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, 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 April 18, 1997	Common stock, $.01 par value per share	69,645,368 shares

DIAMOND OFFSHORE DRILLING, INC.

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QUARTER ENDED MARCH 31, 1997

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, 1997	DECEMBER 31, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 39,258	$ 28,180
Investment securities	213,465	--
Accounts receivable	180,318	172,214
Rig inventory and supplies	30,754	30,407
Prepaid expenses and other	16,873	12,166
Total current assets	480,668	242,967
DRILLING AND OTHER PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION	1,247,561	1,198,160
LONG-TERM INVESTMENT SECURITIES	98,912	--
GOODWILL, LESS ACCUMULATED AMORTIZATION	125,999	129,825
OTHER ASSETS	10,619	3,548
Total assets	$ 1,963,759	$ 1,574,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 55,187	$ 63,172
Accrued liabilities	34,600	28,451
Taxes payable	18,745	26,377
Short-term borrowings	--	10,000
Total current liabilities	108,532	128,000
LONG-TERM DEBT	400,000	63,000
DEFERRED TAX LIABILITY	188,149	176,296
OTHER LIABILITIES	16,494	12,472
Total liabilities	713,175	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, 68,395,368 and 68,353,409 shares issued and outstanding at March 31, 1997 and December 31, 1996, respectively)	684	684
Additional paid-in capital	1,220,365	1,220,032
Retained earnings (accumulated deficit)	31,174	(25,056)
Cumulative translation adjustment	(1,372)	(928)
Unrealized loss on investment securities	(267)	--
Total stockholders' equity	1,250,584	1,194,732
Total liabilities and stockholders' equity	$ 1,963,759	$ 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 MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1996
REVENUES	$ 204,733	$ 106,868
OPERATING EXPENSES:		
Contract drilling	89,739	66,157
Depreciation and amortization	25,812	12,069
General and administrative	4,941	3,103
Gain on sale of assets	(65)	(157)
Total operating expenses	120,427	81,172
OPERATING INCOME	84,306	25,696
OTHER INCOME (EXPENSE):		
Interest income	2,893	256
Other, net	(185)	178
INCOME BEFORE INCOME TAX EXPENSE	87,014	26,130
INCOME TAX EXPENSE	(30,784)	(7,398)
NET INCOME	$ 56,230	$ 18,732
NET INCOME PER SHARE AND COMMON EQUIVALENT SHARE	$ 0.79	$ 0.37
WEIGHTED AVERAGE SHARES OUTSTANDING:		
COMMON SHARES	68,384	50,000
COMMON EQUIVALENT SHARES	3,018	--
ADJUSTED	71,402	50,000

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)

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
OPERATING ACTIVITIES:		
Net income	$ 56,230	$ 18,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,812	12,069
Gain on sale of assets	(65)	(157)
Deferred tax provision	13,870	7,124
Amortization of investment securities	(2,331)	(69)
Amortization of debt issuance costs	72	52
Changes in operating assets and liabilities:		
Accounts receivable	(7,887)	(13,128)
Rig inventory and supplies and other current assets	(5,054)	2,339
Other assets, non-current	(176)	(2,583)
Accounts payable and accrued liabilities	(1,836)	(2,716)
Taxes payable	(7,632)	541
Other liabilities, non-current	2,520	1,740
Other, net	129	(288)
Net cash provided by operating activities	73,652	23,656
INVESTING ACTIVITIES:		
Capital expenditures	(73,923)	(43,757)
Proceeds from sales of assets	440	478
Net purchases of investment securities	(211,200)	--
Purchases of long-term investment securities	(99,474)	--
Net cash used in investing activities	(384,157)	(43,279)
FINANCING ACTIVITIES:		
Net (repayments) borrowings on revolving line of credit	(63,000)	15,000
Net repayments on short-term borrowings	(10,000)	--
Issuance of convertible subordinated notes	400,000	--
Debt issuance costs	(5,750)	(1,816)
Proceeds from stock options exercised	333	--
Net cash provided by financing activities	321,583	13,184
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,078	(6,439)
Cash and cash equivalents, beginning of period	28,180	10,306
Cash and cash equivalents, end of period	$ 39,258	$ 3,867

