine months ended June 30, 2017. This impairment charge included a write-down of property and equipment and deferred costs of $49.6 million, a write-down of our inventory of materials and supplies that was specific to the Atwood Eagle of $8.4 million, and accrued estimated transaction costs of $1.0 million. On May 5, 2017, we executed a sale and recycling agreement with respect to the Atwood Eagle, pursuant to which the vessel, together with associated equipment and machinery will be sold to a third party to be demolished and recycled. We expect that the sale of the rig will be finalized in September 2017.

The Atwood Falcon completed the contract under which it was working in early March 2016. Based on the lack of contracting opportunities and the further deterioration of commodity prices, we determined that it was not likely that additional work would be obtained in the foreseeable future. Based on our analysis, we concluded that the Atwood Falcon and its materials and supplies were impaired as of December 31, 2015, and we wrote them down to their approximate salvage value. We recorded a non-cash impairment charge of approximately $64.7 million ($64.7 million net of tax, or $1.00 per diluted share), which is included in Asset Impairment on the Unaudited Condensed Consolidated Statement of Operations for the nine months ended June 30, 2016. This impairment charge includes a write-down of property and equipment of $53.0 million and a write-down of our inventory of materials and supplies specific to the Atwood Falcon of $11.7 million. In April 2016, we completed the sale of the Atwood Falcon.

As of June 30, 2017, we had expended approximately $980 million towards our two ultra-deepwater drillships under construction at the Daewoo Shipbuilding and Marine Engineering Co. ("DSME") shipyard in South Korea. Remaining expected capital expenditure for these two drillships under construction, including costs associated with the second Blowout Preventer stack ("BOP"), totaled approximately $324 million at June 30, 2017. On December 5, 2016, we entered into supplemental agreements (collectively, "Supplemental Agreement No. 5") to the construction contracts with DSME which delay our requirements to take delivery of our two newbuild ultra-deepwater drillships, the Atwood Admiral and the Atwood Archer, by two years to September 30, 2019 and June 30, 2020, respectively. Supplemental Agreement No. 5 amends all material terms of the previous supplemental agreements. In consideration of Supplemental Agreement No. 5, we made a payment of $125 million for the Atwood Archer on December 13, 2016 and will make an additional interim payment of $15 million on the earlier of June 30, 2018 or the delivery date. With respect to the Atwood Admiral, we will make a payment of $10 million on the earlier of September 30, 2017 or the delivery date. Remaining milestone payments, $83.9 million for the Atwood Admiral and $165 million for the Atwood Archer, have been extended until December 30, 2022 through our ability to choose to finance such amounts in the form of promissory notes to be entered into on the delivery dates for each vessel bearing interest at a rate of 5% per annum and to be secured by a mortgage on the respective drillship. We have the option to take earlier delivery of each vessel, upon 45 days' notice.

Other Income

During the nine months ended June 30, 2016, we recognized approximately $18.0 million ($18.0 million, net of tax, or $0.28 per diluted share) of expected insurance recoveries related to cyclone damage to the Atwood Osprey. This amount is included in Other income on the Unaudited Condensed Consolidated Statement of Operations and was subsequently collected.

Construction Projects

During the three months ended June 30, 2017, Hydril USA Distribution, LLC ("GE") completed the manufacturing and delivery of the second BOP and an Auxiliary Stack Test System ("ASTS") for the Atwood Condor. Total consideration for this agreement is approximately $19 million with 20% paid upon placement of the purchase order which occurred in the three months ended June 30, 2016 and the remaining 80% was accrued in Accounts payable as of June 30, 2017 on the Unaudited Condensed Consolidated Balance Sheet.

The capital spare parts we provided to GE to be used in the manufacturing process were replenished by GE with similar capital spares with delivery of the BOP.

NOTE 5—DEBT

A summary of long-term debt is as follows:

(In thousands)	June 30, 2017	September 30, 2016
6.5% Senior Notes due 2020 ("Senior Notes") aggregate principal amount	$448,650	$448,650
Senior Notes unamortized premium	2,568	3,245
Senior Notes unamortized debt issuance costs	(3,082)	(3,976)
Total Senior Notes	448,136	447,919
Revolving Credit Facility ("Credit Facility")	850,000	780,000
Total long-term debt	$1,298,136	$1,227,919

Revolving Credit Facility

As of June 30, 2017, our Credit Facility had $1.395 billion of total commitments and $850 million of outstanding borrowings. As of June 30, 2017, we had approximately $518 million available for borrowings without violating financial covenants. Approximately $275 million of the commitments under the Credit Facility mature in May 2018 with the remaining $1.12 billion of the commitments maturing in May 2019. We were in compliance with all financial covenants under the Credit Facility as of June 30, 2017 and September 30, 2016, and we anticipate that we will continue to be in compliance for at least twelve months subsequent to the date our financial statements are issued.

The weighted-average effective interest rate on our long-term debt was approximately 5.1% per annum as of June 30, 2017. The effective rate was determined after giving consideration to the effect of our interest rate swaps accounted for as hedges and the amortization of our debt issuance costs and debt premiums. Interest capitalized for the three and nine months ended June 30, 2017 was approximately $6.8 million and $18.8 million, respectively. Interest capitalized for the three and nine months ended June 30, 2016 was approximately $4.2 million and $12.8 million, respectively.

NOTE 6—FAIR VALUE OF FINANCIAL INSTRUMENTS

We have certain assets and liabilities that are required to be measured and disclosed at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

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

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

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

Fair value of Certain Assets and Liabilities

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

Fair Value of Financial Instruments

Independent third party services are used to determine the fair value of our financial instruments using quoted market prices and observable inputs. When independent third party services are used, we obtain an understanding of how the fair values are derived and selectively corroborate fair values by reviewing other readily available market based sources of information.

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

Senior Notes - The carrying value of our Senior Notes, net of unamortized premium, is $451.2 million ($448.7 million principal amount) while the fair value of our Senior Notes was $439.3 million at June 30, 2017. The fair value is determined by a market approach using quoted period-end bond prices. We have classified this as a Level 2 fair value measurement as valuation inputs for fair value measurements are quoted market prices at June 30, 2017 that can only be obtained from independent third party sources. The fair value amount has been calculated using these quoted prices. However, no assurance can be given that the fair value would be the amount realized in an active market exchange.

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

Derivative financial instruments— Our derivative financial instruments consist of our interest rate swaps. We record our derivative contracts at fair value on our Unaudited Condensed Consolidated Balance Sheet. The fair values of our interest rate swaps are based upon valuations calculated by an independent third party. The derivatives were valued according to the "Market approach" where possible, and the "Income approach" otherwise. A third party independently valued each instrument using forward price data obtained from reputable data providers (e.g., Bloomberg and Reuters) and reviewed market activity and similarity of pricing terms to determine appropriate reliability level assertions for each instrument. The contribution of the credit valuation adjustment to total fair value is less than 1% for all derivatives and is therefore not significant. Based on valuation inputs for fair value measurement and independent review performed by third party consultants, we have classified our derivative contracts as Level 2 as they were valued based upon observable inputs from dealer markets.

