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

(Mark One)

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

OR

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

Commission file number 1-13926

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

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

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

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

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

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

As of October 27, 2004	Common stock, $0.01 par value per share	128,544,903 shares

DIAMOND OFFSHORE DRILLING, INC.

TABLE OF CONTENTS FOR FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2004

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	SEPTEMBER 30, 2004 (UNAUDITED)	DECEMBER 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 213,875	$ 106,345
Investments and marketable securities	669,284	503,995
Accounts receivable	153,952	154,124
Rig inventory and supplies	48,099	48,035
Prepaid expenses and other	34,144	22,764
Total current assets	1,119,354	835,263
DRILLING AND OTHER PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	2,190,616	2,257,876
GOODWILL	887	11,099
OTHER ASSETS	30,719	30,781
Total assets	$ 3,341,576	$ 3,135,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 479,190	$ 11,969
Accounts payable	18,687	15,653
Accrued liabilities	82,112	65,617
Taxes payable	3,847	6,761
Total current liabilities	583,836	100,000
LONG-TERM DEBT	722,220	928,030
DEFERRED TAX LIABILITY	373,584	384,505
OTHER LIABILITIES	42,111	42,004
Total liabilities	1,721,751	1,454,539
COMMITMENTS AND CONTINGENCIES (NOTE 9)	--	--
STOCKHOLDERS' EQUITY:		
Preferred stock (par value $0.01, 25,000,000 shares authorized, none issued and outstanding)	--	--
Common stock (par value $0.01, 500,000,000 shares authorized, 133,458,303 shares and 133,457,055 shares issued at September 30, 2004 and at December 31, 2003, respectively, and 128,541,503 shares and 129,322,455 shares outstanding at September 30, 2004 and at December 31, 2003, respectively)	1,335	1,335
Additional paid-in capital	1,263,724	1,263,692
Retained earnings	473,131	515,906
Accumulated other comprehensive losses	(3,952)	(4,117)
Treasury stock, at cost (4,916,800 shares at September 30, 2004 and 4,134,600 shares at December 31, 2003)	(114,413)	(96,336)
Total stockholders' equity	1,619,825	1,680,480
Total liabilities and stockholders' equity	$ 3,341,576	$ 3,135,019

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
REVENUES:				
Contract drilling	$ 200,610	$ 174,923	$ 554,535	$ 471,820
Revenues related to reimbursable expenses	7,588	8,984	22,807	21,436
Total revenues	208,198	183,907	577,342	493,256
OPERATING EXPENSES:				
Contract drilling	140,607	126,934	408,768	365,210
Reimbursable expenses	6,620	8,208	20,373	19,471
Depreciation and amortization	45,043	43,256	134,117	132,086
General and administrative	6,728	7,181	24,277	22,595
Loss on sale and disposition of assets	1,536	1,509	1,341	1,451
Total operating expenses	200,534	187,088	588,876	540,813
OPERATING INCOME (LOSS)	7,664	(3,181)	(11,534)	(47,557)
OTHER INCOME (EXPENSE):				
Interest income	2,899	2,742	7,581	10,235
Interest expense	(7,657)	(6,432)	(20,384)	(17,385)
Gain (loss) on sale of marketable securities	(27)	(6,179)	231	(7,310)
Other, net	78	(140)	(333)	2,891
INCOME (LOSS) BEFORE INCOME TAX (EXPENSE) BENEFIT	2,957	(13,190)	(24,439)	(59,126)
INCOME TAX (EXPENSE) BENEFIT	(16)	1,727	5,913	9,410
NET INCOME (LOSS)	$ 2,941	$ (11,463)	$ (18,526)	$ (49,716)
EARNINGS (LOSSES) PER SHARE:				
BASIC	$ 0.02	$ (0.09)	$ (0.14)	$ (0.38)
DILUTED	$ 0.02	$ (0.09)	$ (0.14)	$ (0.38)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Shares of common stock	128,899	130,336	129,180	130,336
Dilutive potential shares of common stock	42	-	-	-
Total weighted average shares outstanding	128,941	130,336	129,180	130,336

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	NINE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONTHS ENDED SEPTEMBER 30, 2003
OPERATING ACTIVITIES:		
Net loss	$ (18,526)	$ (49,716)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	134,117	132,086
Gain on sale and disposition of assets	1,341	1,451
(Gain) loss on sale of marketable securities, net	(231)	7,310
Deferred tax benefit	(1,025)	(11,785)
Accretion of discounts on marketable securities	(2,256)	(2,000)
Amortization of debt issuance costs	819	891
Amortization of discount on zero coupon convertible debentures	12,010	11,600
Changes in operating assets and liabilities:		
Accounts receivable	201	(21,542)
Rig inventory and supplies and other current assets	(11,444)	4,426
Other assets, non-current	812	2,583
Accounts payable and accrued liabilities	19,525	(15,921)
Taxes payable	(2,914)	(2,148)
Other liabilities, non-current	107	7,959
Other items, net	254	(2,972)
Net cash provided by operating activities	132,790	62,222
INVESTING ACTIVITIES:		
Capital expenditures (excluding rig acquisitions)	(69,719)	(177,416)
Rig acquisitions	--	(63,500)
Proceeds from sale of assets	1,521	879
Proceeds from sale and maturities of marketable securities	2,773,630	2,571,618
Purchases of marketable securities	(2,913,971)	(2,359,460)
Purchases of Australian dollar time deposits	(42,073)	--
Proceeds from maturities of Australian dollar time deposits	19,846	--
Proceeds from settlement of forward contracts	--	2,492
Net cash used by investing activities	(230,766)	(25,387)
FINANCING ACTIVITIES:		
Issuance of 5.15% senior unsecured notes	249,397	--
Debt issue costs - 5.15% senior unsecured notes	(1,565)	--
Acquisition of treasury stock	(18,077)	--
Payment of dividends	(24,249)	(48,876)
Net cash provided (used) by financing activities	205,506	(48,876)
NET CHANGE IN CASH AND CASH EQUIVALENTS	107,530	(12,041)
Cash and cash equivalents, beginning of period	106,345	182,453
Cash and cash equivalents, end of period	$ 213,875	$ 170,412

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

As of October 27, 2004, Loews Corporation ("Loews") owned 54.5% of the outstanding shares of common stock of Diamond Offshore Drilling, Inc., which was a wholly owned subsidiary of Loews prior to its initial public offering in October 1995.

Interim Financial Information

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

Cash and Cash Equivalents, Marketable Securities and Other Investments

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

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

"Investments and marketable securities" in the Consolidated Balance Sheet at September 30, 2004 also included $21.8 million of time deposits (converted from 30.0 million Australian dollars) which mature over the next two quarters. These securities do not meet the definition of debt securities under Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are therefore carried at cost.

Derivative Financial Instruments

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

Supplementary Cash Flow Information

Cash payments made for interest on long-term debt totaled $3.5 million for the nine months ended September 30, 2004 and $3.4 million for the nine months ended September 30, 2003.

Cash refunds received for foreign income taxes, net of foreign tax payments made, were $0.8 million during the nine months ended September 30, 2004. Cash payments made for foreign income taxes, net of foreign tax refunds, were $7.1 million during the same period in 2003. A $0.4 million refund of U.S. income tax was received during the first nine months of 2004. There were no payments or refunds of U.S. income taxes during the nine months ended September 30, 2003.

Capitalized Interest

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Total interest cost including amortization of debt issuance costs	$ 7,657	$ 6,567	$ 20,384	$ 19,584
Capitalized interest	--	(135)	--	(2,199)
Total interest expense as reported	$ 7,657	$ 6,432	$ 20,384	$ 17,385

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

Debt Issuance Costs

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

Treasury Stock

Depending on market conditions, the Company may, from time to time, purchase shares of its common stock in the open market or otherwise. The purchase of treasury stock is accounted for using the cost method which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in the Consolidated Balance Sheets. During the nine months ended September 30, 2004, the Company purchased 782,200 shares of its common stock at an aggregate cost of $18.1 million, or at an average cost of $23.11 per share. During the year ended December 31, 2003, the Company purchased 1,014,000 shares of its common stock at an aggregate cost of $18.2 million, or at an average cost of $17.96 per share.

Comprehensive Income (Loss)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Net income (loss)	$2,941	$(11,463)	$(18,526)	$(49,716)
Other comprehensive gains (losses), net of tax:				
Foreign currency translation gain (loss)	138	(164)	(294)	(313)
Unrealized holding (loss) gain on investments	32	(49)	484	(4,263)
Reclassification adjustment for gain (loss) included in net income (loss)	--	1,218	(25)	1,209
Comprehensive income (loss)	$3,111	$(10,458)	$(18,361)	$(53,083)

Currency Translation

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

Stock-Based Compensation

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income (loss) as reported	$ 2,941	$ (11,463)	$ (18,526)	$ (49,716)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	--	--	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(234)	(288)	(792)	(825)
Pro forma net income (loss)	$ 2,707	$ (11,751)	$ (19,318)	$ (50,541)
Earnings (loss) per share of common stock:				
As reported	$ 0.02	$ (0.09)	$ (0.14)	$ (0.38)
Pro forma	$ 0.02	$ (0.09)	$ (0.15)	$ (0.39)
Earnings (loss) per share of common stock - assuming dilution:				
As reported	$ 0.02	$ (0.09)	$ (0.14)	$ (0.38)
Pro forma	$ 0.02	$ (0.09)	$ (0.15)	$ (0.39)

Revenue Recognition

Revenue from dayrate drilling contracts is recognized as services are performed. In connection with such drilling contracts, the Company may receive lump-sum fees for the mobilization of equipment and personnel. These fees are earned as services are performed over the initial term of the related drilling contracts. The Company previously accounted for the excess of mobilization fees received over costs incurred to mobilize an offshore rig from one market to another as revenue over the term of the related drilling contracts. Effective July 1, 2004 the Company changed its accounting to defer mobilization fees received as well as direct and incremental mobilization costs incurred and began to amortize each, on a straight line basis, over the term of the related drilling contracts (which is the period estimated to be benefited from the mobilization activity). Straight line amortization of mobilization revenues and related costs over the term of the related drilling contracts (which generally range from two to 60 months) is consistent with the timing of net cash flows generated from the actual drilling services performed. If the Company had used this method of accounting in prior periods, operating income (loss) and net income (loss) would not have changed and the impact on contract drilling revenues and expenses would have been immaterial. Absent a contract, mobilization costs are recognized currently.

