

ATWOOD OCEANICS INC  
Form 10-K  
November 19, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

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Form 10-K

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

For the fiscal year ended September 30, 2012

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

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ATWOOD OCEANICS, INC.

(Exact name of registrant as specified in its charter)

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TEXAS

(State or other jurisdiction of  
incorporation or organization)

74-1611874

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

15835 Park Ten Place Drive Houston, Texas

(Address of principal executive offices)

77084

(Zip Code)

Registrant's telephone number, including area code:

281-749-7800

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

Title of each class

Common Stock \$1.00 par value

Name of each exchange on which registered

New York Stock Exchange

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

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ..

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes .. No ý

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 filings requirements for the past 90 days. Yes ý No ..

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No ..

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy

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or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K “.

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer      ☒      Accelerated filer      ☐

Non-accelerated filer      ☐ (Do not check if a Smaller Reporting Company)      Smaller Reporting Company      ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which our Common Stock, \$1.00 par value, was last sold, or the average bid and asked price of such Common Stock, as of March 31, 2012 was \$2.9 billion.

The number of shares outstanding of our Common Stock, \$1.00 par value, as of November 1, 2012: 65,464,000.

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DOCUMENTS INCORPORATED BY REFERENCE

(1) Proxy Statement for 2013 Annual Meeting of Shareholders - Referenced in Part III of this report.

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FORM 10-K  
For the Year Ended September 30, 2012  
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## FORWARD-LOOKING STATEMENTS

Statements included in this Form 10-K 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,” “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:

- prices of oil and natural gas and industry expectations about future prices;
- market conditions, expansion and other development trends in the drilling industry and the global economy in general;
- the operational risks involved in drilling for oil and gas;
- the highly competitive and volatile nature of our business;
- the impact of governmental or industry regulation, both in the United States and internationally;
- the risks of and disruptions to international operations, including political instability and the impact of terrorist acts, acts of piracy, embargoes, war or other military operations;
- our ability to enter into, and the terms of, future drilling contracts, including contracts for our newbuild units and for rigs whose contracts are expiring;
- our ability to obtain and retain qualified personnel to operate our vessels;
- timely access to spare parts, equipment and personnel to maintain and service our fleet;
- the termination or renegotiation of contracts by customers or payment or other delays by our customers;
- customer requirements for drilling capacity and customer drilling plans;
- the adequacy of sources of liquidity for us and for our customers;
- changes in tax laws, treaties and regulations;
- the risks involved in the construction, upgrade, and repair of our drilling units;
- unplanned downtime and repairs on our rigs; and
- such other risks discussed in Item 1A. “Risk Factors” of this Form 10-K 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.

## PART I

## ITEM 1. BUSINESS

Atwood Oceanics, Inc. (which together with its subsidiaries is identified as the “Company,” “we,” “us” or “our,” except where stated or the context requires otherwise) is a global offshore drilling contractor engaged in the drilling and completion of exploratory and developmental oil and gas wells. We currently own a diversified fleet of 11 mobile offshore drilling units located in the U.S. Gulf of Mexico, the Mediterranean Sea, offshore West Africa, offshore Southeast Asia and offshore Australia, and are constructing three ultra-deepwater drillships and two high-specification jackups for delivery in fiscal years 2013 through 2015. We were founded in 1968 and are headquartered in Houston, Texas with support offices in Australia, Malaysia, Singapore and the United Kingdom.

During our 44 year history, the majority of our drilling units have operated outside of United States waters, and we have conducted drilling operations in most of the major offshore exploration areas of the world. At least 95% of our contract revenues were derived from foreign operations in each of the prior three fiscal years. However, as a result of our newest ultra-deepwater, semisubmersible drilling rig, the Atwood Condor, starting its initial contract in the U.S. Gulf of Mexico, we expect the percentage of our contract revenues derived from foreign operations for future fiscal years to decrease. For information relating to the contract revenues and long-lived assets attributable to specific geographic areas of operations, see Note 15 of the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

We report our offshore contract drilling operation as a single reportable segment: Offshore Contract Drilling Services. The mobile offshore drilling units and related equipment comprising our offshore rig fleet operate in a single, global market for contract drilling services and are often redeployed globally due to changing demands of our customers, which consist largely of major integrated oil and natural gas companies and independent oil and natural gas companies.

The following table presents our rig fleet as of November 1, 2012, all of which are wholly owned:

Rig Name	Rig Type	Construction Completed/Last Upgraded (Calendar Year)	Water Depth Rating (feet)
Atwood Condor	Semisubmersible	construction completed 2012	10,000
Atwood Osprey	Semisubmersible	construction completed 2011	8,200
Atwood Eagle	Semisubmersible	upgraded 2002	5,000
Atwood Falcon	Semisubmersible	upgraded 2012	5,000
Atwood Hunter	Semisubmersible	upgraded 2001	5,000
Atwood Mako	Jackup	construction completed 2012	400
Atwood Beacon	Jackup	construction completed 2003	400
Atwood Aurora	Jackup	construction completed 2009	350
Vicksburg	Jackup	upgraded 1998	300
Atwood Southern Cross <sup>(1)</sup>	Semisubmersible	upgraded 2006	2,000
Seahawk <sup>(1)</sup>	Semisubmersible Tender Assist	upgraded 2006	1,800

(1) Currently cold-stacked and not actively marketed.

In addition to the above drilling units, we are in the process of constructing five additional drilling units. The following table presents our current newbuild projects as of November 1, 2012:

Rig Name	Rig Type	Shipyard	Expected Delivery Date	Expected Cost (in millions)	Water Depth Rating (feet)
Atwood Advantage	Drillship	Daewoo Shipbuilding and Marine Engineering Co., Ltd. ("DSME")	September 30, 2013	\$ 635	12,000
Atwood Achiever	Drillship	DSME	June 30, 2014	\$ 635	12,000
Atwood Admiral	Drillship	DSME	March 31, 2015	\$ 635	12,000
Atwood Manta	Jackup	PPL Shipyard PTE LTD	November 30, 2012	\$ 190	400
Atwood Orca	Jackup	PPL Shipyard PTE LTD	June 30, 2013	\$ 190	400

As of September 30, 2012, we had approximately \$1.6 billion of estimated capital commitments primarily related to the construction of our five newbuild drilling units under construction. Included in this amount is a turnkey construction contract entered into in September 2012 with DSME to construct a third ultra-deepwater drillship, the Atwood Admiral, at the DSME yard in South Korea. The Atwood Admiral is expected to be delivered by March 31, 2015 at a total cost, including two blowout preventers ("BOPs"), project management, drilling and handling tools and spares, of approximately \$635 million. The design of the Atwood Admiral will be substantially identical to the previously ordered Atwood Advantage and Atwood Achiever and will be a DP-3 dynamically-positioned, dual derrick ultra-deepwater drillship rated to operate in water depths up to 12,000 feet and drill to a depth of 40,000 feet. The Atwood Admiral will also offer two seven-ram BOPs, three 100-ton knuckle boom cranes, a 165-ton active heave "tree-running" knuckle boom crane, and accommodations for up to 200 persons.

Maintaining high equipment utilization and revenue efficiency through the industry cycles is a significant factor in generating cash flow to satisfy current and future obligations and has been one of our primary performance excellence initiatives. We had a 100% utilization rate in fiscal year 2012 for our in-service rigs, while our utilization rate for in-service rigs averaged approximately 95% during the past 10 fiscal years. As of November 1, 2012 our nine actively marketed in-service rigs had approximately 91% and 40% of our available rig days contracted for fiscal years 2013 and 2014, respectively. The Atwood Southern Cross and Seahawk are currently cold-stacked and not actively marketed.

The following table presents information regarding the contract status of our drilling units as of November 1, 2012:

Rig Name	Percentage of FY 2012 Revenues	Location at November 1, 2012	Customer	Contract Status at November 1, 2012
ULTRA-DEEPWATER SEMISUBMERSIBLES AND DRILLSHIPS				
Atwood Advantage	N/A	N/A	Noble Energy Inc. ("Noble")	Under construction in South Korea with expected delivery in September 2013. Upon delivery from the shipyard, the rig will mobilize to the Eastern Mediterranean Sea to commence a drilling program which extends to December 2016.
Atwood Achiever	N/A	N/A	None	Under construction in South Korea with expected delivery in June 2014.
Atwood Admiral	N/A	N/A	None	

Atwood Condor	4.5%	U.S. Gulf of Mexico	Hess Corporation ("Hess")	Under construction in South Korea with expected delivery in March 2015. The rig is currently working under a drilling program with Hess which extends to July 2014.
Atwood Osprey	22%	Offshore Australia	Chevron Australia Pty. Ltd. ("Chevron Australia")	The rig is currently working under a drilling program with Chevron Australia which extends to May 2017.

## DEEPWATER SEMISUBMERSIBLES

Atwood Eagle	17%	Offshore Australia	Chevron Australia	The rig is currently working under a drilling program with Chevron Australia which extends to late November 2012. Upon completion of the drilling program with Chevron Australia, the rig will incur approximately one month of zero rate days for regulatory inspection and planned maintenance. Following this, the rig will commence a drilling program offshore Australia which extends to June 2014.
Atwood Falcon	13%	Offshore Australia	Apache Energy Ltd. ("Apache")	The rig is currently working under a drilling program with Apache which extends to November 2014.
Atwood Hunter	25%	Offshore Equatorial Guinea	Noble	The rig is currently working under a drilling program with Noble offshore West Africa which extends to September 2013.
JACKUPS				
Atwood Manta	N/A	N/A	CEC International, Ltd. ("CEC")	The rig is under construction in Singapore with expected delivery in November 2012. Upon delivery from the shipyard, the rig will mobilize to Thailand to commence a drilling program which extends to December 2013.
Atwood Orca	N/A	N/A	None	The rig is under construction in Singapore with expected delivery in June 2013. The rig is currently under a drilling program for Bowleven offshore West Africa which extends to January 2013.
Atwood Aurora	7%	Offshore Cameroon	Bowleven Plc. ("Bowleven")	Upon completion of the drilling program with Bowleven, the rig will commence a drilling program offshore Cameroon which extends to August 2013.
Atwood Beacon	6.5%	Eastern Mediterranean Sea	Shemen Oil and Gas Resources Ltd.	The rig is currently working under a drilling program with



("Shemen")

Shemen which extends to April 2013.

Atwood Mako 0.5%

Offshore Thailand Salamander Energy (Bualuang) Limited ("Salamander")

The rig is currently working under a drilling program with Salamander which extends to September 2013.

Vicksburg 4.5%

Offshore Thailand CEC

The rig is currently working under a drilling program for CEC offshore Thailand which extends to December 2013.

OTHER

Atwood Southern Cross N/A

Malta None

The rig is currently cold-stacked and is not being actively marketed.