The following table sets forth the estimated fair value of our derivative financial instruments, for which we elected hedge accounting, as of June 30, 2017 and September 30, 2016, by location and hedge type, which are measured and recorded at fair value on a recurring basis:

(In thousands)	Balance Sheet Classification	June 30, 2017	September 30, 2016
Derivative assets designated as cash flow hedging instruments:			
Short-term interest rate swaps asset	Prepaid expenses, deferred costs and other current assets	$ 113	$ —
Derivative liabilities designated as cash flow hedging instruments:			
Short-term interest rate swaps	Accrued liabilities	—	(1,312)
Long-term interest rate swaps	Other long-term liabilities	—	(482)
Total derivative contracts, net		$ 113	$ (1,794)

NOTE 7—SHARE-BASED COMPENSATION

A summary of our share-based compensation expense recognized during the nine months ended June 30, 2017 and 2016 and unrecognized compensation cost and remaining weighted-average service period as of June 30, 2017 and 2016 is as follows:

(In thousands, except average service periods)	Nine Months Ended June 30, 2017	2016
Share-based compensation recognized	$10,657	$8,224
Unrecognized compensation cost, net of estimated forfeitures	18,298	18,085
Remaining weighted-average service period (years)	1.7	1.9

Restricted Stock Units

During the nine months ended June 30, 2017, we granted to certain employees and our non-employee directors, restricted stock units that are subject to vesting conditions. The grant date fair value of these awards was based on the fair value of our common stock on the date of grant. A summary of our restricted stock activity for the nine months ended June 30, 2017 is as follows:

	Number of Shares (000s)	Weighted Average Fair Value
Unvested as of October 1, 2016	1,515	$ 21.96
Granted	1,126	7.92
Vested	(232)	38.01
Forfeited	(97)	16.32
Unvested as of June 30, 2017	2,312	13.74

Performance Units

During the nine months ended June 30, 2017, we granted to certain employees share-based awards that are subject to market-based performance conditions ("Performance Units"). The grant date fair value of these Performance Units was determined through use of the Monte Carlo simulation method. A summary of Performance Units stock activity for the nine months ended June 30, 2017 is as follows:

	Number of Shares (000s)	Weighted Average Fair Value
Unvested as of October 1, 2016	426	$ 26.69
Granted	360	8.50
Vested	(47)	53.55
Forfeited	(61)	24.87
Unvested as of June 30, 2017	678	15.31

Stock Options

A summary of stock option activity for the nine months ended June 30, 2017 is as follows:

	Number of Options (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (000s)
Outstanding as of October 1, 2016	617	$ 35.47	3.4	$(16,533)
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	(68)	27.18	—	(1,297)
Outstanding as of June 30, 2017	549	36.50	3.0	(15,570)
Exercisable as of June 30, 2017	549	36.50	3.0	(15,570)

NOTE 8— INCOME TAXES

We have historically calculated the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pretax income or loss

excluding unusual or infrequently occurring discrete items) for the reporting period. Beginning with this reporting year, we switched to a discrete effective tax rate method to calculate taxes. We determined that since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate that the historical annualized method would not provide a reliable estimate of our effective tax rate. We anticipate that we will utilize the discrete effective tax rate method to calculate taxes for the remainder of the fiscal year.

Our estimated consolidated effective income tax rate for the three and nine months ended June 30, 2017 was approximately (146)% and (38)%, respectively, as compared to 17% and 15% for the three and nine months ended June 30, 2016, respectively. The effective tax rate for the three and nine months ended June 30, 2017 was negative as compared to three and nine months ended June 30, 2016, as a result of losses incurred in jurisdictions for which there was no corresponding tax benefit. This included the second quarter non-cash impairment charge against the Atwood Eagle as the charge did not result in a corresponding reduction to our provision for income tax.

Our effective tax rate was lower than the U.S. statutory rate primarily due to to working in certain lower tax rate jurisdictions outside the United States. We record estimated accrued interest and penalties related to uncertain tax positions as income tax expense. As of June 30, 2017, we had approximately $16.8 million of reserves for uncertain tax positions, including estimated accrued interest and penalties of $4.0 million, which are included in Other long-term liabilities in the Unaudited Condensed Consolidated Balance Sheet. None of our reserves for uncertain tax positions relate to timing differences. All of the net uncertain tax liabilities would affect the effective tax rate if realized.

NOTE 9—COMMITMENTS AND CONTINGENCIES

Litigation

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

The Company is currently involved in litigation relating to the Merger (See Note 11 to the Unaudited Condensed Consolidated Financial Statements). See Part II Item 1. Legal Proceedings for more information on legal matters.

NOTE 10—SHAREHOLDERS' EQUITY

Equity Offering

On January 13, 2017, we issued, in a public offering, 15,525,000 shares of common stock. The net proceeds from the offering, before deducting estimated offering expenses, were approximately $181 million. The net proceeds are currently held as cash and are expected to be used for general corporate purposes, which may include the repayment of borrowings under the Credit Facility, the funding of future purchases or redemption of our Senior Notes, working capital and capital expenditures, and otherwise to enhance our liquidity.

NOTE 11—MERGER AGREEMENT WITH ENSCO PLC

On May 29, 2017 the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Ensco plc (“Ensco”) and Echo Merger Sub LLC, a wholly owned subsidiary of Ensco (“Merger Sub”), pursuant to which Ensco will acquire the Company in an all-stock transaction.

The Merger Agreement provides that Merger Sub will merge with and into the Company (the “Merger”), with the Company continuing as the surviving company and a wholly owned subsidiary of Ensco. Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of Company common stock, par value $1.00 per share (the “Company Common Stock”) (other than shares of Company Common Stock held by Ensco, Merger Sub or the Company), will be converted into the right to receive 1.60 validly issued, fully paid and nonassessable Class A ordinary shares of Ensco, nominal value $0.10 (the “Ensco Shares”).

The board of directors of the Company has unanimously approved and adopted the Merger Agreement and has agreed, subject to certain exceptions set forth in the Merger Agreement, to recommend that the Company's shareholders approve the Merger. Each of the Company and Ensco has also agreed not to directly or indirectly solicit competing acquisition proposals or, subject to certain exceptions with respect to unsolicited proposals that may be deemed to be "superior proposals," to enter into discussions concerning, or provide confidential information in connection with, any alternative business combinations. The Merger Agreement further provides that, upon termination of the Merger Agreement under certain circumstances, the Company or Ensco may be required to reimburse the other party for its expenses in an amount up to $10 million. Further, the Merger Agreement provides that, upon termination of the Merger Agreement under certain circumstances, Ensco may be required to pay the Company a reverse termination fee in an amount equal to $50 million (less any expenses reimbursed by Ensco), and the Company may be required to pay Ensco a termination fee in an amount equal to $30 million (less any expenses reimbursed by the Company).

The Merger Agreement contains customary representations, warranties and covenants by the Company, Merger Sub and Ensco. The Merger Agreement also contains customary pre-closing covenants, including the obligation of the Company and Ensco to conduct their respective businesses in the ordinary course of business and to refrain from taking specified actions without the consent of the other party.

Completion of the Merger is subject to certain customary conditions, including approval of the allotment and issuance of Ensco Shares by Ensco's shareholders, approval of the Merger by both the Company's and Ensco's shareholders, and receipt of required regulatory approvals. The Merger is expected to close in the calendar third quarter of 2017.

The Company is currently involved in litigation relating to the Merger. See Part II Item 1. Legal Proceedings for more information on legal matters.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements as of June 30, 2017 and for the nine months ended June 30, 2017 and 2016 included in this report and with our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 and elsewhere in this report. See "Forward-Looking Statements" below.

OVERVIEW

Financial and operating results for the three and nine months ended June 30, 2017 and 2016, include:

- Operating revenues totaling $117 million and $442 million on 337 and 984 operating days for the three and nine months ended June 30, 2017, respectively, as compared to operating revenues of $228 million and $832 million on 778 and 1,570 operating days for the three and nine months ended June 30, 2016, respectively;
- Net loss of $4 million and $24 million for the three and nine months ended June 30, 2017, respectively, as compared to net income of $100 million and $261 million for the three and nine months ended June 30, 2016, respectively;
- Capital expenditures of $173 million for the nine months ended June 30, 2017, as compared to capital expenditures of $198 million for the nine months ended June 30, 2016; and
- Increase in cash on hand of $329 million for the nine months ended June 30, 2017 to $474 million.

Merger Agreement

On May 29, 2017, the Company entered into the Merger Agreement with Ensco and Merger Sub, pursuant to which Ensco will acquire the Company in an all-stock transaction. See Note 11 to the Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

MARKET OUTLOOK

Industry Conditions

The level of activity in the offshore drilling industry, which affects the sector's profitability, is cyclical and highly dependent on the offshore capital expenditure levels of exploration and production ("E&P") companies. In turn, E&P company offshore drilling expenditures are influenced by the current prices of oil and gas, expectations about future prices, company-specific cash flow levels, historical project returns and other capital allocation strategies (e.g., onshore versus offshore drilling).

