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

(Mark One)

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

For the fiscal year ended December 31, 1999

OR

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

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

Commission file number 1-13926

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

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

15415 KATY FREEWAY
HOUSTON, TEXAS 77094
(Address and zip code of principal executive offices)

(281) 492-5300
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $0.01 par value per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant.

As of February 29, 2000 $2,076,941,522

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

As of February 29, 2000 Common Stock, $0.01 par value per share 135,515,481 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the 2000 Annual Meeting of Stockholders of Diamond Offshore Drilling, Inc., which will be filed within 120 days of December 31, 1999, are incorporated by reference in Part III of this form.

DIAMOND OFFSHORE DRILLING, INC.
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1999

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PART I

ITEM 1. BUSINESS.

GENERAL

Diamond Offshore Drilling, Inc., incorporated in Delaware in 1989, engages principally in the contract drilling of offshore oil and gas wells. Unless the context otherwise requires, references herein to the "Company" shall mean Diamond Offshore Drilling, Inc. and its consolidated subsidiaries. The Company is a leader in deep water drilling with a fleet of 45 offshore rigs. The fleet consists of 30 semisubmersibles, 14 jack-ups and one drillship.

RECENT DEVELOPMENTS

Depending on market conditions, the Company may, from time to time, purchase shares of its common stock in the open market. Through February 29, 2000, the Company has purchased 0.3 million shares of its common stock at an aggregate cost of $8.5 million, or at an average cost of $27.49 per share.

In January 2000, the Company announced that it had been awarded a letter of intent for its fourth-generation semisubmersible, the Ocean Alliance, for a three-year term commitment with Petrobras in Brazil. The rig, currently working in West Africa, is scheduled to begin mobilization for the program in the third quarter of 2000, depending on the duration of its current commitments. The contract, which will commence in direct continuation of current obligations, is expected to generate revenues of approximately $131.0 million, with provisions for additional revenue if the rig is utilized in waters deeper than the primary contract obligation of 1,200 meters. Additionally, the commitment allows the Company certain rights for participation in possible increases in the drilling market during the third year of the agreement.

In January 2000, the Company sold its jack-up drilling rig, the Ocean Scotian, for $32.0 million in cash resulting in an after-tax gain of $9.0 million. The rig had been cold stacked offshore Netherlands prior to the sale.

INDUSTRY CONDITIONS

The offshore contract drilling business is influenced by a number of factors, including the current and anticipated prices of oil and natural gas, the expenditures by oil and gas companies for exploration and development and the availability of drilling rigs. In addition, demand for drilling services remains dependent on a variety of political and economic factors beyond the Company's control, including worldwide demand for oil and natural gas, the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing, the level of production of non-OPEC countries and the policies of the various governments regarding exploration and development of their oil and natural gas reserves.

Historically, the offshore contract drilling industry has been highly competitive and cyclical, with periods of high demand, short rig supply and high dayrates followed by periods of low demand, excess rig supply and low dayrates. During 1999, product prices improved considerably as compared to those in late 1997 and throughout 1998 due to, among other things, OPEC production cuts and an improved outlook on foreign economic recovery, particularly in Asia. Even with these improvements, operators took a cautious approach to exploration and development and the offshore contract drilling industry did not experience comparable improvements in its market conditions. However, if the current environment can be sustained, management believes the offshore contract drilling industry could see improvements in utilization levels and dayrates during 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Outlook" in Item 7 of this Report.

THE FLEET

The Company's large, diverse fleet, which includes some of the most technologically advanced rigs in the world, enables it to offer a broad range of services worldwide in various markets, including the deep water market, the harsh environment market, the conventional semisubmersible market and the jack-up market.

Semisubmersibles. The Company owns and operates 30 semisubmersibles. Semisubmersible rigs consist of an upper working and living deck resting on vertical columns connected to lower hull members. Such rigs operate in a "semi-submerged" position, remaining afloat, off bottom, in a position in which the lower hull is approximately 55 to 90 feet below the water line and the upper deck protrudes well above the surface. The rig is typically anchored in position and remains stable for drilling in the semi-submerged floating position due in part to its wave transparency characteristics at the water line.

The Company owns and operates seven high specification semisubmersibles, including the Ocean Confidence. These semisubmersibles are larger than many other semisubmersibles, are capable of working in deep water or harsh environments and have other advanced features. Currently, the Ocean Victory, the Ocean Star, the Ocean Valiant, and the Ocean Quest are working in deep water areas of the Gulf of Mexico; the Ocean America is working offshore Trinidad in South America; and the Ocean Alliance is working offshore West Africa.

The conversion of the Ocean Confidence, a semisubmersible accommodation vessel with Class III dynamic-positioning system ("DPS") capabilities purchased in 1997, to a drilling unit with fifth-generation capabilities, including harsh environment and ultra-deep water capabilities up to 7,500 feet, is ongoing. This conversion is anticipated to be completed in the second quarter of 2000. Upon completion of the conversion and acceptance, the rig is scheduled to begin a five-year drilling program in the Gulf of Mexico, which is expected to generate approximately $320.0 million of revenues. The drilling contract contains a provision allowing the customer to cancel the contract should the unit not be delivered by July 1, 2000. Although the Company believes the project will be completed by July 1, 2000, it is possible that delays or unforeseen circumstances could push delivery beyond this date, which could allow the customer to cancel the term contract. Should the Company be required to remarket the unit, it is likely that an initial term would be shorter than the currently contracted five-year period, and the rate would be dependent upon market conditions at such time as the Ocean Confidence might be offered for contract. In such case, future revenues generated by the rig could be less than the current contracted amount of approximately $320.0 million. See "-- Fleet Enhancements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources" in Item 7 of this Report.

In addition, the Company owns and operates 23 other semisubmersibles which operate in maximum water depths up to 3,500 feet. The diverse capabilities of many of these semisubmersibles enable them to provide both shallow and deep water service in the U.S. and in other markets outside the U.S. Currently, 12 of these semisubmersibles are located in the Gulf of Mexico; four are located offshore Brazil; three are located in the North Sea; two are located offshore Australia; one is located offshore New Zealand; and one is located offshore West Africa.

Jack-ups. The Company owns 14 jack-ups. Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor until a foundation is established to support the drilling platform. The rig hull includes the drilling rig, jacking system, crew quarters, loading and unloading facilities, storage areas for bulk and liquid materials, heliport and other related equipment. Jack-ups are used extensively for drilling in water depths from 20 feet to 450 feet. The water depth limit of a particular rig is principally determined by the length of the rig's legs. A jack-up rig is towed by tugboats to the drillsite with its hull riding in the sea, as a vessel, with its legs retracted. Once over a drillsite, the legs are lowered until they rest on the seabed and jacking continues until the hull is elevated above the surface of the water. After completion of drilling operations, the hull is lowered until it rests in the water and then the legs are retracted for relocation to another drillsite.

The principal market for the Company's jack-up rigs is currently the Gulf of Mexico, where 12 of the Company's jack-up rigs are located. Of the Company's jack-up rigs in the Gulf of Mexico, seven are independent-leg cantilevered rigs, two are mat-supported cantilevered rigs, two are independent-leg slot rigs, and one is a mat-supported slot rig. Both of the Company's internationally based jack-ups are independent-leg cantilevered rigs.

Drillship. Drillships, which are typically self-propelled, are positioned over a drillsite through the use of either an anchoring system or a computer-controlled thruster (dynamic-positioning) system similar to those used on certain semisubmersible rigs. Deep water drillships compete in many of the same markets as do fourth-generation semisubmersible rigs. During 1999, the Company replaced the blow-out preventer control system and performed additional upgrades on its drillship, the Ocean Clipper. See "--Fleet Enhancements." Subsequently, the Ocean Clipper successfully drilled the world's deepest water depth turnkey well in the Gulf of Mexico in August 1999. The drillship then mobilized to offshore Brazil in late December 1999 and is currently operating under a three-year contract.

Fleet Enhancements. The Company's strategy is to maximize dayrates and utilization by adapting to trends in its markets, including enhancing its fleet to meet customer demand for diverse drilling capabilities. The average age of the Company's fleet of offshore drilling rigs (calculated as of December 31, 1999 and measured from the year built) is 21.7 years. The Company has spent approximately $1.1 billion on capital expenditures since 1996 for upgrades and enhancements such as top-drive drilling systems, additional water depth capability, mud pump additions and increases in deckload capacity. The Company believes it will be feasible to continue to upgrade its rigs notwithstanding the average age of its fleet. However, there can be no assurance whether or to what extent upgrades will continue to be made to rigs in the Company's fleet. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources" in Item 7 of this Report.

An extensive power system upgrade on the Company's jack-up, the Ocean King, was completed in 1999. The upgrade and enhancement replaced the engines and electrical system; upgraded the existing mud pumps and installed a third, 1,600-

horsepower mud pump; refurbished the top-drive system; added a third motor to the drawworks and upgraded its cooling system; refurbished the blow-out preventer stack and associated equipment; repaired the pre-load tanks, spud cans, shaker house, and mud pits; upgraded 48 jacking motors to 600 volts; repainted the rig's hull bottom; and refurbished all four lifeboats.

A variable deckload upgrade was performed and completed on the Ocean General, a semisubmersible currently located offshore Australia, during 1999. A large variable deckload enables operators to carry more consumables and drilling equipment to the drill site, eliminating some of the expense of supply boats. Four additional columns were installed at the corners of the rig, as well as inner and outer lower-hull sponsons, increasing the variable deckload capacity to 3,000 tons. The upgrade also enhanced the rig's drilling capabilities by nearly doubling its mud-storage capacity, adding a third mud pump, increasing the riser tension, and installing two new cranes. Electric power distribution was enhanced by the addition of electrical equipment for the new mud pump and the installation of a larger emergency generator. The rig also was prepared for a future increase in water-depth capability with the installation of a larger-bore rotary table and diverter, as well as additional riser and podline tensioners.

The semisubmersible Ocean Concord was also upgraded in 1999, enhancing its marketability in deeper water. Two pencil columns were installed to expand variable deckload capacity to 2,850 tons. New "wing" decks on the port and starboard sides were added to provide additional work and storage space. The upgrade also included the addition of an elevated platform for third-party equipment, three new cranes, and the repair of corrosion damage in the decks, houses and hull.

The Ocean Clipper's current contract with Petrobras requires, among other things, that the drillship meet the requirements of Class II DPS vessels. These requirements include the ability to automatically maintain position and heading against severe environmental conditions - even with the loss of one component, such as a thruster, engine, or electrical switchgear. To meet these requirements, the Company split and segregated the power-distribution system to create two remote and independent systems. Likewise, the generator auxiliaries were split for redundancy. The dynamic-positioning system was reconfigured and reprogrammed to manage these enhanced capabilities. An additional positioning-reference capability (long-base-line acoustic positioning) was added for remote operations.

The Company also initiated programs in 1999 for replacement or upgrade of certain other equipment on its fleet of drilling rigs. For example, the Company began the replacement of all hook-roller-style mechanical cranes with king-post cranes. To date, new cranes have been installed on the Ocean Concord, the Ocean Lexington, and the Ocean Saratoga (three cranes each); the Ocean Yorktown, the Ocean Rover, and the Ocean General (two cranes each); and the Ocean Quest and the Ocean Voyager (one crane each). New cranes also have been or are being installed for maintenance or operational reasons on the Ocean Nomad, the Ocean Ambassador, and the Ocean Summit.

A program to replace worn riser, standardizing it across the fleet to simplify maintenance and reduce spare equipment costs, also began in 1999. In the past, each rig required its own spare riser for use during routine riser inspections. In the new system, all shallow water rigs will use a standard riser design, as will all deepwater rigs. Spare riser, common to all rigs of that type, will be stored in warehouse space rather than on each rig. In 1999, riser was replaced on five rigs. The program will continue in 2000 and eventually will replace the riser on all the rigs in the Company's fleet.

The Company's commitment to maintain its rigs according to best industry practices also resulted in the purchase of 154,300 feet (29.22 miles) of mooring chain, weighing more than 6,945 tons, in 1999. These purchases replaced the mooring chains and wires on four semisubmersibles and additional rigs will receive new chains and wires as needed in 2000 and beyond. In addition, mooring system upgrades were performed on the Ocean America and the Ocean Valiant to enable the rigs to more effectively work at their rated water depth capacities. Four column sponsons were added "behind" the fairleaders to correct abrasion of the anchor bolsters from the angle of the mooring lines on each rig.

In 1998, the Company began the upgrade of the Ocean Confidence from an accommodation vessel with Class III DPS capabilities to a semisubmersible drilling unit capable of operating in harsh environments and ultra-deep waters, including enhancements such as increased capability for operations in up to 7,500 foot water depths, approximately 6,000 tons variable deckload, a 15,000 psi blow-out prevention system, and four mud pumps. The upgrade is anticipated to be completed during the second quarter of 2000, when the rig is expected to commence a five-year contract in the Gulf of Mexico. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Resources" in Item 7 of this Report.

The design of the Company's Victory-class semisubmersible rigs, including their cruciform hull configurations, long fatigue-life and advantageous stress characteristics, makes this class of rig particularly well-suited for significant upgrade projects. While no such upgrades are currently in progress, the Company has previously upgraded six of its nine Victory-class rigs with enhancements such as increased efficiency in the handling of subsea completion equipment, stability enhancements that allow increased variable deckload, and increased water depth capabilities. Currently, the Company's Victory-class rigs are rated for service in maximum water depths of 1,200 to 5,000 feet.

More detailed information concerning the Company's fleet of mobile offshore drilling rigs, as of January 31, 2000, is set forth in the table below.