Seahawk N/A

Ghana None

The rig is currently cold-stacked and is not being actively marketed.

Our contract backlog at September 30, 2012 was approximately \$2.6 billion, representing an approximate 73% increase compared to our contract backlog of \$1.5 billion at September 30, 2011. See Item 1A. “Risk Factors—Our current backlog of contract drilling revenue may not be ultimately realized” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Outlook—Contract Backlog” in Item 7 of this Form 10-K.

#### OFFSHORE DRILLING EQUIPMENT

Each type of drilling rig is uniquely designed for different purposes and applications, for operations in different water depths, bottom conditions, environments and geographical areas, and for different drilling and operating requirements. We classify rigs with the ability to operate in 5,000 feet of water or greater as deepwater rigs and rigs with the ability to operate in 7,500 feet of water or greater as ultra-deepwater rigs. The following descriptions of the various types of drilling rigs we own or are constructing illustrate the diversified range of applications of our rig fleet.

**Ultra-Deepwater Drillships.** Drillships are generally self-propelled vessels, shaped like conventional ships, and are the most mobile of the major rig types. Our high-specification drillships currently under construction are dynamically positioned, which allows them to maintain position without anchors through the use of their onboard propulsion and station-keeping systems. Drillships typically have greater load capacity than semisubmersible rigs, which enables them to carry more supplies on board, often making them better suited for drilling in remote locations where resupply is more difficult. Drillships are a subset of floating rigs or floaters.

**Semisubmersible Rigs.** Each semisubmersible drilling unit has two hulls, the lower of which is capable of being flooded. Drilling equipment is mounted on the main hull. After the drilling unit is towed to location, the ballast tanks in the lower hull are flooded, lowering the entire drilling unit to its operating draft, and the drilling unit is either anchored in place (conventionally moored drilling unit) or maintains position without anchors through the use of onboard propulsion and station-keeping systems (dynamically positioned drilling unit). On completion of operations, the lower hull is deballasted, raising the entire drilling unit to its towing draft. Similar to drillships, this type of drilling unit is designed to operate in greater water depths than bottom supported drilling rigs. Semisubmersibles also operate in more severe sea conditions than other types of drilling units. Semisubmersible rigs are a subset of floating rigs or floaters.

**Jackup Drilling Rigs.** A jackup drilling rig consists of a single hull supported by three legs positioned on the sea floor. It is typically towed to the well site on its single hull. Once on location, legs are lowered to the sea floor and the unit is raised out of the water by jacking the hull up the legs.

**Semisubmersible Tender Assist Rigs.** Semisubmersible tender assist rigs operate like semisubmersible rigs except that their drilling equipment is temporarily installed on permanently constructed offshore support platforms.

Semisubmersible tender assist rigs provide crew accommodations, storage facilities and other support for drilling operations.

#### INDUSTRY TRENDS

Our industry is subject to intense price competition and volatility. Periods of high demand and higher day rates are often followed by periods of low demand and lower day rates. Offshore drilling contractors can build new drilling rigs, mobilize rigs from one region of the world to another, “idle” or scrap rigs (taking them out-of-service) or reactivate idled rigs in order to adjust the supply of existing equipment in various markets to meet demand. The market for drilling services is typically driven by global hydrocarbon demand and changes in actual or anticipated oil and gas prices. Generally, sustained high energy prices translate into increased exploration and production spending by oil and gas companies, which in turn results in increased drilling activity and demand for equipment like ours.

Our customers are increasingly demanding newer, higher specification drilling rigs to perform contract drilling services either as a response to increased technical challenges or for the safety, reliability and efficiency typical of the newer, more capable rigs. This trend is commonly referred to as the bifurcation of the drilling fleet. Bifurcation is occurring in both the jackup and floater rig classes and is evidenced by the higher specification drilling rigs operating at generally higher overall utilization levels and day rates than the lower specification or standard drilling rigs. The lower specification class is also experiencing a significant number of rigs being either warm or cold-stacked or scrapped.

Floating drilling rigs are outfitted with highly sophisticated subsea well control equipment. The number of original equipment manufacturer (“OEM”) vendors manufacturing and servicing this equipment is limited and their ability to

service the drilling industry on a timely basis is becoming challenging. Demand for service personnel has sharply increased and delivery times for this equipment are being lengthened, driven by the recent significant increase in the number of rigs under construction, related demand for new BOPs and the post-Macondo requirement by the Bureau of Ocean Energy Management (“BOEM”) that only OEM vendors service and/or recertify BOPs and other well control equipment.

The offshore drilling markets where we currently operate, including the U.S. Gulf of Mexico, the Mediterranean Sea, offshore West Africa, offshore Southeast Asia and offshore Australia are rich in hydrocarbon deposits and thus offer the potential for high rig utilization over the long-term. In addition, deepwater drilling activity in the U.S. Gulf of Mexico is returning to pre-Macondo levels, as evidenced by the number of drilling permits approved in recent months and the number of rigs currently operating in the region.

Current market activity is robust despite concerns of slowing global economies. Commodity prices have been relatively stable over the past year at levels which promote continued investment in exploration and development drilling globally.

#### DRILLING CONTRACTS

We obtain the contracts under which we operate our units either through direct negotiation with customers or by submitting proposals in competition with other contractors. Our contracts vary in their terms and rates depending on the nature of the operation to be performed, the duration of the work, the amount and type of equipment and services provided, the geographic areas involved, market conditions and other variables.

The initial term of contracts for our units has ranged from the length of time necessary to drill one well to several years. It is not unusual for contracts to contain renewal provisions, which in time of weak market conditions are usually at the option of the customer, and in strong market conditions are usually mutually agreeable.

Generally, contracts for drilling services specify a basic rate of compensation computed on a day rate basis. Contracts generally provide for a reduced day rate payable when operations are interrupted by equipment failure and subsequent repairs, field moves, adverse weather conditions or other factors beyond our control. Some contracts also provide for revision of the specified day rates in the event of material changes in certain items of cost. Any period during which a rig is not earning a full operating day rate because of the above conditions or because the rig is idle and not on contract will have an adverse effect on operating profits. An over-supply of drilling rigs in any market area can adversely affect our ability to employ our drilling units in these market areas.

For long moves of drilling equipment, we may obtain from our customers either a lump sum or a day rate as mobilization compensation for expenses incurred during the period in transit. In a weaker market environment, we may not fully recover our relocation costs. However, in a stronger market environment, we are generally able to obtain full reimbursement of relocation costs plus a partial or full day rate as mobilization compensation. We can give no assurance that we will receive full or partial recovery of any future relocation costs beyond that for which we have already contracted.

Certain of our contracts may be canceled upon specified notice at the option of the customer upon payment of an early termination payment. Contracts also customarily provide for either automatic termination or termination at the option of the customer in the event of total loss of the drilling rig, if a rig is not delivered to the customer, if a rig does not pass acceptance testing within the period specified in the contract, if drilling operations are suspended for extended periods of time by reason of excessive rig downtime for repairs, or other specified conditions, including force majeure or failure to meet minimum performance criteria. Early termination of a contract may result in a rig being idle for an extended period of time. Not all of our contracts require the customer to fully compensate us for the loss of the contract.

Operation of our drilling equipment is subject to the offshore drilling requirements of petroleum exploration companies and agencies of local or foreign governments. These requirements are, in turn, subject to changes in government policies, world demand and prices for petroleum products, proved reserves in relation to such demand and the extent to which such demand can be met from onshore sources.

The majority of our contracts are denominated in U.S. dollars, but occasionally 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 revenue in the local currency to operating costs paid in the local currency such as local labor, shore base expenses, and local taxes, if any.

#### INSURANCE AND RISK MANAGEMENT

Our operations are subject to the usual hazards associated with the drilling of oil and gas wells, such as blowouts, explosions and fires. In addition, our equipment is subject to various risks particular to our industry which we seek to mitigate by maintaining insurance. These risks include, among others, leg damage to jackups during positioning,

capsizing, grounding, collision and damage from severe weather conditions. Any of these risks could result in damage or destruction of drilling rigs and oil and gas wells, personal injury and property damage, suspension of operations or environmental damage through oil spillage or extensive, uncontrolled fires. Therefore, in addition to general business insurance policies, we maintain the following insurance relating to our rigs and rig operations, among others: hull and machinery, protection and indemnity, mortgagee's interest, cargo, war risks, casualty and liability (including excess liability) and, in certain instances, we may carry loss of hire. Our casualty and liability insurance policies are subject to self-insured deductibles. With respect to hull and

machinery, we generally maintain a deductible of \$5 million per occurrence. For general and marine third-party liabilities, we generally maintain a \$1 million per occurrence deductible on personal injury liability for crew claims. Our rigs are insured at values ranging from book value, for the cold-stacked rigs, to estimated market value, for our in-service rigs. In addition, the Atwood Condor is insured against up to \$150 million of damage as a result of a U.S. Gulf of Mexico windstorm.

As a result of significant losses incurred by the insurance industry due to offshore drilling rig accidents, such as the April 2010 Macondo incident in the U.S. Gulf of Mexico, damages from hurricanes such as Hurricane Ike in 2008, and other events, we have experienced modest increases in premiums for certain types of insurance coverage. Although we believe that we are adequately insured against normal and foreseeable risks in our operations in accordance with industry standards, such insurance may not be adequate to protect us against liability from all consequences of well disasters, marine perils, extensive fire damage, damage to the environment or disruption due to terrorism. To date, we have not experienced difficulty in obtaining insurance coverage, although we can provide no assurance as to the future availability of such insurance or the cost thereof. The occurrence of a significant event against which we are not adequately insured could have a material adverse effect on our financial position. See “Operating hazards increase our risk of liability; we may not be able to fully insure against all of these risks.” in Item 1A. “Risk Factors” of this Form 10-K.

#### CUSTOMERS

During fiscal year 2012, we performed operations for 16 customers. Due to the relatively limited number of customers for which we can operate at any given time, revenues from three different customers amounted to 10% or more of our revenues in fiscal year 2012 as indicated below:

Customer	Percentage of Revenues	
Chevron Australia	34	%
Noble	17	%
Kosmos Energy Ghana Inc.	11	%

Our business operations are subject to the risks associated with a business having a limited number of customers for our products or services, and the loss of, or a decrease in the drilling programs of, these customers may adversely affect our revenues and, therefore, our results of operations and cash flows.

#### COMPETITION

The offshore drilling industry is very competitive, with no single offshore drilling contractor being dominant. We compete with a number of offshore drilling contractors for work, which varies by job requirements and location. Many of our competitors are substantially larger than we are and possess appreciably greater financial and other resources and assets than we do. Our competitors include, among others, the six members of our self-determined peer group including Diamond Offshore Drilling, Inc., Ensco plc, Noble Corporation, Rowan Companies, Inc., Seadrill Limited, and Transocean Ltd.