The offshore drilling industry remains in the midst of a very severe downturn that began in the second half of calendar year 2014. Since that time, the industry has experienced declining demand for drilling rigs that has been exacerbated by a sharp decline in oil prices. E&P companies generally reduced their offshore capital spending in 2015 and 2016 by canceling or deferring planned drilling programs, and this trend is expected to continue into the second half of calendar year 2017. Since declining to multi-year lows below $30 per barrel in early 2016, Brent oil prices recovered modestly during the latter part of 2016 and ranged between $46 and $52 per barrel in July 2017. We expect offshore rig demand to remain flat or decline from current levels during the remainder of calendar year 2017. Declines in offshore drilling demand and the associated reductions in rig utilization and day rates could materially and adversely affect our financial position, results of operation or cash flows. See "Our business depends on the level of activity in the oil and natural gas industry, which is significantly impacted by the volatility in oil and natural gas prices" under "Risk Factors" Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

Even as offshore rig demand declined from the peak levels in calendar year 2014, some drilling contractors continued to take delivery of new, more capable rigs that were ordered prior to the industry downturn. However, over the past year, drilling contractors have generally delayed further rig deliveries, especially for uncontracted rigs, through renegotiation of terms with the shipyards that are constructing these rigs. Due to the confluence of an oversupply of offshore rigs and declining rig demand, a lower percentage of marketed rigs are being re-contracted, and day rates and utilization have declined sharply across all offshore rig classes. While

clients generally prefer newer, high specification rigs over older, less capable rigs, many newer floaters and jackups have been idled or cold-stacked as drilling demand has declined across all regions, water depths and rig classes. The bifurcation trend of higher utilization rates for newer, more capable rigs has been generally muted, but has been maintained more consistently for floaters than for jackups.

Due to the uncertain duration of the current industry downturn, a growing number of older, less capable rigs have been permanently removed from the marketed supply of rigs by virtue of being scrapped, announced for scrapping, or cold stacked. Even with the permanent removal of approximately 46 ultra-deepwater and deepwater floaters and 35 jackups (including high and standard specification rigs) from the supply stack since the beginning of calendar year 2016, further declines in rig utilization and day rates are possible due to the persistent oversupply of offshore rigs relative to demand.

Consistent with our policy, we evaluate our drilling rigs and related equipment for impairment whenever events or changes in circumstances indicate the carrying value of these assets may exceed the estimated future net cash flows. Our evaluation, among other things, includes a review of external market factors and an assessment on the future marketability of a specific drilling unit. Further declines in offshore drilling demand, and/or a lack of improvement in drilling activity or day rates, may result in potential impairments to our drilling rigs and related equipment in the future. See "We may be required to record impairment charges with respect to our rigs" under "Risk Factors" Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

A current trend of some E&P companies to cancel, renegotiate, or repudiate existing drilling contracts has continued into 2017. In January 2017, the client for the Atwood Achiever exercised its option provided as part of a “blend and extend” agreement negotiated with the client in October 2015 to revert the contract to the original operating day rate and original contract end date.

Some of our contracts with clients may be canceled at the option of the client upon payment of a termination fee which may not fully compensate us for the loss of the contract and may result in a rig being idled for an extended period of time. In addition, some of our clients could experience liquidity or solvency issues or could otherwise be unable or unwilling to perform under a contract, which could ultimately lead a client to enter bankruptcy or otherwise encourage a client to seek to repudiate, cancel or renegotiate a contract. Further deterioration in cash flow generation by E&P companies may accelerate these trends. If our clients seek to cancel or renegotiate our significant contracts and we are unable to negotiate favorable terms or secure new contracts on substantially similar terms, or at all, our revenues and profitability could be materially reduced. See "Our business may experience reduced profitability if our clients terminate or seek to renegotiate our drilling contracts" under "Risk Factors" Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

Ultra-deepwater and Deepwater Rig Markets

Both the ultra-deepwater and deepwater rig markets have experienced declining demand, utilization and day rates since the second half of calendar year 2014. As of July 6, 2017, 87 ultra-deepwater rigs were under contract industry-wide (versus 104 on July 6, 2016) representing 69% utilization of a total of 127 actively marketed rigs. The number of marketed deepwater rigs under contract decreased to 19 (from 20 on July 6, 2016), which represents 59% utilization of the 32 active rigs. Declines in the percentage of marketed rigs under contract have been driven by reduced rig demand across all geographic regions coupled with an increase in marketed supply due to deliveries of newbuild rigs, primarily from South Korean and Singaporean shipyards.

As of July 6, 2017, 30 ultra-deepwater floaters were under construction with scheduled deliveries through April 2021, eight of which were contracted. However, this figure includes six floaters under long-term contracts with Petrobras, some or all of which may be delayed, repudiated, or canceled. In response to reduced rig demand and lack of suitable drilling programs, we and other drilling contractors have delayed delivery of uncontracted ultra-deepwater rigs under construction. Ten ultra-deepwater rigs are scheduled for delivery during the remainder of calendar year 2017 and an additional 20 units are scheduled for delivery in calendar year 2018 and beyond.

The number of offshore floaters permanently removed from the marketed supply of rigs has continued to increase due to the challenging market conditions. Since the beginning of calendar year 2016, 28 ultra-deepwater rigs and 18 deepwater rigs were announced for cold-stacking, retirement or scrapping and are no longer being actively marketed. Further attrition of marketed supply may continue during the remainder of calendar year 2017.

17

Our Ultra-deepwater Rigs and Deepwater Rigs

The Atwood Achiever, a dynamically positioned, ultra-deepwater drillship, is operating offshore Northwest Africa and currently contracted through November 2018. In January 2017, our client exercised its option to revert the contract to its original day rate and original contract end date of November 2017. Under the existing contract the current well in progress is estimated to be completed in January 2018.

The Atwood Advantage, a dynamically positioned, ultra-deepwater drillship, completed its drilling contract in the Mediterranean Sea on July 31, 2017. The rig is scheduled to be idled quayside in Spain.

The Atwood Condor, a dynamically positioned, ultra-deepwater semisubmersible, is quayside in Singapore, where it is undergoing maintenance and project preparation activities prior to commencing drilling services for a development drilling program in Australia scheduled to begin in January 2018.

The Atwood Osprey, an ultra-deepwater semisubmersible, is in Australia and transiting to commence a one well contract in August 2017 that is estimated to continue until November 2017. The rig also has a contract beginning in March 2018 for an expected duration of approximately 100 days.

The Atwood Eagle is currently idle in Singapore and is no longer being actively marketed for a new drilling contract. On May 5, 2017, we executed a sale and recycling agreement with respect to the Atwood Eagle, pursuant to which the vessel, together with associated equipment and machinery, will be sold to a third party to be demolished and recycled. We expect that the sale of the rig will be finalized in September 2017. See Note 4 to the Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

The Atwood Admiral and Atwood Archer are DP-3 dynamically-positioned, dual derrick, ultra-deepwater drillships rated to operate in water depths up to 12,000 feet and are currently under construction at the DSME shipyard in South Korea. These drillships will have enhanced technical capabilities, including two seven-ram BOPs, three 100-ton knuckle boom cranes, a 165-ton active heave “tree-running” knuckle boom crane and 200 person accommodations. Total cost, including project management, drilling and handling tools and spares, is approximately $635 million per drillship.

The Atwood Admiral and Atwood Archer were originally scheduled to be delivered in March 2015 and December 2015, respectively. Due to lack of suitable drilling programs, we have not yet secured the initial drilling contracts for these rigs. In December 2016, we entered into an amendment to delay the required delivery date of these two rigs to September 30, 2019 and June 30, 2020, respectively. We are unable to provide any assurance that we will obtain drilling contracts for these rigs prior to their delivery. See “Risks Related to our Business will be adversely affected if we are unable to secure contracts on economically favorable terms” under Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. Also, see Note 4 to our Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report for further details regarding the remaining payments to be made with respect to these two drillships.

