

— PARTICIPANTS

Corporate Participants

Mark W. Smith – Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.

Robert J. Saltiel – President, Chief Executive Officer & Director, Atwood Oceanics, Inc.

Other Participants

Ian Macpherson – Analyst, Simmons & Company International

Waqar Mustafa Syed – Analyst, Goldman Sachs & Co.

Gregory Lewis – Analyst, Credit Suisse Securities (USA) LLC (Broker)

David Thomas Wilson – Analyst, Scotia Howard Weil

Praveen Narra – Analyst, Raymond James & Associates, Inc.

Michael Urban – Analyst, Deutsche Bank Securities, Inc.

Jeff Leon Campbell – Analyst, Tuohy Brothers Investment Research, Inc.

Darren Gacicia – Analyst, KLR Group LLC

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to Atwood Oceanics' First Quarter Earnings Conference Call. Joining us today are Rob Saltiel, President and CEO; and Mark Smith, Senior Vice President and CFO. Please note today's call is being recorded.

It is now my pleasure to turn the program over to Mark Smith. Please go ahead, sir.

Mark W. Smith, Senior Vice President and Chief Financial Officer

Good morning and welcome to Atwood Oceanics' conference call and webcast to review the company's operating results for the first fiscal quarter ended December 31, 2015. The speakers today will be Rob Saltiel, President and CEO; and me, Mark Smith, Senior Vice President and CFO.

Before we begin, let me remind everyone that during the course of this conference call, we may make forward-looking statements. These statements involve risks and uncertainties more fully described in our latest 10-K and our other filings with the SEC. Actual results may differ materially. Undue reliance should not be placed on these forward-looking statements which are applicable only as of the date hereof.

Now, let me turn the call over to Rob for opening remarks.

Robert J. Saltiel, President, Chief Executive Officer & Director

Thank you, Mark, and good day to all of you joining this morning's call. Atwood's fiscal 2016 first quarter was another excellent quarter for both our rig reliability and financial results. As we guided in early January, fleet-wide revenue efficiency was an impressive 99% for the quarter as our operations and technical teams once again delivered world-class performance. This result is even more impressive when considering the increased scrutiny and expectations of our clients in this difficult commodity price environment.

Our outstanding rig reliability has been maintained into the new calendar year as we achieved approximately 98% revenue efficiency across our fleet for the month of January. Our first quarter results also benefited from nearly flawless execution of our two primary projects: the mooring upgrade and survey work on the Atwood Osprey, and the special survey and maintenance work on the Atwood Eagle.

I am pleased to report that both projects were completed within the allotted out of service time and below our projected costs. Our strong earnings were once again aided by the continuation of cost reduction efforts across the company. Last month, after the first quarter closed, we implemented a further downsizing to our headquarters and field support organizations in anticipation of the very challenging year that is ahead of us. This latest round of organizational changes which are not reflected in our first quarter numbers is expected to save approximately \$10 million to \$15 million per year on an annualized basis.

Continuing on the theme of cost reduction, since our last call, we have lowered our expected full year maintenance CapEx as well as the idling costs for the Atwood Mako and Atwood Manta from our previous guidance. Mark will provide more details in his section on the changes in these costs. In addition, we're in a process of planning further cost reductions in our offshore operations with the ultimate goal of achieving the most competitive cost structure in our industry for a high-specification rig fleet. However, any changes to our cost structure or organization will not jeopardize our industry-leading drilling service that is the hallmark of Atwood operations.

We are determined to emerge from this downturn as a strong and successful company, and we firmly believe that we have more room to maneuver than we are getting credit for in the public markets. However, we understand that with the challenges facing our industry, the main focus for many investors has shifted to financial liquidity and balance sheet strength.

We recognize that a strong balance sheet and adequate liquidity are imperatives for navigating this downturn. So maintaining both of these qualities remains a top priority for our management team. To this end in late December, we amended our construction agreements with the DSME shipyard regarding the Atwood Admiral and Atwood Archer drillships.

Mark will provide more details on this, but these amendments allowed us to defer nearly \$200 million in milestone payments that would have been due in the first two quarters of this fiscal year, but that are now due upon the delivery of these rigs to Atwood. The net effect is increased liquidity, reduced near term debt and a better match between the capital payments and each rig's contribution to revenue and earnings.

Turning now to our balance sheet, we believe that we have a good degree of cushion within our debt structure to weather this downturn. One big positive for Atwood is that we are insulated for near term refinancing risk for our two major sources of debt, our revolving credit facility and our unsecured bonds. Recall that our unsecured bonds do not mature until 2020. Our revolving credit facility does not mature until May 2019.

