

DST SYSTEMS INC  
Form 8-K  
May 05, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **May 5, 2014**

**DST SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**1-14036**

(Commission File Number)

**43-1581814**

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

**333 West 11th Street, Kansas City, Missouri**

(Address of principal executive offices)

**64105**

(Zip Code)

**(816) 435-1000**

Registrant's telephone number, including area code

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**Not Applicable**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.**

On May 5, 2014, DST Systems, Inc. ( DST or the Company ) entered into a governance and standstill agreement (the Governance and Standstill Agreement ), a stock repurchase and offering agreement (the Stock Repurchase and Offering Agreement ) and a registration rights agreement (the Registration Rights Agreement ) and, together with the Governance and Standstill Agreement and the Stock Repurchase and Offering Agreement, the Agreements ) with the Argyros Family Trust and certain of its affiliates (collectively, the Argyros Group ) pertaining to the transactions with the Argyros Group described in the Company s Form 8-K dated March 24, 2014.

The Governance and Standstill Agreement provides for certain standstill provisions restricting the Argyros Group from certain actions as a holder of the Company s common stock and outlines the ongoing rights of the Argyros Group to submit director nominees for election to the Company s board of directors. The governance provisions provide that, on the earliest of (x) the consummation of the Secondary Offering (as defined below) and the Repurchase (as defined below), (y) the first date on which the Argyros Group owns less than 10% of the Company s outstanding common stock and (z) the expiration of Mr. Brent L. Law s, or his replacement s, current term as a director, then Mr. Law, or his replacement, will resign from the Company s board of directors. On the first date the Argyros Group beneficially owns less than 5% of the Company s outstanding common stock, then Mr. John W. Clark, or his replacement, will resign from the Company s board.

The Stock Repurchase and Offering Agreement provides the terms under which the Company has agreed to help facilitate a registered, secondary common stock offering of \$450 million (before any exercise by the underwriters of their option to purchase additional shares) of its common stock beneficially owned by the Argyros Group (the Secondary Offering ). The Company also agreed to purchase an additional \$200 million of its common stock beneficially owned by the Argyros Group and not part of the Secondary Offering at the gross price per share at which the shares of common stock are sold to the public in the Secondary Offering, less one half of the underwriting discount (the Repurchase ). The Company s obligation to consummate the Repurchase is conditioned on the completion of the Secondary Offering of at least \$450 million (before any exercise by the underwriters of their option to purchase additional shares).

Pursuant to the Registration Rights Agreement, the Company has granted the Argyros Group two (or three in the event the Company fails to meet certain of its obligations pursuant to the Stock Repurchase and Offering Agreement) demand registration rights with respect to their remaining shares of the Company s common stock. Such demand registration rights would require at least \$50 million of the Company s common stock beneficially owned by the Argyros Group to be offered per each registration and the right of the Argyros Group to such demand registrations expires on April 24, 2019.

The foregoing description of the Agreements is qualified in its entirety by reference to the full text of the Agreements, which are attached as Exhibits 99.1, 99.2 and 99.3 hereto and are incorporated herein by reference.

On May 2, 2014, the Company s Board of Directors authorized a new form of indemnification agreement (the Indemnification Agreement ) that the Company will enter into with each of the directors and executive officers and certain other officers of the Company. The Indemnification Agreements will provide the directors and officers additional contractual assurances regarding the scope of the indemnification set forth in the Company s certificate of incorporation, in order to provide additional procedural protections.

The foregoing description of the Indemnification Agreements is qualified in its entirety by reference to the full text of the form of the Indemnification Agreement, which is attached as Exhibit 99.4 hereto and is incorporated herein by reference.



**ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS**

*(d) Exhibits.*

<b>Exhibit Number</b>	<b>Description</b>
99.1	Stock Repurchase and Offering Agreement, dated May 5, 2014, by and among the Company and the Argyros Group
99.2	Governance and Standstill Agreement, dated May 5, 2014, by and among the Company and the Argyros Group
99.3	Registration Rights Agreement, dated May 5, 2014, by and among the Company and the Argyros Group
99.4	Form of Indemnification Agreement

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized on this 5th day of May, 2014.

**DST SYSTEMS, INC.**

By: /s/ Randall D. Young  
Name: Randall D. Young  
Title: Senior Vice President, General Counsel and Secretary

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Total

Common Stock

Paid-in

Retained

Stockholders'(In thousands)

Shares

Amount

Capital

Earnings

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Equity

<b>September 30, 2008</b>	64,031	\$64,031	\$114,804	\$664,855	\$843,690	Net income	-	-	-	78,363	78,363	Restricted stock
awards	147	147	(147)	-	Exercise of employee stock options	1	1	7	-	8	Stock option and restricted stock	award compensation
expense	-	-	2,046	-	2,046	<b>December 31, 2008</b>	64,179	\$64,179	\$116,710	\$743,218	\$924,107	

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



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

The unaudited interim condensed consolidated financial statements as of December 31, 2008 and for the three month periods ended December 31, 2008 and 2007, included herein, have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The year end condensed consolidated balance sheet data was derived from the audited financial statements as of September 30, 2008. Although these financial statements and related information have been prepared without audit, and certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, we believe that the note disclosures are adequate to make the information not misleading. The interim financial results may not be indicative of results that could be expected for a full fiscal year. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report to Shareholders for the year ended September 30, 2008. In our opinion, the unaudited interim financial statements reflect all adjustments considered necessary for a fair statement of our financial position and results of operations for the periods presented.

