UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ---------------- to ------------------

Commission file number 1-13926

DIAMOND OFFSHORE DRILLING, INC.
(Exact name of registrant as specified in its charter)

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

15415 Katy Freeway
Houston, Texas
77094
(Address of principal executive offices)
(Zip Code)
(281) 492-5300
(Registrant's telephone number, including area code)

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

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

As of October 18, 1999 Common stock, $0.01 par value per share 135,824,281 shares

DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED SEPTEMBER 30, 1999

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	SEPTEMBER 30, 1999 (UNAUDITED)	DECEMBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 97,981	$ 101,198
Marketable securities	582,466	535,774
Accounts receivable	153,036	233,719
Rig inventory and supplies	38,093	35,794
Prepaid expenses and other	44,996	31,939
Total current assets	916,572	938,424
DRILLING AND OTHER PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	1,680,248	1,551,820
GOODWILL, NET OF ACCUMULATED AMORTIZATION	88,547	109,825
OTHER ASSETS	8,946	9,647
Total assets	$ 2,694,313	$ 2,609,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 68,017	$ 93,938
Accrued liabilities	41,036	53,283
Taxes payable	48,242	13,180
Total current liabilities	157,295	160,401
LONG-TERM DEBT	400,000	400,000
DEFERRED TAX LIABILITY	283,128	263,797
OTHER LIABILITIES	11,660	30,260
Total liabilities	852,083	854,458
COMMITMENTS AND CONTINGENCIES		
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, 139,342,381 issued and 135,824,281 outstanding at September 30, 1999 and 139,333,635 issued and 135,815,535 outstanding at December 31, 1998)	1,393	1,393
Additional paid-in capital	1,302,841	1,302,806
Retained earnings	639,741	547,783
Accumulated other comprehensive losses	(13,019)	(7,998)
Treasury stock, at cost (3,518,100 shares)	(88,726)	(88,726)
Total stockholders' equity	1,842,230	1,755,258
Total liabilities and stockholders' equity	$ 2,694,313	$ 2,609,716

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
REVENUES	$ 206,740	$ 315,786	$ 650,114	$ 925,372
OPERATING EXPENSES:				
Contract drilling	115,123	116,503	324,642	357,939
Depreciation and amortization	36,085	33,305	107,448	98,051
General and administrative	5,364	5,984	17,286	18,975
Gain on sale of assets	(38)	(255)	(182)	(337)
Total operating expenses	156,534	155,537	449,194	474,628
OPERATING INCOME	50,206	160,249	200,920	450,744
OTHER INCOME (EXPENSE):				
Interest income	9,065	8,207	26,014	22,234
Interest expense	(2,152)	(3,615)	(7,474)	(11,239)
Other, net	1,094	2,379	328	2,559
INCOME BEFORE INCOME TAX EXPENSE	58,213	167,220	219,788	464,298
INCOME TAX EXPENSE	(20,367)	(58,518)	(76,897)	(163,209)
NET INCOME	$ 37,846	$ 108,702	142,891	$ 301,089
EARNINGS PER SHARE:				
Basic	$ 0.28	$ 0.79	$ 1.05	$ 2.17
Diluted	$ 0.27	$ 0.75	$ 1.01	$ 2.07
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Shares of common stock	135,824	137,652	135,821	138,762
Dilutive potential shares of common stock	9,876	9,876	9,876	9,876
Total weighted average shares outstanding	145,700	147,528	145,697	148,638

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)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
OPERATING ACTIVITIES:		
Net income	$ 142,891	$ 301,089
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	107,448	98,051
Gain on sale of assets	(182)	(337)
Gain on sale of investment securities	(23)	(2,342)
Deferred tax provision	22,858	37,778
Accretion of discounts on investment securities	(7,163)	(11,051)
Amortization of debt issuance costs	404	389
Changes in operating assets and liabilities:		
Accounts receivable	80,812	(28,930)
Rig inventory and supplies and other current assets	(15,356)	(17,081)
Other assets, non-current	297	(956)
Accounts payable and accrued liabilities	(38,168)	243
Taxes payable	34,245	10,992
Other liabilities, non-current	(1,414)	2,242
Other, net	(509)	(981)
Net cash provided by operating activities	326,140	389,106
INVESTING ACTIVITIES:		
Capital expenditures	(232,180)	(132,600)
Proceeds from sale of assets	578	930
Net change in marketable securities	(46,857)	(97,061)
Net cash used in investing activities	(278,459)	(228,731)
FINANCING ACTIVITIES:		
Reacquisition of common stock	--	(88,726)
Payment of dividends	(50,933)	(52,249)
Proceeds from stock options exercised	35	289
Net cash used in financing activities	(50,898)	(140,686)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,217)	19,689
Cash and cash equivalents, beginning of period	101,198	102,958
Cash and cash equivalents, end of period	$ 97,981	$ 122,647

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries (the "Company") should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-13926).

Interim Financial Information

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all disclosures required by generally accepted accounting principles for complete financial statements. The consolidated financial information has not been audited but, in the opinion of management, includes all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated balance sheets, statements of 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.

Cash and Cash Equivalents

Short-term, highly liquid investments that have an original maturity of three months or less which are considered part of the Company's cash management activities, rather than part of its investing activities, are considered cash equivalents.

Marketable Securities

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

Supplementary Cash Flow Information

Cash payments made for interest on long-term debt totaled $15.0 million during both the nine months ended September 30, 1999 and 1998. Cash payments made, net of refunds, for income taxes during the nine months ended September 30, 1999 and 1998 totaled $35.5 million and $114.4 million, respectively.

Capitalized Interest

Interest cost for construction and upgrade of qualifying assets is capitalized. The Company incurred interest cost, including amortization of debt issuance costs, of $3.9 million and $11.6 million during the quarter and nine months ended September 30, 1999, respectively. Interest cost capitalized during the quarter and nine months ended September 30, 1999 was $1.7 million and $4.1 million, respectively. The Company incurred interest costs of $3.8 million and $11.6 million during the quarter and nine months ended September 30, 1998, respectively. Interest cost capitalized during the quarter and nine months ended September 30, 1998 was not material.

