UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

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 of principal executive offices)
(Zip Code)
(281) 492-5300
(Registrant's telephone number, including area code)

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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

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

As of July 29, 2003	Common stock, $0.01 par value per share	130,336,455 shares

DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED JUNE 30, 2003

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	JUNE 30, 2003 (UNAUDITED)	DECEMBER 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 221,761	$ 184,910
Marketable securities	393,124	627,614
Accounts receivable	151,015	146,957
Rig inventory and supplies	46,581	45,405
Prepaid expenses and other	25,727	28,870
Total current assets	838,208	1,033,756
DRILLING AND OTHER PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	2,273,081	2,164,627
GOODWILL, NET OF ACCUMULATED AMORTIZATION OF $30,684	17,908	24,714
OTHER ASSETS	32,130	35,668
Total assets	$ 3,161,327	$ 3,258,765
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 11,155	$ 11,155
Accounts payable	34,784	39,721
Accrued liabilities	58,034	63,113
Taxes payable	943	4,413
Total current liabilities	104,916	118,402
LONG-TERM DEBT	932,170	924,475
DEFERRED TAX LIABILITY	356,482	375,309
OTHER LIABILITIES	35,454	33,065
Total liabilities	1,429,022	1,451,251
COMMITMENTS AND CONTINGENCIES (NOTE 9)	--	--
STOCKHOLDERS' EQUITY:		
Preferred stock (par value $0.01, 25,000,000 shares authorized, none issued or outstanding)	--	--
Common stock (par value $0.01, 500,000,000 shares authorized, 133,457,055 issued, 130,336,455 outstanding at June 30, 2003 and December 31, 2002)	1,335	1,335
Additional paid-in capital	1,263,692	1,263,692
Retained earnings	550,505	621,342
Accumulated other comprehensive loss	(5,102)	(730)
Treasury stock, at net cost (3,120,600 shares at June 30, 2003 and December 31, 2002)	(78,125)	(78,125)
Total stockholders' equity	1,732,305	1,807,514
Total liabilities and stockholders' equity	$ 3,161,327	$ 3,258,765

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
REVENUES:				
Contract drilling	$ 157,038	$ 179,674	$ 296,897	$ 373,342
Revenues related to reimbursable expenses	6,162	8,113	12,452	15,995
Total revenues	163,200	187,787	309,349	389,337
OPERATING EXPENSES:				
Contract drilling	124,606	120,254	238,276	241,200
Reimbursable expenses	5,525	7,343	11,263	14,555
Depreciation	41,553	44,585	88,830	87,282
General and administrative	8,214	7,440	15,414	14,088
Gain on sale of assets	(57)	(33)	(58)	(65)
Total operating expenses	179,841	179,589	353,725	357,060
OPERATING INCOME (LOSS)	(16,641)	8,198	(44,376)	32,277
OTHER INCOME (EXPENSE):				
Interest income	3,337	7,651	7,493	17,232
Interest expense	(5,378)	(6,290)	(10,953)	(11,760)
Gain (loss) on sale of marketable securities	(1,071)	8,671	(1,132)	12,163
Other, net	1,290	341	3,032	1,161
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	(18,463)	18,571	(45,936)	51,073
INCOME TAX BENEFIT (EXPENSE)	1,776	(6,609)	7,683	(16,553)
NET INCOME (LOSS)	$ (16,687)	$ 11,962	$ (38,253)	$ 34,520
EARNINGS (LOSS) PER SHARE:				
BASIC	$ (0.13)	$ 0.09	$ (0.29)	$ 0.26
DILUTED	$ (0.13)	$ 0.09	$ (0.29)	$ 0.26
WEIGHTED AVERAGE SHARES OF COMMON STOCK:				
Shares of common stock	130,336	131,553	130,336	131,669
Dilutive potential shares of common stock	--	8	--	9,426
Total weighted average shares outstanding assuming dilution	130,336	131,561	130,336	141,095

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2002
OPERATING ACTIVITIES:		
Net income (loss)	$ (38,253)	$ 34,520
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	88,830	87,282
(Gain) on sale of assets	(58)	(65)
(Gain) loss on sale of marketable securities	1,132	(12,163)
Deferred tax provision (benefit)	(9,666)	10,414
Accretion of discounts on marketable securities	(1,378)	(2,028)
Amortization of debt issuance costs	594	655
Accretion of discount on zero coupon convertible debentures	7,695	7,432
Changes in operating assets and liabilities:		
Accounts receivable	(4,058)	23,445
Rig inventory and supplies and other current assets	1,967	12,629
Other assets, non-current	2,944	551
Accounts payable and accrued liabilities	(10,016)	8,606
Taxes payable	(3,470)	(751)
Other liabilities, non-current	2,389	(3,263)
Other items, net	(2,244)	(1,673)
Net cash provided by operating activities	36,408	165,591
INVESTING ACTIVITIES:		
Capital expenditures (excluding rig acquisitions)	(134,114)	(117,823)
Rig acquisitions	(63,500)	--
Proceeds from sale of assets	388	1,348
Proceeds from sale of marketable securities	1,603,006	2,218,678
Purchase of marketable securities	(1,374,768)	(2,217,939)
Securities sold under repurchase agreements, net	--	53,126
Proceeds from settlement of forward contracts	2,015	912
Net cash provided by (used in) investing activities	33,027	(61,698)
FINANCING ACTIVITIES:		
Payment of dividends	(32,584)	(32,951)
Acquisition of treasury stock	--	(20,000)
Settlement of put options	--	(1,193)
Net cash used in financing activities	(32,584)	(54,144)
NET CHANGE IN CASH AND CASH EQUIVALENTS	36,851	49,749
Cash and cash equivalents, beginning of period	184,910	398,990
Cash and cash equivalents, end of period	$ 221,761	$ 448,739

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries (the "Company") should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-13926).

As of July 29, 2003, Loews Corporation ("Loews") owned 53.8% of the outstanding shares of common stock of Diamond Offshore Drilling, Inc., which was a wholly owned subsidiary of Loews prior to its initial public offering in October 1995.

Interim Financial Information

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all disclosures required by generally accepted accounting principles for complete financial statements. The consolidated financial information has not been audited but, in the opinion of management, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated balance sheets, statements of operations, and statements of cash flows at the dates and for the periods indicated. Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years.

Cash and Cash Equivalents and Marketable Securities

Short-term, highly liquid investments that have an original maturity of three months or less and deposits in money market mutual funds that are readily convertible into cash are considered cash equivalents.

The Company's investments are classified as available for sale and stated at fair value. Accordingly, any unrealized gains and losses, net of taxes, are reported in the Consolidated Balance Sheets in "Accumulated other comprehensive loss" until realized. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and such adjustments are included in the Consolidated Statements of Operations in "Interest income." The sale and purchase of securities are recorded on the date of the trade. The cost of debt securities sold is based on the specific identification method. Realized gains or losses and declines in value, if any, judged to be other than temporary are reported in the Consolidated Statements of Operations in "Other income (expense)."

Securities Sold Under Agreements to Repurchase

From time to time the Company may lend securities to unrelated parties, primarily major brokerage firms. Borrowers of these securities must transfer to the Company cash collateral equal to the securities transferred. Cash deposits from these transactions are invested in short-term investments and are included in the Consolidated Balance Sheets in "Cash and cash equivalents." A liability is recognized for the obligation to return the cash collateral. The Company continues to receive interest income on the loaned debt securities, as beneficial owner, and accordingly, the loaned debt securities are included in the Consolidated Balance Sheets in "Marketable securities." Interest expense associated with the related liability is recorded as an offset to "Interest income" in the Consolidated Statements of Operations. During the six months ended June 30, 2002, loaned debt securities that were outstanding at December 31, 2001, were returned to the Company. The Company did not have any loaned debt securities outstanding at June 30, 2003 or December 31, 2002.

Derivative Financial Instruments

Derivative financial instruments of the Company include forward exchange contracts and a contingent interest provision that is embedded in the 1.5% convertible senior debentures due 2031 (the "1.5% Debentures") issued on April 11, 2001. See Note 4.

Supplementary Cash Flow Information

Cash payments made for interest on long-term debt totaled $3.5 million for the six months ended June 30, 2003 and 2002.

Cash payments made for foreign income taxes, net of foreign tax refunds, were $5.3 million and $6.6 million during the six months ended June 30, 2003 and 2002, respectively. There were no payments of U.S. income taxes in the first half of 2003. A $14.5 million net cash refund of U.S. income tax was received during the six months ended June 30, 2002.

Capitalized Interest

Interest cost for construction and upgrade of qualifying assets is capitalized. A reconciliation of the Company's total interest cost to "Interest expense" as reported in the Consolidated Statements of Operations is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
	(IN THOUSANDS)			
Total interest cost including amortization of debt issuance costs	$ 6,518	$ 6,602	$ 13,017	$ 13,186
Capitalized interest	(1,140)	(312)	(2,064)	(1,426)
Total interest expense as reported	$ 5,378	$ 6,290	$ 10,953	$ 11,760

Debt Issuance Costs

Debt issuance costs are included in the Consolidated Balance Sheets in "Other assets" and are amortized over the respective terms of the related debt.

Treasury Stock and Common Equity Put Options

Depending on market conditions, the Company may, from time to time, purchase shares of its common stock or issue put options in the open market or otherwise. The purchase of treasury stock is accounted for using the cost method which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in the Consolidated Balance Sheets.

The Company did not purchase any of its common stock during the first half of 2003. During the first half of 2002 the Company purchased 500,000 shares of its common stock at an aggregate cost of $20.0 million, or at an average cost of $40.00 per share, upon the exercise of put options sold in February 2001. The Company reduced "Additional paid-in capital" in the Consolidated Balance Sheet by $3.1 million, the amount of the premium received for the sale of these put options, and reported the net cost of the shares, $16.9 million, in "Treasury stock."

The Company settled put options which covered 1,000,000 shares of its common stock during the first quarter of 2002 with cash payments totaling $1.2 million. The Company reduced "Additional paid-in capital" in the Consolidated Balance Sheet for amounts paid to settle these put options. The Company's remaining put options sold in 2001, which covered 187,321 shares of the Company's common stock, expired during the first half of 2002.

There were no common equity put options issued or outstanding at December 31, 2002, June 30, 2003 or during the six months ended June 30, 2003.

Comprehensive Income (Loss)

A reconciliation of net income (loss) to comprehensive income (loss) is as follows:

	THREE MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2002
	(IN THOUSANDS)			
Net income (loss)	$(16,687)	$ 11,962	$(38,253)	$ 34,520
Other comprehensive gains (losses), net of tax:				
Foreign currency translation loss	(62)	(507)	(149)	(524)
Unrealized holding gain (loss) on investments	(1,921)	3,360	(4,214)	(625)
Reclassification adjustment for gain (loss) included in net income (loss)	4	3,955	(9)	1,345
Comprehensive income (loss)	$(18,666)	$ 18,770	$(42,625)	$ 34,716

Currency Translation

The Company's primary functional currency is the U.S. dollar. Certain of the Company's subsidiaries use the local currency in the country where they conduct operations as their functional currency. These subsidiaries translate assets and liabilities at period-end exchange rates while income and expense accounts are translated at average exchange rates. Translation adjustments are reflected in the Consolidated Balance Sheets in "Accumulated other comprehensive loss." Currency transaction gains and losses are included in the Consolidated Statements of Operations in "Other income (expense)." Re-measurement translation gains and losses of subsidiaries operating in hyperinflationary economies, when applicable, are included in operating results.

