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, 1997

OR

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

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

Commission file number 1-13926

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

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

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

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

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

As of October 17, 1997 Common stock, $.01 par value per share 139,308,948 shares

DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED SEPTEMBER 30, 1997

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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, 1997	DECEMBER 31, 1996
ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 70,860	$ 28,180
Investment securities	312,305	--
Accounts receivable	217,236	172,214
Rig inventory and supplies	32,314	30,407
Prepaid expenses and other	21,720	12,166
Total current assets	654,435	242,967
DRILLING AND OTHER PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION	1,414,710	1,198,160
GOODWILL, NET OF AMORTIZATION	122,698	129,825
OTHER ASSETS	9,684	3,548
Total assets	$ 2,201,527	$ 1,574,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 53,158	$ 63,172
Accrued liabilities	42,765	28,451
Taxes payable	17,200	26,377
Short-term borrowings	--	10,000
Total current liabilities	113,123	128,000
LONG-TERM DEBT	400,000	63,000
DEFERRED TAX LIABILITY	202,320	176,296
OTHER LIABILITIES	20,493	12,472
Total liabilities	735,936	379,768
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock (par value $.01, 25,000,000 shares authorized, none issued and outstanding)	--	--
Common stock (par value $.01, 200,000,000 shares authorized, 139,308,948 and 68,353,409 shares issued and outstanding at September 30, 1997 and December 31, 1996, respectively)	1,393	684
Additional paid-in capital	1,302,708	1,220,032
Retained earnings (accumulated deficit)	163,792	(25,056)
Cumulative translation adjustment	(2,231)	(928)
Unrealized loss on investment securities	(71)	--
Total stockholders' equity	1,465,591	1,194,732
Total liabilities and stockholders' equity	$ 2,201,527	$ 1,574,500

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
	(Unaudited)			
REVENUES	$ 250,497	$ 170,622	$ 683,764	$ 424,473
OPERATING EXPENSES:				
Contract drilling	99,907	94,355	287,867	242,109
Depreciation and amortization	28,546	21,597	81,588	52,062
General and administrative	5,045	4,109	14,845	10,661
Gain on sale of assets	(14)	(6,959)	(84)	(10,189)
Total operating expenses	133,484	113,102	384,216	294,643
OPERATING INCOME	117,013	57,520	299,548	129,830
OTHER INCOME (EXPENSE):				
Interest income	5,245	271	13,637	749
Interest expense	(3,591)	--	(6,940)	(104)
Other, net	671	138	496	368
INCOME BEFORE INCOME TAX EXPENSE	119,338	57,929	306,741	130,843
INCOME TAX EXPENSE	(41,507)	(19,449)	(107,446)	(40,609)
NET INCOME	$ 77,831	$ 38,480	$ 199,295	$ 90,234
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.54	$ 0.28	$ 1.39	$ 0.75
WEIGHTED AVERAGE SHARES OUTSTANDING:				
COMMON SHARES	139,303	136,563	138,308	120,358
COMMON EQUIVALENT SHARES	9,876	--	8,610	--
ADJUSTED	149,179	136,563	146,918	120,358

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	NINE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income	$ 199,295	$ 90,234
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,588	52,062
Gain on sale of assets	(84)	(10,189)
Gain on sale of investment securities	(1,362)	--
Deferred tax provision	33,739	34,773
Accretion of discounts on investment securities	(9,421)	(151)
Amortization of debt issuance costs	330	267
Changes in operating assets and liabilities:		
Accounts receivable	(44,606)	(27,509)
Rig inventory and supplies and other current assets	(11,461)	(2,082)
Other assets, non-current	813	(1,566)
Accounts payable and accrued liabilities	4,051	12,944
Taxes payable	(11,560)	3,119
Other liabilities, non-current	3,114	1,113
Other, net	(744)	(263)
Net cash provided by operating activities	243,692	152,752
INVESTING ACTIVITIES:		
Cash acquired in Arethusa merger	--	20,883
Capital expenditures	(214,496)	(174,863)
Purchase of accommodation vessel	(80,952)	--
Proceeds from sales of assets	2,360	14,062
Net purchases of short-term investment securities	(417,889)	--
Purchases of long-term investment securities	(124,242)	--
Proceeds from sales of long-term investment securities	125,082	--
Proceeds from maturities of short-term investment securities	115,000	--
Net cash used in investing activities	(595,137)	(139,918)
FINANCING ACTIVITIES:		
Payment of dividend	(9,751)	--
Issuance of common stock	82,282	--
Net (repayments) borrowings on revolving line of credit	(63,000)	55,000
Net repayments on short-term borrowings	(10,000)	--
Issuance of convertible subordinated notes	400,000	--
Repayment of debt assumed in Arethusa merger	--	(67,477)
Debt issuance costs	(6,062)	(2,070)
Proceeds from stock options exercised	656	4,399
Net cash provided by financing activities	394,125	(10,148)
NET CHANGE IN CASH AND CASH EQUIVALENTS	42,680	2,686
Cash and cash equivalents, beginning of period	28,180	10,306
Cash and cash equivalents, end of period	$ 70,860	$ 12,992

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, 1996 (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.

Investment Securities

The Company's investments are classified as available for sale and stated at fair value under the terms of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, any unrealized gains and losses, net of taxes, are recorded as a separate component of stockholders' equity until realized. The cost of debt securities is adjusted for accretion of discounts to maturity and such accretion is included in interest income. The cost of securities sold is based on the specific identification method and 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

Non-cash financing activities for the nine months ended September 30, 1997 included $0.7 million for the issuance of 69.6 million shares of common stock in connection with a two-for-one stock split in the form of a stock dividend (see Note 2).