Goodwill

Goodwill from the merger with Arethusa (Off-Shore) Limited ("Arethusa") is amortized on a straight-line basis over 20 years. Amortization expense totaled $1.3 million and $4.1 million for the quarter and nine months ended September 30, 1999, respectively. For the quarter and nine months ended September 30, 1998, amortization expense totaled $1.6 million and $4.8 million, respectively.

Debt Issuance Costs

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

Treasury Stock

In July 1998, the Board of Directors authorized the purchase of shares of the Company's common stock in the open market, from time to time, depending on market conditions. The purchase of treasury stock is accounted for using the cost method, which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in the Consolidated Balance Sheets. No purchases of treasury stock were made during the nine months ended September 30, 1999. During the quarter and nine months ended September 30, 1998, the Company purchased 3.5 million shares of its common stock at an aggregate cost of $88.7 million, or $25.22 per share.

Comprehensive Income

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. For the quarter and nine months ended September 30, 1999, comprehensive income totaled $37.1 million and $137.8 million, respectively. For the quarter and nine months ended September 30, 1998, comprehensive income totaled $106.4 million and $297.7 million, respectively. Comprehensive income includes net income, foreign currency translation gains and losses, and unrealized holding gains and losses on investments.

Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share was calculated by dividing net income, adjusted to eliminate the after-tax effect of interest expense, by the weighted average number of shares of common stock outstanding and the weighted average number of shares of common stock issuable assuming full conversion of the convertible subordinated notes as of the beginning of the periods presented.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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.

2. MARKETABLE SECURITIES

Investments classified as available for sale are summarized as follows:

	SEPTEMBER 30, 1999		
	COST	UNREALIZED GAIN (LOSS)	MARKET VALUE
		(IN THOUSANDS)	
Debt securities issued by the U.S. Treasury			
Due within one year	$ 258,798	$ (311)	$ 258,487
Due after one year through five years	174,806	(1,183)	173,623
Collateralized mortgage obligations	153,019	(4,109)	148,910
Equity securities	12,117	(10,671)	1,446
Total	$ 598,740	$ (16,274)	$ 582,466

	DECEMBER 31, 1998		
	COST	UNREALIZED GAIN (LOSS)	MARKET VALUE
Debt securities issued by the U.S. Treasury			
Due within one year	$ 304,224	$ (21)	$ 304,203
Due after one year through five years	24,982	91	25,073
Collateralized mortgage obligations	203,504	(452)	203,052
Equity securities	12,117	(8,671)	3,446
Total	$ 544,827	$ (9,053)	$ 535,774

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

During the nine months ended September 30, 1999 and 1998, certain debt securities due within one year were sold or matured for proceeds of $505.9 million and $208.8 million, respectively. Certain debt securities due after one year were sold for proceeds of $50.5 million and $501.9 million during the nine months ended September 30, 1999 and 1998, respectively. Also during the nine months ended September 30, 1998, equity securities were sold for proceeds of $2.4 million and investments through repurchase agreements with third parties were sold for their contracted amounts totaling $350.0 million. The resulting after-tax realized gains and losses during the nine months ended September 30, 1999 were not material. An after-tax gain of $1.3 million was realized on the sale of debt securities due after one year during the nine months ended September 30, 1998.

The Company believes the declines in the fair values of its financial instruments due to interest rate and equity price sensitivity are temporary in nature. This determination was based on the marketability of the instruments, the Company's ability to retain its investment in the instruments, past market movements and reasonably possible, near-term market movements. Therefore, the Company does not believe that potential, near-term losses in future earnings, fair values, or cash flows are likely to be material.

3. DRILLING AND OTHER PROPERTY AND EQUIPMENT

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

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Drilling rigs and equipment	$ 2,021,648	$ 1,929,540
Construction work in progress	224,900	88,266
Land and buildings	13,896	13,874
Office equipment and other	17,110	14,100
Cost	2,277,554	2,045,780
Less accumulated depreciation	(597,306)	(493,960)
Drilling and other property and equipment, net	$ 1,680,248	$ 1,551,820

4. GOODWILL

The merger with Arethusa in 1996 generated an excess of the purchase price over the estimated fair value of the net assets acquired. Cost and accumulated amortization of such goodwill is summarized as follows:

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Goodwill	$ 110,232	$ 127,418
Less accumulated amortization	(21,685)	(17,593)
Total	$ 88,547	$ 109,825

During the nine months ended September 30, 1999, an adjustment of $17.2 million was recorded to reduce goodwill before accumulated amortization. The adjustment represents tax benefits not previously recognized for the excess of tax deductible goodwill over the book goodwill amount.

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Personal injury and other claims	$ 18,830	$ 20,676
Payroll and benefits	16,344	18,701
Interest payable	1,917	5,667
Other	3,945	8,239
Total	$ 41,036	$ 53,283

6. COMMITMENTS AND CONTINGENCIES

In August 1999, a customer terminated a contract for use of one of the Company's drilling rigs located offshore Australia. The termination was made in accordance with the terms of the contract and was not the result of performance failures by the Company or its equipment. The Company believes the contract requires the customer to pay approximately $16.5 million in remaining revenue through the end of the contract period, which was previously scheduled to end in early January 2000, with set off for revenues earned by the rig from other contracts during that period. However, the customer believes that there are no further obligations under the contract and has refused to pay the $16.5 million early termination fee. The Company filed suit in Australia in August 1999 requesting reconstruction of the contract and a declaratory judgment requiring the customer to pay such early termination fee. The Company intends to vigorously pursue its claim. For financial statement purposes, the $16.5 million early termination fee has been fully reserved as a reduction of revenues in the Company's results of operations for the quarter ended September 30, 1999.

