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 March 31, 1999
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________to_________

Commission file number 1-13926

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

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

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

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

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

As of April 19, 1999	Common stock, $0.01 par value per share	135,824,281 shares

DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED MARCH 31, 1999

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	MARCH 31, 1999	DECEMBER 31, 1998
	(UNAUDITED)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 69,946	$ 101,198
Marketable securities	589,068	535,774
Accounts receivable	200,153	233,719
Rig inventory and supplies	36,093	35,794
Prepaid expenses and other	36,014	31,939
Total current assets	931,274	938,424
DRILLING AND OTHER PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	1,612,762	1,551,820
GOODWILL, NET OF ACCUMULATED AMORTIZATION	108,241	109,825
OTHER ASSETS	9,351	9,647
Total assets	$ 2,661,628	$ 2,609,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 84,452	$ 93,938
Accrued liabilities	47,476	53,283
Taxes payable	43,144	13,180
Total current liabilities	175,072	160,401
LONG-TERM DEBT	400,000	400,000
DEFERRED TAX LIABILITY	270,472	263,797
OTHER LIABILITIES	27,453	30,260
Total liabilities	872,997	854,458
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock (par value $0.01, 25,000,000 shares authorized, none issued and outstanding)	--	--
Common stock (par value $0.01, 500,000,000 shares authorized, 139,333,635 issued, 135,815,535 outstanding at March 31, 1999 and December 31, 1998)	1,393	1,393
Additional paid-in capital	1,302,806	1,302,806
Retained earnings	582,624	547,783
Accumulated other comprehensive losses	(9,466)	(7,998)
Treasury stock, at cost (3,518,100 shares)	(88,726)	(88,726)
Total stockholders' equity	1,788,631	1,755,258
Total liabilities and stockholders' equity	$ 2,661,628	$ 2,609,716

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
REVENUES	$ 228,037	$ 286,069
OPERATING EXPENSES:		
Contract drilling	110,718	125,333
Depreciation and amortization	35,657	31,999
General and administrative	6,001	6,772
Gain on sale of assets	(125)	(78)
Total operating expenses	152,251	164,026
OPERATING INCOME	75,786	122,043
OTHER INCOME (EXPENSE):		
Interest income	8,351	6,585
Interest expense	(3,332)	(3,843)
Other, net	(1,093)	(137)
INCOME BEFORE INCOME TAX EXPENSE	79,712	124,648
INCOME TAX EXPENSE	(27,894)	(43,926)
NET INCOME	$ 51,818	$ 80,722
EARNINGS PER SHARE:		
Basic	$ 0.38	$ 0.58
Diluted	$ 0.37	$ 0.56
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Common shares	135,816	139,325
Dilutive potential common shares	9,876	9,876
Total weighted average shares outstanding	145,692	149,201

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
OPERATING ACTIVITIES:		
Net income	$ 51,818	$ 80,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,657	31,999
Gain on sale of assets	(125)	(78)
(Gain) loss on sale of investment securities	(6)	69
Deferred tax provision	8,291	17,862
Accretion of discounts on investment securities	(3,229)	(2,609)
Amortization of debt issuance costs	134	129
Changes in operating assets and liabilities:		
Accounts receivable	33,566	(32,161)
Rig inventory and supplies and other current assets	(4,374)	2,168
Other assets, non-current	162	(957)
Accounts payable and accrued liabilities	(15,293)	1,187
Taxes payable	29,147	22,442
Other liabilities, non-current	(2,807)	(569)
Other, net	(820)	(350)
Net cash provided by operating activities	132,121	119,854
INVESTING ACTIVITIES:		
Capital expenditures	(95,019)	(37,089)
Proceeds from sale of assets	129	335
Net change in marketable securities	(51,506)	(90,797)
Net cash used in investing activities	(146,396)	(127,551)
FINANCING ACTIVITIES:		
Payment of dividends	(16,977)	(17,416)
Proceeds from stock options exercised	--	211
Net cash used in financing activities	(16,977)	(17,205)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(31,252)	(24,902)
Cash and cash equivalents, beginning of period	101,198	102,958
Cash and cash equivalents, end of period	$ 69,946	$ 78,056

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

Interim Financial Information

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

Cash and Cash Equivalents

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

Marketable Securities

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

Supplementary Cash Flow Information

Cash payments made for interest on long-term debt totaled $7.5 million during each quarter ended March 31, 1999 and 1998. Cash payments made, net of refunds, for income taxes during the quarters ended March 31, 1999 and 1998 totaled $8.9 million and $4.2 million, respectively.

