DIAMOND OFFSHORE DRILLING, INC.
Form 10-K
February 16, 2017
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from _____ to_____**

**Commission file number 1-13926**

# DIAMOND OFFSHORE DRILLING, INC.

*(Exact name of registrant as specified in its charter)*

| **Delaware** | **76-0321760** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |

**15415 Katy Freeway**

**Houston, Texas 77094**

*(Address and zip code of principal executive offices)*

**(281) 492-5300**

*(Registrant s telephone number, including area code)*

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

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

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

**None**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

| Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller reporting company |
|---|---|---|---|
| | | (Do not check if a smaller reporting company) | |

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

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

| | |
|---|---|
| As of June 30, 2016 | $1,558,351,487 |

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

| | | |
|---|---|---|
| As of February 10, 2017 | Common Stock, $0.01 par value per share | 137,169,663 shares |

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement relating to the 2017 Annual Meeting of Stockholders of Diamond Offshore Drilling, Inc., which will be filed within 120 days of December 31, 2016, are incorporated by reference in Part III of this report.

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**DIAMOND OFFSHORE DRILLING, INC.**

**FORM 10-K for the Year Ended December 31, 2016**

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**PART I**

**Item 1. Business.**

**General**

Diamond Offshore Drilling, Inc. provides contract drilling services to the energy industry around the globe with a fleet of 24 offshore drilling rigs. Our current fleet consists of four drillships, 19 semisubmersible rigs, and one jack-up rig. *See* Our Fleet *Fleet Enhancements and Additions* and Our Fleet *Floater Fleet Status*.

Unless the context otherwise requires, references in this report to Diamond Offshore, we, us or our mean Diamond Offshore Drilling, Inc. and our consolidated subsidiaries. Diamond Offshore Drilling, Inc. was incorporated in Delaware in 1989.

**Our Fleet**

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

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

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

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

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

**(a)** Rated water depth for semisubmersibles and drillships reflects the maximum water depth in which a floating rig has been designed to operate. However, individual rigs are capable of drilling, or have drilled, in marginally greater water depths depending on various conditions (such as salinity of the ocean, weather and sea conditions).

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*Floater Fleet Status*

The following table presents additional information regarding our floater fleet at January 30, 2017:

| Rig Type and Name | Rated Water Depth (in feet) | Attributes | Year Built/ Redelivered [a] | Current Location [b] | Customer [c] |
|---|---|---|---|---|---|
| **ULTRA-DEEPWATER:** | | | | | |
| **Drillships (4):** | | | | | |
| Ocean BlackLion | 12,000 | DP; 7R; 15K | 2015 | GOM | Hess Corporation |
| Ocean BlackRhino | 12,000 | DP; 7R; 15K | 2014 | GOM | Contract preparation/Hess Corporation |
| Ocean BlackHornet | 12,000 | DP; 7R; 15K | 2014 | GOM | Anadarko |
| Ocean BlackHawk | 12,000 | DP; 7R; 15K | 2014 | GOM | Anadarko |
| **Semisubmersibles (8):** | | | | | |
| Ocean GreatWhite | 10,000 | DP; 6R; 15K | 2016 | Malaysia | BP |
| Ocean Valor | 10,000 | DP; 6R; 15K | 2009 | Brazil | Petrobras [d] |
| Ocean Courage | 10,000 | DP; 6R; 15K | 2009 | Brazil | Petrobras |
| Ocean Confidence | 10,000 | DP; 6R; 15K | 2001/2015 | Canary Islands | Cold Stacked |
| Ocean Monarch | 10,000 | 15K | 2008 | Singapore | Survey/Contract preparation |
| Ocean Endeavor | 10,000 | 15K | 2007 | Italy | Cold Stacked |
| Ocean Rover | 8,000 | 15K | 2003 | Malaysia | Cold Stacked |
| Ocean Baroness | 8,000 | 15K | 2002 | GOM | Cold Stacked |
| **DEEPWATER:** | | | | | |
| **Semisubmersibles (6):** | | | | | |
| Ocean Apex | 6,000 | 15K | 2014 | Australia | Woodside Energy |
| Ocean Onyx | 6,000 | 15K | 2013 | GOM | Cold Stacked |
| Ocean Victory | 5,500 | 15K | 1997 | Trinidad & Tobago | BP Trinidad |
| Ocean America | 5,500 | 15K | 1988 | Malaysia | Cold Stacked |
| Ocean Valiant | 5,500 | 15K | 1988 | North Sea/U.K. | Maersk |
| Ocean Alliance | 5,250 | DP; 15K | 1988 | GOM | Cold Stacked |
| **MID-WATER:** | | | | | |
| **Semisubmersibles (5):** | | | | | |
| Ocean Patriot | 3,000 | 15K | 1983 | North Sea/U.K. | Apache |
| Ocean Guardian | 1,500 | 15K | 1985 | North Sea/U.K. | Dana |
| Ocean Princess | 1,500 | 15K | 1975 | North Sea/U.K. | Cold Stacked |
| Ocean Vanguard | 1,500 | 15K | 1982 | North Sea/U.K. | Cold Stacked |
| Ocean Nomad | 1,200 | | 1975 | North Sea/U.K. | Cold Stacked |

