UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2004
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from .... to ....

Commission file number 1-13926

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes [X] No [ ]

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

As of July 28, 2004 Common stock, $0.01 par value per share 129,322,455 shares

DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED JUNE 30, 2004

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)

	JUNE 30, 2004	DECEMBER 31, 2003
	(UNAUDITED)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 129,327	$ 106,345
Investments and marketable securities	35,755	503,995
Receivable from sale of marketable securities	448,992	--
Accounts receivable	147,047	154,124
Rig inventory and supplies	48,296	48,035
Prepaid expenses and other	32,531	22,764
Total current assets	841,948	835,263
DRILLING AND OTHER PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	2,220,509	2,257,876
GOODWILL	4,291	11,099
OTHER ASSETS	29,920	30,781
Total assets	$ 3,096,668	$ 3,135,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 11,969	$ 11,969
Accounts payable	21,170	15,653
Accrued liabilities	63,289	65,617
Taxes payable	2,944	6,761
Total current liabilities	99,372	100,000
LONG-TERM DEBT	935,996	928,030
DEFERRED TAX LIABILITY	377,312	384,505
OTHER LIABILITIES	41,146	42,004
Total liabilities	1,453,826	1,454,539
COMMITMENTS AND CONTINGENCIES (NOTE 9)	--	--
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, 133,457,055 shares issued and 129,322,455 shares outstanding at June 30, 2004 and December 31, 2003)	1,335	1,335
Additional paid-in capital	1,263,692	1,263,692
Retained earnings	478,273	515,906
Accumulated other comprehensive losses	(4,122)	(4,117)
Treasury stock, at cost (4,134,600 shares at June 30, 2004 and December 31, 2003)	(96,336)	(96,336)
Total stockholders' equity	1,642,842	1,680,480
Total liabilities and stockholders' equity	$ 3,096,668	$ 3,135,019

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
REVENUES:				
Contract drilling	$ 176,685	$ 157,038	$ 353,925	$ 296,897
Revenues related to reimbursable expenses	8,261	6,162	15,219	12,452
Total revenues	184,946	163,200	369,144	309,349
OPERATING EXPENSES:				
Contract drilling	133,483	124,606	268,161	238,276
Reimbursable expenses	7,519	5,525	13,753	11,263
Depreciation and amortization	44,554	41,553	89,074	88,830
General and administrative	8,760	8,214	17,549	15,414
Loss (gain) on sale of assets	130	(57)	(195)	(58)
Total operating expenses	194,446	179,841	388,342	353,725
OPERATING LOSS	(9,500)	(16,641)	(19,198)	(44,376)
OTHER INCOME (EXPENSE):				
Interest income	3,114	3,337	4,682	7,493
Interest expense	(6,373)	(5,378)	(12,727)	(10,953)
Gain (loss) on sale of marketable securities	283	(1,071)	258	(1,132)
Other, net	(257)	1,290	(411)	3,032
LOSS BEFORE INCOME TAX BENEFIT	(12,733)	(18,463)	(27,396)	(45,936)
INCOME TAX BENEFIT	2,238	1,776	5,929	7,683
NET LOSS	$ (10,495)	$ (16,687)	$ (21,467)	$ (38,253)
LOSS PER SHARE:				
BASIC	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.29)
DILUTED	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.29)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Shares of common stock	129,322	130,336	129,322	130,336
Dilutive potential shares of common stock	-	-	-	-
Total weighted average shares outstanding	129,322	130,336	129,322	130,336

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
OPERATING ACTIVITIES:		
Net loss	$ (21,467)	$ (38,253)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	89,074	88,830
Gain on sale of assets	(195)	(58)
(Gain) loss on sale of marketable securities, net	(258)	1,132
Deferred tax provision	(450)	(9,666)
Accretion of discounts on marketable securities	(1,618)	(1,378)
Amortization of debt issuance costs	534	594
Amortization of discount on zero coupon convertible debentures	7,966	7,695
Changes in operating assets and liabilities:		
Accounts receivable	7,077	(4,058)
Rig inventory and supplies and other current assets	(10,028)	1,967
Other assets, non-current	327	2,944
Accounts payable and accrued liabilities	3,189	(12,969)
Taxes payable	(3,817)	(3,470)
Other liabilities, non-current	(858)	2,389
Other items, net	450	(2,244)
Net cash provided by operating activities	69,926	33,455
INVESTING ACTIVITIES:		
Capital expenditures (excluding rig acquisitions)	(52,588)	(134,114)
Rig acquisitions	--	(63,500)
Proceeds from sale of assets	1,076	388
Proceeds from sale and maturities of marketable securities	1,949,247	1,603,006
Purchases of marketable securities	(1,895,603)	(1,374,768)
Purchases of Australian dollar time deposits	(42,073)	--
Proceeds from maturities of Australian dollar time deposits	9,163	--
Proceeds from settlement of forward contracts	--	2,015
Net cash (used) provided by investing activities	(30,778)	33,027
FINANCING ACTIVITIES:		
Payment of dividends	(16,166)	(32,584)
Net cash used in financing activities	(16,166)	(32,584)
NET CHANGE IN CASH AND CASH EQUIVALENTS	22,982	33,898
Cash and cash equivalents, beginning of period	106,345	182,453
Cash and cash equivalents, end of period	$ 129,327	$ 216,351

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries (the "Company") should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-13926).

As of July 28, 2004, Loews Corporation ("Loews") owned 54.2% of the outstanding shares of common stock of Diamond Offshore Drilling, Inc., which was a wholly owned subsidiary of Loews prior to its initial public offering in October 1995.

Interim Financial Information

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

Cash and Cash Equivalents, Marketable Securities and Other Investments

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

The Company's investments in marketable securities 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 Operations in "Interest income." The sale and purchase of securities are recorded on the date of the trade. The cost of debt securities sold is based on the specific identification method. Realized gains or losses and declines in value judged to be other than temporary, if any, are reported in the Consolidated Statements of Operations in "Other income (expense)."

Current assets include a receivable of $449.0 million for the June 30, 2004 sale of $448.5 million of marketable securities, the proceeds of which were received on July 1, 2004, resulting in a gain of $0.5 million that was recognized on June 30, 2004.

"Investments and marketable securities" in the Consolidated Balance Sheet at June 30, 2004 also included $31.9 million of time deposits (converted from 45.0 million Australian dollars) which mature over the next nine months. These securities do not meet the definition of debt securities under Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are therefore carried at cost on the balance sheet of a foreign branch of the Company.

Derivative Financial Instruments

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

Supplementary Cash Flow Information

Cash payments made for interest on long-term debt totaled $3.5 million for each of the six month periods ended June 30, 2004 and 2003.

Cash refunds received for foreign income taxes, net of foreign tax payments made, were $0.3 million during the six months ended June 30, 2004. Cash payments made for foreign income taxes, net of foreign tax refunds, were $5.3 million during the six months ended June 30, 2003. A $0.4 million refund of U.S. income tax was received in the first half of 2004. There were no payments or refunds of U.S. income taxes during the first half of 2003.

Capitalized Interest

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Total interest cost including amortization of debt issuance costs	$6,373	$ 6,518	$12,727	$ 13,017
Capitalized interest	--	(1,140)	--	(2,064)
Total interest expense as reported	$6,373	$ 5,378	$12,727	$ 10,953

Interest on the upgrade cost of the Ocean Rover was capitalized through July 10, 2003 when its upgrade was completed. Currently, there are no capital projects for which interest is being capitalized.

Debt Issuance Costs

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

Treasury Stock

Depending on market conditions, the Company may, from time to time, purchase shares of its common stock in the open market or otherwise. The purchase of treasury stock is accounted for using the cost method which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in the Consolidated Balance Sheets. There were no treasury stock purchases during the six months ended June 30, 2004 or 2003.

Comprehensive Loss

A reconciliation of net loss to comprehensive loss is as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Net loss..	$ (10,495)	$ (16,687)	$ (21,467)	$ (38,253)
Other comprehensive gains (losses), net of tax:				
Foreign currency translation loss................	(718)	(62)	(432)	(149)
Unrealized holding (loss) gain on investments....	(8)	(1,921)	452	(4,214)
Reclassification adjustment for gain (loss) included in net income (loss)..................	3	4	(25)	(9)
Comprehensive loss...............................	$ (11,218)	$ (18,666)	$ (21,472)	$ (42,625)

Currency Translation

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

Stock-Based Compensation

The Company accounts for its 2000 Stock Option Plan in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized for the options granted to employees under the plan. Had compensation expense for the Company's stock options been recognized based on the fair value of the options at the grant dates, valued using the Binomial Option pricing model, the Company's net loss and loss per share would have been as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net loss as reported	$ (10,495)	$ (16,687)	$ (21,467)	$ (38,253)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	--	--	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(266)	(273)	(577)	(537)
Pro forma net loss	$ (10,761)	$ (16,960)	$ (22,044)	$ (38,790)
Loss per share of common stock:				
As reported	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.29)
Pro forma	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.30)
Loss per share of common stock - assuming dilution:				
As reported	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.29)
Pro forma	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.30)

Revenue Recognition

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

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

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

Changes in Accounting Estimates

In April 2003 the Company commissioned a study to evaluate the economic lives of its drilling rigs. As a result of this study, effective April 1, 2003, the Company recorded changes in accounting estimates by increasing the estimated service lives to 25 years for jack-ups and 30 years for semisubmersibles and the Company's drillship and by increasing salvage values to 5% for most of the Company's drilling rigs. The change in estimate was made to better reflect the remaining economic lives and salvage values of the Company's fleet. The effect of this change in accounting estimates resulted in a reduction to net loss (after-tax) for the three and six months ended June 30, 2004 of $3.3 million, or $0.03 per share and $7.3 million, or $0.06 per share, respectively. The effect of this change in accounting estimates resulted in a reduction to net loss (after-tax) for the three and six months ended June 30, 2003 of $5.8 million, or $0.04 per share.