Capitalized Interest

Interest cost for construction and upgrade of qualifying assets is capitalized. The Company incurred interest cost, including amortization of debt issuance costs, of $3.9 million during each quarter ended March 31, 1999 and 1998. Interest cost capitalized during each quarter ended March 31, 1999 and 1998 was not material.

Goodwill

Goodwill from the merger with Arethusa (Off-Shore) Limited ("Arethusa") is amortized on a straight-line basis over 20 years. Amortization expense totaled $1.6 million for each quarter ended March 31, 1999 and 1998.

Debt Issuance Costs

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

Treasury Stock

In July 1998, the Board of Directors authorized the purchase of shares of the Company's common stock in the open market, from time to time, depending on market conditions. The purchase of treasury stock is accounted for using the cost method, which reports the cost of the shares acquired in "Treasury stock" as a deduction from stockholders' equity in the Consolidated Balance Sheets.

Comprehensive Income

Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. For the three months ended March 31, 1999 and 1998, comprehensive income totaled $50.6 million and $79.7 million, respectively. Comprehensive income includes net income, foreign currency translation gains and losses, and unrealized holding gains and losses on investments.

Earnings Per Share

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

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

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

2. MARKETABLE SECURITIES

Investments classified as available for sale are summarized as follows:

	MARCH 31, 1999		
	COST	UNREALIZED GAIN (LOSS)	MARKET VALUE
		(IN THOUSANDS)	
Debt securities issued by the U.S. Treasury			
Due within one year	$ 185,269	$ 75	$ 185,344
Due after one year through five years ...	198,697	413	199,110
Collateralized mortgage obligations	203,483	(1,269)	202,214
Equity securities	12,117	(9,717)	2,400
Total	$ 599,566	$ (10,498)	$ 589,068

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

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

During the three months ended March 31, 1999 and 1998, certain debt securities due within one year were sold or matured for proceeds of $269.2 million and $95.4 million, respectively. The resulting after-tax realized gain and loss for the quarters ended March 31, 1999 and 1998 was not material. Also, during the three months ended March 31, 1998, investments through repurchase agreements with third parties were sold for their contracted amounts totaling $350.0 million.

3. DRILLING AND OTHER PROPERTY AND EQUIPMENT

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

	MARCH 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Drilling rigs and equipment	$ 1,960,899	$ 1,929,540
Construction work in progress	150,936	88,266
Land and buildings	13,878	13,874
Office equipment and other	15,072	14,100
Cost	2,140,785	2,045,780
Less accumulated depreciation	(528,023)	(493,960)
Drilling and other property and equipment, net	$ 1,612,762	$ 1,551,820

4. GOODWILL

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

	MARCH 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Goodwill	$ 127,418	$ 127,418
Less accumulated amortization	(19,177)	(17,593)
Total	$ 108,241	$ 109,825

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	MARCH 31, 1999	DECEMBER 31, 1998
	(IN THOUSANDS)	
Personal injury and other claims	$ 17,987	$ 20,676
Payroll and benefits	19,251	18,701
Interest payable	1,916	5,667
Other	8,322	8,239
Total	$ 47,476	$ 53,283

6. COMMITMENTS AND CONTINGENCIES

In 1996, the survivors of a deceased employee of a subsidiary of the Company, Diamond M Onshore, Inc., sued such subsidiary in Duval County, Texas, for damages as a result of the death of the employee. The plaintiffs obtained a judgment in the trial court for $15.7 million plus post-judgment interest. The Company appealed the judgment. In July 1998, the Texas Fourth Court of Appeals in San Antonio reversed the judgment of the trial court and rendered that the plaintiffs take nothing. A motion for a new trial filed by the plaintiffs was denied by the Texas Fourth Court of Appeals in December 1998. The plaintiffs then filed a petition for review with the Supreme Court of Texas which was denied in March 1999. The deadline for filing a motion for rehearing by the plaintiffs has expired. The Company had not established a provision for any liability for this case, therefore, there is no effect on the Company's consolidated financial position, results of operations, or cash flows.