And based on our financial modeling, we should have ample capacity under this revolver inclusive of making the final capital payments on both drillships up until the point at which we refinance the facility in mid-calendar 2018. Thus, we believe we have ample liquidity and see no requirement to raise additional funds as long as we have access to our credit facility.

Given the uncertain timing of our industry's recovery, we also recognize that there's a risk that the covenants on our revolving credit facility could be stressed at a lower point in the cycle in late fiscal 2017, potentially limiting our access to these funds. As a result, we are maintaining regular communications with our lead banks for the facility, and recent discussions are signaling a growing flexibility regarding covenant modifications as this issue becomes widespread across our industry.

Recall that we require only a greater than 50% approval from the lending group to effect a covenant change. We definitely want to eliminate any concerns on our covenant compliance, and we hope to announce a resolution before our next earnings call.

Continuing on the theme of liquidity, our Board of Directors voted to reduce our quarterly dividend from \$0.25 per share to \$0.075 per share at our last board meeting, reflecting a desire to conserve cash during these challenging times. The board may decide to further reduce or suspend altogether the dividend at our next board meeting.

Shifting now to operations, our working rig activity has not changed much from last quarter, although we are currently in the process of wrapping up our drilling program for the Atwood Falcon in Australia. Our rig team there has done a great job for our client, drilling development wells with record efficiency. But we've been unable to locate any follow-on work for the Atwood Falcon in Australia. We plan to mobilize the rig to Malaysia where we will then determine our next steps.

Moving now to the market, the normal end-of-year holiday season and slow New Year ramp-up usually makes for a quiet period for rig contracting. The recent drop in oil prices certainly has not helped operator sentiment. So, this year is off to a particularly slow start, with contract terminations as prolific as new fixtures.

Since our last call, the number of working floaters has declined by a further 7%, with most of these declines again coming in the midwater and deepwater segments. The number of idle floaters has increased by 17, and no additional floaters on a net basis were retired or scrapped. Once again, rig attrition has occurred at a far slower pace than expected.

The idle floater rig count is likely to increase further as 33 floating rigs are scheduled to roll off their contracts by midyear. With the prospects for renewals being challenged, we expect the pace of floater rig attrition to gain steam over the next few quarters.

The jackup segment storyline is unchanged: declining demand, an increasing number of idle rigs and a very small number of rigs exiting the supply stack. Similar to the floaters, jackup contract rollovers in the first half of calendar 2016 will add to the idle jackup count and increase pressure for the older rigs to exit permanently.

As for our rig marketing efforts, one area of our organization where we are increasing our staffing is the marketing arena, and we've assembled a very strong and experienced global marketing team that includes an enhanced presence in London and Kuala Lumpur, as well as Houston.

Regarding specific marketing opportunities, we are making good progress on the opportunity in Brazil for the Atwood Admiral that we discussed on our last call. We have held multiple meetings with the client team in January, and we still expect that an agreement can be finalized in the near future.

In addition, we have identified some short-term follow-on work for the Atwood Osprey that we are working to bring to closure in the next few weeks. Besides these opportunities, we remain highly focused on adding backlog to the rest of our active rigs. Blend and extend contract extensions are still interesting for our clients who are considering additional drilling programs beyond our current agreements.

And with that, I've concluded my prepared comments. So, I'll pass it over to Mark for a discussion of the numbers. Mark?

Mark W. Smith, Senior Vice President and Chief Financial Officer

Thanks, Rob. Today, I will review our fiscal first quarter's operating results, provide guidance for the second quarter and remainder of the fiscal year, and comment on our financial position.

Let's start with highlights for the recent quarter. The company generated quarterly revenues of \$308 million on 792 operating days versus \$363 million on 1,012 operating days in the previous quarter. The reduction in revenue is due in part to the Atwood Osprey and Atwood Eagle incurring zero rate days in the quarter due to planned out of service time. In addition, the Atwood Mako and Atwood Manta were idled at the beginning of the quarter. Finally, the Atwood Achiever and Atwood Orca day rates were reduced as a result of contract extensions. These revenue reductions were offset by excellent revenue efficiency across the fleet of 99%.

Diluted earnings per share were \$0.60 in the first quarter. The non-cash impairment charge of the Atwood Falcon was \$1 per diluted share. The impact of the insurance recoveries related to mooring system repairs on the Atwood Osprey was \$0.28 per diluted share. Excluding these two onetime items, diluted earnings per share were \$1.32. The company's adjusted net margin, excluding the Falcon impairment and the Atwood Osprey insurance recoveries, was 28%.