TYPE AND NAME	WATER DEPTH RATING (FT.)	ATTRIBUTES	YEAR BUILT/LATEST ENHANCEMENT (a)	CURRENT LOCATION	CUSTOMER (b)
HIGH SPECIFICATION FLOATERS					
SEMISUBMERSIBLES (7):					
Ocean Confidence (c)	7,500	TDS; DP; 15K; 4M	2000	Gulf of Mexico	BP-Amoco
Ocean Alliance	5,000	TDS; DP; 15K; 3M	1988/1999	Angola	Chevron
Ocean America	5,000	TDS; SP; 15K; 3M	1988/1999	Trinidad	BP-Amoco
Ocean Valiant	5,000	TDS; SP; 15K; 3M	1988/1999	Gulf of Mexico	Amerada Hess
Ocean Victory	5,000	TDS; VC; 15K; 3M	1972/1997	Gulf of Mexico	Vastar
Ocean Star	4,500	TDS; VC; 15K; 3M	1974/1999	Gulf of Mexico	Texaco
Ocean Quest	3,500	TDS; VC; 15K; 3M	1973/1996	Gulf of Mexico	Chevron
DRILLSHIP (1):					
Ocean Clipper	7,500	TDS; DP; 15K; 3M	1976/1999	Brazil	Petrobras
OTHER					
SEMISUBMERSIBLES (23):					
Ocean Winner	3,500	TDS; 3M	1977/1996	Brazil	Petrobras
Ocean Worker	3,500	TDS; 3M	1982/1992	Gulf of Mexico	Shell
Ocean Yatzy	3,300	TDS; DP; 15K	1989/1998	Brazil	Petrobras
Ocean Voyager	3,200	TDS; VC	1973/1995	Gulf of Mexico	Stacked
Ocean Yorktown	2,850	TDS	1976/1996	Brazil	Petrobras
Ocean Concord	2,200	TDS; 3M	1975/1999	Gulf of Mexico	Murphy
Ocean Lexington	2,200	TDS; 3M	1976/1995	Gulf of Mexico	Committed
Ocean Saratoga	2,200	TDS; 3M	1976/1995	Gulf of Mexico	El Paso Energy
Ocean Endeavor	2,000	TDS; VC	1975/1994	Gulf of Mexico	British-Borneo
Ocean Rover	2,000	TDS; VC; 15K	1973/1992	Gulf of Mexico	Pogo (d)
Ocean Prospector	1,700	VC	1971/1981	Gulf of Mexico	Cold Stacked
Ocean Bounty	1,500	TDS; VC; 3M	1977/1992	Australia	Shell
Ocean Guardian	1,500	TDS; SP; 3M	1985	North Sea	Stacked
Ocean New Era	1,500	TDS	1974/1990	Gulf of Mexico	Stacked
Ocean Princess	1,500	TDS; 15K; 3M	1977/1998	North Sea	ExxonMobil
Ocean Whittington	1,500	TDS; 3M	1974/1995	Brazil	Petrobras
Ocean Epoch	1,200	TDS	1977/1990	Enroute to New Zealand	New Zealand Oil & Gas
Ocean General	1,200	TDS; 3M	1976/1999	Australia	Coastal
Ocean Nomad	1,200	TDS; 3M	1975/1998	North Sea	Shell
Ocean Baroness	1,200	TDS; VC	1973/1995	Gulf of Mexico	Cold Stacked
Ocean Ambassador	1,100	TDS; 3M	1975/1995	Gulf of Mexico	Mariner
Ocean Century	800		1973	Gulf of Mexico	Cold Stacked
Ocean Liberator	600	TDS	1974/1998	Ghana	Dana
JACK-UPS (14):					
Ocean Titan	350	TDS; IS; 15K; 3M	1974/1989	Gulf of Mexico	Vastar
Ocean Tower	350	TDS; IS; 3M	1972/1998	Gulf of Mexico	Cold Stacked
Ocean King	300	TDS; IC; 3M	1973/1999	Gulf of Mexico	BP-Amoco
Ocean Nugget	300	TDS; IC	1976/1995	Gulf of Mexico	Newfield
Ocean Summit	300	SDS; IC	1972/1991	Gulf of Mexico	Committed
Ocean Warwick	300	TDS; IC	1971/1998	Gulf of Mexico	Vastar
Ocean Champion	250	MS	1975/1985	Gulf of Mexico	Cold Stacked
Ocean Columbia	250	TDS; IC	1978/1990	Gulf of Mexico	Vastar
Ocean Heritage	250	TDS; IC	1981/1995	Indonesia	Maxus
Ocean Sovereign	250	TDS; IC	1981/1994	Indonesia	Maxus
Ocean Spartan	250	TDS; IC	1980/1994	Gulf of Mexico	Vastar
Ocean Spur	250	TDS; IC	1981/1994	Gulf of Mexico	Nippon
Ocean Crusader	200	TDS; MC	1982/1992	Gulf of Mexico	Basin
Ocean Drake	200	TDS; MC	1983/1986	Gulf of Mexico	Chevron

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ATTRIBUTES

DP = Dynamically-Positioned/Self-Propelled	MS = Mat-Supported Slot Rig	TDS = Top-Drive Drilling System
IC = Independent-Leg Cantilevered Rig	SDS= Side-Drive Drilling System	3M = Three Mud Pumps
IS = Independent-Leg Slot Rig	VC = Victory-Class	4M = Four Mud Pumps
MC = Mat-Supported Cantilevered Rig	SP =Self-Propelled	15K = 15,000 psi Blow-Out Preventer

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(a) Such enhancements include the installation of top-drive drilling systems, water depth upgrades, mud pump additions and increases in deckload capacity.
(b) For ease of presentation in this table, customer names have been shortened or abbreviated.
(c) In shipyard preparing for a five-year term contract with BP-Amoco in the Gulf of Mexico upon conversion to a drilling unit.
(d) Turnkey contract with Diamond Offshore Team Solutions, Inc.

MARKETS

The Company's principal markets for its offshore contract drilling services are the Gulf of Mexico, Europe, including principally the U.K. sector of the North Sea, South America, Africa, and Australia/Southeast Asia. The Company actively markets its rigs worldwide. In the past, rigs in the Company's fleet have also operated in various other markets throughout the world. See Note 13 to the Company's Consolidated Financial Statements in Item 8 of this Report.

The Company believes its presence in multiple markets is valuable in many respects. For example, the Company believes that its experience with safety and other regulatory matters in the U.K. has been beneficial in Australia and in the Gulf of Mexico while production experience gained through Brazilian and North Sea operations has potential application worldwide. Additionally, the Company believes its performance for a customer in one market segment or area enables it to better understand that customer's needs and better serve that customer in different market segments or other geographic locations.

OFFSHORE CONTRACT DRILLING SERVICES

The Company's contracts to provide offshore drilling services vary in their terms and provisions. The Company often obtains its contracts through competitive bidding, although it is not unusual for the Company to be awarded drilling contracts without competitive bidding. Drilling contracts generally provide for a basic drilling rate on a fixed dayrate basis regardless of whether such drilling results in a productive well. Drilling contracts may also provide for lower rates during periods when the rig is being moved or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather or water conditions or other conditions beyond the control of the Company. Under dayrate contracts, the Company generally pays the operating expenses of the rig, including wages and the cost of incidental supplies. Dayrate contracts have historically accounted for a substantial portion of the Company's revenues. In addition, the Company has worked some of its rigs under dayrate contracts pursuant to which the customer also agrees to pay an incentive bonus based upon performance.

A dayrate drilling contract generally extends over a period of time covering either the drilling of a single well, or a group of wells (a "well-to-well contract") or a stated term (a "term contract") and may be terminated by the customer in the event the drilling unit is destroyed or lost or if drilling operations are suspended for a period of time as a result of a breakdown of equipment or, in some cases, due to other events beyond the control of either party. In addition, certain of the Company's contracts permit the customer to terminate the contract early by giving notice and in some circumstances may require the payment of an early termination fee by the customer. The contract term in many instances may be extended by the customer exercising options for the drilling of additional wells at fixed or mutually agreed terms, including dayrates.

In August 1999, a customer terminated a contract for use of one of the Company's drilling rigs located offshore Australia. The termination was not the result of performance failures by the Company or its equipment. The Company believes the contract required the customer to pay approximately $16.5 million in remaining revenue through the end of the contract period, which was previously scheduled to end in early January 2000. However, the customer believes that there was no further obligation under the contract and has refused to pay the $16.5 million early termination fee. The Company filed suit in Australia in August 1999 requesting reconstruction of the contract and a declaratory judgment requiring the customer to pay such early termination fee. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Outlook" in Item 7 of this Report.

The duration of offshore drilling contracts is generally determined by market demand and the respective management strategies of the offshore drilling contractor and its customers. In periods of rising demand for offshore rigs, contractors typically prefer well-to-well contracts that allow contractors to profit from increasing dayrates. In contrast, during these periods customers with reasonably definite drilling programs typically prefer longer term contracts to maintain dayrate prices at the lowest level possible. Conversely, in periods of decreasing demand for offshore rigs, contractors generally prefer longer term contracts to preserve dayrates at existing levels and ensure utilization, while customers prefer well-to-well contracts that allow them to obtain the benefit of lower dayrates. In general, the Company seeks to have a foundation of long-term contracts with a reasonable balance of single-well, well-to-well and short-term contracts to minimize the downside impact of a decline in the market while still participating in the benefit of increasing dayrates in a rising market.

The Company, through its wholly owned subsidiary, Diamond Offshore Team Solutions, Inc. ("DOTS"), offers a portfolio of drilling services to complement the Company's offshore contract drilling business. These services include overall project management, extended well tests, and drilling and completion operations. From time to time, DOTS also selectively engages in drilling services pursuant to turnkey or modified-turnkey contracts under which DOTS agrees to drill a well to a specified depth for a fixed price. In such cases, DOTS generally is not entitled to payment unless the well is drilled to the specified depth and profitability of the contract depends upon its ability to keep expenses within the estimates used by DOTS in determining the contract price. Drilling a well under a turnkey contract therefore typically requires a greater cash commitment by the Company and exposes the Company to risks of potential financial losses that generally are substantially greater than those that would ordinarily exist when drilling under a conventional dayrate contract. During 1999, DOTS drilled four turnkey wells, in addition to providing project management services on a dayrate basis, and contributed operating income of $0.3 million to the Company's consolidated results of operations. During 1998, DOTS primarily provided project management services on a dayrate basis and contributed operating income of $0.4 million to the Company's consolidated results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations" and "--Integrated Services" in Item 7 of this Report.

DISPOSITION OF ASSETS

In January 2000, the Company sold its jack-up drilling rig, the Ocean Scotian, for $32.0 million in cash resulting in an after-tax gain of $9.0 million. The rig had been cold stacked offshore Netherlands prior to the sale. Certain other assets, including drilling rigs, have been sold in previous years. These assets have generally been inactive or did not fit the overall strategic direction of the Company. Although the Company does not, as of the date hereof, have any commitment with respect to a material disposition of assets, it could enter into such an agreement in the future.

CUSTOMERS

The Company provides offshore drilling services to a customer base that includes major and independent oil and gas companies and government-owned oil companies. Occasionally, several customers have accounted for 10.0 percent or more of the Company's annual consolidated revenues, although the specific customers may vary from year to year. During 1999, the Company performed services for approximately 40 different customers with Petrobras and Shell companies (including domestic and foreign affiliates) ("Shell") accounting for 15.5 percent and 14.5 percent of the Company's annual total consolidated revenues, respectively. During 1998, the Company performed services for approximately 40 different customers with Shell accounting for 17.4 percent of the Company's annual total consolidated revenues. During 1997, the Company performed services for approximately 50 different customers with Shell accounting for 14.3 percent of the Company's annual total consolidated revenues. During periods of low demand for offshore drilling rigs, the loss of a single significant customer could have a material adverse effect on the Company's results of operations.

The Company's services in North and South America are marketed principally through its Houston office, with support for U.S. Gulf of Mexico activities coming from its regional office in New Orleans, Louisiana. The Company's services in other geographic locations are marketed principally from its regional offices in Aberdeen, Scotland and Perth, Western Australia. Technical and administrative support functions for the Company's operations are provided by its Houston office.

COMPETITION

The contract drilling industry is highly competitive. Customers often award contracts on a competitive bid basis, and although a customer selecting a rig may consider, among other things, a contractor's safety record, crew quality, rig location, and quality of service and equipment, the historical oversupply of rigs has created an intensely competitive market in which price is the primary factor in determining the selection of a drilling contractor. In periods of escalated drilling activity, rig availability has, in some cases, also become a consideration, particularly with respect to technologically advanced units. The Company believes competition for drilling contracts will continue to be intense in the foreseeable future. Contractors are also able to adjust localized supply and demand imbalances by moving rigs from areas of low utilization and dayrates to areas of greater activity and relatively higher dayrates. Such movements, reactivations or a decrease in drilling activity in any major market could depress dayrates and could adversely affect utilization of the Company's rigs. See "--Offshore Contract Drilling Services."

In addition, rig construction and enhancement programs by offshore drilling contractors, which began in late 1997 and 1998, have resulted in an increase in the supply of technologically advanced rigs capable of drilling in deep water. The marginal oversupply of such equipment has, in turn, adversely affected the utilization level and average operating dayrates available for the Company's rigs, particularly its higher specification semisubmersible units.

GOVERNMENTAL REGULATION

The Company's operations are subject to numerous federal, state and local laws and regulations that relate directly or indirectly to its operations, including certain regulations controlling the discharge of materials into the environment, requiring removal and clean-up under certain circumstances, or otherwise relating to the protection of the environment. For example, the Company may be liable for damages and costs incurred in connection with oil spills for which it is held responsible. Laws and regulations protecting the environment have become increasingly stringent in recent years and may in certain circumstances impose "strict liability" rendering a company liable for environmental damage without regard to negligence or fault on the part of such company. Liability under such laws and regulations may result from either governmental or citizen prosecution. Such laws and regulations may expose the Company to liability for the conduct of or conditions caused by others, or for acts of the Company that were in compliance with all applicable laws at the time such acts were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on the Company.

The United States Oil Pollution Act of 1990 ("OPA '90") and similar legislation enacted in Texas, Louisiana and other coastal states address oil spill prevention and control and significantly expand liability exposure across all segments of the oil and gas industry. OPA '90, such similar legislation and related regulations impose a variety of obligations on the Company related to the prevention of oil spills and liability for damages resulting from such spills. OPA '90 imposes strict and, with limited exceptions, joint and several liability upon each responsible party for oil removal costs and a variety of public and private damages.

INDEMNIFICATION AND INSURANCE

The Company's operations are subject to hazards inherent in the drilling of oil and gas wells such as blowouts, reservoir damage, loss of production, loss of well control, cratering or fires, the occurrence of which could result in the suspension of drilling operations, injury to or death of rig and other personnel and damage to or destruction of the Company's, the Company's customer's or a third party's property or equipment. Damage to the environment could also result from the Company's operations, particularly through oil spillage or uncontrolled fires. In addition, offshore drilling operations are subject to perils peculiar to marine operations, including capsizing, grounding, collision and loss or damage from severe weather. The Company has insurance coverage and contractual indemnification for certain risks, but there can be no assurance that such coverage or indemnification will adequately cover the Company's loss or liability in many circumstances or that the Company will continue to carry such insurance or receive such indemnification.

