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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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 **(State or other jurisdiction of incorporation or organization)**	**76-0321760** **(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 ☒ No ☐

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ 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 April 24, 2014 Common stock, $0.01 par value per share 137,139,887 shares

DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED MARCH 31, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share and per share data)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 420,140	$ 347,011
Marketable securities	1,175,135	1,750,053
Accounts receivable, net of allowance for bad debts	416,177	469,355
Prepaid expenses and other current assets	146,510	143,997
Assets held for sale	7,694	7,694
Total current assets	2,165,656	2,718,110
Drilling and other property and equipment, net of accumulated depreciation	5,954,496	5,467,227
Other assets	207,835	206,097
Total assets	$ 8,327,987	$ 8,391,434
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 92,924	$ 94,151
Accrued liabilities	383,121	370,671
Taxes payable	28,442	30,806
Current portion of long-term debt	249,973	249,954
Total current liabilities	754,460	745,582
Long-term debt	2,244,262	2,244,189
Deferred tax liability	531,988	525,541
Other liabilities	219,186	238,864
Total liabilities	3,749,896	3,754,176
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock (par value $0.01, 25,000,000 shares authorized, none issued and outstanding)	—	—
Common stock (par value $0.01, 500,000,000 shares authorized; 143,952,248 shares issued and 137,170,137 shares outstanding at March 31, 2014; 143,952,248 shares issued and 139,035,448 shares outstanding at December 31, 2013)	1,440	1,440
Additional paid-in capital	1,990,137	1,988,720
Retained earnings	2,784,249	2,761,161
Accumulated other comprehensive gain (loss)	3,042	350
Treasury stock, at cost (6,782,111 and 4,916,800 shares of common stock at March 31, 2014 and December 31, 2013, respectively)	(200,777)	(114,413)
Total stockholders' equity	4,578,091	4,637,258
Total liabilities and stockholders' equity	$ 8,327,987	$ 8,391,434

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 March 31, 2014	Three Months Ended March 31, 2013
Revenues:		
Contract drilling	$685,308	$699,973
Revenues related to reimbursable expenses	24,116	29,768
Total revenues	709,424	729,741
Operating expenses:		
Contract drilling, excluding depreciation	369,790	375,094
Reimbursable expenses	23,666	29,289
Depreciation	107,011	96,821
General and administrative	22,827	16,815
Gain on disposition of assets	(147)	(2,004)
Total operating expenses	523,147	516,015
Operating income	186,277	213,726
Other income (expense):		
Interest income	408	617
Interest expense	(18,155)	(8,069)
Foreign currency transaction gain (loss)	(1,178)	159
Other, net	327	(254)
Income before income tax expense	167,679	206,179
Income tax expense	(21,869)	(30,190)
Net income	$145,810	$175,989
Earnings per share, Basic and Diluted	$ 1.05	$ 1.27
Weighted-average shares outstanding:		
Shares of common stock	138,469	139,032
Dilutive potential shares of common stock	4	49
Total weighted-average shares outstanding	138,473	139,081
Cash dividends declared per share of common stock	$ 0.875	$ 0.875

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	$145,810	$175,989
Other comprehensive gains (losses), net of tax:		
Derivative financial instruments:		
Unrealized holding gain	2,839	283
Reclassification adjustment for loss (gain) included in net income	(177)	(1,451)
Investments in marketable securities:		
Unrealized holding (loss) gain	38	7
Reclassification adjustment for loss (gain) included in net income	(8)	(83)
Total other comprehensive gain (loss)	2,692	(1,244)
Comprehensive income	$148,502	$174,745

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)

	Three Months Ended March 31, 2014	2013
Operating activities:		
Net income	$ 145,810	$ 175,989
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	107,011	96,821
Gain on disposition of assets	(147)	(2,004)
Gain on foreign currency forward exchange contracts	(511)	(2,435)
Deferred tax provision	4,997	9,994
Accretion of discounts on marketable securities	(144)	(326)
Stock-based compensation expense	1,417	788
Deferred income, net	1,384	(23,085)
Deferred expenses, net	(26,044)	5,600
Long-term employee remuneration programs	2,048	2,209
Other assets, noncurrent	(173)	(4,366)
Other liabilities, noncurrent	155	(1,612)
Proceeds from settlement of foreign currency forward exchange contracts designated as accounting hedges	511	2,435
Bank deposits denominated in nonconvertible currencies	5,016	—
Other	572	463
Changes in operating assets and liabilities:		
Accounts receivable	53,178	13,760
Prepaid expenses and other current assets	2,961	14,039
Accounts payable and accrued liabilities	10,176	6,925
Taxes payable	(5,202)	(19,089)
Net cash provided by operating activities	303,015	276,106
Investing activities:		
Capital expenditures (including rig construction)	(595,314)	(183,719)
Proceeds from disposition of assets, net of disposal costs	173	2,230
Proceeds from sale and maturities of marketable securities	2,175,021	725,014
Purchases of marketable securities	(1,599,914)	(724,793)
Net cash used in investing activities	(20,034)	(181,268)
Financing activities:		
Payment of dividends	(122,655)	(122,298)
Purchase of treasury stock	(86,364)	—
Other	(833)	137
Net cash used in financing activities	(209,852)	(122,161)
Net change in cash and cash equivalents	73,129	(27,323)
Cash and cash equivalents, beginning of period	347,011	335,432
Cash and cash equivalents, end of period	$ 420,140	$ 308,109

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The unaudited consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries, which we refer to as "Diamond Offshore," "we," "us" or "our," should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 1-13926).

As of April 24, 2014, Loews Corporation owned 51.1 % of the outstanding shares of our common stock.

Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S., or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, pursuant to such rules and regulations, they do not include all disclosures required by GAAP 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, statements of comprehensive income 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.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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.

Reclassifications

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

Cash and Cash Equivalents

We consider 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 to be cash equivalents. We had bank deposits denominated in Egyptian pounds totaling $8.5 million and $14.3 million at March 31, 2014 and December 31, 2013, respectively. However, the local currency is not readily convertible into U.S. dollars or other currencies at this time. While we believe that a portion of these amounts will be used to fund local obligations in Egyptian pounds in the short term, we have reported $7.7 million and $12.7 million as "Other assets" in our Consolidated Balance Sheets at March 31, 2014 and December 31, 2013, respectively.

The effect of exchange rate changes on cash balances held in foreign currencies was not material for each of the three-month periods ended March 31, 2014 and 2013.

Marketable Securities

We classify our investments in marketable securities as available for sale and they are stated at fair value in our Consolidated Balance Sheets. Accordingly, any unrealized gains and losses, net of taxes, are reported in our Consolidated Balance Sheets in "Accumulated other comprehensive gain (loss)," or AOCGL, 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 our 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, as well as any declines in value that are judged to be other than temporary, are reported in our Consolidated Statements of Operations in "Other income (expense) – Other, net." See Note 5.

Derivative Financial Instruments

Our derivative financial instruments consist of foreign currency forward exchange, or FOREX, contracts which we may designate as cash flow hedges. In accordance with GAAP, each derivative contract is 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 and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions. Designated hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of our derivative financial instruments to their fair value are recorded as a component of AOCGL in our Consolidated Balance Sheets. The effective portion of the cash flow hedge will remain in AOCGL until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. We report such realized gains and losses as a component of "Contract drilling, excluding depreciation" expense in our Consolidated Statements of Operations to offset the impact of foreign currency fluctuations in our expenditures in local foreign currencies in the countries in which we operate. See Note 11.

Adjustments to record the carrying value of the ineffective portion of our derivative financial instruments to fair value and realized gains or losses upon settlement of derivative contracts not designated as cash flow hedges are reported as "Foreign currency transaction gain (loss)" in our Consolidated Statements of Operations. See Notes 6 and 7.

Drilling and Other Property and Equipment

We carry our drilling and other property and equipment at cost. Maintenance and routine repairs are charged to income currently while replacements and betterments, which upgrade or increase the functionality of our existing equipment and that significantly extend the useful life of an existing asset, are capitalized. Significant judgments, assumptions and estimates may be required in determining whether or not such replacements and betterments meet the criteria for capitalization and in determining useful lives and salvage values of such assets. Changes in these judgments, assumptions and estimates could produce results that differ from those reported. Historically, the amount of capital additions requiring significant judgments, assumptions or estimates has not been significant. During the three months ended March 31, 2014 and the year ended December 31, 2013, we capitalized $84.5 million and $302.0 million, respectively, in replacements and betterments of our drilling fleet, resulting from numerous projects ranging from $25,000 to $30 million per project.

Costs incurred for major rig upgrades and/or the construction of rigs are accumulated in construction work-in-progress, with no depreciation recorded on the additions, until the month the upgrade or newbuild is completed and the rig is ready for its intended use. Upon retirement or sale of a rig, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in our results of operations as "Gain on disposition of assets." Depreciation is recognized up to applicable salvage values by applying the straight-line method over the remaining estimated useful lives from the year the asset is placed in service. Drilling rigs and equipment are depreciated over their estimated useful lives ranging from three to 30 years.

Treasury Stock

We account for the purchase of treasury stock using the cost method, which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in our Consolidated Balance Sheets. Depending on market conditions, we may, from time to time, purchase shares of our common stock in the open market or otherwise. During the three months ended March 31, 2014, we repurchased 1,865,311 shares of common stock at a cost of $86.4 million.

Capitalized Interest

We capitalize interest cost for qualifying construction and upgrade projects. See Note 8. A reconciliation of our total interest cost to "Interest expense" as reported in our Consolidated Statements of Operations is as follows:

	Three Months Ended March 31,	
	2014	2013
Total interest cost, including amortization of debt issuance costs	$ 34,367	$ 23,905
Capitalized interest	(16,212)	(15,836)
Total interest expense as reported	$ 18,155	$ 8,069

Impairment of Long-Lived Assets

We evaluate our property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable, such as cold stacking a rig or excess spending over budget on a newbuild, construction project or major rig upgrade. At both March 31, 2014 and December 31, 2013, we had four cold-stacked rigs, of which one was reported as an “Asset held for sale” in our Consolidated Balance Sheets. We did not record any impairment with respect to our cold-stacked rigs for the three-month periods ended March 31, 2014 and 2013.

Foreign Currency

Our functional currency is the U.S. dollar. Foreign currency transaction gains and losses are reported as “Foreign currency transaction gain (loss)” in our Consolidated Statements of Operations and include, when applicable, unrealized gains and losses to record the carrying value of our FOREX contracts not designated as accounting hedges, as well as realized gains and losses from the settlement of such contracts. For the three-month periods ended March 31, 2014 and 2013, we recognized net foreign currency transaction gains (losses) of $(1.2) million and $0.2 million, respectively. See Note 6.

Revenue Recognition

We recognize revenue from dayrate drilling contracts as services are performed. In connection with such drilling contracts, we may receive fees (on either a lump-sum or dayrate basis) for the mobilization of equipment. We earn these fees as services are performed over the initial term of the related drilling contracts. We defer mobilization fees received, as well as direct and incremental mobilization costs incurred, and amortize each on a straight-line basis, over the term of the related drilling contracts (which is the period we estimate to be benefited from the mobilization activity). Straight-line amortization of mobilization revenues and related costs over the term of the related drilling contracts (which generally range from two to 60 months) is consistent with the timing of net cash flows generated from the actual drilling services performed. Absent a contract, mobilization costs are recognized currently.

Some of our drilling contracts require downtime before the start of the contract to prepare the rig to meet customer requirements. At times, we may be compensated by the customer for such work (on either a lump-sum or dayrate basis). These fees are generally earned as services are performed over the initial term of the related drilling contracts. We defer contract preparation fees received as well as direct and incremental costs associated with the contract preparation activities and amortize each, on a straight-line basis, over the term of the related drilling contracts (which we estimate to be benefited from the contract preparation activity).

From time to time, we may receive fees from our customers for capital improvements to our rigs (either lump-sum or dayrate). We defer such fees received in “Accrued liabilities” and “Other liabilities” in our Consolidated Balance Sheets and recognize these fees into income on a straight-line basis over the period of the related drilling contract. We capitalize the costs of such capital improvements and depreciate them over the estimated useful life of the improvement.

We record reimbursements received for the purchase of supplies, equipment, personnel services and other services provided at the request of our customers in accordance with a contract or agreement, for the gross amount billed to the customer, as “Revenues related to reimbursable expenses” in our Consolidated Statements of Operations.

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2. Supplemental Financial Information

Consolidated Balance Sheets Information

Accounts receivable, net of allowance for bad debts, consists of the following:

	March 31, 2014	December 31, 2013
	(In thousands)	
Trade receivables	$415,146	$ 473,013
Value added tax receivables	23,780	19,407
Amounts held in escrow	4,321	3,066
Related party receivables	451	587
Other	116	622
	443,814	496,695
Allowance for bad debts	(27,637)	(27,340)
Total	$416,177	$ 469,355

Prepaid expenses and other current assets consist of the following:

	March 31, 2014	December 31, 2013
	(In thousands)	
Rig spare parts and supplies	$ 54,265	$ 52,439
Deferred mobilization costs	30,199	20,274
Prepaid insurance	5,884	12,503
Deferred tax assets	10,222	10,221
Prepaid taxes	34,202	42,058
FOREX contracts	4,628	1,562
Other	7,110	4,940
Total	$146,510	$ 143,997

Accrued liabilities consist of the following:

	March 31, 2014	December 31, 2013
	(In thousands)	
Rig operating expenses	$ 74,879	$ 87,307
Payroll and benefits	125,252	121,387
Deferred revenue	31,043	26,975
Accrued capital project/upgrade costs	85,266	86,274
Interest payable	47,748	28,324
Personal injury and other claims	8,411	9,687
FOREX contracts	6	1,143
Other	10,516	9,574
Total	$383,121	$ 370,671

Consolidated Statements of Cash Flows Information

Noncash investing activities excluded from the Consolidated Statements of Cash Flows and other supplemental cash flow information is as follows:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Accrued but unpaid capital expenditures at period end	$85,266	$72,193
Cash interest payments(1)	12,531	12,531
Cash income taxes paid, net of refunds:		
U.S. federal	—	20,000
Foreign	24,416	17,700
State	(31)	—

(1) Interest payments, net of amounts capitalized, were $8.1 million and $3.3 million for the three months ended March 31, 2014 and 2013, respectively.

3. Stock-Based Compensation

In March 2014, our Board of Directors adopted our Equity Incentive Compensation Plan, or Equity Plan, which amends and restates our Second Amended and Restated 2000 Stock Option Plan, or Stock Plan, and directed that the Equity Plan be submitted to our stockholders for approval at the 2014 annual stockholders meeting to be held on May 20, 2014. The Equity Plan is expected to be approved.

The Equity Plan amends and restates the Stock Plan by, among other things:

- increasing the number of shares of our common stock available for issuance under the Equity Plan from 1,500,000 shares to 7,500,000 shares;
- increasing the annual limit on the number of shares of our common stock with respect to which awards may be granted to any single individual from 200,000 shares to 500,000 shares;
- providing performance goals upon which the awards under the Equity Plan may be conditioned; and
- providing for the grant of other stock-based awards (in addition to options and stock appreciation rights) that may be granted under the Equity Plan, including awards of restricted stock, restricted stock units, or RSUs, performance shares and units and other stock-based awards.

In March 2014, we awarded 52,581 in targeted performance RSUs, with a volume weighted average price of our common stock preceding the grant date of $47.52 per share, to our Chief Executive Officer, or CEO, in connection with his commencement of service with us on March 3, 2014, subject to stockholder approval of the Equity Plan. RSUs are contractual rights to receive shares of our common stock in the future if the applicable vesting conditions are met. Targeted RSUs will become earned RSUs upon achievement of certain performance goals as set forth in the award certificate. Earned RSUs granted to our CEO will vest in one-third increments annually, over three years, commencing on the first anniversary of his hire date, with the first year being prorated for the portion of 2014 during which he was employed.

Because the stock-based compensation awarded to our CEO is a fixed monetary amount at the date of grant (the target value of $3.0 million on a prorated basis) with variances based on actual achievement of a performance goal, the award is being recorded as a share-based liability. Compensation cost will be recognized over the requisite service period as specified in the award. In connection with the targeted RSUs granted in March 2014, we recognized $66,000 in compensation expense. As of March 31, 2014, the targeted performance goal, as set forth in the award certificate, had not been met, but its achievement was deemed probable.

4. Earnings Per Share

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In thousands, except per share data)	
Net income – basic and diluted numerator	$ 145,810	$ 175,989
Weighted average shares – basic (denominator):	138,469	139,032
Effect of dilutive potential shares		
Stock options and stock appreciation rights	4	49
Weighted average shares including conversions – diluted (denominator)	138,473	139,081
Earnings per share:		
Basic	$ 1.05	$ 1.27
Diluted	$ 1.05	$ 1.27

The following table sets forth the share effects of stock options and the number of stock appreciation rights excluded from our computations of diluted earnings per share, or EPS, as the inclusion of such potentially dilutive shares would have been antidilutive for the periods presented:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In thousands)	
Employee and director:		
Stock options	49	10
Stock appreciation rights	1,461	805

5. Marketable Securities

We report our investments as current assets in our Consolidated Balance Sheets in “Marketable securities,” representing the investment of cash available for current operations. See Note 7.

Our investments in marketable securities are classified as available for sale and are summarized as follows:

	March 31, 2014 Amortized Cost	Unrealized Gain (Loss)	Market Value
	(In thousands)		
U.S. Treasury Bills and Notes (due within one year)	$1,174,937	$ 24	$1,174,961
Mortgage-backed securities	167	7	174
Total	$1,175,104	$ 31	$1,175,135

	December 31, 2013 Amortized Cost	Unrealized Gain (Loss)	Market Value
	(In thousands)		
U.S. Treasury Bills and Notes (due within one year)	$1,749,879	$ (22)	$1,749,857
Mortgage-backed securities	188	8	196
Total	$1,750,067	$ (14)	$1,750,053

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

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Proceeds from maturities	$2,175,000	$725,000
Proceeds from sales	21	14
Gross realized gains	—	—
Gross realized losses	—	—

6. Derivative Financial Instruments

Foreign Currency Forward Exchange Contracts

Our international operations expose us to foreign exchange risk associated with our costs payable in foreign currencies for employee compensation, foreign income tax payments and purchases from foreign suppliers. We may utilize FOREX contracts to manage our foreign exchange risk. Our FOREX contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date, which, for most of our contracts, is the average spot rate for the contract period.

We enter into FOREX contracts when we believe market conditions are favorable to purchase contracts for future settlement with the expectation that such contracts, when settled, will reduce our exposure to foreign currency gains and losses on future foreign currency expenditures. The amount and duration of such contracts are based on our monthly forecast of expenditures in the significant currencies in which we do business and for which there is a financial market (*i.e.*, Australian dollars, Brazilian reais, British pounds sterling, Mexican pesos and Norwegian kroner). These forward contracts are derivatives as defined by GAAP.

During the three months ended March 31, 2014 and 2013, we settled FOREX contracts with aggregate notional values of approximately $64.6 million and $77.1 million, respectively, of which the entire aggregate amounts were designated as a cash flow accounting hedge. During the three-month periods ended March 31, 2014 and 2013, we did not enter into or settle any FOREX contracts that were not designated as accounting hedges.

The following table presents the aggregate amount of gain recognized in our Consolidated Statements of Operations related to our FOREX contracts designated as accounting hedges for the three-month periods ended March 31, 2014 and 2013.

	Three Months Ended March 31,	
Location of Gain Recognized in Income	2014	2013
Contract drilling expense	$ 511	$ 2,435

As of March 31, 2014, we had FOREX contracts outstanding in the aggregate notional amount of $146.1 million, consisting of $11.6 million in Australian dollars, $71.5 million in Brazilian reais, $32.3 million in British pounds sterling, $24.3 million in Mexican pesos and $6.4 million in Norwegian kroner. These contracts generally settle monthly through December 2014. As of March 31, 2014, all outstanding derivative contracts had been designated as cash flow hedges. See Note 7.