**2. SHARE-BASED COMPENSATION**

We recognize compensation expense on grants of share-based compensation awards on a straight-line basis over the required service period for each award. As of December 31, 2008, unrecognized compensation cost, net of estimated forfeitures, related to stock options and restricted stock awards was approximately \$5.7 million and \$11.0 million, respectively, which we expect to recognize over a weighted average period of approximately 2.6 years. The recognition of share-based compensation expense had the following effect on our consolidated statements of operations (in thousands, except per share amounts):

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Increase in contract drilling expenses	\$ 564	\$ 356
Increase in general and administrative expenses	1,482	1,064
Decrease in income tax provision	(519)	(372)
Decrease of net income	\$ 1,527	\$ 1,048
Decrease in earnings per share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

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

**Stock Options**

Under our stock incentive plans, the exercise price of each stock option equals the fair market value of one share of our common stock on the date of grant, with all outstanding options having a maximum term of 10 years. Options vest

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ratably over a period from the end of the first to the fourth year from the date of grant. Each option is for the purchase of one share of our common stock.

The per share weighted average fair value of stock options granted during the three months ended December 31, 2008 was \$5.75. We estimated the fair value of each stock option then outstanding using the Black-Scholes pricing model and the following assumptions for the three months ended December 31, 2008:

Risk-Free Interest Rate	<b>1.5%</b>
Expected Volatility	<b>42%</b>
Expected Life (Years)	<b>5.2</b>
Dividend Yield	<b>None</b>

The average risk-free interest rate is based on the five-year U.S. treasury security rate in effect as of the grant date. We determined expected volatility using a six year historical volatility figure and determined the expected term of the stock options using 10 years of historical data. We have never paid any cash dividends on our common stock.

A summary of stock option activity during the three months ended December 31, 2008 is as follows:

	<b>Number of Options (000s)</b>	<b>Wtd. Avg. Exercise Price</b>	<b>Wtd. Avg. Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding at October 1, 2008	<b>1,253</b>	<b>\$ 18.82</b>	6.5	\$ 22,035
Granted	<b>286</b>	<b>\$ 14.65</b>		
Exercised	<b>(1)</b>	<b>\$ 7.68</b>		\$ 11
Forfeited	<b>(7)</b>	<b>\$ 38.08</b>		
Outstanding at December 31, 2008	<b>1,531</b>	<b>\$ 17.96</b>	6.9	\$ (4,101)
Exercisable at December 31, 2008	<b>964</b>	<b>\$ 14.60</b>	5.7	\$ 658



**Restricted Stock**

We have also awarded restricted stock to certain employees and to our non-employee directors. For our employees, the awards of restricted stock have vesting periods and restrictions on transfer ranging from three to four years from the date of grant. Awards of restricted stock to our non-employee directors made prior to Amendment No. 1 to the Atwood Oceanics, Inc. 2007 Long-Term Incentive Plan (the "2007 Plan") have vesting periods ranging from immediately to three years, with restrictions on transfer for three years from the date of grant. Awards of restricted stock to our non-employee directors made after Amendment No. 1 to the 2007 Plan have a vesting period and restrictions on transfer for 13 months from the date of grant. We value restricted stock awards at fair market value of our common stock on the date of grant.

A summary of restricted stock activity for the three months ended December 31, 2008, is as follows:

	Number of Shares (000s)	Wtd. Avg. Fair Value
Unvested at September 30, 2008	581	\$ 32.50
Granted	173	14.65
Vested	(147)	18.86
Forfeited	(6)	35.94
Unvested at December 31, 2008	601	\$ 30.66

**3. EARNINGS PER COMMON SHARE**

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

	Three Months Ended		
	Net Income	Shares	Per Share Amount
<b>December 31, 2008:</b>			
Basic earnings per share	\$ 78,363	64,081	\$ 1.22
Effect of dilutive securities -			
Stock options	-	251	\$ -
Diluted earnings per share	\$ 78,363	64,332	\$ 1.22
<b>December 31, 2007:</b>			
Basic earnings per share	\$ 38,549	63,370	\$ 0.61
Effect of dilutive securities -			
Stock options	-	954	\$ 0.01
Diluted earnings per share	\$ 38,549	64,324	\$ 0.60



The calculation of diluted earnings per share for the three month period ended December 31, 2008 excludes consideration of shares of common stock related to 363,000 outstanding stock options because such options were anti-dilutive. These options could potentially dilute basic earnings per share in the future.

#### 4. PROPERTY AND EQUIPMENT

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

	December 31, 2008	September 30, 2008
<b>Drilling vessels and related equipment</b>		
Cost	\$ 1,275,703	\$ 1,106,709
Accumulated depreciation	(331,284)	(324,376)
Net book value	944,419	782,333
<b>Drill Pipe</b>		
Cost	16,082	15,568
Accumulated depreciation	(12,615)	(12,139)
Net book value	3,467	3,429
<b>Furniture and other</b>		
Cost	9,423	9,423
Accumulated depreciation	(7,828)	(7,347)
Net book value	1,595	2,076
<b>NET PROPERTY AND EQUIPMENT</b>	<b>\$ 949,481</b>	<b>\$ 787,838</b>

As of December 31, 2008, we had approximately \$166 million and \$207 million of construction in progress related to the construction of the ATWOOD OSPREY, our new conventionally moored semisubmersible, and our new dynamically positioned semisubmersible, respectively. We have also expended approximately \$176 million on the ATWOOD AURORA, which was delivered in December 2008.

#### Warehouse Fire

On October 25, 2008, a fire occurred in a third party warehouse facility in Houston, Texas that we use to store fleetwide spare capital equipment. In addition, this third party provides international freight forwarding services, and thus, the location was also used as a staging area for equipment shipments to our international fleet. Although the fire was contained primarily to one area of the facility, we did incur significant damage to our fleet spares and other equipment in-transit. We have insurance to cover the cost of replacing and repairing damaged equipment in excess of a \$2,500 deductible, which has been recorded as an expense during the first quarter of fiscal year 2009.