OPERATIONS OUTSIDE THE UNITED STATES

Operations outside the United States accounted for approximately 48.8 percent, 42.7 percent, and 36.3 percent of the Company's total consolidated revenues for the years ended December 31, 1999, 1998, and 1997, respectively. The Company's non-U.S. operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including risks of war and civil disturbances (or other risks that may limit or disrupt markets), expropriation and the general hazards associated with the assertion of national sovereignty over certain areas in which operations are conducted. No prediction can be made as to what governmental regulations may be enacted in the future that could adversely affect the international 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook" and "-- Other -- Currency Risk" in Item 7 of this Report and Note 13 to the Company's Consolidated Financial Statements in Item 8 of this Report.

EMPLOYEES

As of December 31, 1999, the Company had approximately 4,600 employees (including international crews furnished through labor contractors), approximately 34 of whom were union members. The Company has experienced satisfactory labor relations and provides comprehensive benefit plans for its employees. The Company does not currently consider the possibility of a shortage of qualified personnel to be a material factor in its business.

ITEM 2. PROPERTIES.

The Company owns an eight-story office building containing approximately 182,000 net rentable square feet on approximately 6.2 acres of land located in Houston, Texas, where the Company has its corporate headquarters, an 18,000 square foot building and 20 acres of land in New Iberia, Louisiana for its offshore drilling warehouse and storage facility, and a 13,000 square foot building and five acres of land in Aberdeen, Scotland for its North Sea operations. Additionally, the Company currently leases various office, warehouse and storage facilities in Louisiana, West Africa, Australia, Brazil, Indonesia, Scotland, Singapore, and Trinidad to support its offshore drilling operations.

ITEM 3. LEGAL PROCEEDINGS.

Brown Services, Inc. and KOS Industries, Inc. v. Michael D. Brown, BSI International, Inc., Robert Brown, Robert Furlough, Power House International, Inc., Zapata Off-Shore Company and Zapata Corporation; No. 92-05691 in the 334th Judicial District Court of Harris County, Texas, filed February 7, 1992. Plaintiffs sued Zapata Off-Shore Company and Zapata Corporation (the "Zapata Defendants") for tortious interference with contract and conspiracy to tortiously interfere with contract seeking $14.0 million in actual damages and unspecified punitive damages, plus costs of court, interest and attorneys' fees. A former subsidiary of Arethusa (Off-Shore) Limited ("Arethusa"), which is now a subsidiary of the Company, defended and indemnified the Zapata Defendants pursuant to a contractual defense and indemnification agreement. In November 1997, the jury awarded a take nothing judgment in favor of the Zapata Defendants. The plaintiffs appealed the judgment and the appellate court ordered the parties to mediation. The case went to mediation in July 1998 with no resolution. In May 1999, the case went before the Texas First Court of Appeals, Houston, which affirmed the jury verdict. The plaintiffs filed a petition for review with the Supreme Court of Texas in November 1999 which was subsequently denied in January 2000. The Company had not established a provision for any liability for this case.

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

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

There were no matters submitted to a vote of security holders of the Company during the fourth quarter of 1999.

EXECUTIVE OFFICERS OF THE REGISTRANT

In reliance on General Instruction G (3) to Form 10-K, information on executive officers of the Registrant is included in this Part I. The executive officers of the Company are elected annually by the Board of Directors to serve until the next annual meeting of the Board of Directors, or until their successors are duly elected and qualified, or until their earlier death, resignation, disqualification or removal from office. Information with respect to the executive officers of the Company is set forth below.

NAME	AGE AS OF JANUARY 31, 2000	POSITION
James S. Tisch	47	Chairman of the Board of Directors and Chief Executive Officer
Lawrence R. Dickerson	47	President, Chief Operating Officer and Director
David W. Williams	42	Executive Vice President
Rodney W. Eads	48	Senior Vice President - Worldwide Operations
John L. Gabriel, Jr.	46	Senior Vice President - Contracts & Marketing
Denis J. Graham	50	Senior Vice President - Technical Services
Gary T. Krenek	41	Vice President and Chief Financial Officer
William C. Long	33	General Counsel & Secretary

James S. Tisch has served as Chief Executive Officer of the Company since March 1998. Mr. Tisch has served as Chairman of the Board since 1995 and as a director of the Company since June 1989. Mr. Tisch has served as Chief Executive Officer of Loews Corporation ("Loews"), a diversified holding company and the Company's controlling stockholder, since November 1998 and, prior thereto, as President and Chief Operating Officer of Loews from 1994. Mr. Tisch, a director of Loews since 1986, also serves as a director of CNA Financial Corporation, an 86.5 percent owned subsidiary of Loews, and serves as a director of Vail Resorts, Inc.

Lawrence R. Dickerson has served as President, Chief Operating Officer and Director of the Company since March 1998. Previously, Mr. Dickerson served as Senior Vice President from April 1993 and Chief Financial Officer of the Company from June 1989.

David W. Williams has served as Executive Vice President of the Company since March 1998. Previously, Mr. Williams served as Senior Vice President of the Company from December 1994.

Rodney W. Eads has served as Senior Vice President of the Company since May 1997. Mr. Eads was employed by Exxon Company, International from August 1994 through May 1997 as Field Drilling Manager.

John L. Gabriel, Jr. has served as Senior Vice President of the Company since November 1999. Previously, Mr. Gabriel served as a Marketing Vice President of the Company from April 1993.

Denis J. Graham has served as Senior Vice President of the Company since July 1997. Previously, Mr. Graham served as Vice President of the Company from September 1993.

Gary T. Krenek has served as Vice President and Chief Financial Officer of the Company since March 1998. Previously, Mr. Krenek served as Controller of the Company from February 1992.

William C. Long has served as General Counsel and Secretary of the Company since March 1999. Previously, Mr. Long served as acting General Counsel and Secretary for the Company from June 1998 and as a Staff Attorney from January 1997 through May 1998. Mr. Long was in private practice as an attorney from May 1996 through December 1996. From January 1995 through December 1996, Mr. Long served first as a law clerk and subsequently was of Counsel to Kuffner and Associates, P.C.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

PRICE RANGE OF COMMON STOCK

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "DO." The following table sets forth, for the calendar quarters indicated, the high and low closing prices of common stock as reported by the NYSE.

	COMMON STOCK	
	HIGH	LOW
1999		
First Quarter	$ 33 3/8	$ 20 1/2
Second Quarter	34 1/16	25 15/16
Third Quarter	40 7/16	27 3/4
Fourth Quarter	36 1/16	27 7/16
1998		
First Quarter	$ 48 15/16	$ 39
Second Quarter	54 5/8	39 5/16
Third Quarter	40 15/16	20 7/8
Fourth Quarter	32 15/16	20 11/16

On February 29, 2000, the closing price of the common stock, as reported by the NYSE, was $31 3/4 per share. As of February 29, 2000, there were approximately 573 holders of record of common stock. This number does not include the stockholders for whom shares are held in a "nominee" or "street" name.

DIVIDEND POLICY

In 1999, the Company paid cash dividends of $0.125 per share on March 1, 1999, June 1, 1999, September 1, 1999 and December 1, 1999 and has declared a dividend of $0.125 per share payable March 1, 2000 to stockholders of record on February 1, 2000. In 1998, the Company paid cash dividends of $0.125 per share on March 2, 1998, June 1, 1998, September 1, 1998 and December 1, 1998. In 1997, the Company paid cash dividends of $0.07 per share on August 7, 1997 and December 1, 1997. Any future determination as to payment of dividends will be made at the discretion of the Board of Directors of the Company and will depend upon the Company's operating results, financial condition, capital requirements, general business conditions and such other factors that the Board of Directors deems relevant.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth certain historical consolidated financial data relating to the Company. The selected consolidated financial data are derived from the financial statements of the Company as of and for the periods presented. The selected consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and the Company's Consolidated Financial Statements (including the Notes thereto) in Item 8 of this Report.

	1999	1998	1997	1996(1)	1995
	(in thousands, except per share and ratio data)				
INCOME STATEMENT DATA:					
Total revenues	$ 821,024	$ 1,208,801	$ 956,093	$ 611,430	$ 336,584
Operating income	223,892	568,999	419,873	213,491	11,651
Net income (loss)	156,071	383,659	278,605	146,388	(7,026)
Net income per share (2):					
Basic	1.15	2.78	2.01	1.18	--
Diluted	1.11	2.66	1.93	1.18	--
Pro forma net income per share (2) (3)	--	--	--	--	0.10
BALANCE SHEET DATA:					
Drilling and other property and equipment, net	1,737,905	1,551,820	1,451,741	1,198,160	502,278
Total assets	2,681,029	2,609,716	2,298,561	1,574,500	618,052
Long-term debt	400,000	400,000	400,000	63,000	--
OTHER FINANCIAL DATA:					
Capital expenditures (4)	324,133	224,474	281,572	267,000	66,646
Cash dividends declared per share (5)	0.50	0.50	0.14	--	--
Ratio of earnings to fixed charges (6)	15.64x	37.57x	28.94x	31.56x	--

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(1) The Company acquired all of the common stock of Arethusa in consideration of 35.8 million shares of common stock on April 29, 1996.

(2) All per share amounts give retroactive effect to the Company's July 1997 two-for-one stock split in the form of a stock dividend.

(3) Pro forma net income per share gives effect to the Company's initial public offering in October 1995 and the after-tax effects of a reduction in interest expense. Assuming the offering had occurred at January 1, 1995, the Company would have recognized net income of $10.0 million, or $0.10 per share of common stock, after adjusting for the after-tax effects of a reduction in interest expense.

(4) In addition to these capital expenditures, the Company expended $81.0 million for rig acquisitions during the year ended December 31, 1997.

(5) In connection with the Company's initial public offering in October 1995, the Company paid a special dividend of $2.1 million to Loews with a portion of the proceeds.

(6) The deficiency in the Company's earnings available for fixed charges for the year ended December 31, 1995 was approximately $13.8 million. Fixed charges for the year December 31, 1995 consisted primarily of interest expense on notes payable to Loews. For all periods presented, the ratio of earnings to fixed charges has been computed on a total enterprise basis. Earnings represent income (loss) from continuing operations plus income taxes and fixed charges. Fixed charges include (i) interest, whether expensed or capitalized, (ii) amortization of debt issuance costs, whether expensed or capitalized, and (iii) one-third of rent expense, which the Company believes represents the interest factor attributable to rent.

ITEM 7. 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) in Item 8 of this Report.

RESULTS OF OPERATIONS

RECENT DEVELOPMENTS

Depending on market conditions, the Company may, from time to time, purchase shares of its common stock in the open market. Through February 29, 2000, the Company has purchased 0.3 million shares of its common stock at an aggregate cost of $8.5 million, or at an average cost of $27.49 per share.

In January 2000, the Company announced that it had been awarded a letter of intent for its fourth-generation semisubmersible, the Ocean Alliance, for a three-year term commitment with Petrobras in Brazil. The rig, currently working in West Africa, is scheduled to begin mobilization for the program in the third quarter of 2000, depending on the duration of its current commitments. The contract, which will commence in direct continuation of current obligations, is expected to generate revenues of approximately $131.0 million, with provisions for additional revenue if the rig is utilized in waters deeper than the primary contract obligation of 1,200 meters. Additionally, the commitment allows the Company certain rights for participation in possible increases in the drilling market during the third year of the agreement.

In January 2000, the Company sold its jack-up drilling rig, the Ocean Scotian, for $32.0 million in cash resulting in an after-tax gain of $9.0 million. The rig had been cold stacked offshore Netherlands prior to the sale.

GENERAL

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

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

Revenues from offshore turnkey 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.

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

YEARS ENDED DECEMBER 31, 1999 AND 1998

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.

	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998	INCREASE/ (DECREASE)
	(in thousands)		
REVENUES			
High Specification Floaters	$ 262,571	$ 286,875	$ (24,304)
Other Semisubmersibles	463,168	707,227	(244,059)
Jack-ups	74,484	209,134	(134,650)
Integrated Services	32,769	26,876	5,893
Eliminations	(11,968)	(21,311)	9,343
Total Revenues	$ 821,024	$ 1,208,801	$ (387,777)
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 100,003	$ 88,293	$ 11,710
Other Semisubmersibles	223,084	276,633	(53,549)
Jack-ups	84,830	104,490	(19,660)
Integrated Services	32,486	26,472	6,014
Other	3,088	10,048	(6,960)
Eliminations	(11,968)	(21,311)	9,343
Total Contract Drilling Expense	$ 431,523	$ 484,625	$ (53,102)
OPERATING INCOME			
High Specification Floaters	$ 162,568	$ 198,582	$ (36,014)
Other Semisubmersibles	240,084	430,594	(190,510)
Jack-ups	(10,346)	104,644	(114,990)
Integrated Services	283	404	(121)
Other	(3,088)	(10,048)	6,960
Depreciation and Amortization Expense	(142,963)	(130,271)	(12,692)
General and Administrative Expense	(22,877)	(25,324)	2,447
Gain on Sale of Assets	231	418	(187)
Total Operating Income	$ 223,892	$ 568,999	$ (345,107)

High Specification Floaters.

Revenues. Revenues from high specification floaters during the year ended December 31, 1999 decreased $24.3 million from 1998. This decrease resulted primarily from a $13.4 million decrease in revenues from the Ocean Valiant due to decreased utilization while the rig was in the shipyard for stability enhancements and other repairs performed during 1999 and a $14.9 million decrease due to rig downtime associated with the upgrade of and repairs performed on the Ocean Clipper. Revenues were also reduced by approximately $10.9 million due to a decrease in operating dayrates as compared to 1998 and reduced by $6.8 million due to rig downtime associated with the mandatory inspection and repairs of the Ocean America. The average operating dayrate for high specification floaters was $123,100 per day during 1999, as compared to $133,700 per day during 1998. These decreases were partially offset by an increase in revenues of approximately $14.2 million from the Ocean Victory, which was in the shipyard during part of 1998 for repairs required as a result of the February 1998 engine room fire. The decrease in revenue was also partially offset by an increase of approximately $4.6 million from mobilization revenues for the Ocean Alliance to locations offshore West Africa during 1999 and $2.0 million from mobilization revenues for the Ocean Clipper from the Gulf of Mexico to Brazil.