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

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

2. LOSS PER SHARE

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

	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net loss - basic (numerator):	$ (10,495)	$ (16,687)	$ (21,467)	$ (38,253)
Effect of dilutive potential shares				
1.5% Debentures	--	--	--	--
Zero Coupon Debentures	--	--	--	--
Net loss including conversions - diluted (numerator)	$ (10,495)	$ (16,687)	$ (21,467)	$ (38,253)
Weighted average shares - basic (denominator):	129,322	130,336	129,322	130,336
Effect of dilutive potential shares				
1.5% Debentures	--	--	--	--
Zero Coupon Debentures	--	--	--	--
Stock options	--	--	--	--
Weighted average shares including conversions - diluted (denominator)	129,322	130,336	129,322	130,336
Loss per share:				
Basic	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.29)
Diluted	$ (0.08)	$ (0.13)	$ (0.17)	$ (0.29)

The computation of diluted earnings per share ("EPS") for both quarters and six months ended June 30, 2004 and 2003 excludes approximately 6.9 million potentially dilutive shares issuable upon conversion of the Company's zero coupon convertible debentures due 2020 ("Zero Coupon Debentures") because the inclusion of such shares would be antidilutive. The computation of diluted EPS for both quarters and six months ended June 30, 2004 and

2003 also excludes approximately 9.4 million potentially dilutive shares issuable upon conversion of the Company's 1.5% Debentures because the inclusion of such shares would be antidilutive. See Note 8 for a description of the Company's long-term debt.

Certain stock options were excluded from the computation of diluted EPS because the options' exercise prices were more than the average market price per share of the common stock. Stock options representing 340,650 shares and 380,025 shares of common stock were excluded from the computation of diluted EPS for the quarters and six month periods ended June 30, 2004 and 2003, respectively.

Other stock options with average market prices that exceeded their exercise prices during the period (in-the-money options) were excluded from the computation of diluted EPS because potential shares of common stock are not included when a loss from continuing operations exists. Stock options representing 297,025 shares and 85,250 shares of common stock were excluded from the computation of diluted EPS for the quarters and six months ended June 30, 2004 and 2003, respectively.

3. INVESTMENTS AND MARKETABLE SECURITIES

Investments classified as available for sale are summarized as follows:

	JUNE 30, 2004				
			GROSS UNREALIZED LOSSES		
	AMORTIZED COST	GROSS UNREALIZED GAINS	LESS THAN 12 MONTHS	GREATER THAN 12 MONTHS	MARKET VALUE
	(in thousands)				
Debt securities issued by the U.S. Treasury and other U.S. government agencies:					
Due within one year	$ --	$ --	$ --	$ --	$ --
Mortgage-backed securities	3,838	53	--	--	3,891
Total	$ 3,838	$ 53	$ --	$ --	$3,891

"Investments and marketable securities" in the Consolidated Balance Sheets at June 30, 2004 also included $31.9 million of time deposits (converted from 45.0 million Australian dollars) which mature over the next nine months. These securities do not meet the definition of debt securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are therefore carried at cost on the balance sheet of a foreign branch of the Company.

	DECEMBER 31, 2003				
			GROSS UNREALIZED LOSSES		
	AMORTIZED COST	GROSS UNREALIZED GAINS	LESS THAN 12 MONTHS	GREATER THAN 12 MONTHS	MARKET VALUE
	(in thousands)				
Debt securities issued by the U.S. Treasury and other U.S. government agencies:					
Due within one year	$ 499,784	$ 44	$ --	$ --	$499,828
Mortgage-backed securities	4,812	--	--	(645)	4,167
Total	$ 504,596	$ 44	$ --	$(645)	$503,995

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

Current assets include a receivable of $449.0 million for the June 30, 2004 sale of $448.5 million of marketable securities, the proceeds of which were received on July 1, 2004, resulting in a gain of $0.5 million that was recognized on June 30, 2004.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Proceeds from sales	$1,198,732	$ 75,045	$ 1,199,247	$ 228,006
Proceeds from maturities ..	125,000	650,000	750,000	1,375,000
Gross realized gains	2,558	--	2,558	108
Gross realized losses	(2,275)	(1,071)	(2,300)	(1,240)

4. DERIVATIVE FINANCIAL INSTRUMENTS

Forward Exchange Contracts

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

In June 2002 the Company entered into forward contracts to purchase approximately 50.0 million Australian dollars, 4.2 million Australian dollars to be purchased monthly from August 29, 2002 through June 26, 2003 and 3.8 million to be purchased on July 31, 2003. These forward contracts were derivatives as defined by SFAS No. 133. SFAS No. 133 requires that each derivative be stated in the balance sheet at its fair value with gains and losses reflected in the income statement except that, to the extent the derivative qualifies for hedge accounting, the gains and losses are reflected in income in the same period as offsetting losses and gains on the qualifying hedged positions. SFAS No. 133 further provides specific criteria necessary for a derivative to qualify for hedge accounting. The forward contracts purchased by the Company in 2002 did not qualify for hedge accounting. At June 30, 2003, an asset of $0.5 million, reflecting the fair value of the forward contracts, was included with "Prepaid expenses and other" in the Consolidated Balance Sheets. A pre-tax gain of $1.0 million and $2.3 million was recorded in the Consolidated Statements of Operations for the quarter and six months ended June 30, 2003 in "Other income (expense)." The Company had satisfied all obligations under these contracts as of September 30, 2003 and no new forward exchange contracts have been entered into since that time.

Contingent Interest

The Company's $460.0 million principal amount of 1.5% Debentures, which were issued on April 11, 2001 and are due on April 15, 2031, contain a contingent interest provision. The contingent interest component is an embedded derivative as defined by SFAS No. 133 and accordingly must be split from the host instrument and recorded at fair value on the balance sheet. The contingent interest component had no value at issuance, at December 31, 2003, or at June 30, 2004.

5. DRILLING AND OTHER PROPERTY AND EQUIPMENT

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

	JUNE 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
Drilling rigs and equipment	$ 3,525,367	$ 3,453,219
Construction work-in-progress	--	21,274
Land and buildings	15,703	15,220
Office equipment and other	22,430	22,080
Cost	3,563,500	3,511,793
Less: accumulated depreciation	(1,342,991)	(1,253,917)
Drilling and other property and equipment, net	$ 2,220,509	$ 2,257,876

Construction work-in-progress at December 31, 2003 consisted of costs related to the Ocean Titan cantilever conversion project which was completed in January 2004.

In December 2003 the Company sold two of its early second generation semisubmersible drilling rigs, the Ocean Century and Ocean Prospector, for a total of $750,000. These rigs had been cold stacked in the Gulf of Mexico since July 1998 and October 1998, respectively. In September 2003 they were written down by $1.6 million to their fair market values of $375,000 each and subsequently retired from service as offshore drilling units.

In April 2003 the Company commissioned a study to evaluate the economic lives of its drilling rigs. As a result of this study, effective April 1, 2003, the Company recorded changes in accounting estimates by increasing the estimated service lives to 25 years for jack-ups and 30 years for semisubmersibles and the Company's drillship and by increasing salvage values to 5% for most of the Company's drilling rigs. The change in estimate was made to better reflect the remaining economic lives and salvage values of the Company's fleet. The effect of this change in accounting estimates resulted in a reduction to net loss (after-tax) for the three and six months ended June 30, 2004 of $3.3 million, or $0.03 per share and $7.3 million, or $0.06 per share, respectively. The effect of this change in accounting estimates resulted in a reduction to net loss (after-tax) for the three and six months ended June 30, 2003 of $5.8 million, or $0.04 per share.

6. GOODWILL

Goodwill from the merger with Arethusa (Off-Shore) Limited ("Arethusa") in 1996 was generated from an excess of the purchase price over the net assets acquired. The Company performed the annual goodwill impairment test on December 31, 2003 and determined that the fair value of the reporting unit exceeded its carrying value, and accordingly, no further steps were required for testing goodwill impairment at that time. Annual goodwill impairment testing is performed at each year-end.