We have International Swap Dealers Association, or ISDA, contracts, which are standardized master legal arrangements that establish key terms and conditions, which govern certain derivative transactions. At March 31, 2014, all of our FOREX contracts were with two counterparties and were governed under such ISDA contracts. There are no requirements to post collateral under these contracts; however, they do contain credit-risk related contingent provisions including credit support provisions and the net settlement of amounts owed in the event of early terminations. Additionally, should our credit rating fall below a specified rating immediately following the merger of Diamond Offshore with another entity, the counterparty may require all outstanding derivatives under the ISDA contract to be settled immediately at current market value. Our ISDA arrangements also include master netting agreements to further manage counterparty credit risk associated with our FOREX contracts. We have elected not to offset the fair value amounts recorded for our FOREX contracts under these agreements in our Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013; however, there would have been no significant difference in our Consolidated Balance Sheets if the estimated fair values were presented on a net basis for these periods.

The following table presents the fair values of our derivative FOREX contracts designated as hedging instruments at March 31, 2014 and December 31, 2013.

Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
	March 31, 2014	December 31, 2013		March 31, 2014	December 31, 2013
	(In thousands)			(In thousands)	
Prepaid expenses and other current assets	$ 4,628	$ 1,562	Accrued liabilities	$ (6)	$ (1,143)

The following table presents the amounts recognized in our Consolidated Balance Sheets and Consolidated Statements of Operations related to our derivative financial instruments designated as cash flow hedges for the three-month periods ended March 31, 2014 and 2013, respectively.

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
FOREX Contracts:		
Amount of gain (loss) recognized in AOCGL on derivative (effective portion)	$ 4,368	$ 435
Location of gain (loss) reclassified from AOCGL into income (effective portion)	Contract drilling expense	Contract drilling expense
Amount of gain (loss) reclassified from AOCGL into income (effective portion)	$ 269	$ 2,232
Location of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Foreign currency transaction gain (loss)	Foreign currency transaction gain (loss)
Amount of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	$ (1)	$ (2)
Treasury lock agreements:		
Amount of gain recognized in AOCGL on derivative (effective portion)	—	—
Location of gain reclassified from AOCGL into income (effective portion)	Interest Expense	—
Amount of gain reclassified from AOCGL into income (effective portion)	$ 2	$ —

As of March 31, 2014, the estimated amount of net unrealized gains associated with our FOREX contracts and treasury lock agreements that will be reclassified to earnings during the next twelve months was $4.6 million and $8,052, respectively. The net unrealized gains associated with these derivative financial instruments will be reclassified to contract drilling expense and interest expense, respectively. During the three-month periods ended March 31, 2014 and 2013, we did not reclassify any amounts from AOCGL due to the probability of an underlying forecasted transaction not occurring.

7. Financial Instruments and Fair Value Disclosures

Financial instruments which potentially subject us to significant concentrations of credit or market risk consist primarily of periodic temporary investments of excess cash, trade accounts receivable and investments in debt securities, including residential mortgage-backed securities. We generally place our excess cash investments in U.S. government-backed short-term money market instruments through several financial institutions. At times, such investments may be in excess of the insurable limit. We periodically evaluate the relative credit standing of these financial institutions as part of our investment strategy.

Most of our investments in debt securities are U.S. government securities with minimal credit risk. However, we are exposed to market risk due to price volatility associated with interest rate fluctuations.

Concentrations of credit risk with respect to our trade accounts receivable are limited primarily due to the entities comprising our customer base. Since the market for our services is the offshore oil and gas industry, this customer base consists primarily of major and independent oil and gas companies and government-owned oil companies. At March 31, 2014 and December 31, 2013, our largest customer in Brazil, Petróleo Brasileiro S.A. (a Brazilian multinational energy company that is majority-owned by the Brazilian government), accounted for $109.7 million and $154.5 million, or 28% and 35%, respectively, of our total consolidated net trade accounts receivable balance.

In general, before working for a customer with whom we have not had a prior business relationship and/or whose financial stability may be uncertain to us, we perform a credit review on that company. Based on that analysis, we may require that the customer present a letter of credit, prepay or provide other credit enhancements. We record a provision for bad debts on a case-by-case basis when facts and circumstances indicate that a customer receivable may not be collectible and, historically, losses on our trade receivables have been infrequent occurrences.

Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices for identical instruments in active markets. Level 1 assets include short-term investments such as money market funds, U.S. Treasury Bills and Treasury notes. Our Level 1 assets at March 31, 2014 consisted of cash held in money market funds of $386.9 million, time deposits of $20.1 million and investments in U.S. Treasury securities of $1,175.0 million. Our Level 1 assets at December 31, 2013 consisted of cash held in money market funds of $281.3 million, time deposits of $30.0 million and investments in U.S. Treasury securities of $1,749.9 million.

Level 2 Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 assets and liabilities include residential mortgage-backed securities and over-the-counter FOREX contracts. Our residential mortgage-backed securities were valued using a model-derived valuation technique based on the quoted closing market prices received from a financial institution. Our FOREX contracts are valued based on quoted market prices, which are derived from observable inputs including current spot and forward rates, less the contract rate multiplied by the notional amount. The inputs used in our valuation are obtained from a Bloomberg curve analysis which uses par coupon swap rates to calculate implied forward rates so that projected floating rate cash flows can be calculated. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 assets and liabilities generally include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation or for which there is a lack of transparency as to the inputs used.

Market conditions could cause an instrument to be reclassified among Levels 1, 2 and 3. Our policy regarding fair value measurements of financial instruments transferred into and out of levels is to reflect the transfers as having occurred at the beginning of the reporting period. There were no transfers between fair value levels during the three-month periods ended March 31, 2014 and 2013.

Certain of our assets and liabilities are required to be measured at fair value on a recurring basis in accordance with GAAP. In addition, certain assets and liabilities may be recorded at fair value on a nonrecurring basis. Generally, we record assets at fair value on a nonrecurring basis as a result of impairment charges. We did not record any impairment charges related to assets measured at fair value on a nonrecurring basis during the three-month periods ended March 31, 2014 and 2013.

Assets and liabilities measured at fair value are summarized below:

	March 31, 2014			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
	(In thousands)			
Recurring fair value measurements:				
Assets:				
Short-term investments	$1,581,954	$ —	$ —	$1,581,954
FOREX contracts	—	4,628	—	4,628
Mortgage-backed securities	—	174	—	174
Total assets	$1,581,954	$ 4,802	$ —	$1,586,756
Liabilities:				
FOREX contracts	$ —	$ (6)	$ —	$ (6)

	December 31, 2013			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
	(In thousands)			
Recurring fair value measurements:				
Assets:				
Short-term investments	$2,061,154	$ —	$ —	$2,061,154
FOREX contracts	—	1,562	—	1,562
Mortgage-backed securities	—	197	—	197
Total assets	$2,061,154	$ 1,759	$ —	$2,062,913
Liabilities:				
FOREX contracts	$ —	$(1,143)	$ —	$ (1,143)

We believe that the carrying amounts of our other financial assets and liabilities (excluding long-term debt), which are not measured at fair value in our Consolidated Balance Sheets, approximate fair value based on the following assumptions:

- *Cash and cash equivalents* — The carrying amounts approximate fair value because of the short maturity of these instruments.
- *Accounts receivable and accounts payable* — The carrying amounts approximate fair value based on the nature of the instruments.

We consider our senior notes, including current maturities, to be Level 2 liabilities under the GAAP fair value hierarchy and, accordingly, the fair value of our senior notes was derived using a third-party pricing service at March 31, 2014 and December 31, 2013. We perform control procedures over information we obtain from pricing services and brokers to test whether prices received represent a reasonable estimate of fair value. These procedures include the review of pricing service or broker pricing methodologies and comparing fair value estimates to actual trade activity executed in the market for these instruments occurring generally within a 10-day period of the report date. Fair values and related carrying values of our senior notes are shown below.

	March 31, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In millions)			
5.15% Senior Notes due 2014	$ 254.5	$ 250.0	$ 257.4	$ 250.0
4.875% Senior Notes due 2015	262.8	249.9	265.7	249.9
5.875% Senior Notes due 2019	578.9	499.6	578.1	499.6
3.45% Senior Notes due 2023	242.9	249.0	241.4	249.0
5.70% Senior Notes due 2039	546.6	496.9	543.1	496.9
4.875% Senior Notes due 2043	731.5	748.8	736.1	748.8

We have estimated the fair value amounts by using appropriate valuation methodologies and information available to management. Considerable judgment is required in developing these estimates, and accordingly, no assurance can be given that the estimated values are indicative of the amounts that would be realized in a free market exchange.

8. Drilling and Other Property and Equipment

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

	March 31, 2014	December 31, 2013
	(In thousands)	
Drilling rigs and equipment	$ 8,515,784	$ 7,412,066
Construction work-in-progress	1,156,923	1,668,211
Land and buildings	65,798	65,627
Office equipment and other	67,318	65,799
Cost	9,805,823	9,211,703
Less: accumulated depreciation	(3,851,327)	(3,744,476)
Drilling and other property and equipment, net	$ 5,954,496	$ 5,467,227

Construction work-in-progress, including capitalized interest, at March 31, 2014 and December 31, 2013 is summarized as follows:

	March 31, 2014	December 31, 2013
	(In thousands)	
Ultra-deepwater drillships	$ 655,277	$ 868,908
Ultra-deepwater semisubmersible:		
Ocean GreatWhite	199,294	195,578
Deepwater semisubmersibles:		
Ocean Onyx	—	339,129
Ocean Apex	302,352	264,596
Total construction work-in-progress	$1,156,923	$ 1,668,211

In January and February of 2014, the deepwater semisubmersible *Ocean Onyx* and the ultra-deepwater drillship *Ocean BlackHawk*, respectively, were placed in service and are no longer reported as construction work-in-progress at March 31, 2014.

9. Credit Agreement

We have a syndicated 5-Year Revolving Credit Agreement, or Credit Agreement, with Wells Fargo Bank, National Association, as administrative agent and swingline lender. Effective March 17, 2014, we entered into a commitment increase agreement and second amendment to the Credit Agreement, which, among other things, provided for a $250.0 million increase in the aggregate commitment under the revolving credit facility and an approximately six-month extension of the maturity date with all of the existing lenders. The Credit Agreement provides for a $1.0 billion senior unsecured revolving credit facility for general corporate purposes, maturing on March 17, 2019. The entire amount of the facility is available for revolving loans. Up to $250 million of the facility is available for the issuance of performance or other standby letters of credit and up to $100 million is available for swingline loans.

10. Commitments and Contingencies

Various claims have been filed against us in the ordinary course of business, including claims by offshore workers alleging personal injuries. With respect to each claim or exposure, we have made an assessment, in accordance with GAAP, of the probability that the resolution of the matter would ultimately result in a loss. When we determine that an unfavorable resolution of a matter is probable and such amount of loss can be determined, we record a liability for the amount of the estimated loss at the time that both of these criteria are met. Our management believes that we have recorded adequate accruals for any liabilities that may reasonably be expected to result from these claims.

Litigation. We are one of several unrelated defendants in lawsuits filed in state courts alleging that defendants manufactured, distributed or utilized drilling mud containing asbestos and, in our case, allowed such drilling mud to have been utilized aboard our offshore drilling rigs. The plaintiffs seek, among other things, an award of unspecified compensatory and punitive damages. The manufacture and use of asbestos-containing drilling mud had already ceased before we acquired any of the drilling rigs addressed in these lawsuits. We believe that we are not liable for the damages asserted and we expect to receive complete defense and indemnity with respect to many of the lawsuits from Murphy Exploration & Production Company pursuant to the terms of our 1992 asset purchase agreement with them. We also believe that we are not liable for the damages asserted in the remaining lawsuits pursuant to the terms of our 1989 asset purchase agreement with Diamond M Corporation, and we filed a declaratory judgment action in Texas state court against NuStar Energy LP, or NuStar, the successor to Diamond M Corporation, seeking a judicial determination that we did not assume liability for these claims. We obtained summary judgment on our claims in the declaratory judgment action, but NuStar appealed the trial court's decision, and the appellate court has remanded the case to trial. We are unable to estimate our potential exposure, if any, to these lawsuits at this time but do not believe that ultimate liability, if any, resulting from this litigation will have a material effect on our consolidated financial condition, results of operations and cash flows.

Various other claims have been filed against us in the ordinary course of business. In the opinion of our management, no pending or known threatened claims, actions or proceedings against us are expected to have a material adverse effect on our consolidated financial position, results of operations and cash flows.

We intend to defend these matters vigorously; however, we cannot predict with certainty the outcome or effect of any litigation matters specifically described above or any other pending litigation or claims. There can be no assurance as to the ultimate outcome of these lawsuits.

NPI Arrangement. We received payments measured by a percentage net profits interest (of primarily 27%) under an overriding royalty interest in certain developmental oil-and-gas producing properties, or NPI, which we believe is a real property interest. Our drilling program related to the NPI was completed in 2011, and the balance of the amounts due to us under the NPI was received in 2013. However, the customer who conveyed the NPI to us filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in August 2012. Certain parties (including the debtor) in the bankruptcy proceedings have questioned whether our NPI, and certain amounts we received under it since the filing of the bankruptcy, should be included in the debtor's estate under the bankruptcy proceeding. We filed a declaratory judgment action in the bankruptcy court seeking a declaration that our NPI, and payments that we received from it since the filing of the bankruptcy, are not part of the bankruptcy estate. We expect that once discovery is concluded in the bankruptcy court, the federal district court will hold a trial to determine the nature of our NPI. We will vigorously defend our rights and pursue our interests in this matter.

Personal Injury Claims. Under our current insurance policies that expire on May 1, 2014, our deductibles for marine liability insurance coverage, including personal injury claims, which primarily result from Jones Act liability in the Gulf of Mexico, are $10.0 million for the first occurrence, with no aggregate deductible, and vary in amounts ranging between $5.0 million and, if aggregate claims exceed certain thresholds, up to $100.0 million for each subsequent occurrence, depending on the nature, severity and frequency of claims that might arise during the policy year. We intend to increase our deductible for marine liability insurance coverage to $25.0 million for the first occurrence, with no aggregate deductible, effective with our policy renewals on May 1, 2014.

The Jones Act is a federal law that permits seamen to seek compensation for certain injuries during the course of their employment on a vessel and governs the liability of vessel operators and marine employers for the work-related injury or death of an employee. We engage outside consultants to assist us in estimating our aggregate liability for personal injury claims based on our historical losses and utilizing various actuarial models. We allocate a portion of the aggregate liability to “Accrued liabilities” based on an estimate of claims expected to be paid within the next twelve months with the residual recorded as “Other liabilities.” At March 31, 2014, our estimated liability for personal injury claims was $35.4 million, of which $8.2 million and $27.2 million were recorded in “Accrued liabilities” and “Other liabilities,” respectively, in our Consolidated Balance Sheets. At December 31, 2013, our estimated liability for personal injury claims was $35.5 million, of which $9.5 million and $26.0 million were recorded in “Accrued liabilities” and “Other liabilities,” respectively, in our Consolidated Balance Sheets. The eventual settlement or adjudication of these claims could differ materially from our estimated amounts due to uncertainties such as:

- the severity of personal injuries claimed;
- significant changes in the volume of personal injury claims;
- the unpredictability of legal jurisdictions where the claims will ultimately be litigated;
- inconsistent court decisions; and
- the risks and lack of predictability inherent in personal injury litigation.

Purchase Obligations

Ultra-Deepwater Floater Construction. The *Ocean GreatWhite*, a 10,000 foot dynamically positioned, harsh environment semisubmersible drilling rig, is under construction in South Korea at an estimated cost of $755 million, including shipyard costs, capital spares, commissioning and shipyard supervision. The contracted price to Hyundai Heavy Industries Co., Ltd., or Hyundai, totaling $628.5 million is payable in two installments, of which the first installment of $188.6 million has been paid. The final installment of $439.9 million is due upon delivery of the rig, which is expected to occur in the first quarter of 2016.

Drillship Construction. At March 31, 2014, we had three ultra-deepwater drillships under construction at Hyundai in South Korea at an estimated aggregate cost of $1.9 billion, including shipyard costs, commissioning, capital spares and project management costs. The contracted price of each drillship is payable to Hyundai in two installments, with final payment due on delivery of each drillship. We have paid the first installment for each of our drillships currently under construction, aggregating $493.2 million. The *Ocean BlackHornet, Ocean BlackRhino* and *Ocean BlackLion* are expected to be delivered in the second quarter of 2014, third quarter of 2014 and first quarter of 2015, respectively, at which times approximately $390 million will be payable to Hyundai for each rig.

Ocean Apex Construction. We are obligated under a vessel modification agreement with Jurong Shipyard Pte Ltd, or Jurong, for the construction of the *Ocean Apex*, a moored semisubmersible deepwater rig, which is expected to be delivered in the third quarter of 2014 at an aggregate cost of approximately $370.0 million, including shipyard costs, commissioning, capital spares and project management costs. The contracted price due to Jurong is payable in 12 installments based on the occurrence of certain events as detailed in the vessel modification agreement. We have paid the first eight installments, aggregating $87.8 million that has been paid to date. The remaining $47.3 million in aggregate milestone payments are payable to Jurong during 2014 as construction milestones are met.

Ocean Patriot Enhancements. The rig’s North Sea enhancement project is ongoing and is expected to be completed in the second quarter of 2014 at an estimated cost of approximately $120.0 million, including shipyard costs, owner-furnished equipment and labor, commissioning and capital spares. We are financially obligated to Keppel FELS Limited, or Keppel Singapore, for $29.0 million of the total project cost, payable in seven installments based on the occurrence of certain events as detailed in the vessel modification agreement. We have paid the first four installments due to Keppel Singapore, aggregating $18.8 million. The remaining $10.2 million in aggregate milestone payments is payable during the remainder of 2014 as construction milestones are met.

At March 31, 2014 and December 31, 2013, we had no other purchase obligations for major rig upgrades or any other significant obligations, except for those related to our direct rig operations, which arise during the normal course of business.

Letters of Credit and Other. We were contingently liable as of March 31, 2014 in the amount of $65.1 million under certain performance, supersedeas and customs bonds and letters of credit. Agreements relating to approximately $60.5 million of performance, supersedeas and customs bonds can require collateral at any time. As of March 31, 2014, we had not been required to make any collateral deposits with respect to these agreements. The remaining agreements cannot require collateral except in events of default. On our behalf, banks have issued letters of credit securing certain of these bonds.

11. Accumulated Other Comprehensive Gain (Loss)

The components of our AOCGL and related changes thereto are as follows:

	Unrealized Gain (Loss) on Derivative Financial Instruments	Unrealized Gain (Loss) on Marketable Securities	Total AOCGL
	(In thousands)		
Balance at January 1, 2014	$ 357	$ (7)	$ 350
Change in other comprehensive gain (loss) before reclassifications, after tax of $(1,529) and $(16)	2,839	38	2,877
Reclassification adjustments for items included in Net Income, after tax of $94 and $1	(177)	(8)	(185)
Balance at March 31, 2014	$ 3,019	$ 23	$ 3,042

The following table presents the line items in our Consolidated Statements of Operations affected by reclassification adjustments out of AOCGL.

Major Category of AOCGL	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Consolidated Statements of Operations Line Items
	(In thousands)		
Derivative Financial Instruments:			
Unrealized (gain) loss on FOREX contracts	$ (269)	$ (2,232)	Contract drilling, excluding depreciation
Unrealized (gain) on Treasury Lock Agreements	(2)	—	Interest expense
	94	781	Income tax expense
	$ (177)	$ (1,451)	Net of tax
Marketable Securities:			
Unrealized (gain) loss on marketable securities	$ (9)	$ (97)	Other, net
	1	14	Income tax expense
	$ (8)	$ (83)	Net of tax

12. Segments and Geographic Area Analysis

Although we provide contract drilling services with different types of offshore drilling rigs and also provide such services in many geographic locations, we have aggregated these operations into one reportable segment based on the similarity of economic characteristics due to the nature of the revenue earning process as it relates to the offshore drilling industry over the operating lives of our drilling rigs.