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

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

7. SEGMENTS AND GEOGRAPHIC AREA ANALYSIS

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

Similar Services

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
	(IN THOUSANDS)	
Fourth-Generation Semisubmersibles	$ 63,960	$ 70,945
Other Semisubmersibles	139,453	153,274
Jack-ups	24,069	60,086
Integrated Services	3,469	15,711
Eliminations	(2,914)	(13,947)
Total revenues	$ 228,037	$ 286,069

Geographic Areas

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
	(IN THOUSANDS)	
Revenues from unaffiliated customers:		
United States	$ 111,208	$ 175,035
Foreign:		
Europe/Africa	64,455	69,663
Australia/Southeast Asia	28,267	28,446
South America	24,107	12,925
Total Revenues	$ 228,037	$ 286,069

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

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

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

RESULTS OF OPERATIONS

General

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

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

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

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

THREE MONTHS ENDED MARCH 31, 1999 AND 1998

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

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998	INCREASE/ (DECREASE)
	(IN THOUSANDS)		
REVENUES			
Fourth-Generation Semisubmersibles	$ 63,960	$ 70,945	$ (6,985)
Other Semisubmersibles	139,453	153,274	(13,821)
Jack-ups	24,069	60,086	(36,017)
Integrated Services	3,469	15,711	(12,242)
Eliminations	(2,914)	(13,947)	11,033
Total Revenues	$ 228,037	$ 286,069	$ (58,032)
CONTRACT DRILLING EXPENSE			
Fourth-Generation Semisubmersibles	$ 24,390	$ 20,615	$ 3,775
Other Semisubmersibles	62,251	79,276	(17,025)
Jack-ups	22,708	21,160	1,548
Integrated Services	3,438	15,505	(12,067)
Other	845	2,724	(1,879)
Eliminations	(2,914)	(13,947)	11,033
Total Contract Drilling Expense	$ 110,718	$ 125,333	$ (14,615)
OPERATING INCOME			
Fourth-Generation Semisubmersibles	$ 39,570	$ 50,330	$ (10,760)
Other Semisubmersibles	77,202	73,998	3,204
Jack-ups	1,361	38,926	(37,565)
Integrated Services	31	206	(175)
Other	(845)	(2,724)	1,879
Depreciation and Amortization Expense	(35,657)	(31,999)	(3,658)
General and Administrative Expense	(6,001)	(6,772)	771
Gain on Sale of Assets	125	78	47
Total Operating Income	$ 75,786	$ 122,043	$ (46,257)

Fourth-Generation Semisubmersibles.

Revenues. Revenues from fourth-generation semisubmersibles decreased by $7.0 million from the same period in 1998. This decrease resulted primarily from reduced revenues of $6.8 million from the Ocean America due to rig downtime for a mandatory inspection and repairs completed in the first quarter of 1999. In addition, revenues were reduced by $3.9 million due to upgrades and repairs performed on the Ocean Clipper during the first quarter of 1999. These decreases were partially offset by an increase in revenues of approximately $4.6 million from the Ocean Victory, which worked during the first quarter of 1999. During the first quarter of 1998, the Ocean Victory was in the shipyard for repairs required as a result of a fire in the engine room, which occurred in February 1998.