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

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

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	JUNE 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
Payroll and benefits	$31,183	$31,058
Personal injury and other claims	8,159	7,455
Interest payable	2,317	1,537
Deferred revenue	2,206	3,068
Other	19,424	22,499
Total	$63,289	$65,617

8. LONG-TERM DEBT

Long-term debt consists of the following:

	JUNE 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
Zero Coupon Debentures	$ 463,178	$ 455,212
1.5% Debentures	460,000	460,000
Ocean Alliance Lease-leaseback Agreement	24,787	24,787
	947,965	939,999
Less: Current maturities	(11,969)	(11,969)
Total	$ 935,996	$ 928,030

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2003 are as follows (see discussions following table for description of the rights that holders of the debentures have to put the securities to the Company):

	(IN THOUSANDS)
2004	$ 11,969
2005	12,818
2006	--
2007...........................	--
2008...........................	--
Thereafter	923,178
	947,965
Less: Current maturities.......	(11,969)
Total	$ 935,996

1.5% Debentures

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

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

The Company will pay contingent interest to holders of the 1.5% Debentures during any six-month period commencing after April 15, 2008, if the average market price of a 1.5% Debenture for a measurement period preceding such six-month period equals 120% or more of the principal amount of such 1.5% Debenture and the Company pays a regular cash dividend during such six-month period. The contingent interest payable per $1,000 principal amount of 1.5% Debentures, in respect of any quarterly period, will equal 50% of regular cash dividends paid by the Company per share on its common stock during that quarterly period multiplied by the conversion rate. This contingent interest component is an embedded derivative, which had no fair value at issuance or on December 31, 2003 or June 30, 2004.

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

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

Zero Coupon Convertible Debentures

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

The Company has the right to redeem the Zero Coupon Debentures, in whole or in part, after June 6, 2005, for a price equal to the issuance price plus accrued original issue discount through the date of redemption. Holders have the right to require the Company to repurchase the Zero Coupon Debentures on June 6, 2005, June 6, 2010 and June 6, 2015 at the accreted value through the date of repurchase. The Company may pay such repurchase price with either cash or shares of the Company's common stock or a combination of cash and shares of common stock.

The aggregate principal amount at maturity will be $805.0 million assuming no conversions or redemptions occur prior to the maturity date.

Ocean Alliance Lease-Leaseback

The Company entered into a lease-leaseback agreement with a European bank in December 2000. The lease-leaseback agreement provides for the Company to lease the Ocean Alliance, one of the Company's high specification semisubmersible drilling rigs, to the bank for a lump-sum payment of $55.0 million plus an origination fee of $1.1 million and for the bank to then sub-lease the rig back to the Company. Under the agreement, which has a five-year term, the Company is to make five annual payments of $13.7 million. Three of the five annual payments have been made as of June 30, 2004. This financing arrangement has an effective interest rate of 7.13% and is an unsecured subordinated obligation of the Company.

9. COMMITMENTS AND CONTINGENCIES

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

10. SEGMENTS AND GEOGRAPHIC AREA ANALYSIS

The Company reports its operations as one reportable segment, contract drilling of offshore oil and gas wells. 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.

Contract Drilling Services

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
High Specification Floaters	$ 59,088	$ 72,660	$123,840	$ 136,294
Other Semisubmersibles	75,128	61,265	146,263	112,968
Jack-ups	42,304	23,116	83,123	46,682
Integrated Services	--	--	--	1,189
Other	165	(3)	699	(3)
Eliminations	--	--	--	(233)
Total Contract Drilling Revenues	176,685	157,038	353,925	296,897
Revenues Related to Reimbursable Expenses	8,261	6,162	15,219	12,452
Total revenues	$184,946	$ 163,200	$369,144	$ 309,349

Geographic Areas

At June 30, 2004, the Company had drilling rigs located offshore ten countries other than the United States. As a result, the Company is exposed to the risk of changes in social, political, economic and other conditions inherent in foreign operations and the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates. Revenues by geographic area are presented by attributing revenues to the individual country or areas where the services were performed.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
United States	$ 79,992	$ 83,915	$157,702	$163,674
Foreign:				
South America	26,287	40,804	57,767	81,279
Europe/Africa	17,539	15,009	31,438	20,871
Australia/Southeast Asia..	40,059	22,570	79,795	42,623
Mexico	21,069	902	42,442	902
Total revenues	$184,946	$163,200	$369,144	$309,349

11. INCOME TAXES

Certain of the Company's rigs that operate internationally are owned and operated, directly or indirectly, by Diamond Offshore International Limited, a Cayman Islands corporation and wholly-owned subsidiary of the Company. Effective January 1, 2003 the Company began to postpone remittance of the earnings from Diamond Offshore International Limited and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses during the three months or six months ended June 30, 2004 and 2003. The estimated total Company annual effective tax rate was 24.8% as of June 30, 2004 and 16.7% as of June 30, 2003. The estimated annual effective tax rate was greater in the 2004 period than in the 2003 period primarily due to the different mix of domestic and international earnings and tax rates in each period.

Tax expense for the three and six months ended June 30, 2004 also included a $0.9 million adjustment related to finalizing prior year tax returns in two foreign jurisdictions. This additional expense is not included in the calculation of the Company's current year estimated annual effective tax rate of 24.8%.

The Company is under audit or has received an assessment for prior year income taxes in certain of its international tax jurisdictions which exposes the Company to approximately $1.0 million of additional income tax. The Company intends to contest any unfavorable judgment in these jurisdictions and expects to prevail. Consequently, no income tax expense related to this potential exposure has been recorded.

12. PENSION PLAN

The defined benefit pension plan established by Arethusa effective October 1, 1992 was frozen on April 30, 1996. At that date all participants were deemed fully vested in the plan, which covered substantially all U.S. citizens and U.S. permanent residents who were employed by Arethusa.

As a result of freezing the plan, no service cost has been accrued for the years presented.

Components of net periodic benefit costs were as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Interest cost	$ 255	$ 248	$ 510	$ 497
Expected return on plan assets ...	(297)	(315)	(594)	(631)
Amortization of unrecognized loss..	77	68	154	136
Net periodic pension expense	$ 35	$ 1	$ 70	$ 2

During 2003 the Company made a voluntary contribution to the plan of $0.5 million. The Company does not expect to make a contribution to its pension plan in 2004.

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

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

The Company is a leader in deep water drilling with a fleet of 45 offshore drilling rigs. The fleet consists of 30 semisubmersibles, 14 jack-ups and one drillship.

OVERVIEW

RESULTS OF OPERATIONS AND INDUSTRY CONDITIONS

Overall demand for offshore contract drilling services improved but remained volatile during the second quarter of 2004, and the Company reported a $0.08 per share loss on a diluted basis for the period. The loss was chiefly attributable to downtime associated with a series of sub-sea and electrical problems that the Ocean Alliance experienced after returning to work following a scheduled regulatory survey and sub-sea equipment upgrade. As a result, gross revenue was negatively impacted by approximately $8.9 million and net income, including approximately $1.5 million of repair costs on the Ocean Alliance, was negatively impacted by $7.8 million, or $0.06 per share on a diluted basis. The Ocean Alliance has continued to operate on term contract for Petrobras in Brazil since it returned to work on July 2.

Gulf of Mexico. In the U.S. Gulf of Mexico ("U.S. GOM"), our jack-up fleet continued to experience high utilization and improving dayrates during the second quarter of 2004 compared with the previous quarter. In late June, the Company reactivated the Ocean Champion from cold-stack status. The 250-ft. mat slot jack-up rig is currently in Lake Charles, LA, being prepared for a return to work expected in mid-August 2004. The Company currently views the jack-up market in the U.S. GOM as tightly balanced, with effective utilization near 100 percent and demand sporadically exceeding supply. As a result, the Company believes the market and dayrates for this class of equipment could improve further in the near term.

Well-to-well contracts remained the norm for both the high-specification deepwater and other mid-water semisubmersible markets in the U.S. GOM during the second quarter of 2004. In the deepwater market, the Ocean Star, a fourth generation conversion that had been idle for most of the year, returned to work in June with contracts and commitments that could keep the rig employed until early 2005. Additionally, the 5,500-ft. Ocean America completed approximately three months' of special survey and upgrade work and returned to work in June for a drilling program that will occupy the unit until late November 2004. While the Company views the deepwater market in the U.S. GOM as remaining over-supplied, the Company believes that utilization and dayrates have stabilized, and that improvement in this sector is possible in the second half of this year.

Two of the Company's three mid-water semisubmersibles currently marketed in the U.S. GOM were fully utilized during the quarter. However, the Ocean Concord was again idled in June after approximately 80 days of work, and the Company elected to utilize the current period of weakness in the Gulf to bring the rig into a Brownsville, Texas shipyard for maintenance and tank repair. That work is expected to be completed in early October 2004. The Company views the mid-water market as remaining over-supplied and volatile with flat demand.