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

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

Changes in Accounting Estimates

In April 2003 the Company commissioned a study to evaluate the economic lives of its drilling rigs because several of its rigs had reached or were approaching the end of their depreciable lives, yet were still operating and were expected to operate for many more years. As a result of this study, effective April 1, 2003, the Company recorded changes in accounting estimates by increasing the estimated service lives to 25 years for jack-ups and 30 years for semisubmersibles and the Company's drillship and by increasing salvage values to 5% for most of the Company's drilling rigs. The change in estimate was made to better reflect the remaining economic lives and salvage values of the Company's fleet. The effect of this change in accounting estimate resulted in an increase to the Company's net income for the three months ended September 30, 2004 of $3.9 million, or $0.03 per share, and a reduction to the Company's net loss for the nine months ended September 30, 2004 of $11.5 million, or $0.09 per share. The effect of this change in accounting estimate resulted in a reduction to the Company's net loss for the three and nine month periods ended September 30, 2003 of $6.9 million, or $0.05 per share, and $12.7 million, or $0.10 per share, respectively.

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

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

2. EARNINGS (LOSSES) PER SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Net income (loss) - basic (numerator):	$ 2,941	$ (11,463)	$ (18,526)	$ (49,716)
Effect of dilutive potential shares				
1.5% Debentures	--	--	--	--
Zero Coupon Debentures	--	--	--	--
Net income (loss) including conversions - diluted (numerator)	$ 2,941	$ (11,463)	$ (18,526)	$ (49,716)
Weighted average shares - basic (denominator):	128,899	130,336	129,180	130,336
Effect of dilutive potential shares				
1.5% Debentures	--	--	--	--
Zero Coupon Debentures	--	--	--	--
Stock options	42	--	--	--
Weighted average shares including conversions - diluted (denominator)	128,941	130,336	129,180	130,336
Earnings (losses) per share:				
Basic	$ 0.02	$ (0.09)	$ (0.14)	$ (0.38)
Diluted	$ 0.02	$ (0.09)	$ (0.14)	$ (0.38)

The computation of diluted earnings per share ("EPS") for both quarters and nine month periods ended September 30, 2004 and 2003 excludes approximately 6.9 million potentially dilutive shares issuable upon conversion of the Company's zero coupon convertible debentures due 2020 ("Zero Coupon Debentures"). The computation of diluted EPS for both quarters and nine month periods ended September 30, 2004 and 2003 also excludes approximately 9.4 million potentially dilutive shares issuable upon conversion of the Company's 1.5% Debentures. The inclusion of such shares from the Zero Coupon Debentures and the 1.5% Debentures in the EPS computation for the quarter ended September 30, 2004 would be antidilutive. Such shares were not included in the EPS computation for the quarter ended September 30, 2003 and both nine month periods ended September 30, 2004 and 2003, respectively, because there was a net loss for these periods. See Note 8 for a description of the Company's long-term debt.

Certain stock options were excluded from the computation of diluted EPS because the options' exercise prices were more than the average market price per share of the common stock. Stock options representing 302,550 shares of common stock were excluded from the computation of diluted EPS for the quarter and nine month periods ended September 30, 2004. Stock options representing 506,150 shares and 423,400 shares of common stock were excluded from the computation of diluted EPS for the quarter and nine month periods ended September 30, 2003, respectively.

Other stock options with average market prices that exceeded their exercise prices during the period (in-the-money options) were excluded from the computation of diluted EPS because potential shares of common stock are not included when a loss from continuing operations exists. Stock options representing 377,152 shares of common stock were excluded from the computation of diluted EPS for the nine month period ended September 30, 2004. Stock options representing 2,500 shares and 85,250 shares of common stock were excluded from the computation of diluted EPS for the quarter and nine month period ended September 30, 2003, respectively.

3. INVESTMENTS AND MARKETABLE SECURITIES

Investments classified as available for sale are summarized as follows:

	SEPTEMBER 30, 2004				
			GROSS UNREALIZED LOSSES		
	AMORTIZED COST	GROSS UNREALIZED GAINS	LESS THAN 12 MONTHS	GREATER THAN 12 MONTHS	MARKET VALUE
			(in thousands)		
Debt securities issued by the U.S. Treasury and other U.S. government agencies:					
Due within one year....................	$ 644,001	$ 41	$ --	$ --	$ 644,042
Mortgage-backed securities..............	3,425	61	--	--	3,486
Total..................................	$ 647,426	$ 102	$ --	$ --	$ 647,528

"Investments and marketable securities" in the Consolidated Balance Sheets at September 30, 2004 also included $21.8 million of time deposits (converted from 30.0 million Australian dollars) which mature over the next two quarters. These securities do not meet the definition of debt securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are therefore carried at cost.

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

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

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
		(IN THOUSANDS)		
Proceeds from sales............	$ 449,383	$ 518,612	$ 1,648,630	$ 746,618
Proceeds from maturities........	375,000	450,000	1,125,000	1,825,000
Gross realized gains............	--	2,259	2,558	2,367
Gross realized losses...........	(27)	(8,438)	(2,327)	(9,677)

4. DERIVATIVE FINANCIAL INSTRUMENTS

Forward Exchange Contracts

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

In June 2002 the Company entered into forward contracts to purchase approximately 50.0 million Australian dollars, of which 4.2 million Australian dollars to be purchased monthly from August 29, 2002 through June 26, 2003 and 3.8 million to be purchased on July 31, 2003. These forward contracts were derivatives as defined by SFAS No. 133. SFAS No. 133 requires that each derivative be stated in the balance sheet at its fair value with gains and losses reflected in the income statement except that, to the extent the derivative qualifies for hedge accounting, the gains and losses are reflected in income in the same period as offsetting losses and gains on the qualifying hedged positions. SFAS No. 133 further provides specific criteria necessary for a derivative to qualify for hedge accounting. The forward contracts purchased by the Company in 2002 did not qualify for hedge accounting. A pre-tax gain of $0.2 million and $2.5 million was recorded in the Consolidated Statements of Operations for the quarter and nine month period ended September 30, 2003 in "Other income (expense)." The Company had satisfied all obligations under these contracts as of September 30, 2003 and has not entered into any new forward exchange contracts since that time.

Contingent Interest

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

5. DRILLING AND OTHER PROPERTY AND EQUIPMENT

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

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
Drilling rigs and equipment	$ 3,540,318	$ 3,453,219
Construction work-in-progress	--	21,274
Land and buildings	15,764	15,220
Office equipment and other	22,569	22,080
Cost	3,578,651	3,511,793
Less: accumulated depreciation	(1,388,035)	(1,253,917)
Drilling and other property and equipment, net	$ 2,190,616	$ 2,257,876

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

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

In April 2003 the Company commissioned a study to evaluate the economic lives of its drilling rigs because several of its rigs had reached or were approaching the end of their depreciable lives, yet were still operating and were expected to operate for many more years. As a result of this study, effective April 1, 2003, the Company recorded changes in accounting estimates by increasing the estimated service lives to 25 years for jack-ups and 30 years for semisubmersibles and the Company's drillship and by increasing salvage values to 5% for most of the Company's drilling rigs. The change in estimate was made to better reflect the remaining economic lives and salvage values of the Company's fleet. The effect of this change in accounting estimate resulted in an increase to the Company's net income for the three months ended September 30, 2004 of $3.9 million, or $0.03 per share, and a reduction to the Company's net loss for the nine months ended September 30, 2004 of $11.5 million, or $0.09 per share. The effect of this change in accounting estimate resulted in a reduction to the Company's net loss for the three and nine month periods ended September 30, 2003 of $6.9 million, or $0.05 per share, and $12.7 million, or $0.10 per share, respectively.

6. GOODWILL

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

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

During each of the nine-month periods ended September 30, 2004 and 2003, an adjustment of $10.2 million was recorded to reduce goodwill. The adjustments represent the tax benefits not previously recognized for the excess of tax deductible goodwill over book goodwill. The Company will continue to reduce goodwill in future periods as the tax benefits of excess tax goodwill over book goodwill are recognized. Goodwill is expected to be reduced to zero in the fourth quarter of 2004.

