

DIAMOND OFFSHORE DRILLING, INC.

Form 10-K

February 16, 2017

[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

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)

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Delaware
(State or other jurisdiction of

76-0321760
(I.R.S. Employer

incorporation or organization)

15415 Katy Freeway

Identification No.)

Houston, Texas 77094

(Address and zip code of principal executive offices)

(281) 492-5300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

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 ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter.

As of June 30, 2016

\$1,558,351,487

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

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As of February 10, 2017 Common Stock, \$0.01 par value per share 137,169,663 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the 2017 Annual Meeting of Stockholders of Diamond Offshore Drilling, Inc., which will be filed within 120 days of December 31, 2016, are incorporated by reference in Part III of this report.

Table of Contents

DIAMOND OFFSHORE DRILLING, INC.

FORM 10-K for the Year Ended December 31, 2016

TABLE OF CONTENTS

	Page No.
<u>Cover Page</u>	
<u>Document Table of Contents</u>	
Part I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	9
Item 1B. <u>Unresolved Staff Comments</u>	25
Item 2. <u>Properties</u>	25
Item 3. <u>Legal Proceedings</u>	25
Item 4. <u>Mine Safety Disclosures</u>	25
Part II	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	26
Item 6. <u>Selected Financial Data</u>	28
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	50
Item 8. <u>Financial Statements and Supplementary Data</u>	52
<u>Consolidated Financial Statements</u>	53
<u>Notes to Consolidated Financial Statements</u>	58
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	95
Item 9A. <u>Controls and Procedures</u>	95
Item 9B. <u>Other Information</u>	99
Part III	
<u>Certain information called for by Part III Items 10, 11, 12, 13 and 14 has been omitted as the Registrant intends to file with the Securities and Exchange Commission not later than 120 days after the end of its fiscal year a definitive Proxy Statement pursuant to Regulation 14A.</u>	99
Part IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	99
Item 16. <u>Form 10-K Summary</u>	99
<u>Signatures</u>	100
<u>Exhibit Index</u>	102

Table of Contents

PART I

Item 1. Business.

General

Diamond Offshore Drilling, Inc. provides contract drilling services to the energy industry around the globe with a fleet of 24 offshore drilling rigs. Our current fleet consists of four drillships, 19 semisubmersible rigs, and one jack-up rig. See Our Fleet *Fleet Enhancements and Additions* and Our Fleet *Floater Fleet Status*.

Unless the context otherwise requires, references in this report to Diamond Offshore, we, us or our mean Diamond Offshore Drilling, Inc. and our consolidated subsidiaries. Diamond Offshore Drilling, Inc. was incorporated in Delaware in 1989.

Our Fleet

Our diverse fleet enables us to offer a broad range of services worldwide, primarily in the floater market (ultra-deepwater, deepwater and mid-water).

Floaters. A floater rig is a type of mobile offshore drilling unit that floats and does not rest on the seafloor. This asset class includes self-propelled drillships and semisubmersible rigs. Semisubmersible rigs consist of an upper working and living deck resting on vertical columns connected to lower hull members. Such rigs operate in a semi-submerged position, remaining afloat, off bottom, in a position in which the lower hull is approximately 55 feet to 90 feet below the water line and the upper deck protrudes well above the surface. Semisubmersibles hold position while drilling by use of a series of small propulsion units or thrusters that provide dynamic positioning, or DP, to keep the rig on location, or with anchors tethered to the sea bed. Although DP semisubmersibles are self-propelled, such rigs may be moved long distances with the assistance of tug boats. Non-DP, or moored, semisubmersibles require tug boats or the use of a heavy lift vessel to move between locations.

A drillship is an adaptation of a maritime vessel that is designed and constructed to carry out drilling operations by means of a substructure with a moon pool centrally located in the hull. Drillships are typically self-propelled and are positioned over a drillsite through the use of a DP system similar to those used on semisubmersible rigs.

Our floater fleet (semisubmersibles and drillships) can be further categorized based on the nominal water depth for each class of rig as follows:

Category	Rated	Number of Units in Our Fleet
	Water Depth ^(a) (in feet)	
Ultra-Deepwater	7,501 to 12,000	12
Deepwater	5,000 to 7,500	6
Mid-Water	400 to 4,999	5

(a) Rated water depth for semisubmersibles and drillships reflects the maximum water depth in which a floating rig has been designed to operate. However, individual rigs are capable of drilling, or have drilled, in marginally greater water depths depending on various conditions (such as salinity of the ocean, weather and sea conditions).

Table of Contents*Floater Fleet Status*

The following table presents additional information regarding our floater fleet at January 30, 2017:

Rig Type and Name	Rated Water Depth (in feet)	Attributes	Year Built/ Redelivered ^(a)	Current Location ^(b)	Customer ^(c)
ULTRA-DEEPWATER:					
Drillships (4):					
Ocean BlackLion	12,000	DP; 7R; 15K	2015	GOM	Hess Corporation
Ocean BlackRhino	12,000	DP; 7R; 15K	2014	GOM	Contract preparation/Hess Corporation
Ocean BlackHornet	12,000	DP; 7R; 15K	2014	GOM	Anadarko
Ocean BlackHawk	12,000	DP; 7R; 15K	2014	GOM	Anadarko
Semisubmersibles (8):					
Ocean GreatWhite	10,000	DP; 6R; 15K	2016	Malaysia	BP
Ocean Valor	10,000	DP; 6R; 15K	2009	Brazil	Petrobras ^(d)
Ocean Courage	10,000	DP; 6R; 15K	2009	Brazil	Petrobras
Ocean Confidence	10,000	DP; 6R; 15K	2001/2015	Canary Islands	Cold Stacked
Ocean Monarch	10,000	15K	2008	Singapore	Survey/Contract preparation
Ocean Endeavor	10,000	15K	2007	Italy	Cold Stacked
Ocean Rover	8,000	15K	2003	Malaysia	Cold Stacked
Ocean Baroness	8,000	15K	2002	GOM	Cold Stacked
DEEPWATER:					
Semisubmersibles (6):					
Ocean Apex	6,000	15K	2014	Australia	Woodside Energy
Ocean Onyx	6,000	15K	2013	GOM	Cold Stacked
Ocean Victory	5,500	15K	1997	Trinidad & Tobago	BP Trinidad
Ocean America	5,500	15K	1988	Malaysia	Cold Stacked
Ocean Valiant	5,500	15K	1988	North Sea/U.K.	Maersk
Ocean Alliance	5,250	DP; 15K	1988	GOM	Cold Stacked
MID-WATER:					
Semisubmersibles (5):					
Ocean Patriot	3,000	15K	1983	North Sea/U.K.	Apache
Ocean Guardian	1,500	15K	1985	North Sea/U.K.	Dana
Ocean Princess	1,500	15K	1975	North Sea/U.K.	Cold Stacked
Ocean Vanguard	1,500	15K	1982	North Sea/U.K.	Cold Stacked
Ocean Nomad	1,200		1975	North Sea/U.K.	Cold Stacked

Attributes

DP = Dynamically Positioned/Self-Propelled
 6R = Six ram blow out preventer

7R = 2 Seven ram blow out preventers
 15K = 15,000 psi well control system

- (a) Represents year rig was built and originally placed in service or year rig was redelivered with significant enhancements that enabled the rig to be classified within a different floater category than originally constructed.
- (b) GOM means U.S. Gulf of Mexico.
- (c) For ease of presentation in this table, customer names have been shortened or abbreviated.
- (d) In August 2016, our subsidiary received notice of termination of its drilling contract from Petr leo Brasileiro S.A., or Petrobras. In the same month, we filed a lawsuit in Brazil, claiming that Petrobras purported termination of the contract was unlawful and requesting an injunction to prohibit the contract termination. In September 2016, a Brazilian court issued a preliminary injunction, suspending Petrobras purported termination of the contract and ordering that the contract remain in effect until the end of the term or further court order. Petrobras has appealed the granting of the injunction. We do not believe that Petrobras had a valid or lawful basis for terminating the contract, and we intend to continue to defend our rights under the contract.

Table of Contents

Jack-ups. Jack-up rigs are mobile, self-elevating drilling platforms equipped with legs that are lowered to the ocean floor. Our jack-up is used for drilling in water depths from 20 feet to 350 feet. As of January 30, 2017, the *Ocean Scepter*, a cantilevered jack-up drilling rig built in 2008, was offshore Mexico where it was waiting to commence a short-term contract for Fieldwood Energy. The *Ocean Spur*, which was reported as held for sale at the end of 2016, is expected to be sold in the near future.

Fleet Enhancements and Additions. Our long-term strategy is to upgrade our fleet to meet customer demand for advanced, efficient and high-tech rigs by acquiring or building new rigs when possible to do so at attractive prices, and otherwise by enhancing the capabilities of our existing rigs at a lower cost and shorter construction period than newbuild construction would require. Since 2009, commencing with the acquisition of two newbuild, ultra-deepwater semisubmersible rigs, the *Ocean Courage* and *Ocean Valor*, we have spent over \$5.0 billion towards upgrading our fleet. In 2016, we took delivery of the *Ocean GreatWhite*, the final rig to be completed during our most recent fleet enhancement cycle.

We will evaluate further rig acquisition and enhancement opportunities as they arise. However, we can provide no assurance whether, or to what extent, we will continue to make rig acquisitions or enhancements to our fleet. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Cash Flow and Capital Expenditures in Item 7 of this report.

Pressure Control by the Hour®. During 2016, we entered into a ten-year agreement with a subsidiary of GE Oil & Gas, or GE, to provide us services with respect to certain blowout preventer and related well control equipment on our four drillships. Such services include management of maintenance, certification and reliability with respect to such equipment. In connection with the services agreement with GE, we sold the equipment to a GE affiliate and have leased back such equipment under four separate ten-year operating leases. Collectively, we refer to the services agreement with GE and the lease agreements with the GE affiliate as the PCbH program.

Markets

The principal markets for our offshore contract drilling services are:

the Gulf of Mexico, including the United States, or U.S., and Mexico;

South America, principally offshore Brazil, and Trinidad and Tobago;

Australia and Southeast Asia, including Malaysia, Indonesia and Vietnam;

Europe, principally offshore the United Kingdom, or U.K., and Norway;

East and West Africa;

the Mediterranean; and

the Middle East.