Contract drilling costs were \$131 million for the quarter, excluding a reimbursable costs of \$8 million, the total of which is consistent with our guidance of \$135 million to \$145 million in January. This compares to \$119 million, net of reimbursable costs, for the previous quarter. The increase this quarter is due primarily to onetime expenses of approximately \$15 million for the Atwood Eagle's mooring system maintenance performed during the rig's special periodic survey.

The Atwood Admiral suspended construction in November and began incurring approximately \$35,000 per day idling costs with the DSME, accumulating to approximately \$1.5 million contract drilling costs in Q1.

We recognized the \$65 million non-cash impairment charge related to the Atwood Falcon, of which \$46 million was the net book value of the rig. We concluded that this 33-year-old rig was not likely to obtain additional work in the foreseeable future and have written down the rig's net book value and inventory of materials and supplies to a salvage value of \$2 million.

General and administrative expenses totaled \$15 million, below our prior guidance [of \$17 to \$19 million] due to focus on cost control.

Concluding this quarter's operating results, our effective tax rate for the quarter was 22%, above the previous quarter and prior guidance due to the nondeductible charges associated with the Falcon impairment. Excluding the impairment and the collection of insurance proceeds related to the Atwood Osprey, the effective rate would have been 12%.

Looking forward now to the second quarter and the remainder of the fiscal year. Before starting the guidance discussion, as of January 1, 2016, 66% of our remaining available days for this fiscal year were contracted. The Atwood Mako and the Atwood Manta, two of our high-specification Pacific Class jackups together with the Atwood Falcon constitute the majority of available days in this fiscal year.

We estimate reimbursable revenue of \$9 million for the fiscal second quarter, ranging from \$32 million to \$36 million for the full year. This remains unchanged from previous guidance. Contract drilling costs are expected to range from \$95 million to \$105 million for the second quarter and \$405 million to \$425 million for the fiscal year, excluding reimbursable costs. These projections are lower than our previous guidance due in part to the idling of the Atwood Falcon at the conclusion of its current contract.

In addition, costs are reduced due to our continued pursuit of cost control measures. We have reduced idling costs on the Atwood Mako and Atwood Manta from \$9,000 each to \$7,000 each per day. We have reduced offshore wage premiums and company-wide benefits. We have eliminated unnecessary projects without sacrificing safety and operational performance.

And finally as Rob mentioned earlier, we have reduced our onshore support organization with three-fourths of the \$10 million to \$15 million annual run rate savings allocated to drilling costs and the remainder in general and administrative expenses. Depreciation should decrease slightly in the second quarter to \$41 million, due to the impairment of the Atwood Falcon, and total approximately \$166 million for the year. General and administrative expenses should range from \$11 million to \$13 million for the fiscal second quarter, resulting in approximately \$50 million to \$52 million for the year versus our prior guidance of \$55 million to \$57 million.

Interest expense should range from \$15 million to \$17 million net of capitalized interest for the second quarter. The lower interest expense on our prior guidance is due to the restructuring of milestone payments with DSME shipyard for our two drillships under construction. Interest expense for the full fiscal 2016 is expected to be \$65 million, and we still expect to pay cash interest of \$80 million for the year.

This interest guidance includes finance charges payable to DSME for the delay in milestone payments in the amounts of \$9,000 per day for the Atwood Admiral currently and starting in Q3, \$29,000 per day for the Atwood Archer. We expect our effective tax rate for the second quarter to approximate 10% to 11%, resulting in a projected rate for the full fiscal year in the range of 11% to 13%.

Now, looking at our financial position. During this quarter, we negotiated the ability to further delay delivery of the Atwood Admiral and Atwood Archer by an additional year each to September 30, 2017 and June 30, 2018, respectively. This adjusted the remaining milestone payments to \$94 million on the Atwood Admiral and \$306 million on Atwood Archer, which will now be due at their respective delivery dates after paying \$50 million on each rig at the end of the year.

This \$100 million collective progress payment was \$50 million lower than prior first quarter guidance. These negotiated terms allow us to preserve cash during this difficult market. Further, this agreement allows us to minimize our idling costs during the extended delay period by remaining dockside.

During this quarter, capital expenditures totaled \$131 million, inclusive of the \$100 million paid on the two drillships at DSME. We expect capital expenditures to be approximately \$41 million for the second quarter. Total CapEx for the full fiscal 2016 will be approximately \$216 million. \$60 million of this full year amount is maintenance CapEx, down approximately \$35 million from prior guidance. The remaining \$155 million is related to construction in process, including owner furnished equipment and capitalized interest.