Contract Drilling Expense. Contract drilling expense for fourth-generation semisubmersibles increased $3.8 million from the same period in 1998. This increase resulted primarily from approximately $2.7 million in costs incurred for the mobilization of the Ocean Alliance from the North Sea to Angola and $2.8 million in costs associated with the mandatory inspection and repairs of the Ocean America. In addition, contract drilling expense for the Ocean Victory increased approximately $0.8 million due to increased utilization during the first quarter of 1999 as compared to the same quarter in 1998 when the rig was undergoing repairs required as a result of a fire in the engine room. These increases were partially offset by a $3.0 million decrease in contract drilling expense for the Ocean Clipper due to rig downtime for upgrades and repairs performed during the first quarter of 1999. See "-- Outlook."

Other Semisubmersibles.

Revenues. Revenues from other semisubmersibles decreased $13.8 million from the same quarter in 1998. This decrease resulted primarily from reduced revenues of $13.8 million attributable to a decline in utilization as compared to 1998 and $15.0 million due to rigs removed from service in 1998. See "--Outlook." In addition, revenues were reduced by $15.9 million due to rig downtime for mandatory inspections and repairs of the Ocean New Era, the Ocean Yatzy, and the Ocean Winner and the mobilization of the Ocean Winner from the Gulf of Mexico to Brazil during the first quarter of 1999. Offsetting these decreases in revenues were increases of $24.8 million from five rigs which were undergoing mandatory inspections in the first quarter of 1998 and $6.0 million from revenues generated by increased operating dayrates as compared to the three months ended March 31, 1998.

Contract Drilling Expense. Contract drilling expense for other semisubmersibles decreased $17.0 million from the same quarter in 1998. This decrease resulted primarily from expense reductions of approximately $11.1 million from rigs that were idle for all or part of the current quarter and rigs removed from service in 1998. In addition, expenses decreased by $16.9 million due to costs associated with mandatory inspections performed on five rigs in the first quarter of 1998. Partially offsetting these decreases were increases in costs of approximately $11.0 million associated with mandatory inspections and repairs of the Ocean New Era, the Ocean Yatzy, and the Ocean Winner and mobilization of the Ocean Winner from the Gulf of Mexico to Brazil during the first quarter of 1999.

Jack-Ups.

Revenues. Revenues from jack-ups decreased $36.0 million from the same quarter in 1998. This decrease was primarily due to reductions in revenues of $16.0 million as a result of decreased operating dayrates and $14.6 million as a result of declining utilization and rigs removed from service in 1998 and 1999. See "--Outlook." In addition, revenues decreased by $5.4 million from the first quarter of 1998 due to rig downtime for the installation of new engines and other equipment on the Ocean King, which was completed in March 1999.

Contract Drilling Expense. Contract drilling expense for jack-ups increased $1.5 million over the same quarter in 1998. This increase resulted primarily from operating costs associated with the Ocean Warwick and the Ocean Tower during the current year prior to these rigs being removed from service. Minimal costs were expensed on these rigs in the first quarter of 1998 while they were undergoing upgrades.

Integrated Services.

Revenues and contract drilling expense for integrated services decreased as a result of fewer projects during the first quarter of 1999 as compared to the first quarter of 1998.

Other.

Other contract drilling expense of $0.8 million during first quarter of 1999 decreased $1.9 million from $2.7 million during the first quarter of 1998. This decrease resulted primarily from a reduction in expenditures during the first quarter of 1999 for crew training programs and various other non-recurring charges.

Depreciation and Amortization Expense.

Depreciation and amortization expense for the three months ended March 31, 1999 of $35.7 million increased $3.7 million from $32.0 million for the three months ended March 31, 1998. This increase resulted primarily due to an increase in the 1999 budgeted capital additions as compared to those budgeted in 1998. Also, depreciation expense increased for the Ocean Warwick and the Ocean Tower upon completion of their upgrades in March and May 1998, respectively.

Interest Income.

Interest income of $8.4 million for the three months ended March 31, 1999 increased $1.8 million from $6.6 million for the same period in 1998. This increase resulted primarily from the investment of additional excess cash in 1999. See " -- Liquidity."

Income Tax Expense.