Stock-Based Compensation

The Company accounts for its 2000 Stock Option Plan in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the options granted to employees under the plan. Had compensation expense for the Company's stock options been recognized based on the fair value of the options at the grant dates, using the methodology prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," the Company's net income (loss) and earnings (loss) per share would have been as follows:

	THREE MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2002
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income (loss) as reported	$ (16,687)	$ 11,962	$ (38,253)	$ 34,520
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	--	--	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(273)	(224)	(537)	(432)
Pro forma net income (loss)	$ (16,960)	$ 11,738	$ (38,790)	$ 34,088
Earnings (loss) per share of common stock:				
As reported	$ (0.13)	$ 0.09	$ (0.29)	$ 0.26
Pro forma	$ (0.13)	$ 0.09	$ (0.30)	$ 0.26
Earnings (loss) per share of common stock - assuming dilution:				
As reported	$ (0.13)	$ 0.09	$ (0.29)	$ 0.26
Pro forma	$ (0.13)	$ 0.09	$ (0.30)	$ 0.26

Revenue Recognition

Income from dayrate drilling contracts is recognized currently. In connection with such drilling contracts, the Company may receive lump-sum fees for the mobilization of equipment and personnel. Any excess in these lump-sum mobilization fees received over the related costs incurred to mobilize an offshore rig from one market to another is recognized in income over the primary term of the related drilling contract. Absent a contract, mobilization costs are recognized currently. Other lump-sum payments received from customers relating to specific contracts are deferred and amortized to income over the primary term of the related drilling contract.

Income from offshore turnkey drilling contracts is recognized on the completed contract method, with revenues accrued to the extent of costs until the specified turnkey depth and other contract requirements are met. Provisions for future losses on turnkey drilling contracts are recognized when it becomes apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract. During the quarter ended June 30, 2003, the Company elected not to pursue contracts for integrated services, which includes turnkey contracts, except in very limited circumstances.

Income from reimbursements received for the purchase of supplies, equipment, personnel services and other services provided at the request of the Company's customers in accordance with a contract or agreement is recorded, for the gross amount billed to the customer, as "Revenues related to reimbursable expenses" in the Consolidated Statements of Operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Changes in Accounting Estimates

In April 2003 the Company commissioned a study from an independent appraiser to evaluate the economic lives of its drilling rigs. As a result of this independent study the Company recorded changes in accounting estimates by increasing the estimated service lives and salvage values of most of the Company's drilling rigs to better reflect their remaining economic lives and value. The effect of this change in accounting estimates resulted in an increase to net income (after-tax) for the quarter and six months ended June 30, 2003 of $5.8 million, or $0.04 per share. Prior periods were not affected.

Reclassifications

Certain amounts applicable to prior periods have been reclassified to conform to the classifications currently followed. Such reclassifications do not affect earnings.

Recent Accounting Pronouncements

In May 2003 the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company's adoption of SFAS No. 150 is not expected to have an impact on the Company's consolidated results of operations, financial position or cash flows.

In April 2003 the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. SFAS No. 149 is to be applied prospectively for contracts entered into or modified after June 30,

2003. For contracts involving hedging relationships, SFAS No. 149 should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company's adoption of SFAS No. 149 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. The Company accounts for stock-based employee compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has adopted the provisions of SFAS No. 148 which require prominent disclosure regarding the method of accounting for stock-based employee compensation in its annual and interim financial statements. See "-Stock-Based Compensation."

In July 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company's adoption of SFAS No. 146 has not had a material impact on the Company's consolidated results of operations, financial position or cash flows.

2. EARNINGS (LOSS) PER SHARE

A reconciliation of the numerators and the denominators of the basic and diluted per-share computations follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income (loss) - basic (numerator):	$ (16,687)	$ 11,962	$ (38,253)	$ 34,520
Effect of dilutive potential shares				
1.5% Debentures	--	--	--	2,083
Net income (loss) including conversions - diluted (numerator)	$ (16,687)	$ 11,962	$ (38,253)	$ 36,603
Weighted average shares - basic (denominator):	130,336	131,553	130,336	131,669
Effect of dilutive potential shares				
1.5% Debentures	--	--	--	9,383
Stock options	--	8	--	6
Put options	--	--	--	37
Weighted average shares including conversions - diluted (denominator)	130,336	131,561	130,336	141,095
Earnings (loss) per share:				
Basic	$ (0.13)	$ 0.09	$ (0.29)	$ 0.26
Diluted	$ (0.13)	$ 0.09	$ (0.29)	$ 0.26

The computation of diluted earnings per share ("EPS") for the quarters and six month periods ended June 30, 2003 and 2002 excludes approximately 6.9 million potentially dilutive shares issuable upon conversion of the Company's zero coupon convertible debentures due 2020 ("Zero Coupon Debentures"). The computation of diluted EPS for each of the quarters ended June 30, 2003 and 2002 and the six months ended June 30, 2003 excludes approximately 9.4 million potentially dilutive shares issuable upon conversion of the Company's 1.5% Debentures. Potentially dilutive shares were excluded from the computation of diluted EPS for the quarters and six month periods ended June 30, 2003 and 2002 because the inclusion of such shares would be antidilutive.

Put options covering 1,687,321 shares of common stock at various stated exercise prices per share were outstanding during part of the six months ended June 30, 2002 prior to their expiration or settlement. The computation of diluted EPS for the quarter and six months ended June 30, 2002 excluded put options covering 1,687,321 shares and 1,187,321 shares of common stock, respectively, because the options' exercise prices were less than the average market price per share of the common stock. There were no put options outstanding during the quarter and six months ended June 30, 2003.

Certain stock options were excluded from the computation of diluted EPS because the options' exercise prices were more than the average market price per share of the common stock. Stock options representing 380,025 shares and 182,700 shares of common stock were excluded from the computation of diluted EPS for the quarters and six month periods ended June 30, 2003 and 2002, respectively.

Other stock options with average market prices that exceeded their exercise prices during the period (in-the-money options) were excluded from the computation of diluted EPS because potential shares of common stock are not included when a loss from continuing operations exists. Stock options representing 85,250 shares of common stock were excluded from the computation of diluted EPS for the quarter and six months ended June 30, 2003.

3. MARKETABLE SECURITIES

Investments classified as available for sale are summarized as follows:

	JUNE 30, 2003		
	COST	UNREALIZED LOSS	FAIR VALUE
	(IN THOUSANDS)		
Debt securities issued by the U.S. Treasury and other U.S. government agencies:			
Due within one year	$101,436	$ (526)	$100,910
Due after five through ten years	199,956	--	199,956
Collateralized mortgage obligations	94,063	(1,805)	92,258
Total	$395,455	$ (2,331)	$393,124

	DECEMBER 31, 2002		
	COST	UNREALIZED GAIN	FAIR VALUE
	(IN THOUSANDS)		
Debt securities issued by the U.S. Treasury and other U.S. government agencies:			
Due within one year	$449,445	$ 20	$449,465
Collateralized mortgage obligations	174,003	4,146	178,149
Total	$623,448	$ 4,166	$627,614

All of the Company's investments are included as current assets in the Consolidated Balance Sheets in "Marketable securities," representing the investment of cash available for current operations.

Proceeds from sales of marketable securities and gross realized gains and losses are summarized as follows:

	THREE MONTHS ENDED JUNE 30, 2003	2002
	(IN THOUSANDS)	
Proceeds from sales	$ 725,045	$1,304,494
Gross realized gains ...	--	8,671
Gross realized losses ..	(1,071)	--

	SIX MONTHS ENDED JUNE 30, 2003	2002
	(IN THOUSANDS)	
Proceeds from sales	$ 1,603,006	$ 2,218,678
Gross realized gains ...	108	14,935
Gross realized losses ..	(1,240)	(2,772)

4. DERIVATIVE FINANCIAL INSTRUMENTS

Forward Exchange Contracts

The Company operates internationally, resulting in exposure to foreign exchange risk. This risk is primarily associated with costs payable in foreign currencies for employee compensation and for purchases from foreign suppliers. The Company's primary technique for minimizing its foreign exchange risk involves structuring customer contracts to provide for payment in both the U. S. dollar and the foreign currency whenever possible. The payment portion denominated in the foreign currency is based on anticipated foreign currency requirements over the contract term. In some instances, when customer contracts cannot be structured to generate a sufficient amount of foreign currency for operating purposes, a foreign exchange forward contract may be used to minimize the forward exchange risk. A forward exchange contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified foreign exchange rates on specified dates.

In June 2002 the Company entered into forward contracts to purchase approximately 50.0 million Australian dollars, 4.2 million Australian dollars to be purchased monthly from August 29, 2002 through June 26, 2003 and 3.8 million to be purchased on July 31, 2003. In July 2001 the Company entered into twelve forward contracts to purchase 3.5 million Australian dollars at each month through July 31, 2002. These forward contracts are derivatives as defined by SFAS No. 133. SFAS No. 133 requires that each derivative be stated in the balance sheet at its fair value with gains and losses reflected in the income statement except that, to the extent the derivative qualifies for hedge accounting, the gains and losses are reflected in income in the same period as offsetting losses and gains on the qualifying hedged positions. SFAS No. 133 further provides specific criteria necessary for a derivative to qualify for hedge accounting. The forward contracts purchased by the Company in 2002 and 2001 do not qualify for hedge accounting. At June 30, 2003, an asset of $0.5 million, reflecting the fair value of the forward contracts, was included with "Prepaid expenses and other" in the Consolidated Balance Sheet. A pre-tax gain of $1.0 million (comprised of a $1.3 million realized gain and a $0.3 million unrealized loss) and $2.3 million (comprised of a $2.0 million realized gain and a $0.3 million unrealized gain) was recorded in the Consolidated Statements of Operations for the quarter and six months ended June 30, 2003 in "Other income (expense)." For the quarter and six months ended June 30, 2002 a pre-tax gain of $0.5 million (comprised of a $0.6 million realized gain and a $0.1 million unrealized loss) and $1.2 million (comprised of a $0.9 million realized gain and a $0.3 million unrealized gain), respectively, was recorded in the Consolidated Statements of Operations in "Other income (expense)."

Contingent Interest

The Company's $460.0 million principal amount of 1.5% Debentures which were issued on April 11, 2001 and are due on April 15, 2031, contain a contingent interest provision. The contingent interest component is an embedded derivative as defined by SFAS No. 133 and accordingly must be split from the host instrument and recorded at fair value on the balance sheet. The contingent interest component had no value at issuance, at December 31, 2002 or at June 30, 2003.