Technical capability, location, rig availability and price competition are generally the most important factors in the offshore drilling industry; however, when there is high worldwide utilization of equipment, rig availability and suitability become more important factors in securing contracts than price. Other competitive factors include work force experience, efficiency, condition of equipment, safety performance, reputation and customer relations. We believe that we compete favorably with respect to these factors.

#### INTERNATIONAL OPERATIONS

During our history, we have operated in most of the major offshore exploration areas of the world. At least 95% of our contract revenues were derived from foreign operations in each of the prior three fiscal years. However, as a result of our newest ultra-deepwater, semisubmersible drilling rig, the Atwood Condor, currently in the U.S. Gulf of Mexico, we expect the percentage of our contract revenues derived from foreign operations for future fiscal years to decrease. Because of our experience in a number of geographic areas and the mobility of our equipment, we believe we are not dependent upon any one area for our long-term operations.

For information about risk associated with our foreign operations, see Item 1A, “Risk Factors—Our international operations may involve risks not generally associated with domestic operations.” and “A change in tax laws in any country in which we operate could result in higher tax expense” of this Form 10-K.

## EMPLOYEES

As of November 1, 2012, we had approximately 1,460 personnel engaged, including through labor contractors or agencies. In connection with our foreign drilling operations, we are often required by the host country to hire a substantial percentage of our work force in that country and, in some cases, these employees are represented by foreign unions. To date, we have experienced little difficulty in complying with such requirements, and our drilling operations have not been significantly interrupted by strikes or work stoppages. Our success also depends to a significant extent upon the efforts and abilities of our executive officers and other key management personnel. There is no assurance that these individuals will continue in such capacity for any particular period of time.

## ENVIRONMENTAL REGULATION

Our operations are subject to a variety of U.S. and foreign environmental regulation and to international environmental conventions. We monitor environmental regulation in each country in which we operate and, while we have experienced an increase in general environmental regulation, we do not believe compliance with such regulations will have a material adverse effect upon our business or results of operations. Past environmental issues, such as the Macondo incident, have led to higher drilling costs, a more difficult and lengthy well permitting process and, in general, have adversely affected decisions of oil and gas companies to drill in these areas.

In the United States, regulations applicable to our operations include regulations controlling the discharge of materials into the environment, requiring removal and cleanup of materials that may harm the environment, or otherwise relating to the protection of the environment. Laws and regulations protecting the environment have become more stringent, and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Some of these laws and regulations may expose us to liability for the conduct of or conditions caused by others or for acts which were in compliance with all applicable laws at the time they were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on our financial position, results of operations or cash flows. We believe all of our rigs satisfy current environmental requirements and certifications, if any, required to operate in the jurisdictions where they currently operate, but can give no assurance that in the future they will satisfy new environmental requirements or certifications, if any, or that the costs to satisfy such requirements or certifications, if any, would not materially affect our financial position, results of operations or cash flows. As a result of the Macondo incident, there is pending legislation which, if enacted, would likely affect liability limits under existing U.S. environmental laws and regulations. If and when such proposed legislation is enacted, we will be able to better assess its impact on us. The description below of U.S. environmental laws and regulations is based upon those currently in effect.

The U.S. Federal Water Pollution Control Act of 1972, commonly referred to as the Clean Water Act, prohibits the discharge of specified substances into the navigable waters of the United States without a permit. The regulations implementing the Clean Water Act require permits to be obtained by an operator before specified exploration activities occur. Offshore facilities must also prepare plans addressing spill prevention control and countermeasures. Violations of monitoring, reporting and permitting requirements can result in the imposition of administrative, civil and criminal penalties.

The U.S. Oil Pollution Act of 1990, or OPA, and related regulations impose a variety of requirements on “responsible parties” related to the prevention of oil spills and liability for damages resulting from such spills. Few defenses exist to the strict liability imposed by OPA, and the liability could be substantial. Failure to comply with ongoing requirements or inadequate cooperation in the event of a spill could subject a responsible party to civil or criminal enforcement action. OPA assigns joint and several, strict liability, without regard to fault, to each liable party for all containment and oil removal costs and a variety of public and private damages including, but not limited to, the costs of responding to a release of oil, natural resource damages, and economic damages suffered by persons adversely affected by an oil spill.

The U.S. Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, also known as the “Superfund” law, imposes liability without regard to fault or the legality of the original conduct on some classes of persons that are considered to have contributed to the release of a “hazardous substance” into the environment. Such persons include the owner or operator of a facility where a release occurred and companies that disposed of or arranged for the transport or disposal of the hazardous substances found at a particular site. Persons who are or were



responsible for releases of hazardous substances under CERCLA may be subject to joint and several liabilities for the cost of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the U.S. Environmental Protection Agency (the “EPA”) and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is also not uncommon for third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We generate materials in the course of our operations that may be regulated as hazardous substances.

The U.S. Resource Conservation and Recovery Act (“RCRA”), and similar state and local laws and regulations govern the management of wastes, including the treatment, storage and disposal of hazardous wastes. RCRA imposes stringent operating requirements, and liability for failure to meet such requirements, on a person who is either a “generator” or “transporter” of hazardous waste or an “owner” or “operator” of a hazardous waste treatment, storage or disposal facility. RCRA specifically excludes from the definition of hazardous waste drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil and natural gas. A similar exemption is contained in many of the state counterparts to RCRA, leaving them to be regulated as solid waste. As a result, a substantial portion of RCRA's requirements do not apply as our operations generate minimal quantities of hazardous wastes (i.e., industrial wastes such as solvents, waste compressor oils, etc.). However, a petition is currently before the EPA to revoke the oil and natural gas exploration and production exemption. Any repeal or modification of this or similar exemption in similar state statutes, would increase the volume of hazardous waste we are required to manage and dispose of, and would cause us, as well as our competitors, to incur increased operating expenses with respect to our U.S. operations.

#### OTHER GOVERNMENTAL REGULATION

Our operations are subject to various international conventions, laws and regulations in the countries in which we operate, including laws and regulations relating to the importation of and operation of drilling units, currency conversions and repatriation, oil and gas exploration and development, taxation of offshore earnings and earnings of expatriate personnel, environmental protection, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of drilling units and other equipment. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and gas and other aspects of the oil and gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and gas companies and may continue to do so. Operations in less developed countries can be subject to legal systems that are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

Our newest active ultra-deepwater, semisubmersible drilling rig, the Atwood Condor, is currently in the U.S. Gulf of Mexico under contract with Hess Corporation as of the fourth quarter of fiscal year 2012 and, at this time, is our only rig in the U.S. Our U.S. operations are subject to various U.S. laws and regulations, including the new drilling safety rules and workplace safety rules set forth by the BOEM and the Bureau of Safety and Environmental Enforcement (“BSEE”), which are designed to improve drilling safety by strengthening requirements for safety equipment, well control systems, and blowout prevention practices on offshore oil and gas operations, and improve workplace safety by reducing the risk of human error. Implementation of new BOEM or BSEE guidelines or regulations may subject us to increased costs or limit the operational capabilities of our U.S. based rigs and could materially and adversely affect our financial position, results of operations or cash flows. Please see Item 1A. “Risk Factors — Government regulation and environmental risks could reduce our business opportunities and increase our costs” of this Form 10-K.

We believe we are in compliance in all material respects with the health, safety and other regulations affecting the operation of our rigs and the drilling of oil and gas wells in the jurisdictions in which we operate. Historically, we have made significant capital expenditures and incurred additional expenses to ensure that our equipment complies with applicable local and international health and safety regulations. Although such expenditures may be required to comply with these governmental laws and regulations, such compliance has not, to date, materially adversely affected our earnings, cash flows or competitive position.

#### AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC’s web site at <http://www.sec.gov>. Our website address is [www.atwd.com](http://www.atwd.com). We make available free of charge on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We have adopted a Code of Business Conduct and Ethics and a Code of Ethics for the Chief Executive Officer and Senior Financial Officers which are available on our website. We intend to

satisfy the disclosure requirement regarding any changes in or waivers from our codes of ethics by posting such information on our website or by filing a Form 8-K for such event. Unless stated otherwise, information on our website is not incorporated by reference into this report or made a part hereof for any purpose. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room and copy charges.

## ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors in addition to the other information included in this Form 10-K. These risks and uncertainties may affect our business, financial position, results of operations or cash flows, as well as an investment in our common stock.

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.

Our business depends on the conditions of the offshore oil and natural gas industry. Demand for our services depends on oil and natural gas industry exploration and production activity and expenditure levels, which are directly affected by trends in oil and natural gas prices. Oil and natural gas prices, and market expectations regarding potential changes to these prices, significantly affect oil and natural gas industry activity. Higher oil and natural gas prices do not necessarily translate into increased activity because demand for our services is typically driven by our customers' expectations of future commodity prices. Commodity prices have historically been volatile. Oil and natural gas prices are impacted by many factors beyond our control, including:

- the demand for oil and natural gas;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- the worldwide economy;
- expectations about future prices;
- domestic and international tax policies;
- political and military conflicts in oil producing regions or other geographical areas or acts of terrorism in the U.S. or elsewhere;
- technological advances;
- the development and exploitation of alternative fuels;
- local and international political, economic and weather conditions;
- the ability of The Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing;
- the level of production by OPEC and non-OPEC countries; and
- environmental and other laws and governmental regulations regarding exploration and development of oil and natural gas reserves.

The level of offshore exploration, development and production activity and the price for oil and natural gas is volatile and is likely to continue to be volatile in the future. A decline in the worldwide demand for oil and natural gas or prolonged low oil or natural gas prices in the future would likely result in reduced exploration and development of offshore areas and a decline in the demand for our services. Even during periods of high prices for oil and natural gas, companies exploring for oil and gas may cancel or curtail programs, or reduce their levels of capital expenditures for exploration and production for a variety of reasons. These factors could cause our revenues and margins to decline, reduce day rates and utilization of our rigs and limit our future growth prospects and, therefore, could have a material adverse effect on our financial position, results of operations and cash flows.

Our industry is subject to intense price competition and volatility.

The contract drilling business is highly competitive with numerous industry participants. Drilling contracts are traditionally awarded on a competitive bid basis. Price competition is often the primary factor in determining which qualified contractor is awarded a job, although rig availability, the quality and technical capability of service and equipment and safety record are also factors. We compete with a number of offshore drilling contractors, many of which are substantially larger than we are and which possess appreciably greater financial and other resources and assets than we do.

The industry in which we operate historically has been volatile, marked by periods of low demand, excess rig supply and low day rates, followed by periods of high demand, low rig availability and increasing day rates. Periods of excess rig supply intensify the competition in the industry and often result in rigs being idled. We may be required to idle additional rigs or to enter into lower-rate contracts in response to market conditions in the future. Presently, there are numerous recently constructed ultra-deepwater vessels and high-specification jackups that have entered the market

and more are under contract for construction. Many of these units do not have drilling contracts in place. The entry into service of these new units has increased and will continue to increase rig supply and could curtail a strengthening, or trigger a reduction, in day rates and utilization as rigs are absorbed into the active fleet. Any further increase in construction of new units may increase the negative impact on

day rates and utilization. In addition, rigs may be relocated to markets in which we operate, which could result in or exacerbate excess rig supply which may lower day rates in those markets.