A former subsidiary of Arethusa, which is now a subsidiary of the Company, defended and indemnified Zapata Off-Shore Company and Zapata Corporation (the "Zapata Defendants"), pursuant to a contractual defense and indemnification agreement, in a suit for tortious interference with contract and conspiracy to tortiously interfere with contract. The plaintiffs sought $14.0 million in actual damages and unspecified punitive damages, plus costs of court, interest and attorneys' fees. In November 1997, the jury awarded a take nothing judgment in favor of the Zapata Defendants. The plaintiffs appealed the judgment and the appellate court ordered the parties to mediation. The case went to mediation in July 1998 with no resolution. In May 1999, the case went before the Texas First Court of Appeals, Houston, which affirmed the jury verdict. The plaintiffs obtained an extension to file a petition for review with the Supreme Court of Texas by November 18, 1999. The Company has not established a provision for any liability for this case.

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

7. SEGMENTS AND GEOGRAPHIC AREA ANALYSIS

The Company reports its operations as one reportable segment, contract drilling of offshore oil and gas wells. Although the Company provides contract drilling services from different types of offshore drilling rigs and provides such services in many geographic locations, these operations have been aggregated into one reportable segment based on the similarity of economic characteristics among all divisions and locations, including the nature of services provided and the type of customers of such services. The data below is presented in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," which the Company has retroactively adopted for all periods presented.

Similar Services

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(IN THOUSANDS)			
Fourth-Generation Semisubmersibles..	$ 64,279	$ 78,229	$ 201,148	$ 217,204
Other Semisubmersibles.............	114,344	184,183	374,187	528,835
Jack-ups...........................	15,202	52,985	59,249	176,307
Integrated Services................	18,213	389	25,623	21,538
Eliminations.......................	(5,298)	--	(10,093)	(18,512)
Total revenues.............	$ 206,740	$ 315,786	$ 650,114	$ 925,372

Geographic Areas

At September 30, 1999, the Company had drilling rigs located offshore eight countries other than the United States. As a result, the Company is exposed to the risk of changes in social, political and economic conditions inherent in foreign operations and the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates. Revenues by geographic area are presented by attributing revenues to the individual country where the services were performed.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(IN THOUSANDS)			
Revenues from unaffiliated customers:				
United States.........................	$ 118,252	$ 175,933	$ 326,408	$ 543,962
Foreign:				
Europe/Africa......................	35,384	80,077	156,468	222,599
Australia/Southeast Asia............	18,650	37,322	75,003	101,877
South America......................	34,454	22,454	92,235	56,934
Total revenues.............	$ 206,740	$ 315,786	$ 650,114	$ 925,372

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

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements (including the Notes thereto) included elsewhere herein.

The Company is a leader in deep water drilling with a fleet of 46 offshore drilling rigs. The fleet consists of 30 semisubmersibles, 15 jack-ups and one drillship.

RESULTS OF OPERATIONS

General

Revenues. The Company's revenues vary based upon demand, which affects the number of days the fleet is utilized and the dayrates earned. Revenues can also increase or decrease as a result of the acquisition or disposal of rigs. In order to improve utilization or realize higher dayrates, the Company may mobilize its rigs from one market to another. During periods of mobilization, however, revenues may be adversely affected. As a response to changes in demand, the Company may withdraw a rig from the market by stacking it or may reactivate a rig which was previously stacked, which may decrease or increase revenues, respectively.

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

Revenues from offshore turnkey contracts are accrued to the extent of costs until the specified turnkey depth and other contract requirements are met. Income is recognized on the completed contract method. Provisions for future losses on turnkey contracts are recognized when it becomes apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract.

Operating Income. Operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Operating expenses are not affected by changes in dayrates, nor are they necessarily significantly affected by fluctuations in utilization. For instance, if a rig is to be idle for a short period of time, the Company realizes few decreases in operating expenses since the rig is typically maintained in a prepared state with a full crew. However, if the rig is to be idle for an extended period of time, the Company may reduce the size of a rig's crew and take steps to "cold stack" the rig, which lowers expenses and partially offsets the impact on operating income associated with the loss of revenues. The Company recognizes as operating expenses activities such as painting, inspections and routine overhauls that maintain rather than upgrade its rigs. These expenses vary from period to period. Costs of rig enhancements and upgrades are capitalized and depreciated over the expected useful lives of the enhancements. Increased depreciation expense decreases operating income in periods subsequent to capital upgrades. From time to time, the Company sells assets in the ordinary course of its business and gains or losses associated with such sales are included in operating income.

THREE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

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

	THREE MONTHS ENDED SEPTEMBER 30, 1999	THREE MONTHS ENDED SEPTEMBER 30, 1998	INCREASE/ (DECREASE)
	(IN THOUSANDS)		
REVENUES			
Fourth-Generation Semisubmersibles....	$ 64,279	$ 78,229	$ (13,950)
Other Semisubmersibles................	114,344	184,183	(69,839)
Jack-ups..............................	15,202	52,985	(37,783)
Integrated Services...................	18,213	389	17,824
Eliminations..........................	(5,298)	--	(5,298)
Total Revenues.....................	$ 206,740	$ 315,786	$ (109,046)
CONTRACT DRILLING EXPENSE			
Fourth-Generation Semisubmersibles....	$ 28,066	$ 21,250	$ 6,816
Other Semisubmersibles................	52,772	65,049	(12,277)
Jack-ups..............................	21,152	27,764	(6,612)
Integrated Services...................	16,998	489	16,509
Other.................................	1,433	1,951	(518)
Eliminations..........................	(5,298)	--	(5,298)
Total Contract Drilling Expense....	$ 115,123	$ 116,503	$ (1,380)
OPERATING INCOME			
Fourth-Generation Semisubmersibles....	$ 36,213	$ 56,979	$ (20,766)
Other Semisubmersibles................	61,572	119,134	(57,562)
Jack-ups..............................	(5,950)	25,221	(31,171)
Integrated Services...................	1,215	(100)	1,315
Other.................................	(1,433)	(1,951)	518
Depreciation and Amortization Expense.	(36,085)	(33,305)	(2,780)
General and Administrative Expense....	(5,364)	(5,984)	620
Gain on Sale of Assets..............	38	255	(217)
Total Operating Income......	$ 50,206	$ 160,249	$ (110,043)

Fourth-Generation Semisubmersibles.