Contract Drilling Expense. Contract drilling expense for high specification floaters during the year ended December 31, 1999 increased $11.7 million from 1998. This increase resulted in part from an increase of $5.3 million for repairs performed on the Ocean Valiant, which was in the shipyard for part of 1999. Also contributing to this increase was $3.0 million associated with costs for the 1999 mandatory inspection and repairs of the Ocean America and $3.1 million due to the capitalization of costs associated with 1998 shipyard repairs on the Ocean Victory.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles during the year ended December 31, 1999 decreased $244.1 million from 1998. Revenues decreased $124.3 million from a decline in utilization compared to 1998 and $39.3 million due to rigs removed from service in late 1998 and 1999. In addition, revenues were reduced by $37.0 million due to rig downtime during 1999 for mandatory inspections and repairs of the Ocean New Era, the Ocean Yatzy, the Ocean Concord, the Ocean Winner, and the Ocean Guardian. Also contributing to the decrease in revenues was a $73.8 million decline from lower operating dayrates compared to 1998. The average operating dayrate for other semisubmersibles was $82,700 per day in 1999, compared to $93,900 per day in 1998. These decreases were partially offset by increases in revenues of approximately $29.1 million from nine other rigs which were undergoing mandatory inspections during 1998.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles during the year ended December 31, 1999 decreased $53.5 million from 1998. This decrease resulted primarily from expense reductions of approximately $38.7 million due to a decline in utilization and from rigs that were idle for all or part of 1999. Contract drilling expense also decreased by approximately $19.9 million due to fewer mandatory inspections and repairs performed during 1999 as compared to 1998. Partially offsetting these decreases was an increase in costs of $3.2 million associated with the mobilization of the Ocean Winner from the Gulf of Mexico to Brazil during the first half of 1999.

Jack-Ups.

Revenues. Revenues from jack-ups during the year ended December 31, 1999 decreased $134.7 million from 1998. This decrease was primarily due to reductions in revenues of $81.8 million from decreased operating dayrates and $52.9 million from decreased utilization and the removal of rigs from service in late 1998 and the first quarter of 1999. The average operating dayrate for jack-ups was $21,900 per day during 1999 compared to $46,700 per day in 1998.

Contract Drilling Expense. Contract drilling expense for jack-ups during the twelve months ended December 31, 1999 decreased $19.7 million from the same period in 1998. This decrease resulted primarily from expense reductions for rigs that were removed from service in late 1998 and the first quarter of 1999.

Integrated Services.

Revenues and contract drilling expense for integrated services increased primarily due to four turnkey wells completed during 1999. In 1998, the Company performed primarily project management services on a dayrate basis.

Other.

Other contract drilling expense of $3.1 million during 1999 decreased $7.0 million from $10.1 million during 1998. This decrease resulted primarily from higher expenditures during 1998 for crew training programs and various other non-recurring charges.

Depreciation and Amortization Expense.

Depreciation and amortization expense of $143.0 million for the year ended December 31, 1999 increased $12.7 million from $130.3 million for the year ended December 31, 1998. This increase resulted primarily from depreciation expense associated with expenditures for the Company's continuing rig enhancement program. Partially offsetting this increase was a $1.2 million decline in amortization expense as compared to 1998. See Note 4 to the Company's Consolidated Financial Statements in Item 8 of this Report.

General and Administrative Expense.

General and administrative expense of $22.9 million for the year ended December 31, 1999 decreased $2.4 million from $25.3 million for the year ended December 31, 1998 primarily due to a decrease in legal and personnel costs.

Interest Income.

Interest income of $35.0 million for the year ended December 31, 1999 increased $4.4 million from $30.6 million for the year ended December 31, 1998. This increase resulted primarily from an increase in average cash invested throughout 1999. See "-- Liquidity."

Interest Expense.

Interest expense of $9.2 million for the year ended December 31, 1999 decreased $5.3 million from $14.5 million for 1998. Interest expense for 1999 consisted of $15.5 million interest associated with the Company's convertible subordinated notes, partially offset by $6.3 million of interest capitalized for the conversion of the Ocean Confidence. The decrease of $5.3 million resulted primarily from an increase in capitalized interest cost based on the average amount of accumulated expenditures for the Ocean Confidence. See "-- Capital Resources."

Other Expense.

Other expense of $9.3 million for the year ended December 31, 1999 increased $14.5 million from other income of $5.2 million for the year ended December 31, 1998. This increase resulted primarily from an impairment loss recorded as the result of the decline in fair market value, judged to be other than temporary, in the Company's investment in an equity security. See Note 2 to the Company's Consolidated Financial Statements in Item 8 of this Report.

Income Tax Expense.

Income tax expense for the year ended December 31, 1999 was $84.3 million as compared to $206.6 million for 1998. This change resulted primarily from a decrease of $349.9 million in the Company's income before income tax expense.

YEARS ENDED DECEMBER 31, 1998 AND 1997

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.

	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1997	INCREASE/ (DECREASE)
	(in thousands)		
REVENUES			
High Specification Floaters	$ 286,875	$ 206,708	$ 80,167
Other Semisubmersibles	707,227	545,701	161,526
Jack-ups	209,134	192,169	16,965
Integrated Services	26,876	36,342	(9,466)
Other	--	3,257	(3,257)
Eliminations	(21,311)	(28,084)	6,773
Total Revenues	$ 1,208,801	$ 956,093	$ 252,708
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 88,293	$ 64,314	$ 23,979
Other Semisubmersibles	276,633	234,578	42,055
Jack-ups	104,490	96,246	8,244
Integrated Services	26,472	34,464	(7,992)
Other	10,048	6,119	3,929
Eliminations	(21,311)	(29,378)	8,067
Total Contract Drilling Expense	$ 484,625	$ 406,343	$ 78,282
OPERATING INCOME			
High Specification Floaters	$ 198,582	$ 142,394	$ 56,188
Other Semisubmersibles	430,594	311,123	119,471
Jack-ups	104,644	95,923	8,721
Integrated Services	404	1,878	(1,474)
Other	(10,048)	(2,862)	(7,186)
Eliminations	--	1,294	(1,294)
Depreciation and Amortization Expense	(130,271)	(108,335)	(21,936)
General and Administrative Expense	(25,324)	(22,556)	(2,768)
Gain on Sale of Assets	418	1,014	(596)
Total Operating Income	$ 568,999	$ 419,873	$ 149,126

High Specification Floaters.

Revenues. Revenues from high specification floaters during the year ended December 31, 1998 increased $80.2 million from 1997. This increase resulted primarily from a $51.2 million increase in revenues generated by the Ocean Victory, the Ocean Clipper, and the Ocean Star, which completed their upgrade projects in November 1997, July 1997, and March 1997, respectively, and $37.0 million of additional revenues generated by increased operating dayrates in the Gulf of Mexico and West Africa. These increases were partially offset by reductions in revenues of approximately $7.6 million for the Ocean Valiant and the Ocean Alliance from rig downtime for mandatory inspections completed in June 1998 and November 1998, respectively.

Contract Drilling Expense. Contract drilling expense for high specification floaters during the year ended December 31, 1998 increased $24.0 million from 1997. This increase resulted primarily from operating costs generated by the Ocean Victory, the Ocean Clipper, and the Ocean Star upon completion of their upgrades and from costs associated with the mandatory inspections of the Ocean Valiant and the Ocean Alliance completed during 1998.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles during the year ended December 31, 1998 increased $161.5 million from 1997. This increase resulted primarily from $194.5 million of additional revenues generated by increased operating dayrates. The average operating dayrate for other semisubmersibles was $93,900 per day in 1998, as compared to $67,400 per day in 1997. Also contributing to the increase in revenues was $9.7 million in revenues from the Ocean Century, which was employed in the Gulf of Mexico through July 1998 after reactivation in the fourth quarter of 1997. These increases were partially offset by reductions in revenues of approximately $43.2 million from rig downtime for mandatory inspections and repairs of nine of the Company's semisubmersibles performed during 1998 and from the 1997 sale of the Ocean Zephyr.

Contract Drilling Expense. Contract drilling expense for the year ended December 31, 1998 increased $42.1 million from 1997. This increase was primarily due to mandatory inspections and associated repairs performed in 1998, additional costs associated with the Ocean Whittington while in the shipyard in early 1998 for repairs and preparation for mobilization from the Gulf of Mexico to Brazil, and an overall increase in operating costs, including labor and drilling supplies.

Jack-Ups.

Revenues. Revenues from jack-ups for the year ended December 31, 1998 increased $17.0 million from 1997. This increase resulted primarily from $37.1 million of additional revenues generated by increased operating dayrates. The average operating dayrate for jack-ups was $46,700 per day in 1998 as compared to $37,000 per day in 1997. Also contributing to this increase in revenues was $11.1 million in revenues generated by the Ocean Warwick, which returned to work in the Gulf of Mexico in March 1998 upon completion of its cantilever conversion upgrade. These increases were partially offset by reductions in revenues of approximately $15.5 million due to the relinquishment of the Miss Kitty (a bareboat chartered rig) to the owner in late 1997 and from the Ocean Tower, which was in the shipyard for upgrades and repairs through May 1998. In addition, decreased utilization in the shallow waters of the Gulf of Mexico during 1998 reduced revenues by approximately $15.7 million.

Contract Drilling Expense. Contract drilling expense for jack-ups for the year ended December 31, 1998 increased $8.2 million from 1997. This increase resulted primarily from operating costs for the Ocean Warwick upon returning to service in March 1998, an overall increase in operating costs, including labor and drilling supplies, and costs associated with the mandatory inspection and repair of the Ocean Drake, which was completed in June 1998. However, the relinquishment of the Miss Kitty in late 1997 and the capital upgrade of the Ocean Tower through May 1998 partially offset these increases in contract drilling expense in 1998.

Integrated Services.

Revenues and contract drilling expense for integrated services decreased primarily due to fewer managed day work projects in 1998 as compared to 1997.

Other.

The $3.3 million in other revenue for 1997 was due to revenue generated by the Ocean Confidence, which operated as an accommodation vessel, prior to the start of its conversion to a drilling unit in 1998. See "-- Capital Resources." Other contract drilling expense increased $3.9 million in 1998 primarily due to additional expenses for maintenance and repairs to spare equipment and crew training programs for new employees as compared to 1997.

Depreciation and Amortization Expense.

Depreciation and amortization expense of $130.3 million for the year ended December 31, 1998 increased primarily due to (i) capital expenditures associated with the Company's continuing rig enhancement program, (ii) rig upgrades completed in 1998 for the Ocean Warwick and the Ocean Tower, and (iii) additional depreciation expense for the Ocean Victory, the Ocean Clipper, and the Ocean Star, which completed their upgrades in November 1997, July 1997, and March 1997, respectively.

General and Administrative Expense.

General and administrative expense of $25.3 million for the year ended December 31, 1998 increased from $22.6 million for the year ended December 31, 1997 primarily due to accruals for the Company's bonus and retention plan, costs associated with ongoing litigation, and additional personnel. Also, general and administrative costs capitalized to upgrade projects decreased in 1998 as compared to 1997.

Gain on Sale of Assets.

Gain on sale of assets of $0.4 million for the year ended December 31, 1998 decreased from $1.0 million for the year ended December 31, 1997 primarily due to the 1997 sale of the Ocean Zephyr, a semisubmersible drilling rig which was located offshore Brazil.

Interest Income.

Interest income of $30.6 million for the year ended December 31, 1998 increased $11.2 million from $19.4 million for the year ended December 31, 1997. This increase resulted primarily from the investment of additional excess cash in 1998. See "-- Liquidity."

Interest Expense.

Interest expense of $14.5 million for the year ended December 31, 1998 increased $4.2 million from $10.3 million for 1997. Interest expense for 1998 consisted of $15.5 million interest associated with the Company's convertible subordinated notes that were issued in February 1997, partially offset by $1.0 million of interest capitalized for the conversion of the Ocean Confidence. The increase of $4.2 million resulted primarily from the reduction of interest capitalized for upgrade projects in 1998.

Other Income.

Other income of $5.2 million for the year ended December 31, 1998 increased $4.1 million from $1.1 million for 1997. This increase resulted primarily from realized gains on sales of marketable debt securities in 1998.

Income Tax Expense.

Income tax expense for the year ended December 31, 1998 was $206.6 million as compared to $151.5 million for 1997. This change resulted primarily from the increase of $160.2 million in the Company's income before income tax expense.

OUTLOOK

During 1999, operators took a cautious approach on spending for exploration and development due to fluctuating product price levels. In response, the Company removed as many as eight rigs from service during all or part of 1999 and several of the Company's other rigs were idle in various markets. In addition, rig construction and enhancement programs by offshore drilling contractors, which began in late 1997 and 1998, resulted in a marginal oversupply of technologically advanced rigs capable of drilling in deep water. Such conditions adversely affected the utilization level and average operating dayrates available for the Company's rigs, particularly its higher specification semisubmersible units. The previously depressed conditions in the oil and gas industry also increased the susceptibility of term contracts committed at dayrates in excess of the current market rates to be terminated or renegotiated by the customer. Although during 1999 the Company did not experience termination of significant contracts or substantial renegotiations, other than as discussed below, several term contracts were terminated during 1999 within the offshore contract drilling industry for various reasons. Historically, the offshore contract drilling industry has been highly competitive and cyclical, and the Company cannot predict the extent to which current conditions may or may not continue. However, with the continued improvements in product prices due to, among other things, production cuts by the Organization of Petroleum Exporting Countries and an improved outlook on foreign economic recovery, particularly in Asia, there is new optimism in the offshore contract drilling industry that oil and gas companies will increase their spending on exploration and development in the long term resulting in increased utilization levels and dayrates for offshore drilling rigs.

In August 1999, a customer terminated a contract for the use of one of the Company's drilling rigs located offshore Australia. The termination was not the result of performance failures by the Company or its equipment. The Company believes the contract required the customer to pay approximately $16.5 million in remaining revenue through the end of the contract period, which was previously scheduled to end in early January 2000. However, the customer believes that there was no further obligation under the contract and has refused to pay the $16.5 million early termination fee. The Company filed suit in Australia in August 1999 requesting reconstruction of the contract and a declaratory judgment requiring the customer to pay such early termination fee. The Company intends to vigorously pursue its claim. For financial statement purposes, the $16.5 million early termination fee was not included in revenues in the Company's results of operations for the year ended December 31, 1999.

The Company's results of operations have been adversely affected by the loss of revenues and associated costs incurred during required regulatory inspections of its drilling rigs. Six of these inspections were performed in 1999 and two are scheduled for completion in 2000. The Company may elect to perform additional inspections or undertake modifications to take advantage of rig downtime. The Company intends to focus on returning these rigs to operations as soon as reasonably possible, in order to minimize inspection downtime and associated loss of revenues, but the extent of such downtime cannot be accurately predicted.