In the Mexican GOM, the Company's four semisubmersible rigs that mobilized to that market in the latter half of 2003 operated throughout the second quarter of 2004 under long-term contracts. The Company believes that future work for other of its semisubmersibles and jack-ups in this market is limited. The Company views the market for the Mexican GOM as in balance and expects it to remain so this year.

Brazil. In Brazil, the Ocean Alliance, the Ocean Winner and the Ocean Yatzy completed five-year regulatory surveys during the quarter and returned to work. However, the Ocean Alliance experienced a series of sub-sea and electrical problems subsequent to completion of its survey and sub-sea equipment upgrade, as noted previously. The Company views the Brazilian semisubmersible market as firm, and all four of the rigs the Company operates in Brazil are working under long-term contracts, three of which have been recently renewed. The contract for the Ocean Alliance expires in September 2004, and the Company is pursuing opportunities for the rig in Brazil and other markets.

North Sea. In the U.K. sector of the North Sea, the Company operated two of its semisubmersibles throughout the first half of the year. A third rig, the Ocean Vanguard, began operating in the U.K. sector of the North Sea at the end of the second quarter of 2004 after an extended idle period. The new contract for the Ocean Vanguard is expected to extend into the fourth quarter of the year. The Company also has a contract for work that will mobilize the Ocean Vanguard to Norway in the fourth quarter of 2004. Utilization of marketed semisubmersible rigs in the U.K. sector of the North Sea reached 100 percent at the end of June with the advent of the summer drilling season and dayrates have increased. The Company believes this market will remain firm throughout the third quarter of 2004. Semisubmersible rig utilization in Norway also continues near 100 percent with firm demand, and the Company believes this market will remain firm at least through the end of this year.

Africa. The Ocean Nomad worked in West Africa for the entire second quarter under a contract that will keep the rig employed until mid-September 2004. Additionally, the semisubmersible Ocean Patriot, a mid-water rig, completed its contract offshore South Africa and is currently mobilizing to Australia and New Zealand, where it will work for a group of companies under contracts that are expected to employ the rig until July 2005. The cost of the mobilization is being paid for by the customers. The Company views the West African floater market as remaining oversupplied and as being slower to develop in 2004 than anticipated; however, the Company believes deepwater demand could be positively impacted through increasing development work.

Southeast Asia. The Ocean Heritage mobilized from Southeast Asia to Ecuador earlier this year, where it worked throughout the second quarter. The 300-ft. independent- cantilever jack-up rig is expected to demobilize to Asia or India following completion of its current contract in mid-August 2004. The cost of the demobilization from Ecuador will be paid for by our current customer. The Company's other rigs in the Southeast Asian market all operated throughout the majority of the second quarter, and the Company believes that its rigs in Southeast Asia will remain on contract through most of 2004. The Company views demand in the Southeast Asian market as increasing, and with high utilization, the Company believes dayrates could continue improving.

GENERAL

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

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

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

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

Operating Income. Operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Operating expenses generally are not affected by changes in dayrates and may not be significantly affected by fluctuations in utilization. For instance, if a rig is to be idle for a short period of time, few decreases in operating expenses may actually occur since the rig is typically maintained in a prepared or "ready stacked" state with a full crew. In addition, when a rig is idle, the Company is responsible for certain operating expenses such as rig fuel and supply boat costs, which are typically costs of the operator when a rig is under contract. However, if the rig is to be idle for an extended period of time, the Company may reduce the size of a rig's crew and take steps to "cold stack" the rig, which lowers expenses and partially offsets the impact on operating income. Four of the Company's rigs were cold stacked at June 30, 2004. The Company recognizes as operating expenses activities such as inspections, painting projects and routine overhauls, meeting certain criteria, which maintain rather than upgrade its rigs. These expenses vary from period to period. Costs of rig enhancements are capitalized and depreciated over the expected useful lives of the enhancements. Higher depreciation expense decreases operating income in periods subsequent to capital upgrades.

Operating income is negatively impacted when the Company performs certain regulatory inspections that are due every five years ("5-year survey") for all of the Company's rigs. Operating revenue decreases because these surveys are performed during scheduled down-time in a shipyard. Operating expenses increase as a result of these surveys due to the cost to mobilize the rigs to a shipyard, inspection costs incurred and repair and maintenance costs. Repair and maintenance costs may be required resulting from the survey or may have been previously planned to take place during this mandatory down-time. The number of rigs undergoing a 5-year survey will vary from year to year.

CRITICAL ACCOUNTING ESTIMATES

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

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

In April 2003 the Company commissioned a study to evaluate the economic lives of its drilling rigs. As a result of this study, effective April 1, 2003, the Company recorded changes in accounting estimates by increasing the estimated service lives to 25 years for jack-ups and 30 years for semisubmersibles and the Company's drillship and by increasing salvage values to 5% for most of the Company's drilling rigs. The change in estimate was made to better reflect the remaining economic lives and salvage values of the Company's fleet. The effect of this change in accounting estimates resulted in a reduction to net loss (after-tax) for the three and six months ended June 30, 2004 of $3.3 million, or $0.03 per share and $7.3 million, or $0.06 per share, respectively. The effect of this change in accounting estimates resulted in a reduction to net loss (after-tax) for the three and six months ended June 30, 2003 of $5.8 million, or $0.04 per share. Management makes judgments, assumptions and estimates regarding capitalization, useful lives and salvage values. Changes in these assumptions could produce results that differ from those reported.

The Company evaluates its property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In September 2003 the Company wrote down two of its second generation semisubmersible drilling rigs, the Ocean Century and the Ocean Prospector, by $1.6 million to their fair market values subsequent to a decision to offer the rigs for sale. These rigs were sold in December 2003 for $375,000 each. Management's assumptions are an inherent part of an asset impairment evaluation and the use of different assumptions could produce results that differ from those reported.

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

Income Taxes. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires the recognition of the amount of taxes payable or refundable for the current year; and an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been currently recognized in its financial statements or tax returns. The application of this accounting standard requires that management make judgments regarding future events and related estimations especially as they pertain to forecasting of the Company's effective tax rate, the potential realization of deferred tax assets such as utilization of foreign tax credits, and exposure to the disallowance of items deducted on tax returns upon audit.

In December 2003 a valuation allowance of $10.2 million, which resulted in a charge against earnings, was established for certain of the Company's foreign tax credit carryforwards which will begin to expire in 2006. Although the Company intends to make use of all available tax planning strategies in order to be able to utilize these carryforwards, under the "more likely than not" approach of evaluating the associated deferred tax asset the Company deemed that a valuation allowance was necessary.

THREE MONTHS ENDED JUNE 30, 2004 AND 2003

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

	THREE MONTHS ENDED JUNE 30,		
	2004	2003	FAVORABLE/ (UNFAVORABLE)
	(in thousands)		
CONTRACT DRILLING REVENUE			
High Specification Floaters	$ 59,088	$ 72,660	$(13,572)
Other Semisubmersibles	75,128	61,265	13,863
Jack-ups	42,304	23,116	19,188
Other	165	(3)	168
TOTAL CONTRACT DRILLING REVENUE	$ 176,685	$ 157,038	$ 19,647
REVENUES RELATED TO REIMBURSABLE EXPENSES	$ 8,261	$ 6,162	$ 2,099
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 40,668	$ 38,555	$ (2,113)
Other Semisubmersibles	67,960	57,810	(10,150)
Jack-ups	24,082	27,012	2,930
Integrated Services	--	841	841
Other	773	388	(385)
TOTAL CONTRACT DRILLING EXPENSE	$ 133,483	$ 124,606	$ (8,877)
REIMBURSABLE EXPENSES	$ 7,519	$ 5,525	$ (1,994)
OPERATING INCOME (LOSS)			
High Specification Floaters	$ 18,420	$ 34,105	$(15,685)
Other Semisubmersibles	7,168	3,455	3,713
Jack-ups	18,222	(3,896)	22,118
Integrated Services	--	(841)	841
Other	(608)	(391)	(217)
Reimbursable expenses, net	742	637	105
Depreciation	(44,554)	(41,553)	(3,001)
General and administrative expense	(8,760)	(8,214)	(546)
(Loss) gain on sale of assets	(130)	57	(187)
TOTAL OPERATING INCOME (LOSS)	$ (9,500)	$ (16,641)	$ 7,141

High Specification Floaters.

Revenues. Revenues from high specification floaters decreased $13.6 million during the quarter ended June 30, 2004 compared to the same period in 2003.

A decrease in utilization from 92% during the second quarter of 2003 to 63% (excluding the Ocean Rover) during the second quarter of 2004 negatively affected revenue by $20.8 million.

Utilization declined for:

- The Ocean Alliance, which was off contract for substantially all of the second quarter of 2004 due to a series of sub-sea and electrical problems;

- the Ocean America, which spent most of the second quarter 2004 in a shipyard completing its 5-year survey and upgrade;

- the Ocean Star, which was stacked the first two months of the second quarter of 2004, before returning to work in June; and

- the Ocean Victory, which was stacked for approximately one-half of the second quarter of 2004.

All of these rigs operated during all or most of the second quarter of 2003.