Non-cash financing activities for the nine months ended September 30, 1996 included $550.7 million for the issuance of 17.9 million shares of common stock and the assumption of 0.5 million stock options in connection with the merger between the Company and Arethusa (Off-Shore) Limited ("Arethusa"). Non-cash investing activities for the nine months ended September 30, 1996 included $532.9 million of net assets acquired in the merger with Arethusa (see Note 8).

Cash payments made for interest on long-term debt, including commitment fees, during the nine months ended September 30, 1997 and 1996 totaled $8.7 million and $2.5 million, respectively. Cash payments made for income taxes during the nine months ended September 30, 1997 and 1996 totaled $92.0 million and $2.1 million, respectively.

Capitalized Interest

Interest cost for construction and upgrade of qualifying assets is capitalized. During the quarter and nine months ended September 30, 1997, the Company incurred interest cost, including amortization of debt issuance costs, of $3.9 million and $10.7 million, respectively. Interest cost capitalized during the quarter and the nine months ended September 30, 1997 was $0.4 million and $3.8 million, respectively. Total interest cost incurred of $1.2 million and $2.5 million was capitalized during the quarter and nine months ended September 30, 1996, respectively.

Goodwill

Goodwill from the merger with Arethusa (see Note 8) is amortized on a straight-line basis over 20 years. Amortization expense totaled $1.7 million and $4.9 million for the quarter and nine months ended September 30, 1997, respectively. For the quarter and nine months ended September 30, 1996, amortization expense totaled $1.1 million and $1.8 million, respectively.

Debt Issuance Costs

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

Income Tax Expense

Except for selective dividends, the Company's practice has been to reinvest the earnings of its non-U.S. subsidiaries and postpone their remittance indefinitely. Thus, no additional U.S. taxes were provided on earnings of these non-U.S. subsidiaries. However, beginning in 1997, the Company changed its practice and now intends to repatriate these earnings in the foreseeable future. As a result, beginning January 1, 1997, the Company has accrued U.S. taxes on all undistributed non-U.S. earnings. The disparity in the effective tax rates between 1997 and 1996 reflects this change in practice.

Net Income Per Share

Net income per common and common equivalent share was computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the periods, giving retroactive effect to the July 1997 two-for-one stock split in the form of a stock dividend (see Note 2). The convertible subordinated notes (see Note 7) are considered to be common stock equivalents. Consequently, the number of shares issuable assuming full conversion of these notes as of the issuance date, February 4, 1997, was added to the number of common shares outstanding with net income also adjusted to eliminate the after-tax effect of interest expense on these notes. Fully diluted earnings per share is not presented as there are no other material contingent issuances of common stock.

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share," which requires dual presentation of basic and diluted earnings per share for entities with complex capital structures. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares 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. SFAS No. 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997. The Company plans to adopt SFAS No. 128 for the fourth quarter of 1997 and, after the effective date, all prior period earnings per share data presented will be restated to conform to these provisions. For the three months ended September 30, 1997 and 1996, pro forma earnings per share amounts computed using SFAS No. 128 would have been $0.56 and $0.28, respectively, for basic earnings per share and $0.54 and $0.28, respectively, for diluted earnings per share. Pro forma earnings per share amounts for the nine months ended September 30, 1997 and 1996 would have been $1.44 and $0.75, respectively, for basic earnings per share and $1.39 and $0.75, respectively, for diluted earnings per share.

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. COMMON STOCK

In July 1997, the Board of Directors declared a two-for-one stock split in the form of a stock dividend which was distributed on August 14, 1997 to stockholders of record on July 24, 1997. The dividend was charged to retained earnings in the amount of $0.7 million, which was based on the par value of 69.6 million shares of common stock. Weighted average shares outstanding and all per share amounts included in the accompanying consolidated financial statements and notes thereto are based on the increased number of shares, giving retroactive effect to the stock dividend.

In April 1997, the Company completed a public offering of 1.25 million shares of common stock generating net proceeds of approximately $82.3 million. The net proceeds were used to acquire the Polyconfidence, a semisubmersible accommodation vessel (see Note 4).

3. INVESTMENT SECURITIES

Investment securities classified as available for sale at September 30, 1997 were as follows:

	AMORTIZED COST	UNREALIZED LOSSES	MARKET VALUE
	(IN THOUSANDS)		
Due within 1 year: Debt securities issued by the U.S. Treasury	$312,416	$ (111)	$312,305
Total.....................	$312,416	$ (111)	$312,305

During the quarter and nine months ended September 30, 1997, certain investment securities due within one year were sold for proceeds of $197.1 million and $396.5 million, respectively. The resulting net realized gains were not material. All investment securities due after one year which were purchased in March 1997 and April 1997 were sold in July 1997 for proceeds of $125.1 million, resulting in an after-tax gain of $0.7 million.

4. DRILLING AND OTHER PROPERTY AND EQUIPMENT

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

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Drilling rigs and equipment........	$ 1,656,736	$ 1,332,980
Construction work in progress......	85,304	116,770
Land and buildings	12,515	13,154
Office equipment and other	9,536	8,181
Cost	1,764,091	1,471,085
Less accumulated depreciation......	(349,381)	(272,925)
Total	$ 1,414,710	$ 1,198,160

Asset Acquisitions

In May 1997, the Company acquired the Polyconfidence, a semisubmersible accommodation vessel with dynamic positioning capabilities, for approximately $81.0 million in cash. The Polyconfidence is bareboat chartered through late 1997 to the seller of the vessel until completion of its existing commitment. The Company recently entered into a letter of intent with a major oil company for the conversion of the Polyconfidence to a semisubmersible drilling rig in connection with a five-year contract in the Gulf of Mexico anticipated to commence in the fourth quarter of 1999.

Asset Dispositions

In April 1997, the Company sold a warehouse facility on approximately 6.6 acres of land near Houston, Texas, which was acquired in the merger with Arethusa for approximately $0.6 million (see Note 8). No gain or loss was recognized on this sale.