The outstanding account receivable of \$40 million I mentioned on the last call has now been collected in full. Today, we have no disputes of any significance with any of our clients.

Net debt decreased by \$79 million to \$1.61 billion at December 31, with cash on hand of \$115 million. The amount drawn under the revolving credit facility was and is \$960 million, leaving \$587 million available under the revolver and resulting in liquidity of \$702 million at the end of this first quarter. Assuming cash is constant and the guidance provided is realized, we project at least \$700 million available liquidity through the end of the fiscal year.

We believe we will have full access to this availability as we are currently in compliance with our covenants and project to remain in compliance through the remainder of this fiscal year and well into fiscal 2017. However, our leverage covenant, which measures the ratio of net debt-to-EBITDA

on a rolling four-quarter basis, is likely to become more challenged late in 2017 as more of our rigs are either idled or roll into contracts at current markets rates.

While this is more than six quarters away, as Rob stated earlier, we are in constant communication with our bank group to discuss the strategies to manage covenants through the remainder of this down cycle.

That concludes our prepared comments. I'll now turn the call over to Lindy for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Ian Macpherson with Simmons. Please go ahead. Your line is open.

<Q – Ian Macpherson – Simmons & Company International>: Thanks. Good morning. Rob, I'm sorry. I fell behind. Just distracted for a minute, I think you touched on the drillship opportunity in Brazil briefly, but curious how the prospects for signing significant new term contracts have evolved or devolved maybe from last quarter to this quarter, given the persisting weakness in oil prices and how those negotiations are going.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, Ian, as I mentioned in our prepared comments, we have met with our client this year over multiple days and from all indications, the discussions are moving along at a good pace and everything that we talked about on the last quarter about our pole position to get this opportunity is fully intact.

To answer your question more broadly around the industry, there's no question that as the oil prices have plumbed to new lows, and the uncertainty for their recovery becomes perhaps even greater than it was at the end of calendar 2015, the year's off to a tough start. So, I think all of us who are in this business of offshore drilling are going to be reporting that client responses are fairly muted to start the year. I think everybody's holding their breath and hoping that we've either hit the bottom or we are very close to it, so that we can build back a base on which to reestablish the growth of our business. But right now, we're in a tough spot as an industry and clearly, that hasn't helped operator sentiment or appetite to sign contracts.

<Q – Ian Macpherson – Simmons & Company International>: Yeah. Okay. That makes sense. Have you seen any indications yet that the Chinese or other sort of non-traditional jackup owners coming unglued yet in early 2016? Or if not, how do you think that that plays out in terms of timing?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, we don't have any, let's say, news to report from our previous expectations that many, if not most, of the rigs – jackup rigs that are being constructed in China will either be delayed or cancelled outright. And I certainly would say that with the business conditions having taken a turn to the worse, again with the fall in the oil price and the more muted look on activity, that that's – that prediction is probably even more likely to be correct.

<Q – Ian Macpherson – Simmons & Company International>: Yeah. Okay. That's all I have. Thanks, Rob.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Great. Thanks, Ian.

Operator: And our next question comes from Waqar Syed with Goldman Sachs. Please go ahead. Your line is open.

<Q – Waqar Syed – Goldman Sachs & Co.>: Sure. Back then, we had a discussion in early January, you were more confident about both Osprey and Eagle getting some work, maybe even short-term work. You mentioned about Osprey that there could be some opportunity there. How about Eagle, I mean, with oil prices coming off, do you feel less confident about that rig securing additional work or you still have the same level of confidence?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: No. Waqar, I really focused on the Osprey because it has a nearer term availability. The Eagle, as you know, doesn't roll-off...

<Q – Waqar Syed – Goldman Sachs & Co.>: Yeah.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Contract till September. And so, the current market conditions are going to have less of an impact on potential for renewal for that rig than they might for a rig that comes available sooner. We certainly still see opportunities for both rigs to have extension work in Australia, and that outlook hasn't changed.

<Q – Waqar Syed – Goldman Sachs & Co.>: Okay. And then on the Admiral, when do you think that something could be signed on that particular rig?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, that's a good question. We said on the last call that we expected something to happen in the early part of this year, which I know covers a fairly broad fairway. I'm going to stick with that language. I think it could take a couple or three more months to bring to closure, and we just have to – we have to work at the pace of our client. And in this case, our client has other partners, but they have to get onboard, and sometimes that process takes a little longer than you think.

But as I said in the prepared comments, we're making very good progress on our discussions. We see no reason to believe that our position has changed, and our job is to work it to closure as efficiently as we can.