Income tax expense of $27.9 million for the three months ended March 31, 1999 decreased $16.0 million from $43.9 million for the three months ended March 31, 1998. This decrease resulted primarily from the $44.9 million decrease in income before income tax expense as compared to the three months ended March 31, 1998.

OUTLOOK

Despite improvements in product prices and a recent agreement by major OPEC and non-OPEC producers to cut production and support world oil prices, dayrates and utilization have continued to decline. The Company has removed five additional jack-up rigs located in the Gulf of Mexico from service in the first quarter of 1999. The removal of these rigs from service is in addition to the removal of two low-end specification semisubmersible rigs and one jack-up rig located in the Gulf of Mexico, which were previously cold stacked. In addition, due to diminished demand, several of the Company's other rigs are idle in various markets. The Company will continue to assess the need to cold stack additional rigs depending on market conditions. Also, many contracts expiring during 1999 will have renewal rates significantly lower than those previously expected. These trends in market conditions are expected to adversely affect the Company's future results of operations, although the extent and duration of such effect cannot be accurately predicted.

The depressed conditions in the oil and gas industry have also increased the susceptibility of term contracts previously committed at dayrates in excess of current market rates to be terminated or renegotiated by the customer. Some drilling contracts allow for termination if drilling operations are suspended for a period of time as a result of a breakdown of equipment or by giving notice in connection with payment of an early termination fee by the customer. The Company continuously focuses on maintaining its rigs to contract specifications and its relationships with its customers in order to mitigate exposure to termination of its term contracts.

The devaluation of Brazil's currency, which occurred in January 1999, could make it more expensive for Brazilian borrowers to repay U.S. dollar-denominated debts, increasing the likelihood of defaults on such obligations. The Company's operations in Brazil have historically represented a material portion of its total consolidated revenues and the Company currently has five of its semisubmersibles committed to the Brazilian government-controlled oil company for term periods, four of which are anticipated to be completed in 2001 and 2003. The Company has not received any indications that the obligations associated with these contracts will not be honored and has not experienced any unusual delay in the receipt of payments. However, the Company cannot predict whether it will continue to receive timely payment of all amounts owed to the Company.

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

The Company's drillship, the Ocean Clipper, is undergoing testing in the Gulf of Mexico in connection with modifications, upgrades, and the replacement of the blow-out preventer control system. The rig will be available for work once all systems are tested and fully operational, which is expected to be in the second quarter of 1999.

The Company's results of operations have also been adversely affected by the loss of revenues and associated costs incurred during required regulatory inspections of its drilling rigs. Four of these inspections were completed during the quarter ended March 31, 1999. While only one inspection is scheduled for the remainder of 1999, the

Company may schedule additional inspections to take advantage of rig downtime. The Company intends to focus on returning these rigs to operation as soon as reasonably possible, in order to minimize downtime and associated loss of revenues, but the extent of such downtime cannot be accurately predicted.

LIQUIDITY

At March 31, 1999, cash and marketable securities totaled $659.0 million, up from $637.0 million at December 31, 1998. Cash provided by operating activities for the quarter ended March 31, 1999 increased by $12.3 million to $132.1 million, as compared to $119.8 million for the prior year. This increase was primarily attributable to a $65.7 million increase in cash resulting from decreases in accounts receivable, offset by a $28.9 million decrease in net income, and various changes in operating assets and liabilities.

Investing activities used $146.4 million of cash during the quarter ended March 31, 1999, as compared to $127.6 million during the same quarter of the prior year. This increase resulted primarily from a $57.9 million increase in capital expenditures primarily attributable to the Ocean Confidence, partially offset by a $39.3 million decrease in cash used for investments in marketable securities.

In April 1999, the Company entered into a $20.0 million short-term revolving credit agreement with a U.S. bank. The agreement provides for borrowings at various interest rates and varying commitment fees dependent upon public credit ratings. The Company intends to use the facility primarily for letters of credit that the Company must post, from time to time, for bid and performance guarantees required in certain parts of the world. The agreement contains certain financial and other covenants and provisions that must be maintained by the Company for compliance.