We are currently in the process of evaluating the fire damage to determine if the equipment can be repaired or if it must be replaced. The process is anticipated to last well in to 2009. Thus, we are currently unable to provide a reasonable estimate as to the total damage caused by the fire. However, we have specifically identified approximately \$0.7 million of capital equipment and \$0.3 million of inventory that needs to be replaced and therefore has been written off. In addition, \$0.3 million of costs have been incurred to assess and repair certain damaged equipment. We have also recorded our estimated insurance recoveries in an amount equal to these losses and costs, less our deductible. Thus, as of December 31, 2008, an insurance receivable has been recorded for our estimated insurance recoveries.

## 5. LONG-TERM DEBT

A summary of long-term debt is as follows (in thousands):

	December 31, 2008	September 30, 2008
2007 credit facility, bearing interest (market adjustable) at approximately 4.4% and 3.5% per annum at December 31, 2008 and September 30, 2008, respectively	\$ 200,000	\$ 170,000
2008 credit facility, bearing interest (market adjustable) at approximately 4.1% per annum at December 31, 2008	100,000	-
Less - current maturities	-	-
	\$ 300,000	\$ 170,000

During November 2008, we entered into a new credit agreement with several banks with Nordea Bank Finland plc, New York Branch acting as Administrative Agent for the lenders, as well as Lead Arranger and Book Runner (“the 2008 Credit Facility”). The 2008 Credit Facility provides for a secured 5-year \$280 million reducing revolving loan facility with maturity in November 2013, subject to acceleration upon certain specified events of default (with terms as defined in the credit agreement), including but not limited to: delinquent payments, bankruptcy filings, breaches of representation or covenants, material adverse judgments, guarantees or security documents not in full effect, non-compliance with the Employee Retirement Income Security Act of 1974, defaults under other agreements including existing credit agreements and a change in control. In addition, the 2008 Credit Facility contains a number of limitations on our ability, along with our subsidiaries, to: incur liens; merge, consolidate or sell assets; pay dividends; incur additional indebtedness; make advances, investments or loans; and transact with affiliates.

The 2008 Credit Facility requires a mandatory quarterly commitment reduction of \$7 million beginning at the earlier of three months after delivery of either semisubmersible drilling unit currently under construction or December 31, 2011. The commitment under this facility may be increased up to \$20 million for a total commitment of \$300 million. Loans under the 2008 Credit Facility will bear interest at 1.50% over the Eurodollar Rate. The collateral for the 2008 Credit Facility consists primarily of preferred mortgages on three of our drilling units (the ATWOOD FALCON, the ATWOOD SOUTHERN CROSS, and the ATWOOD AURORA). Under the 2008 Credit Facility, we are required to pay a fee of 0.75% per annum on the unused portion of the credit facility and certain other administrative costs.



The 2008 Credit Facility contains various financial covenants (with terms as defined in the credit agreement) that, among other things, require the maintenance of a leverage ratio, not to exceed 5.0 to 1.0, an interest expense coverage ratio not to be less than 2.5 to 1.0 and a required level of collateral maintenance whereby the aggregate appraised collateral value shall not be less than 150% of the total credit facility commitment. We were in compliance with all financial covenants under the 2008 Credit Facility and the \$300 million Credit Facility established in 2007 ("the 2007 Credit Facility") at December 31, 2008 and at all times during the quarter ended December 31, 2008.

The 2007 Credit Facility and the 2008 Credit Facility will provide funding for the two drilling units currently under construction, for future growth opportunities and for general corporate needs. As of February 5, 2009, no additional funds have been borrowed under either the 2007 Credit Facility or the 2008 Credit Facility subsequent to December 31, 2008.

## 6. INCOME TAXES

At December 31, 2008, we had approximately \$2.5 million of reserves for uncertain tax positions, including estimated accrued interest and penalties of \$0.3 million which are included as Other Long Term Liabilities in the Consolidated Balance Sheet. At December 31, 2008, all \$2.5 million of the net unrecognized tax benefits would affect our effective tax rate if recognized. A summary of activity related to the net unrecognized tax benefits for the three months ended December 31, 2008 is as follows (in thousands):

	Liability for Uncertain Tax Positions
Balance at October 1, 2008	\$ 3,492
Decreases based on tax positions related to the prior fiscal years	(1,037)
Balance December 31, 2008	\$ 2,455

Our United States tax returns for fiscal year 2006 and subsequent years remain subject to examination by tax authorities. As we conduct business globally, we have various tax years remaining open to examination in our international tax jurisdictions. We do not anticipate that any tax contingencies resolved during the next 12 months will have a material impact on our consolidated financial position, results of operations or cash flows.

Virtually all of our tax provision for each of the three months ended December 31, 2008 and 2007 relates to taxes in foreign jurisdictions. Accordingly, due to the high level of operating income earned in certain nontaxable and deemed profit tax jurisdictions during the three months ended December 31, 2008 and 2007, our effective tax rate for these periods was significantly less than the United States federal statutory rate.



## 7. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”, which provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. GAAP has required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The objective of SFAS No. 159 is to help mitigate this type of volatility in the earnings by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have elected not to present assets and liabilities at fair value that were not required to be measured at fair value prior to the adoption of SFAS No. 159.

In September 2005, the FASB issued SFAS No. 157, “Fair Value Measurements”, which defines fair value, establishes methods used to measure fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal periods. In February 2008, the FASB issued FASB Staff Position (“FSP”) No. SFAS 157-2, “Effective Date of FASB Statement No. 157”. This FSP delays the effective date of SFAS No. 157 by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP SFAS No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active”. FSP SFAS No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP SFAS No. 157-3 was effective upon issuance. We do not anticipate that FSP SFAS No. 157-2 will have a material impact on our consolidated financial position or results of operations. SFAS No. 157 and FSP No. SFAS 157-3 have not had a material impact on our consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations (revised 2007)”. This statement retains the fundamental requirements for SFAS No. 141, “Business Combinations”, that the acquisition method be used for all business combinations and expands the same method of accounting to all transactions and other events in which one entity obtains control over one of more other businesses or assets at the acquisition date and in subsequent periods. SFAS No. 141(R) replaces SFAS No. 141 and requires measurement at the acquisition date of the fair value of assets acquired, liabilities assumed and noncontrolling interest. Additionally, SFAS No. 141(R) requires that acquisition-related costs, including restructuring costs, be recognized separately from the acquisition. SFAS No. 141(R) applies prospectively to business combinations for fiscal years beginning after December 15, 2008. The impact of SFAS No. 141(R) on us will depend on the nature and extent of any future acquisitions.