We actively market our rigs worldwide. From time to time our fleet operates in various other markets throughout the world. See Note 18 Segments and Geographic Area Analysis to our Consolidated Financial Statements in Item 8 of this report.

Offshore Contract Drilling Services

Our contracts to provide offshore drilling services vary in their terms and provisions. We typically obtain our contracts through a competitive bid process, although it is not unusual for us to be awarded drilling contracts following direct negotiations. Our drilling contracts generally provide

for a basic dayrate regardless of whether or not drilling

Table of Contents

results in a productive well. Drilling contracts generally also provide for reductions in rates during periods when the rig is being moved or when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other circumstances. Under dayrate contracts, we generally pay the operating expenses of the rig, including wages and the cost of incidental supplies. Historically, dayrate contracts have accounted for the majority of our revenues. In addition, from time to time, our dayrate contracts may also provide for the ability to earn an incentive bonus from our customer based upon performance.

The duration of a dayrate drilling contract is generally tied to the time required to drill a single well or a group of wells, in what we refer to as a well-to-well contract, or a fixed period of time, in what we refer to as a term contract. Many drilling contracts may be terminated by the customer in the event the drilling unit is destroyed or lost, or if drilling operations are suspended for an extended period of time as a result of a breakdown of equipment or, in some cases, due to events beyond the control of either party to the contract. Certain of our contracts also permit the customer to terminate the contract early by giving notice; in most circumstances this requires the payment of an early termination fee by the customer. The contract term in many instances may also be extended by the customer exercising options for the drilling of additional wells or for an additional length of time, generally at competitive market rates and mutually agreeable terms at the time of the extension. In periods of decreasing demand for offshore rigs, drilling contractors may prefer longer term contracts to preserve dayrates at existing levels and ensure utilization, while customers may prefer shorter contracts that allow them to more quickly obtain the benefit of declining dayrates. Moreover, drilling contractors may accept lower dayrates in a declining market in order to obtain longer-term contracts and add backlog. See *Risk Factors We may not be able to renew or replace expiring contracts for our rigs*, *Risk Factors Our business involves numerous operating hazards that could expose us to significant losses and significant damage claims. We are not fully insured against all of these risks and our contractual indemnity provisions may not fully protect us*, *Risk Factors We can provide no assurance that our drilling contracts will not be terminated early or that our current backlog of contract drilling revenue will be ultimately realized*, *Risk Factors We may enter into drilling contracts that expose us to greater risks than we normally assume* and *Risk Factors We self-insure for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico* in Item 1A of this report, which are incorporated herein by reference. For a discussion of our contract backlog, see *Management's Discussion and Analysis of Financial Condition and Results of Operations Market Overview Contract Drilling Backlog* in Item 7 of this report, which is incorporated herein by reference.

Customers

We provide offshore drilling services to a customer base that includes major and independent oil and gas companies and government-owned oil companies. During 2016, 2015 and 2014, we performed services for 18, 19 and 35 different customers, respectively. During 2016, 2015 and 2014, our most significant customers were as follows:

Customer	Percentage of Annual Consolidated Revenues		
	2016	2015	2014
Anadarko	22.4%	12.4%	3.6%
Petróleo Brasileiro S.A.	17.9%	24.1%	31.9%
ExxonMobil	5.8%	12.4%	5.0%

No other customer accounted for 10% or more of our annual total consolidated revenues during 2016, 2015 or 2014. See *Risk Factors Our industry is highly competitive, with oversupply and intense price competition* and *Risk Factors Our customer base is concentrated* in Item 1A of this report, which are incorporated herein by reference.

As of January 1, 2017, our contract backlog was \$3.6 billion attributable to 11 customers. All four of our drillships are currently contracted to work in the GOM. As of January 1, 2017, contract backlog attributable to our expected operations in the GOM was \$639.0 million, \$653.0 million, \$554.0 million and \$85.0 million for the years 2017, 2018, 2019 and 2020, respectively, all of which was attributable to two customers. See *Management's Discussion and Analysis of Financial Condition and Results of Operations Market Overview Contract Drilling Backlog* in Item 7 of this report. See *Risk*

Table of Contents

Factors *We can provide no assurance that our drilling contracts will not be terminated early or that our current backlog of contract drilling revenue will be ultimately realized* in Item 1A of this report, which is incorporated herein by reference.

Competition

Despite consolidation in previous years, the offshore contract drilling industry remains highly competitive with numerous industry participants, none of which at the present time has a dominant market share. The industry may also experience additional consolidation in the future, which could create other large competitors. Some of our competitors may have greater financial or other resources than we do. Based on industry data, as of the date of this report, there are approximately 830 mobile drilling rigs in service worldwide, including approximately 290 floater rigs.

The offshore contract drilling industry is influenced by a number of factors, including global economies and demand for oil and natural gas, current and anticipated prices of oil and natural gas, expenditures by oil and gas companies for exploration and development of oil and natural gas and the availability of drilling rigs.

Drilling contracts are traditionally awarded on a competitive bid basis. Price is typically the primary factor in determining which qualified contractor is awarded a job. Customers may also consider rig availability and location, a drilling contractor's operational and safety performance record, and condition and suitability of equipment. We believe we compete favorably with respect to these factors.

We compete on a worldwide basis, but competition may vary significantly by region at any particular time. See **Markets**. Competition for offshore rigs generally takes place on a global basis, as these rigs are highly mobile and may be moved, although at a cost that may be substantial, from one region to another. It is characteristic of the offshore drilling industry to move rigs from areas of low utilization and dayrates to areas of greater activity and relatively higher dayrates. The current oversupply of offshore drilling rigs also intensifies price competition. See **Risk Factors** *Our industry is highly competitive, with oversupply and intense price competition* in Item 1A of this report, which is incorporated herein by reference.

Governmental Regulation

Our operations are subject to numerous international, foreign, U.S., state and local laws and regulations that relate directly or indirectly to our operations, including regulations controlling the discharge of materials into the environment, requiring removal and clean-up under some circumstances, or otherwise relating to the protection of the environment, and may include laws or regulations pertaining to climate change, carbon emissions or energy use. See **Risk Factors** *We are subject to extensive domestic and international laws and regulations that could significantly limit our business activities and revenues and increase our costs* and **Risk Factors** *Compliance with or breach of environmental laws can be costly and could limit our operations* in Item 1A of this report, which are incorporated herein by reference.

Operations Outside the United States

Our operations outside the U.S. accounted for approximately 66%, 79% and 85% of our total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. See **Risk Factors** *Significant portions of our operations are conducted outside the United States and involve additional risks not associated with United States domestic operations*, **Risk Factors** *We may enter into drilling contracts that expose us to greater risks than we normally assume*, **Risk Factors** *We may be required to accrue additional tax liability on certain of our foreign earnings* and **Risk Factors** *Fluctuations in exchange rates and nonconvertibility of currencies could result in losses to us* in Item 1A of this report, which are incorporated herein by reference.

Employees

As of December 31, 2016, we had approximately 2,800 workers, including international crew personnel furnished through independent labor contractors.

Table of Contents**Executive Officers of the Registrant**

We have included information on our executive officers in Part I of this report in reliance on General Instruction G(3) to Form 10-K. Our executive officers are elected annually by our Board of Directors and serve at the discretion of our Board of Directors until their successors are duly elected and qualified, or until their earlier death, resignation, disqualification or removal from office. Information with respect to our executive officers is set forth below.

Name	Age as of January 31, 2017	Position
Marc Edwards	56	President and Chief Executive Officer and Director
David L. Roland	55	Senior Vice President, General Counsel and Secretary
Thomas Roth	61	Senior Vice President Worldwide Operations
Ronald Woll	49	Senior Vice President and Chief Commercial Officer
Kelly Youngblood	51	Senior Vice President and Chief Financial Officer
Beth G. Gordon	61	Vice President and Controller

Marc Edwards has served as our President and Chief Executive Officer and as a Director since March 2014. Mr. Edwards previously served as a member of the Executive Committee and as Senior Vice President of the Completion and Production Division at Halliburton Company, a global diversified oilfield services company, from January 2010 to February 2014.

David L. Roland has served as our Senior Vice President, General Counsel and Secretary since September 2014. From April 2004 until joining us in 2014, Mr. Roland served as Senior Vice President, General Counsel and Corporate Secretary of ION Geophysical Corporation, a NYSE-listed geophysical company.

Thomas Roth has served as our Senior Vice President Worldwide Operations since December 2016. Mr. Roth previously served as Vice President of the Boots & Coots Product Service Line at Halliburton Company from July 2013 to September 2015. Mr. Roth also served as Boots & Coots Global Operations Manager at Halliburton Company from August 2011 to July 2013.

Ronald Woll has served as our Senior Vice President and Chief Commercial Officer since June 2014. Mr. Woll previously served as Senior Vice President Supply Chain at Halliburton Company from January 2011 through June 2014.

Kelly Youngblood has served as our Senior Vice President and our Chief Financial Officer since May 2016. Mr. Youngblood previously served as Vice President, Investor Relations at Halliburton Company from January 2013 to April 2016. From September 2011 to December 2012, Mr. Youngblood served as Senior Director, Investor Relations at Halliburton Company.

Beth G. Gordon has served as our Vice President and Controller since January 2017 and previously served as our Controller since April 2000.

Access to Company Filings

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and accordingly file annual, quarterly and current reports, any amendments to those reports, proxy statements and other information with the United States Securities and Exchange Commission, or SEC. You may read and copy the information we file with the SEC at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available to the public from the SEC's Internet site at www.sec.gov or from our Internet site at www.diamondoffshore.com. Our website provides a hyperlink to a third-party SEC filings website where these reports may be viewed and printed at no cost as soon as reasonably practicable after we have electronically filed such material with, or furnished it to, the SEC. The preceding Internet addresses and all other Internet addresses

Table of Contents

referenced in this report are for information purposes only and are not intended to be a hyperlink. Accordingly, no information found or provided at such Internet addresses or at our website in general (or at other websites linked to our website) is intended or deemed to be incorporated by reference in this report.

Item 1A. Risk Factors.

Our business is subject to a variety of risks and uncertainties. If any of these risks or uncertainties actually occur, our business, financial condition, results of operations and cash flows, and the trading prices of our securities, may be materially and adversely affected. You should carefully consider these risks when evaluating us and our securities. We have described below the most significant risks and uncertainties facing us; however, these risks and uncertainties are not the only ones facing our company. We are also subject to a variety of risks that affect many other companies generally, as well as additional risks and uncertainties not known to us or that, as of the date of this report, we believe are not as significant as the risks described below.