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
Payroll and benefits	$ 32,425	$ 31,058
Personal injury and other claims	8,139	7,455
Interest payable	5,647	1,537
Deferred revenue	4,977	3,068
Accrued repairs (Hurricane Ivan damage)	4,636	--
Other	26,288	22,499
Total	$ 82,112	$ 65,617

8. LONG-TERM DEBT

Long-term debt consists of the following:

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
Zero Coupon Debentures	$ 467,221	$ 455,212
1.5% Debentures	460,000	460,000
5.15% Senior Notes	249,402	--
Ocean Alliance Lease-leaseback Agreement	24,787	24,787
	1,201,410	939,999
Less: Current maturities	(479,190)	(11,969)
Total	$ 722,220	$ 928,030

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

	(IN THOUSANDS)
2004	$ 11,969
2005	480,039
2006	--
2007	--
2008	--
Thereafter	709,402
	1,201,410
Less: Current maturities	(479,190)
Total	$ 722,220

5.15% Senior Notes

On August 27, 2004, the Company issued $250 million aggregate principal amount of 5.15% Senior Notes Due September 1, 2014 (the "5.15% Senior Notes"). The 5.15% Senior Notes were issued at an offering price of 99.759% of the principal amount and resulted in net proceeds to the Company of $247.8 million.

The 5.15% Senior Notes bear interest at 5.15% per year, payable semiannually in arrears on March 1 and September 1 of each year, beginning March 1, 2005, and mature on September 1, 2014. The 5.15% Senior Notes are unsecured and unsubordinated obligations of the Company and they rank equal in right of payment to the Company's existing and future unsecured and unsubordinated indebtedness, although they will be effectively subordinated to all existing and future obligations of the Company's subsidiaries. The Company has the right to redeem all or a portion of the 5.15% Senior Notes for cash at any time or from time to time on at least 15 days but not more than 60 days prior written notice, at the redemption price specified in the governing indenture plus accrued and unpaid interest on the principal amount of the 5.15% Senior Notes redeemed to the date of redemption.

Zero Coupon Convertible Debentures

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

The Company has the right to redeem the Zero Coupon Debentures, in whole or in part, on or after June 6, 2005, for a price equal to the issuance price plus accrued original issue discount through the date of redemption. Holders have the right to require the Company to repurchase the Zero Coupon Debentures on June 6, 2005, June 6, 2010 and June 6, 2015 at the accreted value through the date of repurchase. The Company may pay such repurchase price with either cash or shares of the Company's common stock or a combination of cash and shares of common stock. As of September 30, 2004, the aggregate accreted value of the Zero Coupon Debentures was $467.2 million. Because the holders of the debentures have the right to require the Company to repurchase the debentures within one year, the aggregate accreted value of $467.2 million is classified as a current liability in the Company's Consolidated Balance Sheet at September 30, 2004.

On June 6, 2005, the aggregate accreted value of the Zero Coupon Debentures currently outstanding will be approximately $478 million. The aggregate principal amount at maturity will be $805.0 million assuming no conversions or redemptions occur prior to the maturity date.

1.5% Debentures

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

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

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

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

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

Ocean Alliance Lease-Leaseback

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

9. COMMITMENTS AND CONTINGENCIES

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

Litigation. During the third quarter of 2004, the Company was notified that certain of its subsidiaries have been named, along with other defendants, in several complaints that have been filed in the Circuit Courts of the State of Mississippi by approximately 800 persons alleging that they were employed by some of the named defendants between approximately 1965 and 1986. The complaints also name as defendants over 25 other companies that are not affiliated with the Company. The complaints allege that the defendants manufactured, distributed or utilized drilling mud containing asbestos, and in the case of the Company and the several other offshore drilling companies named as defendants, that such defendants allowed such drilling mud to have been utilized aboard their offshore drilling rigs.

The plaintiffs seek, among other things, an award of unspecified compensatory and punitive damages. At this time, however, the Company has not been provided with sufficient information to determine the number of plaintiffs who claim to have been employees of the Company's subsidiaries nor their period of employment, particular information as to the period of their alleged exposure to asbestos, nor their medical condition. Accordingly, the Company is unable to estimate its potential exposure to these lawsuits.

The Company intends to defend these lawsuits vigorously and, based on the information available to the Company at this time, does not expect the outcome of these lawsuits to have a material adverse effect on the Company's financial condition or results of operations. There can be no assurance, however, as to the ultimate outcome of these lawsuits.

Personal Injury Claims. The Company's uninsured retention of liability for personal injury claims, which primarily results from Jones Act liability in the Gulf of Mexico, is $0.5 million per claim with an additional aggregate annual deductible of $1.5 million. The Company's in-house claims department estimates the amount of its liability for its retention. This department establishes a reserve for each of the Company's personal injury claims by evaluating the existing facts and circumstances of each claim and comparing the circumstances of each claim to historical experiences with similar past personal injury claims. The claims department also estimates the Company's liability for claims which are incurred but not reported by using historical data. Historically, the Company's ultimate liability for personal injury claims has not differed materially from the Company's recorded estimates. At September 30, 2004 the Company's estimated liability for personal injury claims was $32.5 million. Due to uncertainties such as (a) the severity of personal injuries claimed, (b) significant changes in the volume of personal injury claims, (c) the unpredictability of legal jurisdictions where the claims will ultimately be litigated, (d) inconsistent court decisions and (e) the risks and lack of predictability inherent in personal injury litigation, eventual settlement or adjudication of these claims could differ materially from the estimated amounts.

Letters of Credit and Other. The Company is contingently liable as of September 30, 2004 in the amount of $74.3 million under certain performance, bid, supersedeas and custom bonds, and letters of credit. Agreements related to approximately $34.0 million of multi-year performance bonds can require cash collateral for the full line at any time for any reason. Holders of agreements related to another $23.2 million currently have the option to require cash collateral due to the lowering of the Company's credit rating on April 27, 2004. The remaining agreements cannot require cash collateral except in events of default.

10. SEGMENTS AND GEOGRAPHIC AREA ANALYSIS

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

Contract Drilling Services

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
High Specification Floaters	$ 75,502	$ 79,688	$ 199,342	$ 215,982
Other Semisubmersibles	79,357	72,588	225,620	185,556
Jack-ups	45,268	23,006	128,391	69,688
Integrated Services	--	--	--	1,189
Other	483	(359)	1,182	(362)
Eliminations	--	--	--	(233)
Total Contract Drilling Revenues	200,610	174,923	554,535	471,820
Revenues Related to Reimbursable Expenses	7,588	8,984	22,807	21,436
Total revenues	$ 208,198	$ 183,907	$ 577,342	$ 493,256

Geographic Areas

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
United States	$ 91,615	$ 84,441	$ 249,317	$ 248,115
Foreign:				
South America	32,186	37,909	89,953	119,188
Europe/Africa	19,538	13,377	50,976	34,248
Australia/Southeast Asia	43,420	32,901	123,215	75,524
Mexico	21,439	15,279	63,881	16,181
Total revenues	$ 208,198	$ 183,907	$ 577,342	$ 493,256

11. INCOME TAXES

Certain of the Company's rigs that operate internationally are owned and operated, directly or indirectly, by Diamond Offshore International Limited, a Cayman Islands corporation and wholly-owned subsidiary of the Company. Effective January 1, 2003 the Company began to postpone remittance of the earnings from Diamond Offshore International Limited and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses during the three months or nine months ended September 30, 2004 and 2003. The estimated total Company annual effective tax rate was 27.7% as of September 30, 2004 and 15.9% as of September 30, 2003. The estimated annual effective tax rate was greater in the 2004 period than in the 2003 period primarily due to changes in the anticipated mix of domestic and international earnings as well as the mix of international tax jurisdictions in each period.

Tax expense for the nine months ended September 30, 2004 also included a $0.9 million adjustment related to finalizing prior year tax returns in two foreign jurisdictions. This additional expense is not included in the calculation of the Company's current year estimated annual effective tax rate of 27.7%.

The 0.5% effective rate for the three months ended September 30, 2004 resulted from a revision of the estimated annual tax rate from 24.8% in the second quarter of 2004 to 27.7% in the third quarter of 2004. Similarly, the 13.1% effective tax rate for the three months ended September 30, 2003 resulted from a revision of the 16.7% effective tax rate in the second quarter of 2003 to 15.9% in the third quarter of 2003. The revisions in estimated rates were primarily due to changes in the anticipated mix of domestic and international earnings as well as the mix of international tax jurisdictions in each period.

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

12. PENSION PLAN

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

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

Components of net periodic benefit costs were as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
Interest cost	$ 256	$ 248	$ 766	$ 745
Expected return on plan assets	(296)	(316)	(890)	(947)
Amortization of unrecognized loss	76	69	230	205
Net periodic pension expense	$ 36	$ 1	$ 106	$ 3

During 2004 and 2003 the Company made voluntary contributions to the plan of $0.2 million and $0.5 million, respectively. The Company is not required, nor does it expect, to make further contributions to its pension plan in 2004.

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

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

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

OVERVIEW

RESULTS OF OPERATIONS AND INDUSTRY CONDITIONS

Overall demand for offshore contract drilling services improved during the third quarter of 2004, and the Company reported net income of $2.9 million for the period. However, net income for the period was negatively impacted by $6.5 million (pre-tax) for the deductible portion of insurance claims made for damage caused by Hurricane Ivan. Additionally, the high-specification semisubmersible Ocean Alliance incurred 29 days of downtime during the quarter due to equipment repairs, which negatively impacted net income by $3.3 million (pre-tax). The Company also recorded a provision for potential labor cost increases in the U.K. related to mandated legislative benefits that negatively impacted net income by $2.2 million (pre-tax). In addition, the Company incurred reactivation costs to bring the jack-up Ocean Champion out of cold-stack and into the U.S. Gulf of Mexico ("GOM") market, which negatively impacted net income by $1.9 million (pre-tax).