Lower utilization and day rates in one or more of the regions in which we operate would adversely affect our revenues and profitability. Prolonged periods of low utilization and day rates could also result in the recognition of impairment charges on certain of our drilling rigs if future cash flow estimates, based upon information available to management at the time, indicate that the carrying value of these rigs may not be recoverable.

Our business relies heavily on a limited number of customers and a limited number of drilling units and the loss of a significant customer, the loss of a rig, or significant downtime for our rigs could materially and adversely impact our business.

Our customer base includes a small number of major and independent oil and gas companies as well as government-owned oil companies. In fiscal year 2012, three customers each accounted for over 10% of our operating revenues: Chevron Australia, 34%; Noble, 17%; and Kosmos Energy Ghana Inc., 11%. The contract drilling business is subject to the usual risks associated with having a limited number of customers for our services. Further, consolidation among oil and natural gas exploration and production companies may reduce the number of available customers. Our business and results of operations could be materially and adversely affected if any of our major customers terminate their contracts with us, fail to renew our existing contracts, refuse to award new contracts to us or experience difficulties in obtaining financing to fund their drilling programs. In addition, we currently have only 11 drilling units, and only nine of which are currently in operation and actively marketed. As a result, if any one or more of our drilling units were idled for a prolonged period of time, our business and results of operations could be materially and adversely affected.

High levels of capital expenditures will be necessary to keep pace with the bifurcation of the drilling fleet.

The market for our services is characterized by continual and rapid technological developments that have resulted in, and will likely continue to result in, substantial improvements in the functionality and performance of rigs and equipment. Our customers are increasingly demanding the services of newer, higher specification drilling rigs. This results in a bifurcation of the drilling fleet for both the jackup and floater rig classes and is evidenced by the higher specification drilling rigs generally operating at higher overall utilization levels and day rates than the lower specification or standard drilling rigs. In addition, a significant number of lower specification rigs are being stacked. As a result of this bifurcation, a high level of capital expenditures will be required to maintain and improve existing rigs and equipment and purchase and construct newer, higher specification drilling rigs to meet the increasingly sophisticated needs of our customers.

If we are not successful in acquiring or building new rigs and equipment or upgrading our existing rigs and equipment in a timely and cost-effective manner, we could lose market share. In addition, current competitors or new market entrants may develop new technologies, services or standards that could render some of our services or equipment obsolete, which could have a material adverse effect on our operations.

Rig upgrade, repair and construction projects are subject to risks, including delays, cost overruns, and failure to secure drilling contracts.

As of November 1, 2012, we had three ultra-deepwater drillships and two high-specification jackup rigs under construction. Three of our five newbuilds currently under construction do not have long-term drilling contracts in place. We may also commence the construction of additional rigs for our fleet from time to time without first obtaining drilling contracts covering any such rig. Our failure to secure drilling contracts for rigs under construction, including our remaining uncontracted newbuild construction projects, prior to deployment could adversely affect our financial position, results of operations or cash flows.

Since 2009, we have invested or committed to invest over \$3.9 billion in the expansion of our fleet, including ultra-deepwater and jackup rigs. Depending on available opportunities, we may construct additional rigs for our fleet in the future. In addition, we incur significant upgrade, refurbishment and repair expenditures on our fleet from time to time. Some of these expenditures are unplanned. These projects are subject to risks of delay or cost overruns inherent in any large construction project resulting from numerous factors, including the following:

- shortages of equipment, materials or skilled labor;
- unscheduled delays in the delivery of ordered materials and equipment;

- unanticipated increases in the cost of equipment, labor and raw materials, particularly steel;
- weather interferences;
- difficulties in obtaining necessary permits or in meeting permit conditions;

- design and engineering problems;
- client acceptance delays;
- political, social and economic instability, war and civil disturbances;
- delays in customs clearance of critical parts or equipment;
- financial or other difficulties or failures at shipyards and suppliers;
- disputes with shipyards and suppliers; and
- work stoppages and other labor disputes.

Delays in the delivery of rigs being constructed or undergoing upgrade, refurbishment or repair may result in delay in contract commencement, resulting in a loss of revenue to us, and may cause our customers to seek to terminate or shorten the terms of their contract under applicable late delivery clauses, if any. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as favorable terms, if at all. The estimated capital expenditures for rig upgrades, refurbishments and construction projects could materially exceed our planned capital expenditures. Moreover, our rigs undergoing upgrade, refurbishment and repair may not earn a day rate during the period they are out-of-service.

Our business may experience reduced profitability if our customers terminate or seek to renegotiate our drilling contracts.

Currently, our contracts with customers are day rate contracts, in which we charge a fixed amount per day regardless of the number of days needed to drill the well. During depressed market conditions, a customer may no longer need a rig that is currently under contract or may be able to obtain a comparable rig at a lower day rate. Customers may seek to renegotiate the terms of their existing drilling contracts or avoid their obligations under those contracts. In addition, certain of our contracts may be cancelled upon specified notice at the option of the customer upon payment of an early termination payment. Contracts also customarily provide for either automatic termination or termination at the option of the customer in the event of total loss of the drilling rig, if a rig is not delivered to the customer, if a rig does not pass acceptance testing within the period specified in the contract, if drilling operations are suspended for extended periods of time by reason of excessive rig downtime for repairs, or other specified conditions, including force majeure or failure to meet minimum performance criteria. Early termination of a contract may result in a rig being idle for an extended period of time. Not all of our contracts require the customer to fully compensate us for the loss of the contract. Our revenues may be adversely affected by customers' early termination of contracts, especially if we are unable to re-contract the affected rig within a short period of time. The termination or renegotiation of a number of our drilling contracts could adversely affect our financial position, results of operations and cash flows.

Our business will be adversely affected if we are unable to secure contracts on economically favorable terms.

The drilling markets in which we compete frequently experience significant fluctuations in the demand for drilling services, as measured by the level of exploration and development expenditures, and the supply of capable drilling equipment. We have four contracts that will expire during fiscal year 2013 with no immediate follow-on work currently scheduled. Our ability to renew these contracts or obtain new contracts and the terms of any such contracts will depend on market conditions. We may be unable to renew our expiring contracts or obtain new contracts for the rigs under contracts that have expired or been terminated, and the day rates under any new contracts may be substantially below the existing day rates, which could materially reduce our revenues and profitability. We can, as we have done in the past, relocate drilling rigs from one geographic area to another, but only when such moves are economically justified, or we can idle rigs temporarily to save operating expenses and reduce rig supply. If demand for our rigs declines, rig utilization and day rates are generally adversely affected, which in turn, would adversely affect our revenues.

Our current backlog of contract drilling revenue may not be ultimately realized.

As of September 30, 2012, our contract drilling backlog was approximately \$2.6 billion for future revenues under firm commitments. We may not be able to perform under these contracts due to events beyond our control, and our customers may seek to cancel or renegotiate our contracts for various reasons, including those described above. In addition, some of our customers could experience liquidity issues or could otherwise be unable or unwilling to perform under the contract, which could ultimately lead a customer to go into bankruptcy or to otherwise encourage a customer to seek to repudiate, cancel or renegotiate a contract. Our inability or the inability of our customers to



perform under our or their contractual obligations may have a material adverse effect on our financial position, results of operations and cash flows.

Our customers may be unable or unwilling to indemnify us.

Consistent with standard industry practice, we typically obtain contractual indemnification from our customers whereby

they agree to protect and indemnify us for liabilities resulting from various hazards associated with the drilling industry. We can provide no assurance, however, that our customers will be willing or financially able to meet these indemnification obligations. Also, we may choose not to enforce these indemnities because of business reasons. Operating hazards increase our risk of liability; we may not be able to fully insure against all of these risks.

Our operations are subject to various operating hazards and risks, including:

- well blowouts, loss of well control and reservoir damage;
- fires and explosions;
- catastrophic marine disaster;
- adverse sea and weather conditions;
- mechanical failure;
- navigation errors;
- collision;
- oil and hazardous substance spills, containment and clean up;
- lost or stuck drill strings;
- equipment defects;
- labor shortages and strikes;
- damage to and loss of drilling rigs and production facilities; and
- war, sabotage, terrorism and piracy.

These risks present a threat to the safety of personnel and to our rigs, cargo, equipment under tow and other property, as well as the environment. Our operations and those of others could be suspended as a result of these hazards, whether the fault is ours or that of a third party. In certain circumstances, governmental authorities may suspend drilling operations as a result of these hazards, and our customers may cancel or terminate their contracts. Third parties may have significant claims against us for damages due to personal injury, death, property damage, pollution and loss of business if such event were to occur in our operations.

Our offshore drilling operations are also subject to marine hazards, either at offshore sites or while drilling equipment is under tow, such as vessel capsizings, sinkings, collisions or groundings. In addition, raising and lowering jackup drilling rigs, flooding semisubmersible ballast tanks and drilling into high-pressure formations are complex, hazardous activities, and we can encounter problems.

We have had accidents in the past due to some of the hazards described above. Because of the ongoing hazards associated with our operations:

- we may experience accidents;
- our insurance coverage may prove inadequate to cover our losses;
- our insurance deductibles may increase; or
- our insurance premiums may increase to the point where maintaining our current level of coverage is prohibitively expensive or we may be unable to obtain insurance at all.

We maintain insurance coverage against casualty and liability risks and have renewed our primary insurance program through June 30, 2013. Certain risks, however, such as pollution, reservoir damage and environmental risks generally are not fully insurable. Although we believe our insurance is adequate, our policies and contractual indemnity rights may not adequately cover all losses or may have exclusions of coverage for certain losses. We do not have insurance coverage or rights to indemnity for all risks. In addition, we may be unable to renew or maintain our existing insurance coverage at commercially reasonable rates or at all. If a significant accident or other event occurs and is not fully covered by insurance or contractual indemnity, it could adversely affect our financial position, results of operations or cash flows. There is no assurance that our insurance coverage will be available or affordable and, if available, whether it will be adequate to cover future claims that may arise. Additionally, there is no assurance that those parties with contractual obligations to indemnify us will necessarily be financially able or willing to indemnify us against all these risks.