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

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

CAPITAL RESOURCES

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

The Company has budgeted $173.7 million for rig upgrade capital expenditures during 1999. Included in this amount is approximately $138.7 million for 1999 expenditures associated with the conversion of the Ocean Confidence. During the period ended March 31, 1999, the Company expended $62.6 million, including capitalized interest expense, for rig upgrades, primarily for the conversion of the Ocean Confidence from an accommodation vessel to a semisubmersible drilling unit capable of operating in harsh environments and ultra-deep waters. The Company's estimated cost of conversion for this rig is approximately $210.0 million. The Company anticipates that the project will be completed within this budget, although, as with any major rig conversion, the possibility of unforeseen cost overruns exists. Upon completion of the conversion, the rig is scheduled to begin a five-year drilling program in the Gulf of Mexico, which is anticipated to commence in early 2000. Other upgrade projects include the installation of new engines and other equipment on the Ocean King, which was completed in March 1999.

During the period ended March 31, 1999, the Company expended $32.4 million in association with its continuing rig enhancement program to maintain spare equipment inventory levels and meet other corporate requirements. These expenditures included purchases of riser, drill pipe, and other drilling equipment. The Company has budgeted $134.1 million for 1999 capital expenditures associated with its continuing rig enhancement program, spare equipment inventory, and other corporate requirements.

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

YEAR 2000 ISSUES

Introduction.

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

State of Readiness.

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

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

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

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

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

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

The Company has completed Phases 1 and 2 for IT and Non-IT systems utilized in the Company's onshore and offshore operations and expects substantial completion of the final three phases of its Y2K initiative to occur by mid-1999. As of the date of this Report, the Company has completed over half of Phase 3, communications with key suppliers, and Phase 4, development and implementation of corrective measures. Phase 5, risk assessment and contingency planning for worst-case business interruptions, is in progress.

Cost to Address the Company's Y2K Issues.

The total cost associated with required modifications to become Y2K compliant is not expected to be material to the Company's financial position primarily because the Company has utilized existing personnel resources to assist in the implementation of its Y2K compliance initiative. The Company is in the process of implementing certain business and financial systems apart from the Y2K compliance initiative, the cost of which is not expected to exceed $5.0 million. However, because the replaced systems were not Y2K compliant, the Y2K initiative also benefited from their replacement. The estimated total cost does not include the Company's internal costs to be incurred which are not separately tracked. Such internal costs are principally the related payroll costs for its information systems group. The total amount of outside costs expended through March 31, 1999 was approximately $4.0 million, of which approximately $3.3 million was incurred and capitalized prior to 1999.

Y2K Risks and Contingency Planning.

The Company is continuing to monitor, on an ongoing basis, the problems and uncertainties associated with its Y2K issues and their potential consequences on the Company's onshore locations, drilling operations and suppliers as well as the legal risks associated with interruption in the provision of drilling services and/or the delivery of supplies and equipment. The Company is in the process of developing contingency plans which are intended to address worst-case business interruptions, such as the interruption of drilling services aboard the Company's drilling rigs or interruptions in the delivery of equipment and materials utilized in the Company's drilling operations. Such a contingency plan would take into account the existence of certain redundant systems on some of the Company's drilling rigs and may, in part, involve manual operation of certain systems for a period of time in the event of Y2K related disruptions. The Company anticipates its contingency planning phase will be substantially complete by mid-1999.

The Company's failure to fully implement its Y2K initiative or the occurrence of an unexpected Y2K problem could result in the disruption of normal business activities or operations and have a material adverse effect on the Company's results of operations, liquidity or financial condition. However, based upon the work performed to date and the anticipated completion of the Company's Y2K initiative by mid-1999, the Company does not believe that such matters will have a material adverse effect on its results of operations. With respect to third parties, there can be no assurance that their systems will be rendered Y2K compliant on a timely basis or that any resulting Y2K issues would not have a material adverse effect on the results of operations of the Company.