5. DRILLING AND OTHER PROPERTY AND EQUIPMENT

Cost and accumulated depreciation of drilling and other property and equipment are summarized as follows:

	JUNE 30, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Drilling rigs and equipment	$ 3,244,189	$ 3,091,892
Construction work-in-progress	185,752	141,247
Land and buildings	15,035	15,035
Office equipment and other	21,558	21,076
Cost	3,466,534	3,269,250
Less: accumulated depreciation	(1,193,453)	(1,104,623)
Drilling and other property and equipment, net	$ 2,273,081	$ 2,164,627

In April 2003 the Company commissioned a study from an independent appraiser to evaluate the economic lives of its drilling rigs. As a result of this independent study the Company recorded changes in accounting estimates by increasing the estimated service lives and salvage values of most of the Company's drilling rigs to better reflect their remaining economic lives and value. The effect of this change in accounting estimates resulted in an increase to net income (after-tax) for the quarter and six months ended June 30, 2003 of $5.8 million, or $0.04 per share. Prior periods were not affected.

Construction work-in-progress at June 30, 2003 included $175.2 million for the significant upgrade of the Ocean Rover to high specification capabilities. The upgrade was completed on time and under budget in July 2003 for an estimated total cost of $189 million. The rig has begun a three well drilling program for Murphy Sabah Oil Company, Ltd. offshore Malaysia.

In March 2003, Diamond Offshore Drilling Limited, a subsidiary of the Company, completed the acquisition of the third-generation semisubmersible drilling rig, Omega, renamed Ocean Patriot, for $65.0 million. The Company capitalized $63.5 million to drilling rigs and equipment and recorded $1.5 million to rig inventory.

In December 2002, the acquisition of the third-generation semisubmersible drilling rig, West Vanguard, renamed Ocean Vanguard, was completed for $68.5 million. The Company capitalized $67.0 million to drilling rigs and equipment and recorded $1.5 million to rig inventory.

6. GOODWILL

Goodwill from the merger with Arethusa (Off-Shore) Limited ("Arethusa") in 1996 was generated from an excess of the purchase price over the net assets acquired. Prior to January 1, 2002 the Company amortized goodwill on a straight-line basis over 20 years. The Company adopted SFAS No. 142 on January 1, 2002 and, accordingly, suspended amortization of goodwill at that time.

For purposes of applying SFAS No. 142, the Company determined that it has one reporting unit to which to assign goodwill. The Company performed the annual goodwill impairment test on December 31, 2002 and determined that the fair value of the reporting unit exceeded its carrying value, and accordingly, no further steps were required for testing goodwill impairment at that time. Annual goodwill impairment testing will be performed at each year-end.

There were no recognized intangible assets other than goodwill associated with the Arethusa merger.

During each of the six month periods ended June 30, 2003 and 2002, an adjustment of $6.8 million was recorded to reduce goodwill. The adjustments represent the tax benefits not previously recognized for the excess of tax deductible goodwill over book goodwill. The Company will continue to reduce goodwill in future periods as the tax benefits of excess tax goodwill over book goodwill are recognized. Goodwill is expected to be reduced to zero during the year 2004.

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	JUNE 30, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Payroll and benefits	$30,132	$29,337
Personal injury and other claims	6,815	6,815
Interest payable	2,869	1,588
Deferred revenue	2,757	3,539
Other	15,461	21,834
Total	$58,034	$63,113

8. LONG-TERM DEBT

Long-term debt consists of the following:

	JUNE 30, 2003	DECEMBER 31, 2002
	(IN THOUSANDS)	
Zero Coupon Debentures	$ 447,383	$ 439,688
1.5% Debentures	460,000	460,000
Ocean Alliance lease-leaseback agreement	35,942	35,942
	943,325	935,630
Less: Current maturities	(11,155)	(11,155)
Total	$ 932,170	$ 924,475

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2002, are as follows:

	(DOLLARS IN THOUSANDS)
2003	$ 11,155
2004	11,969
2005	12,818
2006	--
2007	--
Thereafter	907,383
	943,325
Less: Current maturities	(11,155)
Total	$ 932,170

Convertible Senior Debentures

The Company's $460.0 million principal amount of 1.5% Debentures that were issued on April 11, 2001 are due April 15, 2031. The 1.5% Debentures are convertible into shares of the Company's common stock at an initial conversion rate of 20.3978 shares per $1,000 principal amount of the 1.5% Debentures, subject to adjustment in certain circumstances. Upon conversion, the Company has the right to deliver cash in lieu of shares of the Company's common stock.

Interest of 1.5% per year on the outstanding principal amount is payable semiannually in arrears on April 15 and October 15 of each year, beginning October 15, 2001. The 1.5% Debentures are unsecured obligations of the Company and rank equally with all of the Company's other unsecured senior indebtedness.

Holders may require the Company to purchase all or a portion of their 1.5% Debentures on April 15, 2008, at a price equal to 100% of the principal amount of the 1.5% Debentures to be purchased plus accrued and unpaid interest. The Company may choose to pay the purchase price in cash or shares of the Company's common stock or a combination of cash and common stock. In addition, holders may require the Company to purchase, for cash, all or a portion of their 1.5% Debentures upon a change in control (as defined).

The Company may redeem all or a portion of the 1.5% Debentures at any time on or after April 15, 2008, at a price equal to 100% of the principal amount plus accrued and unpaid interest.

Zero Coupon Convertible Debentures

The Company's Zero Coupon Debentures, issued On June 6, 2000, are due June 6, 2020 at a price of $499.60 per $1,000 debenture, which represents a yield to maturity of 3.50% per year. The Company will not pay interest prior to maturity unless it elects to convert the Zero Coupon Debentures to interest-bearing debentures upon the occurrence of certain tax events. The Zero Coupon Debentures are convertible at the option of the holder at any time prior to maturity, unless previously redeemed, into the Company's common stock at a fixed conversion rate of 8.6075 shares of common stock per Zero Coupon Debenture, subject to adjustments in certain events. The Zero Coupon Debentures are senior unsecured obligations of the Company.

The Company has the right to redeem the Zero Coupon Debentures, in whole or in part, after June 6, 2005, for a price equal to the issuance price plus accrued original issue discount through the date of redemption. Holders have the right to require the Company to repurchase the Zero Coupon Debentures on the fifth, tenth and fifteenth anniversaries of issuance at the accreted value through the date of repurchase. The Company may pay such repurchase price with either cash or shares of the Company's common stock or a combination of cash and shares of common stock.

Ocean Alliance Lease-Leaseback

The Company entered into a lease-leaseback agreement with a European bank in December 2000. The lease-leaseback agreement provides for the Company to lease the Ocean Alliance, one of the Company's high specification semisubmersible drilling rigs, to the bank for a lump-sum payment of $55.0 million plus an origination fee of $1.1 million and for the bank to then sub-lease the rig back to the Company. Under the agreement, which has a five-year term, the Company is to make five annual payments of $13.7 million. Two of the five annual payments have been made as of December 31, 2002. This financing arrangement has an effective interest rate of 7.13% and is an unsecured subordinated obligation of the Company.

9. COMMITMENTS AND CONTINGENCIES

Various claims have been filed against the Company in the ordinary course of business, including claims by offshore workers alleging personal injuries. Management believes that the Company has established adequate reserves for any liabilities that may reasonably be expected to result from these claims. In the opinion of management, no pending or threatened claims, actions or proceedings against the Company are expected to have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

10. SEGMENTS AND GEOGRAPHIC AREA ANALYSIS

The Company reports its operations as one reportable segment, contract drilling of offshore oil and gas wells. Though the Company provides contract drilling services from different types of offshore drilling rigs and provides such services in many geographic locations, these operations have been aggregated into one reportable segment based on the similarity of economic characteristics among all divisions and locations, including the nature of services provided and the type of customers of such services.

Similar Services

Revenues from external customers for contract drilling and similar services by equipment-type are listed below (eliminations offset dayrate revenues earned when the Company's rigs are utilized in its integrated services):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
	(IN THOUSANDS)			
High Specification Floaters	$ 72,660	$ 75,748	$ 136,294	$ 150,395
Other Semisubmersibles	61,265	73,977	112,968	162,057
Jack-ups	23,116	26,839	46,682	56,339
Integrated Services	--	4,406	1,189	6,229
Other	(3)	(436)	(3)	(436)
Eliminations	--	(860)	(233)	(1,242)
Total Contract Drilling Revenues	157,038	179,674	296,897	373,342
Revenues Related to Reimbursable Expenses	6,162	8,113	12,452	15,995
Total revenues	$ 163,200	$ 187,787	$ 309,349	$ 389,337

Geographic Areas

At June 30, 2003, the Company had drilling rigs located offshore nine countries other than the United States. As a result, the Company is exposed to the risk of changes in social, political, economic and other conditions inherent in foreign operations and the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates. Revenues by geographic area are presented by attributing revenues to the individual country or areas where the services were performed.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
	(IN THOUSANDS)			
Revenues from unaffiliated customers:				
United States	$ 83,915	$ 74,181	$163,674	$171,524
Foreign:				
South America	40,804	44,987	81,279	86,918
Europe/Africa	15,009	26,812	20,871	57,938
Australia/Southeast Asia	22,570	41,807	42,623	72,957
Mexico	902	--	902	--
Total revenues	$163,200	$187,787	$309,349	$389,337

11. INCOME TAXES

In 2002 the Company formed a Cayman Island corporation, Diamond Offshore International Limited, which is a wholly-owned subsidiary of the Company. Certain of the Company's rigs that operate internationally are now owned and operated, directly or indirectly, by the Cayman Island subsidiary. Effective January 1, 2003 the Company began to postpone remittance of the earnings from this subsidiary to the U.S. and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses in the first half of 2003. The 9.6% effective tax rate for the three months ended June 30, 2003 resulted from a revision of the estimated annual effective tax rate from 21.5% in the first quarter of 2003 to 16.7% in the second quarter of 2003.

In 2002 a portion of the earnings from the Company's U.K. subsidiaries was considered to be indefinitely reinvested. No U.S. taxes were provided on these earnings in the three or six month periods ended June 30, 2002 and the estimated annual effective tax rate as of June 30, 2002 was 32.4%. The effective rate of 35.6% for the three months ended June 30, 2002 resulted from a revision of the estimated annual effective tax rate from 30.6% in the first quarter of 2002 to 32.4% in the second quarter of 2002. These U.K. subsidiaries are now owned, directly or indirectly, by Diamond Offshore International Limited. Consequently, earnings and losses from the U.K. subsidiaries for the three and six month periods ended June 30, 2003 are part of the earnings and losses of the Cayman Island subsidiary on which no U.S. taxes are provided.

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements (including the Notes thereto) included elsewhere herein. References to the "Company" mean Diamond Offshore Drilling, Inc., a Delaware corporation, and its subsidiaries.

The Company is a leader in deep water drilling with a fleet of 47 offshore drilling rigs. The fleet consists of 32 semisubmersibles, 14 jack-ups and one drillship.

GENERAL

Revenues. The Company's revenues vary based upon demand, which affects the number of days the fleet is utilized and the dayrates earned. When a rig is idle, no dayrate is earned and revenues will decrease as a result. Revenues can also increase or decrease as a result of the acquisition or disposal of rigs. In order to improve utilization or realize higher dayrates, the Company may mobilize its rigs from one market to another. However, during periods of mobilization revenues may be adversely affected. As a response to changes in demand, the Company may withdraw a rig from the market by stacking it or may reactivate a rig stacked previously, which may decrease or increase revenues, respectively.