During the nine months ended September 30, 1996, the Company sold two of its shallow water jack-up drilling rigs that had previously been stacked, increasing net income by $6.4 million, or $0.05 per share. The Ocean Magallanes was sold in May 1996 for approximately $4.2 million and generated an after-tax gain during the second quarter of 1996 of $2.0 million, or $0.02 per share. The Ocean Conquest was sold in July 1996 for approximately $9.0 million and generated an after-tax gain during the third quarter of 1996 of $4.4 million, or $0.03 per share.

5. GOODWILL

The merger with Arethusa generated an excess of the purchase price over the estimated fair value of the net assets acquired (see Note 8). Cost and accumulated amortization of such goodwill is summarized as follows:

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Goodwill	$ 132,170	$ 134,331
Less accumulated amortization	(9,472)	(4,506)
Total	$ 122,698	$ 129,825

During the nine months ended September 30, 1997, an adjustment of approximately $2.2 million was recorded to reduce goodwill before accumulated amortization. This adjustment resulted primarily from a change in the fair value of the net assets acquired in the merger with Arethusa.

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Personal injury and other claims	$22,797	$18,629
Payroll and benefits	15,886	8,336
Interest payable	1,933	172
Other	2,149	1,314
Total	$42,765	$28,451

7. LONG-TERM DEBT

Convertible Subordinated Notes

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

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

Credit Facility

In August 1997, the Company terminated its credit agreement with a group of banks whereby up to $200.0 million could be borrowed at various interest rates, at the Company's option, under the terms of a revolving credit facility (the "Credit Facility") which was available through December 2001. No amounts were outstanding under this agreement upon its termination. At December 31, 1996, $63.0 million was outstanding under the Credit Facility.

The Company has lines of credit for short-term financing aggregating $30.0 million from two U.S. banks. These arrangements provide for borrowings at various interest rates and may be used on such terms as the Company and the banks mutually agree. No amounts were outstanding under these agreements at September 30, 1997. At December 31, 1996, $10.0 million was outstanding under these agreements.

8. MERGER WITH ARETHUSA

In April 1996, the Company acquired 100 percent of the stock of Arethusa (the "Arethusa Merger") in exchange for approximately 35.8 million shares of the Company's common stock. The shares were valued for financial reporting purposes at $15.07 per share based on a seven-day average of the closing price of the Company's common stock at the time the Arethusa Merger was announced (December 7, 1995). In addition to equity consideration of approximately $550.7 million, the Company incurred approximately $16.9 million of cash acquisition costs associated with the Arethusa Merger.

The Arethusa Merger was accounted for as a purchase and, accordingly, the accompanying Consolidated Statements of Income reflect the operating results of Arethusa since April 29, 1996, the effective date of the Arethusa Merger. If the Arethusa Merger had been effective as of January 1, 1996, revenues for the nine months ended September 30, 1996 would have increased on an unaudited pro forma basis to $480.6 million and net income and net income per share would have changed on an unaudited pro forma basis to $97.3 million and $0.72, respectively. The pro forma information is not necessarily indicative of the results of operations had the transaction been effected on the assumed date or the results of operations for any future periods.

9. COMMITMENTS AND CONTINGENCIES

The survivors of a deceased employee of a subsidiary of the Company, Diamond M Onshore, Inc., have sued such subsidiary in Duval County, Texas, for damages as a result of the death of the employee. The plaintiffs have obtained a judgment in the trial court for $15.7 million plus post-judgment interest. The Company is vigorously prosecuting an appeal of the judgment. The Company has received notices from certain of its insurance underwriters reserving their rights to deny coverage on the Company's insurance policies in excess of $2.0 million for damages resulting from such lawsuit. Management believes that the Company has complied with all conditions of coverage for final unappealable damages, if any, in the case. While the ultimate liability in this matter is difficult to assess, it is management's belief that the final outcome is not reasonably likely to have a material adverse effect on the Company's consolidated financial position. The Company has not established a liability for such claim at this time.

A former subsidiary of Arethusa, which is now a subsidiary of the Company, is defending and indemnifying 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 seek $14.0 million in actual damages and unspecified punitive damages, plus costs of court, interest and attorney's fees. The Company believes the Zapata Defendants have adequate defenses and intends to vigorously defend their position, thus 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 financial position, results of operations, or cash flows.

10. SUBSEQUENT EVENT

In October 1997, the board of directors declared a cash dividend of $0.07 per common share payable on December 1, 1997 to shareholders of record as of November 3, 1997.

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.

GENERAL

Business. The Company is a leader in deep water drilling with a fleet of 47 offshore drilling rigs. The fleet consists of 31 semisubmersibles (including an accommodation vessel), 15 jack-ups and one drillship and operates in the waters of six of the world's seven continents.

Merger with Arethusa (Off-Shore) Limited. Effective April 29, 1996, the merger with Arethusa (Off-Shore) Limited ("Arethusa") was completed (the "Arethusa Merger"). Arethusa owned a fleet of 11 mobile offshore drilling rigs, operated two additional mobile offshore drilling rigs pursuant to bareboat charters, and provided drilling services worldwide to international and government-controlled oil and gas companies. Because the Arethusa Merger was accounted for as a purchase for financial reporting purposes, results of operations include those of Arethusa from the effective date of the Arethusa Merger. See Note 8 to the Company's Consolidated Financial Statements.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996

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 period have been reclassified to conform to the classifications currently followed. Such reclassifications do not affect earnings.

During July 1997, March 1997, and September 1996, the Company completed its major upgrades of the Ocean Clipper I, the Ocean Star, and the Ocean Quest, respectively, expanding these rigs to have fourth-generation capabilities. Upon completion, these rigs are included in Fourth-Generation Semisubmersibles for discussion purposes (prior period information will continue to include these rigs in Other Semisubmersibles).