In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". SFAS No. 160 establishes the accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests and applies prospectively to business combinations for fiscal years beginning after December 15, 2008. We do not anticipate that adoption of SFAS No. 160 will have a material impact on our consolidated financial position, results of operations and cash flows.

In May 2008, the FASB, issued SFAS, No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP (the GAAP hierarchy). The FASB does not expect SFAS No. 162 to result in a change in current practice, as the intent of SFAS No. 162 is to direct the GAAP hierarchy to the reporting entity (rather than its auditor) and to place the GAAP hierarchy within the accounting literature established by the FASB. This statement is effective 60 days following SEC approval of the Public Company Accounting Oversight Board Amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We do not anticipate that SFAS No. 162 will have a material impact on our consolidated financial position, results of operations and cash flows.

## **8. COMMITMENTS AND CONTINGENCIES**

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

### **Other Matters**

In India, where we currently operate and have previously operated in the prior two fiscal years, a new service tax of approximately 12% was enacted in 2004 on revenues derived from seismic and exploration activities. This law was subsequently amended in 2007 and 2008 to state that revenues derived from mining services and drilling services, respectively, were specifically subject to this service tax. Our contract terms provide that any liability related to any taxes pursuant to laws not in effect at the time the contract was executed is the obligation of our customer. As a result, in our opinion, which is supported by our legal and tax advisors, any such service taxes under either provision of the 2007 or 2008 amendments would be the obligation of our customer. Our customer is currently disputing this obligation on the basis, in their opinion, that revenues derived from drilling services were taxable under the initial 2004 law, which based on our contract terms, would provide that the service tax is our obligation. In our opinion and the opinion of our legal and tax advisors, drilling services were not covered by the 2004 law; thereby, making any service tax assessments under our current contract terms the obligation of our customer.

As of December 30, 2008, we have accrued for service taxes on drilling services performed from May 16, 2008 to December 31, 2008 as such services were provided subsequent to the effective date of the 2008 amendment. Even though we believe the tax is ultimately the responsibility of our customer, we will remit the service taxes on behalf of our customer and record a receivable from our customer for such taxes. As of December 31, 2008, we have recorded approximately \$3.4 million in accounts receivable, with the corresponding liability in accrued liabilities.



**PART I. ITEM 2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Form 10-Q for the quarterly period ended December 31, 2008 includes statements about Atwood Oceanics, Inc. (which together with its subsidiaries is identified as the "Company," "we" or "our," unless the context indicates otherwise) which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto) which are forward-looking statements. In addition, we and our representatives may, from time to time, make other oral or written statements which are also forward-looking statements.

These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us, and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

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

- our dependence on the oil and gas industry;
- the operational risks involved in drilling for oil and gas;
- risks associated with the current global economic crisis and its impact on capital markets, liquidity and financing of future drilling activity;
- changes in rig utilization and dayrates in response to the level of activity in the oil and gas industry, which is significantly affected by indications and expectations regarding the level and volatility of oil and gas prices, which in turn are affected by political, economic and weather conditions affecting or potentially affecting regional or worldwide demand for oil and gas, actions or anticipated actions by OPEC, inventory levels, deliverability constraints, and future market activity;
- the extent to which customers and potential customers continue to pursue deepwater drilling;
- exploration success or lack of exploration success by our customers and potential customers;

- the highly competitive and cyclical nature of our business, with periods of low demand and excess rig availability;
- the impact of the war with Iraq or other military operations, terrorist acts or embargoes elsewhere;
- our ability to enter into and the terms of future drilling contracts;
- the availability of qualified personnel;
- our failure to retain the business of one or more significant customers;
- the termination or renegotiation of contracts by customers;
- the availability of adequate insurance at a reasonable cost;
- the occurrence of an uninsured loss;
- the risks of international operations, including possible economic, political, social or monetary instability and compliance with foreign laws;
- the effect public health concerns could have on our international operations and financial results;
- compliance with or breach of environmental laws;
- the incurrence of secured debt or additional unsecured indebtedness or other obligations by us or our subsidiaries;
-

the adequacy of sources of liquidity for our operations and those of our customers;

- currently unknown rig repair needs and/or additional opportunities to accelerate planned maintenance expenditures due to presently unanticipated rig downtime;
- higher than anticipated accruals for performance-based compensation due to better than anticipated performance by us, higher than anticipated severance expenses due to unanticipated employee terminations, higher than anticipated legal and accounting fees due to unanticipated financing or other corporate transactions and other factors that could increase general and administrative expenses;
- the actions of our competitors in the offshore drilling industry, which could significantly influence rig dayrates and utilization;
- changes in the geographic areas in which our customers plan to operate or the tax rate in such jurisdiction, which in turn could change our expected effective tax rate;
- changes in oil and gas drilling technology or in our competitors' drilling rig fleets that could make our drilling rigs less competitive or require major capital investments to keep them competitive;
- rig availability;
- the effects and uncertainties of legal and administrative proceedings and other contingencies;
- the impact of governmental laws and regulations and the uncertainties involved in their administration, particularly in some foreign jurisdictions;
- changes in accepted interpretations of accounting guidelines and other accounting pronouncements and tax laws;
- risks involved in the construction of a dynamically positioned semisubmersible drilling unit without a contract;
- although our current long-term contract commitments do not provide for early termination due to market deterioration, market declines could result in requests to amend some of these contracts which, if amended,

could alter the timing of our current contracted cash flows;