The overall average operating dayrate was $96,300 during the second quarter of 2003 compared to $95,000 (excluding the Ocean Rover) during the second quarter of 2004. This lower average dayrate contributed $2.9 million to the overall decrease in high specification revenue.

Partially offsetting the overall lower revenue for high specification floaters, was $10.1 million earned by the Ocean Rover during the second quarter of 2004, which was in a Singapore shipyard completing its major upgrade to high specification capabilities during the second quarter of 2003.

Contract Drilling Expense. Contract drilling expense for high specification floaters was higher by $2.1 million for the quarter ended June 30, 2004 compared to the same period in 2003 primarily due to:

- operating costs for the Ocean Rover, which worked all of the second quarter of 2004 but was completing its major upgrade during the second quarter of 2003; and

- repairs to the Ocean Alliance, due to a series of sub-sea and electrical problems during the second quarter of 2004.

Partially offsetting higher contract drilling expenses were lower expenses for:

- the Ocean America, which was stacked in a shipyard during most of the second quarter of 2004 completing its 5-year survey and upgrade; and

- the Ocean Quest and Ocean Valiant which experienced higher costs from maintenance projects during the second quarter of 2003.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles for the quarter ended June 30, 2004 increased $13.9 million compared to the same period in 2003.

An improvement in utilization contributed $15.7 million to revenue. Utilization went up from 56% during the second quarter of 2003 (excluding the Ocean Century and Ocean Prospector which were sold in December 2003) to 71% during the second quarter of 2004.

Utilization improved for:

- the Ocean Epoch and the Ocean Whittington, both of which operated all of the second quarter of 2004 but were stacked most of the second quarter of 2003;

- the Ocean Ambassador, which worked the entire second quarter of 2004 but spent the entire second quarter of 2003 in a shipyard undergoing its 5-year survey and preparing for its mobilization to Mexico; and

- the Ocean Bounty and the Ocean Nomad, which both operated all of the second quarter of 2004 but were stacked for approximately one-half of the second quarter of 2003 undergoing 5-year surveys.

The improvement in utilization was partially offset by the Ocean Yatzy which was stacked approximately three weeks during the second quarter of 2004 undergoing a 5-year survey but operated throughout the same period in 2003.

Revenue was negatively impacted by $1.8 million due to a decline in the average operating dayrate, which fell from $56,900 during the second quarter of 2003 to $55,000 during the second quarter of 2004. The Ocean Yatzy, one of the Company's rigs operating offshore Brazil, experienced the largest change in dayrate (from $126,400 to $76,900) as its long-term contract expired in late 2003 and was renewed at a lower dayrate. Partially offsetting the overall decline in the average operating dayrate was an increase in dayrate for the Ocean Worker (from $39,100 to $69,000) when it began working offshore Mexico during the third quarter of 2003.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles increased $10.2 million during the second quarter of 2004 compared to the same period in 2003 primarily due to:

- the Ocean Vanguard, purchased in December 2002, which incurred higher than normal operating costs during the second quarter of 2004 in preparation for its contract in the North Sea which began during that quarter compared to minimal costs incurred during the second quarter of 2003 when this rig was bareboat chartered to its previous owner for most of the quarter;

- the four rigs now working in the Mexican GOM, which incurred higher labor, travel and equipment rental expense, as well as expenses associated with maintaining a Mexican shorebase;

- the Ocean Patriot, which had increased expenditures as it prepared for operations in New Zealand and Australia and the associated expenses for mobilization which began late in the second quarter of 2004; and

- the Ocean Epoch, which had normal operating expenses during the second quarter of 2004 compared to reduced costs during the second quarter of 2003 while it was stacked.

Partially offsetting the increase in contract drilling expense were lower comparative expenses during the second quarter of 2004 for:

- the Ocean Nomad and the Ocean Bounty which were undergoing 5-year surveys during the second quarter 2003; and

- the Ocean Guardian and the Ocean Princess which incurred additional costs from maintenance projects during the second quarter 2003.

Jack-Ups.

Revenues. Revenues from jack-ups increased $19.2 million during the second quarter of 2004 compared to the same quarter in 2003.

Improvements in average operating dayrates contributed $9.8 million to the overall revenue increase as dayrates rose from $26,700 during the second quarter of 2003 to $35,400 during the same period of 2004. Every rig in this classification experienced an increase to its average operating dayrate resulting primarily from a tighter jack-up market in the U.S. GOM.

Utilization which rose from 68% during the second quarter of 2003 to 90% during the same quarter of 2004 also contributed to the overall increase in revenue by $9.4 million. This improvement in utilization was primarily due to:

- the Ocean Sovereign, the Ocean Titan, and the Ocean Tower which worked the entire second quarter of 2004 compared to portions of the second quarter of 2003 when these rigs were undergoing major upgrades and other shipyard projects; and

- the Ocean Summit and the Ocean Warwick which worked the entire second quarter of 2004 compared to the second quarter of 2003 when each rig was stacked for approximately one-half of the quarter, in the case of the Ocean Warwick for its 5-year survey.

Contract Drilling Expense. Contract drilling expense for jack-ups decreased $2.9 million during the second quarter of 2004 compared to the same period in 2003 primarily due to:

- normal operating costs for the Ocean Tower and the Ocean Sovereign during the 2004 period compared to increased expenses for shipyard projects during the second quarter of 2003; and

- normal operating costs for the Ocean Warwick during the 2004 period compared to expenses for mobilization to the shipyard and costs related to its 5-year survey during the second quarter of 2003.

Reimbursable expenses, net.

Reimbursable expenses include items that the Company purchases, and/or services it performs, at the request of its customers. Revenues related to reimbursable items, offset by the related expenditures for these items, were $0.7 million and $0.6 million for the quarters ended June 30, 2004 and 2003, respectively.

Depreciation.

Depreciation expense increased $3.0 million to $44.6 million in the second quarter of 2004 compared to $41.6 million in the second quarter of 2003 primarily due to:

- the Ocean Rover, which completed its upgrade in July 2003;

- two jack-up rigs which completed upgrades during the second quarter of 2003 and one jack-up rig which completed its upgrade during the first quarter of 2004; and

- four rigs operating in Mexico due to an increase in 2003 capital additions.

General and Administrative Expense.

General and administrative expense for the quarter ended June 30, 2004 of $8.8 million increased from $8.2 million for the same period in 2003. This increase was primarily due to legal fees associated with litigation and engineering technical support fees.

Interest Expense.

Interest expense of $6.4 million during the second quarter of 2004 was $1.0 million higher than interest expense of $5.4 million in the same period in 2003 primarily due to interest on the upgrade cost of the Ocean Rover capitalized through July 10, 2003 when its upgrade was completed. See Note 1 " - -- General Information -- Capitalized Interest" in Item 1 of Part I of this report.

Gain (Loss) on Sale of Marketable Securities.

A gain on the sale of marketable securities of $0.3 million occurred in the second quarter of 2004 compared to a $1.1 million loss in the same quarter of last year. See Note 3 "Marketable Securities" in Item 1 of Part I of this report.

Income Tax Benefit.

An income tax benefit of $2.2 million was recognized on a pre-tax loss of $12.7 million in the second quarter of 2004 compared to a tax benefit of $1.8 million which was recognized on a pre-tax loss of $18.5 million in the second quarter of 2003.

Certain of the Company's rigs that operate internationally are owned and operated, directly or indirectly, by Diamond Offshore International Limited, a Cayman Islands corporation and wholly-owned subsidiary of the Company. Effective January 1, 2003 the Company began to postpone remittance of the earnings from Diamond

Offshore International Limited and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses during the quarters ended June 30, 2004 and 2003. The Company's annual estimated effective tax rate was 24.8% at June 30, 2004 and 16.7% at June 30, 2003. The estimated annual effective tax rate was greater in the 2004 period than in the 2003 period primarily due to the different mix of domestic and international earnings and tax rates in each period.

Tax expense for the three months ended June 30, 2004 also included a $0.9 million adjustment related to finalizing prior year tax returns in two foreign jurisdictions. This additional expense is not included in the calculation of the Company's current year estimated annual effective tax rate of 24.8%.

The Company is under audit or has received an assessment for prior year income taxes in certain of its international tax jurisdictions which exposes the Company to approximately $1.0 million of additional income tax. The Company intends to contest any unfavorable judgment in these jurisdictions and expects to prevail. Consequently, no income tax expense related to this potential exposure has been recorded.