Gulf of Mexico. In the U.S. GOM, commitments for Diamond Offshore's fourth generation rigs have reached as high as $140,000 per day for work beginning in 2005. All six of the Company's high-specification semisubmersible rigs are currently contracted or committed for the balance of 2004, with backlog extending into 2005 at improving dayrates. The three mid-water semisubmersible units the Company marketed in the GOM during the third quarter of 2004 are also contracted or committed for the balance of 2004, with backlog extending into 2005 at improving dayrates. The improving dayrates and high committed utilization were factors in the Company's decision to begin reactivation of the previously cold-stacked semisubmersible Ocean Voyager for the mid-water GOM market. The Ocean Voyager is expected to be ready to begin work by the end of December. Reactivation costs are estimated to be approximately $8 million. The Company views the deepwater and mid-water market in the GOM as under-supplied, and believes that additional improvement in utilization, backlog and dayrates is likely in these market segments during the balance of 2004 and into 2005.

Diamond Offshore's jack-up fleet in the GOM also continued to experience high utilization and improving dayrates during the third quarter of 2004. The Company views the jack-up market in the U.S. GOM as currently balanced, with effective utilization near 100 percent and demand sporadically exceeding supply. As a result, the Company believes the market and dayrates for this class of equipment could improve further in the near term.

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

Brazil. In Brazil, the high-specification semisubmersible Ocean Alliance signed a one-year extension to its contract with Petrobras at a dayrate in the high $90,000's that will employ the unit until early September 2005. The Ocean Alliance incurred 29 days of downtime during the third quarter of 2004, due to equipment repairs before returning to work, as previously noted. The Company views the Brazilian semisubmersible market as balanced, and all four of the rigs the Company operates in Brazil are working under long-term contracts that have been renewed during 2004.

North Sea. In the North Sea, the mid-water semisubmersible Ocean Vanguard mobilized to Norway where it began an approximately 15-month series of contracts for a dayrate in the low $140,000's. Both mid-water semisubmersibles, the Ocean Guardian and Ocean Princess have received one year extensions to their contracts in the U.K. at approximately $80,000 dayrates. The mid-water semisubmersible Ocean Nomad is in the process of mobilizing from West Africa to the U.K. where, following shipyard work, it will begin a one year contract at a dayrate of $80,000. Utilization of marketed semisubmersible rigs in the U.K. sector of the North Sea remains at 100 percent, and the Company believes this market will remain firm throughout the balance of 2004 and into 2005. Semisubmersible rig utilization in Norway also continues near 100 percent with firm demand, and the Company believes this market will remain balanced through the end of this year and into 2005.

Africa. The Ocean Nomad worked in West Africa for most of the third quarter and is now mobilizing to the U.K. sector of the North Sea as previously noted. The Company views the West African floater market as improving, although at a slower rate than the U.S. GOM and the North Sea.

Southeast Asia. The high-specification semisubmersible unit the Ocean Baroness received a 180-day extension to its contract in Indonesia at a dayrate in the mid-$130,000's for work ending in May 2005. Additionally, the jack-up rig Ocean Heritage secured a contract for work in India at a dayrate in the low $60,000's which began in late October 2004 and extends until mid-May 2005. The Company's other rigs in the Southeast Asian market all operated during the third quarter, and all of the Company's rigs in Southeast Asia currently have contracts or commitments for work extending through the balance of 2004 and into 2005. The Company views demand in the Southeast Asian market as increasing, and with high utilization, the Company believes dayrates could continue improving.

GENERAL

Revenues. The Company's revenues vary based upon demand, which affects the number of days the fleet is utilized and the dayrates earned. When a rig is idle, no dayrate is earned and revenues will decrease as a result. Revenues can also be affected as a result of the acquisition or disposal of rigs, required surveys and shipyard upgrades. In order to improve utilization or realize higher dayrates, the Company may mobilize its rigs from one market to another. However, during periods of mobilization, revenues may be adversely affected. As a response to changes in demand, the Company may withdraw a rig from the market by stacking it or may reactivate a rig stacked previously, which may decrease or increase revenues, respectively. The two most significant variables affecting revenues are dayrates for rigs and rig utilization rates, each of which is a function of rig supply and demand in the marketplace. As utilization rates increase, dayrates tend to increase as well reflecting the lower supply of available rigs, and vice versa. The same factors, primarily demand for drilling services, which is dependent upon the level of expenditures set by oil and gas companies for offshore exploration and development as well as a variety of political and economic factors, and availability of rigs in a particular geographical region, affect both dayrates and utilization rates. These factors are not within the Company's control and are difficult to predict.

Revenue from dayrate drilling contracts is recognized as services are performed. In connection with such drilling contracts, the Company may receive lump-sum fees for the mobilization of equipment and personnel. These fees are earned as services are performed over the initial term of the related drilling contracts. The Company previously accounted for the excess of mobilization fees received over costs incurred to mobilize an offshore rig from one market to another as revenue over the term of the related drilling contracts. Effective July 1, 2004 the Company changed its accounting to defer mobilization fees received as well as direct and incremental mobilization costs incurred and began to amortize each, on a straight line basis, over the term of the related drilling contracts (which is the period estimated to be benefited from the mobilization activity). Straight line amortization of mobilization revenues and related costs over the term of the related drilling contracts (which generally range from two to 60 months) is consistent with the timing of net cash flows generated from the actual drilling services performed. If the Company had used this method of accounting in prior periods, operating income (loss) and net income (loss) would not have changed and the impact on contract drilling revenues and expenses would have been immaterial. Absent a contract, mobilization costs are recognized currently.

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

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

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

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

Critical Accounting Estimates

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

Property, Plant and Equipment. Drilling and other property and equipment is carried at cost. Maintenance and routine repairs are charged to income currently while replacements and betterments, which meet certain criteria, are capitalized. Depreciation is amortized up to applicable salvage values by applying the straight-line method over the remaining estimated useful lives. Management makes judgments, assumptions and estimates regarding capitalization, useful lives and salvage values. Changes in these judgments, assumptions and estimates could produce results that differ from those reported.

The offshore drilling industry is a relatively young industry which began developing just over 50 years ago. The Company has based its estimates of useful lives and salvage values on the historical industry data available to it as well as its own experience. In April 2003 the Company commissioned a study to evaluate the economic lives of its drilling rigs because several of its rigs had reached or were approaching the end of their depreciable lives, yet were still operating and were expected to operate for many more years. As a result of this study, effective April 1, 2003, the Company recorded changes in accounting estimates by increasing the estimated service lives to 25 years for jack-ups and 30 years for semisubmersibles and the Company's drillship and by increasing salvage values to 5% for most of the Company's drilling rigs. The change in estimate was made to better reflect the remaining economic lives and salvage values of the Company's fleet. The effect of this change in accounting estimate resulted in an increase to the Company's net income for the three months ended September 30, 2004 of $3.9 million, or $0.03 per share, and a reduction to the Company's net loss for the nine month period ended September 30, 2004 of $11.5 million, or $0.09 per share. The effect of this change in accounting estimate resulted in a reduction to the Company's net loss for the three and nine month periods ended September 30, 2003 of $6.9 million, or $0.05 per share, and $12.7 million, or $0.10 per share, respectively.

In September 2003 the Company wrote down two of its second generation semisubmersible drilling rigs, the Ocean Century and the Ocean Prospector, by $1.6 million to their fair market values subsequent to a decision to offer the rigs for sale. These rigs were sold in December 2003 for $375,000 each.

The Company evaluates its property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. At December 31, 2003 the Company determined that all five of its cold stacked rigs should be tested for impairment. The impairment analysis at December 31, 2003 consisted of a probability-weighted cash flow analysis for each of the five cold stacked rigs. The assumptions and estimates underlying this analysis included (a) dayrate by rig, (b) utilization rate by rig (expressed as the actual percentage of time per year that the rig would be used), (c) the per day operating cost for each rig if active, ready stacked or cold stacked and (d) salvage value for each rig. Based on these assumptions and estimates a matrix was developed assigning probabilities to various combinations of assumed utilization rates and dayrates. In all cases, the probability-weighted cash flows significantly exceeded the carrying value of each rig. The impact of a 5% reduction in assumed dayrates for the cold stacked rigs (holding all other assumptions and estimates in the model constant), or alternatively the impact of a 5% reduction in utilization (again holding all other assumptions and estimates in the model constant) would still have resulted in probability-weighted cash flows that exceeded the carrying value of each rig. Two of the Company's cold stacked rigs that were tested and found not to be impaired at December 31, 2003 have since been reactivated and these rigs currently have contracted dayrates that are within the range of dayrates used in the Company's 2003 impairment analysis. Management's assumptions are an inherent part of an asset impairment evaluation and the use of different assumptions could produce results that differ from those reported.