<Q – Waqar Syed – Goldman Sachs & Co.>: Yeah. Great. Thank you very much.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: You're welcome. Thanks, Waqar.

Operator: And our next question comes from Gregory Lewis with Credit Suisse. Please go ahead. Your line is open.

<Q – Greg Lewis – Credit Suisse Securities (USA) LLC (Broker)>: Thank you and good morning, gentlemen. Hey, Rob. In your prepared remarks, you mentioned that you actually took, I guess, a countercyclical step and actually are building out the marketing team a little bit. Just curious on your thoughts around that. It seems like, generally, other rig companies are shrinking their marketing teams. Was that just the availability of some really good talent, or is it more of a move to try to get into some other markets?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, I think it's a bit of both. I mean, look, we've been growing our fleet as you know and moving toward high-specification rig fleet over the past few years. So, the opportunity to bring some new people onto the team, both from outside the company as well as some movements from within, have helped facilitate the upgrading and high-grading of our team

At the same time, we recognize that we want to have a larger presence in other regions, so a bigger presence in London and a bigger presence in Asia. And so we're really just taking those steps to make sure that not only do we see every opportunity, because I think we do now, but that we maintain a more regular dialogue with our clients even during periods when they may not be able or willing to enter into incremental rig contracts. We want to make sure that we're nurturing those relationships and also communicating all the good things that we're doing around our fleet around safety and operational excellence.

And a lot of this data, as you know, is recent because of our recent entry into high-spec drilling especially in ultra-deepwater. So we want to make sure that we've got that dialogue occurring regularly and across multiple regions.

<Q – Greg Lewis – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Great. And then, Mark, just a couple quick ones for you. I mean clearly, the focus has been on costs. It looks like you're going to be able to shave some more offshore costs out, I think you mentioned \$10 million to \$15 million. I guess how much of that is a function of just we're going to have less working rigs? Or

I'm trying to sort of determine how much of that is structural that is sort of not coming back into recovery or any sort of color there you can give?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Yeah. I'll jump in, Greg, and then if Mark has something to add, he can do the same. Obviously, we're being real careful about where we cut cost because we absolutely will not jeopardize the quality and safety of our operations. That said, we have already seen and fully expect more idling of rig capacity as we go through this year. So, clearly there's a variable component to support costs that will come down with declining rig activity.

But I will also tell you that we are also thinking differently about how we run our business, which of the processes that we currently undertake are fully, let's say, essential, and which of those we can conduct more efficiently by potentially eliminating unnecessary activities whereby improving our processes. So, it's a combination of those costs which are linked to rig activity as well as finding a smarter business model for how we generally support our operations.

<Q – Greg Lewis – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Great. And then, Mark, just real quick on the covenants, and I mean, clearly you touched on – this was touched on in the prepared remarks. I mean, you called out the net debt to EBITDA covenant. I mean it seems like in previous downturns, we've actually seen lenders potentially waive that debt to EBITDA covenant and more just go to a debt to capital covenant in the revolver. I mean, is that sort of – I mean without getting too detailed in how we're thinking about it, I mean, is that a possibility?

<A – Mark Smith – Atwood Oceanics, Inc.>: Well, Greg, it's – debt to cap actually is one of the covenants. We have several.

<Q – Greg Lewis – Credit Suisse Securities (USA) LLC (Broker)>: Yeah. Sure.

<A – Mark Smith – Atwood Oceanics, Inc.>: But your point is right. As we had discussed with the various members of our bank syndicate, we're exploring all options in the [ph] area (27:05) of the possible in how to potentially reconfigure that covenant structure.

<Q – Greg Lewis – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Yeah. Debt to capital is a lot easier to manage than debt to EBITDA. Anyway, hey, guys, thank you very much for the time.

<A – Mark Smith – Atwood Oceanics, Inc.>: Great. Thanks, Greg.

Operator: And your next question comes from Dave Wilson with Howard Weil. Please go ahead. Your line is open.

<Q – Dave Wilson – Scotia Howard Weil>: Good morning, gentlemen. Thanks for taking my questions. Rob and Mark, in your prepared remarks, you mentioned comfort around near-term liquidity and the credit facility. But was wondering in particular about the credit facility being secured by a number of rigs and, in particular, the Eagle and the Falcon. And was wondering, does the recent impairment on the Falcon and potential lack of work for both those rigs, longer term, affect the amount of the credit facility?