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 amortization of premiums and accretion of discounts to maturity and such amortization 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

Cash payments made for interest on long-term debt, including commitment fees, during the three months ended March 31, 1997 and 1996 totaled $524,000 and $37,000, respectively. Cash payments made for U.S. income taxes during the three months ended March 31, 1997 totaled $23.6 million. No cash payments for U.S. income taxes were made during the three months ended March 31, 1996. Cash payments made for foreign income taxes during the three months ended March 31, 1997 and 1996 totaled $835,000 and $238,000, respectively.

Goodwill

Goodwill from the merger with Arethusa (Off-Shore) Limited ("Arethusa") is amortized on a straight-line basis over 20 years.

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.

Net Income Per Share

Net income per share and common equivalent share was computed by dividing net income by the weighted number of shares of common stock and common stock equivalents outstanding during the periods. 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 February 4, 1997, the issuance date, was added to the number of common shares. There was no adjustment needed to eliminate the interest on these notes due to the capitalization of interest cost (see Note 4). Fully diluted earnings per share is not presented as there are no other contingent issuances of common stock.

In February 1997, the Financial Accounting Standards Board ("FASB") 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. For the three months ended March 31, 1997 and 1996, pro forma earnings per share amounts computed using SFAS No. 128 would have been $0.82 and $0.37, respectively, for basic earnings per share and $0.79 and $0.37, 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. MERGER WITH ARETHUSA

In April 1996, the Company acquired 100 percent of the stock of Arethusa (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. The consideration consisted of the following (in thousands):

Common stock issued to Arethusa shareholders	$ 539,305
Arethusa stock options assumed	11,381
Total equity consideration	$ 550,686

The Company issued 17.9 million common shares to the Arethusa shareholders based on an exchange ratio of .88 shares for each share of issued and outstanding Arethusa common stock. The shares were valued for financial reporting purposes at $30.14 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, the Company incurred approximately $16.9 million of acquisition costs associated with the Arethusa Merger.

The Arethusa Merger was accounted for as a purchase. The purchase price included, at estimated fair value, current assets of $67.2 million, drilling and other property and equipment of $505.5 million, and the assumption of current liabilities of $19.0 million, other net long-term liabilities of $2.2 million, and debt of $67.5 million. In addition, a deferred tax liability of $66.8 million was recorded primarily for the difference in the basis for tax and financial reporting purposes of the net assets acquired. The excess of the purchase price over the estimated fair value of net assets acquired amounted to approximately $133.5 million, which has been accounted for as goodwill and is being amortized over 20 years using the straight-line method (see Note 5).

3. INVESTMENT SECURITIES

Investment securities classified as available for sale at March 31, 1997 were as follows:

	AMORTIZED COST	UNREALIZED LOSSES	MARKET VALUE
	(IN THOUSANDS)		
Due within 1 year:			
Debt securities issued by the U.S. Treasury	$ 213,523	$ (58)	$213,465
Due after 1 year through 5 years:			
Debt securities issued by the U.S. Treasury	99,265	(353)	98,912
Total	$ 312,788	$ (411)	$312,377

During the three months ended March 31, 1997, certain investment securities were sold for proceeds of $99.8 million. The resulting realized loss was not material.

4. DRILLING AND OTHER PROPERTY AND EQUIPMENT

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

	MARCH 31, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Drilling rigs and equipment	$ 1,427,618	$ 1,332,980
Construction work in progress.	95,232	116,770
Land and buildings	13,164	13,154
Office equipment and other	8,619	8,181
Cost	1,544,633	1,471,085
Less accumulated depreciation	(297,072)	(272,925)
Total.	$ 1,247,561	$ 1,198,160

For the three months ended March 31, 1997, the Company capitalized total interest cost incurred of $2.8 million in construction work in progress with respect to qualifying construction projects.