Personal Injury Claims. The Company's uninsured retention of liability for personal injury claims, which primarily results from Jones Act liability in the Gulf of Mexico, is $0.5 million per claim with an additional aggregate annual deductible of $1.5 million. The Company's in-house claims department estimates the amount of its liability for its retention. This department establishes a reserve for each of the Company's personal injury claims by evaluating the existing facts and circumstances of each claim and comparing the circumstances of each claim to historical experiences with similar past personal injury claims. The claims department also estimates the Company's liability for claims which are incurred but not reported by using historical data. Historically, the Company's ultimate liability for personal injury claims has not differed materially from the Company's recorded estimates. At September 30, 2004 the Company's estimated liability for personal injury claims was $32.5 million. Due to uncertainties such as (a) the severity of personal injuries claimed, (b) significant changes in the volume of personal injury claims, (c) the unpredictability of legal jurisdictions where the claims will ultimately be litigated, (d) inconsistent court decisions and (e) the risks and lack of predictability inherent in personal injury litigation, eventual settlement or adjudication of these claims could differ materially from the estimated amounts.

Income Taxes. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which requires the recognition of the amount of taxes payable or refundable for the current year; and an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been currently recognized in its financial statements or tax returns. In each of its tax jurisdictions the Company recognizes a current tax liability or asset for the estimated taxes payable or refundable on tax returns for the current year and a deferred tax asset or liability for the estimated future tax effects attributable to temporary differences and carryforwards. Deferred tax assets are reduced by a valuation allowance, if necessary, which is determined by the amount of any tax benefits that, based on available evidence, are not expected to be realized under a "more likely than not" approach. For interim periods, the Company estimates its annual effective tax rate by forecasting its annual income before income tax, taxable income and tax expense in each of its tax jurisdictions. The Company makes judgments regarding future events and related estimations as they pertain to forecasting of the Company's effective tax rate, the potential realization of deferred tax assets such as utilization of foreign tax credits, and exposure to the disallowance of items deducted on tax returns upon audit.

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

THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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

	THREE MONTHS ENDED SEPTEMBER 30,		FAVORABLE/
	2004	2003	(UNFAVORABLE)
	(in thousands)		
CONTRACT DRILLING REVENUE			
High Specification Floaters	$ 75,502	$ 79,688	$ (4,186)
Other Semisubmersibles	79,357	72,588	6,769
Jack-ups	45,268	23,006	22,262
Other	483	(359)	842
TOTAL CONTRACT DRILLING REVENUE	$ 200,610	$ 174,923	$ 25,687
REVENUES RELATED TO REIMBURSABLE EXPENSES	$ 7,588	$ 8,984	$ (1,396)
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 43,697	$ 39,974	$ (3,723)
Other Semisubmersibles	62,185	62,494	309
Jack-ups	34,354	23,677	(10,677)
Integrated Services	--	(6)	(6)
Other	371	795	424
TOTAL CONTRACT DRILLING EXPENSE	$ 140,607	$ 126,934	$ (13,673)
REIMBURSABLE EXPENSES	$ 6,620	$ 8,208	$ (1,588)
OPERATING INCOME (LOSS)			
High Specification Floaters	$ 31,805	$ 39,714	$ (7,909)
Other Semisubmersibles	17,172	10,094	7,078
Jack-ups	10,914	(671)	11,585
Integrated Services	--	6	(6)
Other	112	(1,154)	1,266
Reimbursable expenses, net	968	776	192
Depreciation	(45,043)	(43,256)	(1,787)
General and administrative expense	(6,728)	(7,181)	453
(Loss) gain on sale of assets	(1,536)	(1,509)	(27)
TOTAL OPERATING INCOME (LOSS)	$ 7,664	$ (3,181)	$ 10,845

High Specification Floaters.

Revenues. Revenues from high specification floaters decreased $4.2 million during the quarter ended September 30, 2004 compared to the same period in 2003.

The overall average operating dayrate was $91,700 during the third quarter of 2004 compared to $97,500 during the third quarter of 2003. This lower average dayrate resulted in a $2.7 million decrease in high specification floater revenue. Significant reductions in the average operating dayrates were:

- the Ocean Star ($84,700 to $60,000);
- the Ocean Victory ($65,950 to $46,400);
- the Ocean Quest ($55,200 to $43,900); and
- the Ocean Alliance ($112,300 to $104,400).

Utilization of 89% during the third quarter of 2004 remained relatively unchanged from the same period in 2003. However, declines in utilization, including lower utilization for the Ocean Alliance, which was stacked approximately one-third of the current year quarter due to ongoing sub-sea and electrical problems, and lower utilization for the Ocean Clipper which was stacked for sub-sea repairs ten more days in the current year quarter than in the same period of 2003, negatively affected revenue by $1.5 million.

Utilization improved in the third quarter of 2004 compared to the same quarter of 2003 for:

- the Ocean Quest, which was stacked approximately one month more in the third quarter of 2003 than in the third quarter of 2004; and

- the Ocean Rover, which was in the shipyard completing its major upgrade for 10 days in the third quarter of 2003.

Both of these rigs operated during all or most of the third quarter of 2004.

Contract Drilling Expense. Contract drilling expense for high specification floaters was higher by $3.7 million for the quarter ended September 30, 2004 compared to the same period in 2003 primarily due to:

- repairs and other costs associated with damage done by Hurricane Ivan to the Ocean America and Ocean Star; and

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

Partially offsetting the higher comparable contract drilling expenses were lower expenses for:

- the Ocean Victory, which incurred moving costs during the third quarter of 2003; and

- the Ocean Confidence, which incurred costs to repair damaged components of a hydrophone system during the third quarter of 2003.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles for the quarter ended September 30, 2004 decreased $6.8 million compared to the same period in 2003.

An improvement in utilization contributed $11.7 million to revenue. Utilization increased from 64% during the third quarter of 2003 to 75% during the third quarter of 2004.

Utilization improved for:

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

- the Ocean Yorktown, which worked the entire third quarter of 2004 but spent two-thirds of the comparable quarter of 2003 in a shipyard preparing for and moving to the Mexican GOM; and

- the Ocean Patriot, which operated approximately 70 days in the third quarter of 2004 compared to only 30 days during the third quarter of 2003.

The improvement in utilization was partially offset by the Ocean Concord which was in a shipyard for life enhancement maintenance and 5-year survey the entire third quarter of 2004 but operated throughout the same period in 2003.

Revenue was negatively impacted by $4.9 million due to a decline in the average operating dayrate, which fell from $59,100 during the third quarter of 2003 to $55,000 during the third quarter of 2004. The Ocean Yatzy, one of the Company's rigs operating offshore Brazil, experienced the most significant change in dayrate (from $125,300 to $83,100) as its long-term contract expired in late 2003 and was renewed at a lower dayrate. Partially offsetting the overall decline in the average operating dayrate were improvements in average operating dayrates for the Ocean Princess (from $40,400 to $53,600) and the Ocean Epoch (from $50,000 to $64,100).

Contract Drilling Expense. Contract drilling expense for other semisubmersibles decreased $0.3 million during the third quarter of 2004 compared to the same period in 2003 primarily due to:

- the Ocean Whittington, which incurred mobilization costs from South Africa to the Gulf of Mexico during the third quarter 2003; and

- the Ocean Ambassador, the Ocean Worker and the Ocean Yorktown, which were all mobilizing to the Mexican GOM during the third quarter 2003.

Partially offsetting the lower contract drilling expenses were higher comparative expenses during the third quarter of 2004 for:

- the Ocean Vanguard, which incurred higher operating costs during the third quarter of 2004 compared to minimal costs incurred during the third quarter of 2003, when this rig was bareboat chartered to its previous owner for most of the quarter;

- the Ocean Guardian, the Ocean Princess and the Ocean Vanguard, which incurred higher labor costs associated with a contingent liability for mandated benefits legislated in the U.K.; and

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

Jack-Ups.

Revenues. Revenues from jack-ups increased $22.3 million during the third quarter of 2004 compared to the same quarter in 2003.

Utilization, which rose from 64% during the third quarter of 2003 to 89% during the same quarter of 2004, contributed $14.4 million to the overall increase in revenue. This improvement in utilization was primarily due to:

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

- the Ocean Champion, which was reactivated from cold stack status and worked 46 days during the third quarter of 2004; and

- the Ocean Heritage, which completed its contract in Ecuador and began its demobilization back to Singapore in the third quarter of 2004 prior to its move to India for its new contract. During the third quarter of 2003 this rig was stacked for most of the period.

Improvements in average operating dayrates contributed $7.9 million to the overall revenue increase as average operating dayrates rose from $27,800 during the third quarter of 2003 to $39,500 during the same period of 2004. All of the Company's operating rigs in this classification experienced an increase in average operating dayrates resulting primarily from a tighter jack-up market in the U.S. GOM.

Contract Drilling Expense. Contract drilling expense for jack-ups increased $10.7 million during the third quarter of 2004 over the same period in 2003 primarily due to:

- costs incurred for the demobilization of the Ocean Heritage from Ecuador to Singapore compared to reduced expenses during the third quarter of 2003 while this rig was stacked in a Singapore shipyard;

- higher costs for the Ocean Warwick during the 2004 period including repairs and other costs associated with damages from Hurricane Ivan compared to normal operating costs during the third quarter of 2003;

- expenses associated with the Ocean Champion reactivation and operating costs during the third quarter of 2004 compared to cold stack costs in the third quarter of 2003; and

- higher operating costs for the Ocean Titan during the third quarter of 2004 compared to the same quarter in 2003 when most costs were capitalized during its shipyard cantilever upgrade.

Reimbursable expenses, net.

Reimbursable expenses include items that the Company purchases, and/or services it performs, at the request of its customers. Revenues related to reimbursable items, offset by the related expenditures for these items, were $1.0 million and $0.8 million for the quarters ended September 30, 2004 and 2003, respectively.

Depreciation.