The worldwide demand for drilling services has declined significantly as a result of the decline in oil prices, which commenced during the second half of 2014 and has continued into 2017.

Demand for our drilling services depends in large part upon the oil and natural gas industry's offshore exploration and production activity and expenditure levels, which are directly affected by oil and gas prices and market expectations of potential changes in oil and gas prices. Commencing in the second half of 2014, oil prices have declined precipitously, falling to a 12-year low of less than \$30 per barrel in January 2016. Oil prices have recently rebounded to some extent, but continue to exhibit day-to-day volatility. The dramatic reduction in commodity prices has caused a sharp decline in the demand for offshore drilling services, including services that we provide and adversely affected our results of operations and cash flows in 2015 and 2016, compared to previous years. A prolonged period of low oil prices would have a material adverse effect on many of our customers and, therefore, on demand for our services and on our financial condition, results of operations and cash flows.

Oil prices have been, and are expected to continue to be, volatile and are affected by numerous factors beyond our control, including:

worldwide supply and demand for oil and gas;

the level of economic activity in energy-consuming markets;

the worldwide economic environment and economic trends, including recessions and the level of international trade activity;

the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels and pricing;

the level of production in non-OPEC countries;

civil unrest and the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities involving the Middle East, Russia, other oil-producing regions or other geographic areas or further acts of terrorism in the United States or elsewhere;

the cost of exploring for, developing, producing and delivering oil and gas;

the discovery rate of new oil and gas reserves;

the rate of decline of existing and new oil and gas reserves and production;

Table of Contents

available pipeline and other oil and gas transportation and refining capacity;

the ability of oil and gas companies to raise capital;

weather conditions, including hurricanes, which can affect oil and gas operations over a wide area;

natural disasters or incidents resulting from operating hazards inherent in offshore drilling, such as oil spills;

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

technological advances affecting energy consumption, including development and exploitation of alternative fuels or energy sources;

laws and regulations relating to environmental or energy security matters, including those purporting to address global climate change;

domestic and foreign tax policy; and

advances in exploration and development technology.

An increase in commodity demand and prices will not necessarily result in a prompt increase in offshore drilling activity since our customers project development times, reserve replacement needs and expectations of future commodity demand, prices and supply of available competing rigs all combine to affect demand for our rigs.

Our business depends on the level of activity in the offshore oil and gas industry, which has been cyclical and is significantly affected by many factors outside of our control.

Demand for our drilling services depends upon the level of offshore oil and gas exploration, development and production in markets worldwide, and those activities depend in large part on oil and gas prices, worldwide demand for oil and gas and a variety of political and economic factors. The level of offshore drilling activity is adversely affected when operators reduce or defer new investment in offshore projects, reduce or suspend their drilling budgets or reallocate their drilling budgets away from offshore drilling in favor of other priorities, such as shale or other land-based projects, which could reduce demand for our rigs. As a result, our business and the oil and gas industry in general are subject to cyclical fluctuations.

As a result of the cyclical fluctuations in the market, there have been periods of lower demand, excess rig supply and lower dayrates, followed by periods of higher demand, shorter rig supply and higher dayrates. We cannot predict the timing or duration of such fluctuations. Periods of lower demand or excess rig supply, which have occurred in the recent past and are continuing, intensify the competition in the industry and often result in periods of lower utilization and lower dayrates. During these periods, our rigs may not obtain contracts for future work and may be idle for long periods of time or may be able to obtain work only under contracts with lower dayrates or less favorable terms, which could have a material adverse effect on our financial condition, results of operations and cash flows during these periods. Additionally, prolonged periods of low utilization and dayrates could also result in the recognition of further impairment charges on certain of our drilling rigs if future cash flow estimates, based upon information available to management at the time, indicate that the carrying value of these rigs may not be recoverable. See

We may incur additional asset impairments and/or rig retirements as a result of reduced demand for certain offshore drilling rigs.

Our industry is highly competitive, with oversupply and intense price competition.

The offshore contract drilling industry is highly competitive with numerous industry participants. Some of our competitors may be larger companies, have larger or more technologically advanced fleets and have greater financial or other resources than we do. The drilling industry has experienced consolidation in the past and may experience

Table of Contents

additional consolidation, which could create additional large competitors. Drilling contracts are traditionally awarded on a competitive bid basis. Price is typically the primary factor in determining which qualified contractor is awarded a job; however, rig availability and location, a drilling contractor's safety record and the quality and technical capability of service and equipment may also be considered.

New rig construction and upgrades of existing drilling rigs, cancellation or termination of drilling contracts and established rigs coming off contract have contributed to the current oversupply of drilling rigs, intensifying price competition. Additional newbuild rigs entering the market are expected to further negatively impact rig utilization and intensify price competition as rigs are delivered. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Overview—*Floater Markets* in Item 7 of this report.

Our customer base is concentrated.

We provide offshore drilling services to a customer base that includes major and independent oil and gas companies and government-owned oil companies. During 2016, one of our customers in the GOM, Anadarko, and our five largest customers in the aggregate accounted for 22% and 65%, respectively, of our annual total consolidated revenues. In addition, the number of customers we have performed services for has declined from 35 in 2014 to 18 in 2016. The loss of a significant customer could have a material adverse impact on our financial condition, results of operations and cash flows, especially in a declining market where the number of our working drilling rigs is declining along with the number of our active customers. In addition, if a significant customer experiences liquidity constraints or other financial difficulties, or elects to terminate one of our drilling contracts, it could materially adversely affect our utilization rates in the affected market and also displace demand for our other drilling rigs as the resulting excess supply enters the market. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Overview—*Contract Drilling Backlog* in Item 7 of this report.

We can provide no assurance that our drilling contracts will not be terminated early or that our current backlog of contract drilling revenue will be ultimately realized.

Generally, our customers may terminate our drilling contracts under certain circumstances, such as the destruction or loss of a drilling rig, if we suspend drilling operations for a specified period of time as a result of a breakdown of major equipment, excessive downtime for repairs, failure to meet minimum performance criteria (including customer acceptance testing) or, in some cases, due to other events beyond the control of either party.

In addition, some of our drilling contracts permit the customer to terminate the contract after specified notice periods, often by tendering contractually specified termination amounts, which may not fully compensate us for the loss of the contract. During depressed market conditions, such as those currently in effect, certain customers have utilized such contract clauses to seek to renegotiate or terminate a drilling contract or claim that we have breached provisions of our drilling contracts in order to avoid their obligations to us under circumstances where we believe we are in compliance with the contracts. For example, in August 2016, Petrobras, the customer for the *Ocean Valor*, delivered a notice of termination of its drilling contract. We are disputing in court the termination attempt as unlawful and have obtained a preliminary injunction against the termination, which Petrobras has appealed. Additionally, because of depressed commodity prices, restricted credit markets, economic downturns, changes in priorities or strategy or other factors beyond our control, a customer may no longer want or need a rig that is currently under contract or may be able to obtain a comparable rig at a lower dayrate. For these reasons, customers may seek to renegotiate the terms of our existing drilling contracts, terminate our contracts without justification or repudiate or otherwise fail to perform their obligations under our contracts. Such renegotiations could include requests to lower the contract dayrate, in some cases, in exchange for additional contract term, shorten the term on one contracted rig in exchange for additional term on another rig, early termination of a contract in exchange for a lump sum payout and many other possibilities. Our contract backlog may be adversely impacted as a result of such contract terminations or renegotiations.

When a customer terminates our contract prior to the contract's scheduled expiration, our contract backlog is adversely impacted, and we might not recover any compensation for the termination or any recovery we might obtain.

Table of Contents

may not fully compensate us for the loss of the contract. In any case, the early termination of a contract may result in our rig being idle for an extended period of time. Each of these results could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, if our customer cancels our contract or if we elect to terminate a contract due to the customer's nonperformance and in either case we are unable to secure a new contract on a timely basis and on substantially similar terms, or if a contract is disputed or suspended for an extended period of time or if a contract is renegotiated, it could materially and adversely affect our financial condition, results of operations and cash flows.

Currently, our reported contract backlog only includes future revenues under firm commitments; however, from time to time, we may report anticipated commitments for which definitive agreements have not yet been, but are expected to be, executed. We can provide no assurance that in such cases we will be able to ultimately execute a definitive agreement. In addition, for the reasons described above, we can provide no assurance that our customers will be willing or able to fulfill their contractual commitments to us.

Our inability to perform our contractual obligations, or our customers' inability or unwillingness to fulfill their contractual commitments to us, may have a material adverse effect on our financial condition, results of operations and cash flows. See *Our industry is highly competitive, with oversupply and intense price competition* and Management's Discussion and Analysis of Financial Condition and Results of Operations *Market Overview Contract Drilling Backlog* in Item 7 of this report.

We may not be able to renew or replace expiring contracts for our rigs.

As of the date of this report, we have a number of customer contracts that will expire in 2017 and 2018. Our ability to renew or replace expiring contracts or obtain new contracts, and the terms of any such contracts, will depend on various factors, including market conditions and the specific needs of our customers, at such times. Given the historically cyclical and highly competitive nature of our industry, we may not be able to renew or replace the contracts or we may be required to renew or replace expiring contracts or obtain new contracts at dayrates that are below, and potentially substantially below, existing dayrates, or that have terms that are less favorable to us than our existing contracts. Moreover, we may be unable to secure contracts for these rigs. Failure to secure contracts for a rig may result in a decision to cold stack the rig, which puts the rig at risk for impairment and may competitively disadvantage the rig as customers, during the most recent market downturn, have expressed a preference for ready or hot stacked rigs over cold-stacked rigs. This could have a material adverse effect on our financial condition, results of operations and cash flows.

We may incur additional asset impairments and/or rig retirements as a result of reduced demand for certain offshore drilling rigs.