5. GOODWILL

The Arethusa Merger 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, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Goodwill	$ 132,170	$ 134,331
Less accumulated amortization	(6,171)	(4,506)
Total	$ 125,999	$ 129,825

During the three months ended March 31, 1997, an adjustment of approximately $2.2 million was recorded to reduce goodwill before accumulated amortization. This adjustment was primarily necessary to properly reflect the fair value of the net assets acquired in the Arethusa Merger.

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	MARCH 31, 1997	DECEMBER 31, 1996
	(IN THOUSANDS)	
Personal injury and other claims	$ 20,217	$ 18,629
Payroll and benefits	8,648	8,336
Other	5,735	1,486
Total	$ 34,600	$ 28,451

7. LONG-TERM DEBT

Convertible Subordinated Notes

On February 4, 1997, the Company issued $400.0 million, including $50.0 million from an over-allotment option, of 3 3/4 percent convertible subordinated notes (the "Notes") 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, unless previously redeemed, into shares of the Company's common stock, at a conversion price of $81 per share (equivalent to a conversion rate of 12.346 shares per $1,000 principal amount of Notes), subject to adjustment in certain circumstances. Interest on the Notes is payable in cash semi-annually on each February 15 and August 15, commencing on August 15, 1997. Upon conversion, any accrued interest will be deemed paid by the appropriate portion of the common stock received by the holder.

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

The Company may borrow up to $200.0 million at various interest rates, at the Company's option, under the terms of a revolving credit facility with a group of banks (the "Credit Facility") available through December 2001. The Credit Facility contains provisions regarding the maintenance of certain consolidated financial ratios, certain indebtedness limitations, and limitations on dividends and similar payments. As of March 31, 1997, the Company was in compliance with each of these covenants. Commitment fees are paid based on the unused available portion of the maximum credit commitment. No amounts were outstanding under the Credit Facility at March 31, 1997.

In addition, 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 March 31, 1997.

8. 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. 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. The Company has not established a liability for such claim at this time.

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 or results of operations.

9. SUBSEQUENT EVENT

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 Company expects to use the net proceeds to acquire the Polyconfidence, a semisubmersible accommodation vessel, currently working in the U.K. sector of the North Sea. The Company's cost to acquire the vessel is expected to be approximately $81.0 million in cash.

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

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 2 to the Company's Consolidated Financial Statements.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1997 AND 1996

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 turnkey operations and 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 September 1996 and March 1997, the Company completed its major upgrades of the Ocean Quest and the Ocean Star, 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 the rigs in Other Semisubmersibles). The Company's drillship, the Ocean Clipper I, is included in Other Semisubmersibles for discussion purposes.

	THREE MONTHS ENDED MARCH 31,		
	1997	1996	INCREASE/ (DECREASE)
	(in thousands)		
REVENUES			
Fourth-Generation Semisubmersibles	$ 42,643	$ 21,465	$ 21,178
Other Semisubmersibles	116,833	52,995	63,838
Jack-ups	43,554	20,136	23,418
Turnkey	4,311	13,626	(9,315)
Land	--	5,102	(5,102)
Eliminations	(2,608)	(6,456)	3,848
Total Revenues	$ 204,733	$ 106,868	$ 97,865
CONTRACT DRILLING EXPENSE			
Fourth-Generation Semisubmersibles	$ 11,473	$ 7,898	$ 3,575
Other Semisubmersibles	55,336	31,490	23,846
Jack-ups	21,260	14,927	6,333
Turnkey	4,259	14,128	(9,869)
Land	--	4,772	(4,772)
Other	361	102	259
Eliminations	(2,950)	(7,160)	4,210
Total Contract Drilling Expense	$ 89,739	$ 66,157	$ 23,582
OPERATING INCOME			
Fourth-Generation Semisubmersibles	$ 31,170	$ 13,567	$ 17,603
Other Semisubmersibles	61,497	21,505	39,992
Jack-ups	22,294	5,209	17,085
Turnkey	52	(502)	554
Land	--	330	(330)
Other	(361)	(102)	(259)
Eliminations	342	704	(362)
Depreciation and Amortization Expense	(25,812)	(12,069)	(13,743)
General and Administrative Expense	(4,941)	(3,103)	(1,838)
Gain on Sale of Assets	65	157	(92)
Total Operating Income	$ 84,306	$ 25,696	$ 58,610