Depreciation expense increased $1.7 million to $45.0 million in the third quarter of 2004 compared to $43.3 million in the third quarter of 2003 primarily due to depreciation associated with:

- the Ocean America, which completed its upgrade during the second quarter 2004;

- the Ocean Titan, which completed its upgrade during the first quarter of 2004; and

- third quarter 2003 capital additions associated with obtaining contracts to operate four of the Company's rigs in Mexico.

General and Administrative Expense.

General and administrative expense for the quarter ended September 30, 2004 of $6.7 million decreased from $7.2 million for the same period in 2003. This decrease was primarily due to reimbursements of legal costs associated with ongoing litigation, partially offset by increased costs related to compliance with the Sarbanes-Oxley Act of 2002, higher external audit fees and higher net building expenses due to lower rental income from tenants.

Interest Expense.

Interest expense of $7.7 million during the third quarter of 2004 was $1.3 million higher than interest expense of $6.4 million in the same period in 2003 primarily from interest incurred due to the issuance of the Company's 5.15% Senior Notes Due September 1, 2014 (the "5.15% Senior Notes") on August 27, 2004. See Note 8 " -- Long-Term Debt" in Item 1 of Part I of this report.

Gain (Loss) on Sale of Marketable Securities.

A loss on the sale of marketable securities of $27,000 occurred in the third quarter of 2004 compared to a $6.2 million loss in the same quarter of 2003. See Note 3 "Marketable Securities" in Item 1 of Part I of this report.

Income Tax (Expense) Benefit.

Income tax expense of $16,000 was recognized on a pre-tax income of $3.0 million in the quarter ended September 30, 2004 compared to a tax benefit of $1.7 million which was recognized on a pre-tax loss of $13.2 million in the comparable period of 2003. The Company's estimated annual effective income tax rate increased from 24.8% to 27.7% during the third quarter of 2004 and resulted from a different mix of earnings and tax rates expected for 2004 than was anticipated in the previous quarter. The Company's effective income tax rate of 0.5% for the three months ended September 30, 2004 resulted primarily from applying the higher estimated annual effective rate to its June 30, 2004 year-to-date pre-tax losses which reduced tax expense for the three months ended September 30, 2004 by $0.8 million. The 13.1% effective tax rate for the three months ended September 30, 2003 resulted from a revision of the 2003 estimated annual tax rate from 16.7% to 15.9% in the third quarter of 2003.

Certain of the Company's rigs that operate internationally are owned and operated, directly or indirectly, by Diamond Offshore International Limited, a Cayman Islands corporation and wholly-owned subsidiary of the Company. Effective January 1, 2003 the Company began to postpone remittance of the earnings from Diamond Offshore International Limited and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses during the nine months ended September 30, 2004 and 2003. The Company's estimated annual effective tax rate was 27.7% as of September 30, 2004 and 15.9% as of September 30, 2003. The estimated annual effective tax rate was greater in the 2004 period than in the 2003 period primarily due to the different anticipated mix of domestic and international earnings as well as the mix of international tax jurisdictions in each period.

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

NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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

	NINE MONTHS ENDED SEPTEMBER 30,		
	2004	2003	FAVORABLE/ (UNFAVORABLE)
		(in thousands)	
CONTRACT DRILLING REVENUE			
High Specification Floaters	$ 199,342	$ 215,982	$ (16,640)
Other Semisubmersibles	225,620	185,556	40,064
Jack-ups	128,391	69,688	58,703
Integrated Services	--	1,189	(1,189)
Other	1,182	(362)	1,544
Eliminations	--	(233)	233
TOTAL CONTRACT DRILLING REVENUE	$ 554,535	$ 471,820	$ 82,715
REVENUES RELATED TO REIMBURSABLE EXPENSES	$ 22,807	$ 21,436	$ 1,371
CONTRACT DRILLING EXPENSE			
High Specification Floaters	$ 126,835	$ 116,805	$ (10,030)
Other Semisubmersibles	193,137	170,021	(23,116)
Jack-ups	86,373	74,940	(11,433)
Integrated Services	--	2,084	2,084
Other	2,423	1,593	(830)
Eliminations	--	(233)	(233)
TOTAL CONTRACT DRILLING EXPENSE	$ 408,768	$ 365,210	$ (43,558)
REIMBURSABLE EXPENSES	$ 20,373	$ 19,471	$ (902)
OPERATING INCOME (LOSS)			
High Specification Floaters	$ 72,507	$ 99,177	$ (26,670)
Other Semisubmersibles	32,483	15,535	16,948
Jack-ups	42,018	(5,252)	47,270
Integrated Services	--	(895)	895
Other	(1,241)	(1,955)	714
Reimbursable expenses, net	2,434	1,965	469
Depreciation	(134,117)	(132,086)	(2,031)
General and administrative expense	(24,277)	(22,595)	(1,682)
Loss on sale and disposition of assets	(1,341)	(1,451)	110
TOTAL OPERATING INCOME (LOSS)	$ (11,534)	$ (47,557)	$ 36,023

High Specification Floaters.

Revenues. Revenues from high specification floaters decreased $16.6 million during the nine months ended September 30, 2004 compared to the same period in 2003.

Revenue was negatively impacted by $30.2 million as utilization fell from 88% during the first nine months of 2003 (excluding the Ocean Rover) to 75% during the same period of 2004.

Utilization declined for:

- the Ocean Star, which was stacked for a majority of the first nine months of 2004;

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

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

- the Ocean Confidence, which had approximately four weeks of unpaid downtime for repairs during the first nine months of 2004.

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

Partially offsetting the overall decline in utilization was an improvement in utilization for the Ocean Valiant, which worked most of the first nine months of 2004 but was idle for approximately 105 days during the first nine months of 2003.

Lower overall average operating dayrates during the first nine months of 2004, of $90,100 compared to $95,700 during the same period in 2003 (excluding the Ocean Rover), reduced revenue by $9.6 million. The lower average dayrates were primarily a consequence of soft market conditions in the U.S. GOM as several of these high specification floaters accepted jobs in the mid-water depth market.

The Ocean Rover contributed an additional $23.2 million to revenue during the first nine months of 2004 as it continued its drilling program offshore Malaysia. During the first nine months of 2003 this rig was undergoing an upgrade to high specification capabilities which was completed in July 2003.

Contract Drilling Expense. Contract drilling expense for high specification floaters increased by $10.0 million for the nine months ended September 30, 2004 compared to the same period in 2003 primarily due to:

- operating costs for the Ocean Rover, which worked all of the first nine months of 2004 but was undergoing a major upgrade for the majority of the same period in 2003;

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

- costs in the third quarter of 2004 associated with damages from Hurricane Ivan to the Ocean America and Ocean Star.

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

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

- the Ocean Quest, which incurred normal operating costs during the first nine months of 2004 compared to higher repair and moving costs during the first nine months of 2003.

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles for the nine months ended September 30, 2004 increased $40.1 million compared to the same period in 2003.

Utilization improvements contributed $44.1 million to the higher revenues. Utilization rose to 71% during the first nine months of 2004 from 53% during the same period of 2003 (excluding the Ocean Century and Ocean Prospector, which were sold in December 2003, and the Ocean Vanguard, which was operating under a bareboat charter). Utilization improved for:

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

- the Ocean Ambassador, which worked throughout the first nine months of 2004 but was stacked approximately 140 days of the same period of 2003, during which time this rig was in a shipyard for a 5-year survey and also prepared for its contract in Mexico;

- the Ocean Guardian and Ocean Bounty, which worked most of the first nine months of 2004 compared to the same period in 2003 when the Ocean Guardian spent three months in a shipyard for repairs and inspection and the Ocean Bounty spent two months in a shipyard for a 5-year survey; and

- the Ocean Yorktown, which worked most of the first nine months of 2004 compared to spending approximately three months during the same period of 2003 undergoing preparations for its contract in Mexico.

These utilization improvements were partially offset by the Ocean Concord, which was stacked for approximately 60 days for a 5-year survey and other repairs and then entered a shipyard for life enhancement maintenance near the end of June 2004 compared to the same period in 2003 when this rig worked most of the period.

The average operating dayrate for other semisubmersibles (excluding the Ocean Vanguard) fell from $58,500 during the first nine months of 2003 to $55,600 during the first nine months of 2004, reducing revenues by $9.2 million. The most significant reductions in average dayrates were to:

- the Ocean Yatzy (from $124,700 to $83,200), which renewed its contract to operate offshore Brazil during the latter part of 2003 at a lower dayrate reflective of market conditions; and

- the Ocean Yorktown (from $69,600 to $47,900), which worked offshore Brazil during the first half of 2003 but operated in the Mexican GOM during the first nine months of 2004.

Partially offsetting the overall lower average operating dayrates was an improvement in the average operating dayrate for the Ocean Worker ($52,000 to $68,500). The Ocean Worker operated in the Mexican GOM during the first nine months of 2004. In 2003 the Ocean Worker operated in the U.S. GOM for seven months before moving to the Mexican GOM.