	THREE MONTHS ENDED SEPTEMBER 30,		INCREASE/
	1997	1996	(DECREASE)
	(in thousands)		
REVENUES			
Fourth-Generation Semisubmersibles	$ 54,270	$ 28,779	$ 25,491
Other Semisubmersibles	145,516	99,263	46,253
Jack-ups	47,133	35,001	12,132
Integrated Services	9,645	8,702	943
Land	--	5,838	(5,838)
Other	1,380	--	1,380
Eliminations	(7,447)	(6,961)	(486)
Total Revenues	$ 250,497	$ 170,622	$ 79,875
CONTRACT DRILLING EXPENSE			
Fourth-Generation Semisubmersibles	$ 18,797	$ 9,000	$ 9,797
Other Semisubmersibles	55,001	56,456	(1,455)
Jack-ups	23,998	25,573	(1,575)
Integrated Services	9,182	7,476	1,706
Land	--	4,582	(4,582)
Other	947	(963)	1,910
Eliminations	(8,018)	(7,769)	(249)
Total Contract Drilling Expense	$ 99,907	$ 94,355	$ 5,552
OPERATING INCOME			
Fourth-Generation Semisubmersibles	$ 35,473	$ 19,779	$ 15,694
Other Semisubmersibles	90,515	42,807	47,708
Jack-ups	23,135	9,428	13,707
Integrated Services	463	1,226	(763)
Land	--	1,256	(1,256)
Other	433	963	(530)
Eliminations	571	808	(237)
Depreciation and Amortization Expense	(28,546)	(21,597)	(6,949)
General and Administrative Expense	(5,045)	(4,109)	(936)
Gain on Sale of Assets	14	6,959	(6,945)
Total Operating Income	$ 117,013	$ 57,520	$ 59,493

Revenues. The $25.5 million increase in revenues from fourth-generation rigs resulted primarily from $19.0 million in revenues generated during the three months ended September 30, 1997 by the Ocean Clipper I, the Ocean Star, and the Ocean Quest upon completion of their upgrade projects in July 1997, March 1997, and September 1996, respectively. However, utilization on the Ocean Clipper I was less than expected during the quarter ended September 30, 1997 due to subsea system equipment difficulties. Dayrate improvements in the Gulf of Mexico and the North Sea for the fourth-generation rigs generated $7.1 million of additional revenues. The $46.3 million increase in revenues from other semisubmersibles resulted primarily from $43.8 million in additional revenues from increased dayrates. The $12.1 million increase in revenues from jack-ups resulted primarily from $13.9 million in revenues contributed by increased operating dayrates. Revenues from integrated services for the three months ended September 30, 1997 were relatively unchanged from the comparable period of the prior year. The $5.8 million decrease in revenues from land operations resulted from the sale of the Company's land division in December 1996. The $1.4 million of revenues from other operations for the three months ended September 30, 1997 resulted from bareboat charter fees earned by the Polyconfidence, an accommodation vessel purchased in May 1997. See " - Capital Resources."

Contract Drilling Expense. The $9.8 million increase in contract drilling expense for fourth-generation rigs resulted primarily from operating costs generated by the Ocean Clipper I, the Ocean Star, and the Ocean Quest during the three months ended September 30, 1997 upon completion of their upgrade projects in July 1997, March 1997, and September 1996, respectively. The $1.5 million decrease in contract drilling expense for other semisubmersibles resulted primarily from increased costs during the comparable period of the prior year associated with a special survey and shipyard repairs performed on the Ocean Rover. In addition, the completion of work for the Company by the Ocean Zephyr during the three months ended September 30, 1997 pending sale of the rig resulted in a reduction in contract drilling expense. Partially offsetting these decreases were (i) increased operating costs incurred during 1997 in connection with the reactivation of the Ocean Century to work in the Gulf of Mexico and (ii) normal operating costs incurred on the Ocean Winner in 1997 as compared to reduced operating costs in 1996 while in the shipyard for a major modification. The $1.6 million decrease in contract drilling expense for jack-ups resulted primarily from the termination of operations of a rig operated under a bareboat charter in 1996 and from increased expenses during the quarter ended September 30, 1996 associated with the write-off of rebillable items deemed uncollectible. Partially offsetting these decreases were increased costs during the quarter ended September 30, 1997 associated with (i) a special survey and associated maintenance on the Ocean Crusader and (ii) operating expenses incurred on the Ocean Titan while in the shipyard for leg reinforcement modifications. The $1.7 million increase in expense from integrated services resulted primarily from increased intercompany rates charged for rigs utilized in project management services (offset in eliminations) and from credits recognized during the third quarter of 1996 for collections from an insurance claim previously expensed. The $4.6 million decrease in expenses from land operations resulted from the sale of the Company's land division in December 1996. The $1.9 million increase in other contract drilling expense is primarily due to credits recognized during the comparable period of the prior year which resulted from the collection of a settlement associated with a lawsuit. In addition, expenses incurred during the three months ended September 30, 1997 associated with crew training programs for new employees resulted in increased contract drilling expense as compared to the prior year.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended September 30, 1997 of $28.5 million increased $6.9 million from $21.6 million due to additional expense for (i) the Ocean Clipper I, the Ocean Star, and the Ocean Quest which completed their upgrades in July 1997, March 1997, and September 1996, respectively, (ii) capital expenditures associated with the Company's continuing rig enhancement program, and (iii) the Polyconfidence which was acquired in May 1997. See " - Capital Resources."

General and Administrative Expense. General and administrative expense for the three months ended September 30, 1997 of $5.0 million increased $0.9 million from $4.1 million for the three months ended September 30, 1996 primarily due to increased accruals for the Company's bonus and retention plan. The increased accruals resulted from a higher estimated bonus pool for the 1997 performance year and for additional participants in the plan. In addition, general and administrative expense capitalized to major upgrades decreased to $0.1 million for the three months ended September 30, 1997 from $0.3 million for the three months ended September 30, 1996.