Revenues. The $21.2 million increase in revenues from fourth-generation rigs resulted primarily from $9.2 million in revenues generated during the three months ended March 31, 1997 by the Ocean Quest and the Ocean Star upon completion of their upgrade projects in September 1996 and March 1997, respectively, and $8.7 million generated during the three months ended March 31, 1997 by increased operating dayrates in the Gulf of Mexico and the North Sea. Also, improvements in utilization contributed approximately $3.2 million in revenues for the three months ended March 31, 1997. This increase in utilization was primarily associated with shipyard repairs performed on the Ocean Alliance, which reduced the days worked during the comparable period of the prior year. The $63.8 million increase in revenues from other semisubmersibles resulted primarily from $37.5 million in revenues generated during the three months ended March 31, 1997 by the eight semisubmersibles acquired in the Arethusa Merger. Approximately $16.3 million in additional revenues were generated from increased operating dayrates during the three months ended March 31, 1997. Improvements in utilization contributed approximately $10.0 million in revenues for the three months ended March 31, 1997, primarily due to a reduction in revenues in the first quarter of 1996 during the completion of modifications on the Ocean Princess and the Ocean Baroness. The $23.4 million increase in revenues from jack-ups resulted primarily from $12.8 million in revenues contributed by increased operating dayrates, primarily in the Gulf of Mexico. In addition, $10.2 million in revenues was generated during the three months ended March 31, 1997 by the four jack-ups acquired in the Arethusa Merger. The $9.3 million decrease in revenues from turnkey operations resulted from turnkey projects of greater magnitude completed during the three months ended March 31, 1996, while revenues for the three months ended March 31, 1997 consisted primarily of revenues from project management services. The $5.1 million decrease in revenues from land operations resulted from the sale of the Company's land division in December 1996.

Contract Drilling Expense. The $3.6 million increase in contract drilling expense for fourth-generation rigs resulted primarily from operating costs generated by the Ocean Quest and the Ocean Star during the three months ended March 31, 1997 upon completion of their upgrade projects in September 1996 and March 1997, respectively. The $23.8 million increase in contract drilling expense for other semisubmersibles resulted primarily from $18.4 million costs generated during the three months ended March 31, 1997 by the rigs acquired in the Arethusa Merger. In addition, expenses for the three months ended March 31, 1996 were reduced by the capitalization of costs associated with modifications in progress on the Ocean Princess and the Ocean Baroness. The $6.3 million increase in contract drilling expense for jack-ups resulted from the four jack-ups acquired in the Arethusa Merger. The $9.9 million decrease in expenses from turnkey operations resulted from turnkey projects of greater magnitude completed and cost overruns on one turnkey well during the three months ended March 31, 1996. Expenses from turnkey operations for the three months ended March 31, 1997 consisted primarily of costs associated with project management services. The $4.8 million decrease in expenses from land operations resulted from the sale of the Company's land division in December 1996.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended March 31, 1997 increased $13.7 million from $12.1 million for the three months ended March 31, 1996 primarily due to additional expense for (i) the eight semisubmersibles and three jack-up drilling rigs acquired in the Arethusa Merger, (ii) goodwill amortization expense associated with the Arethusa Merger, and (iii) the Ocean Quest and the Ocean Star which completed their upgrades in September 1996 and March 1997, respectively.

General and Administrative Expense. General and administrative expense for the three months ended March 31, 1997 of $4.9 million increased $1.8 million from $3.1 million for the three months ended March 31, 1996 primarily due to the Arethusa Merger. In addition, increased accruals during the three months ended March 31, 1997 for the Company's bonus and retention plan contributed to higher expenses. The increased accruals resulted from a higher estimated bonus pool for the 1997 performance year and for additional participants in the plan. Partially offsetting these increases was $0.3 million of general and administrative expense capitalized to the major upgrades of the Ocean Star, the Ocean Victory, and the Ocean Clipper I during the three months ended March 31, 1997.

Interest Income. Interest income of $2.9 million for the three months ended March 31, 1997 consisted primarily of the amortization of discounts and interest earned on investment securities purchased in the first quarter of 1997.