Our drilling contracts provide for varying levels of indemnification from our customers and in most cases may require us to indemnify our customers. Under offshore drilling contracts, liability with respect to personnel and property is customarily assigned on a “knock-for-knock” basis, which means that we and our customers assume liability for our

respective personnel and property. However, in certain cases we may have liability for damage to our customer's property and other third-party

property on the rig. Our customers typically assume responsibility for and indemnify us from any loss or liability resulting from pollution or contamination, including clean-up and removal and third-party damages, arising from operations under the contract and originating below the surface of the water, including as a result of blow-outs or cratering of the well. In some drilling contracts, however, we may have liability for third-party damages resulting from such pollution or contamination caused by our gross negligence, or, in some cases, ordinary negligence, subject to negotiated caps. We generally indemnify the customer for legal and financial consequences of spills of industrial waste and other liquids originating from our rigs or equipment above the surface of the water.

The above description of our insurance program and the indemnification provisions of our drilling contracts is only a summary and is general in nature. Our insurance program and the terms of our drilling contracts may change in the future. In addition, the indemnification provisions of our drilling contracts may be subject to differing interpretations, and enforcement of those provisions may be limited by public policy and other considerations.

Our long-term contracts are subject to the risk of cost increases, which could adversely impact our profitability.

In periods of rising demand for offshore rigs, a drilling contractor generally would prefer to enter into well-to-well or other short-term contracts less than one year in duration that would allow the contractor to profit from increasing day rates, while customers with reasonably definite drilling programs would typically prefer long-term contracts in order to maintain day rates at a consistent level. Conversely, in periods of decreasing demand for offshore rigs, a drilling contractor generally would prefer long-term contracts to preserve day rates and utilization, while customers generally would prefer well-to-well or other short-term contracts that would allow the customer to benefit from the decreasing day rates. For the fiscal year ended September 30, 2012, a majority of our revenue was derived from long-term day rate contracts greater than one year in duration, and substantially all of our backlog as of September 30, 2012 was attributable to long-term day rate contracts. As a result, our inability to fully benefit from increasing day rates in an improving market may limit our profitability.

In general, our costs increase as the business environment for drilling services improves and demand for oilfield equipment and skilled labor increases. While many of our contracts include cost escalation provisions that allow changes to our day rate based on stipulated cost increases or decreases, the timing and amount earned from these day rate adjustments may differ from our actual increase in costs. Additionally, if our rigs incur idle time between contracts, we typically do not remove personnel from those rigs because we utilize the crew to prepare the rig for its next contract. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to prepare our rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. Moreover, as our rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are amortized.

A change in tax laws in any country in which we operate could result in higher tax expense.

We conduct our worldwide operations through various subsidiaries. Tax laws and regulations are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, treaties and regulations in and between countries in which we operate. Our income tax expense is based on our interpretation of the tax laws in effect at the time the expense was incurred. Tax legislation is proposed from time to time which could, among other things, limit our ability to defer the taxation of non-U.S. income and would increase current tax expense. A change in tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings.

We file periodic tax returns that are subject to review and audit by various revenue agencies in the jurisdictions in which we operate. Taxing authorities may challenge any of our tax positions. We are currently contesting tax assessments that could have a material impact on our financial statements and we may contest future assessments where we believe the assessments are in error. Determinations by such authorities that differ materially from our recorded estimates, favorably or unfavorably, may have a material impact on our financial position, results of operations or cash flows.

Government regulation and environmental risks could reduce our business opportunities and increase our costs.

We must comply with extensive government regulation in the form of international conventions, federal, state and local laws and regulations in jurisdictions where our vessels operate and are registered. These conventions, laws and regulations govern oil spills and matters of environmental protection, worker health and safety, and the manning, construction and operation of vessels, and vessel and port security. We believe that we are in material compliance with all applicable environmental, health and safety and vessel and port security laws and regulations as currently in effect. We are not a party to any pending governmental litigation or similar proceeding, and we are not aware of any threatened governmental litigation or

proceeding which, if adversely determined, would have a material adverse effect on our financial position, results of operations or cash flows. However, failure to comply with these laws and regulations may result in the assessment of administrative, civil and even criminal penalties, the imposition of remedial obligations, the denial or revocation of permits or other authorizations and the issuance of injunctions that may limit or prohibit our operations. In addition, compliance with environmental, health and safety and vessel and port security laws increases our costs of doing business.

Environmental, health and safety and vessel and port security laws change frequently, and we may not be able to anticipate such changes or the impact of such changes. There is no assurance that we can avoid significant costs, liabilities and penalties imposed as a result of governmental regulation in the future. Changes in laws or regulations regarding offshore oil and gas exploration and development activities, the cost or availability of insurance, and decisions by customers, governmental agencies, or other industry participants could reduce demand for our services or increase our costs of operations, which could have a negative impact on our financial position, results of operations or cash flows, but we cannot reasonably or reliably estimate that such changes will occur, when they will occur, or if they will impact us. Such changes can occur quickly within a region, similar to the Macondo well incident in the U.S. Gulf of Mexico in April 2010, which may impact both the affected region and global utilization and day rates, and we may not be able to respond quickly, or at all, to mitigate such changes.

Failure to comply with the U.S. Foreign Corrupt Practices Act or foreign anti-bribery legislation could have an adverse impact on our business.

The U.S. Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws in other jurisdictions, including the United Kingdom Bribery Act 2010, generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. We operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices and impact our business. Although we have programs in place covering compliance with anti-bribery legislation, any failure to comply with the FCPA or other anti-bribery legislation could subject us to civil and criminal penalties or other sanctions, which could have a material adverse effect on our business, financial position, results of operations or cash flows. We could also face fines, sanctions and other penalties from authorities in the relevant foreign jurisdictions, including prohibition of our participating in or curtailment of business operations in those jurisdictions and the seizure of rigs or other assets.

Our international operations may involve risks not generally associated with domestic operations.

We derive a significant portion of our revenues from operations outside the United States. Our operations are subject to risks inherent in conducting business internationally, such as:

- legal and governmental regulatory requirements;
- difficulties and costs of staffing and managing international operations;
- political, social and economic instability;
- terrorist acts, piracy, war and civil disturbances;
- language and cultural difficulties;
- potential vessel seizure, expropriation or nationalization of assets or confiscatory taxation;
- import-export quotas or other trade barriers;
- renegotiation, nullification or modification of existing contracts;
- difficulties in collecting accounts receivable and longer collection periods;
- foreign and domestic monetary policies;
- work stoppages;
- complications associated with repairing and replacing equipment in remote locations;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- wage and price controls;
- assaults on property or personnel, including kidnappings;
- travel limitations or operational problems caused by public health or security threats;
- imposition of currency exchange controls;
- solicitation by governmental officials for improper payments or other forms of corruption;

currency exchange fluctuations and devaluations; or,  
potentially adverse tax consequences, including those due to changes in laws or interpretation of existing laws.

Our non-U.S. operations are subject to various laws and regulations in certain countries in which we operate, including laws and regulations relating to the import and export, equipment and operation of drilling units, currency conversions and repatriation, oil and gas exploration and development, and taxation of offshore earnings and earnings of expatriate personnel. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and gas and other aspects of the oil and gas industries in their countries, including local content requirements for participating in tenders for certain drilling contracts. Many governments favor or effectively require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, government action, including initiatives by OPEC, may continue to cause oil or gas price volatility. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work by major oil companies and may continue to do so. Operations in less developed countries can be subject to legal systems which are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

Some of our drilling contracts are partially payable in local currency. Those amounts may exceed our local currency needs, leading to the accumulation of excess local currency, which, in certain instances, may be subject to either temporary blocking or other difficulties converting to U.S. dollars. Excess amounts of local currency may be exposed to the risk of currency exchange losses.

The shipment of goods, services and technology across international borders subjects us to extensive trade and other laws and regulations. Our import and export activities are governed by unique customs laws and regulations in each of the countries where we operate. Moreover, many countries, including the U.S., control the import and export of certain goods, services and technology and impose related import and export recordkeeping and reporting obligations, the laws and regulations related to which are complex and constantly changing. These laws and regulations may be enacted, amended, enforced or interpreted in a manner materially impacting our operations. Shipments may be delayed and denied import or export for a variety of reasons, some of which are outside our control, and such delays or denials could cause unscheduled operational downtime. Any failure to comply with these applicable legal and regulatory obligations also could result in criminal and civil penalties and sanctions, such as fines, imprisonment, debarment from government contracts, seizure of shipments and loss of import and export privileges.

In the past, these conditions or events have not materially affected our operations. However, we cannot predict whether any such conditions or events might develop in the future. Also, we organized our subsidiary structure and our operations, in part, based on certain assumptions about various foreign and domestic tax laws, currency exchange requirements, and capital repatriation laws. While we believe our assumptions are correct, there can be no assurance that taxing or other authorities will reach the same conclusion. If our assumptions are incorrect, or if the relevant countries change or modify such laws or the current interpretation of such laws, we may suffer adverse tax and financial consequences, including the reduction of cash flow available to meet required debt service and other obligations. Any of these factors could materially adversely affect our international operations and, consequently, our business, financial position, results of operations or cash flows.

Our business is subject to war, sabotage, terrorism and piracy, which could have an adverse effect.

It is unclear what impact the current United States military campaigns or possible future campaigns will have on the energy industry in general, or us in particular, in the future. Uncertainty surrounding retaliatory military strikes or a sustained military campaign may affect our operations in unpredictable ways, including changes in the insurance markets, disruptions of fuel supplies and markets, particularly oil, and the possibility that infrastructure facilities, including pipelines, production facilities, refineries, electric generation, transmission and distribution facilities, could be direct targets of, or indirect casualties of, an act of terror. War or risk of war may also have an adverse effect on the economy.

Acts of war, sabotage, terrorism, piracy and social unrest, brought about by world political events or otherwise, have caused instability in the world's financial and insurance markets in the past and may continue to do so in the future. Such acts could be directed against companies such as ours, and could also adversely affect the oil, gas and power industries and restrict their future growth. Insurance premiums could increase and coverage may be unavailable in the future.



Failure to obtain and retain key personnel could impede our operations.

We depend to a significant extent upon the efforts and abilities of our executive officers and other key management personnel. There is no assurance that these individuals will continue in such capacity for any particular period of time. The loss of the services of one or more of our executive officers or other personnel could adversely affect our operations.

We require highly skilled personnel to operate our drilling rigs and provide technical services and support for our business worldwide. Historically, competition for the labor required for drilling operations and construction projects, has intensified as the number of rigs activated, added to worldwide fleets or under construction increased, leading to shortages of

qualified personnel in the industry and creating upward pressure on wages and higher turnover. We may experience increased competition for the crews necessary to operate our rigs. If increased competition for labor were to intensify in the future, we may experience increases in costs or reductions in experience levels which could impact operations. The shortages of qualified personnel or the inability to obtain and retain qualified personnel could also negatively affect the quality, safety and timeliness of our work.

Consolidation of suppliers may limit our ability to obtain supplies and services at an acceptable cost, on our schedule or at all.