Revenues. Revenues from fourth-generation semisubmersibles during the three months ended September 30, 1999 decreased by $14.0 million from the same period in 1998. This decrease resulted primarily from a decrease in revenues of approximately $13.4 million from the Ocean Valiant, which was in the shipyard during most of the third quarter of 1999 for stability enhancements and other repairs. Revenues were also reduced by approximately $3.3 million from the Ocean Clipper which spent approximately one-half of the third quarter of 1999 in a shipyard undergoing modifications and preparing for its upcoming three-year contract offshore Brazil. See "--Outlook."

Contract Drilling Expense. Contract drilling expense for fourth-generation semisubmersibles during the three months ended September 30, 1999 increased $6.8 million from the same period in 1998. This increase resulted primarily from an increase of $4.9 million for repairs performed on the Ocean Valiant, which was placed in the shipyard during the third quarter of 1999. Also, contract drilling expense increased approximately $1.0 million for the Ocean Victory primarily due to costs associated with mooring system repairs during the three months ended September 30, 1999.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles during the three months ended September 30, 1999 decreased $69.8 million from the same quarter in 1998. This decrease resulted primarily from reduced revenues of $38.2 million attributable to a decline in utilization as compared to the three months ended September 30, 1998 and $3.1 million due to rigs removed from service in late 1998. Revenues were also reduced by approximately $28.3 million from decreased operating dayrates as compared to the same period of 1998. The average operating dayrate for other semisubmersibles was $77,100 per day during the third quarter of 1999, as compared to $95,700 per day during the third quarter of 1998.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles during the three months ended September 30, 1999 decreased $12.3 million from the same quarter in 1998. This decrease resulted primarily from expense reductions from rigs that were idle for all or part of the current quarter and from rigs removed from service in late 1998.

Jack-Ups.

Revenues. Revenues from jack-ups during the three months ended September 30, 1999 decreased $37.8 million from the same quarter in 1998. This decrease was primarily due to reductions in revenues of $30.1 million resulting from decreased operating dayrates as compared to the same period of 1998. The average operating dayrate for jack-ups was $16,500 per day during the third quarter of 1999, as compared to $49,200 per day during the third quarter of 1998. In addition, revenues decreased by $7.7 million from an overall decrease in utilization and rigs removed from service in late 1998 and the first quarter of 1999. See "--Outlook."

Contract Drilling Expense. Contract drilling expense for jack-ups during the three months ended September 30, 1999 decreased $6.6 million from the same quarter in 1998. This decrease was the result of the decline in utilization and the removal of rigs from service in late 1998 and the first quarter of 1999.

Integrated Services.

Revenues and contract drilling expense for integrated services increased primarily due to three turnkey wells completed during the third quarter of 1999. See "--Integrated Services."

Depreciation and Amortization Expense.

Depreciation and amortization expense for the three months ended September 30, 1999 of $36.1 million increased $2.8 million from $33.3 million for the three months ended September 30, 1998. This increase resulted primarily from increased expenditures associated with the Company's continuing rig enhancement program.

Interest Income.

Interest income of $9.1 million for the three months ended September 30, 1999 increased $0.9 million from $8.2 million for the same period in 1998. This increase resulted primarily from the investment of additional excess cash in 1999. See " --Liquidity."

Interest Expense.

Interest expense of $2.2 million for the three months ended September 30, 1999 decreased $1.4 million from $3.6 million for the same period in 1998. This decrease resulted primarily from an increase in capitalized interest cost based on the average amount of accumulated expenditures for the Ocean Confidence. See "--Capital Resources."

Income Tax Expense.

Income tax expense of $20.4 million for the three months ended September 30, 1999 decreased $38.1 million from $58.5 million for the three months ended September 30, 1998. This decrease resulted primarily from the $109.0 million decrease in income before income tax expense as compared to the three months ended September 30, 1998.

NINE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

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

	NINE MONTHS ENDED SEPTEMBER 30, 1999	NINE MONTHS ENDED SEPTEMBER 30, 1998	INCREASE/ (DECREASE)
	(IN THOUSANDS)		
REVENUES			
Fourth-Generation Semisubmersibles.....	$ 201,148	$ 217,204	$ (16,056)
Other Semisubmersibles.................	374,187	528,835	(154,648)
Jack-ups...............................	59,249	176,307	(117,058)
Integrated Services....................	25,623	21,538	4,085
Eliminations...........................	(10,093)	(18,512)	8,419
Total Revenues.....................	$ 650,114	$ 925,372	$ (275,258)
CONTRACT DRILLING EXPENSE			
Fourth-Generation Semisubmersibles.....	$ 73,839	$ 61,826	$ 12,013
Other Semisubmersibles.................	169,761	209,948	(40,187)
Jack-ups...............................	63,847	76,804	(12,957)
Integrated Services....................	23,948	21,444	2,504
Other..................................	3,340	6,429	(3,089)
Eliminations...........................	(10,093)	(18,512)	8,419
Total Contract Drilling Expense....	$ 324,642	$ 357,939	$ (33,297)
OPERATING INCOME			
Fourth-Generation Semisubmersibles.....	$ 127,309	$ 155,378	$ (28,069)
Other Semisubmersibles.................	204,426	318,887	(114,461)
Jack-ups...............................	(4,598)	99,503	(104,101)
Integrated Services....................	1,675	94	1,581
Other..................................	(3,340)	(6,429)	3,089
Depreciation and Amortization Expense..	(107,448)	(98,051)	(9,397)
General and Administrative Expense.....	(17,286)	(18,975)	1,689
Gain on Sale of Assets.................	182	337	(155)
Total Operating Income.............	$ 200,920	$ 450,744	$ (249,824)

Fourth-Generation Semisubmersibles.