Jackup Rig Market

The jackup market is experiencing similar utilization, demand and day rate challenges as the floater market. Declining rig demand coupled with delivery of newbuild rigs, primarily from shipyards in China and Singapore, has negatively impacted the jackup rig supply and demand balance worldwide. In the current market downturn, all classes of jackup rigs have experienced lower day rates and utilization. The bifurcation trend that has historically favored utilization of new, higher specification jackups at the expense of older, lower specification jackups is generally not being maintained as clients have become much more price sensitive and are drilling fewer technically challenging wells. As of July 6, 2017, the percentage of marketed high specification jackup rigs (i.e., rigs equal to or greater than 350-foot water depth capability) under contract was approximately 65%, as compared to 67% for the remainder of the global jackup fleet.

We expect that the potential for further increases in global jackup supply due to delivery of high specification newbuild rigs may apply additional pressure on jackup rig utilization and day rates. As of July 6, 2017, there were 99 newbuild jackup rigs under construction (versus 117 on July 6, 2016), most of which are being constructed in China and many of which are owned by speculators or the constructing shipyards. Of the 27 jackup rigs scheduled for delivery in the remainder of calendar year 2017, only one is contracted, while the remaining 98 rigs are scheduled for delivery primarily in calendar year 2018 and beyond. Similar to what has occurred with newbuild floaters, many of these scheduled jackup deliveries are expected to be delayed and/or canceled. Absent a strong recovery in high

specification jackup rig demand and/or a significant reduction in jackup rig supply due to cold-stacking, scrapping or retirements, the marketed supply of jackups is likely to exceed client requirements throughout calendar year 2017. Through July 6, 2017, 14 high specification jackups and 21 standard jackups have been cold-stacked, scrapped or retired since the beginning of calendar year 2016. Marketed supply attrition may continue throughout calendar year 2017.

Our High Specification Jackup Rigs

The Atwood Mako and Atwood Manta, both 400-foot water depth Pacific Class jackup rigs, operated offshore Vietnam through September 2015 and offshore Thailand through October 2015, respectively. Both were idled in the Philippines in October 2015 after they completed their contracts and were unable to obtain follow-on work. The Atwood Beacon, a 400-foot water depth jackup, completed operations in the Mediterranean Sea in August 2016 and is currently idle in Malta. The Atwood Aurora, a 350-foot water depth jackup, completed operations offshore West Africa in September 2016 and is also idle in Malta. We continue to actively market these four high-specification jackup rigs while they are idle.

The Atwood Orca, a 400-foot water depth Pacific Class jackup completed operations in offshore Thailand in October 2016 and was subsequently idled in Singapore where it underwent maintenance and project preparation activities. In January 2017, the rig entered into a one-year contract in Thailand which commenced in April 2017.

Contract Backlog

We maintain a backlog of commitments for contract drilling revenues. Our contract backlog as of June 30, 2017 was approximately $293 million representing a 70% decrease compared to our contract backlog of $1.0 billion as of June 30, 2016 primarily due to realization of contract backlog. We calculate our contract backlog by multiplying the day rate under our drilling contracts by the number of days remaining under the contract, assuming full utilization. The calculation does not include any revenues related to mobilization, demobilization, contract preparation, reimbursable items or bonuses. The amount of actual revenues earned and the actual periods during which revenues are earned will be different from the amounts disclosed in our backlog calculations due to a lack of predictability of various factors, including newbuild rig delivery dates, client elected standby periods, unscheduled repairs, maintenance requirements, weather delays and other factors. Such factors may result in lower applicable day rates than the full contractual day rate and/or delays in receiving the full contractual operating rate. In addition, under certain circumstances, our clients may seek to terminate, repudiate or renegotiate our contracts, which could have the effect of reducing our contract backlog. See “Risks Related to our Business-Our business may experience reduced profitability if our clients terminate, repudiate, or renegotiate our drilling contracts” and "Our current backlog of contract drilling revenue may not be fully realized, and the periods which revenues are earned may vary" under Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

The following tables set forth the amount of our contract drilling revenue backlog and the percentage of available operating days committed for our fleet, excluding drilling units under construction and the Atwood Eagle. On May 5, 2017, we executed a sale and recycling agreement with respect to the Atwood Eagle, pursuant to which the vessel, together with associated equipment and machinery will be sold to a third party to be demolished and recycled. See Note 4 to the Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

Contract Drilling Revenue Backlog[1]	Remaining Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Total
(In millions)						
Ultra-deepwater[2]	$ 104	$ 110	$ 64	$ —	$ —	$ 278
Jackups	5	10	—	—	—	15
Total	$ 109	$ 120	$ 64	$ —	$ —	$ 293

Percentage of Available Operating Days Committed[1]	Remaining Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
Ultra-deepwater[2]	83 %	33 %	14 %	—%	—%
Jackups	20 %	11 %	— %	—%	—%
Total	43 %	21 %	6 %	—%	—%

[1] With the sale of the Atwood Eagle, the Company no longer operates deepwater drilling rigs and as such, the Deepwater classification has been removed from the tables above.
[2] See Note 2 for recent contract activity included in contract backlog.

RESULTS OF OPERATIONS

Revenues—Revenues for the three and nine months ended June 30, 2017 decreased approximately $111 million and $390 million, or 49% and 47%, respectively, as compared to the three and nine months ended June 30, 2016. An analysis of revenues by rig category is as follows:

	REVENUES					
	Three Months Ended June 30,			Nine Months Ended June 30,		
(In millions)	2017	2016	Variance	2017	2016	Variance
Ultra-Deepwater	$109	$182	$ (73)	$419	$553	$ (134)
Deepwater	—	—	—	—	131	(131)
Jackups	3	36	(33)	5	111	(106)
Reimbursable	5	10	(5)	18	37	(19)
	$117	$228	$ (111)	$442	$832	$ (390)

Our ultra-deepwater fleet realized average revenues of $399,000 per day on 273 operating days for the three months ended June 30, 2017, as compared to $500,000 per day on 364 operating days for the three months ended June 30, 2016. The ultra-deepwater fleet realized average revenues of $470,000 per day on 892 operating days, as compared to $514,000 per day on 1,076 operating days for the nine months ended June 30, 2017 and 2016, respectively. The decrease in total revenues for the three months ended June 30, 2017 was primarily due to the Atwood Condor completing its drilling contract in January 2017, after which the rig underwent planned maintenance and commenced its mobilization to Australia. Additionally, the Atwood Osprey earned lower revenue due to a lower contracted day rate in 2017. Lastly, the Atwood Advantage earned lower revenue due to unplanned repairs to subsea well control equipment. For the nine months ended June 30, 2017, revenues were lower primarily due to the Atwood Condor completing its drilling contract in January 2017, and the Atwood Osprey earning a lower contracted day rate as compared to the nine months ended June 30, 2016.

Our deepwater fleet did not operate in the three and nine months ended June 30, 2017 nor in the three months ended June 30, 2016. During the nine months ended June 30, 2016, our deepwater fleet realized average revenues of $426,000 per day on 307 operating days. The decrease in operating days and revenue is primarily due to the Atwood Falcon and Atwood Eagle completing their contracts in fiscal year 2016. The Atwood Falcon was idled and subsequently sold for recycling purposes, while the Atwood Eagle’s contract was suspended and the remaining term transferred to the Atwood Osprey. The Atwood Eagle was subsequently idled in Singapore. On May 5, 2017, we executed a sale and recycling agreement with respect to the Atwood Eagle, pursuant to which the vessel, together with associated equipment and machinery will be sold to a third party to be demolished and recycled. See Note 4 to the Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

Our jackup fleet realized average revenues of $47,000 per day on 64 operating days for the three months ended June 30, 2017, as compared to $132,000 per day on 270 operating days for the three months ended June 30, 2016. The jackup fleet realized average revenues of $55,000 per operating day on 92 operating days for the nine months ended June 30, 2017, as compared to $135,000 per operating day on 821 operating days for the nine months ended June 30, 2016. The jackup fleet realized lower revenue and operating days for the nine months ended June 30, 2017, as compared to the nine months ended June 30, 2016 primarily due to the completion of the drilling contracts of the fleet in prior fiscal year. The Atwood Orca operated for 28 days during the three months ended December 31, 2016, and was subsequently idled. In January 2017, the rig entered into a one-year contract in Thailand and commenced operations in April 2017.