Gain on Sale of Assets. Gain on sale of assets for the quarter ended September 30, 1997 resulted primarily from sales of miscellaneous equipment. For the quarter ended September 30, 1996, gain on sale of assets resulted primarily from the sale of the Ocean Conquest, a shallow water jack-up drilling rig. See Note 4 to the Company's Consolidated Financial Statements included in Item 1 of this Report.

Interest Income. Interest income of $5.2 million for the three months ended September 30, 1997 consists primarily of the accretion of discounts and interest earned on investment securities purchased in 1997.

Interest Expense. Interest expense of $3.6 million for the three months ended September 30, 1997 consists primarily of $3.9 million interest on $400.0 million of convertible subordinated notes issued in February 1997 (the "Notes"), partially offset by $0.4 million interest capitalized to major upgrades.

Income Tax Expense. Income tax expense of $41.5 million for the three months ended September 30, 1997 increased $22.1 million from $19.4 million for the three months ended September 30, 1996. This increase resulted primarily from the $61.4 million increase in income before income tax expense as compared to the three months ended September 30, 1996. In addition, the Company changed its practice, beginning in 1997, to accrue U.S. taxes on all undistributed non-U.S. earnings. See Note 1 to the Company's Consolidated Financial Statements included in Item 1 of this Report.

NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996

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 period have been reclassified to conform to the classifications currently followed. Such reclassifications do not affect earnings.

During July 1997, March 1997, and September 1996, the Company completed its major upgrades of the Ocean Clipper I, the Ocean Star, and the Ocean Quest, respectively, expanding these rigs to have fourth-generation capabilities. Upon completion, these rigs are included in Fourth-Generation Semisubmersibles for discussion purposes (prior period information will continue to include these rigs in Other Semisubmersibles).

	NINE MONTHS ENDED SEPTEMBER 30,		
	1997	1996	INCREASE/ (DECREASE)
	(in thousands)		
REVENUES			
Fourth-Generation Semisubmersibles ...	$ 146,127	$ 76,622	$ 69,505
Other Semisubmersibles	393,265	237,206	156,059
Jack-ups	137,511	83,235	54,276
Integrated Services	15,241	27,219	(11,978)
Land	--	16,380	(16,380)
Other	2,062	--	2,062
Eliminations	(10,442)	(16,189)	5,747
Total Revenues	$ 683,764	$ 424,473	$ 259,291
CONTRACT DRILLING EXPENSE			
Fourth-Generation Semisubmersibles ...	$ 44,349	$ 25,860	$ 18,489
Other Semisubmersibles	167,142	137,311	29,831
Jack-ups	69,971	59,040	10,931
Integrated Services	14,858	25,533	(10,675)
Land	--	13,748	(13,748)
Other	3,133	(1,174)	4,307
Eliminations	(11,586)	(18,209)	6,623
Total Contract Drilling Expense ..	$ 287,867	$ 242,109	$ 45,758
OPERATING INCOME			
Fourth-Generation Semisubmersibles ...	$ 101,778	$ 50,762	$ 51,016
Other Semisubmersibles	226,123	99,895	126,228
Jack-ups	67,540	24,195	43,345
Integrated Services	383	1,686	(1,303)
Land	--	2,632	(2,632)
Other	(1,071)	1,174	(2,245)
Eliminations	1,144	2,020	(876)
Depreciation and Amortization Expense............................	(81,588)	(52,062)	(29,526)
General and Administrative Expense....	(14,845)	(10,661)	(4,184)
Gain on Sale of Assets	84	10,189	(10,105)
Total Operating Income	$ 299,548	$ 129,830	$ 169,718

Revenues. The $69.5 million increase in revenues from fourth-generation semisubmersibles resulted primarily from $43.7 million in revenues generated during the nine months ended September 30, 1997 by the Ocean Clipper I, the Ocean Star, and the Ocean Quest upon completion of their upgrade projects in July 1997, March 1997, and September 1996, respectively. However, utilization on the Ocean Clipper I was less than expected during the nine months ended September 30, 1997 due to subsea system equipment difficulties. Improvements in dayrates in the Gulf of Mexico and the North Sea contributed $23.2 million of additional revenue and increased utilization in the North Sea contributed $3.2 million of additional revenue. The $156.1 million increase in revenues from other semisubmersibles resulted, in part, from $60.5 million of additional revenues from increased utilization during the nine months ended September 30, 1997 for the eight other semisubmersibles acquired in the Arethusa Merger. This increase was primarily due to the inclusion of operating results for these rigs for nine months in 1997 as compared to the inclusion of only five months in 1996. Also, during 1997, improvements in dayrates for other semisubmersibles resulted in $84.6 million of additional revenue. Improved utilization from several rigs that were idle in early 1996 due to mobilizations and repairs necessary for new contracts or locations contributed an additional $10.9 million of revenue as compared to the nine months ended September 30, 1996. The $54.3 million increase in revenues from jack-ups resulted primarily from $42.8 million of revenue contributed by improvements in dayrates. In addition, the inclusion of operating results for the jack-up rigs acquired in the Arethusa Merger for nine months in 1997 as compared to the inclusion of only five months in 1996 resulted in $13.0 million of additional revenue. The $12.0 million decrease in revenues from integrated services was primarily due to turnkey projects and project management services of greater magnitude completed during the nine months ended September 30, 1996. The $16.4 million decrease in revenues from land operations resulted from the sale of the Company's land division in December 1996. The $2.1 million of revenues from other operations for the nine months ended September 30, 1997 resulted from bareboat charter fees for the Polyconfidence, an accommodation vessel purchased in May 1997. See " - Capital Resources."