Revenues from dayrate drilling contracts are recognized currently. The Company may receive lump-sum payments in connection with specific contracts. Such payments are recognized as revenues over the term of the related drilling contract. Mobilization revenues, less costs incurred to mobilize an offshore rig from one market to another, are recognized over the primary term of the related drilling contract.

Revenues from offshore turnkey drilling contracts are accrued to the extent of costs until the specified turnkey depth and other contract requirements are met. Income is recognized on the completed contract method. Provisions for future losses on turnkey contracts are recognized when it becomes apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract. During the quarter ended June 30, 2003, the Company elected not to pursue contracts for integrated services, which includes turnkey contracts, except in very limited circumstances.

Revenues from reimbursements received for the purchase of supplies, equipment, personnel services and other services provided at the request of the Company's customers in accordance with a contract or agreement are recorded for the gross amount billed to the customer, as "Revenues related to reimbursable expenses" in the Consolidated Statements of Operations.

Operating Income. Operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Operating expenses generally are not affected by changes in dayrates and may not be significantly affected by fluctuations in utilization. For instance, if a rig is to be idle for a short period of time, the Company may realize few decreases in operating expenses since the rig is typically maintained in a prepared state with a full crew. In addition, when a rig is idle, the Company is responsible for certain operating expenses such as rig fuel and supply boat costs, which are typically a cost of the operator under a drilling contract. However, if the rig is to be idle for an extended period of time, the Company may reduce the size of a rig's crew and take steps to "cold stack" the rig, which lowers expenses and partially offsets the impact on operating income. The Company recognizes as operating expenses activities such as inspections, painting projects and routine overhauls, meeting certain criteria, which maintain rather than upgrade its rigs. These expenses vary from period to period. Costs of rig enhancements are capitalized and depreciated over the expected useful lives of the enhancements. Higher depreciation expense decreases operating income in periods subsequent to capital upgrades.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are included in Note 1 of its Notes to Consolidated Financial Statements in Part I, Item 1 of this report. Management's judgments, assumptions and estimates are inherent in the preparation of the Company's financial statements and the application of its significant accounting policies. The Company believes that its most critical accounting estimates are as follows:

Property, Plant and Equipment. Drilling and other property and equipment is carried at cost. Maintenance and routine repairs are charged to income currently while replacements and betterments, which meet certain criteria, are capitalized. Depreciation is amortized on the straight-line method over the remaining estimated useful lives.

In April 2003 the Company commissioned a study from an independent appraiser to evaluate the economic lives of its drilling rigs. As a result of this independent study the Company recorded changes in accounting estimates by increasing the estimated service lives and salvage values for most of the Company's drilling rigs to better reflect their remaining economic lives and value. The effect of this change in accounting estimate resulted in an increase to net income (after-tax) for the quarter and six months ended June 30, 2003 of $5.8 million, or $0.04 per share. Prior periods were not affected. Management makes judgments, assumptions and estimates regarding capitalization, useful lives and salvage values. Changes in these assumptions could produce results that differ from those reported.

The Company evaluates its property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management's assumptions are an inherent part of an asset impairment evaluation and the use of different assumptions could produce results that differ from those reported.

Personal Injury Claims. The Company's retention of liability for personal injury claims, which primarily results from Jones Act liability in the Gulf of Mexico, is $0.5 million per claim with an aggregate annual deductible of $1.5 million. The Company estimates its liability for personal injury claims based on the existing facts and circumstances in conjunction with historical experience regarding past personal injury claims. Eventual settlement or adjudication of these claims could differ significantly from the estimated amounts.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003 AND 2002

Comparative data relating to the Company's revenues and operating expenses by equipment type are listed below (eliminations offset (i) dayrate revenues earned when the Company's rigs are utilized in its integrated services and (ii) intercompany expenses charged to rig operations). Certain amounts applicable to the prior periods have been reclassified to conform to the classifications currently followed. Such reclassifications do not affect earnings.

	THREE MONTHS ENDED JUNE 30, 2003	THREE MONTHS ENDED JUNE 30, 2002	FAVORABLE/ (UNFAVORABLE)
	(in thousands)		
CONTRACT DRILLING REVENUE			
High Specification Floaters	$ 72,660	$ 75,748	$ (3,088)
Other Semisubmersibles	61,265	73,977	(12,712)
Jack-ups	23,116	26,839	(3,723)
Integrated Services	--	4,406	(4,406)
Other	(3)	(436)	433
Eliminations	--	(860)	860
TOTAL CONTRACT DRILLING REVENUE	$ 157,038	$ 179,674	$ (22,636)
REVENUES RELATED TO REIMBURSABLE EXPENSES	$ 6,162	$ 8,113	$ (1,951)
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 38,555	$ 39,545	$ 990
Other Semisubmersibles	57,810	53,445	(4,365)
Jack-ups	27,012	22,735	(4,277)
Integrated Services	841	4,689	3,848
Other	388	700	312
Eliminations	--	(860)	(860)
TOTAL CONTRACT DRILLING EXPENSE	$ 124,606	$ 120,254	$ (4,352)
REIMBURSABLE EXPENSES	$ 5,525	$ 7,343	$ (1,818)
OPERATING INCOME (LOSS)			
High Specification Floaters	$ 34,105	$ 36,203	$ (2,098)
Other Semisubmersibles	3,455	20,532	(17,077)
Jack-ups	(3,896)	4,104	(8,000)
Integrated Services	(841)	(283)	(558)
Other	(391)	(1,136)	745
Reimbursable expenses, net	637	770	(133)
Depreciation	(41,553)	(44,585)	3,032
General and Administrative Expense	(8,214)	(7,440)	(774)
Gain on Sale of Assets	57	33	24
TOTAL OPERATING INCOME (LOSS)	$ (16,641)	$ 8,198	$ (24,839)

High Specification Floaters.

Revenues. Revenues from high specification floaters decreased $3.1 million during the quarter ended June 30, 2003 compared to the same quarter in 2002. Lower average operating dayrates contributed $9.7 million to the overall decrease as the average dayrate fell from $115,000 per day in the second quarter of 2002 to $96,300 per day in the second quarter of 2003. There were significant changes in the average operating dayrates of the Ocean Baroness ($120,200 from $177,400), the Ocean Valiant ($42,300 from $82,600) and the Ocean Victory ($70,200 from $97,400).

An improvement in utilization for high specification floaters, from 80% during the second quarter of 2002 to 92% in the second quarter of 2003, contributed $6.6 million to revenues and partially offset the negative effect of lower average dayrates. The Ocean America and the Ocean Star worked the entire second quarter of 2003 but both rigs were stacked during part of the second quarter of 2002. Utilization also improved for the Ocean Baroness which worked a majority of the second quarter of 2003 compared to the same period in 2002 when the rig was down for approximately one month due to the parting of its marine riser. The improvement in utilization was partially offset as a result of downtime incurred by the Ocean Alliance for repairs and by the Ocean Valiant for its five-year special survey. These rigs were stacked approximately three weeks longer during the second quarter of 2003 compared to the second quarter of 2002.

Contract Drilling Expense. Contract drilling expense for high specification floaters for the quarter ended June 30, 2003 decreased $1.0 million from the same period in 2002. The Ocean Baroness incurred higher contract drilling expenses during the second quarter of 2002 due to costs incurred in connection with the recovery of its marine riser, net of costs charged to an associated insurance claim, although the expenses were partially offset by lower operating expenses during the riser recovery period. In addition, various maintenance projects performed on the Ocean America while the rig was stacked during the second quarter of 2002 and mobilization costs incurred to return the rig to work contributed to higher contract drilling expenses in the second quarter of 2002 compared to the same period in 2003. Partially offsetting the lower contract drilling expenses in the second quarter of 2003 were higher costs from maintenance projects for the Ocean Quest and Ocean Valiant.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles for the quarter ended June 30, 2003 decreased $12.7 million from the same period in 2002. Average operating dayrates dropped to $57,600 (excluding the Ocean Vanguard and the Ocean Patriot) during the second quarter of 2003 from $71,500 during the second quarter of 2002, resulting in a decline in revenues of $10.0 million. The largest decreases in average operating dayrate were experienced by the rigs working in the North Sea where average operating dayrates declined for the Ocean Guardian ($93,300 to $49,900), the Ocean Princess ($74,800 to $40,000) and the Ocean Nomad ($70,300 to $43,100).

Lower utilization resulted in $8.1 million of the overall revenue decline as utilization fell from 54% during the second quarter of 2002 to 51% (excluding the Ocean Vanguard and the Ocean Patriot) during the same quarter of 2003. The Ocean Epoch and the Ocean Whittington were stacked the entire second quarter of 2003 while the Ocean Bounty was in the shipyard undergoing a special survey for approximately one-half of the second quarter of 2003. Each of these rigs worked all of the same period in 2002. Partially offsetting the utilization decline were improvements from the Ocean Lexington and the Ocean Saratoga. Both of these rigs worked the entire second quarter of 2003 but were stacked the majority of the second quarter of 2002. In addition, the Ocean General was working the entire second quarter of 2003 compared to the same period in 2002 when the rig was in a shipyard undergoing a special survey for approximately one-half of the quarter.

Partially offsetting the overall decrease in revenues was $5.4 million generated by the Ocean Patriot and the Ocean Vanguard, which the Company acquired in March 2003 and December 2002, respectively.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles during the second quarter of 2003 increased $4.4 million compared to the same period in 2002 primarily due to operating expenses for the Ocean Patriot and the Ocean Vanguard. Contract drilling expenses were also higher during the quarter ended June 30, 2003 due to costs associated with the special surveys of the Ocean Nomad and Ocean Bounty and increased maintenance projects on the Ocean Guardian and the Ocean Princess. Partially offsetting the overall higher operating expenses were lower costs for the Ocean Liberator and the Ocean New Era. These rigs were cold stacked during the second quarter of 2003 but were partially crewed and actively marketed in the same period of 2002.

Jack-Ups.

Revenues. Revenues from jack-ups decreased $3.7 million during the second quarter of 2003 compared to the same quarter in 2002. Lower utilization resulted in $2.2 million of the overall revenue decline as utilization fell from 74% during the second quarter of 2002 to 68% during the second quarter of 2003. The Ocean Sovereign spent all of the second quarter of 2003 in a shipyard primarily completing its leg extension upgrade. The Ocean Tower spent approximately one-half of the second quarter of 2003 completing additional shipyard projects subsequent to its cantilever upgrade that was completed in March 2003. The Ocean Titan spent approximately one-half of the second quarter of 2003 in a shipyard beginning its cantilever upgrade. Partially offsetting the overall lower utilization during the second quarter of 2003 were increased operating days from the Ocean Spartan and Ocean Spur, which were undergoing leg extension upgrades during the three months ended June 30, 2002. Both of these rigs worked most of the second quarter of 2003.

Average operating dayrates dropped to $26,700 per day during the second quarter of 2003, from $28,700 per day during the second quarter of 2002, resulting in a $1.5 million reduction in revenue. The Ocean Heritage experienced the largest average dayrate decrease from $97,600 to $47,300.