Revenue related to reimbursable expenses is primarily driven by our clients' requests for equipment, fuel, services and/or personnel that are not included in the contractual operating day rate. Thus, these revenues vary depending on the timing of the clients' requests and the work performed. Additionally, as a result of a number of our rigs being idled, reimbursable revenue naturally declines while the rigs remain un-contracted. Changes in the amount of revenue related to reimbursable expenses generally do not have a material effect on our financial position, results of operations, or cash flows.

Drilling Costs—Drilling costs for the three and nine months ended June 30, 2017 decreased approximately $35 million and $131 million or 41% and 40%, respectively, as compared to the three and nine months ended June 30, 2016. An analysis of contract drilling costs by rig category is as follows:

CONTRACT DRILLING COSTS

	Three Months Ended June 30,			Nine Months Ended June 30,		
(In millions)	2017	2016	Variance	2017	2016	Variance
Ultra-Deepwater	$43	$ 54	$ (11)	$146	$168	$ (22)
Deepwater	—	10	(10)	1	71	(70)
Jackups	7	16	(9)	32	62	(30)
Reimbursable	3	5	(2)	15	23	(8)
Other	(2)	1	(3)	(1)	—	(1)
	$51	$ 86	$ (35)	$193	$324	$ (131)

Ultra-deepwater drilling costs decreased for the three and nine months ended June 30, 2017, as compared to the three and nine months ended June 30, 2016. Average drilling costs per calendar day for our ultra-deepwater rigs decreased from approximately $148,000 for the three months ended June 30, 2016 to approximately $117,000 for the three months ended June 30, 2017, and from $153,000 for the nine months ended June 30, 2016 to $134,000 for the nine months ended June 30, 2017. The drilling costs for our ultra-deepwater rigs were lower primarily due to the Atwood Condor completing its drilling contract in January 2017, after which the rig underwent planned maintenance and commenced its mobilization to Australia. Additionally, drilling costs on the Atwood Osprey were lower in 2017 due to cost savings initiatives executed on payroll and maintenance costs.

Our deepwater fleet did not operate in the three and nine months ended June 30, 2017, as compared to three and nine months ended June 30, 2016, during which drill costs of approximately $96,000 and $151,000, respectively, were incurred. This decrease is due to contract completions on the Atwood Falcon and Atwood Eagle in fiscal year 2016. The Atwood Falcon was subsequently sold for recycling purposes in 2016, while the Atwood Eagle was idled after its drilling contract was suspended and transferred to the Atwood Osprey. On May 5, 2017, we executed a sale and recycling agreement with respect to the Atwood Eagle, pursuant to which the vessel, together with associated equipment and machinery will be sold to a third party to be demolished and recycled. See Note 4 to the Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

Jackup drilling costs decreased for the three and nine months ended June 30, 2017, as compared to the three and nine months ended June 30, 2016, primarily due to the jackup fleet completing its drilling contracts and being subsequently idled in prior years. The average drilling cost per calendar day decreased from approximately $35,000 for the three months ended June 30, 2016 to approximately $15,000 for the three months ended June 30, 2017, and from $45,000 for the nine months ended June 30, 2016 to $24,000 for the nine months ended June 30, 2017.

Reimbursable costs are primarily driven by our clients' requests for equipment, fuel, services and/or personnel that are not typically included in the contractual operating day rate. Thus, these costs vary depending on the timing of the clients' requests and the work performed. Additionally, as a result of a number of our rigs being idled, reimbursable costs naturally decline while the rigs remain uncontracted. Changes in the amount of reimbursable costs generally do not have a material effect on our financial position, results of operations or cash flows.

Depreciation—Depreciation for the three and nine months ended June 30, 2017 decreased approximately $3 million and $4 million or 7% and 3%, respectively, as compared to the three and nine months ended June 30, 2016. Depreciation was lower in 2017 due to the impairment of the Atwood Eagle, and the subsequent decision to enter into an agreement to recycle the rig in the third quarter of 2017. An analysis of depreciation expense by rig category is as follows:

DEPRECIATION EXPENSE

	Three Months Ended June 30,			Nine Months Ended June 30,		
(In millions)	2017	2016	Variance	2017	2016	Variance

Ultra-Deepwater	$29	$ 29	$ —	$86	$87	$ (1)
Deepwater	—	2	(2)	6	7	(1)
Jackups	8	9	(1)	25	25	—
Other	1	1	—	4	6	(2)
	$38	$ 41	$ (3)	$121	$125	$ (4)

Asset Impairment—During the nine months ended June 30, 2017, we recorded a non-cash impairment charge of approximately $59.2 million ($57.8 million, net of tax, or $0.72 per diluted share) to write the Atwood Eagle and its inventory of materials and supplies down to their approximate salvage value. On May 5, 2017, we executed a sale and recycling agreement with respect to the Atwood Eagle, pursuant to which the vessel, together with associated equipment and machinery will be sold to a third party to be demolished and recycled. See Note 4 to the Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

During the nine months ended June 30, 2016, we recorded a non-cash impairment charge of approximately $64.7 million ($64.7 million, net of tax, or $1.00 per diluted share) to write the Atwood Falcon and its inventory of materials and supplies down to their approximate salvage value. See Note 4 to Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

General and Administrative— For the three and nine months ended June 30, 2017, general and administrative expenses increased by approximately $3.6 million and $4.5 million to $15.6 million and $43.2 million, respectively, as compared to $12.0 million and $38.7 million, respectively, for the three and nine months ended June 30, 2016. The increase is primarily due to transaction costs related to the potential Merger with Ensco. See Note 11 to the Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

Interest Expense, net of capitalized interest— For the three and nine months ended June 30, 2017, interest expense, net of capitalized interest, decreased by approximately $6.1 million and $7.0 million to $13.6 million and $43.5 million, respectively, as compared to $19.7 million and $50.5 million, respectively, for the three and nine months ended June 30, 2016. The decrease is primarily due to debt repurchases in the three and nine months ended June 30, 2016.

Other Income— During the nine months ended June 30, 2016, we recognized approximately $18.0 million ($18.0 million, net of tax, or $0.28 per diluted share) of insurance recoveries related to cyclone damage to the Atwood Osprey. This amount is included in Other income on the Unaudited Condensed Consolidated Statement of Operations and was subsequently collected.

Income Taxes— We have historically calculated the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Beginning with the quarter ended December 31, 2016, we used a discrete effective tax rate method to calculate taxes for the three months ended June 30, 2017. We determined that since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate that the historical annualized method would not provide a reliable estimate for the three months ended June 30, 2017. We anticipate that we will utilize the discrete effective tax rate method to calculate taxes for the remainder of the fiscal year.

Our estimated consolidated effective income tax rate for the three and nine months ended June 30, 2017 was approximately (146)% and (38)%, respectively, as compared to 17% and 15% for the three and nine months ended June 30, 2016, respectively. The effective tax rate for the three and nine months ended June 30, 2017 was lower than the rate for the three and nine months ended June 30, 2016, as a result of losses incurred in jurisdictions for which there was no corresponding tax benefit. This included the second quarter non-cash impairment charge against the Atwood Eagle as the charge did not result in a corresponding reduction to our provision for income tax.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Our sources of available liquidity include existing cash balances on hand, cash flows from operations and borrowings under our Credit Facility. In addition, we may seek to access the debt and equity capital markets from time to time to

raise additional capital, increase liquidity as necessary, fund additional purchases, exchange or redeem Senior Notes, repay amounts under our Credit Facility or otherwise refinance existing debt. Our ability to access the debt and equity capital markets depends on a number of factors, including our credit rating, industry conditions, general economic conditions, our revenue backlog, capital expenditure commitments, market conditions and market perceptions of us and our industry.