Contract Drilling Expense. The $18.5 million increase in contract drilling expense for fourth-generation semisubmersibles was primarily due to $15.6 million of operating expenses generated by the Ocean Clipper I, the Ocean Star, and the Ocean Quest upon completion of their upgrade projects in July 1997, March 1997, and September 1996, respectively. The $29.8 million increase in contract drilling expense for other semisubmersibles resulted primarily from $31.2 million of additional costs generated by the other semisubmersibles rigs acquired in the Arethusa Merger. These additional costs were primarily due to the inclusion of operating results for these rigs for nine months in 1997 as compared to the inclusion of only five months in 1996. In addition, an inspection and associated repairs on the Ocean Saratoga in early 1997 and higher operating costs incurred in connection with the reactivation of the Ocean Century to work in the Gulf of Mexico resulted in increased expenses as compared to 1996. Partially offsetting these increases was a decrease of approximately $4.3 million due to the reclassification of operations for the Ocean Clipper I to fourth-generation semisubmersibles upon completion of its upgrade in July 1997. The $10.9 million increase in jack-up expense resulted primarily from additional costs generated by the jack-up rigs acquired in the Arethusa Merger. The $10.7 million decrease in integrated services expense resulted from turnkey projects and project management services of greater magnitude completed during the nine months ended September 30, 1996. The $13.7 million decrease in expense from land operations resulted from the sale of the Company's land division in December 1996. The $4.3 million increase in other contract drilling expense is primarily due to expenses incurred during the nine months ended September 30, 1997 associated with crew training programs for new employees. In addition, other expense was reduced during the comparable period of the prior year due to credits which resulted from the collection of a settlement associated with a lawsuit.

Depreciation and Amortization Expense. Depreciation and amortization expense of $81.6 million for the nine months ended September 30, 1997 increased due to additional expense for (i) the eleven rigs acquired in the Arethusa Merger, (ii) goodwill amortization expense associated with the Arethusa Merger, (iii) the Ocean Clipper I, the Ocean Star, and the Ocean Quest which completed their upgrades in July 1997, March 1997, and September 1996, respectively, (iv) capital expenditures associated with the Company's continuing rig enhancement program, and (v) the Polyconfidence which was acquired in May 1997. See " - Capital Resources."

General and Administrative Expense. General and administrative expense of $14.8 million for the nine months ended September 30, 1997 increased $4.1 million from $10.7 million for the nine months ended September 30, 1996 primarily due to additional overhead resulting from the Arethusa Merger and increased accruals for the Company's bonus and retention plan. The increased accruals resulted from a higher estimated bonus pool for the 1997 performance year and for additional participants in the plan.

Gain on Sale of Assets. Gain on sale of assets for the nine months ended September 30, 1997 resulted primarily from sales of miscellaneous equipment. For the nine months ended September 30, 1996, gain on sale of assets resulted primarily from the sale of two of the Company's shallow water jack-up drilling rigs, the Ocean Magallanes and the Ocean Conquest. See Note 4 to the Company's Consolidated Financial Statements included in Item 1 of this Report.

Interest Income. Interest income of $13.6 million for the nine months ended September 30, 1997 consists primarily of the accretion of discounts and interest earned on investment securities purchased in 1997.

Interest Expense. Interest expense of $6.9 million for the nine months ended September 30, 1997 consists primarily of $10.7 million interest on the Notes, partially offset by $3.8 million interest capitalized to major upgrades.

Income Tax Expense. Income tax expense for the nine months ended September 30, 1997 was $107.4 million as compared to $40.6 million for the comparable period of the prior year. This change resulted primarily from the increase of $175.9 million in the Company's income before income tax expense. In addition, the Company changed its practice beginning in 1997 to accrue U.S. taxes on all undistributed non-U.S. earnings. See Note 1 to the Company's Consolidated Financial Statements in Item 1 of this Report.

OUTLOOK

The Company continues to benefit from increased demand and from the recent tight supply of major offshore drilling rigs worldwide. These conditions are due, in part, to technological advances which have improved oil and gas exploration and development economics. To address the current tight supply situation, customers continue to seek to contract rigs for longer terms and often will pay for upgrades and modifications necessary for more challenging drilling locations in order to assure rig availability. The Company seeks to have a foundation of long-term contracts with a reasonable balance of short-term or well-to-well contracts to minimize risk while participating in the benefit of increasing dayrates in a rising market.

The Company continues to enhance its fleet to meet customer demand for diverse drilling capabilities. The Ocean Clipper I recently began a four-year contract in the deep water market of the Gulf of Mexico following its upgrade project. Utilization of the Ocean Clipper I, however, was less than expected due to subsea system equipment difficulties. The Company expects improvements in utilization in the fourth quarter of 1997 for the drillship following the completion of necessary modifications. The Ocean Victory is completing its upgrade project in connection with a three-year deep water drilling program anticipated to begin during the fourth quarter of 1997. In addition, the Company expects to begin the conversion of the Polyconfidence, a semisubmersible accommodation vessel, in early 1998 in connection with a five-year commitment in the Gulf of Mexico anticipated to begin in late 1999.

The improved opportunities for the offshore contract drilling industry worldwide have resulted in increased demand for and a shortage of experienced personnel and equipment, including drill pipe and riser, necessary on offshore drilling rigs. The Company does not consider the shortage of such personnel and equipment currently to be a material factor in its business. However, because the demand for oil field services is increasing rapidly, a significant increase in costs, including compensation and training, is likely to occur if present trends continue for an extended period.

In addition, the recent improvement in the current results of operations and prospects for the offshore contract drilling industry as a whole has led to increased rig construction and enhancement programs by the Company's competitors. A significant increase in the supply of technologically advanced rigs capable of drilling in deep water may have an adverse effect on the average operating dayrates for the Company's rigs, particularly its more advanced semisubmersible units, and on the overall utilization of the Company's fleet. In such case, the Company's results of operations would be adversely affected.