Revenues from contract drilling services by equipment type are listed below:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In thousands)	
Floaters:		
Ultra-Deepwater	$205,794	$191,357
Deepwater	146,559	164,420
Mid-Water	285,979	305,221
Total Floaters	638,332	660,998
Jack-ups	46,976	38,975
Total contract drilling revenues	685,308	699,973
Revenues related to reimbursable expenses	24,116	29,768
Total revenues	$709,424	$729,741

Geographic Areas

Our drilling rigs are highly mobile and may be moved to other markets throughout the world in response to market conditions or customer needs. At March 31, 2014, our actively-marketed drilling rigs were en route to or located offshore 11 countries in addition to the United States. Revenues by geographic area are presented by attributing revenues to the individual country or areas where the services were performed.

	Three Months Ended March 31,	
	2014	**2013**
United States	$114,868	$105,760
International:		
South America	287,925	283,565
Europe/Africa/Mediterranean	155,591	116,389
Australia/Asia	95,764	172,706
Mexico	55,276	51,321
Total revenues	$709,424	$729,741

13. Income Taxes

Our income tax expense is a function of the mix between our domestic and international pre-tax earnings or losses, as well as the mix of international tax jurisdictions in which we operate. Certain of our international rigs are owned and operated, directly or indirectly, by one of our wholly owned foreign subsidiaries. It is our intention to indefinitely reinvest future earnings of this subsidiary to finance foreign activities. Accordingly, we have not made a provision for U.S. income taxes on such earnings except to the extent that such earnings were immediately subject to U.S. income taxes.

During 2013 we were under audit by the Egyptian tax authorities for the tax years 2006 through 2010. In December 2013, after receiving notification that the Egyptian government had concluded the income tax audit for the period 2006 to 2008 and proposed a $1.2 billion increase to taxable income, we accrued an additional $56.9 million of expense for uncertain tax positions in Egypt for all open years. During the first quarter of 2014, we settled certain disputes for the years 2006 through 2008 with the Egyptian tax authorities, which resulted in an aggregate $17.2 million reduction in tax expense, comprised of a $23.2 million reversal of uncertain tax positions, partially offset by $6.0 million in current income tax expense.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our unaudited consolidated financial statements (including the notes thereto) included elsewhere in this report and our audited consolidated financial statements and the notes thereto, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1A, "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2013. References to "Diamond Offshore," "we," "us" or "our" mean Diamond Offshore Drilling, Inc., a Delaware corporation, and its subsidiaries.

We are a leader in offshore drilling, providing contract drilling services to the energy industry around the globe with a fleet of 45 offshore drilling rigs, including five rigs under construction. Our fleet consists of 33 semisubmersibles, two of which are under construction, seven jack-ups, one of which is held for sale, and five dynamically positioned drillships, three of which are under construction. As of the date of this report, four of our drilling rigs were cold-stacked, including one jack-up rig held for sale and three mid-water semisubmersible rigs.

The recently completed deepwater floater *Ocean Onyx* has been working under a one-year contract in the U.S. Gulf of Mexico, or GOM, since mid-January, and the ultra-deepwater drillship *Ocean BlackHawk* recently arrived in the GOM, having completed its maiden voyage from South Korea. We expect the *Ocean BlackHawk* to commence operating under a five-year contract later in the second quarter of 2014.

During 2014, we expect to take delivery of two additional ultra-deepwater drillships, the *Ocean BlackHornet* and *Ocean BlackRhino*, as well as the deepwater floater *Ocean Apex*. The remaining ultra-deepwater drillship, the *Ocean BlackLion*, and the harsh environment, ultra-deepwater semisubmersible *Ocean GreatWhite* are expected to be delivered in 2015 and 2016, respectively. Of these rigs, the *Ocean BlackRhino* and *Ocean BlackLion* are not yet contracted.

The *Ocean Confidence* commenced a service-life-extension project in mid-April 2014, which is expected to keep it out of drilling service until early in the second quarter of 2015.

Market Overview

Floater Markets

Ultra-Deepwater Floaters. The ultra-deepwater market continues to weaken. Newbuild rig deliveries and established rigs coming off contract have created an oversupply of floaters in both the ultra-deepwater and deepwater markets, and an increasing number of drilling units are competing for fewer available jobs due to cutbacks and/or delays in customer drilling programs. This oversupply has led to fierce competition, resulting in lower contracted dayrates, the execution of shorter-term contracts and, in some cases, the idling of rigs. There have been few bidding opportunities thus far in 2014, and the outlook for the remainder of the year and into 2015 is uncertain.

Deepwater Floaters. The market for deepwater floaters has trended downward in tandem with the ultra-deepwater market. Demand in this market is intermittent, with limited bidding opportunities. As a result, multiple existing units face pockets of idle time in 2014, and newbuild rigs may also have challenges securing work. Dayrates have also declined, compared to prior peak markets, and are projected by industry analysts to continue to soften in 2014.

Mid-Water Floaters. Strength in the mid-water market varies significantly by region. In both the United Kingdom, or U.K., and Norway sectors of the North Sea, the mid-water market is showing some signs of weakening, in the form of declining dayrates, in part due to an increase in the availability of sublet opportunities being offered for some term-contracted units. In the GOM, demand for mid-water units is limited, while in Brazil, demand has moderated. Frontier markets across Southeast Asia and South America, including Colombia, Myanmar, Nicaragua, Peru and Trinidad and Tobago, are areas of future, possible market demand; however, opportunities in these areas are not expected to emerge quickly.

Impact of Newbuild Rigs and Other Challenges Facing the Offshore Drilling Industry

Despite the challenging short-term market outlook, based on industry reports, there have been nine additional newbuild floaters ordered since the beginning of 2014. As of the date of this report, based on industry data, there are approximately 69 competitive, or non-owner-operated, newbuild floaters on order, and, in addition, an estimated 29 rigs potentially to be built on behalf of Petróleo Brasileiro S.A., which is currently our largest single customer based on annual consolidated revenues. Of the competitive rigs, 31 of the 51 newbuilds scheduled for delivery in 2014 through 2015, including two of our four rigs that we expect to be delivered in 2014 and 2015, as well as over half of the 11 newbuilds scheduled for delivery in 2016, are not yet contracted for future work. The influx of newbuilds into the market, combined with established rigs coming off contract in 2014 and 2015, is expected to continue to weaken the ultra-deepwater and deepwater floater markets.

In addition, the offshore drilling industry is challenged by growing regulatory demands and more complex customer specifications, which could disadvantage the marketability of some lower specification rigs. Customer focus on completing existing projects, possible reduction or deferral of new investment, reallocation of budgets away from offshore projects and particular customer requirements in certain markets could also displace, or reduce, demand and result in the migration of some ultra-deepwater rigs to work in deepwater and, likewise, some deepwater rigs to compete against mid-water units. Various units across all segments could experience lower utilization or increased idle time, and lower specification rigs could be cold stacked or scrapped. The risk that floaters may be cold stacked is greatest in the mid-water floater market, where it may become necessary to cold stack certain older, lower specification drilling rigs.

See "– Contract Drilling Backlog" for future commitments of our rigs during 2014 through 2019.

Contract Drilling Backlog

The following table reflects our contract drilling backlog as of April 23, 2014, February 5, 2014 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2013), and April 25, 2013 (the date reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013). Contract drilling backlog as presented below includes only firm commitments (typically represented by signed contracts) and is calculated by multiplying the contracted operating dayrate by the firm contract period and adding one-half of any potential rig performance bonuses. Our calculation also assumes full utilization of our drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 92-98% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in our contract drilling backlog between periods are a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts.

	April 23, 2014	February 5, 2014	April 25, 2013
		(In thousands)	
Contract Drilling Backlog			
Floaters:			
Ultra-Deepwater (1)	$3,910,000	$4,111,000	$4,257,000
Deepwater(2)	962,000	794,000	1,143,000
Mid-Water (3)	1,504,000	1,744,000	2,436,000
Total Floaters	6,376,000	6,649,000	7,836,000
Jack-ups	158,000	180,000	249,000
Total	$6,534,000	$6,829,000	$8,085,000

(1) Contract drilling backlog as of April 23, 2014 for our ultra-deepwater floaters includes (i) $651.0 million attributable to our contracted operations offshore Brazil for the years 2014 to 2015, (ii) $904.0 million attributable to future work for the *Ocean BlackHornet*, which is under construction, for the years 2014 to 2019 and (iii) $641.0 million attributable to future work for the semisubmersible *Ocean GreatWhite*, which is also under construction, for the years 2016 to 2019.

(2) Contract drilling backlog as of April 23, 2014 for our deepwater floaters includes (i) $291.0 million attributable to our contracted operations offshore Brazil for the years 2014 to 2016 and (ii) $36.0 million for the year 2015 attributable to future work for the *Ocean Apex*, which is under construction.

(3) Contract drilling backlog as of April 23, 2014 for our mid-water floaters includes $323.0 million attributable to our contracted operations offshore Brazil for the years 2014 to 2015.

The following table reflects the amount of our contract drilling backlog by year as of April 23, 2014.

		For the Years Ending December 31,			
	Total	2014 (1)	2015	2016	2017 - 2019
			(In thousands)		
Contract Drilling Backlog					
Floaters:					
Ultra-Deepwater (2)	$3,910,000	$ 739,000	$1,192,000	$518,000	$1,461,000
Deepwater(3)	962,000	389,000	326,000	208,000	39,000
Mid-Water (4)	1,504,000	780,000	449,000	161,000	114,000
Total Floaters	6,376,000	1,908,000	1,967,000	887,000	1,614,000
Jack-ups	158,000	88,000	48,000	22,000	—
Total	$6,534,000	$1,996,000	$2,015,000	$909,000	$1,614.000

(1) Represents a nine-month period beginning April 1, 2014.

(2) Contract drilling backlog as of April 23, 2014 for our ultra-deepwater floaters includes (i) $327.0 million and $324.0 million for the years 2014 and 2015, respectively, attributable to our contracted operations offshore Brazil, (ii) $61.0 million, $181.0 million and $181.0 million for the years 2014 to 2016, respectively, and $481.0 million in the aggregate for the years 2017 to 2019, attributable to future work for the *Ocean BlackHornet* and (iii) $107.0 million for the year 2016 and $534.0 million in the aggregate for the years 2017 to 2019 attributable to future work for the *Ocean GreatWhite*, which is under construction.

(3) Contract drilling backlog as of April 23, 2014 for our deepwater floaters includes (i) $95.0 million, $134.0 million and $62.0 million for the years 2014 to 2016, respectively, attributable to our contracted operations offshore Brazil and (ii) $29.0 million and $7.0 million for the years 2014 and 2015, respectively, attributable to future work for the *Ocean Apex*, which is under construction.

(4) Contract drilling backlog as of April 23, 2014 for our mid-water floaters includes $244.0 million and $79.0 million for the years 2014 and 2015, respectively, attributable to our contracted operations offshore Brazil.

The following table reflects the percentage of rig days committed by year as of April 23, 2014. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in our fleet, to total available days (number of rigs multiplied by the number of days in a particular year). Total available days have been calculated based on the expected final commissioning dates for the *Ocean BlackHornet*, *Ocean Apex*, *Ocean BlackRhino, Ocean BlackLion* and *Ocean GreatWhite*, all of which are under construction.

	For the Years Ending December 31,			
	2014 (1)	2015	2016	2017 - 2019
Rig Days Committed (2)				
Floaters:				
Ultra-Deepwater	83%	64%	26%	20%
Deepwater	61%	32%	21%	1%
Mid-Water	62%	26%	7%	1%
All Floaters	68%	39%	16%	8%
Jack-ups	50%	36%	9%	—

(1) Represents a nine-month period beginning April 1, 2014.

(2) As of April 23, 2014, includes approximately 1,080, 350 and 200 currently known, scheduled shipyard days for rig commissioning, contract preparation, surveys and extended maintenance projects, as well as rig mobilization days, for the remainder of 2014 and for the years 2015 and 2016, respectively.

Important Factors That May Impact Our Operating Results, Financial Condition or Cash Flows

Regulatory Surveys and Planned Downtime. Our operating income is negatively impacted when we perform certain regulatory inspections, which we refer to as a 5-year survey, or special survey, that are due every five years for each of our rigs. Operating revenue decreases because these special surveys are generally performed during scheduled downtime in a shipyard. Operating expenses increase as a result of these special surveys due to the cost to mobilize the rigs to a shipyard, inspection costs incurred and repair and maintenance costs. Repair and maintenance activities may result from the special survey or may have been previously planned to take place during this mandatory downtime. The number of rigs undergoing a 5-year survey will vary from year to year, as well as from quarter to quarter.

In addition, operating income may also be negatively impacted by intermediate surveys, which are performed at interim periods between 5-year surveys. Intermediate surveys are generally less extensive in duration and scope than a 5-year survey. Although an intermediate survey may require some downtime for the drilling rig, it normally does not require shipyard time, except for rigs, generally older than 15 years, that are located in the U.K. and Norwegian sectors of the North Sea.

During the remainder of 2014, six of our rigs are expected to undergo 5-year surveys. We expect these rigs to be out of service for an estimated 238 days in the aggregate to complete the inspections and any shipyard projects scheduled concurrently with the surveys. We also expect to spend an additional approximately 640 days during the remainder of 2014 for intermediate surveys, the mobilization of rigs, contract acceptance testing and extended maintenance projects, including contract preparation work for the *Ocean Endeavor* (approximately 92 days), North Sea enhancements for the *Ocean Patriot* and mobilization of the rig to the U.K. (approximately 196 days) and our service-life-extension project for the *Ocean Confidence*, which is currently mobilizing to the Canary Islands, where the project is scheduled to commence later in the second quarter of 2014 (approximately 258 days in 2014) and is expected to be completed early in the second quarter of 2015. We can provide no assurance as to the exact timing and/or duration of downtime associated with regulatory inspections, planned rig mobilizations and other shipyard projects. See " – Contract Drilling Backlog."

Physical Damage and Marine Liability Insurance. We are self-insured for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico. If a named windstorm in the U.S. Gulf of Mexico causes significant damage to our rigs or equipment, it could have a material adverse effect on our financial position, results of operations and cash flows. Under our insurance policy that expires on May 1, 2014, we carry physical damage insurance for certain losses, other than those caused by named windstorms in the U.S. Gulf of Mexico, for which our deductible for physical damage is $25.0 million per occurrence. Our policy's war risk insurance excludes from coverage certain risks of loss of use of rigs and equipment in connection with nationalization and deprivation. We currently retain separate insurance coverage for these risks in certain countries in which we operate. Additionally, we may, from time to time, seek to obtain insurance coverage for such risks in additional countries in which we may operate in the future to the extent such coverage is available. There is no assurance, however, that we will be able to retain or obtain, as the case may be, adequate levels of such coverage for such events at rates and with deductibles that we consider to be reasonable, or that we will continue to retain such coverage in the future or obtain such coverage in any particular jurisdiction. We do not typically retain loss-of-hire insurance policies to cover our rigs.

In addition, under our insurance policies that expire on May 1, 2014, we carry marine liability insurance covering certain legal liabilities, including coverage for certain personal injury claims, with no exclusions for pollution and/or environmental risk. We believe that the policy limit for our marine liability insurance is within the range that is customary for companies of our size in the offshore drilling industry and is appropriate for our business. Our deductibles for marine liability coverage, including for personal injury claims, are $10.0 million for the first occurrence and vary in amounts ranging between $5.0 million and, if aggregate claims exceed certain thresholds, up to $100.0 million for each subsequent occurrence, depending on the nature, severity and frequency of claims that might arise during the policy year, which under the current policy commences on May 1.

We are in the process of renewing our principal insurance coverages to be effective May 1, 2014. We expect our coverage and policy limits for physical damage insurance to be similar to our current policy, and we intend to increase the deductible for our marine liability insurance coverage to $25.0 million for the first occurrence, with no annual aggregate deductible.

Construction and Capital Upgrade Projects. We capitalize interest cost for the construction and upgrade of qualifying assets in accordance with accounting principles generally accepted in the U.S., or GAAP. The period of interest capitalization covers the duration of the activities required to make the asset ready for its intended use, and the capitalization period ends when the asset is substantially complete and ready for its intended use. During the first quarter of 2014, we ceased capitalization of interest related to the construction of the *Ocean Onyx* and *Ocean BlackHawk* as a result of the completion of these projects, but will continue to capitalize interest during the remainder of 2014 for our remaining three drillships under construction, the *Ocean Apex* and the *Ocean GreatWhite*. Capitalization of interest will continue for these construction projects until such time, after the delivery of each rig, that activities related to making each respective vessel ready for service are no longer ongoing.

Consequently, we expect our reported interest expense to increase in 2014, compared to the previous year, as a result of fewer projects qualifying for capitalization of interest in 2014, combined with the impact of additional interest expense associated with fourth quarter of 2013 debt issuances.

Critical Accounting Estimates

Our significant accounting policies are discussed in Note 1 of our notes to unaudited consolidated financial statements included in Item 1 of Part I of this report and in Note 1 of our notes to audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013. There were no material changes to these policies during the three months ended March 31, 2014.

Results of Operations

Although we perform contract drilling services with different types of drilling rigs and in many geographic locations, there is a similarity of economic characteristics among all our divisions and locations, including the nature of services provided and the type of customers for our services. We believe that the combination of our drilling rigs into one reportable segment is the appropriate aggregation in accordance with applicable accounting standards on segment reporting. However, for purposes of this discussion and analysis of our results of operations, we provide greater detail with respect to the types of rigs in our fleet to enhance the reader's understanding of our financial condition, changes in financial condition and results of operations.

Key performance indicators by equipment type are listed below.

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
REVENUE EARNING DAYS (1)		
Floaters:		
Ultra-Deepwater	513	526
Deepwater	343	423
Mid-Water	1,029	1,042
Jack-ups	501	448
UTILIZATION (2)		
Floaters:		
Ultra-Deepwater	66%	73%
Deepwater	64%	94%
Mid-Water	64%	64%
Jack-ups	79%	71%
AVERAGE DAILY REVENUE (3)		
Floaters:		
Ultra-Deepwater	$386,900	$360,400
Deepwater	418,300	389,100
Mid-Water	276,100	261,600
Jack-ups	93,100	85,200

(1) A revenue earning day is defined as a 24-hour period during which a rig earns a dayrate after commencement of operations and excludes mobilization, demobilization and contract preparation days.

(2) Utilization is calculated as the ratio of total revenue-earning days divided by the total calendar days in the period for all of the specified rigs in our fleet (including cold-stacked rigs).

(3) Average daily revenue is defined as contract drilling revenue for all of the specified rigs in our fleet (excluding revenues for mobilization, demobilization and contract preparation) per revenue earning day.

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Comparative data relating to our revenues and operating expenses by equipment type are listed below.