SIX MONTHS ENDED JUNE 30, 2004 AND 2003

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

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	FAVORABLE/ (UNFAVORABLE)
	(in thousands)		
CONTRACT DRILLING REVENUE			
High Specification Floaters	$ 123,840	$ 136,294	$(12,454)
Other Semisubmersibles	146,263	112,968	33,295
Jack-ups	83,123	46,682	36,441
Integrated Services	--	1,189	(1,189)
Other	699	(3)	702
Eliminations	--	(233)	233
TOTAL CONTRACT DRILLING REVENUE	$ 353,925	$ 296,897	$ 57,028
REVENUES RELATED TO REIMBURSABLE EXPENSES	$ 15,219	$ 12,452	$ 2,767
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 83,138	$ 76,831	$ (6,307)
Other Semisubmersibles	130,952	107,527	(23,425)
Jack-ups	52,019	51,263	(756)
Integrated Services	--	2,090	2,090
Other	2,052	798	(1,254)
Eliminations	--	(233)	(233)
TOTAL CONTRACT DRILLING EXPENSE	$ 268,161	$ 238,276	$(29,885)
REIMBURSABLE EXPENSES	$ 13,753	$ 11,263	$ (2,490)
OPERATING INCOME (LOSS)			
High Specification Floaters	$ 40,702	$ 59,463	$(18,761)
Other Semisubmersibles	15,311	5,441	9,870
Jack-ups	31,104	(4,581)	35,685
Integrated Services	--	(901)	901
Other	(1,353)	(801)	(552)
Reimbursable expenses, net	1,466	1,189	277
Depreciation	(89,074)	(88,830)	(244)
General and administrative expense	(17,549)	(15,414)	(2,135)
Gain on sale and disposition of assets	195	58	137
TOTAL OPERATING INCOME (LOSS)	$ (19,198)	$ (44,376)	$ 25,178

High Specification Floaters.

Revenues. Revenues from high specification floaters decreased $12.5 million during the six months ended June 30, 2004 compared to the same period in 2003.

Revenue was negatively impacted by $28.6 million as utilization (excluding the Ocean Rover) fell from 88% during the first half of 2003 to 69% during the first half of 2004.

Utilization declined for:

- the Ocean Star, which was stacked a majority of the first half of 2004;

- the Ocean Alliance, which was off contract during the first half of 2004 for approximately two and one-half months due to a series of sub-sea and electrical problems following approximately one month in a shipyard for a 5-year survey and sub-sea equipment upgrade;

- the Ocean America, which spent approximately three of the first six months of 2004 in a shipyard undergoing a 5-year survey and upgrade which were completed late in the second quarter of 2004; and

- the Ocean Confidence, which had approximately three weeks of unpaid downtime for repairs during the first half of 2004.

All of these rigs operated during all or most of the first half of 2003.

Partially offsetting the overall decline in utilization was an improvement in utilization for the Ocean Valiant, which worked all of the first half of 2004 but was stacked for most of the first half of 2003 for a 5-year survey and while waiting for a contract.

Lower overall average operating dayrates during the first six months of 2004, excluding the Ocean Rover, of $91,700 compared to $95,300 during the same period in 2003, reduced revenue by $4.6 million. The lower average dayrates were primarily a consequence of soft market conditions in the U.S. GOM as several of these high specification floaters accepted jobs in the mid-water depth market.

The Ocean Rover contributed $20.7 million to revenue during the first half of 2004 as it continued its drilling program offshore Malaysia. During the first half of 2003 this rig was undergoing an upgrade to high specification capabilities which was completed in July 2003.

Contract Drilling Expense. Contract drilling expense for high specification floaters increased by $6.3 million for the six months ended June 30, 2004 compared to the same period in 2003 primarily due to:

- operating costs for the Ocean Rover, which worked all of the first half of 2004 but was undergoing a major upgrade during the first half of 2003;

- repairs to the Ocean Alliance due to a series of sub-sea and electrical problems and costs related to a 5-year survey and sub-sea equipment upgrade, all occurring during the first half of 2004; and

- costs incurred for mobilization to a shipyard and a 5-year survey for the Ocean America during the first half of 2004.

Partially offsetting the overall higher contract drilling expense during the first half of 2004 were lower expenses for:

- the Ocean America, which capitalized a majority of its expenditures during its 2004 upgrade;

- the Ocean Valiant which incurred higher costs during the first six months of 2003 for a 5-year survey and maintenance repairs; and

- the Ocean Baroness which incurred higher costs during the first half of 2003 for its mobilization to Indonesia.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles for the six months ended June 30, 2004 increased $33.3 million compared to the same period in 2003.

Utilization improvements contributed $35.9 million to the higher revenues. Utilization rose to 69% during the first half of 2004 from 51% during the same period of 2003 (excluding the Ocean Century and Ocean Prospector, which were sold in December 2003). Utilization improved for:

- the Ocean Whittington, Ocean Epoch and Ocean Princess, all of which worked a majority of the first half of 2004 but were ready-stacked during most of the same period in 2003;

- the Ocean Ambassador, which worked the entire first half of 2004 but spent the majority of the first half of 2003 in a shipyard undergoing a 5-year survey and preparing for its contract in Mexico; and

- the Ocean Guardian and Ocean Bounty which worked most of the first half of 2004 compared to the first half of 2003 when the Ocean Guardian spent three months in a shipyard undergoing repairs and an inspection and the Ocean Bounty spent two months in a shipyard undergoing a 5-year survey.

Partially offsetting these utilization improvements was the Ocean Concord which spent approximately three of the first six months of 2004 in a shipyard for life enhancement maintenance and 5-year survey compared to the first half of 2003 when this rig worked most of the period.

The average operating dayrate for other semisubmersibles fell from $58,800 during the first six months of 2003 to $55,700 during the first six months of 2004 which reduced revenues by $2.6 million. The most significant reductions in average dayrates were to:

- the Ocean Yatzy (from $124,300 to $83,300) which renewed its contract to operate offshore Brazil during the latter part of 2003 at a lower dayrate reflective of the current market; and

- the Ocean Yorktown (from $75,500 to $48,300) which worked offshore Brazil during the first half of 2003 but operated in the Mexican GOM during the first half of 2004.

Partially offsetting the overall lower average operating dayrates were improvements in dayrates for the Ocean Worker ($39,000 to $68,700) and Ocean Ambassador ($40,100 to $57,000). Both rigs operated in the Mexican GOM during the first half of 2004 and the U.S. GOM during the same period in 2003.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles increased $23.4 million during the first six months of 2004 compared to the same period in 2003 primarily due to:

- the four rigs now working in the Mexican GOM, which incurred higher labor, travel, and equipment rental expense, as well as expenses associated with maintaining a Mexican shorebase;

- the Ocean Vanguard and Ocean Patriot each incurred higher than normal operating expenses during the first half of 2004 due to preparations for work in the North Sea, New Zealand and Australia, respectively, compared to minimal costs during the same period in 2003 when the Ocean Vanguard operated under a bareboat charter for its previous owner for most of the 2003 period and the Ocean Patriot began operations following its March 2003 purchase;

- the Ocean Winner and Ocean Concord, both of which incurred costs to mobilize to a shipyard for their 5-year surveys (the Ocean Concord was also undergoing life enhancement maintenance) during a portion of the first half of 2004 compared to normal operations during the first half of 2003; and

- the Ocean Epoch, which incurred normal operating costs as it worked most of the first six months of 2004 compared to reduced costs while it was ready-stacked during most of the first six months of 2003.

Partially offsetting the increase in contract drilling expense were lower costs for:

- the Ocean Guardian, which incurred normal operating costs during the first half of 2004 compared to costs for mobilization to a shipyard and an inspection during the same period in 2003; and

- the Ocean Saratoga, which incurred normal operating costs during the first half of 2004 compared to operating costs for the same period in 2003 which included engine and annular overhaul costs and anchor handling crews required to move the rig to a different location.

Jack-Ups.

Revenues. Revenues from jack-ups increased $36.4 million during the first six months of 2004 compared to the same period of 2003.

The average operating dayrate for jack-ups rose to $37,400 in the first half of 2004 from $27,200 in the same period of 2003 resulting in a $19.6 million revenue improvement. All of the Company's jack-ups in the GOM experienced an increase in average dayrate primarily due to a tighter market for this class of equipment in the U.S. GOM.

Utilization rose to 88% in the first half of 2004 from 68% in the same period of 2003, resulting in a $16.8 million revenue improvement. Three of the Company's jack-ups, the Ocean Tower and Ocean Titan in the U.S. GOM, and the Ocean Sovereign in Southeast Asia, were in shipyards undergoing major upgrades during part of the first half of 2003 but were operating during most of the same period in 2004.

Contract Drilling Expense. Contract drilling expense for jack-ups during the first half of 2004 increased $0.8 million compared to the same period in 2003 primarily due to:

- costs incurred for the 2004 mobilization of the Ocean Heritage from Singapore to Ecuador; and

- operating costs during 2004 for the Ocean Tower and Ocean Sovereign, which capitalized a majority of their 2003 expenditures to their upgrades.

Partially offsetting were lower contract drilling expenses for the Ocean Sovereign in 2004, which consisted of normal operating costs compared to the first half of 2003, which included non-upgrade shipyard projects in addition to its upgrade.

Reimbursable expenses, net.

Reimbursable expenses include items that the Company purchases, and/or services it performs, at the request of its customers. Revenues related to reimbursable items, offset by the related expenditures for these items, were $1.5 million and $1.2 million for the six months ended June 30, 2004 and 2003, respectively.

Depreciation.