We have agreed in our Merger Agreement with Ensco that, among other things, we will not engage in certain kinds of transactions during the interim period between the execution of the Merger Agreement and the consummation of the Merger, including limitations on our ability to incur debt, issue securities and sell or acquire material assets. If we seek to engage in a restricted activity under these covenants, we are required to obtain the prior written consent of Ensco. We do not anticipate that these contractual limitations will adversely affect our ability to satisfy our liquidity needs during this interim period.

Our liquidity requirements include meeting ongoing working capital needs, repaying our outstanding indebtedness, and funding our capital expenditure projects. Our ability to meet these liquidity requirements will depend in large part on our future operating and financial performance.

Our cash flows fluctuate depending on a number of factors, including, among others, the number of our drilling units under contract, the day rates that we receive under those contracts, the efficiency with which we operate our drilling units, the timing of collections on outstanding accounts receivable, timing of payments to our vendors for operating costs, and capital expenditures. We continue to review and assess previously instituted company-wide cost savings measures, including the elimination of non-essential personnel and other operational measures, including delaying certain capital expenditure projects to ensure liquidity requirements reflect a level of expenditure consistent with the size of our anticipated fleet operating under client contracts over the next twelve months. These activities have had and continue to have a positive impact on our cash flow generation and overall liquidity. We believe that our cash on hand, cash flows from operations and available borrowings under our Credit Facility will provide sufficient liquidity over the next twelve months to fund our working capital needs, interest payments on our outstanding debt and other purposes.

As of June 30, 2017, we had $474 million in cash on hand. At any time, we may require a portion of our cash on hand for working capital and other purposes. During the nine months ended June 30, 2017, we relied principally on our cash flows from operations and cash on hand to meet liquidity needs and fund our cash requirements including our capital expenditures of $173 million. To date, general inflationary trends have not had a material effect on our operating revenues or expenses.

On January 13, 2017, we issued, in a public offering, 15,525,000 shares of common stock. The net proceeds from the offering, before deducting estimated offering expenses, were approximately $181 million. See Note 10 to Unaudited Condensed Consolidated Financial Statements in Item 1 of Part I of this Quarterly Report.

Cash Flows

	Nine Months Ended June 30,	
(In thousands)	2017	2016
Net cash provided by operating activities	$248,828	$515,415
Net cash used in investing activities	(170,908)	(177,435)
Net cash provided by (used in) financing activities	250,966	(252,989)

Operating Activities

Working capital increased from $344 million as of September 30, 2016 to $595 million as of June 30, 2017. Net cash from operating activities for the nine months ended June 30, 2017 was $249 million, as compared to $515 million for the nine months ended June 30, 2016, primarily driven by reduced drilling activity.

Investing Activities

Capital Expenditures

Our investing activities are primarily related to capital expenditures for property and equipment. Our capital expenditures, including maintenance capital expenditures, for the nine months ended June 30, 2017 and 2016 totaled $173 million and $198 million, respectively.

As of June 30, 2017, we had expended approximately $980 million toward our two ultra-deepwater drillships under construction at the DSME shipyard in South Korea. Remaining expected capital expenditure for these two drillships under construction, including costs associated with the second BOP, totaled approximately $324 million at June 30, 2017. On December 5, 2016, we entered into supplemental agreements (collectively, "Supplemental Agreement No. 5") to the construction contracts with DSME which delay our requirements to take delivery of our two newbuild ultra-deepwater drillships, the Atwood Admiral and the Atwood Archer, by two years to September 30, 2019 and June 30, 2020, respectively. Supplemental Agreement No. 5 amends all material terms of the previous supplemental

agreements. In consideration of Supplemental Agreement No. 5, we made a payment of $125 million for the Atwood Archer on December 13, 2016 and will make an additional interim payment of $15 million on the earlier of June 30, 2018 or the delivery date. With respect to the Atwood Admiral, we will make a payment of $10 million on the earlier of September 30, 2017 or the delivery date. Remaining milestone payments, $83.9 million for the Atwood Admiral and $165 million for the Atwood Archer, have been extended until December 30, 2022 through our ability to choose to finance such amounts in the form of promissory notes to be entered into on the delivery dates for each vessel bearing interest at

a rate of 5% per annum and to be secured by a mortgage on the respective drillship. We have the option to take earlier delivery of each vessel, upon 45 days' notice.

Financing Activities

Our financing activities primarily consist of borrowing and repayment of long-term and dividend payments. Proceeds received from borrowings from our Credit Facility totaled $125 million for the nine months ended June 30, 2017. Repayments on our Credit Facility totaled $55 million for the nine months ended June 30, 2017.

On January 13, 2017, we issued, in a public offering, 15,525,000 shares of common stock. The net proceeds from the offering, before deducting estimated offering expenses, were approximately $181 million. The net proceeds are currently held as cash and are expected to be used for general corporate purposes, which may include the repayment of borrowings under the Credit Facility, the funding of future purchases or redemption of our Senior Notes, working capital and capital expenditures, and otherwise to enhance our liquidity.

Dividends

We paid a dividend of $0.075 per share in January 2016 that was declared in November 2015. In February 2016, our board of directors eliminated the payment of a quarterly dividend in order to preserve liquidity. In March 2016, we amended the Credit Facility, which amendment, among other things, prohibits us from paying dividends during the remaining term of the Credit Facility. Future reinstatement of dividends would require the amendment or waiver of such provision. In addition, the declaration and amount of any future dividends would be at the discretion of our board of directors and would depend on our financial condition, results of operations, cash flows, prospects, industry conditions, capital requirements and other factors and restrictions our board of directors deems relevant. There can be no assurance that we will pay a dividend in the future.

Senior Notes (Due February 2020)

As of June 30, 2017, $448.7 million of the aggregate principal amount of our Senior Notes were outstanding. Our Senior Notes are unsecured obligations and are not guaranteed by any of our subsidiaries.

Pursuant to the terms of the indenture governing the Senior Notes, we have the option, on any one or more occasions, to redeem the Senior Notes in whole or in part at a redemption price of 101.625%, if redeemed prior to February 1, 2018, and 100.0% thereafter, in each case plus accrued and unpaid interest to the date of redemption. In addition, we may, from time to time, purchase Senior Notes in the open market, in privately negotiated transactions, through tender offers, exchange offers or otherwise. Any such future redemptions or purchases will depend on various factors existing at that time. There can be no assurance as to which of these alternatives (or combinations thereof), if any, we will pursue in the future.

Under the Merger Agreement, if requested by Ensco, we will issue a notice of redemption providing for the redemption of the Senior Notes substantially concurrently with the closing of the Merger, which redemption will be conditioned upon the closing.

Revolving Credit Facility

As of June 30, 2017, our Credit Facility had $1.395 billion of total commitments and $850 million of outstanding borrowings, providing approximately $518 million available for borrowings without violating financial covenants. Approximately $275 million of the commitments under the Credit Facility mature in May 2018 with the remaining $1.12 billion of the commitments maturing in May 2019. We were in compliance with all financial covenants under the Credit Facility as of June 30, 2017, and we anticipate that we will continue to be in compliance for a least twelve months subsequent to the date our financial statements are issued.

The weighted-average effective interest rate on our long-term debt was approximately 5.1% per annum as of June 30, 2017. The effective rate was determined after giving consideration to the effect of our interest rate swaps accounted for as hedges and the amortization of debt issuance costs and our debt premiums. Interest capitalized for the nine

months ended June 30, 2017 and 2016 was approximately $19 million and $13 million, respectively.