FORWARD-LOOKING STATEMENTS

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

INTEREST RATE AND EQUITY PRICE SENSITIVITY

The Company's financial instruments that are potentially sensitive to changes in interest rates include the Company's convertible subordinated notes and investments in debt securities, including U.S. Treasury securities and collateralized mortgage obligations ("CMO's"). The Company's convertible subordinated notes, which are due February 15, 2007, have a stated interest rate of 3.75 percent and an effective interest rate of 3.93 percent. The fair value of these notes at March 31, 1999, based on quoted market prices, was approximately $414.5 million, as compared to a carrying amount of $400.0 million. At March 31, 1999, the fair market value of the Company's investment in debt securities issued by the U.S. Treasury was approximately $384.5 million, which includes an unrealized holding gain of $0.5 million. These securities bear interest rates ranging from 4.00 percent to 5.00 percent and do not impose a significant market risk to the Company as they are U.S. government-backed and generally short-term and readily marketable. The fair value of the Company's investment in CMO's at March 31, 1999 was approximately $202.2 million, which includes an unrealized holding loss of $1.3 million. The CMO's consist of high quality mortgage-backed principal-only securities that are not considered high-risk.

In addition, the Company's investment in equity securities is sensitive to equity price risk. At March 31, 1999, the fair value of the Company's investment in equity securities was approximately $2.4 million, which includes an unrealized holding loss of $9.7 million. Based on consideration of past market movements and reasonably possible, near-term market movements, the Company does not believe that potential, near-term losses in future earnings, fair values, or cash flows are likely to be material.

EXCHANGE RATE SENSITIVITY

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Brown Services, Inc. and KOS Industries, Inc. v. Michael D. Brown, BSI International, Inc., Robert Brown, Robert Furlough, Power House International, Inc., Zapata Off-Shore Company and Zapata Corporation; No. 92-05691 in the 334th Judicial District Court of Harris County, Texas, filed February 7, 1992. Plaintiffs sued Zapata Off-Shore Company and Zapata Corporation (the "Zapata Defendants") for tortious interference with contract and conspiracy to tortiously interfere with contract seeking $14.0 million in actual damages and unspecified punitive damages, plus costs of court, interest and attorneys' fees. A former subsidiary of Arethusa (Off-Shore) Limited, which is now a subsidiary of the Company, defended and indemnified the Zapata Defendants pursuant to a contractual defense and indemnification agreement. In November 1997, the jury awarded a take-nothing judgment in favor of the Zapata Defendants. The plaintiffs appealed the judgment and the appellate court ordered the parties to mediation. The case went to mediation in July 1998 with no resolution. In April 1999 the Texas First Court of Appeals, Houston, set the case for submission in May 1999.

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

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

(a) Exhibits

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

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

SIGNATURES

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

DIAMOND OFFSHORE DRILLING, INC.
(Registrant)

Date 29-Apr-1999 By: /s/ Gary T. Krenek

Gary T. Krenek
Vice President and Chief Financial Officer

Date 29-Apr-1999 /s/ Leslie C. Knowlton

Leslie C. Knowlton
Controller (Chief Accounting Officer)

EXHIBIT INDEX

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

* Filed herewith.

EXHIBIT 11.1

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

	Three Months Ended March 31,					
	1999			1998		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
BASIC EPS						
Net income	$ 51,818	135,816	$ 0.38	$ 80,722	139,325	$ 0.58
EFFECT OF DILUTIVE POTENTIAL SHARES						
Convertible notes issued 2/4/97 ...	2,166	9,876		2,498	9,876	
DILUTED EPS						
Net income + assumed conversions ..	$ 53,984	145,692	$ 0.37	$ 83,220	149,201	$ 0.56

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

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3-MOS
DEC-31-1999
MAR-31-1999
69,946
589,068
200,153
0
36,093
931,274
2,140,785
528,023
2,661,628
175,072
400,000
0
0
1,393
1,787,238
2,661,628
0
228,037
0
110,718
41,533
0
3,332
79,712
27,894
51,818
0
0
0
51,818
0.38
0.37

Includes contract drilling expenses only.
Includes other operating expenses.