The current oversupply of drilling rigs in the offshore drilling market has resulted in numerous rigs being idled and in some cases retired and/or scrapped. We evaluate our property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and we could incur additional impairment charges related to the carrying value of our drilling rigs. Impairment write-offs could result if, for example, any of our rigs become obsolete or commercially less desirable due to changes in technology, market demand or market expectations or their carrying values become excessive due to the condition of the rig, cold stacking the rig, the expectation of cold stacking the rig in the near future, contracted backlog of less than one year for a rig, a decision to retire or scrap the rig, or excess spending over budget on a new-build construction project or major rig upgrade. We utilize an undiscounted probability-weighted cash flow analysis in testing an asset for potential impairment, reflecting management's assumptions and estimates regarding the appropriate risk-adjusted dayrate by rig, future industry conditions and operations and other factors. Asset impairment evaluations are, by their nature, highly subjective. The use of different estimates and assumptions could result in materially different carrying values of our assets, which could impact the need to record an impairment charge and the amount of any charge taken. Since 2012, we have retired and sold 20 drilling rigs and recorded impairment losses aggregating \$1.6 billion, including \$678.1 million recognized in 2016. Historically, the longer a drilling rig remains cold stacked, the higher the cost of reactivation and, depending on the age,

Table of Contents

technological obsolescence and condition of the rig, the lower the likelihood that the rig will be reactivated at a future date. See Management's Discussion and Analysis of Financial Condition and Results of Operations Market Overview Critical Accounting Estimates Property, Plant and Equipment in Item 7 of this report and Note 2 Asset Impairments to our Consolidated Financial Statements in Item 8 of this report.

We can provide no assurance that our assumptions and estimates used in our asset impairment evaluations will ultimately be realized or that the current carrying value of our property and equipment, including rigs designated as held for sale, will ultimately be realized.

Our contract drilling expense includes fixed costs that will not decline in proportion to decreases in rig utilization and dayrates.

Our contract drilling expense includes all direct and indirect costs associated with the operation, maintenance and support of our drilling equipment, which is often not affected by changes in dayrates and utilization. During periods of reduced revenue and/or activity, certain of our fixed costs will not decline and often we may incur additional operating costs, such as fuel and catering costs, for which we are generally reimbursed by the customer when a rig is under contract. During times of reduced utilization, reductions in costs may not be immediate as we may incur additional costs associated with cold stacking a rig (particularly if we cold stack a newer rig, such as a drillship, for which cold-stacking costs are typically substantially higher than for a jack-up rig or an older floater rig), or we may not be able to fully reduce the cost of our support operations in a particular geographic region due to the need to support the remaining drilling rigs in that region. Accordingly, a decline in revenue due to lower dayrates and/or utilization may not be offset by a corresponding decrease in contract drilling expense and could have a material adverse effect on our financial condition, results of operations and cash flows.

We may enter into drilling contracts that expose us to greater risks than we normally assume.

From time to time, we may enter into drilling contracts with national oil companies, government-controlled entities or others that expose us to greater risks than we normally assume, such as exposure to greater environmental or other liability and more onerous termination provisions giving the customer a right to terminate without cause or upon little or no notice. Upon termination, these contracts may not result in a payment to us, or if a termination payment is required, it may not fully compensate us for the loss of a contract.

Changes in tax laws, effective income tax rates or adverse outcomes resulting from examination of our tax returns could adversely affect our financial results.

Tax laws and regulations are highly complex and subject to interpretation and disputes. We conduct our worldwide operations through various subsidiaries in a number of countries throughout the world. As a result, we are subject to highly complex tax laws, regulations and income tax treaties within and between the countries in which we operate as well as countries in which we may be resident, which may change and are subject to interpretation. We determine our income tax expense based on our interpretation of the applicable tax laws and regulations in effect in each jurisdiction for the period during which we operate and earn income. Our overall effective tax rate could be adversely and suddenly affected by lower than anticipated earnings in countries where we have lower statutory rates and higher than anticipated earnings in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities or by changes in tax law, tax treaties, regulations, accounting principles or interpretations thereof in one or more countries in which we operate. In addition, changes in laws, treaties and regulations and the interpretation of such laws, treaties and regulations may put us at risk for future tax assessments and liabilities which could be substantial and could have a material adverse effect on our financial condition, results of operations and cash flows.

Our income tax returns are subject to review and examination. We do not recognize the benefit of income tax positions we believe are more likely than not to be disallowed upon challenge by a tax authority. If any tax authority successfully challenges any tax position taken or intercompany pricing policies, or if the terms of certain income tax

Table of Contents

treaties are interpreted in a manner that is adverse to us or our operations, or if we lose a material tax dispute in any country, our effective tax rate on our worldwide earnings could increase substantially and our earnings and cash flows from operations could be materially adversely affected.

We are subject to extensive domestic and international laws and regulations that could significantly limit our business activities and revenues and increase our costs.

Our operations are affected in varying degrees by governmental laws and regulations. In addition to the specific regulatory risks discussed elsewhere in this Item 1A. Risk Factors section, our operations are subject to other laws, regulations and government policies worldwide. Certain countries are subject to restrictions, sanctions and embargoes imposed by the United States government or other governmental or international authorities. These restrictions, sanctions and embargoes may prohibit or limit us from participating in certain business activities in those countries. Our operations are also subject to numerous local, state and federal laws and regulations in the United States and in foreign jurisdictions concerning the containment and disposal of hazardous materials, the remediation of contaminated properties and the protection of the environment. The offshore drilling industry is dependent on demand for services from the oil and gas exploration industry and, accordingly, can be affected by changes in tax and other laws relating to the energy business generally. We may be required to make significant expenditures for additional capital equipment or inspections and recertifications thereof to comply with existing or new governmental laws and regulations. It is also possible that these laws and regulations may in the future add significantly to our operating costs or result in a reduction in revenues associated with downtime required to install such equipment or may otherwise significantly limit drilling activity.

In addition, our operating income is negatively impacted when we perform certain regulatory inspections, which we refer to as a special survey, that are due every five years for most of our rigs. The inspection interval for our North Sea rigs is two-and-one-half years. These special surveys are generally performed in a shipyard and require scheduled downtime, which can negatively impact operating revenue. Operating expenses increase as a result of these special surveys due to the cost to mobilize the rigs to a shipyard, and inspection, repair and maintenance costs. Repair and maintenance activities may result from the special survey or may have been previously planned to take place during this mandatory downtime. The number of rigs undergoing a special survey will vary from year to year, as well as from quarter to quarter. Operating income may also be negatively impacted by intermediate surveys, which are performed at interim periods between special surveys. Although an intermediate survey normally does not require shipyard time, the survey may require some downtime for the rig. We can provide no assurance as to the exact timing and/or duration of downtime associated with regulatory inspections, planned rig mobilizations and other shipyard projects.

In April 2016, the Bureau of Safety and Environmental Enforcement, or BSEE, issued its final well control regulations in response to the 2010 Macondo well blowout and subsequent investigation into the causes of the event. The final well control rule, which became effective in July 2016, resulted in reforms that consolidated new regulations regarding equipment and operational requirements pertaining to offshore oil and gas drilling, completions, workovers and decommissioning operations in the U.S. Gulf of Mexico to enhance safety and environmental protection. BSEE's final rule focuses on blowout preventers, or BOPs, and well-control requirements. Key features of the well control rule include requirements for BOPs, double shear rams, third-party reviews of equipment, real-time monitoring data, safe drilling margins, centralizers, inspections and other reforms related to well design and control, casing, cementing and subsea containment.

BSEE's new regulations under the well control rule, to be phased in over time, could require modifications or enhancements to existing systems and equipment, or require new equipment, and could increase our operating costs and cause downtime for our rigs if we are required to take any of them out of service between scheduled surveys or inspections, or if we are required to extend scheduled surveys or inspections, to meet any such new requirements. We are not able to predict the likelihood, nature or extent of any additional rulemaking or the future impact of these events on our operations. Additional governmental regulations concerning licensing, taxation, equipment specifications, training requirements or other matters could increase the costs of our operations, and enhanced permitting requirements, as well

Table of Contents

as escalating costs borne by our customers, could reduce exploration activity in the GOM and therefore demand for our services.

Governments in some countries are increasingly active in regulating and controlling the ownership of concessions, the exploration for oil and gas and other aspects of the oil and gas industry. The modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploratory or developmental drilling for oil and gas for economic, environmental or other reasons could materially and adversely affect our operations by limiting drilling opportunities.

Governments around the world are also increasingly considering and adopting laws and regulations to address climate change issues. Lawmakers and regulators in the United States and other jurisdictions where we operate have focused increasingly on restricting the emission of carbon dioxide, methane and other greenhouse gases. This may result in new environmental regulations that may unfavorably impact us, our suppliers and our customers. We may be exposed to risks related to new laws, regulations, treaties or international agreements pertaining to climate change, greenhouse gases, carbon emissions or energy use that could decrease the use of oil or natural gas, thus reducing demand for hydrocarbon-based fuel and our drilling services. Governments may also pass laws or regulations incentivizing or mandating the use of alternative energy sources, such as wind power and solar energy, which may reduce demand for oil and natural gas and our drilling services. Such laws, regulations, treaties or international agreements could result in increased compliance costs or additional operating restrictions, which may have a negative impact on our business, and could adversely affect our operations by limiting drilling opportunities.

If we or our customers are unable to acquire or renew permits and approvals required for drilling operations, we may be forced to delay, suspend or cease our operations.

Oil and natural gas exploration and production operations require numerous permits and approvals for us and our customers from governmental agencies in the areas in which we operate or expect to operate. Obtaining all necessary permits and approvals may necessitate substantial expenditures to comply with the requirements of these permits and approvals, future changes to these permits or approvals, or any adverse change in the interpretation of existing permits and approvals. In addition, such regulatory requirements and restrictions could also delay or curtail our operations. Failure by us or our customers to obtain necessary permits and approvals in a timely manner could materially and adversely affect our financial condition, results of operations and cash flows.

Contracts for our drilling rigs are generally fixed dayrate contracts, and increases in our operating costs could adversely affect our profitability on those contracts.

Our contracts for our drilling rigs generally provide for the payment of a fixed dayrate per rig operating day, although some contracts do provide for a limited escalation in dayrate due to increased operating costs we incur on the project. Many of our operating costs, such as labor costs, are unpredictable and may fluctuate based on events beyond our control. In addition, equipment repair and maintenance expenses vary depending on the type of activity the rig is performing, the age and condition of the equipment and general market factors impacting relevant parts, components and services. The gross margin that we realize on these fixed dayrate contracts will fluctuate based on variations in our operating costs over the terms of the contracts. In addition, for contracts with dayrate escalation clauses, we may not be able to fully recover increased or unforeseen costs from our customers. Our inability to recover these increased or unforeseen costs from our customers could materially and adversely affect our financial condition, results of operations and cash flows.