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In thousands)	
CONTRACT DRILLING REVENUE		
Floaters:		
Ultra-Deepwater	$ 205,794	$191,357
Deepwater	146,559	164,420
Mid-Water	285,979	305,221
Total Floaters	638,332	660,998
Jack-ups	46,976	38,975
Total Contract Drilling Revenue	$ 685,308	$699,973
Revenues Related to Reimbursable Expenses	$ 24,116	$ 29,768
CONTRACT DRILLING EXPENSE		
Floaters:		
Ultra-Deepwater	$ 123,530	$135,776
Deepwater	71,949	56,436
Mid-Water	134,046	143,647
Total Floaters	329,525	335,859
Jack-ups	28,029	29,667
Other	12,236	9,568
Total Contract Drilling Expense	$ 369,790	$375,094
Reimbursable Expenses	$ 23,666	$ 29,289
OPERATING INCOME		
Floaters:		
Ultra-Deepwater	$ 82,264	$ 55,581
Deepwater	74,610	107,984
Mid-Water	151,933	161,574
Total Floaters	308,807	325,139
Jack-ups	18,947	9,308
Other	(12,236)	(9,568)
Reimbursable expenses, net	450	479
Depreciation	(107,011)	(96,821)
General and administrative expense	(22,827)	(16,815)
Gain on disposition of assets	147	2,004
Total Operating Income	$ 186,277	$213,726
Other income (expense):		
Interest income	408	617
Interest expense	(18,155)	(8,069)
Foreign currency transaction loss	(1,178)	159
Other, net	327	(254)
Income before income tax expense	167,679	206,179
Income tax expense	(21,869)	(30,190)
NET INCOME	$ 145,810	$175,989

The following is a summary as of the date of this report of the most significant transfers of our rigs during 2014 and 2013 between the geographic areas in which we operate:

Rig	Rig Type	Relocation Details	Date
Floaters:			
Ocean Confidence	Ultra-Deepwater	Congo to Angola	January 2013
Ocean Confidence	Ultra-Deepwater	Angola to Cameroon	February 2014
Ocean Endeavor	Ultra-Deepwater	Egypt to Romania via Italy (Black Sea Project)	February 2014
Ocean BlackHawk	Ultra-Deepwater	South Korea to GOM (initial mobilization)	February 2014
Ocean America	Deepwater	Australia to Singapore (shipyard survey)	July 2013
Ocean Valiant	Deepwater	Cameroon to Canary Islands (shipyard survey)	October 2013
Ocean America	Deepwater	Singapore to Australia	November 2013
Ocean Onyx	Deepwater	Placed in service (GOM)	January 2014
Ocean Lexington	Mid-Water	Brazil to Trinidad	March 2013
Ocean Patriot	Mid-Water	Vietnam to Philippines	May 2013
Ocean Saratoga	Mid-Water	GOM to Nicaragua	August 2013
Ocean Quest	Mid-Water	Brazil to Malaysia	November 2013
Ocean Patriot	Mid-Water	Philippines to Singapore (shipyard upgrade)	November 2013
Ocean Saratoga	Mid-Water	Nicaragua to GOM	December 2013
Ocean General	Mid-Water	Vietnam to Indonesia	March 2014

Overview

Three Months Ended March 31, 2014 and 2013

Operating Income. Operating income decreased $27.4 million, or 13%, during the first quarter of 2014, compared to the same period of 2013, primarily due to a $14.7 million, or 2%, reduction in contract drilling revenue combined with increases in depreciation expense ($10.2 million) and general and administrative expense ($6.0 million), primarily related to higher compensation costs during the current year quarter. The increase in depreciation expense during the current year quarter is primarily the result of a higher depreciable asset base in 2014, compared to the prior year quarter, which includes the *Ocean Onyx* and *Ocean BlackHawk* that were placed in service in the first quarter of 2014. These unfavorable results, which reduced operating income, were partially offset by a $5.3 million net decrease in contract drilling expense during the first quarter of 2014, compared to the prior year quarter.

Contract drilling revenue for our deepwater and mid-water fleets decreased $37.1 million during the first quarter of 2014, compared to the same quarter of 2013, primarily as a result of an aggregate of 93 fewer revenue earning days, combined with the effect of lower mobilization and contract preparation fees for our mid-water floaters in the first quarter of 2014, compared to the prior year quarter. This reduction in revenue was partially offset by higher average daily revenue earned by both our deepwater and mid-water floater fleets in the first quarter of 2014. In contrast, contract drilling revenue earned by our ultra-deepwater floaters and jack-up rigs increased by an aggregate of $22.4 million during the first quarter of 2014, compared to the prior year quarter, primarily due to a higher average daily revenue earned by our ultra-deepwater floaters ($13.6 million) and the combined effects of an increase in revenue earning days and a higher average daily revenue earned by our jack-up fleet ($8.5 million).

Interest Expense. Interest expense increased $10.1 million during the first quarter of 2014, compared to the same period in 2013, primarily due to incremental interest expense of $11.4 million related to $1.0 billion in senior unsecured notes that we issued in November 2013.

Income Tax Expense. Our effective tax rate for the three months ended March 31, 2014 was 13.0%, compared to a 14.6% effective tax rate for the three months ended March 31, 2013. The effective tax rate in the 2014 period was lower than in the same period of 2013 partially due to the mix of our domestic and international pre-tax earnings and losses. The 2014 period also included the settlement of certain disputes in Egypt for the years 2006 through 2008, resulting in an aggregate $17.2 million reduction in tax expense. During the 2013 period we recognized the impact of The American Taxpayer Relief Act of 2012, which reduced 2013 income tax expense by $27.5 million.

Contract Drilling Revenue and Expense by Equipment Type

Three Months Ended March 31, 2014 and 2013

Ultra-Deepwater Floaters. Revenue generated by our ultra-deepwater floaters increased $14.4 million in the first quarter of 2014, compared to the prior year quarter, as a result of higher average daily revenue earned ($13.6 million) combined with a $5.4 million increase in amortized mobilization revenue during the current year quarter, partially offset by the unfavorable effect of 13 fewer revenue earning days ($4.6 million). Average daily revenue increased primarily due to the *Ocean Confidence* operating under a new contract in Cameroon during the first quarter of 2014 at a significantly higher dayrate than earned in Angola in the prior year quarter. Revenue for the first quarter of 2014 also included $4.5 million in revenue recognized in connection with the completion of the *Ocean Confidence*'s contract in Angola and subsequent move to Cameroon. Revenue earning days decreased during the first quarter of 2014, compared to the prior year quarter, primarily due to incremental downtime for the *Ocean Monarch* whose contract was terminated during the fourth quarter of 2013 due to customer credit issues (90 additional days) and rig mobilizations (24 additional days), partially offset by fewer non-operating days for shipyard projects (21 fewer days) and unscheduled downtime for repairs (81 fewer days).

Contract drilling expense for our ultra-deepwater floaters decreased $12.2 million during the first quarter of 2014, compared to the first quarter of 2013, reflecting lower costs incurred for labor and benefits ($1.9 million), rig repairs and maintenance ($5.6 million), mobilization of rigs ($3.7 million) and inspections ($2.8 million), partially offset by higher overhead costs ($2.8 million).

Deepwater Floaters. Revenue generated by our deepwater floaters decreased $17.9 million in the first quarter of 2014, compared to the same quarter in 2013, primarily due to 80 fewer revenue earning days ($30.9 million) in the current year quarter, partially offset by higher average daily revenue earned ($10.0 million) and $3.0 million in revenue recognized in connection with the *Ocean America*'s contract offshore Australia. The reduction in revenue earning days was the result of incremental scheduled downtime for surveys (65 additional days) combined with unplanned downtime associated with the warm stacking of rigs between contracts (83 additional days), partially offset by 61 revenue earning days for the *Ocean Onyx*, which was placed into service in January 2014. The increase in average daily revenue was primarily attributable to the *Ocean Victory* and *Ocean America*, both of which worked in the first quarter of 2014 at significantly higher dayrates than those earned during the first quarter of 2013.

Contract drilling expense incurred by our deepwater floaters increased $15.5 million during the first quarter of 2014, compared to the same quarter of 2013, primarily due to incremental operating costs for the *Ocean Onyx* ($7.6 million) and costs associated with a five-year survey for the *Ocean Alliance* ($6.5 million).

Mid-Water Floaters. Revenue generated by our mid-water floaters decreased $19.2 million in the first quarter of 2014, compared to the same quarter in 2013, primarily due to the absence of mobilization and contract preparation revenue earned in the first quarter of 2013 in connection with contracts for the *Ocean Lexington* and *Ocean Saratoga* ($31.0 million) combined with the effect of 13 fewer revenue earning days during the first quarter of 2014 ($3.2 million). The reduction in revenue earning days during the first quarter of 2014, compared to the same quarter of the prior year, reflects the net impact of increased downtime associated with the North Sea enhancement project for the *Ocean Patriot* (90 additional days), partially offset by a reduction in planned downtime for surveys and shipyard projects (77 fewer days). These reductions in contract drilling revenue were partially offset by an increase in average daily revenue earned ($15.0 million) during the current year quarter, primarily due to several of our mid-water floaters operating at higher dayrates during the first quarter of 2014, compared to the prior year quarter.

Contract drilling expense decreased $9.6 million in the first quarter of 2014, compared to the prior year quarter, primarily due to reduced operating costs for the *Ocean Patriot* ($6.5 million), which commenced its shipyard project in the fourth quarter of 2013, combined with lower costs for rig repairs and maintenance ($4.3 million) and inspections ($3.7 million), partially offset by higher labor and personnel-related costs ($2.9 million) and mobilization costs ($1.9 million) for the other rigs in our mid-water fleet.

Jack-ups. Contract drilling revenue for our jack-up fleet increased $8.0 million during the first quarter of 2014, compared to the prior year quarter, primarily due to $7.9 million in contract drilling revenue earned by the *Ocean King*, which had been warm stacked in Montenegro, Italy, and did not begin operating in the GOM until the second quarter of 2013. Contract drilling expense decreased $1.6 million in the first quarter of 2014, compared to the same period in 2013, primarily due to the absence of the mobilization costs incurred by the *Ocean King* in the prior year quarter ($4.3 million), partially offset by higher labor and personnel costs incurred by our jack-up fleet ($2.4 million) during the first quarter of 2014.

Liquidity and Capital Resources

We have historically relied principally on our cash flows from operations and cash reserves to meet liquidity needs and fund our cash requirements. In addition, we currently have available a $1.0 billion credit facility to meet our short-term and long-term liquidity needs. See " – Credit Agreement." As of April 23, 2014, our contract drilling backlog was $6.5 billion, of which $2.0 billion is expected to be realized in the last nine months of 2014.

At March 31, 2014 and December 31, 2013, we had cash available for current operations as follows:

	March 31, 2014	December 31, 2013
	(In thousands)	
Cash and equivalents	$ 420,140	$ 347,011
Marketable securities	1,175,135	1,750,053
Total cash available for current operations	$1,595,275	$2,097,064

A substantial portion of our cash flows has been and is expected to continue to be invested in the enhancement of our drilling fleet. We determine the amount of cash required to meet our capital commitments by evaluating our rig construction obligations, the need to upgrade rigs to meet specific customer requirements and our ongoing rig equipment enhancement/replacement programs.

Certain of our international rigs are owned and operated, directly or indirectly, by Diamond Offshore International Limited, or DOIL, and, as a result of our intention to indefinitely reinvest the earnings of DOIL to finance our foreign activities, we do not expect such earnings to be available for distribution to our stockholders or to finance our domestic activities. We expect to utilize the operating cash flows generated by and cash reserves of DOIL and the operating cash flows available to and cash reserves of Diamond Offshore Drilling, Inc. to meet each entity's respective working capital requirements and capital commitments. However, in light of the significant cash requirements of our capital expansion program in 2014 and 2015, we may also make use of our credit facility to finance our capital expenditures, working capital requirements and/or to maintain a certain level of operating cash reserves. In addition, we will make periodic assessments of our capital spending programs based on industry conditions and make adjustments thereto if required. See " — Cash Flow, Capital Expenditures and Contractual Obligations — Contractual Cash Obligations — Rig Construction" and "—Credit Agreement."

We pay dividends at the discretion of our Board of Directors, or Board, and, in recent years, we have a history of paying both regular quarterly and special cash dividends. During the three-month periods ended March 31, 2014 and 2013, we paid regular cash dividends totaling $17.4 million in each period and special cash dividends totaling $105.3 million and $104.9 million, respectively. Our Board has adopted a policy to consider paying special cash dividends, in amounts to be determined, on a quarterly basis. Our Board may, in subsequent quarters, consider paying additional special cash dividends, in amounts to be determined. Any determination to declare a special cash dividend, as well as the amount of any special cash dividend which may be declared, will be based on our financial position, earnings, earnings outlook, capital spending plans and other factors that our Board considers relevant at that time.

On April 23, 2014, we declared a regular cash dividend and a special cash dividend of $0.125 and $0.75, respectively, per share of our common stock. Both the quarterly and special cash dividends are payable on June 2, 2014 to stockholders of record on May 7, 2014.

Depending on market and other conditions, we may, from time to time, purchase shares of our common stock in the open market or otherwise. During the three-month period ended March 31, 2014, we purchased 1,865,311 shares of our common stock at an aggregate cost of $86.4 million. See Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II of this report. We did not purchase any shares of our outstanding common stock during the three-month period ended March 31, 2013. In addition, Loews Corporation, or Loews, has informed us that, depending on market and other conditions, it may, from time to time, purchase shares of our common stock in the open market or otherwise. Loews did not purchase any shares of our outstanding common stock during the three-month periods ended March 31, 2014 or 2013.

During the three-month period ended March 31, 2014, our primary source of cash was an aggregate $303.0 million generated from operating activities and $575.1 million in proceeds, primarily from the maturity of marketable securities, net of purchases. Our primary uses of cash during the same period were $595.3 million towards the construction of new rigs and our ongoing rig equipment enhancement/replacement program, $122.7 million for the payment of dividends and $86.4 million for the repurchase of shares.

During the three-month period ended March 31, 2013, our primary source of cash was an aggregate $276.1 million generated from operating activities. Our primary uses of cash during the same period were $183.7 million towards the construction of new rigs and our ongoing rig equipment enhancement/replacement program and $122.3 million for the payment of dividends.

We 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. Our ability to access the capital markets by issuing debt or equity securities will be dependent on our results of operations, our current financial condition, current market conditions and other factors beyond our control.

Cash Flow, Capital Expenditures and Contractual Obligations

Our cash flow from operations and capital expenditures for the three-month periods ended March 31, 2014 and 2013 were as follows:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Cash flow from operations	$303,015	$276,106
Cash capital expenditures:		
Drillship construction	$426,385	$ 25,927
Construction of deepwater floaters	17,399	133,903
Construction of ultra-deepwater floater	3,715	—
Ocean Patriot enhancement project	13,122	8,224
Rig equipment and replacement programs	134,693	15,665
Total capital expenditures	$595,314	$183,719

Cash Flow

Cash flow from operations increased approximately $26.9 million during the first three months of 2014, compared to the first three months of 2013, primarily due to a $43.5 million increase in cash receipts from contract drilling services and lower cash income taxes paid, net of refunds, of $37.7 million, partially offset by higher cash payments related to contract drilling expenses of $54.3 million.

Capital Expenditures

As of the date of this report, we expect our capital spending for 2014 to aggregate approximately $2.1 billion, of which approximately $1.5 billion, $82.0 million and $184.0 million will be spent on our rig construction projects, the *Ocean Patriot* North Sea enhancement project and a service-life-extension project for the *Ocean Confidence*, respectively. During the first three months of 2014, we incurred $540.0 million in project-related expenditures, including accrued expenditures. See " — Contractual Cash Obligations — Rig Construction." Our 2014 capital spending program also includes an estimated $285.0 million for our ongoing capital maintenance and replacement programs of which $54.3 million had been incurred as of March 31, 2014.

Contractual Cash Obligations—Rig Construction

As of the date of this report, we have six ongoing rig construction/enhancement projects at three shipyards to which we are financially obligated. Four rigs are being constructed in South Korea and two projects are underway in Singapore. See Note 9 "Commitments and Contingencies" to our Consolidated Financial Statements included in Item 1 of Part I of this report for further discussion of these projects.

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The following is a summary of our construction projects as of March 31, 2014, including estimated expenditures to be made during the remaining nine months of 2014:

Project	Expected Delivery (1)	Total Project Cost (2)	Actual Inception-to-Date Project Expenditures (3)	Actual Inception-to-Date Capitalized Interest	Nine Months 2014 (4) (5)
		(In millions)			
New Rig Construction:					
Drillships:					
Ocean BlackHornet	Q2 2014	$ 635	$ 212	$ 28	$ 424
Ocean BlackRhino	Q3 2014	645	197	28	449
Ocean BlackLion	Q1 2015	655	172	18	33
		1,935	581	74	906
Ultra-Deepwater Floater:					
Ocean GreatWhite	Q1 2016	755	191	9	8
Deepwater Floater:					
Ocean Apex	Q3 2014	370	291	11	86
		$3,060	$ 1,063	$ 94	$ 1,000
Enhancement Project:					
Mid-Water Floater *Ocean Patriot*	Q2 2014	$ 120	$ 67	$ —	$ 53

(1) Represents expected delivery date of vessel from shipyard and does not include additional non-operating days for commissioning, contract preparation and mobilization to initial area of operation, which will occur prior to the rig being placed in service.

(2) Total project costs include contractual payments for shipyard construction, commissioning, capital spares and project management costs; amount does not include capitalized interest.

(3) Represents total project expenditures from inception of project to March 31, 2014, excluding project-to-date capitalized interest.

(4) Estimated expenditures for the remaining nine months of 2014, including construction milestone payments, are based on current expected delivery dates for the rigs under construction, and exclude expected capitalized interest costs.

(5) Construction milestone payments expected to be paid in the remainder of 2014 include:

- $47.3 million payable to Jurong Shipyard Pte Ltd. in connection with the construction of the *Ocean Apex*;
- $10.2 million payable to Keppel FELS Limited in connection with the *Ocean Patriot* enhancement project; and
- approximately $390 million payable to Hyundai Heavy Industries Co., Ltd. in each of the second and third quarters of 2014 upon delivery of the *Ocean BlackHornet* and *Ocean BlackRhino*, respectively.

We had no other purchase obligations for major rig upgrades or any other significant obligations at March 31, 2014, except for those related to our direct rig operations, which arise during the normal course of business.

Contractual Cash Obligations—Retirement of Senior Notes

Our 5.15% Senior Notes due September 1, 2014, or 5.15% Senior Notes, in the aggregate principal amount of $250.0 million, will mature on September 1, 2014.

Other Obligations

As of March 31, 2014, we had foreign currency forward exchange, or FOREX, contracts outstanding in the aggregate notional amount of $146.1 million. See further information regarding these contracts in “Quantitative and Qualitative Disclosures About Market Risk – *Foreign Exchange Risk*” in Item 3 of Part I of this report and Note 5 “Derivative Financial Instruments” to our Consolidated Financial Statements in Item 1 of Part I of this report.

As of March 31, 2014, the total unrecognized tax benefits related to uncertain tax positions was $68.7 million. In addition, we have recorded a liability, as of March 31, 2014, for potential penalties and interest of $46.2 million and $13.8 million, respectively. Due to the high degree of uncertainty regarding the timing of future cash outflows associated with the liabilities recognized in these balances, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities.

Credit Agreement

We have available to us a syndicated 5-Year Revolving Credit Agreement, or Credit Agreement, that provides for a $1.0 billion senior unsecured revolving credit facility, for general corporate purposes, maturing on March 17, 2019. The entire amount of the facility is available for revolving loans. Up to $250 million of the facility is available for the issuance of performance or other standby letters of credit and up to $100 million is available for swingline loans. As of March 31, 2014, there were no loans or letters of credit outstanding under the Credit Agreement. See Note 9 “Credit Agreement” to our Consolidated Financial Statements in Item 1 of Part I of this report.

Credit Ratings

Our current credit rating is A3 for Moody’s Investors Services and A for Standard & Poor’s. Although our long-term ratings continue at investment grade levels, lower ratings could result in higher interest rates on future debt issuances.

Other Commercial Commitments—Letters of Credit

We were contingently liable as of March 31, 2014 in the amount of $65.1 million under certain performance, bid, supersedeas and customs bonds and letters of credit. Agreements relating to approximately $60.5 million of performance, supersedeas and customs bonds can require collateral at any time. As of March 31, 2014, we had not been required to make any collateral deposits with respect to these agreements. The remaining agreements cannot require collateral except in events of default. Banks have issued letters of credit on our behalf securing certain of these bonds. The table below provides a list of these obligations in U.S. dollar equivalents and their time to expiration.

		For the Years Ending December 31,		
	Total	2014	2015	Thereafter
	(In thousands)			
Other Commercial Commitments				
Customs bonds	$ 1,519	$ 1,369	$ 150	$ —
Performance bonds	53,763	1,680	20,977	31,106
Other	9,778	9,278	500	—
Total obligations	$65,060	$12,327	$21,627	$ 31,106

Off-Balance Sheet Arrangements

At March 31, 2014 and December 31, 2013, we had no off-balance sheet debt or other arrangements.