- the risks involved in the construction, upgrade and repair of our drilling units, including project delays effecting our ability to meet contractual commitments; and
- such other factors as may be discussed in this report and our other reports filed with the Securities and Exchange Commission, or SEC.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. The words “believe,” “impact,” “intend,” “estimate,” “anticipate,” “plan,” and similar expressions identify forward-looking statements. These forward-looking statements are found at various places throughout the Management’s Discussion and Analysis in Part I, Item 2 hereof and elsewhere in this report. When considering any forward-looking statement, you should also keep in mind the risk factors described in other reports or filings we make with the SEC from time to time, including our Form 10K for the year ended September 30, 2008. Undue reliance should not be placed on these forward-looking statements, which are applicable only on the date hereof. Neither we nor our representatives have a general obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof or to reflect the occurrence of unanticipated events.



## **MARKET OUTLOOK**

The global financial crisis coupled with reduced prices for oil and natural gas continues to negatively impact the worldwide offshore drilling market. In recent months oil and gas companies have begun to delay certain exploration, development and production activities. This, along with the continued delivery of newly constructed drilling units, has led to increased rig availability and bidding competition for future contract activity. We believe the long-term outlook for the worldwide deepwater drilling remains positive; however, the current market deterioration has resulted in declining dayrates and a decrease of new contract activity for jack-ups and semisubmersible drilling unit markets in which the ATWOOD SOUTHERN CROSS competes. This crisis has continued to create significant reductions in available capital and liquidity from banks and other providers of credit, and, while not currently anticipated, this could adversely affect our customers' and lenders' ability to fulfill their obligations to us. The ATWOOD SOUTHERN CROSS has been idle since mid-December 2008 and is expected to remain idle at least through the second quarter of fiscal year 2009.

During the second half of fiscal year 2009, the current contracts for the VICKSBURG, ATWOOD BEACON and RICHMOND terminate by their terms. We are currently pursuing additional commitments for these three rigs along with the ATWOOD SOUTHERN CROSS; however, there is no guarantee that we will not incur idle time on some or all of these units during the second half of fiscal year 2009.

We are currently building two semisubmersibles for deepwater drilling; the ATWOOD OSPREY, a conventionally moored, 6,000 foot water depth unit, (scheduled for delivery in early 2011, with an estimated total cost of approximately \$600 million), and a dynamically positioned, 10,000 foot water depth unit (scheduled for delivery in mid-2012, with an estimated total cost of approximately \$750 million). In December 2008, we took delivery of the ATWOOD AURORA, an ultra-premium jack-up unit that is currently being mobilized to Egypt (arrival expected around February 6, 2009) to commence a two-year contract with RWE Dea Nile GmbH ("RWE"). Before the ATWOOD AURORA can commence operations, it will undergo some additional commissioning, training of personnel and be accepted by RWE. It is expected that the ATWOOD AURORA will commence operations in late February or early March. Although not anticipated, any unexpected delays in acceptance by RWE may have a negative impact on our financial condition.

Out of our nine existing drilling units and the two drilling units currently under construction, five (5) have current contract commitments that extend into fiscal year 2011 or later; one (1) has options which are expected to be exercised and, if exercised, will extend the contract commitment through fiscal year 2010; three (3), have current contract commitments that expire during fiscal year 2009; one (1) is currently idle and one (1) under construction, scheduled for delivery in mid-2012, is currently without a contract. We currently have an estimated contract revenue backlog of approximately \$2.0 billion compared to approximately \$1.3 billion of estimated capital commitments relating primarily to the two new semisubmersibles under construction.

Currently, we have approximately 75% of our available rig days contracted for the remainder of fiscal year 2009. A comparison of the average per day revenues for fiscal year 2007, 2008 and for the first three months of fiscal year 2009 for our active drilling units is as follows:



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	Average Per Day Revenues		First Three Months of Fiscal Year 2009
	Fiscal Year 2007	Fiscal Year 2008	
	ATWOOD HUNTER	\$234,000	\$246,000
ATWOOD EAGLE	160,000	241,000	396,000
ATWOOD FALCON	138,000	216,000	226,000
ATWOOD SOUTHERN CROSS	171,000	321,000	278,000
VICKSBURG	110,000	155,000	146,000
ATWOOD BEACON	109,000	128,000	129,000
SEAHAWK	84,000	88,000	84,000
RICHMOND	81,000	44,000	78,000

The ATWOOD HUNTER is currently working under contract commitments that extend to September 2012 at operating dayrates that range from \$511,000 to \$545,000, subject to adjustment for cost escalations. The ATWOOD EAGLE is currently working under a contract commitment offshore Australia at a dayrate of \$405,000, subject to adjustment for cost escalations, which extends to June 2010. Following completion of this commitment, the rig will commence a drilling program that could extend for six months or longer at a dayrate of at least \$430,000. The ATWOOD FALCON is currently in a shipyard in Singapore undergoing approximately \$5 million of capital equipment upgrades in addition to certain required inspections and maintenance, all of which could take approximately 45 days to complete. For the first 37 days of this shipyard period, Sarawak Shell Berhad (“Shell”) will pay a dayrate of approximately \$155,000. Any shipyard days exceeding 37 will be at zero rate. We currently estimate that the rig could incur seven (7) to ten (10) zero rate days during this shipyard period. Shell will also pay for approximately \$3.3 million of the capital equipment upgrades in addition to the 37 days of dayrate. Following the completion of this shipyard work (estimated February 10, 2009), the rig will return to work under its current contract which extends to August 2009 at a dayrate of \$160,000 or \$200,000 depending upon water depth of each well drilled. Following completion of this contract commitment, the rig will then commence a two-year contract commitment at a dayrate of \$425,000, subject to adjustment for cost escalations.