The following summarizes our availability under our Credit Facility as of June 30, 2017 (in millions):

Commitment under Credit Facility	$1,395
Borrowings under Credit Facility	850
Letters of Credit Outstanding	—
Availability	$545

Letter of Credit Facility

In July 2015, we entered into a letter of credit facility with BNP Paribas ("BNP"), pursuant to which BNP may issue letters of credit up to an unlimited stated face amount of such letters of credit. BNP has no commitment under the facility to issue letters of credit, no amounts are pre-approved for issuance thereunder and the facility may be canceled by BNP at any time. The facility contains certain events of default, including but not limited to delinquent payments, bankruptcy filings, material adverse judgments, cross-defaults under other debt agreements, or a change of control. As of June 30, 2017, we have not requested any letters of credits under this facility.

Off-Balance Sheet Arrangements

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

Commitments and Contractual Obligations

For additional information about our commitments and contractual obligations as of June 30, 2017, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Commitments and Contractual Obligations" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. As of June 30, 2017, other than payments made under our construction contracts, further postponement of the required delivery of the drilling units under construction, repayments under our Credit Facility, and the Supplemental Agreement No. 5 mentioned above, there were no material changes to this disclosure regarding our commitments and contractual obligations.

FORWARD-LOOKING STATEMENTS

Statements included in this Form 10-Q regarding future financial performance, capital sources and results of operations and other statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Such statements are those concerning strategic plans, expectations and objectives for future operations and performance. When used in this report, the words "believes," "expects," "anticipates," "plans," "intends," "estimates," "projects," "could," "s "may," or similar expressions are intended to be among the statements that identify forward-looking statements.

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

- prices of oil and natural gas and industry expectations about future prices;
- market conditions and level of activity in the drilling industry and the global economy in general;
- the level of capital expenditures by our clients;
- the termination, renegotiation, or repudiation of contracts or payment delays by our clients;
- the operational risks involved in drilling for oil and gas;
- the highly competitive and volatile nature of our business;
-

- our ability to enter into, and the terms of, future drilling contracts, including contracts for our newbuild units, for rigs currently idled and for rigs whose contracts are expiring;
- our ability to service our indebtedness and make payments on our rigs under construction;

- our ability to access debt and equity capital markets, and the terms and prices that are available if we issue debt or equity securities;
- the impact of governmental or industry regulation, both in the United States and internationally;
- the risks of and disruptions to international operations, including political instability and the impact of terrorist acts, acts of piracy, embargoes, war or other military operations;
- our ability to obtain and retain qualified personnel to operate our vessels;
- unplanned downtime and repairs on our rigs;
- timely access to spare parts, equipment and personnel to maintain and service our fleet;
- client requirements for drilling capacity and client drilling plans;
- the adequacy of sources of liquidity for us and for our clients;
- changes in tax laws, treaties and regulations;
- the risks involved in the construction, upgrade, and repair of our drilling units;
- the possibility that the Company's or Ensco's shareholders may not provide applicable shareholder approval with respect to the Merger;
- the possibility that the Merger Agreement may be terminated under circumstances requiring that the Company pay Ensco a termination fee in an amount equal to $30 million (less any expenses reimbursed by the Company);
- the risk that the Merger Agreement may limit or otherwise restrict strategic or financing options available to the Company;
- the possibility that the pendency of the Merger may adversely affect the business of the Company;
- the risk that the Company and Ensco will not be integrated successfully;
- the possibility that the proposed Merger does not close, including due to failure to satisfy the closing conditions;
- the risk that unexpected costs will be incurred in connection with the proposed Merger;
- the possibility that the expected synergies and value creation from the proposed Merger will not be realized or will not be realized within the expected time period; and
- such other risks discussed in “Risk Factors” in our annual report on Form 10-K for the year ended September 30, 2016 and this Form 10-Q and in our other reports filed with the Securities and Exchange Commission, or SEC.

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

ITEM 3. 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

The provisions of our Credit Facility provide for a variable interest rate cost on our $850 million outstanding as of June 30, 2017. However, we have employed an interest rate risk management strategy that utilizes derivative instruments with respect to $250 million of our debt outstanding as of June 30, 2017, in order to minimize unanticipated fluctuations in earnings and cash flows arising from changes in, and volatility of, interest rates. Effectively, $600 million of our variable long-term debt outstanding as of June 30, 2017, is subject to changes in interest rates. A change of 10% in the interest rate on the floating rate debt would not have a material effect on our annual earnings or cash flows.

Foreign Currency Risk

Our functional currency is the U.S. dollar. Certain of our subsidiaries have monetary assets and liabilities that are denominated in a currency other than our functional currency. The majority of our contracts are denominated in U.S. dollars, but occasionally all or a portion of a contract is payable in local currency. To the extent there is a local currency component in a contract, we attempt to match similar revenue in the local currency to the operating costs paid in the local currency such as local labor, shore base expenses, and local taxes, if any, in order to minimize foreign currency fluctuation impact.

From time to time, we enter into foreign currency forward exchange contracts to limit our exposure to fluctuations and volatility in currency exchange rates. We currently do not have any outstanding foreign currency forward exchange contracts.

Market Risk

Our Senior Notes bear interest at a fixed interest rate. The fair value of our Senior Notes will fluctuate based on changes in prevailing market interest rates and market perceptions of our credit risk. The fair value of our Senior Notes was approximately $439.3 million as of June 30, 2017, compared to the principal amount of $448.7 million. If prevailing market interest rates had been 10% lower at June 30, 2017, the change in fair value of our Senior Notes would not have a material effect to our annual earnings or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Change in Internal Control over Financial Reporting

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

27

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have certain actions, claims and other matters pending as set forth in Note 9 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report, which is incorporated by reference in response to this item. As of June 30, 2017, we were also involved in a number of lawsuits which have arisen in the ordinary course of business and for which we do not expect the liability, if any, resulting from these lawsuits to have a material adverse effect on our current consolidated financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of these matters described above or any such other proceeding or threatened litigation or legal proceedings. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or other matters will prove correct and the eventual outcome of these matters could materially differ from management's current estimates.

Litigation Related to the Merger

On June 23, 2017, a putative class action captioned Bernard Stern v. Atwood Oceanics, Inc., et al, was filed in the U.S. District Court for the Southern District of Texas against the Company, the Company's directors, Ensco and Merger Sub. The Stern complaint generally alleges that the directors and the Company disseminated a false or misleading registration statement, referring to the registration statement as filed with the SEC on June 16, 2017, which omitted material information regarding the proposed transaction between Ensco and Atwood, in violation of Section 14(a) of the Exchange Act. Specifically, the complaint alleges that the Company and the directors omitted material information regarding the parties' financial projections, the analysis performed by Goldman Sachs & Co. LLC ("Goldman Sachs"), the Company's financial advisor, in support of its fairness opinion, the timing and nature of communications regarding post-transaction employment of the Company's directors and officers, potential conflicts of interest of Goldman Sachs, and whether there were further discussions with another potential acquirer of the Company following the May 30, 2017 announcement of the transaction. The complaint further alleges that the directors, Ensco, and Merger Sub are liable for these violations as ''control persons'' of the Company under Section 20(a) of the Exchange Act. With respect to Ensco, the complaint alleges that Ensco had direct supervisory control over the composition of the registration statement. The complaint seeks injunctive relief, including to enjoin the transaction, rescission or rescissory damages in the event the Merger is consummated, and an award of attorneys' fees, in addition to other relief.

On June 27, June 29 and June 30, 2017, additional putative class actions captioned Joseph Composto v. Atwood Oceanics, Inc., et al, Booth Family Trust v. Atwood Oceanics, Inc., et al, and Mary Carter v. Atwood Oceanics, Inc., et al, respectively, were filed in the U.S. District Court for the Southern District of Texas against the Company and the Company's directors. These actions allege violations of Sections 14(a) and 20(a) of the Exchange Act by the Company and the Company's directors similar to those alleged in the Stern complaint; however, neither Ensco nor Merger Sub is named as a defendant in these actions.