**Attributes**

DP = Dynamically Positioned/Self-Propelled
6R = Six ram blow out preventer
7R = 2 Seven ram blow out preventers
15K = 15,000 psi well control system

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

[b] GOM means U.S. Gulf of Mexico.

[c] For ease of presentation in this table, customer names have been shortened or abbreviated.

[d] In August 2016, our subsidiary received notice of termination of its drilling contract from Petróleo Brasileiro S.A., or Petrobras. In the same month, we filed a lawsuit in Brazil, claiming that Petrobras purported termination of the contract was unlawful and requesting an injunction to prohibit the contract termination. In September 2016, a Brazilian court issued a preliminary injunction, suspending Petrobras purported termination of the contract and ordering that the contract remain in effect until the end of the term or further court order. Petrobras has appealed the granting of the injunction. We do not believe that Petrobras had a valid or lawful basis for terminating the contract, and we intend to continue to defend our rights under the contract.

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*Jack-ups*. Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor. Our jack-up is used for drilling in water depths from 20 feet to 350 feet. As of January 30, 2017, the *Ocean Scepter*, a cantilevered jack-up drilling rig built in 2008, was offshore Mexico where it was waiting to commence a short-term contract for Fieldwood Energy. The *Ocean Spur*, which was reported as held for sale at the end of 2016, is expected to be sold in the near future.

*Fleet Enhancements and Additions*. Our long-term strategy is to upgrade our fleet to meet customer demand for advanced, efficient and high-tech rigs by acquiring or building new rigs when possible to do so at attractive prices, and otherwise by enhancing the capabilities of our existing rigs at a lower cost and shorter construction period than newbuild construction would require. Since 2009, commencing with the acquisition of two newbuild, ultra-deepwater semisubmersible rigs, the *Ocean Courage* and *Ocean Valor*, we have spent over $5.0 billion towards upgrading our fleet. In 2016, we took delivery of the *Ocean GreatWhite*, the final rig to be completed during our most recent fleet enhancement cycle.

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

*Pressure Control by the Hour*®. During 2016, we entered into a ten-year agreement with a subsidiary of GE Oil & Gas, or GE, to provide us services with respect to certain blowout preventer and related well control equipment on our four drillships. Such services include management of maintenance, certification and reliability with respect to such equipment. In connection with the services agreement with GE, we sold the equipment to a GE affiliate and have leased back such equipment under four separate ten-year operating leases. Collectively, we refer to the services agreement with GE and the lease agreements with the GE affiliate as the PCbtH program.

**Markets**

The principal markets for our offshore contract drilling services are:

- the Gulf of Mexico, including the United States, or U.S., and Mexico;
- South America, principally offshore Brazil, and Trinidad and Tobago;
- Australia and Southeast Asia, including Malaysia, Indonesia and Vietnam;
- Europe, principally offshore the United Kingdom, or U.K., and Norway;
- East and West Africa;
- the Mediterranean; and
- the Middle East.