Income Tax Expense. Income tax expense of $30.8 million for the three months ended March 31, 1997 increased $23.4 million from $7.4 million for the three months ended March 31, 1996. This increase resulted primarily from the $60.9 million increase in income before income tax expense as compared to the three months ended March 31, 1996.

OUTLOOK

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.

The Company expects its current revenue and operating income trends to continue in 1997, as worldwide deep water exploration continues to provide opportunities for the Company's fleet. The Company's revenue growth, in part, will be dependent on the condition of the oil and gas industry and, specifically, the exploration and production expenditures of oil and gas companies. The increasing impact of technological advances, including 3-D seismic, horizontal drilling, and subsea completion procedures, has improved demand and resulted in higher dayrates, especially in the deep water and harsh environment markets. Customers increasingly are seeking to contract rigs for a stated term (as opposed to contracts for the drilling of a single well or a group of wells). As a result, more than 80 percent of the Company's estimated 1997 revenue is committed under existing contracts.

Also, the completion of three major upgrades and their associated multi-year commitments are expected to provide additional revenue in 1997. In March 1997, the Company completed the upgrade of the Ocean Star and the rig began a three-year commitment. The rig, which had been cold stacked, now has fourth-generation capabilities, including stability and other enhancements such as water depth capabilities of up to 4,500 feet, increased variable deck load of approximately 6,000 long tons, a top-drive drilling system, a 15,000 psi blow-out prevention system, increased deck area, and additional mud pit and tensioner capacity. The Company's drillship, the Ocean Clipper I, is currently being upgraded to operate in the deep water market of the Gulf of Mexico with dynamic positioning capabilities and is scheduled to be completed in mid-1997. In addition, the Ocean Victory, previously cold stacked, is undergoing modifications in connection with its three-year deep water drilling program anticipated to begin during the fourth quarter of 1997.

However, historically, the offshore contract drilling industry has been highly competitive and cyclical, and the Company cannot predict the extent to which current conditions will continue. 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 and, if present trends continue for an extended period, may lead to new entrants into the market. 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.

LIQUIDITY

As of March 31, 1997, total cash and short and long-term investment securities totaled $351.6 million, up from $28.2 million at December 31, 1996. Cash provided by operating activities for the three months ended March 31, 1997 increased by $50.0 million to $73.7 million, as compared to $23.7 million for the comparable period of the prior year. This increase in operating cash flow was primarily attributable to a $37.5 million increase in net income for the first quarter of 1997 and a $13.7 million increase in depreciation and amortization primarily resulting from the Arethusa Merger.

Investing activities used $384.2 million in cash during the three months ended March 31, 1997, compared to $43.3 million during the comparable period of 1996. The Company purchased U.S. Treasury bills and U.S. Treasury notes with a portion of the proceeds from the sale of $400.0 million convertible subordinated notes (the

"Notes") resulting in an increase in cash used in investing activities. In addition, capital expenditures increased substantially during the three months ended March 31, 1997, as the Company continued to invest in major upgrades of its existing fleet.

Cash provided by financing activities for the three months ended March 31, 1997 increased $308.4 million to $321.6 million, as compared to $13.2 million 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 $394.3 million. The Notes, issued in February 1997, bear interest at 3 3/4 percent and are due February 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 $81 per share (equivalent to a conversion rate of 12.346 shares per $1,000 principal amount of Notes). Financing applications of cash during the three months ended March 31, 1997 included repayment of amounts outstanding under the Company's short and long-term credit arrangements.

Other sources of liquidity include the Company's revolving line of credit for a five-year term providing a maximum credit commitment of $200.0 million (the "Credit Facility"). In addition, the Company has 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 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 Company expects to use the net proceeds to acquire the Polyconfidence, a semisubmersible accommodation vessel currently working in the U.K. sector of the North Sea. The Company's cost to acquire the vessel is expected to be approximately $81.0 million in cash. See " - Capital Resources."