Revenues. Revenues from fourth-generation semisubmersibles during the nine months ended September 30, 1999 decreased $16.1 million from the same period in 1998. This decrease resulted primarily from a decrease in revenues of $14.5 million from the Ocean Valiant due to decreased utilization as the rig was in the shipyard for stability enhancements and other repairs during most of the third quarter of 1999. Revenues were also reduced by approximately $11.7 million due to rig downtime for upgrades and repairs performed on the Ocean Clipper during 1999 and $6.8 million due to rig downtime associated with the mandatory inspection and repairs of the Ocean America. These decreases were partially offset by an increase in revenues of approximately $14.2 million from the Ocean Victory, which was in the shipyard during part of 1998 for repairs required as a result of the February 1998 engine room fire. The decrease in revenue was also offset by an increase of approximately $2.7 million in deferred revenue recognized in 1999 associated with the mobilization of the Ocean Alliance from the North Sea to Angola in late 1998.

Contract Drilling Expense. Contract drilling expense for fourth-generation semisubmersibles during the nine months ended September 30, 1999 increased $12.0 million from the same period in 1998. This increase resulted in part from an increase of $4.9 million for repairs performed on the Ocean Valiant, which was placed in the shipyard during the third quarter of 1999. Also contributing to this increase was $3.8 million in costs associated with the mandatory inspection and repairs of the Ocean America and $2.0 million in costs incurred for the mobilization of the Ocean Alliance from the North Sea to Angola during late 1998 and the first quarter of 1999. In addition, contract drilling expense for the Ocean Victory increased approximately $2.1 million due to the capitalization of costs associated with shipyard repairs during most of the first half of 1998.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles during the nine months ended September 30, 1999 decreased $154.6 million from the same period in 1998. This decrease resulted, in part, from reduced revenues of $80.3 million attributable to a decline in utilization as compared to 1998 and $33.9 million due to rigs removed from service in late 1998. In addition, revenues were reduced by $30.1 million due to rig downtime during 1999 for mandatory inspections and repairs for the Ocean New Era, the Ocean Yatzy, the Ocean Concord, and the Ocean Winner. Also contributing to the decrease in revenues was a $28.3 million decrease in operating dayrates as compared to the same period in 1998. The average operating dayrate for other semisubmersibles was $85,900 per day during the first nine months of 1999, as compared to $92,700 per day during the first nine months of 1998. Partially offsetting these decreases in revenues were increases of $27.8 million from eight other rigs which were undergoing mandatory inspections during the first nine months of 1998.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles during the nine months ended September 30, 1999 decreased $40.2 million from the same period in 1998. This decrease resulted primarily from expense reductions of approximately $30.8 million from rigs that were idle for all or part of the first nine months of 1999. Contract drilling expense also decreased by approximately $16.9 million due to fewer mandatory inspections and repairs performed during the first nine months of 1999 as compared to 1998. Partially offsetting these decreases was an increase in costs of $7.4 million associated with the mobilization of the Ocean Winner from the Gulf of Mexico to Brazil during the first half of 1999.

Jack-Ups.

Revenues. Revenues from jack-ups during the nine months ended September 30, 1999 decreased $117.1 million from the same period in 1998. This decrease was primarily due to reductions in revenues of $57.3 million resulting from decreased operating dayrates and $58.0 million resulting from decreased utilization and the removal of rigs from service in late 1998 and the first quarter of 1999. See "--Outlook." The average operating dayrate for jack-ups was $23,900 per day during the first nine months of 1999 as compared to $51,200 per day during the first nine months of 1998.

Contract Drilling Expense. Contract drilling expense for jack-ups during the nine months ended September 30, 1999 decreased $13.0 million over the same period in 1998. This decrease resulted primarily from expense reductions from rigs that were removed from service in late 1998 and the first quarter of 1999.

Integrated Services.

Revenues and contract drilling expense for integrated services increased primarily from three turnkey wells completed during 1999. See "--Integrated Services."

Other.

Other contract drilling expense of $3.3 million during the first nine months of 1999 decreased $3.1 million from $6.4 million during the first nine months of 1998. This decrease resulted primarily from a reduction in expenditures during the first nine months of 1999 for crew training programs and various other non-recurring charges.

Depreciation and Amortization Expense.

Depreciation and amortization expense for the nine months ended September 30, 1999 of $107.4 million increased $9.4 million from $98.0 million for the nine months ended September 30, 1998. This increase resulted primarily from increased expenditures associated with the Company's continuing rig enhancement program.

General and Administrative Expense.

General and administrative expense of $17.3 million for the nine months ended September 30, 1999 decreased $1.7 million from $19.0 million for the same period in 1998 primarily due to a decrease in legal and personnel costs.

Interest Income.

Interest income of $26.0 million for the nine months ended September 30, 1999 increased $3.8 million from $22.2 million for the same period in 1998. This increase resulted primarily from the investment of additional excess cash in 1999. See "--Liquidity."

Interest Expense.

Interest expense of $7.5 million for the nine months ended September 30, 1999 decreased $3.7 million from $11.2 million for the same period in 1998. This decrease resulted primarily from an increase in capitalized interest cost based on the average amount of accumulated expenditures for the Ocean Confidence. See "--Capital Resources."

Income Tax Expense.

Income tax expense of $76.9 million for the nine months ended September 30, 1999 decreased $86.3 million from $163.2 million for the nine months ended September 30, 1998. This decrease resulted primarily from the $244.5 million decrease in income before income tax expense as compared to the nine months ended September 30, 1998.

OUTLOOK

Recent product prices have improved considerably as compared to late 1997 and throughout 1998. If sustained long-term, this improvement suggests the offshore drilling industry could see a gradual improvement in utilization and dayrates. But in the near-term, however, customers are taking a very cautious approach to exploration and development until product prices display some level of stability at a sustainable level. Continued improvements in market conditions depend upon, among other factors, the Company's customer's belief that the improved product prices currently in effect are sustainable. Currently, the Company has eight rigs removed from service and several of the Company's other rigs remain idle in various markets. The Company will continually assess the need to cold stack additional rigs or reactivate equipment depending on market conditions. The Company believes that, with its fleet size and composition, it is well positioned to take advantage of opportunities when market conditions improve.