The offshore contract drilling industry historically has been highly competitive and cyclical, and the Company cannot predict the extent to which current conditions will continue. The Company's ability to maintain the recent favorable trends will be largely dependent on the condition of the oil and gas industry and, specifically, the exploration and production expenditures of oil and gas companies.

LIQUIDITY

At September 30, 1997, cash and short-term investment securities totaled $383.2 million, up from $28.2 million at December 31, 1996. Cash provided by operating activities for the nine months ended September 30, 1997 increased by $90.9 million to $243.7 million, from $152.8 million for the comparable period of the prior year. This increase in operating cash flow was primarily attributable to a $109.1 million increase in net income for the first nine months of 1997 and a $29.5 million increase in depreciation and amortization primarily resulting from the Arethusa Merger and completion of upgrade projects.

Investing activities used $595.1 million in cash during the nine months ended September 30, 1997, compared to $139.9 million during the comparable period of 1996. During the nine months ended September 30, 1997, the Company purchased the Polyconfidence, a semisubmersible accommodation vessel working in the U.K. sector of the North Sea, for approximately $81.0 million in cash. See "- - Capital Resources." In addition, the Company purchased U.S. Treasury bills and U.S. Treasury notes with a portion of the proceeds from the sale of the Notes, resulting in an increase in cash used in investing activities. Capital expenditures also increased substantially during the nine months ended September 30, 1997, as the Company continued to invest in major upgrades of its existing fleet.

Cash provided by financing activities for the nine months ended September 30, 1997 increased $404.2 million to $394.1 million, as compared to $10.1 million of cash used in financing activities for the comparable period of 1996. Sources of financing during 1997 consisted primarily of the Company's issuance of the Notes, which resulted in net proceeds of approximately $393.9 million. The Notes, issued in February 1997, have a stated and effective interest rate of 3.75 percent and 3.93 percent, respectively, and are due February 15, 2007. The Notes are convertible, in whole or in part, at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date into shares of the Company's common stock, at a conversion price of $40.50 per share. The Notes are redeemable, in whole or, from time to time, in part, at the option of the Company, at any time on or after February 22, 2001, at specified redemption prices. Also, in April 1997, the Company completed a public offering of 1.25 million shares of common stock generating net proceeds of approximately $82.3 million. Financing applications of cash during the nine months ended September 30, 1997 included repayment of amounts outstanding under the Company's short and long-term credit arrangements and the payment of a cash dividend to stockholders.

In August 1997, the Company terminated its revolving line of credit which provided a maximum credit commitment of $200.0 million. However, the Company has available uncommitted lines of credit for short-term financing aggregating $30.0 million from two U.S. banks. These arrangements provide for borrowing at various interest rates and may be used on such terms as the Company and the banks mutually agree. The Company also maintains the ability to issue an aggregate of approximately $117.5 million in debt, equity and other securities under a Securities and Exchange Commission shelf registration statement. In addition, the Company may issue, from time to time, up to four million shares of its common stock, which shares are registered under a shelf registration statement, in connection with one or more acquisitions by the Company of securities or assets of other businesses.

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

CAPITAL RESOURCES

Cash requirements for capital commitments result from rig upgrades to meet specific customer requirements and from the Company's continuing rig enhancement program. The Company expects to spend approximately $189.2 million during 1997 for rig upgrades, including approximately $162.5 million for expenditures in conjunction with the upgrades of the Ocean Clipper I, the Ocean Star, and the Ocean Victory for deep water drilling in the Gulf of Mexico. The Company expended $152.4 million on these projects during the nine months ended September 30, 1997. In addition, the Company expects to spend approximately $25.0 million for a cantilever conversion project on the Company's jack-up rig, the Ocean Warwick, and approximately $15.0 million for leg strengthening and other modifications to the Company's jack-up rig, the Ocean Tower. Approximately $3.7 million and $1.0 million have been expended through September 30, 1997 on these projects for the Ocean Warwick and the Ocean Tower, respectively. The Company expects to evaluate other projects as opportunities arise.

In addition, the Company has budgeted $70.7 million for 1997 capital expenditures associated with its continuing rig enhancement program, spare equipment, and other corporate requirements. During the first nine months of 1997, $53.0 million was expended on this program.

It is management's opinion that significant improvements in operating cash flow resulting from current conditions of improved dayrates and the increasing number of term contracts for rigs in certain markets, in conjunction with proceeds from the Notes, will be sufficient to meet these capital requirements.

In May 1997, the Company acquired the Polyconfidence, a semisubmersible accommodation vessel working in the U.K. sector of the North Sea. The Company's cost to acquire the vessel was approximately $81.0 million in cash. See " - Liquidity." The Polyconfidence was constructed in 1987 and has Class III dynamic positioning capabilities. The Company recently entered into a letter of intent with a major oil company for a five-year commitment in the Gulf of Mexico, following conversion of the vessel to a drilling unit capable of operating in harsh environments and ultra-deep water. The Company's preliminary estimate of conversion cost is approximately $190.0 million. The Polyconfidence would begin this conversion at the conclusion of its present accommodation unit contract, which is expected to occur in December 1997, with anticipated delivery in late 1999. The Company expects to finance the conversion of the Polyconfidence through the use of cash on hand or internally generated funds.

The Company is continually considering potential transactions, including, but not limited to, enhancement of existing rigs, the purchase of additional rigs, construction of new rigs and the acquisition of other companies engaged in contract drilling. Certain of the potential transactions reviewed by the Company would, if completed, result in its entering new lines of business, although, in general, these opportunities have been related in some manner to the Company's existing operations. For example, the Company has explored the possibility of acquiring certain floating production systems, crew accommodation units similar to the Polyconfidence, oil service companies providing subsea products, technology and services, oil and gas exploration companies, and shipping assets such as oil tankers, through the acquisition of existing businesses or assets or new construction. Although the Company does not, as of the date hereof, have a pending commitment with respect to any material business opportunity, it could enter into such an agreement in the future. 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.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information." The statement provides standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments to be reported in interim financial statements. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997, with restatement of prior years' comparative information required.