We actively market our rigs worldwide. From time to time our fleet operates in various other markets throughout the world. See Note 18 Segments and Geographic Area Analysis to our Consolidated Financial Statements in Item 8 of this report.

**Offshore Contract Drilling Services**

Our contracts to provide offshore drilling services vary in their terms and provisions. We typically obtain our contracts through a competitive bid process, although it is not unusual for us to be awarded drilling contracts following direct negotiations. Our drilling contracts generally provide

for a basic dayrate regardless of whether or not drilling

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

The duration of a dayrate drilling contract is generally tied to the time required to drill a single well or a group of wells, in what we refer to as a well-to-well contract, or a fixed period of time, in what we refer to as a term contract. Many drilling contracts may be terminated by the customer in the event the drilling unit is destroyed or lost, or if drilling operations are suspended for an extended period of time as a result of a breakdown of equipment or, in some cases, due to events beyond the control of either party to the contract. Certain of our contracts also permit the customer to terminate the contract early by giving notice; in most circumstances this requires the payment of an early termination fee by the customer. The contract term in many instances may also be extended by the customer exercising options for the drilling of additional wells or for an additional length of time, generally at competitive market rates and mutually agreeable terms at the time of the extension. In periods of decreasing demand for offshore rigs, drilling contractors may prefer longer term contracts to preserve dayrates at existing levels and ensure utilization, while customers may prefer shorter contracts that allow them to more quickly obtain the benefit of declining dayrates. Moreover, drilling contractors may accept lower dayrates in a declining market in order to obtain longer-term contracts and add backlog. See Risk Factors *We may not be able to renew or replace expiring contracts for our rigs,* Risk Factors *Our business involves numerous operating hazards that could expose us to significant losses and significant damage claims. We are not fully insured against all of these risks and our contractual indemnity provisions may not fully protect us,* Risk Factors *We can provide no assurance that our drilling contracts will not be terminated early or that our current backlog of contract drilling revenue will be ultimately realized,* Risk Factors *We may enter into drilling contracts that expose us to greater risks than we normally assume* and Risk Factors *We self-insure for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico* in Item 1A of this report, which are incorporated herein by reference. For a discussion of our contract backlog, see Management s Discussion and Analysis of Financial Condition and Results of Operations Market Overview *Contract Drilling Backlog* in Item 7 of this report, which is incorporated herein by reference.

**Customers**

We provide offshore drilling services to a customer base that includes major and independent oil and gas companies and government-owned oil companies. During 2016, 2015 and 2014, we performed services for 18, 19 and 35 different customers, respectively. During 2016, 2015 and 2014, our most significant customers were as follows:

| | Percentage of Annual Consolidated Revenues | | |
|---|---|---|---|
| **Customer** | **2016** | **2015** | **2014** |
| Anadarko | 22.4% | 12.4% | 3.6% |
| Petróleo Brasileiro S.A. | 17.9% | 24.1% | 31.9% |
| ExxonMobil | 5.8% | 12.4% | 5.0% |

No other customer accounted for 10% or more of our annual total consolidated revenues during 2016, 2015 or 2014. See Risk Factors *Our industry is highly competitive, with oversupply and intense price competition* and Risk Factors *Our customer base is concentrated* in Item 1A of this report, which are incorporated herein by reference.

As of January 1, 2017, our contract backlog was $3.6 billion attributable to 11 customers. All four of our drillships are currently contracted to work in the GOM. As of January 1, 2017, contract backlog attributable to our expected operations in the GOM was $639.0 million, $653.0 million, $554.0 million and $85.0 million for the years 2017, 2018, 2019 and 2020, respectively, all of which was attributable to two customers. See Management s Discussion and Analysis of Financial Condition and Results of Operations Market Overview *Contract Drilling Backlog* in Item 7 of this report. See Risk

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Factors *We can provide no assurance that our drilling contracts will not be terminated early or that our current backlog of contract drilling revenue will be ultimately realized* in Item 1A of this report, which is incorporated herein by reference.