The depressed conditions in the oil and gas industry have also increased the susceptibility of term contracts previously committed at dayrates in excess of current market rates to be terminated or renegotiated by the customer. Although the Company has not been advised, other than as discussed below, of contracts at risk, certain of its existing term contracts provide for dayrates in excess of current market rates. Cancellation or renegotiation of these contracts could have an adverse effect on the Company's results of operations.

In August 1999, a customer terminated a contract for use of one of the Company's drilling rigs located offshore Australia. The termination was made in accordance with the terms of the contract and was not the result of performance failures by the Company or its equipment. The Company believes the contract requires the customer to pay approximately $16.5 million in remaining revenue through the end of the contract period, which was previously scheduled to end in early January 2000, with set off for revenues earned by the rig from other contracts during that period. However, the customer believes that there are no further obligations under the contract and has refused to pay the $16.5 million early termination fee. The Company filed suit in Australia in August 1999 requesting reconstruction of the contract and a declaratory judgment requiring the customer to pay such early termination fee. The Company intends to vigorously pursue its claim. For financial statement purposes, the $16.5 million early termination fee has been fully reserved as a reduction of revenues in the Company's results of operations for the quarter ended September 30, 1999.

The conversion of the Ocean Confidence from an accommodation vessel to a semisubmersible drilling unit capable of operating in harsh environments and ultra-deep water continues. The upgrade and associated sea trials are anticipated to be completed in April 2000, when the rig is scheduled to begin a five-year contract in the Gulf of Mexico. See "--Capital Resources." Increased rig construction and enhancement programs are also ongoing by the Company's competitors. This increase in the supply of technologically advanced rigs capable of drilling in deep water has produced a marginal oversupply of such equipment in the current market and, in turn, adversely affected the utilization level and average operating dayrates available for the Company's rigs, particularly its higher specification semisubmersible units.

The Company's drillship, the Ocean Clipper, successfully drilled the world's deepest water depth turnkey well in the Gulf of Mexico in August 1999. See "--Integrated Services." The Ocean Clipper is currently undergoing installation of required equipment and performing necessary modifications in connection with its upcoming three-year contract offshore Brazil. This contract is anticipated to commence at the end of 1999 and is expected to generate revenues of at least $103.0 million over the three-year period.

The Company's results of operations for 1999 have been adversely affected by the loss of revenues and associated costs incurred during required regulatory inspections of its drilling rigs. Five of these inspections were completed during the nine months ended September 30, 1999. Also, in late September 1999, the Company began the regulatory inspection of the Ocean Guardian, which was previously scheduled for the first quarter of 2000, to utilize idle time between contracts. While no further inspections are scheduled for the remainder of 1999, the Company may perform additional inspections or undertake modifications to take advantage of rig downtime. The Company intends to focus on returning these rigs to operation as soon as reasonably possible, in order to minimize downtime and associated loss of revenues, but the extent of such downtime cannot be accurately predicted.

Historically, the offshore contract drilling market has been highly competitive and cyclical, and the Company cannot predict the extent to which current conditions may or may not continue.

LIQUIDITY

At September 30, 1999, cash and marketable securities totaled $680.4 million, up from $637.0 million at December 31, 1998. Cash provided by operating activities for the nine months ended September 30, 1999 decreased by $63.0 million to $326.1 million, as compared to $389.1 million for the same period of the prior year. This decrease in cash was primarily attributable to a $158.2 million decrease in net income and a $38.4 million decrease in accounts payable and accrued liabilities. These decreases were partially offset by a $109.7 million increase in cash resulting from a decrease in accounts receivable and a $23.3 million increase in cash resulting from a decrease in taxes payable.

Investing activities used $278.5 million of cash during the nine months ended September 30, 1999, as compared to $228.7 million during the same period of the prior year. This increase resulted primarily from a $99.6 million increase in cash used for capital expenditures, primarily the conversion of the Ocean Confidence, partially offset by a $50.2 million decrease in cash used for investments in marketable securities.

In April 1999, the Company entered into a $20.0 million short-term revolving credit agreement with a U.S. bank. The agreement provides for borrowings at various interest rates and varying commitment fees dependent upon public credit ratings. The Company intends to use the facility primarily for letters of credit that the Company must post, from time to time, for bid and performance guarantees required in certain parts of the world. The agreement contains certain financial and other covenants and provisions that must be maintained by the Company for compliance. As of September 30, 1999, there were no outstanding borrowings under this agreement and the Company was in compliance with each of the covenants and provisions.

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

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

CAPITAL RESOURCES

Cash required to meet the Company's capital commitments is determined by evaluating rig upgrades to meet specific customer requirements and by evaluating the Company's continuing rig enhancement program, including water depth and drilling capability upgrades. In current market conditions, the Company may determine that rig upgrades or enhancements in addition to those budgeted should be undertaken while rigs are idle in order to prudently make use of funds and take advantage of rig downtime.

It is management's opinion that operating cash flows and the Company's cash reserves will be sufficient to meet its capital commitments; however, periodic assessments will be made based on industry conditions. In addition, the Company may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses, or for general corporate purposes. The Company's ability to effect any such issuance will be dependent on the Company's results of operations, its current financial condition, current market conditions, and other factors beyond its control.

The Company has budgeted $173.7 million for rig upgrade capital expenditures during 1999, including approximately $138.7 million for 1999 expenditures associated with the conversion of the Ocean Confidence. During the nine months ended September 30, 1999, the Company expended $156.8 million, including capitalized interest expense, for rig upgrades, primarily the conversion of the Ocean Confidence from an accommodation vessel to a semisubmersible drilling unit capable of operating in harsh environments and ultra-deep waters. The Company originally estimated its net cost of conversion for this rig to be approximately $210.0 million. However, previous estimates were developed prior to the completion of all required structural engineering. The Company now estimates its net cost of conversion for this rig at approximately $285.0 million. Upon completion of the conversion and acceptance, the rig is scheduled to begin a five-year drilling program in the Gulf of Mexico, which is expected to generate approximately $320.0 million of revenues. The drilling contract contains a provision allowing the customer to cancel the contract should the unit not be delivered by July 1, 2000, but such date may be adjusted in certain circumstances. The Company believes that the project will be completed timely and within the revised budget, although, as with any major rig conversion, the possibility of unforeseen delays and cost overruns exists.