LIQUIDITY

At December 31, 1999, cash and marketable securities totaled $641.4 million, up from $637.0 million at December 31, 1998. Cash provided by operating activities for the year ended December 31, 1999 decreased by $149.1 million to $398.1 million, as compared to $547.2 million for the prior year. This decrease was primarily from a $227.6 million decrease in net income, a $71.1 million decrease from changes in accounts payable and accrued liabilities, and a $22.9 million decrease in the deferred tax provision. These decreases were partially offset by a $116.4 million increase in cash resulting from a decrease in accounts receivable and a $14.4 million increase in cash resulting from changes in rig inventory and other current assets.

Investing activities used $319.1 million in cash during the year ended December 31, 1999, as compared to $391.3 million during the prior year. This decrease resulted primarily from a $172.2 million decrease in cash from changes in marketable securities, partially offset by a $99.7 million increase in capital expenditures, primarily for the conversion of the Ocean Confidence. See "-- Capital Resources."

Cash used in financing activities for the year ended December 31, 1999 of $67.9 million resulted primarily from dividends paid to stockholders. Cash used in financing activities for the year ended December 31, 1998 of $157.7 resulted from the repurchase of shares of the Company's outstanding common stock and from dividends paid to stockholders. Depending on market conditions the Company may, from time to time, purchase shares of its common stock in the open market. During the year ended December 31, 1998, the Company purchased 3.5 million shares of its common stock at an aggregate cost of $88.7 million. The Company did not repurchase any of its common stock during 1999. Through February 29, 2000, the Company has purchased 0.3 million shares of its common stock at an aggregate cost of $8.5 million, or at an average cost of $27.49 per share. See Note 1 to the Company's Consolidated Financial Statements in Item 8 of this Report.

In April 1999, the Company entered into a $20.0 million short-term revolving credit agreement with a U.S. bank. The agreement provides for borrowings at various interest rates and varying commitment fees dependent upon public credit ratings. The Company intends to use the facility primarily for letters of credit that the Company must post, from time to time, for bid and performance guarantees required in certain parts of the world. The agreement contains certain financial and other covenants and provisions that must be maintained by the Company for compliance. As of December 31, 1999, there were no outstanding borrowings under this agreement and the Company was in compliance with each of the covenants and provisions.

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

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

CAPITAL RESOURCES

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

During the year ended December 31, 1999, the Company expended $208.8 million, including capitalized interest expense, for rig upgrades, primarily for the conversion of the Ocean Confidence from an accommodation vessel to a semisubmersible drilling unit capable of operating in harsh environments and ultra-deep waters. Also during 1999, the Company expended $21.8 million to upgrade the dynamic-positioning system of the Ocean Clipper, $12.9 million to increase the variable deckload and other drilling capabilities on the Ocean General, $11.2 million to expand the variable deckload, work and storage space on the Ocean Concord, and $4.9 million to complete the power system upgrade on the Ocean King. The Company has budgeted $87.2 million for rig upgrade capital expenditures during 2000, which does not include currently anticipated cost overruns associated with the conversion of the Ocean Confidence. Included in this amount is approximately $17.0 million for variable deckload and water depth capability upgrades on the Ocean Epoch, and $25.2 million for other possible upgrades depending on market conditions.

The conversion of the Ocean Confidence includes the following enhancements: capability for operation in 7,500 foot water depths; approximately 6,000 tons variable deckload; a 15,000 psi blow-out prevention system; and four mud pumps to complement the existing Class III dynamic-positioning system. The Company estimates its net cost of conversion for this rig at approximately $340.0 million. Upon completion of the conversion and acceptance, the rig is scheduled to begin a five-year drilling program in the Gulf of Mexico, which is expected to generate approximately $320.0 million of revenues. The drilling contract contains a provision allowing the customer to cancel the contract should the unit not be delivered by July 1, 2000. Although the Company believes the project will be completed by July 1, 2000, it is possible that delays or unforeseen circumstances could push delivery beyond this date, which could allow the customer to cancel the term contract. Should the Company be required to remarket the unit, it is likely that an initial term would be shorter than the currently contracted five-year period, and the dayrate would be dependent upon market conditions at such time as the Ocean Confidence might be offered for contract. In such case, future revenues generated by the rig could be less than the current contracted amount of approximately $320.0 million.

During the year ended December 31, 1999, the Company expended $115.3 million in association with its continuing rig enhancement program and to meet other corporate requirements. These expenditures included purchases of anchor chain, drill pipe, riser, and other drilling equipment. The Company has budgeted $70.8 million for 2000 capital expenditures associated with its continuing rig enhancement program and other corporate requirements.

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

INTEGRATED SERVICES

The Company's wholly owned subsidiary, DOTS, from time to time, selectively engages in drilling services pursuant to turnkey or modified-turnkey contracts under which DOTS agrees to drill a well to a specified depth for a fixed price. In such cases, DOTS generally is not entitled to payment unless the well is drilled to the specified depth and profitability of the contract depends upon its ability to keep expenses within the estimates used by DOTS in determining the contract price. Drilling a well under a turnkey contract therefore typically requires a greater cash commitment by the Company and exposes the Company to risks of potential financial losses that generally are substantially greater than those that would ordinarily exist when drilling under a conventional dayrate contract. DOTS also offers a portfolio of drilling services including overall project management, extended well tests, and completion operations. During 1999, DOTS completed four turnkey wells in the Gulf of Mexico and contributed operating income of $0.3 million to the Company's consolidated results of operations.

YEAR 2000 ISSUES UPDATE

The Company began to address Year 2000 ("Y2K") compliance issues in 1997 when it formed a committee (the "Y2K Committee") to develop the Company's Y2K compliance initiative. The Y2K Committee focused its efforts on both information technology systems (e.g., computer software and hardware) and non-information technology systems (e.g., embedded technology such as micro-controllers) in the Company's domestic and international onshore locations, aboard the Company's drilling rigs and among its key suppliers. The Y2K Committee particularly focused its attention on critical safety, production, and operational systems on-board the Company's fleet of drilling rigs.

The Company did not experience any serious Y2K problems as the calendar year changed to 2000, and no disruption of normal business activities or operations occurred which could have had a material adverse effect on the Company's results of operations, liquidity or financial condition. However, the Company is continuing to monitor, on an ongoing basis, any future uncertainties arising from the Y2K problem. The Company does not believe that any future problems, primarily in the nature of computer system problems, could have a material adverse effect on its results of operations.

The total cost associated with required modifications to become Y2K compliant was not material to the Company's financial position primarily because the Company utilized existing personnel resources to assist in the implementation of its Y2K compliance initiative. The Company implemented certain business and financial systems apart from the Y2K compliance initiative. However, because the replaced systems were not Y2K compliant, the Y2K initiative also benefited from their replacement. The cost for these systems does not include the Company's internal costs incurred as these costs were not separately tracked. Such internal costs were principally the related payroll costs for its information systems group. The total amount of outside costs expended through December 31, 1999 was approximately $5.7 million, of which approximately $3.3 million was incurred and capitalized prior to 1999.

OTHER

Currency Risk. Certain of the Company's subsidiaries use the local currency in the country where they conduct operations as their functional currency. Currency environments in which the Company has material business operations include the U.K., Australia, Brazil, Indonesia and Africa. The Company generally attempts to minimize its currency exchange risk by seeking international contracts payable in local currency in amounts equal to the Company's estimated operating costs payable in local currency and in U.S. dollars for the balance of the contract. Because of this strategy, the Company has minimized its unhedged net asset or liability positions denominated in local currencies and has not experienced significant gains or losses associated with changes in currency exchange rates. At present, both contracts covering the Company's rigs currently operating in the U.K. sector of the North Sea are payable in U.S. dollars. The Company has not hedged its exposure to changes in the exchange rate between U.S. dollars and pounds sterling for operating costs payable in pounds sterling, although it may seek to do so in the future.

Currency translation adjustments are accumulated in a separate section of stockholders' equity. When the Company ceases its operations in a currency environment, the accumulated adjustments are recognized currently in results of operations. Additionally, translation gains and losses for the Company's operations in areas which have experienced cumulative inflation of approximately 100 percent or more over a three-year period are recognized currently. The effect on results of operations from these translation gains and losses has not been material and they are not expected to have a significant effect in the future.

FORWARD-LOOKING STATEMENTS

Certain written and oral statements made or incorporated by reference from time to time by the Company or its representatives are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, performance or achievements, and may contain the words "expect," "intend," "plan," "anticipate," "estimate," "believe," "will be," "will continue," "will likely result," and similar expressions. Statements by the Company in this Report that contain forward-looking statements include, but are not limited to, discussions regarding future market conditions and the effect of such conditions on the Company's future results of operations (see "-- Outlook"), future uses of and requirements for financial resources, including but not limited to, expenditures related to the conversion of the Ocean Confidence (see "-- Liquidity" and "-- Capital Resources"), and the impact of currency risk to the Company's future results of operations (see "-- Other"). Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, casualty losses, industry fleet capacity, changes in foreign and domestic oil and gas exploration and production activity, competition, changes in foreign, political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, customer preferences 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 impact the Company's business and financial performance. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information included in this Item 7A is considered to constitute "forward looking statements" for purposes of the statutory safe harbor provided in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Forward-Looking Statements" in Item 7 of this Report.

The Company's financial instruments include the Company's convertible subordinated notes and investments in debt securities, including U.S. Treasury securities and collateralized mortgage obligations ("CMO's"). The Company's convertible subordinated notes, which are due February 15, 2007, have a stated interest rate of 3.75 percent and an effective interest rate of 3.93 percent. At December 31, 1999, the fair value of these notes, based on quoted market prices, was approximately $403.9 million, as compared to a carrying amount of $400.0 million. At December 31, 1999, the fair market value of the Company's investment in debt securities issued by the U.S. Treasury was approximately $380.7 million, which includes an unrealized holding loss of $3.3 million. These securities bear interest rates ranging from 4.00 percent to 5.00 percent. These securities are U.S. government-backed and generally short-term and readily marketable. The fair value of the Company's investment in CMO's at December 31, 1999 was approximately $146.9 million, which includes an unrealized holding loss of $6.1 million. The CMO's are also short-term and readily marketable with an implied AAA rating backed by U.S. government guaranteed mortgages.

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

At December 31, 1999, the fair value of the Company's investment in an equity security was approximately $1.4 million, which includes an unrealized holding loss of $10.7 million. Because this decline in value was judged to be other than temporary, the cost of the security was written down for financial statement purposes from $12.1 million to $1.4 million at December 31, 1999 and a corresponding after-tax impairment loss of $6.9 million was charged against net income for the year ended December 31, 1999.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Diamond Offshore Drilling, Inc. and subsidiaries
Houston, Texas

We have audited the accompanying consolidated balance sheets of Diamond Offshore Drilling, Inc. and subsidiaries (the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Diamond Offshore Drilling, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
Houston, Texas

January 25, 2000

DIAMOND OFFSHORE DRILLING, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	DECEMBER 31, 1999	DECEMBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 112,316	$ 101,198
Marketable securities	529,042	535,774
Accounts receivable	143,569	233,719
Rig inventory and supplies	38,760	35,794
Prepaid expenses and other	36,605	31,939
Total current assets	860,292	938,424
DRILLING AND OTHER PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	1,737,905	1,551,820
GOODWILL, NET OF ACCUMULATED AMORTIZATION	73,174	109,825
OTHER ASSETS	9,658	9,647
Total assets	$ 2,681,029	$ 2,609,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 72,630	$ 93,938
Accrued liabilities	44,051	53,283
Taxes payable	18,720	13,180
Total current liabilities	135,401	160,401
LONG-TERM DEBT	400,000	400,000
DEFERRED TAX LIABILITY	291,213	263,797
OTHER LIABILITIES	12,193	30,260
Total liabilities	838,807	854,458
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock (par value $0.01, 25,000,000 shares authorized, none issued and outstanding)	--	--
Common stock (par value $0.01, 500,000,000 shares authorized, 139,342,381 issued, 135,824,281 outstanding at December 31, 1999 and 139,333,635 shares issued and 135,815,535 outstanding at December 31, 1998)	1,393	1,393
Additional paid-in capital	1,302,841	1,302,806
Retained earnings	635,943	547,783
Accumulated other comprehensive losses	(9,229)	(7,998)
Treasury stock, at cost (3,518,100 shares)	(88,726)	(88,726)
Total stockholders' equity	1,842,222	1,755,258
Total liabilities and stockholders' equity	$ 2,681,029	$ 2,609,716

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

DIAMOND OFFSHORE DRILLING, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
REVENUES	$ 821,024	$ 1,208,801	$ 956,093
OPERATING EXPENSES:			
Contract drilling	431,523	484,625	406,343
Depreciation and amortization	142,963	130,271	108,335
General and administrative	22,877	25,324	22,556
Gain on sale of assets	(231)	(418)	(1,014)
Total operating expenses	597,132	639,802	536,220
OPERATING INCOME	223,892	568,999	419,873
OTHER INCOME (EXPENSE):			
Interest income	34,985	30,565	19,379
Interest expense	(9,212)	(14,487)	(10,270)
Other, net	(9,302)	5,154	1,079
INCOME BEFORE INCOME TAX EXPENSE	240,363	590,231	430,061
INCOME TAX EXPENSE	(84,292)	(206,572)	(151,456)
NET INCOME	$ 156,071	$ 383,659	$ 278,605
NET INCOME PER SHARE:			
Basic	$ 1.15	$ 2.78	$ 2.01
Diluted	$ 1.11	$ 2.66	$ 1.93
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Shares of common stock	135,822	138,020	138,560
Dilutive potential shares of common stock	9,876	9,876	8,929
Total weighted average shares of common stock outstanding	145,698	147,896	147,489

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

DIAMOND OFFSHORE DRILLING, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT NUMBER OF SHARES)