Forward-Looking Statements

We or our representatives may, from time to time, either in this report, in periodic press releases or otherwise, make or incorporate by reference certain written or oral statements that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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,” “will be,” “will continue,” “will likely result,” “project,” “forecast,” “budget” and similar expressions. In addition, any statement concerning future financial performance (including, without limitation, future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by or against us, which may be provided by management, are also forward-looking statements as so defined. Statements made by us in this report that contain forward-looking statements include, but are not limited to, information concerning our possible or assumed future results of operations and statements about the following subjects:

- market conditions and the effect of such conditions on our future results of operations;
- uses of and requirements for financial resources;

- interest rate and foreign exchange risk;
- contractual obligations;
- operations outside the United States;
- effects of the Macondo well blowout;
- business strategy;
- growth opportunities;
- competitive position;
- expected financial position;
- cash flows and contract backlog;
- regular or special dividends;
- financing plans;
- market outlook;
- tax planning;
- debt levels and the impact of changes in the credit markets and credit ratings for our debt;
- budgets for capital and other expenditures;
- timing and duration of required regulatory inspections for our drilling rigs;
- timing and cost of completion of rig upgrades, construction projects and other capital projects;
- delivery dates and drilling contracts related to rig conversion or upgrade projects, construction projects, other capital projects or rig acquisitions;
- plans and objectives of management;
- idling drilling rigs or reactivating stacked rigs;
- assets held for sale;
- asset impairment evaluations;
- performance of contracts;
- outcomes of legal proceedings;
- compliance with applicable laws; and
- availability, limits and adequacy of insurance or indemnification.

These types of statements are based on current expectations about future events and inherently are subject to a variety of assumptions, risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those expected, projected or expressed in forward-looking statements. These risks and uncertainties include, among others, the following:

- those described under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013;
- 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 various governments regarding exploration and development of oil and gas reserves;
- our inability to obtain contracts for our rigs that do not have contracts;
- the cancellation of contracts included in our reported contract backlog;
- advances in exploration and development technology;
- the worldwide political and military environment, including, for example, in oil-producing regions and locations where our rigs are operating or where we have rigs under construction;
- casualty losses;
- operating hazards inherent in drilling for oil and gas offshore;
- the risk of physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico;
- industry fleet capacity, including, without limitation, construction of new drilling rig capacity in Brazil;
- market conditions in the offshore contract drilling industry, including, without limitation, 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 seizure, expropriation, nationalization, deprivation, malicious damage or other loss of possession or use of equipment and assets;
- risks of potential contractual liabilities pursuant to our various drilling contracts in effect from time to time;
- the ability of customers and suppliers to meet their obligations to us and our subsidiaries;
- the risk that a letter of intent may not result in a definitive agreement;
- 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 including, without limitation, regulations pertaining to climate change, greenhouse gases, carbon emissions or energy use;
- compliance with and liability under environmental laws and regulations;
- potential changes in accounting policies by the Financial Accounting Standards Board, the Securities and Exchange Commission, or SEC, or regulatory agencies for our industry which may cause us to revise our financial accounting and/or disclosures in the future, and which may change the way analysts measure our business or financial performance;
- development and exploitation of alternative fuels;
- customer preferences;
- effects of litigation, tax audits and contingencies and the impact of compliance with judicial rulings and jury verdicts;
- cost, availability, limits and adequacy of insurance;
- invalidity of assumptions used in the design of our controls and procedures;
- the results of financing efforts;
- the risk that future regular or special dividends may not be declared;
- adequacy of our sources of liquidity;
- risks resulting from our indebtedness;
- public health threats;
- negative publicity;
- impairments of assets;
- the availability of qualified personnel to operate and service our drilling rigs; and
- various other matters, many of which are beyond our control.

The risks and uncertainties included here are not exhaustive. Other sections of this report and our other filings with the SEC include additional factors that could adversely affect our 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. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in our expectations or beliefs with regard to the statement 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.

Our measure of market risk exposure represents an estimate of the change in fair value of our financial instruments. Market risk exposure is presented for each class of financial instrument held by us at March 31, 2014 and December 31, 2013, assuming immediate adverse market movements of the magnitude described below. We believe 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 our investment portfolio is subject to change based on our portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results that may occur.

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

Interest Rate Risk

We have exposure to interest rate risk arising from changes in the level or volatility of interest rates. Our investments in marketable securities are primarily in fixed maturity securities. We monitor our sensitivity to interest rate risk by evaluating the change in the value of our 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 our investments and the resulting effect on stockholders' equity. The analysis presents the sensitivity of the market value of our financial instruments to selected changes in market rates and prices which we believe are reasonably possible over a one-year period.

The sensitivity analysis estimates the change in the market value of our interest sensitive assets and liabilities that were held on March 31, 2014 and December 31, 2013, 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 in market interest rates on our earnings or stockholders' equity. Further, the computations do not contemplate any actions we could undertake in response to changes in interest rates.

Our long-term debt is denominated in U.S. dollars. Our existing debt has been 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 $218.1 million and $221.5 million as of March 31, 2014 and December 31, 2013, respectively. A 100-basis point decrease would result in an increase in market value of $261.3 million and $264.5 million as of March 31, 2014 and December 31, 2013, 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. It is customary for us to enter into FOREX contracts in the normal course of business. These contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date, which, for most of our contracts, is the average spot rate for the contract period. As of March 31, 2014, we had FOREX contracts outstanding in the aggregate notional amount of $146.1 million, consisting of $11.6 million in Australian dollars, $71.5 million in Brazilian reais, $32.3 million in British pounds sterling, $24.3 million in Mexican pesos and $6.4 million in Norwegian kroner. These contracts generally settle monthly through December 2014.

At March 31, 2014, we presented the fair value of our outstanding FOREX contracts as a current asset of $4.6 million in "Prepaid expenses and other current assets" and a current liability of $(6,429) in "Accrued liabilities" in our Consolidated Balance Sheets. At December 31, 2013, we presented the fair value of our outstanding FOREX contracts as a current asset of $1.6 million in "Prepaid expenses and other current assets" and a current liability of $(1.1) million in "Accrued liabilities" in our Consolidated Balance Sheets.

The following table presents our exposure to market risk by category (interest rates and foreign currency exchange rates):

	Fair Value Asset (Liability)		Market Risk	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
	(In thousands)			
Interest rate:				
Marketable securities	$1,175,100(a)	$ 1,750,100(a)	$ (1,150)(b)	$ (2,200)(b)
Foreign Exchange:				
FOREX contracts – receivable positions	4,600(c)	1,600(c)	(26,100)(d)	(4,200)(d)
FOREX contracts – liability positions	(6)(c)	(1,100)(c)	(500)(d)	(16,000)(d)

(a) The fair market value of our investment in marketable securities, excluding repurchase agreements, is based on the quoted closing market prices on March 31, 2014 and December 31, 2013.

(b) 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 March 31, 2014 and December 31, 2013.

(c) The fair value of our FOREX contracts is based on both quoted market prices and valuations derived from pricing models on March 31, 2014 and December 31, 2013.

(d) The calculation of estimated foreign exchange risk assumes an instantaneous 20% decrease in the foreign currency exchange rates versus the U.S. dollar from their values at March 31, 2014 and December 31, 2013, with all other variables held constant.

ITEM 4. Controls and Procedures.

We maintain a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by us in reports that we file or submit under the federal securities laws, including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us under the federal securities laws is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure.

Our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2014. Based on their participation in that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2014.

There were no changes in our internal control over financial reporting identified in connection with the foregoing evaluation that occurred during our first fiscal quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Items 2(a) and 2(b) are inapplicable.

(c) The following table sets forth information regarding our purchases of shares of our common stock on a monthly basis during the first quarter of 2014:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2014 through January 31, 2014	—	—	N/A	N/A
February 1, 2014 through February 28, 2014	956,108	$ 47.37	N/A	N/A
March 1, 2014 through March 31, 2014	909,203	$ 45.13	N/A	N/A
	1,865,311(a)	$ 46.28	N/A	N/A

(a) As previously disclosed, depending on market and other conditions, we may, from time to time, purchase shares of our common stock in the open market or otherwise. During the three months ended March 31, 2014, we purchased 1,865,311 shares of our common stock in open-market transactions, none of which shares were purchased pursuant to a publicly announced share repurchase program.

ITEM 6. Exhibits.

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

SIGNATURES

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

DIAMOND OFFSHORE DRILLING, INC.
(Registrant)

Date April 30, 2014	By: \s\ Gary T. Krenek Gary T. Krenek Senior Vice President and Chief Financial Officer
Date April 30, 2014	\s\ Beth G. Gordon Beth G. Gordon Controller (Chief Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Diamond Offshore Drilling, Inc. (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003) (SEC File No. 1-13926).
3.2	Amended and Restated By-laws (as amended through October 4, 2013) of Diamond Offshore Drilling, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed October 8, 2013).
10.1*	Employment Agreement, dated as of February 12, 2014, between Diamond Offshore Drilling, Inc. and Marc Edwards.
10.2*	Commitment Increase and Amendment No. 2 to Credit Agreement, dated as of March 17, 2014, among Diamond Offshore Drilling, Inc., Wells Fargo Bank, National Association, as an issuing bank, as swingline lender and as administrative agent for the lenders, and the lenders named therein.
10.3	The Diamond Offshore Drilling, Inc. Incentive Compensation Plan for Executive Officers (as Amended and Restated as of March 28, 2014) (incorporated by reference to Exhibit A attached to our definitive proxy statement on Schedule 14A filed April 1, 2014).
10.4	Diamond Offshore Drilling, Inc. Equity Incentive Compensation Plan (incorporated by reference to Exhibit B attached to our definitive proxy statement on Schedule 14A filed April 1, 2014).
10.5*	Form of Award Certificate for grants of Performance Restricted Stock Units under the Equity Incentive Compensation Plan.
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 and Chief Financial Officer.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Label Linkbase Document.
101.PRE**	XBRL Presentation Linkbase Document.
101.DEF**	XBRL Definition Linkbase Document.

* Filed or furnished herewith.

** The documents formatted in XBRL (Extensible Business Reporting Language) and attached as Exhibit 101 to this report are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act, and otherwise, not subject to liability under these sections.

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (together with its Exhibits, this "**Agreement**") is made as of the 12th day of February, 2014 (the "**Signing Date**"), by and between Diamond Offshore Drilling, Inc., a Delaware corporation (together with its successors and assigns, the "**Company**"), and Marc Edwards (the "**Executive,**" and, together with the Company, a "**Party**");

W I T N E S S E T H:

WHEREAS, the Company wishes to employ the Executive as the President and Chief Executive Officer of the Company and to retain the Executive to serve as a member of the Company's Board of Directors (the "**Board**") and the Executive wishes to accept, as of the Commencement Date, and agrees to such employment and service under the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises and the promises and covenants herein, the Parties agree as follows:

1. **Employment Term**. The Company shall employ the Executive under this Agreement, and the Executive shall accept such employment, for the Term. The "Term" shall commence on March 3, 2014 (the "**Commencement Date**") and shall end on December 31, 2016, subject to renewals thereafter, if any, upon mutual written agreement by the Parties. Notwithstanding the foregoing, the Executive's employment hereunder, and the Term, may be terminated at any time in accordance with Section 6 below.

2. **Duties of the Executive and Place of Business**.

   (a) Throughout the Term, the Executive shall serve as the President and Chief Executive Officer of the Company and shall be nominated by the Company to serve as a member of the Board and shall serve as a member of the Board if elected to such position, as is the intention of the Parties. The Board shall appoint the Executive as a director effective as of the Commencement Date. Throughout the Term, the Executive shall also serve as the Chief Executive Officer of such other subsidiaries of the Company as the Board may require. As the President and Chief Executive Officer of the Company, the Executive shall have all authorities, duties and responsibilities customarily exercised by an individual serving in that position at an entity of the size and nature of the Company and shall have such additional duties and responsibilities, consistent with the foregoing, as may be from time to time reasonably be assigned to him by the Board; and shall report solely and directly to the Company's Board.

(b) Throughout the Term, the Executive shall diligently and to the best of his abilities assume, perform, and discharge his duties and responsibilities hereunder as a member of the Board and the President and Chief Executive Officer of the Company; and shall devote substantially all of his business time and effort to the business and affairs of the Company and its subsidiaries. However, nothing in this Agreement shall preclude the Executive from: (i) engaging in civic, charitable or community services or (ii) devoting a reasonable amount of time to private investments and personal affairs, so long as such activities or services do not interfere with the Executive's responsibilities to the Company.

(c) The Executive shall maintain a residence in the Houston, Texas metropolitan area during the Term. The Executive's principal place of business shall be at the Company's headquarters in the Houston, Texas metropolitan area.

3. Compensation.

(a) During the Term, the Company shall pay the Executive an annualized base salary of $1,000,000.00 (the "**Base Salary**"). The Base Salary shall be paid in accordance with the regular payroll practices applicable to senior executives of the Company generally, but no less frequently than monthly. The Base Salary shall not be decreased without the Executive's prior written consent.

(b) (i) For each calendar year (a "**Performance Year**") during the Term, the Executive shall be entitled to receive an annual incentive cash award (an "**Annual Bonus**") under the Company's Incentive Compensation Plan for Executive Officers (the "**Plan**") as set forth in this Section 3(b). The Executive's Annual Bonus shall be based upon attainment of EBITDA goals to be set annually by the Compensation Committee of the Board (the "**Compensation Committee**"), which for 2014 shall be on terms no less favorable than those established for other executives under the Plan and which, for subsequent years, will be established in consultation with the Executive (subject to adjustment in accordance with the Plan).

(ii) Subject to Section 3(b)(iii), for each full Performance Year during the Term, the Executive's threshold Annual Bonus (paid upon attainment of 50% of target) shall be $500,000, his target Annual Bonus (paid upon attainment of 100% of target) shall be $1,500,000, and his maximum Annual Bonus (paid upon attainment of 150% or more of target) shall be $2,500,000. Linear interpolation shall be applied to determine payments in the event of performance falling between the levels stated in the prior sentence. Attainment of less than 50% of target will result in no Annual Bonus payment unless otherwise determined by the Compensation Committee. The Compensation Committee may exercise negative discretion under the Plan to decrease or eliminate any portion of the Executive's Annual Bonus for any Performance Year. The Executive's target Annual Bonus will not be decreased without the prior written approval of the Executive.

(iii) The amount of the Executive's Annual Bonus for 2014 shall (to the extent earned) be pro-rated for the portion of 2014 during which the Executive is employed by the Company. Notwithstanding anything in this Section 3(b) to the contrary, Annual Bonus amounts earned for any year that are in excess of $1,000,000 shall be subject to shareholder approval of an amendment to the Plan to increase the Plan's maximum permissible award, which the Company shall adopt and submit to shareholders for approval at the Company's 2014 annual meeting. If shareholder approval is not obtained, the Company will seek to obtain shareholder approval of a different form of compensation to compensate the Executive for any portion of the Annual Bonus for 2014 (and for any subsequent years) that is not paid because such shareholder approval was not so obtained.

(iv) Annual Bonus payments shall be made to the Executive in cash no later than corresponding bonus payments are made to senior executive officers of the Company generally, and in no event later than 70 days after the end of the Performance Year to which they relate.

(c) (i) Each calendar year during the Term, the Executive shall be granted restricted stock units ("**RSUs**") with respect to the common stock of the Company having a target grant date value of not less than $3,000,000. The grant date value of the RSUs granted in 2014 will be determined based upon the volume weighted average price of the Company's common stock on the New York Stock Exchange ("**VWAP**") during the ten (10) trading days immediately preceding the Commencement Date and will for subsequent years be determined in accordance with the applicable

Company plan document. The first grant (the "**Initial RSU Grant**") shall be made on the Commencement Date and the value of such grant shall be pro-rated for the portion of 2014 during which the Executive is to be employed by the Company. The Executive shall be given a reasonable period of time to review and comment upon the grant agreement for the initial RSU grant. All grants of RSUs described in this Section 3(c) shall be subject to shareholder approval of a new equity compensation plan, which the Company shall adopt and submit to shareholders for approval at the Company's 2014 annual meeting. If shareholder approval is not obtained, the Company will seek to obtain shareholder approval of a different form of compensation to compensate Executive for any portion of the RSU grants that are not made because such shareholder approval was not obtained.

(ii) The performance component (or "earn-out") of each grant of RSUs described in this Section 3(c) shall be subject to achievement of applicable performance goals (including strategic goals) to be set by the Compensation Committee, in consultation with the Executive. For the grant made in 2014, the performance goals will be based on performance in 2014. For grants made in 2015 and each subsequent year, the performance goals will be based on a multi-year plan based on long-term strategic plan goals that shall be presented by the Executive for approval by the Compensation Committee. The level of performance against such goals shall govern the earn-out of the applicable RSU award based on the schedule in the table below. Linear interpolation shall be applied to determine payments in the event of performance falling between the levels stated in the table below.

% of Goal Achievement	RSUs Earned (based on grant date value)
>50% (threshold)	$ 2.0M
100% (target)	$ 3.0M
150% (maximum)	$ 4.0M

Attainment of less than 50% of the goal will result in no RSUs being earned unless otherwise determined by the Compensation Committee. Notwithstanding the foregoing, the Compensation Committee may exercise negative discretion under the new equity compensation plan to decrease or eliminate any portion of the RSU award.

(iii) To the extent earned under paragraph (ii) above, the Initial RSU Grant shall vest (and thus become non-forfeitable) in equal installments on each of the first three anniversaries of the date of grant, provided that the Executive is employed by the Company on such date, except as otherwise provided in this Agreement. RSUs granted for 2015 and subsequent years will vest as provided in the multi-year plan referenced in Section 3(c)(ii) but in no event over a period longer than four years from the date of grant or such earlier period consistent with the vesting schedule generally applicable to other senior executives of the Company. All RSUs shall be settled in common stock of the Company within thirty (30) days after the later of the date of determination of earn-out or date of vesting.

(iv) All rights with regard to unvested RSUs (including RSUs that have not yet been earned) shall, except to the extent otherwise provided in Section 6 or pursuant to the terms of the applicable Company plan under which the RSUs are granted, terminate upon termination of the Executive's employment with the Company.

(v) Upon the Company's payment of a cash dividend or stock dividend (to the extent, under the applicable plan or RSU agreement terms, such stock dividend does not result in an adjustment to the number of RSUs awarded) in respect of its outstanding Company common stock, the Executive shall be credited with a number of additional RSUs in respect of RSUs outstanding on the record date for such dividend, with such number of additional RSUs to equal the aggregate dividend payable with respect to the shares subject to the RSUs with respect to which the dividend is paid, divided by the VWAP for the ten (10) trading days immediately preceding the dividend record date, rounded down to the nearest whole share. Such additional RSUs shall vest on the same schedule as the original RSU grant to which the additional RSUs are attributable.

(d) All payments due to the Executive under this Agreement shall be subject to withholding as required by law or as authorized by the Executive in writing.

(e) It is the Parties' intention that all payments, benefits and entitlements received by the Executive under this Agreement and any agreement providing for the grant of RSUs ("**RSU Agreement**") be provided in a manner that does not impose any additional taxes, interest or penalties on the Executive with respect to such payments, benefits and entitlements under Section 409A of the Code, and its implementing regulations ("**Section 409A**"), and the provisions of this Agreement and any RSU Agreement shall be construed and administered in accordance with such intent. Each of the Parties has used, and will continue to use, its best reasonable efforts to avoid the imposition of such additional taxes, interest or penalties, and the Parties agree to work together in good faith to amend this Agreement, and to structure any payment, benefit or other entitlement received by the Executive, in a manner that avoids imposition of such additional taxes, interest or penalties while preserving the affected payment, benefit or entitlement to the maximum extent practicable and maintaining the basic financial provisions of this Agreement without violating any applicable requirement of Section 409A. For purposes of this Agreement, "**Code**" shall mean the Internal Revenue Code of 1986, as amended, and any reference to a particular section of the Code shall include any provision that modifies, replaces or supersedes such section.

(f) The Company intends to structure and administer all awards to the Executive under Section 3(b) and 3(c) hereof in such a manner as to preserve deductibility under Section 162(m) of the Code, provided that the Company does not intend to adversely affect the Executive's rights hereunder.

4. **Other Benefits**. During the Term, the Executive shall be entitled to participate in all benefit and perquisite plans, programs and arrangements of the Company that are made available to senior executives of the Company generally, in each case on terms and conditions no less favorable to the Executive than those that apply to other senior executives of the Company generally. The Executive's entitlement to participate in any such plan, program or arrangement and the benefits provided thereunder shall, in each case, be subject to the terms and conditions of such plan, program or arrangement that apply to senior executives of the Company generally and nothing in this Agreement shall restrict the Company's ability to amend or terminate any plan, program or arrangement. The Executive acknowledges that, unless otherwise determined by the Compensation Committee, he will not be receiving any grants of stock appreciation rights from the Company in connection with his employment.