Contract Drilling Expense. Contract drilling expense for jack-ups during the second quarter of 2003 rose $4.3 million from the same period in 2002. Operating costs increased for the Ocean Spartan and Ocean Spur as these rigs worked most of the second quarter of 2003 compared to the same period in 2002 when these rigs were undergoing leg extension upgrades. In addition, the Ocean Tower experienced higher contract drilling expenses for the quarter ended June 30, 2003 due to various shipyard projects and its mobilization out of the shipyard. Partially offsetting was a reduction in expenses for the Ocean Titan due to the capitalization of a majority of its costs when it began its cantilever upgrade in the second quarter of 2003.

Integrated Services.

During the second quarter of 2003 integrated services had an $0.8 million loss. The loss was comprised of project income of $0.1 million from the completion of one turnkey plug and abandonment project in the Gulf of Mexico during the first quarter of 2003 which was more than offset by operating overhead costs and insurance premiums. During the same period in 2002, an integrated services' operating loss of $0.3 million resulted from a turnkey well in the Gulf of Mexico.

Reimbursable expenses, net.

Reimbursable expenses include items that the Company purchases, and/or services it performs, at the request of its customers. Revenues related to reimbursable items, offset by the related expenditures for these items, were $0.6 million and $0.8 million for the quarters ended June 30, 2003 and 2002, respectively.

Depreciation.

Depreciation expense decreased $3.0 million to $41.6 million in the second quarter of 2003 compared to $44.6 million in the second quarter of 2002. This decrease resulted from increasing the estimated service lives and salvage values of most of the Company's drilling rigs to better reflect their remaining economic lives. The effect of these changes in accounting estimates was a $6.9 million reduction in depreciation expense. This reduction was partially offset by depreciation of the Ocean Vanguard and the Ocean Patriot, which the Company acquired in December 2002 and March 2003, respectively, and additional depreciation for five of the Company's recently upgraded jack-up rigs.

General and Administrative Expense.

General and administrative expense for the quarter ended June 30, 2003 of $8.2 million increased $0.8 million over $7.4 million for the same period in 2002. This increase was primarily due to severance pay associated with the elimination of certain positions in the Company as part of a cost reduction program and higher professional expenses for legal fees and tax planning for foreign operations. Partially offsetting was a reduction in other personnel costs.

Interest Income.

Interest income of $3.3 million earned during the quarter ended June 30, 2003 declined $4.4 million, from $7.7 million earned during the same period in 2002. These earnings were lower primarily due to less cash investment in the second quarter of 2003 in addition to lower interest rates earned on cash and marketable securities compared to the same period in 2002.

Gain (Loss) on Sale of Marketable Securities.

A loss on the sale of marketable securities of $1.1 million occurred in the quarter ended June 30, 2003 compared to an $8.7 million gain on the sale of marketable securities during the same period in 2002.

Income Tax Benefit (Expense).

An income tax benefit of $1.8 million was recognized on a pre-tax loss of $18.5 million in the second quarter of 2003 compared to tax expense of $6.6 million which was recognized on pre-tax income of $18.6 million in the second quarter of 2002.

In 2002 the Company formed a Cayman Island corporation, Diamond Offshore International Limited, which is a wholly-owned subsidiary of the Company. Certain of the Company's rigs that operate internationally are now owned and operated, directly or indirectly, by the Cayman Island subsidiary. Effective January 1, 2003 the Company began to postpone remittance of the earnings from this subsidiary to the U.S. and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses in the second quarter of 2003. The 9.6% effective tax rate for the three months ended June 30, 2003 resulted from a revision of the estimated annual effective tax rate from 21.5% in the first quarter of 2003 to 16.7% in the second quarter of 2003.

In 2002 a portion of the earnings from the Company's U.K. subsidiaries was considered to be indefinitely reinvested. No U.S. taxes were provided on these earnings in the second quarter of 2002 and the estimated annual effective tax rate as of June 30, 2002 was 32.4%. The effective rate of 35.6% for the three months ended June 30, 2002 resulted from a revision of the estimated annual effective tax rate from 30.6% in the first quarter of 2002 to 32.4% in the second quarter of 2002. These U.K. subsidiaries are now owned, directly or indirectly, by Diamond Offshore International Limited. Consequently, earnings and losses from the U.K. subsidiaries for the three month period ended June 30, 2003 are part of the earnings and losses of the Cayman Island subsidiary on which no U.S. taxes are provided.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2003 AND 2002

Comparative data relating to the Company's revenues and operating expenses by equipment type are listed below (eliminations offset (i) dayrate revenues earned when the Company's rigs are utilized in its integrated services and (ii) intercompany expenses charged to rig operations). Certain amounts applicable to the prior periods have been reclassified to conform to the classifications currently followed. Such reclassifications do not affect earnings.

	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2002	FAVORABLE/ (UNFAVORABLE)
	(in thousands)		
CONTRACT DRILLING REVENUE			
High Specification Floaters	$ 136,294	$ 150,395	$ (14,101)
Other Semisubmersibles	112,968	162,057	(49,089)
Jack-ups	46,682	56,339	(9,657)
Integrated Services	1,189	6,229	(5,040)
Other	(3)	(436)	433
Eliminations	(233)	(1,242)	1,009
TOTAL CONTRACT DRILLING REVENUE	$ 296,897	$ 373,342	$ (76,445)
REVENUES RELATED TO REIMBURSABLE EXPENSES	$ 12,452	$ 15,995	$ (3,543)
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 76,831	$ 75,073	$ (1,758)
Other Semisubmersibles	107,527	110,317	2,790
Jack-ups	51,263	48,417	(2,846)
Integrated Services	2,090	7,530	5,440
Other	798	1,105	307
Eliminations	(233)	(1,242)	(1,009)
TOTAL CONTRACT DRILLING EXPENSE	$ 238,276	$ 241,200	$ 2,924
REIMBURSABLE EXPENSES	$ 11,263	$ 14,555	$ (3,292)
OPERATING INCOME (LOSS)			
High Specification Floaters	$ 59,463	$ 75,322	$ (15,859)
Other Semisubmersibles	5,441	51,740	(46,299)
Jack-ups	(4,581)	7,922	(12,503)
Integrated Services	(901)	(1,301)	400
Other	(801)	(1,541)	740
Reimbursable expenses, net	1,189	1,440	(251)
Depreciation	(88,830)	(87,282)	(1,548)
General and Administrative Expense	(15,414)	(14,088)	(1,326)
Gain on Sale of Assets	58	65	(7)
TOTAL OPERATING INCOME (LOSS)	$ (44,376)	$ 32,277	$ (76,653)

High Specification Floaters.

Revenues. Revenues from high specification floaters decreased $14.1 million in the first half of 2003 compared to the same period in 2002. Lower average operating dayrates for most of the rigs in this classification resulted in a $20.5 million reduction in revenue. Average operating dayrates fell from $111,500 during the first half of 2002 to $105,600 during the first half of 2003 (excluding the Ocean Baroness).

An overall improvement in utilization for high specification floaters in the first half of 2003 contributed $7.9 million to revenues and partially offset the negative effect of lower average operating dayrates. Utilization improved to 89% for the six months ended June 30, 2003 from 85% for the same period in 2002 (excluding the Ocean Baroness). Utilization improved significantly for the Ocean America and the Ocean Star as both rigs worked the entire first half of 2003. During the first half of 2002 the Ocean America was stacked approximately four months and the Ocean Star was stacked approximately three months in a shipyard for inspection and repairs.

The Ocean Baroness contributed less revenue in the first half of 2003 than in the first half of 2002 primarily due to a significant drop in its average operating dayrate from $175,000 to $88,700. Partially offsetting was an improvement in utilization in 2003 compared to the same period in 2002 when the rig spent most of the first quarter completing its upgrade to high specification capabilities.

Contract Drilling Expense. Contract drilling expense for high specification floaters for the six months ended June 30, 2003 increased $1.8 million from the same period in 2002. Operating expenses for the Ocean Baroness were higher in the first half of 2003 as the rig worked most of the period compared to the same period in 2002 when the rig began operations late in the first quarter upon completion of its upgrade. Higher operating expenses for the Ocean Baroness during the six months ended June 30, 2003 compared to the same period in 2002 were partially offset by costs incurred during 2002 for the recovery of its marine riser, net of costs charged to an associated insurance claim. In addition, operating expenses were higher in the first half of 2003 due to the mobilization, inspection and repair of the Ocean Valiant. The increased contract drilling expense was partially offset by lower operating costs in 2003 for the Ocean Star which incurred mobilization, inspection and repair costs during the first half of 2002.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles for the six months ended June 30, 2003 decreased $49.1 million from the same period in 2002. A decline in utilization reduced revenues $31.7 million as utilization rates fell from 61% during the first half of 2002 to 48% during the first half of 2003 (excluding the Ocean Vanguard and the Ocean Patriot). The Ocean Whittington was stacked and the Ocean Liberator was cold stacked the entire first half of 2003 while the Ocean Epoch and Ocean Princess were stacked most of the first half of 2003. The Ocean Guardian and the Ocean Bounty spent three months and two months, respectively, of the six months ended June 30, 2003 in a shipyard for inspection and repairs. Each of these rigs worked most of the same period in 2002. Partially offsetting was an increase in revenue in 2003 from the Ocean General which was idle for two months during the first half of 2002 and the Ocean Saratoga which was in a shipyard undergoing a special survey during the same period.

Lower average operating dayrates for other semisubmersibles resulted in a $23.7 million revenue reduction as average operating dayrates fell from $69,400 in the first half of 2002 to $58,800 in the same period of 2003 (excluding the Ocean Vanguard and the Ocean Patriot). The most significant decreases in dayrates were to the Ocean Princess ($72,900 to $40,000), the Ocean Nomad ($72,200 to $41,700), and the Ocean Winner ($77,700 to $49,600).

Partially offsetting the overall decrease in revenues was $6.3 million generated by the Ocean Vanguard and the Ocean Patriot, which the Company acquired in December 2002 and March 2003, respectively.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles during the first half of 2003 was lower by $2.8 million compared to the same period in 2002. Cost savings were realized from four rigs (the Ocean Voyager, Ocean Liberator, Ocean Endeavor and Ocean New Era) which were cold stacked the entire first half of 2003. All of these rigs, except the Ocean New Era, worked part of the first half of 2002. Also, contract drilling expenses for the Ocean Worker were lower in first half of 2003 compared to the same period in 2002, when costs were incurred for the rig's mobilization, inspection and repairs. Partially offsetting the lower contract drilling expenses were operating costs generated by the Ocean Patriot and Ocean Vanguard and costs associated with the special surveys of the Ocean Nomad, Ocean Ambassador and the Ocean Bounty during 2003.

Jack-Ups.

Revenues. Revenues from jack-ups decreased $9.7 million during the first half of 2003 compared to the same period in 2002. Lower utilization resulted in $5.9 million of the overall revenue decline as utilization fell from 82% during the first half of 2002 to 68% during the same period of 2003. The Ocean Sovereign spent most of the first half of 2003 in a shipyard completing its leg extension upgrade. The Ocean Tower spent most of the first half of 2003 in a shipyard undergoing a cantilever upgrade and various other projects. In comparison these rigs operated throughout most of the first half of 2002. Partially offsetting, utilization improved for the Ocean Spartan and Ocean Spur, as both of these rigs worked most of the first half of 2003 but spent approximately three months of the first half of 2002 undergoing leg extension upgrades.