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINED EARNINGS (ACCUMULATED	ACCUMULATED OTHER COMPREHENSIVE	TREASURY STOCK		TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	CAPITAL	DEFICIT)	GAINS (LOSSES)	SHARES	AMOUNT	EQUITY
DECEMBER 31, 1996	68,353,409	$ 684	$1,220,032	$ (25,056)	$ (928)	--	--	$ 1,194,732
Net income	--	--	--	278,605	--	--	--	278,605
Issuance of common stock	1,250,000	12	82,270	--	--	--	--	82,282
Two-for-one stock split	69,649,474	696	--	(696)	--	--	--	--
Dividends to stockholders	--	--	--	(19,503)	--	--	--	(19,503)
Stock options exercised	57,065	1	410	--	--	--	--	411
Exchange rate changes, net ...	--	--	--	--	(894)	--	--	(894)
Loss on investments, net	--	--	--	--	(106)	--	--	(106)
DECEMBER 31, 1997	139,309,948	1,393	1,302,712	233,350	(1,928)	--	--	1,535,527
Net income	--	--	--	383,659	--	--	--	383,659
Treasury stock purchases	--	--	--	--	--	3,518,100	(88,726)	(88,726)
Dividends to stockholders	--	--	--	(69,226)	--	--	--	(69,226)
Stock options exercised	23,687	--	94	--	--	--	--	94
Exchange rate changes, net ...	--	--	--	--	(291)	--	--	(291)
Loss on investments, net	--	--	--	--	(5,779)	--	--	(5,779)
DECEMBER 31, 1998	139,333,635	1,393	1,302,806	547,783	(7,998)	3,518,100	$ (88,726)	1,755,258
Net income	--	--	--	156,071	--	--	--	156,071
Dividends to stockholders	--	--	--	(67,911)	--	--	--	(67,911)
Stock options exercised	8,746	--	35	--	--	--	--	35
Exchange rate changes, net ...	--	--	--	--	(983)	--	--	(983)
Loss on investments, net	--	--	--	--	(248)	--	--	(248)
DECEMBER 31, 1999	139,342,381	$ 1,393	$1,302,841	$ 635,943	$ (9,229)	3,518,100	$ (88,726)	$ 1,842,222

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

DIAMOND OFFSHORE DRILLING, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
NET INCOME	$ 156,071	$ 383,659	$ 278,605
OTHER COMPREHENSIVE GAINS (LOSSES), NET OF TAX:			
Foreign currency translation loss	(983)	(291)	(894)
Unrealized holding loss on investments	(5,903)	(5,797)	(106)
Reclassification adjustment for losses included in net income	5,655	18	--
Total other comprehensive loss	(1,231)	(6,070)	(1,000)
COMPREHENSIVE INCOME	$ 154,840	$ 377,589	$ 277,605

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

DIAMOND OFFSHORE DRILLING, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
OPERATING ACTIVITIES:			
Net income	$ 156,071	$ 383,659	$ 278,605
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	142,963	130,271	108,335
Gain on sale of assets	(231)	(418)	(1,014)
(Gain) loss on sale of investment securities	522	(1,116)	(1,529)
Impairment write-down of investment securities	10,671	--	--
Deferred tax provision	38,529	61,403	34,650
Accretion of discount on investment securities	(9,316)	(14,568)	(10,505)
Amortization of debt issuance costs	541	521	456
Changes in operating assets and liabilities:			
Accounts receivable	90,279	(26,153)	(32,959)
Rig inventory and supplies and other current assets	(7,527)	(21,911)	(3,319)
Other assets, non-current	(2,639)	(705)	949
Accounts payable and accrued liabilities	(30,540)	40,534	15,256
Taxes payable	11,193	(3,867)	3,893
Other liabilities, non-current	(881)	835	3,885
Other, net	(1,513)	(1,301)	(335)
Net cash provided by operating activities	398,122	547,184	396,368
INVESTING ACTIVITIES:			
Capital expenditures	(324,133)	(224,474)	(281,572)
Acquisition of drilling rigs and related equipment	--	--	(80,990)
Proceeds from sale of assets	662	1,011	8,277
Net change in marketable securities	4,343	(167,818)	(351,682)
Net cash used in investing activities	(319,128)	(391,281)	(705,967)
FINANCING ACTIVITIES:			
Reacquisition of common stock	--	(88,726)	--
Payment of dividends	(67,911)	(69,226)	(19,503)
Issuance of common stock	--	--	82,282
Debt repayments, net	--	--	(73,000)
Issuance of convertible subordinated notes	--	--	400,000
Debt issuance costs	--	--	(6,062)
Proceeds from stock options exercised	35	289	660
Net cash (used in) provided by financing activities	(67,876)	(157,663)	384,377
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,118	(1,760)	74,778
Cash and cash equivalents, beginning of year	101,198	102,958	28,180
Cash and cash equivalents, end of year	$ 112,316	$ 101,198	$ 102,958

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

DIAMOND OFFSHORE DRILLING, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Diamond Offshore Drilling, Inc. (the "Company") was incorporated in Delaware on April 13, 1989. Loews Corporation ("Loews"), a Delaware corporation of which the Company had been a wholly owned subsidiary prior to the initial public offering in October 1995 (the "Common Stock Offering"), owns 51.7 percent of the outstanding common stock of the Company.

The Company, through wholly owned subsidiaries, engages in the worldwide contract drilling of offshore oil and gas wells and is a leader in deep water drilling. Currently, the fleet is comprised of 30 semisubmersible rigs, 14 jack-up rigs, and one drillship.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company after elimination of significant intercompany transactions and balances.

Cash and Cash Equivalents

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

Marketable Securities

The Company's investments are classified as available for sale and stated at fair value under the terms of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, any unrealized gains and losses, net of taxes, are reported in the Consolidated Balance Sheets in "Accumulated other comprehensive losses" until realized. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity and such adjustments are included in the Consolidated Statements of Income in "Interest income." The cost of debt securities sold is based on the specific identification method and the cost of equity securities sold is based on the average cost method. Realized gains or losses and declines in value, if any, judged to be other than temporary are reported in the Consolidated Statements of Income in "Other income (expense)."

Supplementary Cash Flow Information

Cash payments made for interest on long-term debt, including commitment fees, were $15.0 million during each of the years ended December 31, 1999 and 1998 and $8.7 million during the year ended December 31, 1997. Cash payments made for income taxes, net of refunds, during the years ended December 31, 1999, 1998, and 1997 were $35.0 million, $151.3 million, and $112.1 million, respectively.

Rig Inventory and Supplies

Inventories primarily consist of replacement parts and supplies held for use in the operations of the Company. Inventories are stated at the lower of cost or estimated value.

Drilling and Other Property and Equipment

Drilling and other property and equipment is carried at cost. Maintenance and repairs are charged to income currently while replacements and betterments are capitalized. Costs incurred for major rig upgrades are accumulated in construction work in progress, with no depreciation recorded on the additions, until the month the upgrade is completed and the rig is placed in service. Upon retirement or other disposal of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in the results of operations. Depreciation is provided on the straight-line method over the remaining estimated useful lives from the date the asset is placed in service.

Capitalized Interest

Interest cost for construction and upgrade of qualifying assets is capitalized. The Company incurred interest cost, including amortization of debt issuance costs, of $15.5 million during each of the years ended December 31, 1999 and 1998, and $14.7 million during the year ended December 31, 1997. Interest cost capitalized during the years ended December 31, 1999, 1998, and 1997 was $6.3 million, $1.0 million, and $4.4 million, respectively.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Goodwill

Goodwill from the merger with Arethusa (Off-Shore) Limited ("Arethusa") is amortized on a straight-line basis over 20 years. Amortization charged to operating expense during the years ended December 31, 1999, 1998, and 1997 totaled $5.3 million, $6.5 million, and $6.6 million, respectively.

Debt Issuance Costs

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

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's non-U.S. income tax liabilities are based upon the results of operations of the various subsidiaries and foreign branches in those jurisdictions in which they are subject to taxation.

Treasury Stock

In July 1998, the Board of Directors authorized the purchase of shares of the Company's common stock in the open market, from time to time, depending on market conditions. The purchase of treasury stock is accounted for using the cost method which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in the Consolidated Balance Sheets. During the year ended December 31, 1998, the Company purchased 3.5 million shares of its common stock at an aggregate cost of $88.7 million, or at an average cost of $25.22 per share. Basic and diluted net income per share for the year ended December 31, 1998 increased $0.03 and $0.02, respectively, as a result of the purchase of treasury stock. The Company did not repurchase any of its common stock during the year ended December 31, 1999. See "--Subsequent Events."

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. The net of mobilization fees received and costs incurred to mobilize an offshore rig from one market to another is recognized over the term of the related drilling contract. Absent a contract, mobilization costs are recognized currently. Lump-sum payments received from customers relating to specific contracts are deferred and amortized to income over the term of the 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.

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 year-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 Income in "Other income (expense)." Additionally, translation gains and losses of subsidiaries operating in hyperinflationary economies are included in operating results currently.

Earnings Per Share

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

Because the Company does not maintain an ongoing plan for the issuance of stock options, the options to originally purchase up to 1.0 million shares of common stock assumed in the merger with Arethusa (the "Arethusa Options") have not been included as dilutive potential shares. The effect on the computation of per share earnings, had the Arethusa Options been included, was not material. At December 31, 1999, 1998 and 1997, there were Arethusa Options outstanding for the purchase of approximately 39,000, 48,000 and 100,000 shares of common stock, respectively.

Weighted average shares outstanding and all per share amounts included herein for all periods presented have been restated to include the retroactive effect of the July 1997 two-for-one stock split in the form of a stock dividend.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income includes net income, foreign currency translation gains and losses, and unrealized holding gains and losses on investments.

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

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

2. MARKETABLE SECURITIES

Investments classified as available for sale are summarized as follows:

	DECEMBER 31, 1999		
	COST	UNREALIZED GAIN (LOSS)	MARKET VALUE
		(IN THOUSANDS)	
Debt securities issued by the U.S. Treasury			
Due within one year	$259,090	$(1,123)	$257,967
Due after one year through five years	124,935	(2,180)	122,755
Collateralized mortgage obligations	153,004	(6,130)	146,874
Equity securities	1,446	--	1,446
Total	$538,475	$(9,433)	$529,042

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

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

At December 31, 1999, the market value of the Company's investment in an equity security was $1.4 million, which included an unrealized loss of $10.7 million. Because this decline in value was judged to be other than temporary, the cost of the security was written down from $12.1 million to $1.4 million at December 31, 1999 and a corresponding after-tax impairment loss of $6.9 million was charged against net income for the year ended December 31, 1999.

During the year ended December 31, 1999, certain debt securities due within one year were sold or matured for proceeds of $640.9 million, resulting in after-tax realized gains that were immaterial. Certain debt securities due after one year were sold for proceeds of $99.8 million during the year ended December 31, 1999, with a resulting after-tax realized loss of $0.3 million.

During the year ended December 31, 1998, certain equity and debt securities due within one year were sold for proceeds of $2.4 million and $1,262.0 million, respectively. The resulting after-tax realized gains for equity and debt securities were $0.1 million and $0.7 million, respectively. Certain debt securities due after one year were sold for proceeds of $501.9 million during the year ended December 31, 1998, with a resulting after-tax realized gain of $1.3 million. Also during the year ended December 31, 1998, investments through repurchase agreements with third parties were sold for their contracted amounts totaling $350.0 million.

3. DRILLING AND OTHER PROPERTY AND EQUIPMENT

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

	DECEMBER 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Drilling rigs and equipment	$ 2,095,613	$ 1,929,540
Construction work in progress	241,102	88,266
Land and buildings	13,992	13,874
Office equipment and other	17,552	14,100
Cost	2,368,259	2,045,780
Less accumulated depreciation	(630,354)	(493,960)
Drilling and other property and equipment, net	$ 1,737,905	$ 1,551,820

4. GOODWILL

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

	DECEMBER 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Goodwill	$ 96,112	$ 127,418
Less accumulated amortization	(22,938)	(17,593)
Total	$ 73,174	$ 109,825

During the years ended December 31, 1999 and 1998, adjustments of $31.3 million and $2.3 million, respectively, were recorded to reduce goodwill before accumulated amortization. The adjustments represent tax benefits not previously recognized for the excess of tax deductible goodwill over the book goodwill amount.

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	DECEMBER 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Personal injury and other claims	$18,219	$20,676
Payroll and benefits	16,281	18,701
Interest payable	5,667	5,667
Other	3,884	8,239
Total	$44,051	$53,283

6. LONG-TERM DEBT

Convertible Subordinated Notes

In February 1997, the Company issued $400.0 million of convertible subordinated notes (the "Notes") due February 15, 2007. The Notes are convertible into shares of the Company's common stock, at a conversion price of $40.50 per share, subject to adjustment in certain circumstances. The Notes have a stated interest rate of 3.75 percent and an effective interest rate of 3.93 percent. Interest is payable semi-annually on each February 15 and August 15.

The Notes are redeemable, in whole or, from time to time, in part, at the option of the Company, at any time on or after February 22, 2001, at specified redemption prices, plus accrued and unpaid interest to the date of redemption. The Notes are general unsecured obligations of the Company, subordinated in right of payment to the prior payment in full of the principal and premium, if any, and interest on all indebtedness of the Company for borrowed money, other than the Notes, with certain exceptions, and effectively subordinated in right of payment to the prior payment in full of all indebtedness of the Company's subsidiaries. The Notes do not restrict the Company's ability to incur other indebtedness or additional indebtedness of the Company's subsidiaries.

Credit Agreement

In April 1999, the Company entered into a $20.0 million short-term revolving credit agreement with a U.S. bank. The agreement provides for borrowings at various interest rates and varying commitment fees dependent upon public credit ratings. The Company intends to use the facility primarily for letters of credit that the Company must post, from time to time, for bid and performance guarantees required in certain parts of the world. The agreement contains certain financial and other covenants and provisions that must be maintained by the Company for compliance. As of December 31, 1999, there were no outstanding borrowings under this agreement and the Company was in compliance with each of the covenants and provisions.

7. COMPREHENSIVE INCOME

The income tax effects allocated to the components of other comprehensive income are as follows:

	YEAR ENDED DECEMBER 31, 1999		
	BEFORE TAX	TAX EFFECT	NET-OF-TAX
	(IN THOUSANDS)		
Foreign currency translation gain (loss) ...	$(1,512)	$ 529	$ (983)
Unrealized gain (loss) on investments:			
Gain (loss) arising during 1999	(9,081)	3,178	(5,903)
Reclassification adjustment	8,700	(3,045)	5,655
Net unrealized gain (loss)	(381)	133	(248)
Other comprehensive income (loss)	$(1,893)	$ 662	$(1,231)

	YEAR ENDED DECEMBER 31, 1998		
	BEFORE TAX	TAX EFFECT	NET-OF-TAX
	(IN THOUSANDS)		
Foreign currency translation gain (loss)	$ (1,430)	$ 1,139	$ (291)
Unrealized gain (loss) on investments:			
Gain (loss) arising during 1998	(8,918)	3,121	(5,797)
Reclassification adjustment	28	(10)	18
Net unrealized gain (loss)	(8,890)	3,111	(5,779)
Other comprehensive income (loss)	$(10,320)	$ 4,250	$(6,070)

	YEAR ENDED DECEMBER 31, 1997		
	BEFORE TAX	TAX EFFECT	NET-OF-TAX
	(IN THOUSANDS)		
Foreign currency translation loss	$ (894)	$--	$ (894)
Unrealized gain (loss) on investments:			
Gain (loss) arising during 1997	(163)	57	(106)
Other comprehensive income (loss)	$(1,057)	$57	$(1,000)

8. COMMITMENTS AND CONTINGENCIES

The Company leases office facilities under operating leases, which expire through the year 2002. Total rent expense amounted to $1.4 million, $1.8 million, and $1.8 million for the years ended December 31, 1999, 1998, and 1997, respectively. Minimum future rental payments under leases are approximately $0.6 million, $0.4 million, and $0.1 million for the years 2000 to 2002, respectively. There are no minimum future rental payments under leases after the year 2002.