Also in June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components and requires that an enterprise (i) classify items of other comprehensive income by their nature in a financial statement and (ii) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The statement is effective for fiscal years beginning after December 15, 1997, with reclassification of prior years' comparative information required.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information about Capital Structure," and SFAS No. 128, "Earnings per Share." SFAS No. 129 establishes standards for disclosing information about an entity's capital structure and SFAS No. 128 requires dual presentation of basic and diluted earnings per share for entities with complex capital structures. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares 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. Both statements are effective for financial statements for both interim and annual periods ending after December 15, 1997. All prior period earnings per share data presented after the effective date must be restated to conform to these provisions.

The Company does not expect the adoption of these statements to have a material effect on its financial position or results of operations.

FORWARD-LOOKING INFORMATION

When included in this Report, the words "expects," "intends," "plans," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements. Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, 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 government regulations, customer preferences and various other matters, many of which are beyond the Company's control. These forward-looking statements 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 contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

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 have sued Zapata Off-Shore Company and Zapata Corporation (the "Zapata Defendants") for tortious interference with contract and conspiracy to tortiously interfere with contract. Plaintiffs seek $14.0 million in actual damages and unspecified punitive damages, plus costs of court, interest and attorney's fees. A former subsidiary of Arethusa, which is now a subsidiary of the Company, is defending and indemnifying the Zapata Defendants pursuant to a contractual defense and indemnification agreement. The Company believes the Zapata Defendants have adequate defenses and intends to vigorously defend their position.

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. For a description of one such lawsuit, see Note 9 to the Company's Consolidated Financial Statements in Part I of this Report. 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 or results of operations of the Company.

ITEM 2. CHANGES IN SECURITIES

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 Index of Exhibits for a list of those exhibits filed herewith.

(b) The Company filed the following reports on Form 8-K during the third quarter of 1997:

Date of Report	Description of Event
July 14, 1997	Board of Directors declaration of a two-for-one stock split in the form of a stock dividend and a quarterly cash dividend of $0.07 per common share payable on August 7, 1997 to shareholders of record July 24, 1997.
September 19, 1997	The Company's entry into (i) an Underwriting Agreement with Loews Corporation ("Loews") and Goldman, Sachs & Co. in connection with the sale by Loews of its 3-1/8% Exchangeable Subordinated Notes due September 15, 2007, which are exchangeable into shares of the Company's common stock, pursuant to an underwritten offering and (ii) a related Registration Rights Agreement Amendment, amending the Registration Rights Agreement, dated as of October 16, 1995, between the Company and Loews.

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 28-Oct-1997 By: /s/ Lawrence R. Dickerson

Lawrence R. Dickerson
Senior Vice President and Chief
Financial Officer

Date 28-Oct-1997 /s/ Gary T. Krenek

Gary T. Krenek
Controller and Chief Accounting Officer

INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995).
3.2	By-laws of the Company, as amended (incorporated by reference to Exhibits 3.2, 3.2.1 and 3.2.2 of the Company's Registration Statement No. 333-2680 on Forms S-4/S-1).
4.1	Indenture, dated as of February 4, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed February 11, 1997).
4.2	Supplemental Indenture, dated as of February 4, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed February 11, 1997).
11.1*	Statement Re Computation of Per Share Earnings.
27.1*	Financial Data Schedule.

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* Filed herewith.

EXHIBIT 11.1

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

	THREE MONTHS ENDED SEPTEMBER 30, 1997			NINE MONTHS ENDED SEPTEMBER 30, 1997		
	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (1) (DENOMINATOR)	PER SHARE AMOUNT	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES(1) (DENOMINATOR)	PER SHARE AMOUNT
Net income	$ 77,831	139,303		$199,295	138,308	
Issuance of convertible notes 2/4/97 (2)	2,306	9,876		4,418	8,610	
Net income per common and common equivalent share	$ 80,137	149,179	$ 0.54	$203,713	146,918	$ 1.39

	THREE MONTHS ENDED SEPTEMBER 30, 1996			NINE MONTHS ENDED SEPTEMBER 30, 1996		
	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (1) (DENOMINATOR)	PER SHARE AMOUNT	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES(1) (DENOMINATOR)	PER SHARE AMOUNT
Net income	$ 38,480	136,563		$ 90,234	120,358	
Net income per common and common equivalent share	$ 38,480	136,563	$ 0.28	$ 90,234	120,358	$ 0.75

(1) The weighted average shares reflect the retroactive effect of the two-for-one stock split in the form of a stock dividend to stockholders of record on July 24, 1997.

(2) On February 4, 1997, the Company issued $400.0 million of 3.75 percent convertible subordinated notes due February 15, 2007. The notes are convertible into approximately 9.8 million shares of the Company's common stock at any time prior to February 15, 2007 at a conversion price of $40.50 per share. The number of shares outstanding for the three and nine months ended September 30, 1997 was increased to include the weighted average number of shares issuable assuming full conversion of the notes on February 4, 1997 and net income was adjusted to eliminate the after-tax effect of interest expense on these notes.

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

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9-MOS
DEC-31-1997
SEP-30-1997
70,860
312,305
217,236
0
32,314
654,435
1,764,091
(349,381)
2,201,527
113,123
400,000
0
0
1,393
1,464,198
2,201,527
0
683,764
0
287,867
96,349
0
(6,940)
306,741
(107,446)
199,295
0
0
0
199,295
1.39
1.39

Includes contract drilling expenses only.
Includes other operating expenses.
Per share amounts reflect the retroactive effect of the two-for-one stock split in the form of a stock dividend to stockholders of record on July 24, 1997.