Lower average operating dayrates resulted in a $3.8 million revenue reduction. Average dayrates dropped to $27,200 during the first half of 2003 from $29,300 during the first half of 2002. The Ocean Heritage experienced the largest decrease from $83,600 to $47,000.

Contract Drilling Expense. Contract drilling expense for jack-ups during the first half of 2003 rose $2.8 million from the same period in 2002. Higher costs for the Ocean Spartan and the Ocean Spur for the six months ended June 30, 2003 occurred because a majority of costs for these rigs were capitalized in connection with their leg extension upgrades during the comparable period in 2002. In addition, higher costs were incurred by the Ocean Warwick during the first half of 2003 in conjunction with its mobilization to a shipyard for its special survey and repairs. Costs were reduced on the Ocean Champion which was cold stacked all of the first half of 2003 compared to only part of the first half of 2002.

Integrated Services.

During the first half of 2003 integrated services had a loss of $0.9 million. The loss was comprised of project income of $0.4 million from the completion of one turnkey plug and abandonment project in the Gulf of Mexico during the first quarter of 2003 which was more than offset by operating overhead costs and insurance premiums. During the first half of 2002, an operating loss of $1.3 million resulted from two turnkey projects in the Gulf of Mexico.

Reimbursable expenses, net.

Reimbursable expenses include items that the Company purchases, and/or services it performs, at the request of its customers. Revenues related to reimbursable items, offset by the related expenditures for these items, were $1.2 million and $1.4 million for the six months ended June 30, 2003 and 2002, respectively.

Depreciation.

Depreciation expense increased $1.5 million to $88.8 million in the first half of 2003 compared to $87.3 million in the same period of 2002. This increase resulted, in part, from depreciation of the Ocean Vanguard and the Ocean Patriot, which the Company acquired in December 2002 and March 2003, respectively. Depreciation also rose from additional depreciation for five of the Company's recently upgraded jack-up rigs and additional depreciation for the Ocean Baroness which completed its upgrade in March 2002. These higher depreciation expenses were partially offset when the Company increased the estimated service lives and salvage values of most its drilling rigs effective April 1, 2003 to better reflect their remaining economic lives. The effect of these changes in accounting estimates was a $6.9 million reduction in depreciation expense.

General and Administrative Expense.

General and administrative expense of $15.4 million was $1.3 million higher in the first half of 2003 than the $14.1 million incurred during the first half of 2002. This increase was primarily due to severance pay associated with the elimination of certain positions in the Company as part of a cost reduction program and higher professional expenses for legal fees. Partially offsetting was a reduction in other personnel costs.

Interest Income.

Interest income of $7.5 million earned during the first half of 2003 declined $9.7 million, from $17.2 million earned during the same period in 2002. These earnings were lower primarily due to less cash investment during the first six months of 2003 in addition to lower interest rates earned on cash and marketable securities compared to the same period in 2002.

Gain (Loss) on Sale of Marketable Securities.

A loss on the sale of marketable securities of $1.1 million occurred in the first half of 2003 compared to a $12.2 million gain on the sale of marketable securities for the same period in 2002.

Income Tax Benefit (Expense).

An income tax benefit of $7.7 million was recognized on a pre-tax loss of $45.9 million in the first half of 2003 compared to tax expense of $16.6 million which was recognized on pre-tax income of $51.1 million in the first half of 2002.

The Company's estimated aggregate annual effective income tax rate for the six months ended June 30, 2003 was 16.7%. In 2002 the Company formed a Cayman Island corporation, Diamond Offshore International Limited, which is a wholly owned subsidiary of the Company. Certain of the Company's rigs that operate internationally are now owned and operated, directly or indirectly, by the Cayman Island subsidiary. Effective January 1, 2003 the Company began to postpone remittance of the earnings from this subsidiary to the U.S. and to indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses in the first half of 2003.

The Company's estimated effective income tax rate for the first half of 2002 was 32.4%. In the first quarter of 2002, a portion of the earnings from the Company's U.K. subsidiaries was considered to be indefinitely reinvested and no U.S. taxes were provided on those earnings. These U.K. subsidiaries are now owned, directly or indirectly, by Diamond Offshore International Limited. Consequently, earnings and losses from the U.K. subsidiaries for the six months ended June 30, 2003 are part of the earnings and losses of the Cayman Island subsidiary on which no U.S. taxes are provided.

INDUSTRY CONDITIONS

Demand for offshore contract drilling services continues to be soft. In the U.S. Gulf of Mexico, deepwater semisubmersibles are rolling off of long-term contracts and are exerting downward pressure on dayrates as these rigs compete for short term jobs. Utilization for the Company's deepwater semisubmersible fleet is steady but average dayrates have declined recently. Well-to-well contracts persist for the Company's deepwater semisubmersible, mid-water semisubmersible and jack-up fleets in the U.S. Gulf of Mexico with a limited backlog of work. The Company believes that this well-to-well environment will persist at least for the short-term. However, rates have recently increased for heavy duty 350 ft. jack-up rigs, as higher natural gas prices have encouraged an increasing number of operators to begin exploring for deep shelf natural gas reserves. The Company believes that, over time, this improved activity combined with lower specification jack-up rigs moving to work offshore Mexico may support better utilization and firming day rates across the entire jack-up market in the Gulf of Mexico, though there is no assurance that this will occur.

Increased activity offshore Mexico is attracting rigs from U.S. waters and abroad as Pemex-Exploracion Y Produccion ("Pemex"), Mexico's state-owned oil company works to increase its natural gas production. The Company has participated in this growing market by securing long-term contracts for three of its semisubmersible rigs, the Ocean Ambassador, the Ocean Whittington and the Ocean Worker. Additional tenders have been announced for both semisubmersible and jack-up rigs for work beginning in late 2003, and more tenders are anticipated in 2004, though there is no assurance that the Company will elect to bid on these jobs or that it will be successful in the bidding process. The Company is hopeful that the repositioning of rigs from the U.S. Gulf of Mexico and other markets will improve demand for its services worldwide as the supply of rigs tightens up though it makes no assurances that this will occur.

Other International markets are expected to remain relatively unchanged with little improvement in utilization or dayrates expected in the near term. However, the Company believes there is potential for increased activity offshore West Africa and India, though there is no assurance that the Company would elect to participate in future contract tenders or that it would be successful in the bidding process. The recently upgraded semisubmersible rig, Ocean Rover, has begun a three well program offshore Malaysia. However, the Ocean Yorktown, a semisubmersible rig that has worked offshore Brazil for many years, is mobilizing back to the U.S. Gulf of Mexico without a current contract.

OPERATIONS OUTSIDE THE UNITED STATES

The Company's non-U.S. operations are subject to certain political, economic and other uncertainties not normally encountered in U.S. operations, including risks of war and civil disturbances (or other risks that may limit or disrupt markets), expropriation and the general hazards associated with the assertion of national sovereignty over certain areas in which operations are conducted. No prediction can be made as to what governmental regulations may be enacted in the future that could adversely affect the international offshore contract drilling industry. The Company's operations outside the United States may also face the additional risk of fluctuating currency values, hard currency shortages, controls of currency exchange and repatriation of income or capital.

During the quarter ended June 30, 2003, the Company entered into contracts to operate three of its semisubmersible rigs offshore Mexico for the national oil company of Mexico. The terms of these contracts expose the Company to greater risks than it normally assumes such as exposure to greater environmental liability. While the Company believes that the financial terms of the contracts and the Company's operating safeguards in place mitigate these risks, there can be no assurance that the increased risk exposure will not have a negative impact on future operations or financial results.

LIQUIDITY

At June 30, 2003, the Company's cash and marketable securities totaled $614.9 million, down from $812.5 million at December 31, 2002. A discussion of the sources and uses of cash for the six months ended June 30, 2003 compared to the same period in 2002 follows.

	SIX MONTHS ENDED JUNE 30,		
	2003	2002	CHANGE
	(IN THOUSANDS)		
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net income (loss)	$ (38,253)	$ 34,520	$ (72,773)
Depreciation	88,830	87,282	1,548
Deferred tax provision	(9,666)	10,414	(20,080)
Other non-cash items, net	7,985	(6,169)	14,154
Net changes in operating assets and liabilities	(12,488)	39,544	(52,032)
	$ 36,408	$ 165,591	$(129,183)

Cash generated by a net loss adjusted for non-cash items, including depreciation, for the six months ended June 30, 2003 decreased $129.2 million compared to the same period in 2002 primarily due to a decline in the results of operations in 2003.

	SIX MONTHS ENDED JUNE 30,		
	2003	2002	CHANGE
	(IN THOUSANDS)		
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Capital expenditures (excluding rig acquisition)	$ (134,114)	$ (117,823)	$ (16,291)
Rig acquisition	(63,500)	--	(63,500)
Proceeds from sale of assets	388	1,348	(960)
Proceeds from sale of marketable securities	1,603,006	2,218,678	(615,672)
Purchase of marketable securities	(1,374,768)	(2,217,939)	843,171
Securities sold under repurchase agreements, net	--	53,126	(53,126)
Proceeds from settlement of forward contracts ...	2,015	912	1,103
	$ 33,027	$ (61,698)	$ 94,725

Net cash provided by investing activities increased $94.7 million in the first half of 2003 compared to the first half of 2002. During the six months ended June 30, 2003 cash was provided by the net sale of certain of the Company's investments in marketable securities, the settlement of forward contracts at favorable exchange rates and the sale of miscellaneous equipment. Cash used during the first half of 2003 was for the purchase of the semisubmersible rig, Omega, renamed the Ocean Patriot, and higher capital expenditures primarily for the upgrade of the Ocean Rover and the upgrades of three of the Company's jack-up rigs compared to similar purchases in the same period of 2002. During the six months ended June 30, 2002, $53.1 million was provided by the return of loaned debt securities that were outstanding at December 31, 2001. There were no outstanding loaned debt securities at June 30, 2003.

	SIX MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2002	CHANGE
	(IN THOUSANDS)		
NET CASH USED IN FINANCING ACTIVITIES			
Payment of dividends	$(32,584)	$(32,951)	$ 367
Acquisition of treasury stock	--	(20,000)	20,000
Settlement of put options	--	(1,193)	1,193
	$(32,584)	$(54,144)	$ 21,560

The Company paid cash dividends of $32.6 million to stockholders in the first half of 2003 compared to $33.0 million in the same period of 2002. The lower dividends for the six months ended June 30, 2003 reflect the Company's purchase of shares of its common stock during 2002.

During the six months ended June 30, 2002, the Company purchased 500,000 shares of its common stock at an aggregate cost of $20.0 million, or $40.00 per share, upon the exercise of put options sold in February 2001. See " -- Treasury Stock and Common Equity Put Options" in Note 1 to the Company's Consolidated Financial Statements in Item 1 of Part I of this report. Depending on market conditions, the Company may, from time to time, purchase shares of its common stock or issue put options in the open market or otherwise.

Cash was also used during the first half of 2002 for payments totaling $1.2 million for the settlement of put options which covered 1,000,000 shares of the Company's common stock. The options gave the holders the right to require the Company to repurchase up to the contracted number of shares of its common stock at the stated exercise price per share at any time prior to their expiration. The Company had the option to settle in cash or shares of its common stock. See "--Treasury Stock and Common Equity Put Options" in Note 1 to the Company's Consolidated Financial Statements in Item 1 of Part I of this report.