The ATWOOD SOUTHERN CROSS has been idle since mid-December 2008. During this idle period, the rig has been undergoing certain equipment repairs and maintenance which will keep operating costs relatively high during the second quarter of fiscal year 2009. We are currently pursuing additional work for this unit; however, the rig is expected to be idle the entire second quarter with no guarantee that the rig will not incur additional idle days. The VICKSBURG has a current contract commitment offshore Thailand at a dayrate of \$154,000 that extends into June 2009. The ATWOOD BEACON is drilling its final well at a dayrate of \$133,500 under its current contract offshore India that could also extend into May or June 2009. We are currently pursuing additional work for both the VICKSBURG and the ATWOOD BEACON; however, there is no guarantee that we will secure work for either unit following completion of their current contract commitments, and we expect that the dayrate for any new work will be lower than their current dayrates. Even if we secure additional work for the VICKSBURG, we anticipate that the unit will be off dayrate for approximately 4 weeks to undergo an estimated \$30 million equipment upgrade during June/July 2009.

The SEAHAWK is working offshore West Africa under a drilling contract that currently extends into March 2010; however, this contract provides for one additional six-month option which we expect to be exercised. For the last two

fiscal years, the SEAHAWK's operating costs exceeded or were relatively consistent with revenues; however, for fiscal year 2009, we expect that its revenue will exceed operating costs. Our only rig in the U.S. Gulf of Mexico, the RICHMOND, is currently drilling the first of two wells remaining under a contract commitment that should extend through most of the second quarter of fiscal year 2009. The rig's dayrates for the current well and the last well to be drilled under this commitment are \$78,000 and \$85,000, respectively. The RICHMOND has been 100% utilized in the Gulf of Mexico for many years. We are pursuing additional work for the RICHMOND beyond the current contract; however, we expect a decline in its dayrate. The ATWOOD AURORA's contract in Egypt is for two years, with an option to extend the commitment to three years. This contract provides for a dayrate of \$165,000, subject to adjustment for cost escalation, for the two-year commitment. Upon delivery, the ATWOOD OSPREY has a three-year contract with Chevron Australia Pty. Ltd. that provides for a dayrate of \$470,000, with an option to extend this commitment to six years at a dayrate of \$450,000. Both dayrates are subject to adjustments for cost escalations. We expect this drilling unit will commence working offshore Australia in early 2011.

Total drilling costs for the first quarter of fiscal year 2009 compared to the first quarter of fiscal year 2008 increased approximately 8%. We expect that our operating costs for the quarter ending March 31, 2009 will be approximately \$61 million (a 18% increase compared to operating costs incurred during the quarter ended March 31, 2008; however, approximately \$5 million of this amount relates to the expected commencement of the ATWOOD AURORA operations and to some additional maintenance and other costs. With the current worldwide economic environment, we currently expect a 13% to 15% increase in total drilling costs for fiscal year 2009 when compared to fiscal year 2008; however, approximately 6% to 7% of estimated fiscal year 2009 drilling costs will be due to the addition of the ATWOOD AURORA to our fleet.

Even with an expected increase in our outstanding debt to around \$450 million by the end of fiscal year 2009, we expect that our debt to total capitalization ratio is unlikely to exceed 30%. If our current contract backlog remains intact, as currently expected since our current long-term contract commitments do not provide for early termination or modification due to market deterioration, we anticipate maintaining a strong balance sheet and will remain focused on executing on our current newbuild program. We anticipate pursuing no further growth during fiscal year 2009.



**RESULTS OF OPERATIONS**

Revenues for the three months ended December 31, 2008 increased 49% compared to the three months ended December 31, 2007. A comparative analysis of revenues is as follows:

	<b>REVENUES</b>		
	(In millions)		
	Three Months Ended December 31,		
	<b>2008</b>	2007	Variance
ATWOOD EAGLE	\$ <b>36.4</b>	\$ 12.3	\$ 24.1
ATWOOD HUNTER	<b>42.6</b>	28.7	13.9
RICHMOND	<b>7.1</b>	0.8	6.3
ATWOOD SOUTHERN CROSS	<b>25.6</b>	20.3	5.3
ATWOOD FALCON	<b>20.7</b>	17.2	3.5
ATWOOD BEACON	<b>11.9</b>	10.5	1.4
SEAHAWK	<b>7.8</b>	7.2	0.6
VICKSBURG	<b>13.4</b>	14.0	(0.6)
	<b>\$ 165.5</b>	\$ 111.0	\$ 54.5

Increases in revenues for the ATWOOD EAGLE, ATWOOD HUNTER, ATWOOD SOUTHERN CROSS and ATWOOD FALCON were related to each of these drilling units working under higher dayrate contracts during the current quarter compared to the prior fiscal year quarter. The increase in revenues for the RICHMOND is due to the rig being in a shipyard undergoing a life-enhancing upgrade for most of the first quarter of fiscal year 2008 and thus, earned no revenue during that time. Revenues for the ATWOOD BEACON, SEAHAWK and VICKSBURG during the first quarter of fiscal year 2009 were relatively consistent with the first quarter of fiscal year 2008.