**Competition**

Despite consolidation in previous years, the offshore contract drilling industry remains highly competitive with numerous industry participants, none of which at the present time has a dominant market share. The industry may also experience additional consolidation in the future, which could create other large competitors. Some of our competitors may have greater financial or other resources than we do. Based on industry data, as of the date of this report, there are approximately 830 mobile drilling rigs in service worldwide, including approximately 290 floater rigs.

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

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

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

**Governmental Regulation**

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

**Operations Outside the United States**

Our operations outside the U.S. accounted for approximately 66%, 79% and 85% of our total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. See Risk Factors *Significant portions of our operations are conducted outside the United States and involve additional risks not associated with United States domestic operations*, Risk Factors *We may enter into drilling contracts that expose us to greater risks than we normally assume,* Risk Factors *We may be required to accrue additional tax liability on certain of our foreign earnings* and Risk Factors *Fluctuations in exchange rates and nonconvertibility of currencies could result in losses to us* in Item 1A of this report, which are incorporated herein by reference.

**Employees**

As of December 31, 2016, we had approximately 2,800 workers, including international crew personnel furnished through independent labor contractors.

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**Executive Officers of the Registrant**

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

| Name | Age as of January 31, 2017 | Position |
|---|---|---|
| Marc Edwards | 56 | President and Chief Executive Officer and Director |
| David L. Roland | 55 | Senior Vice President, General Counsel and Secretary |
| Thomas Roth | 61 | Senior Vice President Worldwide Operations |
| Ronald Woll | 49 | Senior Vice President and Chief Commercial Officer |
| Kelly Youngblood | 51 | Senior Vice President and Chief Financial Officer |
| Beth G. Gordon | 61 | Vice President and Controller |

*Marc Edwards* has served as our President and Chief Executive Officer and as a Director since March 2014. Mr. Edwards previously served as a member of the Executive Committee and as Senior Vice President of the Completion and Production Division at Halliburton Company, a global diversified oilfield services company, from January 2010 to February 2014.

*David L. Roland* has served as our Senior Vice President, General Counsel and Secretary since September 2014. From April 2004 until joining us in 2014, Mr. Roland served as Senior Vice President, General Counsel and Corporate Secretary of ION Geophysical Corporation, a NYSE-listed geophysical company.

*Thomas Roth* has served as our Senior Vice President Worldwide Operations since December 2016. Mr. Roth previously served as Vice President of the Boots & Coots Product Service Line at Halliburton Company from July 2013 to September 2015. Mr. Roth also served as Boots & Coots Global Operations Manager at Halliburton Company from August 2011 to July 2013.

*Ronald Woll* has served as our Senior Vice President and Chief Commercial Officer since June 2014. Mr. Woll previously served as Senior Vice President Supply Chain at Halliburton Company from January 2011 through June 2014.

*Kelly Youngblood* has served as our Senior Vice President and our Chief Financial Officer since May 2016. Mr. Youngblood previously served as Vice President, Investor Relations at Halliburton Company from January 2013 to April 2016. From September 2011 to December 2012, Mr. Youngblood served as Senior Director, Investor Relations at Halliburton Company.

*Beth G. Gordon* has served as our Vice President and Controller since January 2017 and previously served as our Controller since April 2000.

**Access to Company Filings**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and accordingly file annual, quarterly and current reports, any amendments to those reports, proxy statements and other information with the United States Securities and Exchange Commission, or SEC. You may read and copy the information we file with the SEC at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available to the public from the SEC s Internet site at www.sec.gov or from our Internet site at www.diamondoffshore.com. Our website provides a hyperlink to a third-party SEC filings website where these reports may be viewed and printed at no cost as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. The preceding Internet addresses and all other Internet addresses

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referenced in this report are for information purposes only and are not intended to be a hyperlink. Accordingly