Contractual Cash Obligations.

The Company's long-term debt and operating leases have not changed materially from those discussed and reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

The Company is contingently liable as of June 30, 2003 in the amount of $69.2 million under certain performance, bid, customs and export bonds. Banks have issued letters of credit securing certain of these bonds. All of these obligations expire in less than one year.

Other.

The Company has an effective shelf registration statement under which it has the ability to issue an aggregate of approximately $117.5 million in debt, equity and other securities. In addition, the Company may issue, from time to time, up to eight million shares of common stock, which shares are registered under an acquisition shelf registration statement (upon effectiveness of an amendment thereto reflecting the effect of the two-for-one stock split declared in July 1997), in connection with one or more acquisitions by the Company of securities or assets of other businesses.

At June 30, 2003 and December 31, 2002, the Company had no off-balance sheet debt.

The Company believes it has the financial resources needed to meet its business requirements in the foreseeable future, including capital expenditures for rig upgrades and continuing rig enhancements, and working capital requirements.

CAPITAL RESOURCES

Cash required to meet the Company's capital commitments is determined by evaluating the need to upgrade rigs to meet specific customer requirements and by evaluating the Company's ongoing rig equipment replacement and enhancement programs, including water depth and drilling capability upgrades. It is management's opinion that operating cash flows and the Company's cash reserves will be sufficient to meet these capital commitments; however, the Company will continue to make periodic assessments based on industry conditions. In addition, the Company may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses or for general corporate purposes. The Company's ability to effect any such issuance will be dependent on the Company's results of operations, its current financial condition, current market conditions and other factors beyond its control.

During the first half of 2003, the Company spent $81.4 million, including capitalized interest expense, for rig upgrades, of which $56.1 million was for the deepwater upgrade of the Ocean Rover and $25.2 million was for the upgrade of six of the Company's jack-up rigs. The Company expects to spend a total of approximately $115 million for rig upgrade capital expenditures during 2003 ($70 million to complete the Ocean Rover upgrade and $45 million to complete the upgrades to three of the Company's jack-up rigs).

The upgrade of the Ocean Rover, which began in January 2002, was completed early in July 2003 on time and under budget. The project was completed for approximately $189 million, below management's original estimated cost of $200 million. The rig commenced its contract with Murphy Sabah Oil Company, Ltd. on July 10, 2003 for a minimum three well drilling program offshore Malaysia.

The Company's two year program to expand the capabilities of its jack-up fleet by significantly upgrading six of its 14 jack-up rigs is now more than 80% complete. Three of these upgrades were completed in 2002 and two have been completed in 2003. The Ocean Sovereign, a 250-foot water depth independent-leg cantilever rig prior to the upgrade, completed leg extension installations in May 2003 allowing the rig to work in water depths up to 300 feet. The cost of this upgrade was approximately $11 million. The Ocean Tower, a 350-foot water depth capability independent-leg slot rig prior to its upgrade, completed its cantilever upgrade in March 2003 for approximately $27 million. The installation of a cantilever package on the Ocean Titan began in May 2003 and is scheduled for completion in the fourth quarter of 2003.

During the six months ended June 30, 2003, the Company spent $52.7 million on its continuing rig enhancement program and to meet other corporate capital expenditure requirements. In addition, the Company spent $65.0 million ($63.5 million capitalized to rig equipment) for the purchase of the third-generation semisubmersible drilling rig, Omega, renamed the Ocean Patriot. The Company expects to spend a total of approximately $100 to $110 million in 2003 for capital expenditures associated with its continuing rig enhancement program (other than rig upgrades) and other corporate requirements.

The Company expects to finance these capital expenditures through the use of existing cash balances or internally generated funds.

INTEGRATED SERVICES

The Company's wholly owned subsidiary, Diamond Offshore Team Solutions, Inc. ("DOTS"), from time to time, selectively engages in drilling services pursuant to turnkey or modified-turnkey contracts under which DOTS agrees to drill a well to a specified depth for a fixed price. In such cases, DOTS generally is not entitled to payment unless the well is drilled to the specified depth and other contract requirements are met. Profitability of the contract is dependent upon its ability to keep expenses within the estimates used in determining the contract price. Drilling a well under a turnkey contract therefore typically requires a greater cash commitment by the Company and exposes the Company to risks of potential financial losses that generally are substantially greater than those that would ordinarily exist when drilling under a conventional dayrate contract. During the six months ended June 30, 2003 integrated services had project income of $0.4 million from the completion of one turnkey plug and abandonment project in the Gulf of Mexico during the first quarter of 2003 which was more than offset by operating overhead costs and insurance premiums. During the six months ended June 30, 2002 an operating loss of $1.3 million resulted primarily from two turnkey projects, also in the Gulf of Mexico. It is the Company's intent not to pursue contracts for integrated services, which includes turnkey contracts, except in very limited circumstances.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company's adoption of SFAS No. 150 is not expected to have an impact on the Company's consolidated results of operations, financial position or cash flows.

In April 2003 the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. SFAS No. 149 is to be applied prospectively for contracts entered into or modified after June 30, 2003. For contracts involving hedging relationships, SFAS No. 149 should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company's adoption of SFAS No. 149 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In December 2002 the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. The Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has adopted the provisions of SFAS No. 148 which require prominent disclosure regarding the method of accounting for stock-based employee compensation in its annual and interim financial statements. See "-Stock-Based Compensation" in Note 1 to the Company's Consolidated Financial Statements in Item 1 of Part 1 of this report.

In July 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company's adoption of SFAS No. 146 has not had a material impact on the Company's consolidated results of operations, financial position or cash flows.

FORWARD-LOOKING STATEMENTS

Certain written and oral statements made or incorporated by reference from time to time by the Company or its representatives are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain or be identified by the words "expect," "intend," "plan," "predict," "anticipate," "estimate," "believe," "should," "could," "may," "might," "will be," "will continue," "will likely result," "project," "forecast," "budget" and similar expressions. Statements by the Company in this report that contain forward-looking statements include, but are not limited to, information concerning possible or assumed future results of operations of the Company and statements about the following subjects:

- future market conditions and the effect of such conditions on the Company's future results of operations (see " - Industry Conditions");

- future uses of and requirements for financial resources, including, but not limited to, expenditures related to the upgrade of the Ocean Titan, one of the Company's jack-up rigs (see " - Liquidity" and " - Capital Resources");

- interest rate and foreign exchange risk (see "Quantitative and Qualitative Disclosures About Market Risk");

- future contractual obligations (see " - Liquidity - Contractual Cash Obligations");

- business strategy;

- growth opportunities;

- competitive position;

- expected financial position;

- future cash flows;

- future dividends;

- financing plans;

- tax planning;

- budgets for capital and other expenditures (see "--Capital Resources");

- timing and cost of completion of rig upgrades and other capital projects (see "--Capital Resources");

- delivery dates and drilling contracts related to rig conversion and upgrade projects (see " -- Industry Conditions" and "--Capital Resources");

- plans and objectives of management;

- performance of contracts (see " -- Operations Outside the United States);

- outcomes of legal proceedings;

- compliance with applicable laws; and

- adequacy of insurance or indemnification.

Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected or expressed in forward-looking statements. Such risks and uncertainties include, among others, the following:

- general economic and business conditions;

- worldwide demand for oil and natural gas;

- changes in foreign and domestic oil and gas exploration, development and production activity;

- oil and natural gas price fluctuations and related market expectations;

- the ability of the Organization of Petroleum Exporting Countries, commonly called OPEC, to set and maintain production levels and pricing, and the level of production in non-OPEC countries;

- policies of the various governments regarding exploration and development of oil and gas reserves;

- advances in exploration and development technology;

- the political environment of oil-producing regions;

- casualty losses;

- operating hazards inherent in drilling for oil and gas offshore;

- industry fleet capacity;

- market conditions in the offshore contract drilling industry, including dayrates and utilization levels;

- competition;

- changes in foreign, political, social and economic conditions;

- risks of international operations, compliance with foreign laws and taxation policies and expropriation or nationalization of equipment;

- foreign exchange and currency fluctuations and regulations, and the inability to repatriate income or capital;

- risks of war, military operations, other armed hostilities, terrorist acts and embargoes;

- changes in offshore drilling technology, which could require significant capital expenditures in order to maintain competitiveness;

- regulatory initiatives and compliance with governmental regulations;

- compliance with environmental laws and regulations;

- customer preferences;

- effects of litigation;

- cost, availability and adequacy of insurance;

- adequacy of the Company's sources of liquidity;

- risks inherent in turnkey operations, including the risk of failure to complete a well and cost overruns;

- the availability of qualified personnel to operate and service the Company's drilling rigs; and

- various other matters, many of which are beyond the Company's control.

The risks included here are not exhaustive. Other sections of this report and the Company's other filings with the Securities and Exchange Commission include additional factors that could adversely affect the Company's business, results of operations and financial performance. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements included in this report speak only as of the date of this report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information included in this Item 3 is considered to constitute "forward-looking statements" for purposes of the statutory safe harbor provided in Section 27A of the Securities Act and Section 21E of the Exchange Act. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements" in Item 2 of Part I of this report.

The Company's measure of market risk exposure represents an estimate of the change in fair value of its financial instruments. Market risk exposure is presented for each class of financial instrument held by the Company at June 30, 2003 and December 31, 2002 assuming immediate adverse market movements of the magnitude described below. The Company believes that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss or any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since the Company's investment portfolio is subject to change based on its portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

Exposure to market risk is managed and monitored by senior management. Senior management approves the overall investment strategy employed by the Company and has responsibility to ensure that the investment positions are consistent with that strategy and the level of risk acceptable to it. The Company may manage risk by buying or selling instruments or entering into offsetting positions.

Interest Rate Risk

The Company has exposure to interest rate risk arising from changes in the level or volatility of interest rates. The Company's investments in marketable securities are primarily in fixed maturity securities. The Company monitors its sensitivity to interest rate risk by evaluating the change in the value of its financial assets and liabilities due to fluctuations in interest rates. The evaluation is performed by applying an instantaneous change in interest rates by varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the recorded market value of the Company's investments and the resulting effect on stockholders' equity. The analysis presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices which the Company believes are reasonably possible over a one-year period.

The sensitivity analysis estimates the change in the market value of the Company's interest sensitive assets and liabilities that were held on June 30, 2003 and December 31, 2002 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant.

The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Accordingly the analysis may not be indicative of, is not intended to provide, and does not provide a precise forecast of the effect of changes of market interest rates on the Company's earnings or stockholders' equity. Further, the computations do not contemplate any actions the Company could undertake in response to changes in interest rates.

The Company's long-term debt, as of June 30, 2003 and December 31, 2002 is denominated in U.S. dollars. The Company's debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $154.3 million and $153.8 million, respectively. A 100 basis point decrease would result in an increase in market value of $192.4 million and $192.7 million, respectively.