Our business involves numerous operating hazards that could expose us to significant losses and significant damage claims. We are not fully insured against all of these risks and our contractual indemnity provisions may not fully protect us.

Our operations are subject to the significant hazards inherent in drilling for oil and gas offshore, such as blowouts, reservoir damage, loss of production, loss of well control, unstable or faulty sea floor conditions, fires and natural

Table of Contents

disasters such as hurricanes. The occurrence of any of these types of events could result in the suspension of drilling operations, damage to or destruction of the equipment involved and injury or death to rig personnel and damage to producing or potentially productive oil and gas formations, oil spillage, oil leaks, well blowouts and extensive uncontrolled fires, any of which could cause significant environmental damage. In addition, offshore drilling operations are subject to marine hazards, including capsizing, grounding, collision and loss or damage from severe weather. Operations also may be suspended because of machinery breakdowns, abnormal drilling conditions, failure of suppliers or subcontractors to perform or supply goods or services or personnel shortages. Any of the foregoing events could result in significant damage or loss to our properties and assets or the properties and assets of others, injury or death to rig personnel or others, significant loss of revenues and significant damage claims against us, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Our drilling contracts with our customers provide for varying levels of indemnity and allocation of liabilities between our customers and us with respect to the hazards and risks inherent in, and damages or losses arising out of, our operations, and we may not be fully protected. Our contracts with our customers generally provide that we and our customers each assume liability for our respective personnel and property. Our contracts also generally provide that our customers assume most of the responsibility for and indemnify us against loss, damage or other liability resulting from, among other hazards and risks, pollution originating from the well and subsurface damage or loss, while we typically retain responsibility for and indemnify our customers against pollution originating from the rig. However, in certain drilling contracts we may not be fully indemnified by our customers for damage to their property and/or the property of their other contractors. In certain contracts we may assume liability for losses or damages (including punitive damages) resulting from pollution or contamination caused by negligent or willful acts of commission or omission by us, our suppliers and/or subcontractors, generally (but not always) subject to negotiated caps on a per occurrence basis and/or on an aggregate basis for the term of the contract. In some cases, suppliers or subcontractors who provide equipment or services to us may seek to limit their liability resulting from pollution or contamination. Our contracts are individually negotiated, and the levels of indemnity and allocation of liabilities in them can vary from contract to contract depending on market conditions, particular customer requirements and other factors existing at the time a contract is negotiated. If we incur liability for significant losses or damages under any such provisions, it could have a material adverse effect on our results of operations, financial condition and cash flows.

Additionally, the enforceability of indemnification provisions in our contracts may be limited or prohibited by applicable law or such provisions may not be enforced by courts having jurisdiction, and we could be held liable for substantial losses or damages and for fines and penalties imposed by regulatory authorities. The indemnification provisions in our contracts may be subject to differing interpretations, and the laws or courts of certain jurisdictions may enforce such provisions while other laws or courts may find them to be unenforceable, void or limited by public policy considerations, including when the cause of the underlying loss or damage is our gross negligence or willful misconduct, when punitive damages are attributable to us or when fines or penalties are imposed directly against us. The law with respect to the enforceability of indemnities varies from jurisdiction to jurisdiction and is unsettled under certain laws that are applicable to our contracts. Current or future litigation in particular jurisdictions, whether or not we are a party, may impact the interpretation and enforceability of indemnification provisions in our contracts. There can be no assurance that our contracts with our customers, suppliers and subcontractors will fully protect us against all hazards and risks inherent in our operations. There can also be no assurance that those parties with contractual obligations to indemnify us will be financially able to do so or will otherwise honor their contractual obligations.

We maintain liability insurance, which includes coverage for environmental damage; however, because of contractual provisions and policy limits, our insurance coverage may not adequately cover our losses and claim costs. In addition, certain risks such as pollution, reservoir damage and environmental risks are generally not fully insurable. Also, we do not typically purchase loss-of-hire insurance to cover lost revenues when a rig is unable to work.

We believe that the policy limit under our marine liability insurance is within the range that is customary for companies of our size in the offshore drilling industry and is appropriate for our business. However, if an accident or other event occurs that exceeds our coverage limits or is not an insurable event under our insurance policies, or is not

Table of Contents

fully covered by contractual indemnity, it could result in a significant loss to us. There can be no assurance that we will continue to carry the insurance we currently maintain, that our insurance will cover all types of losses or that we will be able to maintain adequate insurance in the future at rates we consider to be reasonable or that we will be able to obtain insurance against some risks.

Accordingly, the occurrence of any of these hazards or risks that we face could have a material adverse effect on our results of operations, financial condition and cash flows.

Significant portions of our operations are conducted outside the United States and involve additional risks not associated with United States domestic operations.

Our operations outside the United States accounted for approximately 66%, 79% and 85% of our total consolidated revenues for 2016, 2015 and 2014, respectively, and include, or have included, operations in South America, Australia and Southeast Asia, Europe, East and West Africa, the Mediterranean and Mexico. Because we operate in various regions throughout the world, we are exposed to a variety of risks inherent in international operations, including risks of war, political disruption, civil disturbance, acts of terrorism, political corruption, possible economic and legal sanctions (such as possible restrictions against countries that the U.S. government may consider to be state sponsors of terrorism) and changes in global trade policies. We may not have insurance coverage for these risks, or we may not be able to obtain adequate insurance coverage for such events at reasonable rates. Our operations may become restricted, disrupted or prohibited in any country in which any of these risks occur. We are also subject to the following risks in connection with our international operations:

political and economic instability;

piracy, terrorism or other assaults on property or personnel;

kidnapping of personnel;

seizure, expropriation, nationalization, deprivation, malicious damage or other loss of possession or use of property or equipment;

renegotiation or nullification of existing contracts;

disputes and legal proceedings in international jurisdictions;

changing social, political and economic conditions;

enactment of additional or stricter U.S. government or international sanctions;

imposition of wage and price controls, trade barriers, export controls or import-export quotas;

restrictive foreign and domestic monetary policies;

the inability to repatriate income or capital;

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difficulties in collecting accounts receivable and longer collection periods;

fluctuations in currency exchange rates and restrictions on currency exchange;

regulatory or financial requirements to comply with foreign bureaucratic actions;

restriction or disruption of business activities;

Table of Contents

limitation of our access to markets for periods of time;

travel limitations or operational problems caused by public health threats or changes in immigration policies;

difficulties in supplying, repairing or replacing equipment or transporting personnel in remote locations;

difficulties in obtaining visas or work permits for our employees on a timely basis; and

changing taxation policies and confiscatory or discriminatory taxation.

We are also subject to the regulations of the U.S. Treasury Department's Office of Foreign Assets Control and other U.S. laws and regulations governing our international operations in addition to domestic and international anti-bribery laws and sanctions and other restrictions imposed by other governmental or international authorities. In addition, international contract drilling operations are subject to various laws and regulations in countries in which we operate, including laws and regulations relating to:

the equipping and operation of drilling rigs;

import-export quotas or other trade barriers;

repatriation of foreign earnings or capital;

oil and gas exploration and development;

local content requirements;

taxation of offshore earnings and earnings of expatriate personnel; and

use and compensation of local employees and suppliers by foreign contractors.

Some foreign governments favor or effectively require the awarding of drilling contracts to local contractors, require use of a local agent or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These practices may adversely affect our ability to compete in those regions. It is difficult to predict what governmental regulations may be enacted in the future that could adversely affect the international offshore drilling industry. The actions of foreign governments may materially and adversely affect our ability to compete against local competitors.

In addition, the shipment of goods, including the movement of a drilling rig across international borders, subjects us to extensive trade laws and regulations. Our import activities are governed by unique customs laws and regulations that differ in each of the countries in which we operate and often impose record keeping and reporting obligations. The laws and regulations concerning import/export activity and record keeping and reporting requirements are complex and change frequently. These laws and regulations may be enacted, amended, enforced and/or interpreted in a manner adverse to our operations. Shipments can be delayed and denied export or entry for a variety of reasons, some of which may be outside of our control. Shipping delays or denials could cause unscheduled downtime for our rigs. Failure to comply with these laws and regulations could result in criminal and civil penalties, economic sanctions, seizure of shipments and/or the contractual withholding of monies owed to us, among other things.

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Compliance with or breach of environmental laws can be costly and could limit our operations.

In the United States and in many of the international locations in which we operate, laws and regulations controlling the discharge of materials into the environment, requiring removal and cleanup of materials that may harm the environment or otherwise relating to the protection of the environment apply to some of our operations. For example,

Table of Contents

we, as an operator of mobile offshore drilling units in navigable United States waters and some offshore areas, may be liable for damages and costs incurred in connection with oil spills related to those operations. Laws and regulations protecting the environment have become increasingly stringent, and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence or fault on the part of that person. These laws and regulations may expose us to liability for the conduct of, or conditions caused by, others or for acts that were in compliance with all applicable laws at the time they were performed.

U.S. federal and state, foreign and international laws and regulations address oil spill prevention and control and impose a variety of obligations on us related to the prevention of oil spills and liability for damages resulting from such spills. Some of these laws and regulations have significantly expanded liability exposure across all segments of the oil and gas industry. For example, the United States Oil Pollution Act of 1990 imposes strict and, with limited exceptions, joint and several liability upon each responsible party for oil removal costs and a variety of public and private damages. Failure to comply with such laws and regulations could subject us to civil or criminal enforcement action, for which we may not receive contractual indemnification or have insurance coverage, and could result in the issuance of injunctions restricting some or all of our activities in the affected areas. In addition, legislative and regulatory developments may occur that could substantially increase our exposure to liabilities that might arise in connection with our operations.

The application of these laws and regulations or the adoption of new laws and regulations could have a material adverse effect on our financial condition, results of operations and cash flows.

We may be subject to litigation and disputes that could have a material adverse effect on us.