<A – Mark Smith – Atwood Oceanics, Inc.>: Let me answer that one, Dave. Thanks for the question. We've evaluated the fair market value of our fleet as required twice annually by the bank group. We just finished that. And we exceed collateral maintenance requirements of 150% of drawings with the Falcon reduced to its salvage value. Even further still, if the Eagle were to incur this similar fate, we would actually be at 154% as of today's valuations. And remember, we still retain the Advantage, Achiever, and Orca as uncollateralized vessels today.

<Q – Dave Wilson – Scotia Howard Weil>: Sure. Thanks for clarifying that.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Dave, that Falcon impairment and any potential impairment on the Eagle wouldn't affect those collateral maintenance obligation satisfaction based on the current valuations that we've got. So, we think we're in good shape there.

<A – Mark Smith – Atwood Oceanics, Inc.>: However, if we did sell those assets, our commitments would reduce but they would only reduce pro rata to the current market value. So, that would [indiscernible] (28:56).

<Q – Dave Wilson – Scotia Howard Weil>: Sure. Okay. Great. Thanks for clearing that up. And then as an unrelated follow-on, the reduction in maintenance CapEx, and Rob, I think you recently commented on this and answering another question as far as the safety goes, but is there concern out there? I mean, how can we monitor – well, I guess the concern is in lowering the maintenance CapEx that we get to some kind of pre-Macondo type attitude towards maintenance or something along those lines.

I mean, from where we sit, is it just monitoring the revenue efficiency to make sure that, okay, everything's being maintained that way. I guess there's some initial concern there about when we hear reduction in maintenance CapEx or reverting back to kind of a pre-Macondo type attitude.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, Dave, I want to allay any concerns you might have about that, because that's not what's going on. In a lot of cases, the maintenance CapEx is being reduced because of the deferral of projects or elimination of projects were deemed unnecessary or nice to have and don't make sense in this market, in other cases, because of the delay in deliveries of the newbuilds, some of the fleet spares that would play into the maintenance CapEx line or delayed along with the delay of those deliveries.

But I think you're exactly right, if you want to look at a yardstick for how we're doing in terms of managing our costs in a prudent way, you can certainly look at our revenue efficiency and you can look at our safety performance and both of those continue to be market leading and they will stay that way.

<Q – Dave Wilson – Scotia Howard Weil>: Thanks, gentlemen, for the answers.

<A – Mark Smith – Atwood Oceanics, Inc.>: Dave, I would just add one comment to follow on to Rob. Over the last few years as we grew organically, we built a preventative maintenance system out. And that system is fleet-wide and is utilized by all the guys on our rigs to maintain equipment. So that plan is in place and is definitely one that will serve us well and help us meet our revenue efficiency as well.

Operator: [Operator Instructions] Our next question comes from Praveen Narra with Raymond James. Please go ahead. Your line is open.

<Q – Praveen Narra – Raymond James & Associates, Inc.>: Hey. Good morning, guys. So, you guys are clearly still finding new ways to reduce costs and new levers to pull. But I guess of the levers that you've identified and begun implementation on, in the first quarter, how much of that have we already seen and how much is still to come?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, as I've mentioned in my prepared comments, the recent downsizing that we undertook here at the Houston headquarters and in some of our field support organization, none of the savings from that would have been manifested in the first quarter numbers. So, on a go-forward basis, I estimated and Mark confirmed, that about \$10 million to \$15 million a year on an annualized basis would result just from that latest round of reductions that we undertook in January.

As we've also mentioned in our comments, we're going to continue to look at ways to reduce costs by running our business smarter. And we've already taken some steps to reduce the cost of running our rigs, a lot of offshore cost. We're here to continue to look at those as well, especially given that we're going to be in a lower-for-longer environment, not just for oil prices, but probably for day rates as well. And we've got to make sure that our day rates are competitive. And in order to make those day rates as competitive as possible, we need to lower our cost structure.

So, we are aiming to have the most competitive cost structure in the industry, doesn't necessarily mean we're going to pay the lowest wages, but we're going to run our business the smartest way we can. And we still think there are opportunities to bring some more savings out of our business just as a matter of necessity for the new order that we find ourselves in.

<Q – Praveen Narra – Raymond James & Associates, Inc.>: Perfect. And then, unrelated follow-up. In terms of contract terms outside of day rates and contract length, are you seeing any material departures when you're going to bid in terms of what operator you ask for, whether it's the Brazilian contract or any extensions or new work you're looking for?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Not really. I will emphasize that the contract activity in our industry has been fairly muted. But we really have not seen any kind of degradation in the terms and conditions per se. We're more focused now on activity. And then obviously the commercial rates have come down, but the standard Ts and Cs, terms and conditions, haven't changed.