Foreign Exchange Risk

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. In mid-2002, the Company had contracted to purchase approximately 50.0 million Australian dollars, 4.2 million Australian dollars to be purchased monthly from August 29, 2002 through June 26, 2003 and 3.8 million to be purchased on July 31, 2003. These foreign exchange forward contracts are recorded at their fair value determined by discounting future cash flows at current forward rates. An asset of $0.5 million and $0.2 million reflecting the fair value of the forward contracts was included with "Prepaid expenses and other" in the Consolidated Balance Sheet at June 30, 2003 and December 31, 2002, respectively. The sensitivity analysis assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. dollar from their levels at June 30, 2003 and December 31, 2002, with all other variables held constant.

The following table presents the Company's market risk by category (interest rates and foreign currency exchange rates):

	FAIR VALUE ASSET (LIABILITY)		MARKET RISK	
CATEGORY OF RISK EXPOSURE:	JUNE 30, 2003	DECEMBER 31, 2002	JUNE 30, 2003	DECEMBER 31, 2002
		(IN THOUSANDS)		
Interest rate:				
Marketable securities	$ 393,124 (a)	$ 627,614 (a)	$ 4,500 (c)	$ 21,500 (c)
Long-term debt	(922,800)(b)	(901,800)(b)		
Foreign Exchange	474	151	-- (d)	2,300 (d)

(a) The fair market value of the Company's investment in marketable securities is based on the quoted closing market prices on June 30, 2003 and December 31, 2002.

(b) The fair values of the Company's 1.5% convertible senior debentures due 2031 and zero coupon convertible debentures due 2020 are based on the quoted closing market prices on June 30, 2003 and December 31, 2002. The fair value of the Company's Ocean Alliance lease-leaseback agreement is based on the present value of estimated future cash flows using a discount rate of 4.91% for June 30, 2003 and 6.62% for December 31, 2002.

(c) The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of an increase in interest rates of 100 basis points at June 30, 2003 and December 31, 2002.

(d) The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of a decrease in foreign exchange rates of 20% at June 30, 2003 and December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES.

The Company's management formed a disclosure controls and procedures committee (the "Disclosure Committee") in 2002. The purpose and responsibility of the Disclosure Committee is to coordinate and review the process by which information is recorded, processed, summarized and reported on a timely basis as required to be disclosed by the Company in its reports filed, furnished or submitted under the Exchange Act. In addition, the Disclosure Committee is responsible for ensuring that this information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

Based upon their evaluation, as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are adequate to ensure that information the Company is required to disclose in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Controls

In connection with such evaluation, no change was identified in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Annual Meeting of Stockholders (the "Annual Meeting") of Diamond Offshore Drilling, Inc. was held on May 20, 2003 in New York, New York. At the Annual Meeting, the holders of 128,041,203 shares of common stock out of 130,336,455 shares entitled to vote as of the record date were represented in person or by proxy, constituting a quorum. The following matters were voted on and adopted by the margins indicated:

a. To elect seven directors, each to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal.

	NUMBER OF SHARES		
	FOR	WITHHELD	BROKER NON-VOTE
James S. Tisch	100,438,844	27,602,359	0
Lawrence R. Dickerson	100,438,959	27,602,244	0
Alan R. Batkin	127,201,915	839,288	0
Herbert C. Hofmann	101,133,011	26,908,192	0
Arthur L. Rebell	108,009,168	20,032,035	0
Michael H. Steinhardt	127,195,795	845,408	0
Raymond S. Troubh	127,185,690	855,513	0

b. To ratify the appointment of Deloitte & Touche LLP as independent certified public accountants for the Company and its subsidiaries for fiscal year 2003.

For	127,558,205
Against	441,050
Abstain	41,948
Broker Non-Vote	0

ITEM 5. OTHER INFORMATION.

Effective July 10, 2003, Michael H. Steinhardt resigned his position as a member of the Company's Board of Directors and the Company's audit committee.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

See the Exhibit Index for a list of those exhibits filed herewith.

(b) The Company made the following reports on Form 8-K during the second quarter of 2003:

Date of Report	Description of Report
April 7, 2003	Disclosure of filing of definitive additional proxy materials to supplement & correct definitive proxy statement on Schedule 14A
April 16, 2003	Item 9 Regulation FD disclosure (informational only)
April 17, 2003	Item 9 Regulation FD disclosure (informational only)
April 30, 2003	Item 9 Regulation FD disclosure (informational only)
May 13, 2003	Item 9 Regulation FD disclosure (informational only)
May 28, 2003	Item 9 Regulation FD disclosure (informational only)
June 2, 2003	Disclosure of the Pemex contracts

June 11, 2003	Item 9 Regulation FD disclosure (informational only)
June 24, 2003	Item 9 Regulation FD disclosure (informational only)

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.

DIAMOND OFFSHORE DRILLING, INC.
(Registrant)

Date 04-Aug-2003	By:	/s/ Gary T. Krenek ------------------------------------ Gary T. Krenek Vice President and Chief Financial Officer
Date 04-Aug-2003		/s/ Beth G. Gordon ------------------------------------ Beth G. Gordon Controller (Chief Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1*	Amended and Restated Certificate of Incorporation of the Company.
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001).
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification of the Chief Executive Officer.
32.2*	Section 1350 Certification of the Chief Financial Officer.

* Filed or furnished herewith.

EXHIBIT 3.1

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

DIAMOND OFFSHORE DRILLING, INC.

DIAMOND OFFSHORE DRILLING, INC., a corporation duly incorporated by the filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware on April 12, 1989 under the name Majestic Offshore, Inc. (the "Company"), desiring to integrate into a single instrument all the provisions of its Restated Certificate of Incorporation now, in effect and operative, and desiring further to amend said Restated Certificate of Incorporation, such restated Certificate of Incorporation having been duly adopted in accordance with Section 245 of the General Corporation Law of the State of Delaware, hereby certifies as follows:

1. Said Restated Certificate of Incorporation is hereby restated, integrated and further amended to read in its entirety as follows:

FIRST: The name of the corporation is DIAMOND OFFSHORE DRILLING, INC. (the "Company").

SECOND: Its registered office in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801. The registered agent for the Company is The Corporation Trust Company, whose address is as stated above.

THIRD: The nature of business and purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law, as amended (the "DGCL").

FOURTH: The total number of shares of all classes of capital stock which the company shall have authority to issue is 525,000,000 shares, consisting of

(i) 25,000,000 shares of Preferred Stock, $.01 par value per share, and

(ii) 500,000,000 shares of Common Stock, $.01 par value per share.

Except as otherwise provided by law, the shares of capital stock of the Company, regardless of class, may be issued by the Company from time to time in such amounts, for such lawful consideration and for such corporate purpose(s) as the Board of Directors may from time to time determine.

Shares of Preferred Stock may be issued from time to time in one or more series of any number of shares as may be determined from time to time by the Board of Directors; provided that the aggregate number of shares issued and not cancelled of any and all such series shall not exceed the total number of shares of Preferred Stock authorized by this paragraph FOURTH. Each series of Preferred Stock shall be distinctly designated. The Board of Directors is hereby expressly granted authority to fix, in the resolution or resolutions providing for the issuance of a particular series of Preferred Stock, the voting powers, if any, of each such series, and the designations, preferences and relative, participating, optional and other special rights of each such series, and the qualifications, limitations and restrictions thereof to the fullest extent now or hereafter permitted by the Restated Certificate of Incorporation and the laws of the State of Delaware.

Subject to the provisions of applicable law or of the Company's By-Laws with respect to the closing of the transfer books or the fixing of a record date for the determination of stockholders entitled to vote, and except as otherwise provided by law, by this Restated Certificate of Incorporation or by this resolution or resolutions of the Board of Directors providing for the issuance of any series of Preferred Stock as aforesaid, the holders of outstanding shares of Common Stock shall exclusively possess the voting power for the election of directors of the Company and for all other purposes as prescribed by applicable law, with each holder of record of shares of Common Stock having voting power being entitled to one vote for each share of Common Stock registered in his or its name on the books, registers and/or accounts of the Company.

FIFTH: A director of the Company shall not be personally liable either to the Company or to any stockholder for monetary damages for breach of fiduciary duty as a director, except(i) for any breach of the director's duty of loyalty to the Company or its stockholders, or (ii) for acts or omissions which are not taken or omitted to be taken in good faith or which involve intentional misconduct or knowing violation of the law, or (iii) for any matter in respect of which such director would be liable under Section 174 of Title 8 of the DGCL or any amendment or successor provision thereto, or (iv) for any transaction from which the director shall have derived an improper personal benefit. Neither the amendment nor the repeal of this paragraph FIFTH nor the adoption of any provision of this Restated Certificate of Incorporation inconsistent with this paragraph FIFTH shall eliminate or reduce the effect of this paragraph FIFTH in respect of any matter occurring, or any cause of action, suit or claim that, but for this paragraph FIFTH, would accrue or arise prior to such amendment, repeal or adoption of an inconsistent provision.

The Company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or an officer of the Company against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the fullest extent and in the manner set forth in and permitted by the DGCL, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which such director or officer may be entitled apart from the foregoing provisions. The foregoing provisions shall be deemed to be a contract between the Company and each director and officer who serves in such capacity at any time while this paragraph FIFTH and the relevant provisions of the DGCL and other applicable law, if any, are in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore brought or threatened based in whole or in part upon any such state of facts.

The Company may indemnify any person who was or is threatened to be made a party to any threatened pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was an employee or agent of the Company, or is or was serving at the request of the Company, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the extent and in the manner set forth in and permitted by the DGCL, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which any such person may be entitled apart from the foregoing provisions.

SIXTH: The Board of Directors is expressively authorized to amend, alter, change, adopt or repeal the By-Laws of the Company.

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2. This Restated Certificate of Incorporation has been duly adopted in accordance with the provisions of sections 242 and 245 of the DGCL, and has been duly adopted by the stockholders of the Company at a meeting called and held in accordance with the provisions of Section 222 of the DGCL.

IN WITNESS WHEREOF, Diamond Offshore Drilling, Inc. has caused its corporate seal to be hereunto affixed and this certificate to be signed by Lawrence R. Dickerson, its President and Chief Operating Officer, and attested to by Richard L. Lionberger, its Vice President, General Counsel and Secretary, on this 27th day of May, 1998.

DIAMOND OFFSHORE DRILLING, INC.

By: /s/ LAWRENCE R. DICKERSON

Lawrence R. Dickerson
President and Chief Operating Officer

Attest:

/s/ RICHARD L. LIONBERGER
- ---
Richard L. Lionberger
Vice President, General Counsel and Secretary

EXHIBIT 31.1

I, James S. Tisch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diamond Offshore Drilling, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2003

/s/ James S. Tisch

James S. Tisch

Chief Executive Officer

EXHIBIT 31.2

I, Gary T. Krenek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diamond Offshore Drilling, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2003

/s/ Gary T. Krenek

Gary T. Krenek
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, James S. Tisch, as Chief Executive Officer of Diamond Offshore Drilling, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, AS adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the accompanying Form 10-Q report of the Company for the period ending June 30, 2003, as filed with the U.S. Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2003

/s/ James S. Tisch

James S. Tisch,
Chief Executive Officer of the Company

EXHIBIT 32.2

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Gary T. Krenek, as Chief Financial Officer of Diamond Offshore Drilling, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, AS adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the accompanying Form 10-Q report of the Company for the period ending June 30, 2003, as filed with the U.S. Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2003

/s/ Gary T. Krenek

Gary T. Krenek,
Chief Financial Officer of the Company