5. **Expense Reimbursement**. The Executive shall be entitled to prompt reimbursement by the Company for all reasonable and customary travel and other business expenses he incurs in connection with carrying out his duties under this Agreement, in accordance with the general travel and business reimbursement policies then applying to senior executives of the Company generally except that, without regard to such policies as may then be in effect, international air travel shall be by first class compartment. The Executive shall report all such expenditures not less frequently than monthly, accompanied by adequate records and such other documentary evidence as required by the Company or by Federal or state tax statutes or regulations governing the substantiation of such expenditures.

6. Termination of Employment

6.1 Death and Disability

(a) In the event that the Executive's employment hereunder terminates due to his death or Permanent Disability (as defined below), the Term shall expire, and he shall be entitled to the following:

(i) Full vesting, as of the date the Executive's employment terminates (the "**Termination Date**"), of all outstanding RSUs with respect to which the applicable performance goals have been attained (and which were subject only to the continued employment requirement at the Termination Date).

(ii) Pro-rata vesting (based on the portion of the year which has elapsed as of the Termination Date), of those RSUs outstanding and subject to the attainment of performance goals at the Termination Date, subject to and based upon the attainment of the applicable performance goals.

(iii) Pro-rata payment of the Annual Bonus as if there had been achievement of 100% of the target as specified in Section 3(b)(iii) hereof.

(iv) The benefits described in Section 6.6 below.

(b) For purposes of this Agreement, the term "**Permanent Disability**" shall mean that the Executive has been unable, due to physical or mental incapacity, to substantially perform his duties and responsibilities under this Agreement for 90 days out of any 180 consecutive days.

6.2 Termination for Cause by the Company.

(a) The Company may terminate the Executive's employment hereunder for Cause. Prior to any such termination of employment for Cause, the Company shall provide the Executive with written notice of termination for Cause (a "**Notice of Termination**"). Prior to a termination of employment for Cause, the Executive shall be provided with an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive). A termination of employment for Cause shall require a resolution duly adopted by the Board finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause provided in Section 6.2(c) hereof.

(b) In the event that the Executive's employment hereunder is terminated for Cause in accordance with Section 6.2(a), the Term shall expire and he shall be entitled only to the benefits described in Section 6.6.

(c) For purposes of this Agreement, "**Cause**" shall mean that: (i) the Executive is convicted of, or pleads guilty or <u>nolo contendere</u> to, a felony, (ii) the Executive engages in conduct that constitutes either (x) a material and willful breach of this Agreement, (y) willful, or reckless, material misconduct in the performance of the Executive's duties under this Agreement, or (z) willful, habitual neglect of the Executive's material duties under this Agreement; <u>provided</u>, however, that for purposes of clauses (ii)(y) and (ii)(z) of this paragraph, Cause shall not include any act or omission believed by the Executive in good faith to have been in or not opposed to the interest of the Company (without any intent by the Executive to gain, directly or indirectly, a profit to which he is not legally entitled).

6.3 Termination by the Company Without Cause / Termination by the Executive for Good Reason.

(a) In the event that the Executive's employment hereunder is terminated during the Term (x) by the Company <u>other</u> <u>than</u> for Permanent Disability in accordance with Section 6.1 or for Cause in accordance with Section 6.2 or (y) by the Executive with Good Reason in accordance with Section 6.3(b) (and within thirty (30) days following the expiration of the cure period set forth in Section 6.3(b)), the Term shall expire and the Company shall provide the Executive with the following (in lieu of separation payments under any other Company severance plan, policy or arrangement):

(i) A pro-rata Annual Bonus for the year in which the Termination Date occurs (based upon the portion of the year in which the Executive was employed by the Company), based on actual performance for the year in which the Termination Date occurs, as approved and certified by the Compensation Committee, paid on the date that it would have been paid if the Executive's employment hereunder had not terminated.

(ii) Separation payments at a rate of $208,333 per month, commencing with the month following the month in which the "Revocation Period" as defined in the release referred to in Section 6.3(c) ends (and thereafter on the first Company payroll date of each month), but subject to deferral as provided in Section 6.3(c) and Section 6.7 hereof, with such termination payments to be made in substantially equal installments, not less frequently than monthly, through the end of the then scheduled Term; provided, however, that such payments shall be made for a period of no less than twelve (12) months and no more than twenty-four (24) months.

(iii) Continued eligibility for vesting of those RSUs outstanding and subject to the attainment of performance goals at the Termination Date, subject to and based upon the attainment of the applicable performance goals, and full vesting of any RSUs with respect to which the applicable performance goals have been attained and which are subject only to time-vesting requirements as of the Termination Date.

(iv) The Executive and his dependents shall be entitled to continued participation (at the Company's expense), for a period of twenty four (24) months following the Termination Date (which shall be concurrent with any health care continuation benefits under COBRA), in the group medical plan of the Company in which they were participating as of such date.

(v) The Company shall, at its sole expense as incurred, provide the Executive with customary outplacement services commensurate with Executive's position but in no event shall the provision of such services exceed twelve (12) months or $25,000.

(vi) The benefits described in Sections 6.1(a)(i), 6.1(a)(ii) and 6.6.

(b) "**Good Reason**" shall mean the occurrence of any of the following events, without the Executive's prior written consent and without cure by the Company within thirty (30) days after the Executive gives notice of such event to the

Company requesting cure, such notice to be given within ninety (90) days after the Executive learns that such event has occurred: (i) the assignment to the Executive of duties that are materially inconsistent with his position (including his status, offices, titles and reporting relationships), authority, duties or responsibilities, all as in effect on the Commencement Date, (ii) actions by the Company that have resulted in a substantial diminution in his position, authority, duties or responsibilities as compared to his position, authority, duties or responsibilities at the Commencement Date; (iii) a substantial breach by the Company of any material obligation to the Executive, under this Agreement; (iv) any failure to elect or appoint the Executive as President and Chief Executive Officer of the Company or to maintain him in such position throughout the Term; (v) any reduction in Base Salary or target Annual Bonus opportunity from the amounts set forth in Sections 3(a) and 3(b) hereof, (vi) any failure by the Company to nominate the Executive as a director at each election during the Term in which his board seat is up for election or reelection as applicable; or (vii) any failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the business or assets of the Company within fifteen (15) calendar days after a merger, consolidation, sale or similar transaction.

(c) Upon termination of his employment hereunder in a termination governed by this Section 6.3, the Executive shall be entitled to the benefits described in Section 6.3(a), but only if, except in the case of benefits described in Section 6.6, he executes, and delivers to the Company within 21 days after the Termination Date, a Release substantially in the form attached hereto as Exhibit A, which Release he does not revoke during the "Revocation Period" as defined in such Release.

6.4 Voluntary Resignation by the Executive. In the event that the Executive terminates his employment hereunder prior to the then-scheduled expiration of the Term, other than in a termination governed by Section 6.1 or 6.3, the Term shall expire and he shall be entitled only to the benefits described in Section 6.6 .

6.5 Expiration of Term. Upon the expiration of the Term on December 31, 2016 (or on such later expiration date as the Parties may have agreed upon in accordance with Section 1), the Executive's employment with the Company hereunder shall terminate and the Executive shall be entitled to the benefits described in Section 6.6.

6.6 Any Termination of Employment.

(a) Upon any termination of the Executive's employment hereunder, the Company shall provide the Executive:

(i) Unpaid Base Salary through the Termination Date paid no later than the next following payment date in accordance with the Company's normal payroll payment practices.

(ii) The balance of any unpaid Annual Bonus in respect of any Performance Year that ended on or before the Termination Date, paid on the date that it would have been paid if the Executive's employment hereunder had not terminated (or, if such date has already passed, as soon as practicable following the Termination Date).

(iii) Other or additional benefits in accordance with the then applicable terms of any applicable Company Arrangement, provided that this shall not result in a duplication of benefits or payments to the Executive or his beneficiaries, as the case may be.

(b) For purposes of this Agreement, "**Company Arrangement**" shall mean any plan, program, corporate governance document, policy, agreement or other arrangement of the Company or any of its subsidiaries.

(c) Upon any termination of his employment hereunder, the Executive shall be deemed to have resigned from all offices, and Board memberships, that he holds pursuant to this Agreement, and the Executive shall promptly execute any documents reasonably requested by the Company to evidence or effectuate such resignation.

(d) Upon any termination of employment hereunder, Executive shall continue to be bound by the covenants set forth herein at Sections 7 through 13 (and the other related provisions of this Agreement) subsequent to the date of such termination for such periods of time as provided for in said Sections respectively.

(e) No Mitigation; No Offset. In the event of any termination of the Executive's employment hereunder, the Executive shall be under no obligation to seek other employment or otherwise mitigate the obligations of the Company under this Agreement or otherwise, and there shall be no offset against amounts or benefits due the Executive under this Agreement or otherwise on account of (x) any Claim that the Company or its affiliates may have against him or (y) any remuneration or other benefit earned or received by the Executive after such termination. For purposes of this Agreement, "Claim" shall mean any claim, demand, request, investigation, dispute, controversy, threat, discovery request, or request for testimony or information.

6.7 Section 409A. All payments to be made to the Executive hereunder, to the extent they constitute a deferral of compensation subject to the requirements of Section 409A (after taking into account all exclusions applicable to such payments under Section 409A), shall be made no later, and shall not be made any earlier, than at the time or times specified herein for such payments to be made, except as otherwise permitted or required under Section 409A. The date of the Executive's "separation from service", as defined in Section 409A (and as determined by applying the default presumptions in Treas. Reg. §1.409A-1(h)(1)(ii)), shall be treated as the date of the Executive's termination of employment for purposes of determining the time of payment of any amount that becomes payable to the Executive hereunder upon the Executive's termination of employment and that is properly treated as a deferral of compensation subject to Section 409A after taking into account all exclusions applicable to such payment under Section 409A. In addition, no such payment or distribution of deferred compensation shall be made to the Executive prior to the earlier of (a) the expiration of the six (6) month period measured from the date of the Executive's "separation from service", or (b) the date of the Executive's death, if the Executive is deemed at the time of such separation from service to be a "specified employee" within the meaning of Section 409A and if such delayed commencement is otherwise required to avoid additional tax under Section 409A(a)(2) of the Code. All payments and benefits that are delayed pursuant to the immediately preceding sentence shall be paid to the Executive in a lump sum upon the first business day immediately following the earlier of (x) the expiration of such six (6) month period or (y) the Executive's date of death, without interest. Each individual installment payment that becomes payable under this Agreement, including each payment under Section 6.3(a)(ii), shall be treated as a right to receive a series of "separate payments" for purposes of Section 409A and Treasury Reg. §1.409A-2(b)(2)(iii). To the extent that the payment or reimbursement of any expense or the provision of any in-kind benefits under this Agreement would be considered deferred compensation under Section 409A (after taking into account all exclusions applicable to such reimbursements and benefits under Section 409A): (i) the payment or reimbursement of such expenses or the provision of in-kind benefits in one of the Executive's taxable years shall not affect the payment or reimbursement of any expense or payment of in-kind benefits in any other taxable year of the Executive; (ii) any payment or reimbursement for expenses under this Agreement shall be made in accordance with the Company's applicable plans and policies as soon as soon as administratively practicable after such expense has been incurred, but in any event on or before the last day of the Executive's taxable year following the taxable year in which the expense was incurred; and (iii) any such payment or reimbursement or in-kind benefit may not be liquidated or exchanged for any other benefit.

7. **Confidentiality**. The Executive agrees that, during the Term and at all times thereafter, he shall not reveal or utilize Confidential Information (as defined in this Agreement) that he acquired during the course of or as a result of his employment with the Company and that relates to (x) the Company and any of its subsidiaries or (y) the Company's and its subsidiaries, customers, employees, agents and vendors. The Executive acknowledges that all such Confidential Information is commercially valuable and is the property of the Company. Upon the termination of his employment hereunder, the Executive shall immediately return all such Confidential Information to the Company, whether it exists in written, electronic, computerized or other form. Notwithstanding anything elsewhere to the contrary, the Executive (a) may disclose Confidential Information (i) to the Company and its subsidiaries and affiliates, or to any authorized agent or representative of any of them, (ii) in confidence to any attorney or accountant actually retained by Executive for the purpose of securing professional advice (but not the Company's privileged information), or (iii) when required to do so by law or by a court, governmental agency, legislative body, arbitrator or other Person with jurisdiction to order him to divulge, disclose or make accessible such information, and (b) may disclose or use Confidential Information (i) with the Company's prior written consent, (ii) in connection with performing his duties hereunder or (iii) in connection with any Proceeding under Section 14 or 21. In the event that the Executive is required to disclose any Confidential Information pursuant to clause (a)(iii) or (b)(iii) of the immediately preceding sentence, he shall (A) promptly give the Company advance notice that such disclosure may be made and (B) not oppose and affirmatively cooperate with the Company, at its reasonable request and sole expense, in seeking to protect the confidentiality of the Confidential Information.For purposes of this Agreement "**Confidential Information**" shall mean information, knowledge or data (whether or not a trade secret or protected by laws pertaining to intellectual property and including, without limitation, information relating to data, finances, marketing, pricing, profit margins, claims, legal matters, loss control, marketing and business plans, software, processing, vendors, administrators, customers or prospective customers, products, brokers and employees), other than information, knowledge or data that (x) has previously been disclosed to the public, or is in the public domain, other than as a result of the Executive's breach of this Section 7, or (y) is known or generally available to the public.

8. **Competition**. The Executive hereby agrees that, during the Term and for 12 months thereafter, he will not, directly or indirectly, perform services for, prepare or take steps to prepare to perform services for, or otherwise have any involvement with (other than in connection with performing services hereunder), in each case, whether as an officer, director, partner, consultant, security holder, owner, employee, independent contractor or otherwise, any Person that competes (whether directly or indirectly) with the Company or its subsidiaries in the Business in the world as of the Termination Date (any such Person, a "**Competitor**"); provided, however, that the Executive may in any event own up to a 2% passive ownership interest in any public entity or through a private, non-operating

investment vehicle and may become employed by or otherwise affiliated with a Competitor if the Executive works in a business unit thereof that does not compete with the Company or any subsidiary in connection with the Business and he does not communicate about the Business with any employee in a business unit of such Competitor that does so compete with the Company or any of its subsidiaries. For purposes of this Agreement, the term “Business” shall mean the offshore oil and gas drilling business. Upon the written request of the Executive, the Board will reasonably determine whether a business or other entity constitutes a “Competitor” for purposes of this Section 8; provided that the Board may require the Executive to provide such information as the Board reasonably determines to be necessary to make such determination; and provided, further that the current and continuing effectiveness of such determination may be conditioned upon the accuracy of such information, and upon such other factors as the Board may reasonably determine.

9. **Solicitation/Hire**. The Executive agrees that, during the Term and for 24 months thereafter, he will not, directly or indirectly, (a) solicit any individual (other than his own personal assistant) who is then an employee of the Company or any of its subsidiaries to terminate such employee’s employment with the Company or its subsidiaries or to accept employment elsewhere, other than in connection with terminating, or altering, the employment of such employee in connection with performing services hereunder, or (b) hire or offer to hire any such employee. Notwithstanding the foregoing, if the Executive places general advertisements seeking to hire individuals and such advertisements are not targeted at employees of the Company or its subsidiaries, such placement of advertisements, by itself, shall not be treated as a solicitation under this Section 9.

10. **Non-interference**. The Executive agrees that, during the Term and for 24 months thereafter, he will not, directly or indirectly, other than in connection with performing services hereunder and in the interest of the Company, (a) solicit any Person that to his knowledge had a business relationship with the Company or its subsidiaries or from which the Company or any subsidiary solicited business, in either case, at any time during the 12-month period preceding the Termination Date to terminate, reduce or adversely change any such business relationship, or (b) conduct business with any such Person on behalf of himself or any third party to the extent that such business relates to the Business of the Company or any of its subsidiaries.

11. **Return of Materials**. The Executive shall, at any time upon the written request of a duly authorized officer of the Company, and in any event immediately following the Termination Date, return and surrender to the Company all property of the Company, including but not limited to originals and all copies, regardless of medium, of property belonging to the Company created or obtained by the Executive as a result of or in the course of or in connection with his employment with the Company regardless of whether such items constitute proprietary information; provided, however, that the Executive shall be under no obligation to return written materials acquired from third parties that are generally available to the public. Notwithstanding anything to the contrary in this Agreement or elsewhere, the Executive shall be entitled to retain: (i) his home computer, (ii) papers and other materials of a personal nature, including, but not limited to, photographs, correspondence, personal diaries, calendars and Rolodexes, personal files and phone books (including information on personal and professional contacts in whatever form maintained), (iii) information relating to his compensation or to reimbursement of expenses, (iv) information that he reasonably believes may be needed for tax purposes, and (v) any other documents or information that relate to his personal entitlements or obligations.

12. Non-Disparagement. The Executive agrees that he shall not make any public statement at any time during or after the Term that disparages the Company, its subsidiaries or affiliates, or any of their respective officers or directors. Notwithstanding the foregoing, nothing in this Agreement or elsewhere shall prevent the Executive from making any truthful statement to the extent (i) reasonably necessary in connection with any litigation, arbitration or mediation, (ii) required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with apparent jurisdiction to order such Person to disclose or make accessible such information or (iii) reasonably necessary to respond publicly to an incorrect or disparaging public statement made by the Company or its subsidiaries or by any officer or director thereof.

13. Scope of Covenants.

(a) The Executive acknowledges that: (i) as a senior executive of the Company, he will have access to confidential information concerning the entire range of businesses in which the Company and its subsidiaries were and are engaged; (ii) that the Company's and its subsidiaries' businesses are conducted world-wide; and (iii) that the Company's and its subsidiaries' confidential information, if disclosed or utilized without its authorization, would irreparably harm the Company and its subsidiaries in: (1) selling new business; (2) maintaining and establishing existing and new relationships with employees, agents, brokers and vendors; and (3) other ways arising out of the conduct of the businesses in which the Company and its subsidiaries are engaged.

(b) To protect such information and such existing and prospective relationships, and for other significant business reasons, the Executive agrees that it is reasonable and necessary that: (i) the scope of this Agreement be world-wide; (ii) its breadth include those segments of the entire offshore oil and gas drilling industry in which the Company and its subsidiaries conduct business; and (iii) the duration of the restrictions upon the Executive be as indicated herein.

(c) The Executive agrees that the provisions of Sections 7, 8, 9, 10, 11 and 12 of this Agreement, and the Company's enforcement of them, are reasonably necessary to protect the Company's and its subsidiaries' legitimate business and property interests and relationships, especially those that he was responsible for developing or maintaining.

(d) If any one or more of the provisions contained in Sections 7, 8, 9, 10, 11 or 12 shall be held to be excessively broad as to duration, geographic scope, activity or subject, such provisions shall be construed by limiting and reducing them so as to be enforceable to the maximum extent allowed by applicable law.

14. Equitable Relief. Each Party agrees that any actual or threatened breach of the covenants set forth in Sections 7, 8, 9, 10 11 or 12 above could cause the other Party irreparable harm. Therefore, in the event of any actual or threatened breach by either Party (the "**Breaching Party**") of the provisions of Sections 7, 8, 9, 10 11 or 12 above, the other Party shall be entitled to seek, through arbitration in accordance with Section 21 or from any court with jurisdiction over the matter and the defendant(s), temporary, preliminary and/or permanent equitable/injunctive relief restraining the Breaching Party from violating such provisions and to seek, in addition, but solely through arbitration in accordance with Section 21, money damages, together with any and all other remedies available under applicable law.

15. Representations.

(a) The Executive represents and warrants to the Company that he (i) has the legal right to enter into this Agreement and to perform all of the obligations to be performed by him hereunder in accordance with its terms, (ii) is not a party to any agreement or understanding, written or oral, that would prevent him from entering into this Agreement or performing his obligations under it, and (iii) has not materially breached any of his fiduciary duties to his current employer or its affiliates. The Executive represents and warrants to the Company that he is not a party to any non-compete or non-solicitation obligations with any Person which would be violated by performing his duties hereunder.