Contract drilling costs for the three months ended December 31, 2008 increased 8% compared to the three months ended December 31, 2007. An analysis of contract drilling costs by rig is as follows:

#### CONTRACT DRILLING COSTS

	(In millions)		
	2008	Three Months Ended December 31, 2007	Variance
RICHMOND	\$ 3.8	\$ 1.7	\$ 2.1
ATWOOD HUNTER	8.9	7.6	1.3
ATWOOD FALCON	6.6	5.5	1.1
ATWOOD SOUTHERN CROSS	8.1	7.6	0.5
ATWOOD BEACON	4.4	4.4	--
ATWOOD EAGLE	9.9	9.9	--
VICKSBURG	4.1	4.4	(0.3)
SEAHAWK	6.0	8.7	(2.7)
OTHER	3.6	1.3	2.3
	\$ 55.4	\$ 51.1	\$ 4.3

The increase in contract drilling costs for the RICHMOND is due to the fact that the rig incurred significantly less operating costs during the first quarter of fiscal year 2008 as the rig was in a shipyard undergoing a life enhancing upgrade. The increase in contract drilling costs for the ATWOOD HUNTER and ATWOOD FALCON is primarily due to an increase in the amount of maintenance projects and higher agent fees during the current quarter when compared to the prior fiscal year quarter. Contract drilling costs for the ATWOOD SOUTHERN CROSS, ATWOOD BEACON, ATWOOD EAGLE and VICKSBURG for the quarter ended December 31, 2008 were relatively consistent with costs for the quarter ended December 31, 2007. The decrease in drilling costs for the SEAHAWK is due to a decrease in the amount of maintenance projects. In addition, costs during the first quarter of fiscal year 2008 include the amortization of deferred expenses which ended during the fourth quarter of fiscal year 2008. Other drilling costs increased when compared to the prior fiscal year quarter primarily due to exchange rate losses resulting from the weakening United States dollar during the current quarter.



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Depreciation expense for the three months ended December 31, 2008 decreased 7% compared to the three months ended December 31, 2007. An analysis of depreciation expense by rig is as follows:

<b>DEPRECIATION EXPENSE</b>			
(In millions)			
Three Months Ended December 31,			
	2008	2007	Variance
RICHMOND	\$ 0.4	\$ -	\$ 0.4
ATWOOD HUNTER	1.5	1.5	--
ATWOOD FALCON	1.3	1.3	--
ATWOOD BEACON	1.3	1.3	--
ATWOOD EAGLE	1.1	1.1	--
ATWOOD SOUTHERN CROSS	0.9	0.9	--
VICKSBURG	0.7	0.7	--
SEAHAWK	0.6	1.6	(1.0)
OTHER	0.1	0.1	--
	\$ 7.9	\$ 8.5	\$ (0.6)

In accordance with our company policy, no depreciation expense was recorded during the first quarter of fiscal year 2008 for the RICHMOND, as the rig was undergoing a life enhancing upgrade to extend its remaining depreciable life from one to ten years. Effective October 1, 2008, we extended the remaining depreciable life of the SEAHAWK from one year to five years based upon the length of its current contract commitment coupled with our intent to continue marketing and operating the rig beyond one year. Depreciation expense for all other rigs has remained relatively consistent with the prior fiscal year period.

General and administrative expenses for the three months ended December 31, 2008 increased compared to the prior fiscal year period primarily due to rising personnel costs, which include headcount and wages increases and increased annual bonus compensation costs. Interest expense has decreased as interest expense for the first quarter of fiscal year 2008 included the write off of the remaining unamortized loan costs related to a prior credit facility which was terminated during the quarter ended December 31, 2007. Interest income has decreased as interest rates have decreased significantly when compared to the prior fiscal year quarter.

Virtually all of our tax provision for each of the three months ended December 31, 2008 and 2007 relates to taxes in foreign jurisdictions. Accordingly, due to the high level of operating income earned in certain nontaxable and deemed profit tax jurisdictions during the three months ended December 31, 2008 and 2007, our effective tax rate for these periods was significantly less than the United States federal statutory rate. Our effective rate for the current fiscal year quarter of 15% is higher due to a lower level of operating income earned in certain nontaxable and deemed profit tax jurisdictions when compared to the prior fiscal year quarter effective rate of 11%. Excluding any discrete items that may be incurred, we expect our effective tax rate to be between 15% and 16% for fiscal year 2009.



## LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008 and February 5, 2009 we have \$200 million borrowed under our 5-year \$300 million credit facility executed in October 2007 and \$100 million borrowed under our 5-year \$280 million credit facility executed in November 2008. Both credit facilities contain various financial covenants that, among other things, require the maintenance of certain leverage and interest expense coverage ratios. The collateral for these two credit facilities, collectively, consist primarily of preferred mortgages on six of our drilling units (ATWOOD EAGLE, ATWOOD HUNTER, ATWOOD FALCON, ATWOOD SOUTHERN CROSS, ATWOOD AURORA and ATWOOD BEACON). These credit facilities will provide funding to complete the construction of our two deepwater semisubmersibles being constructed in Singapore, for future growth opportunities and for general corporate needs. We were in compliance with all financial covenants under both credit facilities at December 31, 2008 and at all times during the first quarter of fiscal year 2009. As of December 31, 2008, we had expended approximately \$176 million on the construction of the ATWOOD AURORA. There could be up to an additional \$14 million left to expend on the ATWOOD AURORA (including transportation costs to relocate the rig to its first area of operations offshore Egypt, final commissioning and capitalized interest) which would result in a final cost of approximately \$190 million. The total constructions costs of the two deepwater semisubmersibles are expected to be approximately \$600 million and \$750 million, respectively. In addition to these construction projects, we also anticipate that the VICKSBURG will undergo an estimated \$30 million equipment upgrade during June/July 2009.

Since we operate in a very cyclical industry, maintaining high equipment utilization in up, as well as down, cycles is a key factor in generating cash to satisfy current and future obligations. For fiscal years 2002 through 2008, net cash provided by operating activities ranged from a low of approximately \$14 million in fiscal year 2003 to a high of approximately \$192 million in fiscal year 2008. For the three months ended December 31, 2008, net cash provided by operating activities totaled approximately \$62 million. Our operating cash flows are primarily driven by our operating income, which reflects dayrates and rig utilization. During the first three months of fiscal year 2009, we used internally generated cash and funds borrowed under our credit facilities to expend approximately \$24 million toward the construction of the ATWOOD AURORA, approximately \$134 million towards the construction of the two deepwater semisubmersibles and approximately \$6 million in other capital expenditures.