We are, from time to time, involved in litigation and disputes. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment and tax matters and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or effect of any dispute, claim or other litigation matter, and there can be no assurance as to the ultimate outcome of any litigation. We may not have insurance for litigation or claims that may arise, or if we do have insurance coverage it may not be sufficient, insurers may not remain solvent, other claims may exhaust some or all of the insurance available to us or insurers may interpret our insurance policies such that they do not cover losses for which we make claims or may otherwise dispute claims made. Litigation may have a material adverse effect on us because of potential adverse outcomes, defense costs, the diversion of our management's resources and other risk factors inherent in litigation or relating to the claims that may arise.

We self-insure for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico.

Because the amount of insurance coverage available to us is limited, and the cost for such coverage is substantial, we self-insure for physical damage to rigs and equipment caused by named windstorms in the GOM. This results in a higher risk of losses, which could be material, that are not covered by third party insurance contracts. If one or more named windstorms in the GOM cause significant damage to our rigs or equipment, it could have a material adverse effect on our financial condition, results of operations and cash flows.

In addition, certain of our shore-based facilities are located in geographic regions that are susceptible to damage or disruption from hurricanes and other weather events. Future hurricanes or similar natural disasters that impact our facilities, our personnel located at those facilities or our ongoing operations may negatively affect our financial position and operating results. These negative effects may include or result from reduced or lost sales and revenues; costs associated with interruption in operations and with resuming operations; reduced demand for our services from customers that were similarly affected by these events; lost market share; late deliveries; uninsured property losses; lack of or inadequate business interruption insurance; employee evacuations; and an inability to retain necessary staff.

Table of Contents

Our consolidated effective income tax rate may vary substantially from one reporting period to another.

Our consolidated effective income tax rate is impacted by the mix between our domestic and international pre-tax earnings or losses, as well as the mix of the international tax jurisdictions in which we operate. We cannot provide any assurances as to what our consolidated effective income tax rate will be in the future due to, among other factors, uncertainty regarding the nature and extent of our business activities in any particular jurisdiction in the future and the tax laws of such jurisdictions, as well as potential changes in U.S. and foreign tax laws, regulations or treaties or the interpretation or enforcement thereof, changes in the administrative practices and precedents of tax authorities or any reclassification or other matter (such as changes in applicable accounting rules) that increases the amounts we have provided for income taxes or deferred tax assets and liabilities in our consolidated financial statements. This variability may cause our consolidated effective income tax rate to vary substantially from one reporting period to another. An increase in our consolidated effective income tax rate could result in a material adverse effect on our financial condition, results of operations and cash flows.

We may be required to accrue additional tax liability on certain of our foreign earnings.

Certain of our international rigs are owned and operated, directly or indirectly, by Diamond Foreign Asset Company, or DFAC, a Cayman Islands subsidiary that we own. It is our intention to indefinitely reinvest future earnings of DFAC and its foreign subsidiaries to finance our foreign activities. We do not expect to provide for U.S. taxes on any future earnings generated by DFAC and its foreign subsidiaries, except to the extent that these earnings are immediately subjected to U.S. federal income tax. Should a future distribution be made from any unremitted earnings of this subsidiary, we may be required to record additional U.S. income taxes.

Fluctuations in exchange rates and nonconvertibility of currencies could result in losses to us.

Due to our international operations, certain of our monetary assets and liabilities, including tax-related liabilities, are denominated in a foreign currency. Fluctuations in currency exchange rates could increase or decrease the amount receivable or payable by us. We have experienced currency exchange losses where revenues are received and expenses are paid in nonconvertible currencies or where we do not effectively hedge an exposure to a foreign currency. We may also incur losses as a result of an inability to collect revenues because of a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital.

Acts of terrorism and other political and military events could adversely affect the markets for our drilling services.

Terrorist attacks and the continued threat of terrorism in the U.S. and abroad, the continuation or escalation of existing armed hostilities or the outbreak of additional hostilities could lead to increased political, economic and financial market instability and a downturn in the economies of the U.S. and other countries. A lower level of economic activity could result in a decline in energy consumption or an increase in the volatility of energy prices, either of which could materially and adversely affect the market for our offshore drilling services, our dayrates or our utilization and, accordingly, our financial condition, results of operations and cash flows. While we take steps that we believe are appropriately designed to secure our energy assets, there is no assurance that we can completely secure these assets, completely protect them against a terrorist attack or other political and military events or obtain adequate insurance coverage for such events at reasonable rates.

Although we have paid cash dividends in the past, we did not pay any dividends in 2016 and we may not pay regular or special cash dividends in the future, and we can give no assurance as to the amount or timing of the payment of any future regular or special cash dividends.

We pay dividends at the discretion of our Board of Directors, or Board. Any determination to declare a dividend, as well as the amount of any dividend that may be declared, will be based on the Board's consideration of our financial position, earnings, earnings outlook, capital spending plans, outlook on current and future market conditions and

Table of Contents

business needs and other factors that our Board considers relevant at that time. The Board's dividend policy may change from time to time, but there can be no assurance that we will declare any cash dividends at all or in any particular amounts. See "Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" "Dividend Policy" in Item 5 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" "Liquidity and Capital Resources" in Item 7 of this report.

We rely on third-party suppliers, manufacturers and service providers to secure and service equipment, components and parts used in rig operations, conversions, upgrades and construction.

Our reliance on third-party suppliers, manufacturers and service providers to provide equipment and services exposes us to volatility in the quality, price and availability of such items. Certain components, parts and equipment that we use in our operations may be available only from a small number of suppliers, manufacturers or service providers. The failure of one or more third-party suppliers, manufacturers or service providers to provide equipment, components, parts or services, whether due to capacity constraints, production or delivery disruptions, price increases, quality control issues, recalls or other decreased availability of parts and equipment, is beyond our control and could materially disrupt our operations or result in the delay, renegotiation or cancellation of drilling contracts, thereby causing a loss of contract drilling backlog and/or revenue to us, as well as an increase in operating costs and an increased risk of additional asset impairments.

Additionally, our suppliers, manufacturers and service providers could be negatively impacted by current industry conditions or global economic conditions. If certain of our suppliers, manufacturers or service providers were to experience significant cash flow issues, become insolvent or otherwise curtail or discontinue their business as a result of such conditions, it could result in a reduction or interruption in supplies, equipment or services available to us and/or a significant increase in the price of such supplies, equipment and services, which could adversely impact our results of operations and cash flows.

We must make substantial capital and operating expenditures to build, maintain, and upgrade our drilling fleet.

Our business is highly capital intensive and dependent on having sufficient cash flow and/or available sources of financing in order to fund our desired capital expenditure requirements. We can provide no assurance that we will have access to adequate or economical sources of capital to fund our capital expenditures.

Our debt levels may limit our liquidity and flexibility in obtaining additional financing and in pursuing other business opportunities.

As of December 31, 2016, we had outstanding approximately \$104.2 million in borrowings under our revolving credit facility and \$2.0 billion of senior notes, maturing at various times from 2019 through 2043. As of February 10, 2017, we had no borrowings outstanding under our revolving credit facility and \$1.5 billion available to meet our short-term liquidity requirements. We may incur additional indebtedness in the future and borrow from time to time under our revolving credit facility to fund working capital or other needs, subject to compliance with its covenants.

Our ability to meet our debt service obligations is dependent upon our future performance, which is subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. High levels of indebtedness could have negative consequences to us, including:

we may have difficulty satisfying our obligations with respect to our outstanding debt;

we may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions or other purposes;

we may need to use a substantial portion of our available cash flow from operations to pay interest and principal on our debt, which would reduce the amount of money available to fund working capital requirements, capital expenditures, the payment of dividends and other general corporate or business activities;

Table of Contents

our vulnerability to the effects of general economic downturns, adverse industry conditions and adverse operating results could increase;

our flexibility in planning for, or reacting to, changes in our business and in our industry in general could be limited;

we may not have the ability to pursue business opportunities that become available to us;

our amount of debt and the amount we must pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt;

our customers may react adversely to our significant debt level and seek alternative service providers; and

our failure to comply with the restrictive covenants in our debt instruments that, among other things, require us to maintain a specified ratio of our consolidated indebtedness to total capitalization and limit the ability of our subsidiaries to incur debt, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business.

In addition, approximately \$500.0 million of our long-term senior notes will mature over the next five years and will need to be paid or refinanced. We may not be able to refinance our maturing debt upon commercially reasonable terms, or at all, depending on numerous factors, including our financial condition and prospects at the time and the then current state of the bank and capital markets in the U.S. Further, our liquidity may be adversely affected if we are unable to replace our revolving credit facility upon acceptable terms when it matures.

In November 2016, S&P Global Ratings, or S&P, downgraded our corporate credit rating to BB+ from BBB, and, in January 2017, further downgraded our corporate credit rating to BB-; the outlook remains negative. Our current corporate credit rating by Moody's Investors Service is Ba2, with a stable outlook. These credit ratings are below investment grade and could raise the cost of financing. As a consequence, we may not be able to issue additional debt in amounts and/or with terms that we consider to be reasonable. One or more of these occurrences could limit our ability to pursue other business opportunities.

Our revolving credit facility bears interest at variable rates, based on our corporate credit rating and market interest rates. If market interest rates increase, our cost to borrow under our revolving credit facility may also increase. Favorable changes in our current credit ratings could lower the fees that we pay under our revolving credit facility; however, any further downgrade in our credit ratings would have no further impact on the applicable interest rate margins and fees under our revolving credit facility. An increase in interest rates would have an adverse effect on our results of operations and cash flows. Although we may employ hedging strategies such that a portion of the aggregate principal amount outstanding under this credit facility would effectively carry a fixed rate of interest, any hedging arrangement put in place may not offer complete protection from this risk.

Any significant cyber attack or other interruption in network security or the operation of critical computer systems could materially disrupt our operations and adversely affect our business.

Our business has become increasingly dependent upon information technologies, systems and networks to conduct day-to-day operations, and we are placing greater reliance on technology to help support our operations and increase efficiency in our business functions. We are dependent upon our information technology and infrastructure, including operational and financial computer systems, to process the data necessary to conduct almost all aspects of our business. Computer and other business facilities and systems could become unavailable or impaired from a variety of causes including, among others, storms and other natural disasters, terrorist attacks, utility outages, theft, design defects, human error or complications encountered as existing systems are maintained, repaired, replaced or upgraded. It has also been reported that known or unknown entities or groups have mounted so-called "cyber attacks" on businesses and other organizations solely to disable or disrupt computer systems, disrupt operations and, in some cases, steal data. A breach or failure of our computer systems or networks, or those of our customers, vendors or others with whom we do business,

Table of Contents

could materially disrupt our business operations and our customers' operations and could result in the alteration, loss, theft or corruption of data or unauthorized release of confidential, proprietary or sensitive data concerning our company, business activities, employees, customers or vendors. Any such breach or failure could have a material adverse effect on our operations, business or reputation.