Additional lawsuits arising out of the Merger may be filed in the future. There can be no assurance that any of the defendants will be successful in the outcome of pending or potential future lawsuits. A preliminary injunction could delay or jeopardize the completion of the Merger, and an adverse judgment granting permanent injunctive relief could indefinitely enjoin the completion of the Merger. We believe that the lawsuits are without merit and intend to defend vigorously against the lawsuits and any other future lawsuits challenging the Merger.

ITEM 1A. RISK FACTORS

The risk factors set forth below update and should be read together with the detailed description of risk factors reported in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 and the risk factors related to us and the Merger in the joint proxy statement/prospectus included in Ensco's registration statement

on Form S-4, a definitive form of which is to be distributed to our shareholders in connection with our seeking shareholder approval of the Merger.

The Merger is subject to conditions, including certain conditions that may not be satisfied, and may not be completed on a timely basis, if at all. Failure to complete the Merger, or significant delays in completing the Merger, could negatively affect the trading prices of the Company's common stock and the future business and financial results of the Company.

The completion of the Merger is subject to a number of conditions beyond our control that may prevent, delay or otherwise materially adversely affect its completion, including the approval by Ensco’s shareholders of the issuance of the Ensco Shares in the Merger and the approval by both Ensco and our shareholders of the Merger. The Company cannot predict whether and when

Table of Contents

these other conditions will be satisfied. Any delay in completing the Merger could cause the combined company not to realize some or all of the synergies expected to be achieved if the Merger is successfully completed within its expected time frame.

If the Merger is not completed, we will be subject to several risks and consequences, including the following:

- certain damages for which the parties may be liable to one another under the terms and conditions of the Merger Agreement;
- negative reactions from the financial markets, including declines in the price of our common stock due to the fact that current prices may reflect a market assumption that the Merger will be completed;
- certain significant costs relating to the Merger, including, in certain circumstances, the reimbursement by either Ensco or the Company of up to $10 million of the other party's expenses and a termination fee payable by Ensco of $50 million and payable by the Company of $30 million, in each case less the amount of any previous expense reimbursements by each party; and
- diverted attention of our management to the Merger rather than to our own operations and pursuit of other opportunities that could have been beneficial to us.

We will be subject to various uncertainties and contractual restrictions while the Merger is pending that could adversely affect our business and operations.

In connection with the Merger, it is possible that some customers, suppliers and other persons with whom the Company has business relationships may delay or defer certain business decisions, or might decide to seek to terminate, change or renegotiate their relationship with the Company as a result of the Merger, which could negatively affect the Company's revenues, earnings and cash available for distribution, as well as the market price of common stock, regardless of whether the Merger is completed.

Under the terms of the Merger Agreement, the Company is subject to certain restrictions on the conduct of its business prior to completing the Merger, which may adversely affect its ability to execute certain of its business strategies. Such limitations could negatively affect the Company's businesses and operations prior to the completion of the Merger. Furthermore, the process of planning to integrate two businesses and organizations for the post-Merger period may divert management's attention and resources and could ultimately have an adverse effect on the Company. These uncertainties could cause customers, suppliers and others that deal with the Company to seek to change existing business relationships with the Company.

We will incur substantial transaction fees and costs in connection with the Merger.

We expect to incur a number of non-recurring transaction-related costs associated with completing the Merger, combining the operations of the two organizations and achieving desired synergies. These fees and costs will be substantial. Non-recurring transaction costs include, but are not limited to, fees paid to legal, financial and accounting advisors, filing fees and printing costs. Additional unanticipated costs may be incurred in the integration of the businesses of the Company and Ensco. There can be no assurance that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will offset the incremental transaction-related costs over time. Thus, any net benefit may not be achieved in the near term, the long term or at all.

If completed, the Merger may not achieve its intended results, and we may be unable to successfully integrate our operations with Ensco's operations. Failure to successfully combine the businesses in the expected time frame may adversely affect the future results of the combined organization, and, consequently, the value of the Ensco Class A ordinary shares that the Company's shareholders receive as the Merger consideration.

We entered into the Merger Agreement with the expectation that the Merger will result in various benefits, including, among other things, expanding Ensco's asset base and creating synergies. Achieving the anticipated benefits of the Merger is subject to a number of uncertainties, including whether our businesses can be integrated in an efficient and effective manner.

It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees, the disruption of each company's ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect the combined company's ability to achieve the anticipated benefits of the Merger. The combined company's

results of operations could also be adversely affected by any issues attributable to either company's operations that arise from or are based on events or actions that occur prior to the completion of the Merger. The companies may have difficulty addressing possible differences in corporate cultures and management philosophies. The integration process is subject to a number of uncertainties, and no assurance can be given that the anticipated

Table of Contents

benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect the combined company's future business, financial condition, operating results and prospects.

If a governmental authority asserts objections to the Merger, we may be unable to complete the Merger or, in order to do so, we may be required to comply with material restrictions or satisfy material conditions.

The completion of the Merger is subject to the condition that there is no law, injunction, judgment or ruling by a governmental authority in effect enjoining, restraining, preventing or prohibiting the Merger contemplated by the Merger Agreement. If a governmental authority asserts objections to the Merger, we may be required to divest assets or accept other remedies in order to complete the Merger. There can be no assurance as to the cost, scope or impact of the actions that may be required to address any governmental authority objections to the Merger. If either company takes such actions, it could be detrimental to it or to the combined company following the consummation of the Merger. Furthermore, these actions could have the effect of delaying or preventing completion of the Merger or imposing additional costs on or limiting the revenues or cash available for distribution of the combined company following the consummation of the Merger.

Additionally, state attorneys general could seek to block or challenge the Merger as they deem necessary or desirable in the public interest at any time, including after completion of the transaction. In addition, in some circumstances, a third party could initiate a private action under antitrust laws challenging or seeking to enjoin the Merger, before or after it is completed. We may not prevail and may incur significant costs in defending or settling any action under the antitrust laws.

We may have difficulty attracting, motivating and retaining executives and other employees in light of the Merger.

Uncertainty about the effect of the Merger on our employees may impair our ability to attract, retain and motivate personnel until the Merger is completed. Employee retention may be particularly challenging during the pendency of the Merger, as employees may feel uncertain about their future roles with the combined organization. In addition, we may have to provide additional compensation in order to retain employees. If our employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to become employees of the combined company, the combined company’s ability to realize the anticipated benefits of the Merger could be adversely affected.

Completion of the Merger will trigger change of control or other provisions in certain agreements to which we are a party.

The completion of the Merger will trigger change of control or other provisions in certain agreements to which we are a party. In particular, the indenture governing our 6.50% Senior Notes due 2020 requires us to make an offer to purchase all of each holder’s notes at an amount equal to 101% of the aggregate principal amount of such holder’s notes, plus accrued and unpaid interest, if any, within 30 days following a change of control. As a result, Ensco could be required to repay up to an aggregate $449 million principal amount of Senior Notes plus approximately $4.5 million in associated premiums. In addition, the completion of the Merger will constitute a change of control under our revolving credit facility. As a result, the outstanding balance under the revolving credit facility will be accelerated and become due and payable by Ensco in connection with the completion of the Merger. As of June 30, 2017, we had outstanding borrowings under our revolving credit facility of approximately $850 million.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

2.1	Agreement and Plan of Merger dated as of May 29, 2017, by and among Ensco plc, Echo Merger Sub LLC and Atwood Oceanics, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 30, 2017).
*31.1	Certification of Chief Executive Officer.
*31.2	Certification of Chief Financial Officer.
**32.1	Certificate of Chief Executive Officer pursuant to Section 906 of Sarbanes – Oxley Act of 2002.
**32.2	Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes – Oxley Act of 2002.
*101	Interactive data files.

* Filed herewith

** Furnished herewith

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 3, 2017 /S/ MARK W. SMITH
Mark W. Smith
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)