Our operations rely on a significant supply of capital and consumable spare parts and equipment to maintain and repair our fleet. We also rely on the supply of ancillary services, including supply boats and helicopters. Recent consolidation has reduced the number of available suppliers, resulting in fewer alternatives for sourcing of key supplies and services. We may not be able to obtain supplies and services at an acceptable cost, at the times we need them or at all. These cost increases, delays or unavailability could negatively impact our future operations and result in increases in rig downtime, and delays in the repair and maintenance of our fleet.

Unionization efforts and labor regulations in certain countries in which we operate could materially increase our costs or limit our flexibility.

Certain of our employees and contractors in international markets are represented by labor unions and work under collective bargaining or similar agreements, which are subject to periodic renegotiation. Efforts may be made from time to time to unionize portions of our workforce. In addition, we may in the future be subject to strikes or work stoppages and other labor disruptions. Additional unionization efforts, new collective bargaining agreements or work stoppages could materially increase our costs, reduce our revenues or limit our flexibility.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for the oil and natural gas we produce.

There is a concern that emissions of greenhouse gases ("GHG") may alter the composition of the global atmosphere in ways that affect the global climate. Climate change, including the impact of global warming, may create physical and financial risk. Physical risks from climate change include an increase in sea level and changes in weather conditions. Given the maritime nature of our business, we do not believe that physical climate change is likely to have a material adverse effect on us. Financial risks relating to climate change are likely to arise from increasing legislation and regulation, as compliance with any new rules could be difficult and costly.

United States federal legislation has been proposed in Congress to reduce GHG emissions and federal legislation limiting GHG emissions may be enacted in the United States. In addition, the EPA has undertaken new efforts to collect information regarding GHG emissions and their effects and has begun adopting and implementing regulations to restrict emissions of GHGs under existing provisions of the federal Clean Air Act, one of which requires a reduction in emissions of GHGs from motor vehicles and the other of which established a permitting requirement for emissions of GHGs from certain large stationary sources, effective January 2, 2011. The EPA has also adopted rules requiring the reporting of GHG emissions from specified large GHG emission sources in the United States on an annual basis, as well as certain onshore and offshore oil and natural gas production facilities on an annual basis, beginning in 2012 for emissions occurring in 2011. Foreign jurisdictions are also addressing climate changes by legislation or regulation. The adoption of legislation and regulatory programs to reduce emissions of GHGs could require us to incur increased energy, environmental and other costs and capital expenditures to comply. Consequently, legislation and regulatory programs to reduce emissions of GHGs could have an adverse effect on our business, financial position, results of operations or cash flows.

Adverse impacts upon the oil and gas industry relating to climate change may also affect us as demand for our services depends on the level of activity in offshore oil and natural gas exploration, development and production. Although we do not expect that demand for oil and gas will lessen dramatically over the short term, concerns about climate change may reduce the demand for oil and gas in the long term. In addition, increased regulation of GHG may create greater incentives for use of alternative energy sources. Any long term material adverse effect on the oil and gas industry may have a material adverse effect on our financial position, results of operations or cash flows, but we cannot reasonably or reliably estimate if it will occur, when it will occur or that it will impact us.

We are subject to anti-takeover provisions of our constitutive documents and Texas law.

Holders of the shares of an acquisition target often receive a premium for their shares upon a change of control. Texas law and provisions of constitutive documents could have the effect of delaying or preventing a change of control and could prevent holders of our common stock from receiving such a premium. For example, Texas law prohibits us from engaging in a

business combination with any shareholder for three years from the date that person became an affiliated shareholder by beneficially owning 20% or more of our outstanding common stock, in the absence of certain board of director or shareholder approvals.

In addition, under our By-laws, special meetings of shareholders may not be called by anyone other than our Board of Directors, the Chairman of the Board of Directors, our President and Chief Executive Officer, or the holders of at least 10% of the shares of our capital stock entitled to vote at such meeting.

Covenants in our debt agreements restrict our ability to engage in certain activities.

Our debt agreements restrict our ability to, among other things:

- incur, assume or guarantee additional indebtedness or issue certain stock;
- pay dividends or distributions or redeem, repurchase or retire our capital stock or subordinated debt;
- make loans and other types of investments;
- incur liens;
- restrict dividends, loans or asset transfers from our subsidiaries;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- consolidate or merge with or into, or sell substantially all of our assets to, another person;
- acquire assets or businesses;
- enter into transactions with affiliates; and
- enter into new lines of business.

In addition, our revolving credit facility contains various financial covenants that impose a maximum leverage ratio of 4.0 to 1.0, a debt to capitalization ratio of 0.5 to 1.0, a minimum interest expense coverage ratio of 3.0 to 1.0 and a minimum collateral maintenance of 150% of the aggregate amount outstanding under the credit facility. Our ability to meet these covenants or requirements may be affected by events beyond our control, and there can be no assurance that we will satisfy such covenants and requirements in the future. Such restrictions may limit our ability to successfully execute our business plans, which may have adverse consequences on our operations.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial position, results of operations and cash flows, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or

delay investment decisions and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial position at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our existing debt agreements restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If we breach our covenants under our senior secured revolving credit facility and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default

under our senior secured revolving credit facility, the lenders could exercise their rights and we could be forced into bankruptcy or liquidation. See “Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Revolving Credit Facility.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our property consists primarily of mobile offshore drilling rigs and ancillary equipment. Six of our rigs (the Atwood Aurora, the Atwood Beacon, the Atwood Eagle, the Atwood Falcon, the Atwood Hunter, and the Atwood Osprey) are pledged under our senior secured revolving credit facility. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Revolving Credit Facility” in Item 7 of this Form 10-K.

We lease our office at our corporate headquarters in the United States and own or lease support offices in Australia, Malaysia, Singapore and the United Kingdom.

We incorporate by reference in response to this item the information set forth in Item 1, Item 7 and Note 4 of the Notes to our Consolidated Financial Statements in this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

We have certain actions, claims and other matters pending as discussed and reported in Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K. As of September 30, 2012, we were also involved in a number of lawsuits which have arisen in the ordinary course of business and for which we do not expect the liability, if any, resulting from these lawsuits to have a material adverse effect on our current consolidated financial position, results of operations or cash flows. We cannot predict with certainty the outcome or effect of any of these matters described above or any such other proceeding or threatened litigation or legal proceedings. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or other matters will prove correct and the eventual outcome of these matters could materially differ from management’s current estimates.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

## PART II

## ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As of November 8, 2012, there were approximately 73 record owners of our common stock. Our common stock is traded on the New York Stock Exchange under the symbol "ATW".

We did not pay cash dividends in fiscal years 2012 or 2011 and we do not anticipate paying cash dividends in the foreseeable future because of the capital-intensive nature of our business and restrictions in our debt agreements. To enable us to maintain our highly competitive profile in the industry, we expect to utilize cash reserves at the appropriate time to construct additional equipment or to upgrade existing equipment. Our senior secured revolving credit facility prohibits payments of cash dividends on our common stock without lender approval, and the indenture governing our senior notes restricts payments of cash dividends on our common stock without noteholder approval subject to certain exceptions.

## STOCK PRICE INFORMATION

The following table sets forth the range of high and low sales prices per share of common stock as reported by the NYSE for the periods indicated.

Quarters Ended	Fiscal 2012		Fiscal 2011	
	Low	High	Low	High
December 31	\$30.64	\$45.64	\$29.48	\$38.03
March 31	39.48	48.91	34.85	46.92
June 30	34.93	45.85	37.96	46.86
September 30	37.11	49.75	32.86	48.84

## COMMON STOCK PRICE PERFORMANCE GRAPH

Below is a comparison of five-year cumulative total returns among Atwood Oceanics, Inc. and the center for research in security prices ("CRSP") index for the NYSE/AMEX/NASDAQ stock markets, and our self determined peer group of drilling companies.

## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN (1)

	Fiscal Year Ended September 30,					
CRSP Total Returns Index for:	2007	2008	2009	2010	2011	2012
Atwood Oceanics, Inc.	100.0	95.1	92.1	79.6	89.8	118.8
NYSE/AMEX/Nasdaq Stock Markets (U.S. Companies)	100.0	79.0	70.8	79.4	79.8	103.6
Self-determined Peer Group	100.0	93.1	77.9	68.9	60.2	75.8
Constituents of the Self-determined Peer Group (weighted according to market capitalization):						
Diamond Offshore Drilling, Inc.	Transocean Ltd.		Rowan Companies, Inc.			
Ensco plc	Noble Corporation		Seadrill Limited			

(1) Total returns assume (i) that \$100 was invested in each on September 30, 2007; (ii) dividends, if any, were reinvested; and (iii) a September 30 fiscal year end.

The performance graph above is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933 unless specifically identified therein as being incorporated therein by reference. The performance graph is not soliciting material subject to Regulation 14A.

## UNREGISTERED SALES OF EQUITY SECURITIES

None.

## ISSUER PURCHASES OF EQUITY SECURITIES

None.



## ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for each of the last five fiscal years is presented below:

(In thousands, except per share amounts, fleet data and ratios)	At or For the Years Ended September 30,				
	2012	2011	2010	2009	2008
<b>STATEMENTS OF OPERATIONS DATA:</b>					
Operating revenues	\$787,421	\$645,076	\$650,562	\$586,507	\$526,604
Contract drilling costs	(347,179 )	(223,565 )	(252,427 )	(221,709 )	(216,395 )
Depreciation	(70,599 )	(43,597 )	(37,030 )	(35,119 )	(34,783 )
General and administrative	(49,776 )	(44,407 )	(40,620 )	(31,639 )	(30,975 )
Other, net	(457 )	(4,847 )	1,855	402	155
Operating income	319,410	328,660	322,340	298,442	244,606
Other (expense) income	(6,106 )	(3,813 )	(2,361 )	(2,011 )	169
Tax provision	(41,133 )	(53,173 )	(62,983 )	(45,686 )	(29,337 )
Net Income	\$272,171	\$271,674	\$256,996	\$250,745	\$215,438
<b>PER SHARE DATA:</b>					
Earnings per common share:					
Basic	\$4.17	\$4.20	\$3.99	\$3.91	\$3.38
Diluted	\$4.14	\$4.15	\$3.95	\$3.89	\$3.34
Average common shares outstanding:					
Basic	65,267	64,754	64,391	64,167	63,756
Diluted	65,781	65,403	65,028	64,493	64,556
<b>FLEET DATA:</b>					
Number of rigs owned, at end of period	11	10	9	9	8
Utilization rate for in-service rigs <sup>(1)</sup>	100	% 95	% 88	% 85	% 100
<b>BALANCE SHEET DATA:</b>					
Cash and cash equivalents	\$77,871	\$295,002	\$180,523	\$100,259	\$121,092
Working capital	233,867	301,608	266,534	191,686	248,052
Property and equipment, net	2,537,340	1,887,321	1,343,961	1,184,300	787,838
Total assets	2,943,762	2,375,391	1,724,440	1,509,402	1,096,597
Total debt	830,000	520,000	230,000	275,000	170,000
Shareholders' equity <sup>(2)</sup>	1,939,422	1,652,787	1,370,134	1,102,293	843,690
Ratio of current assets to current liabilities	2.71	2.89	3.85	2.70	5.36

<sup>(1)</sup> Excludes any contractual downtime for shipyard projects. Fiscal years 2011 and 2012 also exclude cold-stacked rigs which were not actively marketed.