(b) The Company represents and warrants that (i) it is fully authorized by action of its Board (and of any other Person or body whose action is required) to enter into this Agreement and to perform its obligations under it, (ii) the execution, delivery and performance of this Agreement by it does not violate any applicable law, regulation, order, judgment or decree, or any agreement, arrangement, plan or corporate governance document to which it is a party or by which it is bound and (iii) upon the execution and delivery of this Agreement by the Parties, this Agreement shall be its valid and binding obligation, enforceable against it in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

16. Indemnification/D&O Insurance.

(a) If the Executive is made a party, is threatened to be made a party, or reasonably anticipates being made a party, to any Proceeding by reason of the fact that he is or was a director, officer, member, employee, agent, manager, trustee, consultant or representative of the Company or any of its subsidiaries, or is or was serving at the request of the Company or any of its subsidiaries, or in connection with his service hereunder, as a director, officer, member, employee, agent, manager, trustee, consultant or representative of another Person, or if any Claim is made, is threatened to be made, or is reasonably anticipated to be made, that arises out of or relates to the Executive's service in any of the foregoing capacities, then the Executive shall promptly be indemnified and held harmless to the fullest extent permitted or authorized by the Certificate of Incorporation or Bylaws of the Company, or if greater, by applicable law, against any and all reasonable and appropriately documented costs, expenses, liabilities and losses incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, officer, member, employee, agent, manager, trustee, consultant or representative of the Company or of any of its subsidiaries or other Person and shall inure to the benefit of his heirs, executors and administrators. The Executive shall be entitled to prompt advancement of any and all appropriately documented costs and expenses (including, without limitation, attorneys' and other professional fees and charges) reasonably incurred by him in connection with any such Proceeding or Claim, any such advancement to be made within 15 days after the Executive gives written notice, supported by reasonable documentation, requesting such advancement. Such notice shall include an undertaking by the Executive to repay the amounts advanced to the extent that he is ultimately determined not to be entitled to indemnification against such costs and expenses. Nothing in this Agreement or elsewhere shall operate to limit or extinguish any right to indemnification, advancement of expenses, or contribution that the Executive would otherwise have (including, without limitation, by agreement or under applicable law). For purposes of this Agreement, "**Proceeding**" shall mean any actual, threatened or reasonably anticipated action, suit or proceeding, whether civil, criminal, administrative, investigative, appellate, formal, informal or other.

(b) The Company shall maintain directors and officers liability insurance covering the Executive in his respective capacities as an officer and director of the Company (and, if applicable, of any of its subsidiaries) on the same basis that the Company provides such insurance to other officers and directors of the Company generally.

17. Severability. Each of the terms and provisions of this Agreement shall be deemed severable in whole and in part. To the extent that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall remain in full force and effect so as to achieve the intentions of the Parties, as set forth in this Agreement, to the maximum extent possible.

18. Assignment.

(a) This Agreement shall be binding upon, and inure to the benefit of, the Parties and their respective successors, heirs (in the case of the Executive) and assigns.

(b) No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights and obligations may be assigned or transferred pursuant to a merger, consolidation or other combination in which the Company is not the continuing entity, or a sale or liquidation of all or substantially all of the business and assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the business and assets of the Company and such assignee or transferee expressly assumes the liabilities, obligations and duties of the Company as set forth in this Agreement.

(c) No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or by operation of law. Notwithstanding the foregoing, the Executive shall be entitled, to the extent permitted under applicable law and applicable Company Arrangements, to select and change a beneficiary or beneficiaries to receive any compensation or benefit hereunder following the Executive's death by giving written notice thereof to the Company. In the event of the Executive's death or a judicial determination of his incompetence, references in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative. In the event that Executive dies before all payments he may be entitled to have been paid, all remaining payments shall be made to the beneficiary specifically designated by the Executive in writing prior to his death, or, if no such beneficiary was designated (or the Company is unable in good faith to determine the beneficiary designated), to his personal representative or estate.

19. Miscellaneous.

(a) This Agreement shall be governed, interpreted, performed and enforced in accordance with its express terms, and otherwise in accordance with the laws of the State of Texas (without regard to choice of law or conflict of laws principles), to the extent not displaced by federal law.

(b) Except as otherwise expressly set forth herein, this Agreement contains the entire agreement of the Parties with regard to the subject matter hereof, and supersedes all prior agreements and understandings, written or oral, with respect to such subject matter.

(c) No provision in this Agreement may be amended unless such amendment is set forth in a writing that expressly refers to the provision of this Agreement that is being amended and that is signed by the Executive and by an authorized officer of the Company. No waiver by any Person of any breach of any condition or provision contained in this Agreement shall be deemed a waiver of any similar or dissimilar condition or provision at the same or any prior or subsequent time. To be effective, any waiver must be set forth in a writing signed by the waiving Person and must specifically refer to the condition(s) or provision(s) of this Agreement being waived. In the event of any conflict between any provision of this Agreement and any provision of any Company Arrangement, the provisions of this Agreement shall control unless the Executive otherwise agrees in a writing that expressly refers to the provision of this Agreement whose control he is waiving.

(d) To the extent necessary to effect the purposes of this Agreement, the respective rights and obligations of the Parties (including, without limitation, those set forth in Sections 6 through 17 above, and 22 below) shall survive any termination or expiration of the Term or termination of the Executive's employment.

(e) All numbers and headings contained in this Agreement are for reference only and are not intended to qualify, limit or otherwise affect the meaning or interpretation of any provision contained in this Agreement.

(f) As soon as practicable following the Commencement Date or within thirty (30) days following receipt of an invoice for services performed after the Commencement Date, the Company shall reimburse the Executive for all reasonable, appropriately documented attorneys' fees incurred in entering into this Agreement and reviewing any equity or other ancillary documentation relating to compensation or benefits provided hereunder or awarded in connection with this Agreement, provided, however, that the amount reimbursed under this Section 19(f) shall not exceed $50,000.

20. **Notices**. Any notice, consent, demand, request, or other communication given to a Person in connection with this Agreement shall be in writing and shall be deemed to have been given to such Person (x) when delivered personally to such Person or (y), provided that a written acknowledgment of receipt is obtained, five days after being sent by prepaid certified or registered mail, or two days after being sent by a nationally recognized overnight courier, to the address (if any) specified below for such Person (or to such other address as such Person shall have specified by ten days' advance notice given in accordance with this Section 20) or (z) on the first business day after it is sent by facsimile to the facsimile number (if any) set forth below (or to such other facsimile number as shall have specified by ten days' advance notice given in accordance with this Section 20), with a confirmatory copy sent by certified or registered mail or by overnight courier in accordance with this Section 20.

If to the Company:
Diamond Offshore Drilling, Inc.
15415 Katy Freeway, Suite 100
Houston, Texas 77094
Attn: Corporate Secretary

If to the Executive:

The address of his principal residence as it appears in the Company's records,
with a copy to him (during the Term) at his office in Houston, Texas.

With a copy to:
Henry I. Morgenbesser, Esq.
Katzke & Morgenbesser LLP
1345 Avenue of the Americas, 11th Floor
New York, New York 10105

21. **Arbitration of All Disputes**. Any Claim between the Executive and the Company or any of its subsidiaries, including any Claim arising out of or relating to this Agreement, any other agreement or arrangement between the Executive and the Company or any of its subsidiaries, the Executive's employment with the Company, or any termination thereof (a "**Covered Claim**") shall (except to the extent otherwise provided in Section 14 with respect to certain requests for injunctive relief) be resolved by binding confidential arbitration, to be held in Houston Texas, in accordance with the Commercial Arbitration Rules (and not the National Rules for Resolution of Employment Disputes) of the American Arbitration Association and this Section 21. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

22. Section 280G.

(a) In the event that any payment or benefit made or provided to or for the benefit of the Executive under this Agreement, or under any plan, agreement, program or arrangement of the Company, of any Person effecting a change in control of the Company (a "**280G Change in Control**"), or any affiliates of any of the foregoing (a "**Payment**") is determined to be subject to any excise tax ("**Excise Tax**") imposed by Section 4999 of the Code, or any comparable state or local tax provision, the Company shall reduce the amount of such Payment to the greatest amount that can be paid to the Executive without any portion of the Payment being subject to the Excise Tax; provided however, that such reduction shall be made only to the extent that the reduction results in the Executive retaining a greater "**After Tax Amount**" (as defined below) of the Payments following the reduction than the After Tax Amount of the Payments the Executive would have retained if no such reduction had taken place. For purposes of the foregoing, (i) the "After Tax Amount" of the Executive's Payments, as computed with and as computed without the reduction provided for in this Section 22, shall mean the amount of the Payments, as so computed, that the Executive would retain after payment of all taxes (including any federal, state or local income taxes, the Excise Tax or other excise taxes, any employment, social security or Medicare taxes, and any other taxes) imposed with respect to such Payments in the year or years in which payable and (ii) the amount of such taxes shall be computed at the rates in effect under the applicable tax laws in the year in which the applicable 280G Change in Control occurs, or if then ascertainable, the rates in effect in any later year in which any Payment is expected to be paid, and in the case of any income taxes, by using the combined federal, state and (if applicable) local income tax rates then in effect under such laws. The determination of whether any Payment is subject to the Excise Tax and, if so, the amount of any reduction shall be made by an independent, nationally recognized United States public accounting firm (the "**Auditor**"). The Auditor shall be selected by the Company (subject to the Executive's approval, which shall not be unreasonably withheld or delayed), and shall be paid for by the Company. Such determination shall be made no later than fifteen (15) days following the closing of the transaction or the occurrence of the event that constitutes the 280G Change in Control, or as soon thereafter as administratively practicable. The Auditor shall provide a written report of its determinations hereunder, including detailed supporting calculations, both to the

Executive and to the Company. In the absence of manifest error, the determinations made by the Auditor hereunder shall be binding upon the Executive and the Company. The Parties shall cooperate with each other in connection with any Proceeding or Claim relating to the existence or amount of any liability for any Excise Tax.

(b) Any reductions in the Executive's Payments required to be made pursuant to this Section 22 above shall be made in the following order: (i) payments that are payable in cash that are valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a) will be reduced (if necessary, to zero), with amounts that are payable last reduced first; (ii) payments and benefits due in respect of any equity valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a), with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24) will next be reduced; (iii) payments that are payable in cash that are valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24, with amounts that are payable last reduced first, will next be reduced; (iv) payments and benefits due in respect of any equity valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24 will next be reduced; (v) all other non-cash benefits not otherwise described in clauses (ii) or (iv) will be next reduced pro-rata. Within ten (10) days following such determination hereunder, the Company shall pay or distribute to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement and shall promptly pay or distribute to or for the benefit of the Executive such amounts as become due to the Executive under, and in accordance with the terms of, this Agreement.

[Remainder of the page intentionally left blank.]

23. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original copy of this Agreement and all of which, when taken together, shall be deemed to constitute one and the same agreement. Signatures delivered by facsimile shall be deemed effective for all purposes.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Signing Date.

DIAMOND OFFSHORE DRILLING, INC.

By: /s/ William C. Long
Name: William C. Long
Title: Senior Vice President, General Counsel
and Secretary

MARC EDWARDS

/s/ Marc Edwards

EXHIBIT A

FORM OF RELEASE

THIS RELEASE OF CLAIMS (this "**Release**") is entered into as of [the date the Executive signs this Release following a termination without Cause or a resignation for Good Reason] (the **"Release Date"**), by and between Marc Edwards (the "**Executive**") and Diamond Offshore Drilling, Inc. (the "**Company**"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Employment Agreement by and between the Company and the Executive, dated as of February 12th, 2014 (the **"Employment Agreement"**).

1. **Release**.

(a) The Executive, on behalf of himself and his beneficiaries, estate and legal representatives (collectively, with the Executive, the "**Executive Releasors**") hereby releases, acquits and forever discharges the Company, its parents, subsidiaries, and each of their respective successors, assigns, officers, directors, and employees (collectively, the "**Company Released Parties"**) from any and all claims, causes of actions, demands, suits, costs, expenses and damages of whatsoever nature and kind, whether known or unknown, whether now existing or hereafter arising, at law or in equity, that any Executive Releasor may have, or may have had, or may hereafter have, and that are based in whole or in part on facts, whether or not now known, existing prior to the Release Date, and that arise out of or relate to the Executive's employment with or services for the Company or its subsidiaries, or the termination of such employment or services, other than the right to payment or benefits under Section 6 of the Employment Agreement, for which execution of this Release is, in part, a condition precedent, and the right to indemnification, advancement of expenses and insurance pursuant to Section 16 of the Employment Agreement. Notwithstanding the foregoing, this release does not apply (i) to any vested benefits under any benefits plan, program, policies or agreements of the Company or any of its affiliates which the Executive may have as may be in effect from time to time; (ii) to the Executive's right to obtain contribution as permitted by law in the event of any judgment against the Executive as a result of any act or failure to act for which the Executive and the Company (or any of its subsidiaries or affiliates) are held jointly liable; (iii) to any rights the Executive holds as an individual stockholder of the Company; (iv) to any claim that cannot be waived by law; (v) to the Executive's right to enforce the terms of this Release; and (vi) to any right or claim that arises after the date of the execution of this Release.

(b) The claims released by the Executive include, to the extent set forth in Section 1(a), any and all claims under federal, state or local laws pertaining to employment, including the Age Discrimination in Employment Act of 1967, as amended, Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000e et seq., the Fair Labor Standards Act as amended, 29 U.S.C. Section 201 et seq., the Americans with Disabilities Act, as amended, 42 U.S.C. Section 12101 et seq., the Reconstruction Era Civil Rights Act, as amended, 42 U.S.C. Section 1981 et seq., the Rehabilitation Act of 1973, as amended, 29 U.S.C. Section

701 et seq., the Family and Medical Leave Act of 1992, 29 U.S.C. Section 2601 et seq., the Sarbanes-Oxley Act, as amended, the Dodd-Frank Act, as amended and any and all state or local laws regarding employment discrimination and/or U.S. federal, state or local laws of any type or description regarding employment, including but not limited to any claims in any way arising from or derivative of the Executive's employment with the Company or any of its subsidiaries or the termination of such employment, as well as any claims under state contract or tort law or otherwise.

2. **Representation by the Executive**. The Executive represents that he has not been convicted of, or pleaded guilty to or nolo contendere to, any felony and has not engaged in conduct that constitutes Cause under the Employment Agreement.

3. **Incorporation of Specific Provisions**. The following Sections of the Employment Agreement shall be deemed incorporated by reference in this Release and shall be treated as if set forth in full herein, except that references in them to this "Agreement" shall be deemed to be references to this "Release": Sections 19(a), 19(b), 19(c), 19(e), 20, 21 and 23.

4. **Review and Revocation Period**. The Executive hereby represents that he has read this Release carefully and fully understands the terms hereof, and that he has been advised to consult with an attorney and has had the opportunity to consult with an attorney prior to signing this Release. The Executive acknowledges that he is executing this Release voluntarily and knowingly, without duress or coercion, and that he has not relied on any representations, promises or agreements of any kind, other than those set forth in this Release. The Executive further represents that he has had 21 days to review this Release. If the Executive has executed this Release in fewer than 21 days after its delivery, the Executive hereby acknowledges that his decision to execute this Release prior to the expiration of such 21-day period was entirely voluntary. The Executive may revoke his acceptance of this Release within seven days after he has signed it and delivered it to the Company (the **"Revocation Period"**) by sending written notice to the Company that the Executive wishes to revoke his acceptance of it and not be bound by it. If the Executive timely revokes this Release, the Company shall have no obligation to provide to the Executive the benefits described or referenced in Sections 6.3(a) of the Employment Agreement (other than those described in Section 6.6). This Release shall become effective on the seventh (7^{th}) day after the Executive signs it unless revoked in accordance with the procedure set forth in the prior sentence. This Release shall be null and void if not countersigned by the Company, and delivered to the Executive, within seven (7) days after the expiration of the Revocation Period.

IN WITNESS WHEREOF, the Parties have executed this Release as of the date and year first above written.

Marc Edwards

____

Date:

EXHIBIT 10.2

COMMITMENT INCREASE AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT

This COMMITMENT INCREASE AGREEMENT AND AMENDMENT NO. 2 TO CREDIT AGREEMENT (this "Amendment"), dated effective as of March 17, 2014 (the "Effective Time"), is by and among Diamond Offshore Drilling, Inc., a Delaware corporation (the "Borrower"), the Lenders party hereto, and Wells Fargo Bank, National Association, as an issuing bank, as swing line lender, and as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

WHEREAS, the Borrower, the lenders from time to time party thereto (the "Lenders"), and the Administrative Agent are parties to the Credit Agreement dated as of September 28, 2012, as amended by that certain Extension Agreement and Amendment No. 1 thereto dated effective as of December 9, 2013 (as so amended, the "Credit Agreement", the capitalized terms of which are used herein as therein defined unless otherwise defined herein);

WHEREAS, pursuant to Section 2.02(a) of the Credit Agreement, the Borrower has the right, subject to the terms and conditions thereof, to cause an increase in the Aggregate Commitment by adding to the Credit Agreement one or more additional lenders or by allowing one or more existing Lenders to increase their respective Commitments;

WHEREAS, the Borrower has given notice to the Administrative Agent and the Lenders of its intention to increase the Aggregate Commitment by $250,000,000;

WHEREAS, the Borrower has requested, and the Administrative Agent and the Lenders have agreed, to make certain amendments to the Credit Agreement, each as provided for herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, representations and warranties contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Amendments.

(a) Section 1.01 of the Credit Agreement is hereby amended by adding the following new defined term in its appropriate alphabetical order:

"Second Amendment Effective Date" means March 17, 2014.

(b) Section 1.01 of the Credit Agreement is hereby amended by restating the following definitions in their entirety as follows:

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Letters of Credit and Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Credit Exposure hereunder, as such commitment may

be (a) increased from time to time pursuant to Section 2.02, (b) reduced or terminated from time to time pursuant to Section 2.08 or Section 2.19, (c) increased and/or extended from time to time pursuant to Section 2.22 and (d) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The amount of each Lender's Commitment as of the Second Amendment Effective Date is set forth on Schedule 2.01.

"Eurodollar Base Rate" means (a) for any interest calculation with respect to an ABR Loan on any date, (i) the rate per annum (rounded upward, if necessary, to the nearest whole multiple of 1/100th of 1%) equal to the rate per annum set forth on the Reuters Screen LIBOR01 page (or on any successor or substitute page of such service, or any successor to or substitute for such service providing quotations of interest rates applicable to Dollar deposits being delivered in the London interbank market, as reasonably determined by the Administrative Agent from time to time) at approximately 11:00 a.m., London, England time (or as soon thereafter as practicable) determined two Business Days prior to such date for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day or (ii) if such published rate is not available at such time for any reason, the rate per annum reasonably determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the date of determination in same day funds in the approximate amount of the ABR Loan being made or maintained and with a term equal to one month would be offered by the Administrative Agent's London Branch to major banks in the London interbank Eurodollar market at their request at the date and time of determination, and (b) in determining the Eurodollar Rate for all other purposes, the rate per annum (rounded upward, if necessary, to the nearest whole multiple of 1/100th of 1%) equal to the rate per annum set forth on the Reuters Screen LIBOR01 page (or on any successor or substitute page of such service, or any successor to or substitute for such service providing quotations of interest rates applicable to Dollar deposits being delivered in the London interbank market, as reasonably determined by the Administrative Agent from time to time) at approximately 11:00 a.m. London, England time (or as soon thereafter as practicable) on the date that is two Business Days before the first day of the applicable Interest Period as the London Interbank Offered Rate, for deposits in Dollars for a period equal to such Interest Period; provided that, if such quotation is not available for any reason, then for purposes of this clause (b), and subject to clause (ii) of Section 2.14, the Eurodollar Base Rate shall then be the rate reasonably determined by the Administrative Agent to be the average of the rates per annum at which deposits in Dollars for delivery on the first day of such Interest Period in immediately available funds in the approximate amount of the Loans being made, continued or converted by the Lenders and with a term equivalent to such Interest Period are offered to major banks in the London interbank market by the Administrative Agent at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

"Maturity Date" means the fifth anniversary of the Second Amendment Effective Date, as such date may be extended by the relevant Lenders pursuant to Section 2.22.

"Swingline Sublimit Amount" means, at any time, an amount equal to $100,000,000; provided that, on and after the Maturity Date, the Swingline Sublimit Amount shall be zero.