The Company has also budgeted $134.1 million for 1999 capital expenditures associated with its continuing rig enhancement program, spare equipment inventory, and other corporate requirements. During the nine months ended September 30, 1999, the Company expended $75.4 million in association with its continuing rig enhancement program to maintain spare equipment inventory levels and meet other corporate requirements. These expenditures included purchases of riser, drill pipe, and other drilling equipment.

The Company continues to consider transactions which include, but are not limited to, the purchase of existing rigs, construction of new rigs and the acquisition of other companies engaged in contract drilling or related businesses. Certain of these potential transactions reviewed by the Company would, if completed, result in its entering new lines of business. In general, however, these opportunities have been related in some manner to the Company's existing operations. Although the Company does not, as of the date hereof, have any commitment with respect to a material acquisition, it could enter into such agreement in the future and such acquisition could result in a material expansion of its existing operations or result in its entering a new line of business. Some of the potential acquisitions considered by the Company could, if completed, result in the expenditure of a material amount of funds or the issuance of a material amount of debt or equity securities.

INTEGRATED SERVICES

The Company, through its wholly owned subsidiary, Diamond Offshore Team Solutions, Inc. ("DOTS"), from time to time, selectively engages in drilling services pursuant to turnkey or modified-turnkey contracts under which DOTS agrees to drill a well to a specified depth for a fixed price. Generally, DOTS is not entitled to payment unless the well is drilled to the specified depth and profitability of the contract depends upon its ability to keep expenses within the estimates used by DOTS in determining the contract price. Drilling a well under a turnkey contract therefore typically requires a greater cash commitment by the Company and exposes the Company to risks of potential financial losses that generally are substantially greater than those that would ordinarily exist when drilling under a conventional dayrate contract. DOTS also offers a portfolio of drilling services including overall project management, extended well tests, and completion operations. During the first nine months of 1999, DOTS successfully completed three turnkey wells in the Gulf of Mexico and contributed operating income of $1.7 million to the Company's consolidated results of operations.

YEAR 2000 ISSUES

Introduction.

The Company began to address Year 2000 ("Y2K") compliance issues in 1997 when it formed a committee (the "Y2K Committee") to develop the Company's Y2K compliance initiative. The Company is continuing to take steps to determine the potential effect of the change to calendar Year 2000 on its computer hardware, software and embedded technology systems and any impact it may have on the Company's business.

State of Readiness.

The Company manages its Y2K compliance initiative through the Y2K Committee. The Y2K Committee has focused its efforts on both information technology ("IT") systems (e.g., computer software and hardware) and non-information technology ("Non-IT") systems (e.g., embedded technology such as micro-controllers) in the Company's domestic and international onshore locations, aboard the Company's drilling rigs and among its key suppliers. The Y2K Committee is focusing on critical safety, production, and operational systems on-board the Company's fleet of drilling rigs. The Company's Y2K initiative consists of the following five phases:

Phase 1 Awareness of Y2K Issues (appointment of the Y2K Committee, initial research on Y2K compliance issues);

Phase 2 Identification and Investigation of the Company's Systems (inventory of systems and investigation of readiness);

Phase 3 Communications with Suppliers (discussions and requests for information regarding Y2K initiatives and compliance status);

Phase 4 Development and Implementation of Corrective Measures (coordination with the Company's software and hardware vendors); and

Phase 5 Risk Assessment and Contingency Planning (evaluation of risk of business interruptions and development of contingency plans).

The Company has completed Phases 1, 2 and 3 for IT and Non-IT systems utilized in the Company's onshore and offshore operations and substantially completed the final two phases of its Y2K initiative.

Cost to Address the Company's Y2K Issues.

The total cost associated with required modifications to become Y2K compliant is not expected to be material to the Company's financial position primarily because the Company has utilized existing personnel resources to assist in the implementation of its Y2K compliance initiative. The Company has recently completed the implementation of certain major business and financial systems apart from the Y2K compliance initiative. However, because the replaced systems were not Y2K compliant, the Y2K initiative also benefited from their replacement. The total cost of the implementation was approximately $5.6 million, of which approximately $3.3 million was incurred and capitalized prior to 1999. The total cost does not include the Company's internal costs, principally the related payroll cost for its information systems group, which are not separately tracked.

Y2K Risks and Contingency Planning.

The Company is continuing to monitor, on an ongoing basis, the problems and uncertainties associated with its Y2K issues and their potential consequences on the Company's onshore locations, drilling operations and suppliers as well as the legal risks associated with interruption in the provision of drilling services and/or the delivery of supplies and equipment. The Company has developed contingency plans intended to address worst-case business interruptions, such as the interruption of drilling services aboard the Company's drilling rigs or interruptions in the delivery of equipment and materials utilized in the Company's drilling operations. Such contingency plans take into account the existence of certain redundant systems on some of the Company's drilling rigs and may, in part, involve manual operation of certain systems for a period of time in the event of Y2K related disruptions.

The Company's failure to fully implement its Y2K initiative or the occurrence of an unexpected Y2K problem could result in the disruption of normal business activities or operations and have a material adverse effect on the Company's results of operations, liquidity or financial condition. However, based upon the work performed to date, the Company does not believe that such matters will have a material adverse effect on its results of operations. With respect to third parties, there can be no assurance that their systems will be rendered Y2K compliant on a timely basis or that any resulting Y2K issues would not have a material adverse effect on the results of operations of the Company.

FORWARD-LOOKING STATEMENTS

Certain written and oral statements made or incorporated by reference from time to time by the Company or its representatives are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, performance or achievements, and may contain the words "expect," "intend," "plan," "anticipate," "estimate," "believe," "will be," "will continue," "will likely result," and similar expressions. Statements by the Company in this Report that contain forward-looking statements include, but are not limited to, discussions regarding the effect of market conditions on the Company's future results of operations (see "--Outlook"), completion dates for construction or other capital projects (see "--Outlook"), commencement and completion dates of drilling contracts and upgrade projects (see "--Outlook" and "--Capital Resources"), future uses of and requirements for financial resources, including but not limited to, expenditures related to the upgrade of the Ocean Confidence (see "--Liquidity" and "--Capital Resources"), and the impact of the Y2K issues on the Company's business (see "--Year 2000 Issues").

Forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, casualty losses, industry fleet capacity, changes in foreign and domestic oil and gas exploration and production activity, competition, changes in foreign, political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, customer preferences, Y2K issues and various other matters, many of which are beyond the Company's control. The risks included here are not exhaustive. Other sections of this Report and the Company's other filings with the Securities and Exchange Commission include additional factors that could adversely affect the Company's business and financial performance. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information included in this Item is considered to constitute "forward-looking statements" for purposes of the statutory safe harbor provided in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-Looking Statements" in Item 2 Part I of this Report.

INTEREST RATE AND EQUITY PRICE SENSITIVITY

The Company's financial instruments that are potentially sensitive to changes in interest rates include the Company's convertible subordinated notes and investments in debt securities, including U.S. Treasury securities and collateralized mortgage obligations ("CMO's"). The Company's convertible subordinated notes, which are due February 15, 2007, have a stated interest rate of 3.75 percent and an effective interest rate of 3.93 percent. The fair value of these notes at September 30, 1999, based on quoted market prices, was approximately $420.8 million, as compared to a carrying amount of $400.0 million. At September 30, 1999, the fair market value of the Company's investment in debt securities issued by the U.S. Treasury was approximately $432.1 million, which includes an unrealized holding loss of $1.5 million. These securities bear interest at rates ranging from 4.00 percent to 5.00 percent and do not impose a significant market risk to the Company as they are U.S. government-backed and generally short-term and readily marketable. The fair value of the Company's investment in CMO's at September 30, 1999 was approximately $148.9 million, which includes an unrealized holding loss of $4.1 million. The CMO's are also short-term and readily marketable with an implied AAA rating backed by U.S. government guaranteed mortgages.

In addition, the Company's investment in equity securities is sensitive to equity price risk. At September 30, 1999, the fair value of the Company's investment in equity securities was approximately $1.4 million, which includes an unrealized holding loss of $10.7 million.

The Company believes the declines in the fair values of its investments in debt and equity securities due to interest rate and equity price sensitivity are temporary in nature. This determination was based on the marketability of the instruments, the Company's ability to retain its investment in the instruments, past market movements and reasonably possible, near-term market movements. Therefore, the Company does not believe that potential, near-term losses in future earnings, fair values, or cash flows are likely to be material.

EXCHANGE RATE SENSITIVITY

Other than trade accounts receivable and trade accounts payable, the Company does not currently have financial instruments that are sensitive to foreign currency exchange rates.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Brown Services, Inc. and KOS Industries, Inc. v. Michael D. Brown, BSI International, Inc., Robert Brown, Robert Furlough, Power House International, Inc., Zapata Off-Shore Company and Zapata Corporation; No. 92-05691 in the 334th Judicial District Court of Harris County, Texas, filed February 7, 1992. Plaintiffs sued Zapata Off-Shore Company and Zapata Corporation (the "Zapata Defendants") for tortious interference with contract and conspiracy to tortiously interfere with contract seeking $14.0 million in actual damages and unspecified punitive damages, plus costs of court, interest and attorneys' fees. A former subsidiary of Arethusa (Off-Shore) Limited, which is now a subsidiary of the Company, defended and indemnified the Zapata Defendants pursuant to a contractual defense and indemnification agreement. In November 1997, the jury awarded a take-nothing judgment in favor of the Zapata Defendants. The plaintiffs appealed the judgment and the appellate court ordered the parties to mediation. The case went to mediation in July 1998 with no resolution. In May 1999, the case went before the Texas First Court of Appeals, Houston, which affirmed the jury verdict. The plaintiffs obtained an extension to file a petition for review with the Supreme Court of Texas by November 18, 1999. The Company has not established a provision for any liability for this case.

The Company and its subsidiaries are named defendants in certain other lawsuits and are involved from time to time as parties to governmental proceedings, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving the Company and its subsidiaries cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not expect these matters to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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

(a) Exhibits

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

(b) There were no reports on Form 8-K filed during the third quarter of 1999.

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	2-Nov-1999	By: /s/ Gary T. Krenek
		Gary T. Krenek Vice President and Chief Financial Officer
Date	2-Nov-1999	/s/ Leslie C. Knowlton
		Leslie C. Knowlton Controller (Chief Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998).
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998).
11.1*	Statement Re Computation of Per Share Earnings.
27.1*	Financial Data Schedule.

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* Filed herewith.

EXHIBIT 11.1

DIAMOND OFFSHORE DRILLING, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED SEPTEMBER 30,					
	1999			1998		
	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT
BASIC EPS						
Net income	$ 37,846	135,824	$ 0.28	$ 108,702	137,652	$ 0.79
EFFECT OF DILUTIVE POTENTIAL SHARES						
Convertible notes	1,399	9,876		2,350	9,876	
DILUTED EPS						
Net income + assumed conversions	$ 39,245	145,700	$ 0.27	$ 111,052	147,528	$ 0.75

	NINE MONTHS ENDED SEPTEMBER 30,					
	1999			1998		
	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT
BASIC EPS						
Net income.........................	$ 142,891	135,821	$ 1.05	$ 301,089	138,762	$ 2.17
EFFECT OF DILUTIVE POTENTIAL SHARES						
Convertible notes.................	4,858	9,876		7,305	9,876	
DILUTED EPS						
Net income + assumed conversions...	$ 147,749	145,697	$ 1.01	$ 308,394	148,638	$ 2.07

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
DEC-31-1999
SEP-30-1999
97,981
582,466
153,036
0
38,093
916,572
2,277,554
597,306
2,694,313
157,295
400,000
0
0
1,393
1,840,837
2,694,313
0
650,114
0
324,642
124,552
0
7,474
219,788
76,897
142,891
0
0
0
142,891
1.05
1.01

Includes contract drilling expenses only.
Includes other operating expenses.