<sup>(2)</sup> We have never paid any cash dividends on our common stock.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in understanding our financial position at September 30, 2012 and 2011, and our results of operations for each of the fiscal years for the three year period ended September 30, 2012, and should be read in conjunction with the accompanying consolidated financial statements and related notes in Item 8 of this Form 10-K. 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 Item 1A "Risk Factors" in this Form 10-K. See "Forward-Looking Statements".

MARKET OUTLOOK

Overview

Our fiscal year 2012 financial and operating results include:

Record operating revenues totaling \$787 million

Record net income of \$272 million

Diluted earnings per share of \$4.14

Net cash from operating activities of \$256 million

Debt to capitalization ratio of 30% at September 30, 2012

Industry Conditions

The offshore drilling market continued to strengthen throughout fiscal year 2012 with all rig classes experiencing improved utilization levels in response to higher than average oil prices. The ultra-deepwater floater market has been the principal beneficiary of the strengthening market as evidenced by the relatively higher increase in day rates and near full utilization for this rig class during the year. Day rates for all other rig classes also experienced improvement, albeit at a slower pace.

The strength of the ultra-deepwater market is also evidenced by an increase of newbuild rig construction orders since the beginning of 2011. The pace of rig orders, however, has recently slowed from the prior year as contract drilling companies navigate between disrupting long term supply and demand dynamics by adding additional newbuild rigs and growing their rig fleet at reasonable construction prices in a strong day rate environment.

The global macro environment, including the sovereign debt issues in Europe and slower economic growth in the U.S., China and several developing countries, coupled with the uncertainty associated with U.S. fiscal policy and economic recovery, create a high level of market volatility and threaten to disrupt favorable offshore drilling market conditions. In addition, capacity constraints in the offshore rig equipment global supply chain and the shortage of skilled personnel are negatively impacting operating costs leading to margin compression in certain operating jurisdictions.

Drilling activity in the U.S. Gulf of Mexico is rebounding to pre-Macondo levels and the drilling permit approval process is now functioning capably. However, we cannot be certain that this level of activity will continue into the future or that additional restrictions or regulations will not be implemented which might negatively impact drilling activity or the drilling permit approval process in the U.S. Gulf of Mexico.

West Africa, East Africa and certain other deepwater and ultra-deepwater frontiers are experiencing exploration success which is driving increased contract tender requests and awards at increasingly higher day rates. Further improvements in ultra-deepwater and deepwater rig utilization and day rates will depend in large part on projected oil prices, the strength of the global economy, and any additional impacts from the Macondo incident and associated new regulatory, legislative and permitting requirements.

Ultra-deepwater and Deepwater Rigs

Industry-wide, deepwater rig utilization increased from 89% at the end of fiscal year 2011 to 98% currently, while ultra-deepwater utilization remains at full utilization. Only eight newbuild floaters are available through the end of

2013. For calendar year 2013, the vast majority of both ultra-deepwater and deepwater available days are contracted for the respective industry-wide fleets.

As of October 1, 2012, there were 69 drillships and 12 semisubmersibles under construction for delivery through January 2020. This includes 28 ultra-deepwater rigs to be constructed in shipyards located in Brazil, all of which are under long-term contracts with Petrobras. Of the remaining 53 ultra-deepwater rigs under construction, 25 are currently contracted, with several others under announced letters of intent.

The Atwood Condor began its 21-month contract with Hess Corporation in the fourth quarter of fiscal year 2012 in the U.S. Gulf of Mexico and is contracted through July 2014. The Atwood Osprey continued its six-year commitment offshore Australia with Chevron Australia and is contracted through the third quarter of fiscal year 2017.

The Atwood Eagle and Atwood Falcon are contracted through the third quarter of fiscal year 2014 and the first quarter of fiscal year 2015, respectively, while the Atwood Hunter is contracted throughout fiscal year 2013.

The Atwood Advantage and Atwood Achiever 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 Daewoo Shipbuilding and Marine Engineering Co., Ltd. ("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. The Atwood Advantage and Atwood Achiever are expected to be delivered during the fourth quarter of fiscal year 2013 and third quarter of fiscal 2014, respectively, at a total cost, including project management, drilling, handling tools and spares, of approximately \$635 million each.

Upon delivery from the shipyard, the Atwood Advantage will mobilize to the Eastern Mediterranean Sea to commence a drilling program with Noble which extends through the first quarter of fiscal year 2017.

In September 2012, we entered into a turnkey construction contract with DSME to construct a third ultra-deepwater drillship, the Atwood Admiral, at the DSME yard in South Korea. The Atwood Admiral is expected to be delivered during the second quarter of fiscal year 2015. The design of the Atwood Admiral will be substantially identical to the previously ordered Atwood Advantage and Atwood Achiever.

In addition, we have until June 30, 2013 to exercise our option to build an additional ultra-deepwater drillship with DSME. At this time, we have made no determination as to whether that option will be exercised. In determining whether to exercise the option we will consider several factors, including oil and gas prices, the magnitude of our contract drilling revenue backlog, the current and prospective supply and demand dynamics of the ultra-deepwater drilling segment, current ultra-deepwater contract day rates and newbuild drillship construction prices.

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

#### Jackup Rigs

The bifurcation in day rates and utilization continues to drive contracting activity in the jackup market. Currently, higher specification jackup rigs are achieving marketed utilization levels of approximately 98% as compared to 91% for the remainder of the global jackup fleet. While higher specification rigs represent less than 30% of the global jackup fleet, we expect the bifurcation trend to continue. Despite the expected increase in supply due to the continued delivery of high specification newbuild rigs through the end of next year, we expect that operators will continue to prefer contracting newer, more capable high specification jackups.

As a result of newbuild construction programs initiated during 2005 and continuing through 2010, the jackup supply continues to increase. As of October 1, 2012, there were 88 newbuild jackup rigs under construction, of which 11 are scheduled for delivery during the remainder of 2012, 48 are scheduled for delivery during 2013 and the remainder are scheduled for delivery thereafter. Approximately only 20% of jackup rigs yet to be delivered are currently uncontracted, and approximately 20% are not considered high specification rigs (i.e., less than 350-foot water depth capability) and therefore do not compete with the majority of our jackup fleet. Additionally, approximately 27 rigs are capable of working year-round in the North Sea and offshore Norway, and therefore are not directly competing with our jackup fleet.

The Atwood Mako and Atwood Manta are contracted through fiscal year 2013 and the first quarter of fiscal year 2014, while the Atwood Aurora and Atwood Beacon are contracted for 11 and seven months in fiscal year 2013, respectively. The Vicksburg is contracted through the end of the first fiscal quarter of 2014. Due to market bifurcation for high-specification jackups, we expect the Atwood Aurora and Atwood Beacon to continue to operate with high

utilization and increasing day rates while the Vicksburg may encounter greater competition resulting in lower utilization, with day rates remaining under pressure for the foreseeable future.

We currently have two Pacific Class 400 jackup drilling units, the Atwood Manta and the Atwood Orca, similar in design to the Atwood Mako, under construction at the PPL Shipyard Pte. Ltd. (“PPL”) shipyard in Singapore. These new rigs will have a rated water depth of 400 feet, accommodations for 150 personnel and significant offline handling features. The rigs are each expected to cost approximately \$190 million, including project management, drilling, handling tools and spares, and are scheduled for delivery during the first and third quarters of fiscal year 2013. We currently do not have a drilling contract for the Atwood Orca, but we expect to contract this high-specification rig prior to its delivery date.

#### Idled Rigs

During fiscal year 2012, we sold the Richmond. The Atwood Southern Cross and Seahawk remain idle. We anticipate these two units will not return to service during fiscal year 2013 due to the lack of sufficient continuous demand, and thus, we are not actively marketing these rigs at this time.

#### Contract Backlog

We maintain a backlog of commitments for contract drilling revenues. Our contract backlog at September 30, 2012 was approximately \$2.6 billion, representing a 73% increase compared to our contract backlog of \$1.5 billion at September 30, 2011. We calculate our contract backlog by multiplying the day rate under our drilling contracts by the number of days remaining under the contract, assuming full utilization. The calculation does not include any revenues related to other fees such as for mobilization, demobilization, contract preparation, customer reimbursables and bonuses. The amount of actual revenues earned and the actual periods during which revenues are earned will be different from amounts disclosed in our backlog calculations due to various factors, including unscheduled repairs, maintenance, weather and other factors. Such factors may result in lower applicable day rates than the full contractual day rate. In addition, under certain circumstances, our customers may seek to terminate or renegotiate our contracts. See Item 1A., “Risk Factors—Our business may experience reduced profitability if our customers terminate or seek to renegotiate our drilling contracts” of this Form 10-K.

The following table sets forth as of September 30, 2012 the amount of our contract drilling revenue backlog and the percent of available operating days committed for our actively marketed drilling units for the periods indicated (dollars in millions):

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017 and thereafter	Total
Contract drilling revenue backlog						
Ultra-deepwater and Deepwater	\$ 778	\$ 740	\$ 403	\$ 386	\$ 156	\$ 2,463
Jackups	162	11	—	—	—	173
	\$ 940	\$ 751	\$ 403	\$ 386	\$ 156	\$ 2,636
Percent of Available Operating Days Committed	82	% 37	% 16	% 8	% 5	%

On October 3, 2012, we announced that one of our subsidiaries was awarded a drilling services contract by CEC International, Ltd. for work in the Gulf of Thailand and offshore Malaysia for the newbuild jackup Atwood Manta. As a result of this contract, our contract backlog increased by approximately \$53 million and available operating days committed increased up to 91% in fiscal year 2013.

## RESULTS OF OPERATIONS

## Fiscal Year 2012 versus Fiscal Year 2011

Operating Revenues—Revenues for fiscal year 2012 increased \$142.3 million, or 22%, compared to the prior fiscal year. A comparative analysis of revenues by rig for fiscal years 2012 and 2011 is as follows:

	Operating Revenues (In millions)		
	Fiscal Year 2012	Fiscal Year 2011	Variance
Atwood Condor	\$36.1	\$—	\$36.1
Atwood Osprey	172.2	59.9	112.3
Atwood Eagle	135.6	139.8	(4.2 )
Atwood Falcon	99.8	153.4	(53.6 )
Atwood Hunter	195.0	183.4	11.6
Atwood Aurora	55.5	29.2	26.3
Atwood Beacon	51.5	45.1	6.4
Atwood Mako	4.3	—	4.3
Vicksburg	35.4	34.3	1.1
Other	2.0	—	2.0
	\$787.4	\$645.1	\$142.3

Our newest ultra-deepwater, semisubmersible drilling rig, the Atwood Condor, which commenced operations under its initial contract during the fourth quarter of fiscal year 2012, earned mobilization revenue as it relocated from the shipyard in Singapore to the U.S. Gulf of Mexico.