Depreciation expense increased to $89.1 million in the first half of 2004 compared to $88.8 million in the first half of 2003 primarily due to:

- the Ocean Rover, which completed its upgrade in July 2003;

- the Ocean Patriot, acquired in March 2003;

- three jack-up rigs, two of which completed upgrades during the second quarter of 2003 and one in early 2004; and

- four rigs operating in Mexico due to an increase in capital additions.

Partially offsetting the increase was a $5.3 million reduction in depreciation expense for the first quarter of 2004 which resulted from increasing the estimated service lives and salvage values for most of the Company's drilling rigs, effective April 1, 2003, to better reflect their remaining economic lives and salvage values.

General and Administrative Expense.

General and administrative expense for the six months ended June 30, 2004 of $17.5 million increased $2.1 million over $15.4 million for the same period in 2003. This increase was primarily due to legal fees associated with litigation and engineering technical support fees.

Interest Income.

Interest income of $4.7 million earned during the six months ended June 30, 2004 declined $2.8 million, from $7.5 million earned during the same period in 2003, primarily due to the lower interest rates earned on cash and marketable securities compared to the same period in 2003.

Interest Expense.

Interest expense of $12.7 million during the six months ended June 30, 2004 was $1.7 million higher than interest expense of $11.0 million in same period in 2003 primarily due to interest on the upgrade cost of the Ocean Rover capitalized through July 10, 2003 when its upgrade was complete. See Note 1 " -- General Information -- Capitalized Interest" in Item 1 of Part I of this report.

Gain (Loss) on Sale of Marketable Securities.

A gain on the sale of marketable securities of $0.3 million occurred during the six months ended June 30, 2004 compared to a $1.1 million loss during the same period of last year. See Note 3 "Marketable Securities" in Item 1 of Part 1 of this report.

Income Tax Benefit.

An income tax benefit of $5.9 million was recognized on a pre-tax loss of $27.4 million in the first half of 2004 compared to a tax benefit of $7.7 million which was recognized on a pre-tax loss of $45.9 million in the first half of 2003.

Certain of the Company's rigs that operate internationally are owned and operated, directly or indirectly, by Diamond Offshore International Limited, a Cayman Islands corporation and wholly-owned subsidiary of the Company. Effective January 1, 2003 the Company began to postpone remittance of the earnings from Diamond Offshore International Limited and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses during the six months ended June 30, 2004 and 2003. The Company's estimated annual effective tax rate was 24.8% as of June 30, 2004 and 16.7% as of June 30, 2003. The estimated annual effective tax rate was greater in the 2004 period than in the 2003 period primarily due to the different mix of domestic and international earnings and tax rates in each period.

Tax expense for the six months ended June 30, 2004 also included a $0.9 million adjustment related to finalizing prior year tax returns in two foreign jurisdictions. This additional expense is not included in the calculation of the Company's current year estimated annual effective tax rate of 24.8%.

The Company is under audit or has received an assessment for prior year income taxes in certain of its international tax jurisdictions which exposes the Company to approximately $1.0 million of additional income tax. The Company intends to contest any unfavorable judgment in these jurisdictions and expects to prevail. Consequently, no income tax expense related to this potential exposure has been recorded.

OPERATIONS OUTSIDE THE UNITED STATES

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

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

LIQUIDITY

A discussion of the sources and uses of cash for the six months ended June 30, 2004 compared to the same period in 2003 follows.

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	CHANGE
	(IN THOUSANDS)		
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net loss	$(21,467)	$(38,253)	$ 16,786
Depreciation	89,074	88,830	244
Deferred tax provision	(450)	(9,666)	9,216
Other non-cash items, net	6,429	7,985	(1,556)
Net changes in operating assets and liabilities	(3,660)	(15,441)	11,781
	$ 69,926	$ 33,455	$ 36,471

Cash of $69.9 million was generated from operations during the six months ended June 30, 2004 compared to cash of $33.5 million generated during the same period of 2003 primarily due to an improvement in results of operations in the first half of 2004.

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	CHANGE
	(IN THOUSANDS)		
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES			
Capital expenditures (excluding rig acquisition)...........	$ (52,588)	$ (134,114)	$ 81,526
Rig acquisition...	--	(63,500)	63,500
Proceeds from sale of assets..............................	1,076	388	688
Proceeds from sale and maturities of marketable securities..	1,949,247	1,603,006	346,241
Purchases of marketable securities........................	(1,895,603)	(1,374,768)	(520,835)
Purchase of Australian dollar time deposits................	(42,073)	--	(42,073)
Proceeds from maturities of Australian dollar time deposits..	9,163	--	9,163
Proceeds from settlement of forward contracts..............	--	2,015	(2,015)
	$ (30,778)	$ 33,027	$ (63,805)

During the six months ended June 30, 2004, the Company used $30.8 million for investing activities compared to $33.0 million provided from investing activities during the comparable period in 2003. In the first half of 2004, capital expenditures used $52.6 million of the Company's cash. In addition, the Company invested $42.1 million (equivalent to Australian dollars of 58.0 million) in Australian dollar time deposits with expirations ranging from May 5, 2004 to March 9, 2005; $9.2 million (13.0 million Australian dollars) of which matured during the period. These cash expenditures more than offset cash proceeds of $53.6 million provided by the net sale and maturity of certain of the Company's investments in marketable securities and the $1.1 million of cash provided from the sale of miscellaneous equipment.

During the six months ended June 30, 2003, the Company spent $65.0 million ($1.5 million of which is included with inventory) for the purchase of the semisubmersible rig, the Ocean Patriot, and used $134.1 million for capital expenditures, primarily for the completion of the Ocean Rover upgrade and the upgrade of three of the Company's jack-up rigs. Cash provided from investing activities in the first half of 2003 included cash proceeds of $228.2 million from the net sale and maturity of certain of the Company's investments in marketable securities, $2.0 million provided from the settlement of forward contracts at favorable exchange rates and $0.4 million provided from the sale of miscellaneous equipment.

	SIX MONTHS ENDED JUNE 30, 2004	SIX MONTHS ENDED JUNE 30, 2003	CHANGE
		(IN THOUSANDS)	
NET CASH USED IN FINANCING ACTIVITIES			
Payment of dividends......................	$ (16,166)	$ (32,584)	$ 16,418
	$ (16,166)	$ (32,584)	$ 16,418

The Company paid cash dividends of $16.2 million to stockholders in the first half of 2004 compared to $32.6 million in the same period of 2003. Cash dividends paid in the first half of 2004 were lower primarily due to a lower quarterly dividend rate ($0.0625 per share of common stock) than the quarterly dividend rate used for cash dividends paid in the first half of 2003 ($0.125 per share of common stock).

Credit Ratings.

As of the date of this report, the Company's current credit rating is Baa2 for Moody's Investors Services ("Moody's") and A- for Standard & Poor's ("S&P"). In 2003 Moody's lowered its ratings of the Company's long-term debt to Baa1 from A3 and on April 27, 2004 lowered its rating from Baa1 to Baa2 and changed the rating outlook to stable from negative. On July 27, 2004, S&P lowered the Company's debt rating from A to A- and rated its outlook as stable. Although the Company's long-term ratings continue at investment grade levels, lower ratings could result in higher interest rates on future debt issuances.

Letters of Credit and Other.

The Company is contingently liable as of June 30, 2004 in the amount of $72.5 million under certain performance, bid, supersedeas and custom bonds, and letters of credit. Agreements related to approximately $34.0 million of multi-year performance bonds can require cash collateral for the full line at any time for any reason. Holders of agreements related to another $23.2 million currently have the option to require cash collateral due to Moody's lowering the Company's credit rating on April 27, 2004. The remaining agreements cannot require cash collateral except in events of default.

Other.

At June 30, 2004 and December 31, 2003, the Company had no off-balance sheet debt.

The Company has an effective shelf registration statement where an aggregate of approximately $117.5 million in debt, equity and other securities may be issued. In addition, the Company has an acquisition shelf registration statement where it may issue, from time to time, up to eight million shares of common stock, (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 the need to upgrade rigs to meet specific customer requirements and by evaluating the Company's ongoing rig equipment replacement and enhancement programs, including water depth and drilling capability upgrades. It is management's opinion that operating cash flows and the Company's cash reserves will be sufficient to meet these capital commitments; however, the Company will continue to make periodic assessments based on industry conditions. In addition, the Company may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses or for general corporate purposes. The Company's ability to effect any such issuance will be dependent on the Company's results of operations, its current financial condition, current market conditions and other factors beyond its control.

The Company had budgeted approximately $15 million during 2004 to upgrade one of the Company's high specification semisubmersible units, the Ocean America, with capabilities making it more suitable for developmental drilling. The upgrade began near the end of the first quarter of 2004 and was completed during the latter part of the second quarter of 2004. The upgrade was completed under budget for approximately $13 million.