In addition, a revenue improvement of $5.2 million for the nine months ended September 30, 2004 over the comparable period of 2003 was due to a higher average operating dayrate for the Ocean Vanguard. This semisubmersible, purchased in December 2002, had an average operating dayrate of $51,600 during the 2004 period compared to an average operating dayrate of $10,000 which was earned under a bareboat charter with its previous owner in the 2003 period.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles increased $23.1 million during the first nine months of 2004 compared to the same period in 2003 primarily due to:

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

- the Ocean Vanguard, which incurred higher than normal operating expenses during the first nine months of 2004 due to preparations for work in the North Sea compared to minimal costs during the same period in 2003 when it operated under a bareboat charter for its previous owner;

- the Ocean Patriot, which incurred higher than normal operating costs during the first nine months of 2004 due to preparations for work in New Zealand and Australia compared to minimal costs during the same period in 2003 following its March 2003 purchase;

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

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

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

- the Ocean Nomad, which incurred normal operating costs during the first nine months of 2004 compared to costs for mobilization to a shipyard and an inspection during the same period in 2003;
- the Ocean Guardian, which incurred normal operating costs during the first nine months of 2004 compared to costs for mobilization to a shipyard and an inspection during the same period of 2003; and
- the Ocean Bounty, which incurred normal operating costs during the first nine months of 2004 compared to operating costs for the same period in 2003 which included a 5-year survey.

Jack-Ups.

Revenues. Revenues from jack-ups increased $58.7 million during the first nine months of 2004 compared to the same period of 2003.

Utilization rose to 88% in the first nine months of 2004 from 67% in the same period of 2003, resulting in a $32.7 million revenue improvement. Utilization increased primarily due to:

- the Ocean Tower and Ocean Titan in the U.S. GOM, and the Ocean Sovereign in Southeast Asia, which were in shipyards undergoing major upgrades during most of the first nine months of 2003 but were operating during most of the same period in 2004;
- the Ocean Heritage, Ocean Summit, Ocean Spartan, Ocean Columbia, Ocean Drake and Ocean Warwick, all of which worked a majority of the first nine months of 2004 compared to each being stacked for part of the same period of 2003; and
- the Ocean Champion, which was reactivated from cold stack status during the third quarter of 2004.

The average operating dayrate for jack-ups rose to $38,100 in the first nine months of 2004 from $27,400 in the same period of 2003 resulting in a $26.0 million revenue improvement. All of the Company's jack-ups in the GOM experienced an increase in average dayrate primarily due to a tighter market for this class of equipment in the U.S. GOM.

Contract Drilling Expense. Contract drilling expense for jack-ups during the first nine months of 2004 increased $11.4 million compared to the same period in 2003 primarily due to:

- costs incurred for the mobilization of the Ocean Heritage from Singapore to Ecuador in early 2004 and its subsequent demobilization back to Singapore in the third quarter of 2004 prior to its move to India for its next contract;
- higher costs for the Ocean Warwick during the 2004 period which included repairs and other costs associated with damages from Hurricane Ivan compared to normal operating costs during the same period of 2003;
- operating and reactivation costs for the Ocean Champion, which was brought out of cold stack status during the third quarter of 2004; and
- operating costs for the Ocean Titan during the first nine months of 2004, compared to the same period in 2003 when most costs were capitalized in connection with its cantilever upgrade.

Lower contract drilling expenses for the Ocean Sovereign in the 2004 period were partially offsetting. The Ocean Sovereign incurred normal operating expenses in the 2004 period compared to the first nine months of 2003, which included non-upgrade shipyard projects in addition to its upgrade.

Reimbursable expenses, net.

Reimbursable expenses include items that the Company purchases, and/or services it performs, at the request of its customers. Revenues related to reimbursable items, offset by the related expenditures for these items, were $2.4 million and $2.0 million for the nine months ended September 30, 2004 and 2003, respectively.

Depreciation.

Depreciation expense increased to $134.1 million in the first nine months of 2004 compared to $132.1 million in the first nine months of 2003 primarily due to depreciation associated with:

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

- the Ocean Patriot, acquired in March 2003;

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

- third quarter 2003 capital additions associated with obtaining contracts to operate four of the Company's rigs in Mexico.

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

General and Administrative Expense.

General and administrative expense for the nine months ended September 30, 2004 of $24.3 million increased $1.7 million over $22.6 million for the same period in 2003. This increase was primarily due to costs related to compliance with the Sarbanes-Oxley Act of 2002, higher external audit fees and higher net building expenses due to lower rental income from tenants.

Gain (Loss) on Sale of Marketable Securities.

A gain on the sale of marketable securities of $0.2 million occurred during the nine months ended September 30, 2004 compared to a $7.3 million loss during the same period in 2003. See Note 3 "Marketable Securities" in Item 1 of Part I of this report.

Interest Income.

Interest income of $7.6 million earned during the nine months ended September 30, 2004 declined $2.6 million, from $10.2 million earned during the same period in 2003, primarily due to lower interest rates earned on cash and marketable securities compared to the same period in 2003.

Interest Expense.

Interest expense of $20.4 million during the nine months ended September 30, 2004 was $3.0 million higher than interest expense of $17.4 million in the same period in 2003 primarily due to interest on the upgrade cost of the Ocean Rover capitalized through July 10, 2003 when its upgrade was completed. Interest expense was also higher due to the issuance of the 5.15% Senior Notes on August 27, 2004. See Note 1 " -- General Information -- Capitalized Interest" and Note 8 " -- Long-Term Debt" in Item 1 of Part I of this report.

Other Income (Expense) - Other, net

Other expense net of other income was $0.3 million for the nine months ended September 30, 2004 compared to other income net of other expense of $2.9 million for the same period in 2003. Other income during the nine month period in 2003 was primarily from a gain on forward exchange contracts to purchase Australian dollars.

Income Tax Benefit.

An income tax benefit of $5.9 million was recognized on a pre-tax loss of $24.4 million in the nine months ended September 30, 2004 compared to a tax benefit of $9.4 million which was recognized on a pre-tax loss of $59.1 million in the comparable period of 2003.

Certain of the Company's rigs that operate internationally are owned and operated, directly or indirectly, by Diamond Offshore International Limited, a Cayman Islands corporation and wholly-owned subsidiary of the Company. Effective January 1, 2003 the Company began to postpone remittance of the earnings from Diamond Offshore International Limited and indefinitely reinvest these earnings internationally. Consequently, no U.S. taxes were provided on these earnings and no U.S. tax benefits were recognized on losses during the nine month periods ended September 30, 2004 and 2003. The Company's estimated annual effective tax rate was 27.7% as of September 30, 2004 and 15.9% as of September 30, 2003. The estimated annual effective tax rate was greater in the 2004 period than in the 2003 period primarily due to the different anticipated mix of domestic and international earnings as well as the mix of international tax jurisdictions in each period.

Tax expense for the nine months ended September 30, 2004 also included a $0.9 million adjustment related to finalizing prior year tax returns in two foreign jurisdictions. This additional expense is not included in the calculation of the Company's current year estimated annual effective tax rate of 27.7%.

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

OPERATIONS OUTSIDE THE UNITED STATES

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

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

LIQUIDITY

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

	NINE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONTHS ENDED SEPTEMBER 30, 2003	CHANGE
		(IN THOUSANDS)	
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net loss	$ (18,526)	$ (49,716)	$ 31,190
Depreciation	134,117	132,086	2,031
Deferred tax benefit	(1,025)	(11,785)	10,760
Other non-cash items, net	11,683	19,252	(7,569)
Net changes in operating assets and liabilities	6,541	(27,615)	34,156
	$ 132,790	$ 62,222	$ 70,568

Cash of $132.8 million was generated from operations during the nine months ended September 30, 2004 compared to cash of $62.2 million generated during the same period of 2003 primarily due to an improvement in results of operations in the 2004 period.

	NINE MONTHS ENDED SEPTEMBER 30, 2004	2003	CHANGE
		(IN THOUSANDS)	
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES			
Capital expenditures (excluding rig acquisition)	$ (69,719)	$ (177,416)	$ 107,697
Rig acquisition	--	(63,500)	63,500
Proceeds from sale of assets	1,521	879	642
Proceeds from sale and maturities of marketable securities..	2,773,630	2,571,618	202,012
Purchases of marketable securities	(2,913,971)	(2,359,460)	(554,511)
Purchase of Australian dollar time deposits	(42,073)	--	(42,073)
Proceeds from maturities of Australian dollar time deposits	19,846	--	19,846
Proceeds from settlement of forward contracts	--	2,492	(2,492)
	$ (230,766)	$ (25,387)	$ (205,379)

During the nine months ended September 30, 2004, the Company used $230.8 million for investing activities compared to $25.4 million used for investing activities during the comparable period in 2003. In the first nine months of 2004, net purchases of investments in marketable securities and capital expenditures used $140.3 million and $69.7 million of the Company's cash, respectively. In addition, the Company invested $42.1 million (equivalent to 58.0 million Australian dollars) in Australian dollar time deposits with expirations ranging from May 5, 2004 to March 9, 2005, $19.8 million (equivalent to 32.0 million Australian dollars) of which matured during the period. Cash proceeds of $1.5 million were generated by the sale of miscellaneous equipment.

During the nine months ended September 30, 2003, the Company spent $65.0 million ($1.5 million of which is included with inventory) for the purchase of the semisubmersible rig, the Ocean Patriot, and used $177.4 million for capital expenditures, primarily for the completion of the Ocean Rover upgrade and the upgrade of three of the Company's jack-up rigs. Cash provided from investing activities in the 2003 period included cash proceeds of $212.2 million from the net sale and maturity of certain of the Company's investments in marketable securities, $2.5 million provided from the settlement of forward contracts at favorable exchange rates and $0.9 million provided from the sale of miscellaneous equipment.