The Company is contingently liable as of December 31, 1999 in the amount of $29.1 million under certain performance, bid, customs and export bonds. On the Company's behalf, banks have issued letters of credit securing certain of these bonds.

A former subsidiary of Arethusa, which is now a subsidiary of the Company, defended and indemnified Zapata Off-Shore Company and Zapata Corporation (the "Zapata Defendants"), pursuant to a contractual defense and indemnification agreement, in a suit for tortious interference with contract and conspiracy to tortiously interfere with contract. The plaintiffs sought $14.0 million in actual damages and unspecified punitive damages, plus costs of court, interest and attorneys' fees. In November 1997, the jury awarded a take nothing judgment in favor of the Zapata Defendants. The plaintiffs appealed the judgment and the appellate court ordered the parties to mediation. The case went to mediation in July 1998 with no resolution. In May 1999, the case went before the Texas First Court of Appeals, Houston, which affirmed the jury verdict. The plaintiffs filed a petition for review with the Supreme Court of Texas in November 1999 which was subsequently denied in January 2000. No provision for any liability had been made in the financial statements.

In August 1999, a customer terminated a contract for use of one of the Company's drilling rigs located offshore Australia. The termination was not the result of performance failures by the Company or its equipment. The Company believes the contract required the customer to pay approximately $16.5 million in remaining revenue through the end of the contract period, which was previously scheduled to end in early January 2000. However, the customer believes that there was no further obligation under the contract and has refused to pay the $16.5 million early termination fee. The Company filed suit in Australia in August 1999 requesting reconstruction of the contract and a declaratory judgment requiring the customer to pay such early termination fee. The Company intends to vigorously pursue its claim. For financial statement purposes, the $16.5 million early termination fee was not included in revenues in the Company's results of operations for the year ended December 31, 1999.

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

9. FINANCIAL INSTRUMENTS

Concentrations of Credit and Market Risk

Financial instruments which potentially subject the Company to significant concentrations of credit or market risk consist primarily of periodic temporary investments of excess cash and trade accounts receivable, and investments in debt and equity securities, including collateralized mortgage obligations ("CMO's"). The Company places its temporary excess cash investments in high quality short-term money market instruments through several financial institutions. At times, such investments may be in excess of the insurable limit. The Company's periodic evaluations of the relative credit standing of these financial institutions are considered in the Company's investment strategy.

Concentrations of credit risk with respect to trade accounts receivable are limited primarily due to the entities comprising the Company's customer base. Since the market for the Company's services is the offshore oil and gas industry, this customer base consists primarily of major oil companies and independent oil and gas producers. The Company provides allowances for potential credit losses when necessary. No such allowances were deemed necessary for the years presented and, historically, the Company has not experienced significant losses on trade receivables. The Company's investments in debt securities, which are primarily U.S. government securities, do not impose a significant market risk on the Company as they are generally short-term with ready marketability.

Investments in CMO's, by the Company, are not considered high-risk as they are also short-term and readily marketable with an implied AAA rating backed by U.S. government guaranteed mortgages.

Fair Values

The amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, marketable securities, accounts receivable, and accounts payable approximate fair value. At December 31, 1999 and 1998, the fair value of the Notes was approximately $403.9 million and $371.2 million, respectively, as compared to a carrying amount of $400.0 million.

The estimated fair value amounts have been determined by the Company using appropriate valuation methodologies and information available to management as of December 31, 1999 and 1998. Considerable judgment is required in developing these estimates, and accordingly, no assurance can be given that the estimated values are indicative of the amounts that would be realized in a free market exchange. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

Cash and cash equivalents -- The carrying amounts approximate fair value because of the short maturity of these instruments.

Marketable securities -- The fair values of the debt and equity securities, including CMO's, available for sale were based on quoted market prices as of December 31, 1999 and 1998.

Accounts receivable and accounts payable -- The carrying amounts approximate fair value based on the nature of the instruments.

Long-term debt -- The fair value was based on the quoted market price from brokers of the Notes.

10. RELATED PARTY TRANSACTIONS

The Company and Loews have entered into a services agreement which was effective upon consummation of the Common Stock Offering (the "Services Agreement") pursuant to which Loews agreed to continue to perform certain administrative and technical services on behalf of the Company. Such services include personnel, telecommunications, purchasing, internal auditing, accounting, data processing and cash management services, in addition to advice and assistance with respect to preparation of tax returns and obtaining insurance. Under the Services Agreement, the Company is required to reimburse Loews for (i) allocated personnel costs (such as salaries, employee benefits and payroll taxes) of the Loews personnel actually providing such services and (ii) all out-of-pocket expenses related to the provision of such services. The Services Agreement may be terminated at the Company's option upon 30 days' notice to Loews and at the option of Loews upon six months' notice to the Company. In addition, the Company has agreed to indemnify Loews for all claims and damages arising from the provision of services by Loews under the Services Agreement, unless due to the gross negligence or willful misconduct of Loews. The Company was charged $0.3 million, $0.4 million, and $0.3 million by Loews for these support functions during the years ended December 31, 1999, 1998, and 1997, respectively.

11. INCOME TAXES

An analysis of the Company's income tax expense is as follows:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS)		
U.S. - current	$15,830	$110,379	$ 99,001
U.S. - deferred	38,529	61,403	34,650
Non-U.S. - current	29,933	34,790	17,300
State and other	--	--	505
Total	$84,292	$206,572	$151,456

Significant components of the Company's deferred income tax assets and liabilities are as follows:

	DECEMBER 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Deferred tax assets:		
Net operating loss carryforwards	$ 12,061	$ 12,236
Worker's compensation accruals (1)	2,978	4,960
Foreign tax credits	24,121	15,181
Other	14,849	10,909
Total deferred tax assets	54,009	43,286
Deferred tax liabilities:		
Depreciation and amortization	(284,264)	(252,141)
Undistributed earnings of non-U.S. subsidiaries	(32,546)	(23,858)
Non-U.S. deferred taxes	(15,402)	(15,402)
Other	(10,032)	(10,722)
Total deferred tax liabilities	(342,244)	(302,123)
Net deferred tax liability	$(288,235)	$(258,837)

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(1) Reflected in "Prepaid expenses and other" in the Company's Consolidated Balance Sheets.

Except for selective dividends, the Company's practice prior to 1997 was to reinvest the unremitted earnings of its non-U.S. subsidiaries and postpone their remittance indefinitely. Thus, no additional U.S. taxes were provided on such earnings. Undistributed earnings of non-U.S. subsidiaries generated prior to 1997 for which no U.S. deferred income tax provision has been made for possible future remittances totaled approximately $48.0 million at December 31, 1999. In addition, the Company has negative undistributed earnings of non-U.S. subsidiaries generated prior to 1997 of $66.8 million at December 31, 1999 for which no deferred tax benefit has been recognized. It is not practicable to estimate the amount of unrecognized U.S. deferred taxes, if any, that might be payable on the actual or deemed remittance of such earnings. On actual remittance, certain countries impose withholding taxes that, subject to certain limitations, are then available for use as tax credits against a U.S. tax liability, if any.

The Company believes it is probable that its deferred tax assets of $54.0 million will be realized on future tax returns, primarily from the generation of future taxable income through both profitable operations and future reversals of existing taxable temporary differences. However, if the Company is unable to generate sufficient taxable income in the future through operating results, a valuation allowance will be required as a charge to expense.

Deferred income taxes are not recorded on differences between financial reporting and tax bases of investments in stock of the Company's subsidiaries, unless realization of the effect is probable in the foreseeable future. The Company also has certain income tax loss carryforwards in non-U.S. tax jurisdictions to which it has assigned no value because of the uncertainty of utilization of these carryforwards.

In connection with the merger with Arethusa, the Company acquired net operating loss ("NOL") carryforwards available to offset future taxable income. The utilization of these NOL carryforwards is limited pursuant to Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). For the year ended December 31, 1999, the Company utilized $5.9 million of such carryforwards and has previously recorded a deferred tax asset for the benefit of the remaining NOL carryforwards available to be carried forward to future years. Such carryforwards expire as follows:

YEAR	TAX BENEFIT OF NET OPERATING LOSSES
	(IN THOUSANDS)
2006	$ 1,890
2007	2,286
2008	2,217
2009	4,056
2010	1,612
Total	$ 12,061

The difference between actual income tax expense and the tax provision computed by applying the statutory federal income tax rate to income before taxes is attributable to the following:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS)		
Income before income tax expense:			
U.S	$ 212,331	$ 532,378	$373,319
Non-U.S	28,032	57,853	56,742
Worldwide	$ 240,363	$ 590,231	$430,061
Expected income tax expense at federal statutory rate	$ 84,127	$ 206,581	$150,521
Adjustment to prior year return	(4)	--	--
Other	169	(9)	935
Income tax expense	$ 84,292	$ 206,572	$151,456

12. EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company maintains defined contribution retirement plans for its U.S., U.K. and third country national ("TCN") employees. The plan for U.S. employees (the "401k Plan") is designed to qualify under Section 401k of the Code. Under the 401k Plan, each participant may elect to defer taxation on a portion of his or her eligible earnings, as defined by the 401k Plan, by directing the Company to withhold a percentage of such earnings. A participating employee may also elect to make after-tax contributions to the 401k Plan. The Company contributes 3.75 percent of a participant's defined compensation and matches 25 percent of the first 6 percent of each employee's compensation contributed. Participants are fully vested immediately upon enrollment in the plan. For the years ended December 31, 1999, 1998, and 1997, the Company's provision for contributions was $6.4 million, $5.7 million, and $4.1 million, respectively.

The plan for U.K. employees provides that the Company contribute amounts equivalent to the employee's contributions generally up to a maximum of 5.25 percent of the employee's defined compensation per year. The Company's provision for contributions was $0.5 million for each of the years ended December 31, 1999 and 1998, and $0.3 million for the year ended December 31, 1997.

The plan for the Company's TCN employees was effective April 1, 1998 and is similar to the 401k Plan. The Company contributes 3.75 percent of a participant's defined compensation and matches 25 percent of the first 6 percent of each employee's compensation contributed. For the years ended December 31, 1999 and 1998, the Company's provision for contributions was $0.6 million and $0.3 million, respectively.

Deferred Compensation and Supplemental Executive Retirement Plan

The Company established its Deferred Compensation and Supplemental Executive Retirement Plan in December 1996. The Company contributes any portion of the 3.75 percent of the base salary contribution and the matching contribution to the 401k Plan that cannot be contributed because of the limitations within the Code and because of elective deferrals that the participant makes under the plan. Additionally, the plan provides that participants may defer up to 10 percent of base compensation and/or up to 100 percent of any performance bonus. Participants in this plan are a select group of management or highly compensated employees of the Company and are fully vested in all amounts paid into the plan. The Company's provision for contributions for the years ended December 31, 1999, 1998, and 1997 was not material.

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. Benefits are calculated and paid based on an employee's years of credited service and average compensation at the date the plan was frozen using an excess benefit formula integrated with social security covered compensation.

Pension costs are determined actuarially and funded as required by the Code. The plan's assets are invested in cash and cash equivalents, equity securities, government and corporate debt securities. As a result of freezing the plan, no service cost has been accrued for the years presented.

The data and significant actuarial assumptions as of the plan's year end set forth in the following tables are presented in accordance with SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which the Company has retroactively adopted for all periods presented.

	SEPTEMBER 30, 1999	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 10,597	$ 9,365
Interest cost	705	668
Actuarial gain	1,068	877
Benefits paid	(347)	(313)
Benefit obligation at end of year	12,023	10,597
Change in plan assets:		
Fair value of plan assets at beginning of year	12,571	12,971
Actual return on plan assets	2,203	(87)
Benefits paid	(347)	(313)
Fair value of plan assets at end of year	14,427	12,571
Funded status	2,404	1,974
Unrecognized loss(gain)	215	(394)
Prepaid benefit cost	$ 2,619	$ 1,580

	SEPTEMBER 30, 1999	SEPTEMBER 30, 1998
Weighted-average assumptions:		
Discount rate	7.50%	6.75%
Expected long-term rate	9.00%	9.00%

	SEPTEMBER 30, 1999	SEPTEMBER 30, 1998
	(IN THOUSANDS)	
Components of net periodic benefit cost:		
Interest cost	$ (705)	$ (668)
Expected return on plan assets	1,118	1,154
Amortization of gain	--	63
Net periodic pension benefit income	$ 413	$ 549

13. SEGMENTS AND GEOGRAPHIC AREA ANALYSIS

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

Similar Services

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

	YEAR ENDED DECEMBER 31, 1999	1998	1997
	(IN THOUSANDS)		
High specification floaters	$ 262,571	$ 286,875	$ 206,708
Other semisubmersibles	463,168	707,227	545,701
Jack-ups	74,484	209,134	192,169
Integrated services	32,769	26,876	36,342
Other	--	--	3,257
Eliminations	(11,968)	(21,311)	(28,084)
Total revenues	$ 821,024	$ 1,208,801	$ 956,093

Geographic Areas

At December 31, 1999, the Company had drilling rigs located offshore seven countries outside of the United States. As a result, the Company is exposed to the risk of changes in social, political and economic conditions inherent in foreign operations and the Company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates. Revenues by geographic area are presented by attributing revenues to the individual country where the services were performed.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS)		
Revenues from unaffiliated customers:			
United States	$ 420,123	$ 692,648	$ 609,470
Foreign:			
Europe/Africa	178,254	292,579	201,893
South America	133,528	84,518	50,767
Australia/Southeast Asia	89,119	139,056	93,963
	400,901	516,153	346,623
Interarea revenues from affiliates:			
United States	114,393	169,322	74,096
South America	--	--	971
Other	--	7,284	14,658
	114,393	176,606	89,725
Eliminations	(114,393)	(176,606)	(89,725)
Total	$ 821,024	$ 1,208,801	$ 956,093

An individual foreign country may, from time to time, contribute a material percentage of the Company's total revenues from unaffiliated customers. For the years ended December 31, 1999, 1998, and 1997, individual countries that contributed five percent or more of the Company's total revenues from unaffiliated customers are listed below.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Brazil	15.5%	7.0%	5.3%
United Kingdom	10.0%	11.0%	11.1%
Angola	7.5%	2.8%	0.9%
Australia	5.7%	5.3%	4.7%

Long-lived tangible assets located in the United States and all foreign countries in which the Company holds assets as of December 31, 1999, 1998, and 1997 are listed below. A substantial portion of the Company's assets are mobile, therefore asset locations at the end of the period are not necessarily indicative of the geographic distribution of the earnings generated by such assets during the periods.

	DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS)		
Drilling and other property and equipment, net:			
United States	$1,113,908	$1,073,862	$ 936,906
Foreign:			
South America	399,471	186,432	143,141
Europe/Africa	154,378	233,753	313,536
Australia/Southeast Asia	70,148	57,773	58,158
	623,997	477,958	514,835
Total	$1,737,905	$1,551,820	$1,451,741

Brazil is currently the only individual country with a material concentration of the Company's assets. Approximately 20.2 percent, 12.0 percent, and 9.9 percent of the Company's total drilling and other property and equipment were located in or offshore Brazil as of December 31, 1999, 1998, and 1997, respectively.

Major Customers

The Company's customer base includes major and independent oil and gas companies and government-owned oil companies. During the year ended December 31, 1999, two customers contributed 15.5 percent and 14.5 percent of total revenues. During the year ended December 31, 1998, one customer contributed 17.4 percent of total revenues. During the year ended December 31, 1997, one customer contributed 14.3 percent of total revenues.

14. UNAUDITED QUARTERLY FINANCIAL DATA

Unaudited summarized financial data by quarter for the years ended December 31, 1999 and 1998 is shown below.

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
1999				
Revenues	$228,037	$215,337	$206,740	$170,910
Operating income	75,786	74,928	50,206	22,972
Income before income tax expense	79,712	81,863	58,213	20,575
Net income	51,818	53,227	37,846	13,180
Net income per share:				
Basic	0.38	0.39	0.28	0.10
Diluted	0.37	0.37	0.27	0.10
1998				
Revenues	$286,069	$323,517	$315,786	$283,429
Operating income	122,043	168,452	160,249	118,255
Income before income tax expense	124,648	172,430	167,220	125,933
Net income	80,722	111,665	108,702	82,570
Net income per share:				
Basic	0.58	0.80	0.79	0.61
Diluted	0.56	0.76	0.75	0.58

15. SUBSEQUENT EVENTS

Depending on market conditions, the Company may, from time to time, purchase shares of its common stock in the open market. Through February 29, 2000, the Company has purchased 0.3 million shares of its common stock at an aggregate cost of $8.5 million, or at an average cost of $27.49 per share.

In January 2000, the Company sold its jack-up drilling rig, the Ocean Scotian, for $32.0 million in cash resulting in an after-tax gain of $9.0 million. The rig had been cold stacked offshore Netherlands prior to the sale.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

ITEM 11. EXECUTIVE COMPENSATION.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Reference is made to the information responsive to the Items comprising this Part III that is contained in the Company's definitive proxy statement for its 2000 Annual Meeting of Stockholders, which is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Index to Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements

(2) Financial Statement Schedules

No schedules have been included herein because the information required to be submitted has been included in the Company's Consolidated Financial Statements or the notes thereto, or the required information is inapplicable.

See Index of Exhibits for a list of those exhibits filed herewith, which index also includes and identifies management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended December 31, 1999.

(c) Index of Exhibits

EXHIBIT NUMBER	DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998).
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998).
4.1	Indenture, dated as of February 4, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed February 11, 1997).
4.2	Supplemental Indenture, dated as of February 4, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed February 11, 1997).
10.1	Registration Rights Agreement (the "Registration Rights Agreement") dated October 16, 1995 between Loews and the Company (incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).
10.2	Amendment to the Registration Rights Agreement, dated September 16, 1997, between Loews and the Company (incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
10.3	Services Agreement dated October 16, 1995 between Loews and the Company (incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).
10.4+	Diamond Offshore Management Bonus Program, as amended and restated, and dated as of December 31, 1997 (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
10.5+	Diamond Offshore Deferred Compensation and Supplemental Executive Retirement Plan effective December 17, 1996 (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.6+	First Amendment to Diamond Offshore Deferred Compensation and Supplemental Executive Retirement Plan dated March 18, 1998 (incorporated by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
11.1*	Statement re Computation of Per Share Earnings.
12.1*	Statement re Computation of Ratios.
21.1*	List of Subsidiaries of the Company.
23.1*	Consent of Deloitte & Touche LLP.
24.1*	Powers of Attorney.
27.1*	Financial Data Schedule.

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* Filed herewith.

\+ Management contracts or compensatory plans or arrangements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on March 7, 2000.

DIAMOND OFFSHORE DRILLING, INC.

By: /s/ GARY T. KRENEK*
Gary T. Krenek
Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JAMES S. TISCH* James S. Tisch	Chairman of the Board and Chief Executive Officer	March 7, 2000
/s/ LAWRENCE R. DICKERSON* Lawrence R. Dickerson	President, Chief Operating Officer and Director	March 7, 2000
/s/ GARY T. KRENEK* Gary T. Krenek	Vice President and Chief Financial Officer (Principal Financial Officer)	March 7, 2000
/s/ ALAN R. BATKIN* Alan R. Batkin	Director	March 7, 2000
/s/ HERBERT C. HOFMANN* Herbert C. Hofmann	Director	March 7, 2000
/s/ ARTHUR L. REBELL* Arthur L. Rebell	Director	March 7, 2000
/s/ MICHAEL H. STEINHARDT* Michael H. Steinhardt	Director	March 7, 2000
/s/ RAYMOND S. TROUBH* Raymond S. Troubh	Director	March 7, 2000

*By: /s/ WILLIAM C. LONG
William C. Long
Attorney-in-Fact

EXHIBIT INDEX

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12.1*	Statement re Computation of Ratios.
21.1*	List of Subsidiaries of the Company.
23.1*	Consent of Deloitte & Touche LLP.
24.1*	Powers of Attorney.
27.1*	Financial Data Schedule.

EXHIBIT 11.1

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

	FOR THE YEAR ENDED DECEMBER 31,					
	1999			1998		
	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT
BASIC EPS						
Net income	$156,071	135,822	$1.15	$383,659	138,020	$2.78
EFFECT OF DILUTIVE POTENTIAL SHARES (2)						
Convertible notes issued 2/4/97 (3) ...	5,988	9,876		9,419	9,876	
DILUTED EPS						
Net income + assumed conversions	$162,059	145,698	$1.11	$393,078	147,896	$2.66

	FOR THE YEAR ENDED DECEMBER 31,		
	1997		
	INCOME (NUMERATOR)	WEIGHTED (1) AVERAGE SHARES (DENOMINATOR)	PER SHARE AMOUNT
BASIC EPS Net income	$278,605	138,560	$2.01
EFFECT OF DILUTIVE POTENTIAL SHARES (2)			
Convertible notes issued 2/4/97 (3) ...	6,583	8,929	
DILUTED EPS			
Net income + assumed conversions	$285,188	147,489	$1.93

(1) Weighted average shares outstanding have been restated to include the retroactive effect of the July 1997 two-for-one stock split in the form of a stock dividend.

(2) Because the Company does not maintain an ongoing plan for the issuance of stock options, the options to originally purchase up to 1.0 million shares of common stock assumed in the merger with Arethusa (the "Arethusa Options") have not been included as dilutive potential shares. The effect on the computation of per share earnings, had the Arethusa options been included, was not material. At December 31, 1999, 1998 and 1997, there were Arethusa options outstanding for the purchase of approximately 39,000, 48,000 and 100,000 shares of common stock, respectively.

(3) On February 4, 1997, the Company issued $400.0 million of 3.75 percent convertible subordinated notes due February 15, 2007. The notes are convertible into approximately 9.8 million shares of the Company's common stock at any time prior to February 15, 2007 at a conversion price of $40.50 per share. The number of shares outstanding for the years ended December 31, 1999, 1998 and 1997 was increased to include the weighted average number of shares issuable assuming full conversion of the notes on February 4, 1997 and net income was adjusted to eliminate the after-tax effect of interest expense on these notes.

EXHIBIT 12.1

DIAMOND OFFSHORE DRILLING, INC.
STATEMENT RE COMPUTATION OF RATIOS
(THOUSANDS OF DOLLARS)

RATIO OF EARNINGS TO FIXED CHARGES:

	YEAR ENDED DECEMBER 31,				
	1999	1998	1997	1996	1995
COMPUTATION OF EARNINGS:					
Pretax income (loss) from continuing operations	$ 240,363	$ 590,231	$ 430,061	$ 212,705	$(13,803)
Less: Interest capitalized during the period and actual preferred dividend requirements of majority-owned subsidiaries and 50%-owned persons included in fixed charges but not deducted from pretax income from above	(6,329)	(1,031)	(4,382)	(3,973)	--
Add: Previously capitalized interest amortized during the period	334	334	192	--	--
Total earnings, before fixed charge addition	234,368	589,534	425,871	208,732	(13,803)
COMPUTATION OF FIXED CHARGES:					
Interest, including interest capitalized	16,009	16,121	15,241	6,831	27,052
Total fixed charges	16,009	16,121	15,241	6,831	27,052
TOTAL EARNINGS AND FIXED CHARGES	$ 250,377	$ 605,655	$ 441,112	$ 215,563	$ 13,249
RATIO OF EARNINGS TO FIXED CHARGES (1)	15.64	37.57	28.94	31.56	--

(1) The deficiency in the Company's earnings available for fixed charges for the year ended December 31, 1995 was approximately $13.8 million.

EXHIBIT 21.1

SUBSIDIARIES

Subsidiary	Jurisdiction of Incorporation
Diamond Offshore Company	Delaware
Diamond Offshore (USA) Inc.	Delaware
Diamond Offshore Team Solutions, Inc.	Delaware
Diamond Offshore General Company	Delaware
Diamond Offshore Drilling (Overseas), Inc.	Delaware
Arethusa Off-Shore Company	Delaware
Diamond Offshore Guardian Company	Delaware
Diamond Offshore Finance Company	Delaware
Yorktown Drilling Limited	Delaware
Scotian Drilling Limited	Delaware
Heritage Drilling Limited (d/b/a Diamond Offshore Heritage Drilling Limited in Texas)	Delaware
Sovereign Drilling Limited	Delaware
Neptune Drilling Limited	Delaware
Whittington Drilling Limited	Delaware
Yatzy Drilling Limited	Delaware
Diamond Offshore Management Company	Delaware
Diamond Offshore Development Company	Delaware
Brasdril-Sociedade de Perfuracoes Ltda.	Brazil
Diamond Offshore Atlantic Inc.	Delaware
Diamond Offshore (Mexico) Company	Delaware
Diamond Offshore Drilling Services Inc.	Delaware
Diamond Offshore International Corporation	Delaware
Ensenada Internacional S.A.	Panama
Diamond Offshore Enterprises Inc.	Delaware
Cumberland Maritime Corporation	Delaware
Diamond Offshore Limited	England
Diamond Offshore Drilling (UK) Limited	England
Diamond Offshore (Trinidad) L.L.C.	Delaware

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333--19987 of Diamond Offshore Drilling, Inc. (the "Company") on Form S--3 of our report dated January 25, 2000, appearing in this Annual Report on Form 10--K of the Company for the year ended December 31, 1999.

DELOITTE & TOUCHE LLP

Houston, Texas
March 7, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

James S. Tisch hereby designates and appoints William C. Long and Gary T. Krenek and each of them (with full power to each of them to act alone) as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorneys-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as either Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ JAMES S. TISCH James S. Tisch	Chief Executive Officer & Chairman of the Board	February 18, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

Lawrence R. Dickerson hereby designates and appoints William C. Long and Gary T. Krenek and each of them (with full power to each of them to act alone) as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorneys-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as either Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ LAWRENCE R. DICKERSON Lawrence R. Dickerson	President and Chief Operating Officer	February 18, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

Gary T. Krenek hereby designates and appoints William C. Long as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorney-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as the Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ GARY T. KRENEK Gary T. Krenek	Vice President and Chief Financial Officer	February 18, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

Alan R. Batkin hereby designates and appoints William C. Long and Gary T. Krenek and each of them (with full power to each of them to act alone) as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorneys-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as either Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ ALAN R. BATKIN Alan R. Batkin	Director	February 18, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

Herbert C. Hofmann hereby designates and appoints William C. Long and Gary T. Krenek and each of them (with full power to each of them to act alone) as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorneys-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as either Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ HERBERT C. HOFMANN Herbert C. Hofmann	Director	February 18, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

Arthur L. Rebell hereby designates and appoints William C. Long and Gary T. Krenek and each of them (with full power to each of them to act alone) as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorneys-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as either Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ ARTHUR L. REBELL Arthur L. Rebell	Director	February 18, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

Michael H. Steinhardt hereby designates and appoints William C. Long and Gary T. Krenek and each of them (with full power to each of them to act alone) as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorneys-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as either Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ MICHAEL H. STEINHARDT Michael H. Steinhardt	Director	February 18, 2000

EXHIBIT 24.1

POWER OF ATTORNEY

Raymond S. Troubh hereby designates and appoints William C. Long and Gary T. Krenek and each of them (with full power to each of them to act alone) as his attorney-in-fact, with full power of substitution and re-substitution (the "Attorneys-in-Fact"), for him and in his name, place and stead, in any and all capacities, to execute the Annual report on Form 10-K (the "Annual Report") to be filed by Diamond Offshore Drilling, Inc. with the Securities and Exchange Commission and any amendment(s) to the Annual Report, which amendment(s) may make such changes in the Annual Report as either Attorney-in-Fact deems appropriate, and to file the Annual Report and each such amendment to the Annual Report together with all exhibits thereto and any and all documents in connection therewith.

SIGNATURE	TITLE	DATE
/s/ RAYMOND S. TROUBH Raymond S. Troubh	Director	February 18, 2000

This schedule contains summary financial information extracted from the Company's financial statements and is qualified in its entirety by reference to such financial statements.

YEAR
DEC-31-1999
DEC-31-1999
112,316
529,042
143,569
0
38,760
860,292
2,368,259
630,354
2,681,029
135,401
400,000
0
0
1,393
1,840,829
2,681,029
0
821,024
0
431,523
165,609
0
9,212
240,363
84,292
156,071
0
0
0
156,071
1.15
1.11

Includes contract drilling expenses only.
Includes other operating expenses.