The Company believes that it has the financial resources needed to meet its business requirements in the foreseeable future, including capital expenditures for major upgrades and continuing rig enhancements and for 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 $61.4 million on these projects during the three months ended March 31, 1997. In addition, the Company expects to spend approximately $20.6 million for a cantilever conversion project on the Company's jack-up rig, the Ocean Warwick, although only preliminary surveys and assessments related to this project are in progress. 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 quarter of 1997, $9.2 million was expended on this program.

In April 1997, the Company agreed to acquire the Polyconfidence, a semisubmersible accommodation vessel currently working in the U.K. sector of the North Sea. The Company's cost to acquire the vessel is expected to be approximately $81.0 million in cash. See "- Liquidity." The Polyconfidence was constructed in 1987 and has Class III dynamic positioning capabilities. The Company is in discussions with several oil companies regarding conversion of the Polyconfidence to a semisubmersible drilling unit with fourth- or fifth-generation capabilities. Such a conversion would be dependent upon the receipt of a term contract commitment at favorable dayrates. Although the extent of the conversion would be dependent upon the particular demands of the customer, the Company's preliminary estimate of conversion cost is approximately $160.0 to $175.0 million. The Polyconfidence would begin its conversion at the conclusion of its present accommodation unit contract, which is estimated to occur no later than March 1998. Prior to expiration of this contract, the Company will receive approximately $15,000 per day under a bareboat charter of the vessel. The Company expects to finance the conversion of the Polyconfidence through the use of cash on hand or internally generated funds. There can be no assurance that the vessel can or will be upgraded to fourth- or fifth- generation capability in a cost-effective manner, that if the vessel is so upgraded there will be adequate demand for its services, or that competitors will not achieve comparable capabilities through other means attractive to customers.

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.

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 and oil service companies providing subsea products, technology and services, and shipping assets such as oil tankers, through the acquisition of existing businesses or assets or new construction. As of the date hereof, except as described above, the Company has no pending commitment with respect to any material business opportunity. There can be no assurance that the Company will consummate the Polyconfidence transaction, make other material acquisitions or investments or that, if made, such acquisitions or investments will be successful.

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 8 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. SUBMISSIONS 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, which index only includes those contracts executed or becoming effective during the most recent period reflected in this Report pursuant to Instruction 2 to Item 601(b)(10) of Regulation S-K.

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

Date of Report	Description of Event
January 29, 1997	Plan to offer $300.0 million of convertible subordinated notes
February 11, 1997	Sale of $400.0 million convertible subordinated notes

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-Apr-1997

By: \s\ Lawrence R. Dickerson

Lawrence R. Dickerson
Senior Vice President and
Chief Financial Officer

Date 28-Apr-1997

\s\ Gary T. Krenek

Gary T. Krenek
Controller and Principal
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 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 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)

	THREE MONTHS ENDED MARCH 31, 1997		
	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR))	PER SHARE AMOUNT
Net income	$ 56,230	68,384	
Issuance of convertible notes 2/4/97 (1)	--	3,018	
Net income per share and common equivalent share	$ 56,230	71,402	$ 0.79

	THREE MONTHS ENDED MARCH 31, 1996		
	INCOME (NUMERATOR)	WEIGHTED AVERAGE SHARES (DENOMINATOR))	PER SHARE AMOUNT
Net income	$ 18,732	50,000	
Net income per share and common equivalent share	$ 18,732	50,000	$ 0.37

(1) On February 4, 1997, the Company issued $400.0 million of 3 3/4 percent convertible subordinated notes due February 15, 2007. The notes are convertible into approximately 4.9 million shares of the Company's common stock at any time prior to February 15, 2007 at a conversion price of $81 per share. The number of shares outstanding for the three months ended March 31, 1997 was increased to include the weighted average number of shares issuable assuming full conversion of the notes on February 4, 1997.

3-MOS
DEC-31-1997
MAR-31-1997
39,258
213,465
180,318
0
30,754
480,668
1,544,633
297,072
1,963,759
108,532
400,000
0
0
684
1,249,900
1,963,759
0
204,733
0
89,739
30,688
0
0
87,014
30,784
56,230
0
0
0
56,230
0.79
0.79

Includes contract drilling expenses only.
Includes other operating expenses.