<Q – Praveen Narra – Raymond James & Associates, Inc.>: Perfect. Thank you very much.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: You're welcome.

Operator: And our next question comes from Mike Urban with Deutsche Bank. Please go ahead.

<Q – Mike Urban – Deutsche Bank Securities, Inc.>: Thanks. Good morning. I wanted to follow up on some of the cost and efficiency questions. Would certainly agree with your view that you need to be the lowest cost operator out there, that's who's going to win here. I guess the question would be – you guys have a kind of a midsized fleet, do you think you can achieve that without having the scale of some of your larger competitors? And then secondarily, what makes you different? Why do you think you can achieve a lower cost structure than the others? Again, just everybody is looking for anywhere and everywhere to cut.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, I'll make a couple of comments on that. I guess the first thing to note is that when you talk about the scale of the companies, keep in mind that the super majority of our costs occur offshore on a per-rig basis. So, ours is an industry that's not a generally heavy overhead or heavy fixed cost business. It's a variable cost business per rig. And a smaller rig fleet can operate as efficiently as a larger rig fleet given that the costs are mostly offshore. So if we can get our offshore costs down and run our business, which includes the support from onshore, if we could run our rigs at a low cost, then we certainly can be a low-cost leader.

In addition, I'll remind that Atwood Oceanics has one of the, let's say, least complicated structures in the industry. We have a single center of excellence here in Houston, Texas. We don't have a lot of regional offices. We don't have multiple headquarters. We haven't redomesticated to Europe. So, we've got a lot of advantages and simplicity of how we run our organization, which then keeps our G&A and other support costs much more efficiently allocated than some of our larger competitors. I'm not sure it's a diseconomy of scale that they're up against but more they've chosen more complicated structures than we have. And for those reasons, we think that there's no reason why we can't be or shouldn't be the most cost effective provider of high-spec drilling services in the industry.

<A – Mark Smith – Atwood Oceanics, Inc.>: I would just add, in addition to what Rob said that even though we have a small fleet, our nine newbuilds including the two still in the shipyard all have common equipment. Even though they're three different hull types, they all have the same drilling packages, the same BOPs and for the floaters, the same riser. So, we have on the supply chain, even though we have a smaller overall scale, we can build scale into our purchasing processes.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Yeah. Good point. Thanks.

<Q – Mike Urban – Deutsche Bank Securities, Inc.>: Great. That's all for me. Thank you.

<A – Mark Smith – Atwood Oceanics, Inc.>: Great.

Operator: And your next question comes from Jeffrey Campbell with Tuohy Brothers. Please go ahead. Your line is open.

<Q – Jeff Campbell – Tuohy Brothers Investment Research, Inc.>: Good morning.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Morning.

<Q – Jeff Campbell – Tuohy Brothers Investment Research, Inc.>: I just wanted to ask a question – a broader question with regard to rig retirement if you're going forward. I noticed that the Falcon was a 1983 vintage rig and we've seen a number of early 1980's rigs scrapped, cold-stacked across the industry so far. So in 2016, what do you think is the bigger driver for further rig retirement, vintage or depth capability? And following on that, do you have an expectation for the number of rigs that may drop out during the year? Thanks.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Well, I think any rig that goes idle in or is idle already is a potential candidate and that includes some newer rigs. And we've seen some fifth-generation rigs and some ultra-deepwater rigs, cold-stacked and even scrapped in some cases. But generally speaking, there will be a correlation between the eagerness of an offshore driller to scrap or permanently retire a rig and the age of that rig because, obviously, our industry has moved along quite a bit.

And especially with the changes that occurred in our industry post-Macondo, the desire and need for higher spec, safer rigs with greater redundancies, especially around the blowout preventers has really accelerated the move to a newer generation of asset. So, I think you're going to have to really look at the entire fleet of rigs that are idle and/or could go idle, as well as each competitors' inventory of idle rigs to assess their appetite to retire these from the supply stack.

Now, as I mentioned in my comments, we've been surprised that there haven't been more retirements at this point. I think that there has been some lingering hope that we might have seen an earlier recovery in oil prices and maybe in offshore drilling. I think with this latest turn to the south, some of that hope may have faded and rigs that are idle and/or about to go idle, probably become greater candidates for retirement than they would have been even three months ago.

<Q – Jeff Campbell – Tuohy Brothers Investment Research, Inc.>: Okay. Thanks very much. That's helpful.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: You're welcome.

Operator: [Operator Instructions] Our next question comes from Darren Gacicia with KLR Group. Please go ahead. Your line is open.