	NINE MONTHS ENDED SEPTEMBER 30, 2004	2003	CHANGE
		(IN THOUSANDS)	
NET CASH USED IN FINANCING ACTIVITIES			
Issuance of 5.15% Senior Notes	$ 249,397	$ --	$ 249,397
Debt issue costs -- 5.15% Senior Notes..	(1,565)	--	(1,565)
Payment of dividends	(24,249)	(48,876)	24,627
Acquisition of treasury stock	(18,077)	--	(18,077)
	$ 205,506	$ (48,876)	$ 254,382

5.15% Senior Notes

On August 27, 2004, the Company issued $250 million aggregate principal amount of its 5.15% Senior Notes at an offering price of 99.759% of the principal amount, resulting in net proceeds to the Company of $247.8 million.

The 5.15% Senior Notes bear interest at 5.15% per year, payable semiannually in arrears on March 1 and September 1 of each year, beginning March 1, 2005, and mature on September 1, 2014. The 5.15% Senior Notes are unsecured and unsubordinated obligations of the Company and they rank equal in right of payment to the Company's existing and future unsecured and unsubordinated indebtedness, although the 5.15% Senior Notes will be effectively subordinated to all existing and future obligations of the Company's subsidiaries. The Company has the right to redeem all or a portion of the 5.15% Senior Notes for cash at any time or from time to time on at least 15 days but not more than 60 days prior written notice, at the redemption price specified in the governing indenture plus accrued and unpaid interest on the principal amount of the 5.15% Senior Notes redeemed to the date of redemption.

Zero Coupon Debentures

The Company has the right to redeem its zero coupon convertible debentures due 2020 (the "Zero Coupon Debentures"), in whole or in part, on or after June 6, 2005, for a price equal to the issuance price plus accrued original issue discount through the date of redemption. Holders have the right to require the Company to repurchase the Zero Coupon Debentures on June 6, 2005, June 6, 2010 and June 6, 2015 at the accreted value through the date of repurchase. The Company may pay such repurchase price with either cash or shares of the Company's common stock or a combination of cash and shares of common stock. As of September 30, 2004, the aggregate accreted value of the Zero Coupon Debentures was $467.2 million.

Dividends

The Company paid cash dividends of $24.2 million to stockholders in the first nine months of 2004 compared to $48.9 million in the same period of 2003. Cash dividends paid in the first nine months of 2004 were lower primarily due to a lower quarterly dividend rate of $0.0625 per share of common stock compared to a quarterly dividend rate of $0.125 per share of common stock in the 2003 period.

Treasury Stock

Depending on market conditions, the Company may, from time to time, purchase shares of its common stock in the open market or otherwise. The purchase of treasury stock is accounted for using the cost method which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in the Consolidated Balance Sheets. During the nine months ended September 30, 2004, the Company purchased 782,200 shares of its common stock at an aggregate cost of $18.1 million, or at an average cost of $23.11 per share. See Item 2 in Part II of this report. During the year ended December 31, 2003, the Company purchased 1,014,000 shares of its common stock at an aggregate cost of $18.2 million, or at an average cost of $17.96 per share.

Credit Ratings.

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

Letters of Credit and Other.

The Company is contingently liable as of September 30, 2004 in the amount of $74.3 million under certain performance, bid, supersedeas and custom bonds, and letters of credit. Agreements related to approximately $34.0 million of multi-year performance bonds can require cash collateral for the full line at any time for any reason. Holders of agreements related to another $23.2 million currently have the option to require cash collateral due to Moody's lowering the Company's credit rating on April 27, 2004. The remaining agreements cannot require cash collateral except in events of default.

Other.

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

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

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

CAPITAL RESOURCES

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

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

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

The Company expects to spend approximately $79 million in 2004 for capital expenditures. These expenditures include approximately $65 million associated with its continuing rig enhancement program (other than rig upgrades), approximately $9 million related to customer contract requirements and approximately $5 million for other corporate requirements including life enhancement maintenance of one of the Company's semisubmersibles, the Ocean Concord. During the nine months ended September 30, 2004, the Company spent $56.3 million on its continuing rig enhancement program and to meet other corporate capital expenditure requirements.

INTEGRATED SERVICES

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

- business strategy;

- growth opportunities;

- competitive position;

- expected financial position;

- future cash flows;

- future dividends;

- financing plans;

- tax planning (See " -- Overview -- General--Critical Accounting Estimates -- Income Taxes," " -- Three Months Ended September 30, 2004 and 2003 -- Income Tax (Expense) Benefit" and " -- Nine Months Ended September 30, 2004 and 2003 -- Income Tax Benefit");

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

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

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

- plans and objectives of management;

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

- outcomes of legal proceedings;

- compliance with applicable laws; and

- adequacy of insurance or indemnification.

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

- general economic and business conditions;

- worldwide demand for oil and natural gas;

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

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

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

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

- advances in exploration and development technology;

- the political environment of oil-producing regions;

- casualty losses;

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

- industry fleet capacity;

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

- competition;

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

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

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

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

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

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

- regulatory initiatives and compliance with governmental regulations;

- compliance with environmental laws and regulations;

- customer preferences;

- effects of litigation;

- cost, availability and adequacy of insurance;

- adequacy of the Company's sources of liquidity;

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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

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

Interest Rate Risk

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

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

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

The Company's long-term debt as of September 30, 2004 and December 31, 2003 is denominated in U.S. dollars. The Company's debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $173.8 million and $150.5 million, respectively. A 100 basis point decrease would result in an increase in market value of $212.5 million and $186.8 million, respectively.

Foreign Exchange Risk

Foreign exchange risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. During the quarter ended September 30, 2004, the Company invested in Australian dollar time deposits and at September 30, 2004 30.0 million Australian dollars (equivalent to $21.8 million) of time deposits were included in "Investments and marketable securities" in the Consolidated Balance Sheet. The sensitivity analysis assumes an instantaneous 20% change in foreign currency exchange rates versus the U.S. dollar from their levels at September 30, 2004.

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

CATEGORY OF RISK EXPOSURE:	FAIR VALUE ASSET (LIABILITY) SEPTEMBER 30, 2004	FAIR VALUE ASSET (LIABILITY) DECEMBER 31, 2003	MARKET RISK SEPTEMBER 30, 2004	MARKET RISK DECEMBER 31, 2003
		(IN THOUSANDS)		
Interest rate:				
Marketable securities....................	$ 647,528 (a)	$ 503,995 (a)	$ 400 (c)	$ 700 (c)
Long-term debt	(1,199,509)(b)	(909,100)(b)	--	--
Foreign Exchange:				
Australian dollar time deposits	21,756 (d)	--	4,400 (d)	--

- ----------

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

(b) The fair values of the Company's 5.15% senior notes, 1.5% convertible senior debentures due 2031 and zero coupon convertible debentures due 2020 are based on the quoted closing market prices on September 30, 2004 and December 31, 2003. The fair value of the Company's Ocean Alliance lease-leaseback agreement is based on the present value of estimated future cash flows using a discount rate of 4.01% for September 30, 2004 and 2.08% for December 31, 2003.

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

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

ITEM 4. CONTROLS AND PROCEDURES.

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

Evaluation of Disclosure Controls and Procedures

Based upon their evaluation, as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Controls

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

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table sets forth information regarding the Company's purchases of shares of its common stock on a monthly basis during the third quarter of 2004:

ISSUER PURCHASES OF EQUITY SECURITIES

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS
July 1, 2004 through July 31, 2004	--	--	--	--
August 1, 2004 through August 31, 2004	782,200 (a)	$ 23.11	--	--
September 1, 2004 through September 30, 2004	--	--	--	--
TOTAL	782,200 (a)	$ 23.11	--	--

- ----------

(a) The Company purchased 782,200 shares of its common stock in open-market transactions in August 2004. None of such shares were purchased pursuant to a publicly announced share repurchase program. Depending on market conditions, the Company may, from time to time, purchase shares of its common stock in the open market or otherwise. Although the Board of Directors of the Company has approved such purchases, it has not adopted any expiration date or other limitations regarding such purchases.

ITEM 6. EXHIBITS.

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

SIGNATURES

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

DIAMOND OFFSHORE DRILLING, INC.
(Registrant)

Date: November 8, 2004

By: /s/ Gary T. Krenek

Gary T. Krenek
Vice President and Chief Financial Officer

Date: November 8, 2004

/s/ Beth G. Gordon

Beth G. Gordon
Controller (Chief Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003).
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001).
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 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001).
4.2	Fourth Supplemental Indenture, dated as of August 27, 2004, between the Company and JPMorgan Chase Bank, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated August 27, 2004).
4.3	Exchange and Registration Rights Agreement, dated August 27, 2004, between the Company and Goldman, Sachs & Co. (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K dated August 27, 2004).
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification of the Chief Executive Officer.
32.2*	Section 1350 Certification of the Chief Financial Officer.

* Filed or furnished herewith.

EXHIBIT 31.1

I, James S. Tisch, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2004

/s/ James S. Tisch

James S. Tisch
Chief Executive Officer

EXHIBIT 31.2

I, Gary T. Krenek, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 8, 2004

/s/ Gary T. Krenek

Gary T. Krenek

Chief Financial Officer

EXHIBIT 32.1

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

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

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

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

Dated: November 8, 2004

/s/ James S. Tisch

James S. Tisch
Chief Executive Officer of the Company

EXHIBIT 32.2

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

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

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

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

Dated: November 8, 2004

/s/ Gary T. Krenek

Gary T. Krenek
Chief Financial Officer of the Company