(c) Section 2.02(a) of the Credit Agreement is hereby amended by replacing the reference to "*(iii) the aggregate amount of all such Commitment Increases shall not exceed $250,000,000*" with "*(iii) the aggregate amount of all such Commitment Increases after the Second Amendment Effective Date shall not exceed $250,000,000*".

(d) Section 3.04(a) of the Credit Agreement is hereby amended and restated in its entirety as follows:

"(a) The Borrower has heretofore furnished to the Lenders its consolidated balance sheet and statements of income, stockholders equity and cash flows as of and for the fiscal year ended December 31, 2013, audited by Deloitte & Touche LLP, independent public accountants. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such date and for such period in accordance with GAAP (except as expressly noted therein)."

(e) Section 3.04(b) of the Credit Agreement is hereby amended by replacing the reference to "*December 31, 2011*" with "*December 31, 2013*".

(f) Schedule 2.01 to the Credit Agreement is hereby replaced in its entirety with Schedule 2.01 attached hereto.

Section 2. Increase of Aggregate Commitment. Pursuant to Section 2.02 of the Credit Agreement and upon the effectiveness of this Amendment pursuant to Section 3 below, the Aggregate Commitment is hereby increased from $750,000,000.00 to $1,000,000,000.00. The Commitment of each Lender (including the Lenders who have severally agreed to increase their respective Commitments (each, an "Increasing Lender" and collectively, the "Increasing Lenders")) is set forth on Schedule 2.01 to the Credit Agreement attached hereto, in each case after giving effect to this Amendment and the increase of the Aggregate Commitment pursuant to this Amendment. The Maturity Date of the respective Commitments of each Lender shall be the "Maturity Date", as defined in the Credit Agreement after giving effect to this Amendment. For the avoidance of doubt, the amendment of the definition of "Maturity Date" pursuant to this Amendment does not constitute an extension pursuant to Section 2.22 of the Credit Agreement. The requirements of Section 2.02(b) of the Credit Agreement with respect to notices and timing are hereby waived by all parties hereto with respect to the increase described in this Section 2.

Section 3. Conditions Precedent. This Amendment shall become effective as of the Effective Time upon the satisfaction of the following conditions precedent:

(a) Documentation. The Administrative Agent shall have received the following, each dated on or before the Effective Time, duly executed by all the parties thereto, each in form and substance reasonably satisfactory to the Administrative Agent:

(1) counterparts of this Amendment duly executed by the Borrower, each Lender and the Administrative Agent;

(2) a Revolving Note payable to the order of each Increasing Lender in the amount of such Increasing Lender's Commitment, as increased hereby, as requested by such Lender;

(3) a Swingline Note payable to the order of the Swingline Lender in the amount of the Swingline Sublimit Amount, as increased hereby;

(4) a certificate from a Responsible Officer of the Borrower dated as of the Effective Time stating that, both before and after giving effect to this Amendment and the increase of the Aggregate Commitment pursuant to this Amendment (i) all representations and warranties of the Borrower set forth in the Credit Agreement are true and correct in all material respects (except that such materiality qualifier shall not be applicable to the extent that any representations and warranties already are qualified or modified by materiality in the text thereof) on and as of the Effective Time, except to the extent any such representations and warranties are expressly limited to an earlier date, in which case, on and as of the Effective Time, such representations and warranties shall continue to be true and correct in all material respects (except that such materiality qualifier shall not be applicable to the extent that any representations and warranties already are qualified or modified by materiality in the text thereof) as of such specified earlier date, and (ii) no Event of Default shall have occurred and be continuing;

(5) a secretary's certificate of the Borrower dated the Effective Time and certifying (i) that there have been no changes to the organizational documents of the Borrower since the First Amendment Effective Date or attaching such amendments, (ii) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution and delivery of this Amendment and the Loan Documents executed in connection herewith, if any, the performance of the Credit Agreement as amended hereby and the other Loan Documents and the increase of the Aggregate Commitment pursuant hereto, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, and (iii) as to the incumbency and specimen signature of each officer of the Borrower executing this Amendment, any Loan Document delivered in connection herewith, if any, or any other document delivered in connection herewith on behalf of the Borrower;

(6) a certificate from a Responsible Officer of the Borrower dated the Effective Time and certifying that the conditions of Section 2.02 of the Credit Agreement with respect to the increase of the Aggregate Commitment pursuant hereto (other than the requirements of Section 2.02(b) of the Credit Agreement with respect to notices and timing) have been satisfied;

(7) such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Borrower;

(8) a legal opinion of Duane Morris LLP, counsel for the Borrower, in form and substance reasonably acceptable to the Administrative Agent; and

(9) such other documents and governmental certificates as the Lender Parties may reasonably request.

(b) Payment of Fees and Expenses. On the Effective Time, the Borrower shall have paid the fees required to be paid to the Administrative Agent and the Lenders, including, without limitation, the fees set forth in the fee letter dated as of February 25, 2014 between the Borrower and the Administrative Agent and all other costs and expenses which are payable pursuant to Section 9.03 of the Credit Agreement.

Section 4. Representations and Warranties. The Borrower represents and warrants to the Administrative Agent that the representations and warranties set forth in Article III of the Credit Agreement are true and correct in all material respects (except that such materiality qualifier shall not be applicable to the extent that any representations and warranties already are qualified or modified by materiality in the text thereof) on the Effective Time as if made on and as of the Effective Time, except to the extent any such representations and warranties are expressly limited to an earlier date, in which case they are true and correct in all material respects (except that such materiality qualifier shall not be applicable to the extent that any representations and warranties already are qualified or modified by materiality in the text thereof) as of such earlier date, and as if each reference in said Article III to "this Agreement" or "the Loan Documents" included reference to this Amendment.

Section 5. Miscellaneous. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK. Except as herein provided, the Credit Agreement shall remain unchanged and in full force and effect. The execution and delivery of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or any Lender under the Credit Agreement or any Loan Document, nor, except as herein provided, constitute a waiver of any provision of the Credit Agreement or any Loan Document. Upon the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement," "hereunder" or words of like import shall mean and be a reference to the Credit Agreement, as affected and amended by this Amendment. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same amendatory instrument and any of the parties hereto may execute this Amendment by signing any such counterpart. Transmission by facsimile or electronic transmission (*e.g.*, PDF) of an executed counterpart of this Amendment shall be deemed to constitute due and sufficient delivery of such counterpart.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective duly authorized officers as of the Effective Time.

BORROWER:

DIAMOND OFFSHORE DRILLING, INC.

By: /s/ Scott Kornblau

Name: Scott Kornblau

Title: Treasurer

LENDER PARTIES:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Swingline Lender, an Issuing Bank, a Lender and an Increasing Lender

By: /s/ T. Alan Smith
Name: T. Alan Smith
Title: Managing Director

JPMORGAN CHASE BANK, N.A.,
as an Issuing Bank, a Lender and an Increasing Lender

By: /s/ Robert Traband
Name: Robert Traband
Title: Managing Director

HSBC BANK USA, NATIONAL ASSOCIATION,
as an Issuing Bank, a Lender and an Increasing Lender

By: /s/ John M. Robinson
Name: John M. Robinson
Title: Managing Director, Co-Head Resources & Energy Group – Americas Global Banking

BANK OF CHINA, NEW YORK BRANCH,
as an Issuing Bank, a Lender and an Increasing Lender

By: /s/ Haifeng Xu
Name: Haifeng Xu
Title: Executive Vice President

Signature Page to Commitment Increase Agreement and Amendment No. 2 to Credit Agreement
Diamond Offshore Drilling, Inc.

CITIBANK, N.A.,
as a Lender and an Increasing Lender

By: /s/ Eamon Baqui
Name: Eamon Baqui
Title: Director

SUNTRUST BANK,
as a Lender and an Increasing Lender

By: /s/ Yann Pirio
Name: Yann Pirio
Title: Director

PNC BANK, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Brett R. Schweikle
Name: Brett R. Scheweikle
Title: Senior Vice President

GOLDMAN SACHS BANK USA,
as a Lender and an Increasing Lender

By: /s/ Mark Walton
Name: Mark Walton
Title: Authorized Signatory

THE BANK OF NEW YORK MELLON,
as a Lender

By: /s/ Hussam S. Alsahlani
Name: Hussam S. Alsahlani
Title: Vice President

ROYAL BANK OF CANADA,
as a Lender and an Increasing Lender

By: /s/ Jay T. Sartain
Name: Jay T. Sartain
Title: Authorized Signatory

SCHEDULE 2.01

LENDER	COMMITMENT
Wells Fargo Bank, National Association	$ 133,000,000
JPMorgan Chase Bank, N.A.	$ 133,000,000
HSBC Bank USA, National Association	$ 133,000,000
Bank of China, New York Branch	$ 133,000,000
Citibank, N.A.	$ 125,000,000
SunTrust Bank	$ 133,000,000
PNC Bank, National Association	$ 60,000,000
Goldman Sachs Bank USA	$ 55,000,000
The Bank of New York Mellon	$ 40,000,000
Royal Bank of Canada	$ 55,000,000
Total	**$1,000,000,000**

Exhibit E to Credit Agreement
Diamond Offshore Drilling, Inc.

EXHIBIT 10.5

DIAMOND OFFSHORE DRILLING, INC.
AWARD CERTIFICATE
PERFORMANCE RESTRICTED STOCK UNITS
UNDER THE EQUITY INCENTIVE COMPENSATION PLAN

THIS CERTIFICATE is made and entered into as of the date of grant set forth below (the “Date of Grant”) and evidences the grant of the Performance Award set forth below by Diamond Offshore Drilling, Inc., a Delaware corporation (the “Company”) to the individual named below (the “Grantee”). Capitalized terms not defined herein shall have the meanings ascribed to them in the Diamond Offshore Drilling, Inc. Equity Incentive Compensation Plan (the “Plan”).

Name of Grantee: [ ]

Target Number of Performance Restricted Stock Units: [ ]

Date of Grant: [ ]

Performance Period: Calendar year [ ].

Vesting Dates:	[Month xx, 2015], as to 1/3rd of the Earned RSUs (as defined below)
	[Month xx, 2016], as to 1/3rd of the Earned RSUs
	[Month xx, 2017], as to 1/3rd of the Earned RSUs

1. Grant of Performance Awards.

The Company hereby grants to the Grantee performance-based Restricted Stock Units as set forth herein (the “Performance Award”), subject to all of the terms and conditions of this Award Certificate and the Plan. Each Restricted Stock Unit represents the right to receive a share of Stock upon the vesting of such Restricted Stock Unit. This Award Certificate shall constitute the Award Terms for purposes of the Plan.

2. Form of Payment and Vesting.

The Performance Award shall represent the right to receive, on the first business day following the applicable Vesting Date set forth above, the applicable portion of the Earned RSUs (rounded down to the nearest whole share); provided that (except as provided in Section 3 of this Award Certificate) the Grantee is employed by the Company or one of its Subsidiaries through the applicable Vesting Date. Any portion of the Performance Award that could have been earned in accordance with the provisions of this Section 2 (as set forth in the table below) that does not become an Earned RSU shall be immediately forfeited. All Earned RSUs which vest in accordance with this Section 2 or in accordance with Section 3 shall be settled by delivery of a share of Stock with respect to each Earned RSU within thirty (30) days after the applicable Vesting Date (or such other date as is described in Section 3).

The performance component (or "earn-out") of this grant of Restricted Stock Units shall be subject to achievement of the following performance goal(s):

[ ]

The level of performance against such goal(s) shall govern the number of Restricted Stock Units that become Earned RSUs based on the schedule in the table below. Linear interpolation shall be applied to determine payments in the event of performance falling between the levels stated in the table below.

% of Goal Achievement	Number of Restricted Stock Units becoming Earned RSUs
>50% (threshold)	[ ]
100% (target)	[ ]
150% (maximum)	[ ]

Attainment of less than 50% of the goal(s) will result in no Restricted Stock Units becoming Earned RSUs unless otherwise determined by the Compensation Committee.

3. Termination of Performance Award.

The Performance Award is subject to termination as follows:

(a) Termination of Employment For Cause. Upon the Grantee's termination of employment with the Company and its Subsidiaries for Cause prior to a Vesting Date, the unvested portion of the Grantee's Performance Award shall be forfeited as of the date of such termination of employment.

(b) Termination of Employment On Account of Death or Permanent Disability. Upon termination of the Grantee's employment on account of death or due to his Disability following [Month xx, 20xx], all Earned RSUs shall immediately vest. If such termination occurs prior to [Month xx, 20xx] then (1) the Performance Award shall remain outstanding and the number of Earned RSUs shall be determined in accordance with Section 2 and (2) a portion of the resulting number of Earned RSUs will vest upon such determination equal to the portion of the period commencing on the Date of Grant and ending on [Month xx, 20xx] which has elapsed as of the date of termination of the Grantee's employment (and the remainder of the Performance Award will be forfeited).

(c) Termination of Employment by the Company without Cause. If the Grantee's employment is terminated by the Company without Cause following [Month xx, 20xx], all Earned RSUs shall immediately vest. If such termination occurs prior to [Month xx, 20xx] then (1) the Performance Award shall remain outstanding and the number of Earned RSUs shall be determined in accordance with Section 2 and (2) a portion of the resulting number of Earned RSUs will vest upon such determination equal to the portion of the period commencing on the Date of Grant and ending on [Month xx, 20xx] which has elapsed as of the date of termination of the Grantee's employment (and the remainder of the Performance Award will be forfeited).

(d) Termination of Employment by the Grantee. If the Grantee terminates employment with the Company and its Subsidiaries prior to a Vesting Date for any reason, the unvested portion of the Grantee's Performance Award shall be forfeited as of the date of such termination of employment.

4. No Shareholder Rights Prior to Vesting.

The Grantee shall have no rights of a shareholder (including the right to distributions or dividends) with respect to the Company's stock issuable hereunder until such stock is issued pursuant to the terms of this Award Certificate.

5. Dividend Treatment.

Upon the Company's payment of a cash dividend or stock dividend in respect of the Company's stock and prior to vesting of this Performance Award, the Grantee shall be credited with a number of additional Restricted Stock Units (or Earned RSUs, as the case may be) in respect of Restricted Stock Units (or Earned RSUs, as the case may be) outstanding on the record date for such dividend, with such number of additional Restricted Stock Units (or Earned RSUs, as the case may be) to equal the aggregate dividend payable with respect to the shares subject to the Restricted Stock Units (or Earned RSUs, as the case may be) with respect to which the dividend is paid, divided by the volume weighted average trading price of the Stock for the ten (10) trading days immediately preceding the dividend record date, rounded down to the nearest whole share. Such additional Restricted Stock Units (or Earned RSUs, as the case may be) shall be eligible to vest on the same schedule and subject to the same conditions as the original Restricted Stock Units (or Earned RSUs, as the case may be) grant to which the additional Restricted Stock Units (or Earned RSUs, as the case may be) are attributable. Notwithstanding the foregoing, additional Restricted Stock Units credited pursuant to the operation of this Section 5 may be settled in cash or Stock, as determined by the Committee.

6. Performance Award Subject to Plan.

The Performance Award is subject to the provisions of the Plan, which are hereby incorporated by reference. In the event of any conflict between this Award Certificate and the Plan, the Plan shall control. In the event of any ambiguity in this Award Certificate, any term which is not defined in this Award Certificate, or any matters as to which this Award Certificate is silent, the Plan shall govern.

7. No Rights to Continuation of Employment.

Nothing in the Plan or this Award Certificate shall confer upon the Grantee any right to continue in the employ of the Company or any Subsidiary thereof or shall interfere with or restrict the right of the Company to terminate the Grantee's employment at any time for any reason.

8. Tax Withholding.

The Company shall be entitled to require a cash payment by or on behalf of the Grantee (and/or to deduct from the number of shares of Stock otherwise deliverable hereunder a number of shares of Stock with a Fair Market Value equal to) any sums required by federal, state or local tax law to be withheld or to satisfy any applicable payroll deductions with respect to the vesting the Performance Award.

9. Section 409A Compliance.

It is the intention of the Company and the Grantee that all payments, benefits and entitlements received by the Grantee under this Award Certificate be provided in a manner that does not impose any additional taxes, interest or penalties on the Grantee with respect to such payments, benefits and entitlements under Section 409A of the Code, and its implementing regulations ("Section 409A"), and the provisions of this Award Certificate shall be construed and administered in accordance with such intent. Each of the Company and the Grantee has used, and will continue to use, their best reasonable efforts to avoid the imposition of such additional taxes, interest or penalties, and the Company and the Grantee agree to work together in good faith to amend this Award Certificate, and to structure any payment, benefit or other entitlement received by the Grantee hereunder, in a manner that avoids imposition of such additional taxes, interest or penalties while preserving the affected payment, benefit or entitlement to the maximum extent practicable and maintaining the basic financial provisions of this Award Certificate without violating any applicable requirement of Section 409A.

10. Governing Law.

This Award Certificate shall be governed by, interpreted under, and construed and enforced in accordance with the internal laws, and not the laws pertaining to conflicts or choice of laws, of the State of Delaware applicable to agreements made and to be performed wholly within the State of Delaware.

11. Binding on Successors.

The terms of this Award Certificate shall be binding upon the Grantee and upon the Grantee's heirs, executors, administrators, personal representatives, transferees, assignees and successors in interest, and upon the Company and its successors and assignees, subject to the terms of the Plan.

12. Transferability.

The Performance Award is not transferable except (i) as designated by the Grantee by will or by the laws of descent and distribution or (ii) as otherwise expressly permitted by the Committee. If any rights exercisable by the Grantee or benefits deliverable to the Grantee under this Award Certificate have not been exercised or delivered, at the time of the Grantee's death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of the Plan.

13. Entire Agreement.

This Award Certificate and the Plan contain the entire agreement and understanding among the parties as to the subject matter hereof.

14. Headings.

Headings are used solely for the convenience of the parties and shall not be deemed to be a limitation upon or descriptive of the contents of any such Section.

15. Notices.

All notices and other communications under this Award Certificate shall be in writing and shall be given by hand delivery to the other party or confirmed fax or overnight courier, or by postage paid first class mail, addressed as follows:

If to the Grantee:

The address of his principal residence as it appears in the Company's records, with a copy to him at his office in Houston, Texas.

If to the Company:

Diamond Offshore Drilling, Inc.
15415 Katy Freeway, Suite 100
Houston, Texas 77094-1800
Attention: Corporate Secretary
Facsimile: (281) 647-2223

or to such other address as any party shall have furnished to the other in writing in accordance with this Section 15. Notice and communications shall be effective when actually received by the addressee, if given by hand delivery, when deposited with a courier service, if given by overnight courier, or two (2) business days following mailing, if delivered by first class mail.

16. Amendment.

This Award Certificate may not be modified, amended or waived except by an instrument in writing signed by the Company. The waiver by either party of compliance with any provision of this Award Certificate shall not operate or be construed as a waiver of any other provision of this Award Certificate, or of any subsequent breach by such party of a provision of this Award Certificate.

17. Acceptance.

Acceptance of this Award Certificate by the Grantee acknowledges receipt of a copy of the Plan and this Award Certificate, and acknowledges that the Grantee has read and understands the terms and provisions hereof and accepts the Performance Award subject to all the terms and conditions of the Plan and this Award Certificate.

IN WITNESS WHEREOF, as of the [xx]th day of [Month 20xx], the Company has caused the Award Certificate to be executed on its behalf by a duly authorized officer.

DIAMOND OFFSHORE DRILLING, INC.

By: ______________________________

[Name]
[Title]

Exhibit 31.1

I, Marc Edwards, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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: April 30, 2014

\s\ Marc Edwards

Marc Edwards
Chief Executive Officer

Exhibit 31.2

I, Gary T. Krenek, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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: April 30, 2014

\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

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. § 1350, in his capacity as an officer of Diamond Offshore Drilling, Inc. (the "Company"), that, to his knowledge:

(1) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 as filed with the U.S. Securities and Exchange Commission on the date hereof (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: April 30, 2014

\s\ Marc Edwards
Marc Edwards
Chief Executive Officer of the Company

\s\ Gary T. Krenek
Gary T. Krenek
Chief Financial Officer of the Company