The Company's two-year program to expand the capabilities of its jack-up fleet by significantly upgrading six of its 14 jack-up rigs is now complete. Three of these upgrades were completed in 2002, two were completed in 2003 and one was completed early in 2004. The installation of a cantilever package on the Ocean Titan began in May 2003 and was completed in January 2004 for approximately $22 million.

The Company expects to spend approximately $79 million in 2004 for capital expenditures. These expenditures include approximately $65 million associated with its continuing rig enhancement program (other than rig upgrades), approximately $9 million related to customer contract requirements and approximately $5 million for other corporate requirements including life enhancement maintenance of one of the Company's semisubmersibles, the Ocean Concord. During the six months ended June 30, 2004, the Company spent $39.2 million on its continuing rig enhancement program and to meet other corporate capital expenditure requirements.

INTEGRATED SERVICES

The Company from time to time selectively engages in drilling services pursuant to turnkey or modified-turnkey contracts under which it agrees to drill a well to a specified depth for a fixed price. The Company had no such activity during the six months ended June 30, 2004. During the six months ended June 30, 2003, the Company had project income of $0.4 million from the completion of one turnkey plug and abandonment project in the Gulf of Mexico which was more than offset by operating overhead costs and insurance premiums. It is the Company's intent not to pursue contracts for integrated services, which includes turnkey contracts, except in very limited circumstances.

FORWARD-LOOKING STATEMENTS

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

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

- future uses of and requirements for financial resources (see " - Liquidity" and " - Capital Resources");

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

- future contractual obligations (see " -- Overview -- Results of Operations and Industry Conditions," "--Operations Outside the United States" and " - Liquidity");

- future operations outside the United States including, without limitation, the Company's operations in Mexico (see " -- Overview -- Results of Operations and Industry Conditions" and " -- Operations Outside the United States");

- business strategy;

- growth opportunities;

- competitive position;

- expected financial position;

- future cash flows;

- future dividends;
- financing plans;

- tax planning (See " -- Critical Accounting Estimates -- Income Taxes," " -- Three Months Ended June 30, 2004 and 2003 -- Income Tax Benefit" and " -- Six Months Ended June 30, 2004 and 2003 -- Income Tax Benefit");

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

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

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

- plans and objectives of management;

- performance of contracts (see " -- Overview -- Results of Operations and Industry Conditions," " -- Operations Outside the United States" and " -- Integrated Services");

- outcomes of legal proceedings;

- compliance with applicable laws; and

- adequacy of insurance or indemnification.

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

- general economic and business conditions;

- worldwide demand for oil and natural gas;

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

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

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

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

- advances in exploration and development technology;

- the political environment of oil-producing regions;

- casualty losses;

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

- industry fleet capacity;

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

- competition;

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

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

- risks of potential contractual liabilities pursuant to the Company's various drilling contracts in effect from time to time;

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

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

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

- regulatory initiatives and compliance with governmental regulations;

- compliance with environmental laws and regulations;

- customer preferences;

- effects of litigation;

- cost, availability and adequacy of insurance;

- adequacy of the Company's sources of liquidity;

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

The Company's measure of market risk exposure represents an estimate of the change in fair value of its financial instruments. Market risk exposure is presented for each class of financial instrument held by the Company at June 30, 2004 and December 31, 2003 assuming immediate adverse market movements of the magnitude described below. The Company believes that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss or any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since the Company's investment portfolio is subject to change based on its portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

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

Interest Rate Risk

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

The sensitivity analysis estimates the change in the market value of the Company's interest sensitive assets and liabilities that were held on June 30, 2004 and December 31, 2003 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant.

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

The Company's long-term debt as of June 30, 2004 and December 31, 2003 is denominated in U.S. dollars. The Company's debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $149.2 million and $150.5 million, respectively. A 100 basis point decrease would result in an increase in market value of $184.4 million and $186.8 million, respectively.

Foreign Exchange Risk

Foreign exchange risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. During the quarter ended June 30, 2004 the Company invested in Australian dollar time deposits and at June 30, 2004 45.0 million Australian dollars (equivalent to $31.9 million) of time deposits were included in "Investments and marketable securities" in the Consolidated Balance Sheet. The sensitivity analysis assumes an instantaneous 20% change in foreign currency exchange rates versus the U.S. dollar from their levels at June 30, 2004.

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

	FAIR VALUE ASSET (LIABILITY)		MARKET RISK	
CATEGORY OF RISK EXPOSURE:	JUNE 30, 2004	DECEMBER 31, 2003	JUNE 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)			
Interest rate:				
Marketable securities	$ 3,891 (a)	$ 503,995 (a)	$ 400 (c)	$ 700 (c)
Long-term debt	(917,182) (b)	(909,100) (b)	--	--
Foreign Exchange:				
Australian dollar time deposits..	31,864 (d)	--	6,400 (d)	--

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(a) The fair market value of the Company's investment in marketable securities is based on the quoted closing market prices on June 30, 2004 and December 31, 2003.

(b) The fair values of the Company's 1.5% convertible senior debentures due 2031 and zero coupon convertible debentures due 2020 are based on the quoted closing market prices on June 30, 2004 and December 31, 2003. The fair value of the Company's Ocean Alliance lease-leaseback agreement is based on the present value of estimated future cash flows using a discount rate of 3.98% for June 30, 2004 and 2.08% for December 31, 2003.

(c) The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of an increase in interest rates of 100 basis points at June 30, 2004 and December 31, 2003.

(d) The calculation of estimated foreign exchange risk is based on assumed adverse changes in the underlying reference price or index of a decrease in foreign exchange rates of 20% at June 30, 2004.

ITEM 4. CONTROLS AND PROCEDURES.

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

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

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

PART II. OTHER INFORMATION

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

The Annual Meeting of Stockholders (the "Annual Meeting") of Diamond Offshore Drilling, Inc. was held on May 18, 2004 in New York, New York. At the Annual Meeting, the holders of 124,916,044 shares of common stock out of 129,322,455 shares entitled to vote as of the record date were represented in person or by proxy, constituting a quorum. The following matters were voted on and adopted by the margins indicated:

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

	NUMBER OF SHARES		
	FOR	WITHHELD	BROKER NON-VOTE
James S. Tisch	106,083,282	18,832,762	0
Lawrence R. Dickerson	105,098,971	19,817,073	0
Alan R. Batkin	123,799,196	1,116,848	0
Charles L. Fabrikant	123,803,168	1,112,876	0
Herbert C. Hofmann	105,132,532	19,783,512	0
Arthur L. Rebell	106,228,566	18,687,478	0
Raymond S. Troubh	122,774,130	2,141,914	0

b. To approve the Amended and Restated Diamond Offshore Drilling, Inc. 2000 Stock Option Plan.

For	107,710,315
Against	8,563,035
Abstain	8,642,694
Broker Non-Vote	0

c. To ratify the appointment of Deloitte & Touche LLP as independent certified public accountants for the Company and its subsidiaries for fiscal year 2004.

For	124,501,231
Against	345,885
Abstain	68,928
Broker Non-Vote	0

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

(a) Exhibits

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

(b) The Company made the following reports on Form 8-K during the second quarter of 2004:

Date of Report	Description of Report
April 12, 2004	Item 9 Regulation FD disclosure (Furnished, not filed)
April 20, 2004	Item 12 Results of Operations and Financial Condition for the quarter ended March 31, 2004 (Furnished, not filed)
April 26, 2004	Item 9 Regulation FD disclosure (Furnished, not filed)
May 10, 2004	Item 9 Regulation FD disclosure (Furnished, not filed)

May 25, 2004	Item 9 Regulation FD disclosure (Furnished, not filed)
June 8, 2004	Item 9 Regulation FD disclosure (Furnished, not filed)
June 21, 2004	Item 9 Regulation FD disclosure (Furnished, not filed)

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 02-August-2004

By: \s\ Gary T. Krenek

Gary T. Krenek
Vice President and Chief Financial Officer

Date 02-August-2004

\s\ Beth G. Gordon

Beth G. Gordon
Controller (Chief Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003).
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001).
10.1	Amended and Restated Diamond Offshore Drilling, Inc. 2000 Stock Option Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement No. 333-117512 on Form S-8).
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification of the Chief Executive Officer.
32.2*	Section 1350 Certification of the Chief Financial Officer.

* Filed or furnished herewith.

EXHIBIT 31.1

I, James S. Tisch, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 2, 2004

/s/ James S. Tisch

James S. Tisch
Chief Executive Officer

EXHIBIT 31.2

I, Gary T. Krenek, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 2, 2004

/s/ Gary T. Krenek

Gary T. Krenek
Chief Financial Officer

EXHIBIT 32.1

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

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

(1) the accompanying Form 10-Q report of the Company for the period ending June 30, 2004, as filed with the U.S. Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: August 2, 2004

/s/ James S. Tisch

James S. Tisch,
Chief Executive Officer of the Company

EXHIBIT 32.2

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

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

(1) the accompanying Form 10-Q report of the Company for the period ending June 30, 2004, as filed with the U.S. Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: August 2, 2004

/s/ Gary T. Krenek

Gary T. Krenek,
Chief Financial Officer of the Company