The increase in revenues for the Atwood Osprey is due to the fact that the rig commenced drilling operations offshore Australia in late May 2011 and thus did not earn a full year of revenue in fiscal year 2011. The rig continued on contract offshore Australia for all of fiscal year 2012.

Revenues for the Atwood Eagle were relatively consistent compared to the prior fiscal year. The rig worked offshore Australia during both fiscal years 2012 and 2011.

The decrease in revenues for the Atwood Falcon is due to the rig working on a long-term contract offshore Malaysia for all of fiscal year 2011. This contract ended during the second quarter of fiscal year 2012. From February 2012 through May 2012, the rig underwent a shipyard project in Singapore for upgrades. Following completion of such upgrades, the rig relocated to work offshore Australia and began operations in late May 2012 that continued through the end of fiscal year 2012.

The increase in revenues for the Atwood Hunter is primarily due to out-of-service time related to a planned regulatory inspection during fiscal year 2011 compared to no out-of-service time during fiscal year 2012. The Atwood Hunter worked offshore West Africa during both fiscal years 2012 and 2011.

Revenues for the Atwood Aurora increased as the rig was fully utilized during fiscal year 2012 working offshore West Africa. In fiscal year 2011, the rig worked offshore Egypt until completion of its contract commitment in May 2011. The contract was followed by a planned shipyard project through June 2011, after which the rig was idle for most of the fourth quarter of fiscal year 2011 until it resumed work under a contract that commenced in September 2011.

Revenues for the Atwood Beacon were relatively consistent compared to the prior fiscal year. The rig continued to work offshore South America until the fourth quarter of fiscal year 2012 when it relocated to the Mediterranean Sea to prepare for drilling operations in Israel.

Our newest active jackup drilling unit, the Atwood Mako, was delivered from the shipyard and commenced drilling operations in September 2012 offshore Thailand, and thus earned no revenue in fiscal year 2011.

Revenues for the Vicksburg were relatively consistent compared to the prior fiscal year. The Vicksburg worked offshore Thailand during both fiscal years 2012 and 2011.





Contract Drilling Costs—Contract drilling costs for fiscal year 2012 increased \$123.6 million, or 55%, compared to the prior fiscal year. A comparative analysis of contract drilling costs by rig for fiscal years 2012 and 2011 is as follows:

	Contract Drilling Costs (In millions)		
	Fiscal Year 2012	Fiscal Year 2011	Variance
Atwood Condor	\$18.9	\$—	\$18.9
Atwood Osprey	66.0	22.9	43.1
Atwood Eagle	61.7	62.5	(0.8 )
Atwood Falcon	56.6	29.4	27.2
Atwood Hunter	50.4	39.0	11.4
Atwood Aurora	31.0	18.5	12.5
Atwood Beacon	34.6	28.7	5.9
Atwood Mako	3.0	—	3.0
Vicksburg	20.8	16.4	4.4
Other	4.2	6.2	(2.0 )
	\$347.2	\$223.6	\$123.6

The Atwood Condor incurred costs as it relocated from the shipyard in Singapore to the U.S. Gulf of Mexico during the fourth quarter of fiscal year 2012 while on contract. No drilling costs were incurred in fiscal year 2011 while the rig was under construction.

The Atwood Osprey commenced drilling operations in May 2011, incurring approximately four months of drilling costs in fiscal year 2011 as compared to a full twelve months of drilling costs in fiscal year 2012 while working offshore Australia.

Contract drilling costs for the Atwood Eagle were relatively consistent as compared to the prior fiscal year. The rig continued to work offshore Australia during both fiscal years 2012 and 2011.

The increase in contract drilling costs for the Atwood Falcon, as compared to the prior fiscal year, is primarily due to increased maintenance activities during the shipyard project from February 2012 to May 2012 and the subsequent commencement of drilling operations offshore Australia which has significantly higher personnel costs than costs for its previous contract offshore Malaysia.

The increase in contract drilling costs for the Atwood Hunter is due primarily to increased equipment-related costs associated with maintenance projects and inspections as compared to the prior fiscal year.

The increase in contract drilling costs for the Atwood Aurora, as compared to the prior fiscal year, is primarily attributable to increased costs for monthly amortization charges for mobilization to offshore West Africa in the current fiscal year as well as lower operating expenses incurred at the end of fiscal year 2011 due to a planned shipyard project and substantial idle time prior to commencing its next contract offshore West Africa.

The increase in contract drilling costs for the Atwood Beacon is primarily due to increased equipment-related costs associated with maintenance projects and inspections incurred while the rig relocated from South America to the Mediterranean Sea during the fourth quarter of fiscal year 2012.

The Atwood Mako was delivered from the shipyard and commenced drilling operations in Thailand in September 2012. No drilling costs were incurred in fiscal year 2011 while the rig was under construction.

The increase in contract drilling costs for the Vicksburg is attributable to increased equipment-related costs associated with maintenance projects when compared to the prior fiscal year.

Other contract drilling costs were relatively consistent with the prior fiscal year.

Depreciation—Depreciation expense for the fiscal year 2012 increased \$27.0 million, or 62%, compared to the prior fiscal year. A comparative analysis of depreciation expense by rig for fiscal years 2012 and 2011 is as follows:

	Depreciation Expense (In millions)		
	Fiscal Year 2012	Fiscal Year 2011	Variance
Atwood Condor	\$7.9	\$—	\$7.9
Atwood Osprey	24.8	8.3	16.5
Atwood Eagle	5.5	4.9	0.6
Atwood Falcon	6.4	5.1	1.3
Atwood Hunter	6.5	6.4	0.1
Atwood Aurora	7.4	7.4	—
Atwood Beacon	4.9	4.6	0.3
Atwood Mako	0.6	—	0.6
Vicksburg	1.9	2.0	(0.1 )
Other	4.7	4.9	(0.2 )
	\$70.6	\$43.6	\$27.0

The Atwood Condor, which was placed into service at the beginning of July 2012, incurred no depreciation expense in fiscal year 2011.

The Atwood Osprey, which was placed into service in late May 2011, incurred only four months of depreciation expense in fiscal year 2011.

The increase in depreciation for the Atwood Falcon is due to certain upgrades made to the rig during the shipyard project which was completed in May 2012.

The Atwood Mako, which was placed into service at the beginning of September 2012, incurred no depreciation expense in fiscal year 2011.

Depreciation expense for all other rigs remained relatively consistent during fiscal year 2012 as compared to the prior fiscal year.

General and administrative—General and administrative expenses for fiscal year 2012 increased approximately \$5.4 million, or 12%, compared to the prior fiscal year primarily due to higher personnel-related costs resulting from an increase in headcount to support our larger fleet.

Other, net—The decrease in Other expenses is primarily due to a \$5.0 million charge related to an impairment of certain of our idled equipment during fiscal year 2011.

Income taxes—Our effective tax rate was 13% for fiscal year 2012, as compared to the prior fiscal year effective tax rate of 16%. The lower effective income tax was primarily due to the favorable resolution of prior period tax examinations.

## Fiscal Year 2011 versus Fiscal Year 2010

Operating Revenues—Revenues for fiscal year 2011 decreased \$5.5 million, or 1%, compared to fiscal year 2010. A comparative analysis of revenues by rig for fiscal years 2011 and 2010 is as follows:

	Operating Revenues (In millions)		
	Fiscal Year 2011	Fiscal Year 2010	Variance
Atwood Osprey	\$59.9	\$—	\$59.9
Atwood Eagle	139.8	134.1	5.7
Atwood Falcon	153.4	154.0	(0.6 )
Atwood Hunter	183.4	197.4	(14.0 )
Atwood Aurora	29.2	46.6	(17.4 )
Atwood Beacon	45.1	34.1	11.0
Vicksburg	34.3	34.2	0.1
Other	—	50.2	(50.2 )
	\$645.1	\$650.6	\$(5.5 )

The Atwood Osprey commenced drilling operations in late May 2011 offshore Australia, and thus, earned no revenue in fiscal year 2010.

Revenues for the Atwood Eagle and Atwood Falcon were relatively consistent compared to fiscal year 2010. The Atwood Eagle continued to work offshore Australia during both fiscal years 2011 and 2010 and the Atwood Falcon continued work on a long- term contract offshore Malaysia during both fiscal years 2011 and 2010.

The decrease in revenues for the Atwood Hunter is due to an increase in downtime related to unplanned repairs and maintenance and a planned regulatory inspection during fiscal year 2011. The Atwood Hunter worked offshore West Africa in fiscal years 2011 and 2010.

The increase in revenues for the Atwood Beacon is due to working on a higher day rate contract offshore South America compared to the fiscal year 2010 when the rig was working at a lower day rate offshore West Africa.

Revenues for the Atwood Aurora decreased during fiscal year 2011 due to the completion of its contract commitment in May 2011, which was followed by a planned shipyard project through June 2011. Following the shipyard project, the rig was idled for most of the fourth quarter of fiscal year 2011. The rig experienced virtually no downtime during the fiscal year 2010. In fiscal year 2011, until the time of the shipyard project, the rig worked offshore Egypt on the same long term contract that it worked under during fiscal year 2010. The Atwood Aurora resumed drilling operations offshore West Africa under a new contract that commenced late September 2011.

Revenues for the Vicksburg were relatively consistent compared to the fiscal year 2010. The Vicksburg worked offshore Thailand during both fiscal years 2011 and 2010.

Decreases in Other operating revenues during fiscal year 2011 are due to the Atwood Southern Cross, Richmond, and Seahawk all completing their respective drilling contracts and subsequently being idled. The idled state of these rigs resulted in the decrease of revenues for fiscal year 2011 compared to fiscal year 2010.

Contract Drilling Costs—Contract drilling costs for fiscal year 2011 decreased \$28.8 million, or 11%, compared to fiscal year 2010. A comparative analysis of contract drilling costs by rig for fiscal years 2011 and 2010 is as follows:

	Contract Drilling Costs (In millions)		
	Fiscal Year 2011	Fiscal Year 2010	Variance
Atwood Osprey	\$22.9	\$—	\$22.9
Atwood Eagle	62.5	53.0	9.5
Atwood Falcon	29.4	31.5	(2.1 )
Atwood Hunter	39.0	37.0	2.0
Atwood Aurora	18.5	21.7	(3.2 )
Atwood Beacon	28.7	27.8	0.9
Vicksburg	16.4		