We discovered a material weakness in our internal controls and are exposed to risks relating to the effectiveness of our internal controls that could adversely affect our financial reporting and harm our business.

After we had announced our preliminary earnings for the quarter and year ended December 31, 2016, we became aware that our liability for uncertain tax positions in certain foreign jurisdictions did not appropriately reflect changes in foreign exchange rates. Management concluded that this failure was a material weakness in our internal control over financial reporting as of December 31, 2016. For a description of the material weakness in our internal control over financial reporting identified at December 31, 2016, see "Controls and Procedures" in Item 9A of this report.

If the new controls are not appropriately designed to address this material weakness or if we are unsuccessful in implementing or following these new processes or the new controls do not operate effectively or we are otherwise unable to remediate this material weakness, it may result in untimely or inaccurate reporting of our financial condition or results of operations. Ineffective internal controls could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock, limit our ability to access the capital markets in the future and require us to incur additional costs to improve our internal control systems and procedures.

Failure to obtain and retain highly skilled personnel could hurt our operations.

We require highly skilled personnel to operate and provide technical services and support for our business. A well-trained, motivated and adequately-staffed work force has a positive impact on our ability to attract and retain business. As a result, our future success depends on our continuing ability to identify, hire, develop, motivate and retain skilled personnel for all areas of our organization. To the extent that demand for drilling services and/or the size of the active worldwide industry fleet increases, shortages of qualified personnel could arise, creating upward pressure on wages and difficulty in staffing and servicing our rigs, which could adversely affect our results of operations. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees. Heightened competition for skilled personnel could materially and adversely impact our financial condition, results of operations and cash flows by limiting our operations and further increasing our costs.

Unionization efforts and labor regulations in some of the countries in which we operate could materially increase our costs or limit our flexibility.

Some of our employees in non-U.S. markets are represented by labor unions and work under collective bargaining or similar agreements which are subject to periodic renegotiation. These negotiations could result in higher personnel expenses, other increased costs or increased operational restrictions. Efforts have been made from time to time to unionize other portions of our workforce. In addition, we may be subjected to strikes or work stoppages and other labor disruptions in certain countries. Additional unionization efforts, new collective bargaining agreements or work stoppages could materially increase our costs, reduce our revenues or limit our flexibility.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the U.K. elected to withdraw from the European Union in a national referendum. The terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the U.K. formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the U.K. and the European Union, including with respect to the laws and regulations that will apply as the U.K. determines which European Union-derived laws to replace or replicate in the event of a withdrawal. The governments of other European Union member states may also consider withdrawal. These developments, or the

Table of Contents

perception that any of them could occur, may have an adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations.

Rig conversions, upgrades or new-builds may be subject to delays and cost overruns.

From time to time, we add new capacity through conversions or upgrades to our existing rigs or through new construction. Projects of this type are subject to risks of delay or cost overruns inherent in any large construction project resulting from numerous factors, including the following:

shortages of equipment, materials or skilled labor;

work stoppages;

unscheduled delays in the delivery of ordered materials and equipment;

unanticipated cost increases or change orders;

weather interferences or storm damage;

difficulties in obtaining necessary permits or in meeting permit conditions;

design and engineering problems;

disputes with shipyards or suppliers;

availability of suppliers to recertify equipment for enhanced regulations;

customer acceptance delays;

shipyard failures or unavailability; and

failure or delay of third party service providers, civil unrest and labor disputes.

Failure to complete a rig upgrade or new construction on time, or failure to complete a rig conversion or new construction in accordance with its design specifications may, in some circumstances, result in the delay, renegotiation or cancellation of a drilling contract, resulting in a loss of contract drilling backlog and revenue to us. If a drilling contract is terminated under these circumstances, we may not be able to secure a replacement contract or, if we do secure a replacement contract, it may not contain equally favorable terms. In addition, impairment write-offs could result if a rig's carrying value becomes excessive due to spending over budget on a newbuild construction project or major rig upgrade.

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We are controlled by a single stockholder, which could result in potential conflicts of interest.

Loews Corporation, which we refer to as Loews, beneficially owned approximately 53% of our outstanding shares of common stock as of February 10, 2017, and is in a position to control actions that require the consent of stockholders, including the election of directors, amendment of our Restated Certificate of Incorporation and any merger or sale of substantially all of our assets. In addition, three officers of Loews serve on our Board of Directors. One of those, James S. Tisch, the Chairman of the Board of our company, is also the Chief Executive Officer and a director of Loews. We have also entered into a services agreement and a registration rights agreement with Loews, and we may in the future enter into other agreements with Loews.

Table of Contents

Loews is a holding company. In addition to us, its principal subsidiaries are CNA Financial Corporation, a 90% owned subsidiary engaged in commercial property and casualty insurance; Boardwalk Pipeline Partners, LP, a 51% owned subsidiary engaged in transportation and storage of natural gas and natural gas liquids and gathering and processing of natural gas; and Loews Hotels Holding Corporation, a wholly-owned subsidiary engaged in the operation of a chain of hotels. It is possible that Loews may in some circumstances be in direct or indirect competition with us, including competition with respect to certain business strategies and transactions that we may propose to undertake. In addition, potential conflicts of interest exist or could arise in the future for our directors who are also officers of Loews with respect to a number of areas relating to the past and ongoing relationships of Loews and us, including tax and insurance matters, financial commitments and sales of common stock pursuant to registration rights or otherwise. Although the affected directors may abstain from voting on matters in which our interests and those of Loews are in conflict so as to avoid potential violations of their fiduciary duties to stockholders, the presence of potential or actual conflicts could affect the process or outcome of Board deliberations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We own an office building in Houston, Texas, where our corporate headquarters are located. We also own offices and other facilities in New Iberia, Louisiana, Aberdeen, Scotland, Macae, Brazil and Ciudad del Carmen, Mexico. Additionally, we currently lease various office, warehouse and storage facilities in Australia, Louisiana, Malaysia, Singapore, Trinidad and Tobago, and the U.K. to support our offshore drilling operations.

Item 3. Legal Proceedings.

See information with respect to legal proceedings in Note 12 Commitments and Contingencies to our Consolidated Financial Statements in Item 8 of this report.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*****Price Range of Common Stock***

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol DO. The following table sets forth, for the calendar quarters indicated, the high and low closing prices of our common stock as reported by the NYSE.

	Common Stock	
	High	Low
2016		
First Quarter	\$ 24.09	\$ 15.55
Second Quarter	26.04	20.28
Third Quarter	26.11	14.80
Fourth Quarter	21.08	15.42
2015		
First Quarter	\$ 37.23	\$ 26.49
Second Quarter	34.81	25.81
Third Quarter	25.45	17.30
Fourth Quarter	23.50	16.81

As of February 10, 2017, there were approximately 154 holders of record of our common stock. This number represents registered stockholders and does not include stockholders who hold their shares through an institution.

Dividend Policy

In 2016, we discontinued our regular cash dividend. In 2015, we paid regular cash dividends of \$0.125 per share of our common stock on March 2, June 1, September 1 and December 1.

We pay dividends at the discretion of our Board of Directors. Any determination to declare a dividend, as well as the amount of any dividend that may be declared, will be based on the Board's consideration of our financial position, earnings, earnings outlook, capital spending plans, outlook on current and future market conditions and business needs and other factors that our Board considers relevant at that time. The Board's dividend policy may change from time to time, but there can be no assurance that we will declare any cash dividends at all or in any particular amounts. See Risk Factors *Although we have paid cash dividends in the past, we did not pay any dividends in 2016 and we may not pay regular or special cash dividends in the future, and we can give no assurance as to the amount or timing of the payment of any future regular or special cash dividends* in Item 1A of this report, which is incorporated herein by reference.

Table of Contents***CUMULATIVE TOTAL STOCKHOLDER RETURN***

The following graph shows the cumulative total stockholder return for our common stock, the Standard & Poor's 500 Composite Stock Index, or S&P 500 Index, and the Dow Jones U.S. Oil Equipment & Services index over the five year period ended December 31, 2016.

Comparison of Five-Year Cumulative Total Return ⁽¹⁾

	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016
Diamond Offshore	100	129	114	80	47	39
S&P 500 Index	100	116	154	174	177	198
Dow Jones U.S. Oil Equipment & Services	100	99	126	102	78	97

(1) Total return assuming reinvestment of dividends. Assumes \$100 invested on December 31, 2011 in our common stock and the two published indices.

Our dividend history for the periods reported above is as follows:

Year	Q1		Q2		Q3		Q4	
	Regular	Special	Regular	Special	Regular	Special	Regular	Special
2016	\$	\$	\$	\$	\$	\$	\$	\$
2015	\$ 0.125	\$	\$ 0.125	\$	\$ 0.125	\$	\$ 0.125	\$
2014	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75
2013	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75
2012	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75	\$ 0.125	\$ 0.75

Table of Contents**Item 6. Selected Financial Data.**

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

	2016	As of and for the Year Ended December 31,				
		2015	2014	2013	2012	
(In thousands, except per share and ratio data)						
Income Statement Data:						
Total revenues	\$ 1,600,342	\$ 2,419,393	\$ 2,814,671	\$ 2,920,421	\$ 2,986,508	
Operating (loss) income	(356,884) ⁽¹⁾	(294,074) ⁽¹⁾	572,562 ⁽¹⁾	801,606	962,378	
Net (loss) income	(372,503)	(274,285)	387,011	548,686	720,477	
Net (loss) income per share:						
Basic	(2.72)	(2.00)	2.82	3.95	5.18	
Diluted	(2.72)	(2.00)	2.81	3.95	5.18	
Balance Sheet Data:						
Drilling and other property and equipment, net	\$ 5,726,935 ⁽¹⁾	\$ 6,378,814 ⁽¹⁾	\$ 6,945,953 ⁽¹⁾	\$ 5,467,227	\$ 4,864,972	
Total assets	6,371,877	7,149,894 ⁽²⁾	8,005,398 ⁽²⁾	8,374,437 ⁽²⁾	7,223,760 ⁽²⁾	
Long-term debt (excluding current maturities) ⁽³⁾	1,980,884	1,979,778 ⁽²⁾	1,978,635 ⁽²⁾	2,227,192 ⁽²⁾	1,484,540 ⁽²⁾	
Other Financial Data:						
Capital expenditures	\$ 652,673	\$ 830,655	\$ 2,032,764 ⁽⁴⁾	\$ 957,598	\$ 702,041	
Cash dividends declared per share		0.50	3.50	3.50	3.50	
Ratio of earnings to fixed charges ⁽⁵⁾	(3.21)x ⁽⁶⁾	(2.45)x ⁽⁶⁾	4.64x	7.79x	11.11x	