<Q – Darren Gacicia – KLR Group LLC>: Hey. Good morning, guys. And let me be the maybe the only one that said, pretty good execution for a tough time and good poise, so congratulations on that.

Wanted to ask kind of a follow-on to the last question to some degrees. So, when you guys look at, say, the Falcon versus the Eagle, they're kind of similar vintage. You wrote one down. It sounds like that's kind of upped its place in the potential retirement or kind of scrapping rank, given the fact that you don't know if the contract will roll. When you kind of looked at – kind of when you look at both rigs, what keeps one in, what keeps one out? Is there a different process that happens at year end for impairment testing that we should be looking at maybe following through the industry, and is that process kind of a precursor to saying that a rig may be close to retirement?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Yeah. I mean, the biggest difference between the two rigs is that the Falcon is rolling off contact without further work, and the Eagle is under contract until September of this year with prospects for renewal. When you do an impairment analysis, you basically look at what you have the asset on your books for as compared to the cash flows that you expect from the rig going forward. And given that the Eagle's under contract, it's in a totally different category than the Falcon. So, that's the biggest difference between the two. And obviously these – you evaluate these situations quarter-to-quarter, but there's clear daylight between those two rigs currently.

<Q – Darren Gacicia – KLR Group LLC>: Got you. But is the process any more stringent on a year end basis, or is it the same as it is every quarter?

<A – Mark Smith – Atwood Oceanics, Inc.>: It's the same, Darren, every single quarter. We look at a combination of factors, including, as Rob mentioned, under discounted cash flows, which under GAAP would be an impairment trigger. And we simultaneously look at fair market values between third parties, et cetera, which we do twice a year as part of our bank syndicate covenant fulfillment. So, we'll look at a myriad of things, and as of today, the only vessel with any impairment is the one that was impaired.

<Q – Darren Gacicia – KLR Group LLC>: Okay. Just one follow-up. When you look – people kind of poked around the question around debt and covenants. Seems like people have been able to – other peer companies in the broader oil services group have been able to widen, at least for some period of term, those EBITDA coverage ratios up to maybe even 6 times for some window of time. Is that the type of renegotiating you're looking at, or are there other sort of alternatives to maybe rethinking about the way the debt structure even looks? And can you walk through kind of what those options are a little bit and maybe what's relatively more or less attractive?

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Yeah. Darren, as both of us talked about in our comments, we're in discussions with our lead banks right now. I think it'd be premature to speculate on how those will come out because we do have a number of options available to us. We feel good that our banking syndicate will support us because of the company we are and our financial position being as strong as it is. By the same token, we really do want to eliminate once and for all these concerns about covenant compliance. So we don't want to go for a short-term amendment that we then have to re-amend if conditions change further.

So, we're being real careful about what we're going for in terms of covenants, and we're certainly of what's happened around us with other players who are in this space. But we want to get what's right for Atwood and hopefully it'll take us all the way through the end of the facility without any kind of additional amendments to it. So, that's really the focus for the team right now.

<A – Mark Smith – Atwood Oceanics, Inc.>: I will just add, Darren, that we're looking at doing something, as Rob said, before we have this call next quarter. And that something that we're looking to do is to solve for a problem that, as we said in our prepared comments, goes into late

2017. I think that's a bit of a different situation than the time window that faced others who've recently had covenant changes.

<Q – Darren Gacicia – KLR Group LLC>: Got you. Does that tell me that – and I'm kind of curious of what the relative cost is. If you were to term things out a little bit further, how further does it cost right now, given where like paper across the space, frankly, not just for you guys is trading. Is that a – terming things out in a different way, is that really an option or not? I mean, you tell me, you'd know a lot better than I would.

<A – Rob Saltiel – Atwood Oceanics, Inc.>: Yeah. Darren, we're not really focused right now on terming things out. I mean, we're going to be looking at our balance sheet in a broader context. But the comments that we really made around the covenants are of a totally different nature, and we're going to take a look at the full structure and balance sheet of the company on a regular basis. But our comments around covenants were really related to access to the credit facility and access to the term and tenor that we currently have in place.

<Q – Darren Gacicia – KLR Group LLC>: Thank you. Appreciate it.

Operator: And we have no further questions at this time. I'd like to turn the call back over to our speakers for closing remarks.

Robert J. Saltiel, President, Chief Executive Officer & Director

If there are no more questions, Lindy, we want to thank everybody for joining and for your interest in Atwood Oceanics.

Operator: And ladies and gentlemen, this does conclude today's program. You may disconnect at this time. Thank you and have a great day.

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