We estimate that our total capital expenditures for the last three quarters of fiscal year 2009 will be approximately \$430 million, with approximately \$365 million relating to the construction of the two deepwater semisubmersibles. Based upon the current expected capital commitments for the remainder of fiscal year 2009, we expect to end fiscal year 2009 with outstanding long-term debt around \$450 million. We will utilize internally generated cash flows, as well as cash available under our combined \$580 million credit facilities to fund our capital commitments for the remainder of fiscal year 2009.

Our portfolio of accounts receivable is primarily comprised of large independent or multinational corporate entities with stable payment experience. Historically, we have not encountered significant difficulty in collecting receivables and typically do not require collateral for our receivables. The increase in accounts receivable of approximately \$32.7 million from September 30, 2008 to December 31, 2008 is primarily attributed to balance due from two customers greater than 60 days outstanding as of December 31, 2008 that have since been collected during January 2009.

Prepaid expenses and deferred costs have decreased by approximately \$2.9 million at December 31, 2008 compared to September 30, 2008 due to the amortization of annual rig insurance premiums which are generally renewed and paid for during the fourth quarter of each fiscal year.

Deferred costs and other assets have increased by approximately \$2.2 million at December 31, 2008 compared to September 30, 2008 due to the payment of fees related to the execution the 2008 Credit Facility completed during the first quarter of fiscal year 2009. These fees will be amortized on a straight-line basis over the term of the credit

facility.

Accrued liabilities have increased by approximately \$18.9 million at December 31, 2008 compared to September 30, 2008 primarily due to a higher amount of accrued but unpaid purchases of capital equipment related to our current construction projects and a higher amount of accrued but unpaid taxes.

Long-term deferred credits have decreased by approximately \$2.4 million at December 31, 2008 compared to September 30, 2008 due to the amortization deferred fees associated with the prior upgrade of the ATWOOD FALCON. Lump sum fees received for upgrade costs reimbursed by our customers are reported as deferred credits in the accompanying Consolidated Balance Sheets and are recognized as earned on a straight-line method over the term of the related drilling contracts.



**PART I. ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**INTEREST RATE RISK**

All of our \$300 million of long-term debt outstanding at December 31, 2008, was floating rate debt. As a result, our annual interest costs in fiscal year 2009 will fluctuate based on interest rate changes. The impact on annual cash flow of a 10% change in the floating rate (approximately 45 basis points) would be approximately \$1.4 million, which we believe to be immaterial. We did not have any open derivative contracts relating to our floating rate debt at December 31, 2008.

**FOREIGN CURRENCY RISK**

Certain of our subsidiaries have monetary assets and liabilities that are denominated in a currency other than their functional currencies. Based on December 31, 2008 amounts, a decrease in the value of 10% in the foreign currencies relative to the United States Dollar from the year-end exchange rates would result in a foreign currency transaction gain of approximately \$2.3 million. Thus, we consider our current risk exposure to foreign currency exchange rate movements, based on net cash flows, to be immaterial. We did not have any open derivative contracts relating to foreign currencies at December 31, 2008.



**PART I. ITEM 4**

**CONTROLS AND PROCEDURES**

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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



**PART II. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

(a) Exhibits

3.1 Amended and Restated Certificate of Formation dated February 9, 2006 (Incorporated herein by reference to Exhibit 3.1 of our Form 10-Q filed May 12, 2008).

3.2 Amendment No. 1 to Amended and Restated Certificate of Formation dated February 14, 2008 (Incorporated herein by reference to Exhibit 3.2 of our Form 10-Q filed May 12, 2008).

3.3 Second Amended and Restated By-Laws, dated May 5, 2006 (Incorporated herein by reference to Exhibit 3.2 of our Form 10-Q filed May 12, 2008).

3.4 Amendment No. 1 to Second Amended and Restated By-Laws, dated June 7, 2007 (Incorporated herein by reference to Exhibit 3.4 of our Form 10-Q filed May 12, 2008).

4.1 Rights Agreement dated effective October 18, 2002 between the Company and Continental Stock Transfer & Trust Company (Incorporated herein by reference to Exhibit 4.1 of our Form 8-A filed October 21, 2002).

4.2 Certificate of Adjustment of Atwood Oceanics, Inc. dated as of March 17, 2006 (Incorporated herein by reference to Exhibit 4.1 of our Form 8-K filed March 23, 2006).

4.3 Certificate of Adjustment of Atwood Oceanics, Inc. dated as of June 25, 2008 (Incorporated herein by reference to Exhibit 4.1 of our Form 8-K filed June 25, 2008).

4.4 See Exhibit Nos. 3.1, 3.2, 3.3, and 3.4 hereof for provisions of our Amended and Restated Certificate of Formation (as amended) and Second Amended and Restated By-Laws (as amended) defining the rights of our

shareholders (Incorporated herein by reference to Exhibits 3.1, 3.2, 3.3 and 3.4 of our Form 10-Q filed May 12, 2008).

10.1 Credit Agreement for \$280 million dated November 25, 2008 among the Company, Atwood Oceanics Pacific Limited and Nordea Bank Finland Plc and other Financial Institutions (Incorporated herein by reference to

Exhibit 10.2 of our Form 8-K filed November 26, 2008).

\*31.1 Certification of Chief Executive Officer.

\*31.2 Certification of Chief Financial Officer.

\*32.1 Certificate of Chief Executive Officer pursuant to Section 906 of Sarbanes – Oxley Act of 2002.

\*32.2 Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes – Oxley Act of 2002.

\*Filed herewith



**SIGNATURES**

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

**ATWOOD OCEANICS, INC.**

(Registrant)

Date: February 6, 2009

/s/JAMES M. HOLLAND

James M. Holland

Senior Vice President, Chief Financial Officer, Chief

Accounting Officer and Secretary



**EXHIBIT INDEX**

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