- (1) During 2016, 2015 and 2014, we recorded impairment losses aggregating \$678.1 million, \$860.4 million and \$109.5 million, respectively, to write down certain of our drilling rigs and related equipment with indicators of impairment to their estimated recoverable amounts. See Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Years Ended December 31, 2016, 2015 and 2014 Overview 2016 Compared to 2015 Impairment of Assets and Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Years Ended December 31, 2016, 2015 and 2014 Overview 2015 Compared to 2014 Impairment of Assets in Item 7 and Note 2 Asset Impairments to our Consolidated Financial Statements in Item 8 of this report for a discussion of these impairments.
- (2) Historical data for the four annual periods ending on or before December 31, 2015 has been restated to reflect the effect thereon of the adoption on January 1, 2016 of an accounting standard which requires debt issuance costs associated with our senior notes to be presented in the balance sheet as a reduction in the related long-term debt. Prior to the adoption of this accounting standard, debt issuance costs associated with our senior notes were presented as Prepaid expenses and other current assets and Other assets in our Consolidated Balance Sheets. See Note 1 General Information Debt Issuance Costs to our Consolidated Financial Statements in Item 8 of this report.
- (3) See Note 10 Credit Agreement, Commercial Paper and Senior Notes to our Consolidated Financial Statements included in Item 8 of this report for a discussion of changes to our long-term debt.
- (4) During 2014, we took delivery of three ultra-deepwater drillships and two deepwater semisubmersible rigs. The aggregate net book value of these newly constructed rigs was \$2.7 billion at December 31, 2014, of which \$1.3 billion was reported in construction work-in-progress at December 31, 2013. See Note 9 Drilling and Other Property and Equipment to our Consolidated Financial Statements in Item 8 of this report for a discussion of the components of our drilling and other property and equipment.
- (5) For all periods presented, the ratio of earnings to fixed charges has been computed on a total enterprise basis. Earnings represent pre-tax income from continuing operations plus fixed charges. Fixed charges include (i) interest, whether expensed or capitalized, (ii) amortization of debt issuance costs, whether expensed or capitalized, and (iii) a portion of rent expense, which we believe represents the interest factor attributable to rent.
- (6) The deficiency in our earnings available for fixed charges for the years ended December 31, 2016 and 2015 was \$479.8 million and \$388.9 million, respectively.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our Consolidated Financial Statements (including the Notes thereto) in Item 8 of this report.

We provide contract drilling services to the energy industry around the globe with a fleet of 24 offshore drilling rigs. Our current fleet consists of four drillships, 19 semisubmersible rigs, and one jack-up rig. Of our current fleet, as of January 30, 2017, ten rigs are cold stacked, consisting of four ultra-deepwater, three deepwater and three mid-water semisubmersible rigs. All previously held-for-sale rigs have been sold, except for the *OceanSpur*, which is expected to be sold in the near future. In December 2016, we placed the *Ocean GreatWhite* into service, completing our most recent equipment enhancement cycle. The *Ocean GreatWhite* is currently on standby in Labuan, Malaysia, pending further instructions from BP.

Market Overview

Oil prices, which had fallen to a 12-year low of less than \$30 per barrel in January 2016, rebounded to some extent into the low-to-mid-\$50s per barrel range by the end of January 2017, in part due to expectations that an agreement to cut production by certain members of the Organization of Petroleum Exporting Countries, or OPEC, and others that went into effect in 2017 would reduce the oversupply of oil and raise and potentially stabilize oil prices. To date, however, oil prices have continued to exhibit volatility due to multiple factors, including fluctuations in the current and expected level of global oil inventories and estimates of global demand. Despite the recent rise in oil prices and announcements by a few customers of planned increases in capital spending in 2017, we expect that overall capital spending for offshore exploration and development in 2017 will be lower than 2016 levels. As a consequence, the offshore contract drilling industry remains weak.

Industry analysts have reported that in 2016, for the second consecutive year, the global supply of floater rigs decreased with 24 floaters being scrapped during the year. In addition, many drilling rigs across all water depth categories were cold stacked in 2016. Despite these events, the oversupply of drilling rigs in the floater markets continues to persist. Industry reports indicate that only three newbuild floaters were delivered in 2016; however, there are approximately 40 newbuild floaters scheduled for delivery between 2017 and 2021. Industry analysts predict that these delivery dates may extend further as newbuild owners negotiate with their respective shipyards.

Given the oversupply of rigs, competition for the limited number of offshore drilling jobs continues to be intense. In some cases, dayrates have been negotiated at break-even or below-cost levels in order to enable the drilling contractor to recover a portion of operating costs for rigs that would otherwise be uncontracted or cold stacked. In addition, customers have indicated a preference for "hot" rigs rather than reactivated cold-stacked rigs. This preference incentivizes the drilling contractor to contract rigs at lower rates for the sole purpose of maintaining the rigs in an active state and allowing for at least partial cost recovery. Industry analysts have predicted that the offshore contract drilling market will remain depressed through 2017.

As a result of the continuing depressed market conditions in the offshore drilling industry and continued pessimistic outlook for the near term, certain of our customers, as well as those of our competitors, have attempted to renegotiate or terminate existing drilling contracts. Such renegotiations have included requests to lower the contract dayrate in some cases in exchange for additional contract term, shorten the term on one contracted rig in exchange for additional term on another rig, to early terminate a contract in exchange for a lump sum payout and many other possibilities. In addition to the potential for renegotiations, some of our drilling contracts permit the customer to terminate the contract early after specified notice periods, usually resulting in a requirement for the customer to pay a contractually specified termination amount, which may not fully compensate us for the loss of the contract. As a result of these depressed market conditions, some customers have also utilized such contract clauses to seek to renegotiate or terminate a drilling contract or claim that we have breached provisions of our drilling contracts in order to avoid their obligations to us under circumstances where we believe we are in compliance with the contracts. See **Risk Factors** *We can provide no assurance that our drilling contracts will not be terminated early or that our current backlog of contract drilling revenue will be ultimately realized.*

Table of Contents

Particularly during depressed market conditions, the early termination of a contract may result in a rig being idle for an extended period of time, which could adversely affect our financial condition, results of operations and cash flows. When a customer terminates our contract prior to the contract's scheduled expiration, our contract backlog is also adversely impacted.

Our results of operations and cash flows for the years ended December 31, 2016 and 2015 have been materially impacted by depressed market conditions in the offshore drilling industry. We currently expect that these adverse market conditions will continue for the foreseeable future. The continuation of these conditions for an extended period could result in more of our rigs being without contracts and/or cold stacked or scrapped and could further materially and adversely affect our financial condition, results of operations and cash flows. When we cold stack or elect to scrap a rig, we evaluate the rig for impairment. During 2016, we recognized an aggregate impairment loss of \$678.1 million, related to eight of our drilling rigs and related spare parts and supplies. During 2015, we recognized an aggregate impairment loss of \$860.4 million related to 17 of our drilling rigs. See *Results of Operations Overview 2016 Compared to 2015 Impairment of Assets*, Risk Factors *We may incur additional asset impairments and/or rig retirements as a result of reduced demand for certain offshore drilling rigs* in Item 1A of this report and Note 2 *Asset Impairments* to our Consolidated Financial Statements in Item 8 of this report.

Historically, the longer a drilling rig remains cold stacked, the higher the cost of reactivation and, depending on the age, technological obsolescence and condition of the rig, the lower the likelihood that the rig will be reactivated at a future date. As of January 30, 2017, ten rigs in our fleet were cold stacked.

See *Contract Drilling Backlog* for future commitments of our rigs during 2017 through 2020.

Contract Drilling Backlog

The following table reflects our contract drilling backlog as of January 1, 2017 (based on contract information known at that time), October 1, 2016 (the date reported in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016), and February 16, 2016 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2015). Contract drilling backlog as presented below includes only firm commitments (typically represented by signed contracts) and is calculated by multiplying the contracted operating dayrate by the firm contract period. Our calculation also assumes full utilization of our drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 92-98% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in our contract drilling backlog between periods are generally a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts. In addition, under certain circumstances, our customers may seek to terminate or renegotiate our contracts, which could adversely affect our reported backlog. See *Risk Factors We can provide no assurance that our drilling contracts will not be terminated early or that our current backlog of contract drilling revenue will be ultimately realized* in Item 1A of this report, which is incorporated herein by reference.

	January 1, 2017	October 1, 2016 (In thousands)	February 16, 2016
Contract Drilling Backlog			
Ultra-Deepwater Floaters ⁽¹⁾	\$ 3,215,000	\$ 3,614,000	\$ 4,415,000
Deepwater Floaters	197,000	258,000	375,000
Other Rigs ⁽²⁾	152,000	210,000	405,000
Total	\$ 3,564,000	\$ 4,082,000	\$ 5,195,000

Table of Contents

- (1) Contract drilling backlog as of January 1, 2017 for our ultra-deepwater floaters includes (i) \$470.9 million from 2017 to 2020 attributable to the *Ocean GreatWhite*, which reflects a revised standby rate that allows us to pass along certain cost savings to our customer while maintaining approximately the same operating margin and cash flows of the original contract, and (ii) \$268.6 million from 2017 to 2018 attributable to contracted work for the *Ocean Valor* under the contract that Petróleo Brasileiro S.A., or Petrobras, has attempted to terminate and is currently in effect pursuant to an injunction granted by a Brazilian court, which Petrobras has appealed.
- (2) Includes contract drilling backlog for our mid-water floaters and jack-up rig.
- The following table reflects the amount of our contract drilling backlog by year as of January 1, 2017.

Total	For the Years Ending December 31,			
	2017	2018	2019	2020
	(In thousands)			
