ATWOOD
Rob Saltiel
Atwood Oceanics
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Operator: Good day, everyone, and welcome to today's program. At this time, all participants are in a listen-only mode. Later, you will have the opportunity to ask questions during the question-and-answer session.

You may register to ask a question at any time by pressing the * and 1 on your touchtone phone. You may withdraw yourself from the queue by pressing the # key. Please note this call may be recorded. I'll be standing by if you should need any assistance.

It is now my pleasure to turn the conference over to Mr. Mark Smith. Please go ahead.

Mark Smith: Good Morning, and welcome to Atwood Oceanics' Conference Call and Webcast to review the company's operating results for the third quarter ended June 30, 2016. 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.

Rob Saltiel: Thank you, Mark, and welcome to all of you on today's call to discuss Atwood Oceanics' third quarter results. Atwood's rig teams continue to deliver outstanding safety and operations performance for our clients during this downturn, and third quarter was no exception. Fleet revenue efficiency came in at 95%, slightly lower than the second quarter. The lower figure was due in large part to downtime associated with changing out blowout preventer bolts on one of our rigs, coupled with the Atwood Condor and Atwood Achiever being on a reduced standby rate for virtually the entire month of June. Otherwise, it was an excellent quarter for fleet operations.

As I've stated on previous calls, our company remains committed to reducing the cost of running our business both on our rigs and at our onshore locations as we adapt to the challenging market for offshore drilling. I am very pleased that our many cost reduction initiatives have been implemented without diminishing the quality of our drilling services for our clients.

During this downturn, our rig teams have maintained their rigorous focus on safety and environmental stewardship, in addition to providing exceptional reliability performance. We have now gone nearly two years as a company without a single lost-time incident or reportable spill anywhere in our fleet, and we continue to hear from our clients through both feedback surveys and formal performance reviews that Atwood safety in operations results are the best in our industry. Hats off to our rig teams for their commitment to excellence.

At the same time, we continue to make good progress in strengthening our corporate balance sheet. With the recent changes in our credit facility covenants that we implemented in March, we remain confident that we have ample liquidity abridged to our natural refinancing period through our cash on hand and available capacity on our credit facility. Even so, the prices of our public bonds have continued to trade at a significant discount to par. Because of this, we decided to pursue additional bond buybacks over what we had already done in February and April, and in early June we purchased $5 million of face value bonds on the open market. In July, we launched a public tender for our bonds with the goal of retiring up to $150 million of face value bonds. The tender concluded with $42 million of face value bonds tendered at a price of approximately $0.75 on the dollar.

Our company has now retired more than $200 million of our original $650 million of bonds or more than 30%. The reductions in interest expenses and principal amounts outstanding have made a meaningful dent into our long-term debt. Even though we do not have any debt maturities until 2019, we will continue to focus on positioning Atwood Oceanics with a strong hand to refinance and/or extend the maturities of our borrowings.

Shifting now to our rig operations, I mentioned at the top of the call that the Atwood Condor and Atwood Achiever had incurred standby rates last quarter and both rigs have remained on standby status for the full month of July as our clients have taken pauses in their drilling programs. Looking forward, we expect that the Condor will return to its work program with Shell within two weeks, while the Achiever is expected to remain on standby rate throughout the current quarter.

The Atwood Osprey concluded more than five years of successful drilling for Chevron in Australia in early July. The Osprey has now transitioned to drilling for Woodside Petroleum on their Tidepole gas development as the rig completes the remainder of the drilling program that had been initially assigned to the Atwood Eagle. We are certainly seeing the benefits of the swap of contract term from the Eagle to the Osprey, while our client is also benefiting from getting a newer, more capable rig to drill their program. This is was a true win-win for our respective companies.

Also in July, the Atwood Advantage began work on plugging abandonment wells for Noble Energy in the Gulf of Mexico at a reduced rate while the higher day rate is suspended. We now expect that the Advantage will transit to the Mediterranean Sea upon the conclusion of operations in the Gulf of Mexico to drill for Noble Energy in Israel.

The only other significant change in operations from our last call is that the Atwood Beacon has completed its work with Eni and will soon be concluding a short plug and abandonment program for Rockhopper Exploration in the Adriatic. Once complete, the Beacon will be mobilized to Malta where the rig will be idle.

Turning now to the offshore drilling market, our perspective is that industry sentiment has remained generally stable despite the recent pullback in oil prices. Starting with the floater segment, since our last call, the number of contracted floaters has declined by about 4%, which is fortunately a slower pace than we have seen in recent quarters. However, approximately 15% of all contracted floaters were on stand-by status, similar to the Achiever and the Condor.

Floater market utilization has remained steady around 70%, as we saw 18 more floaters cold-stacked or scrapped, half of which were ultra-deepwater. We have now seen a total of 45 floaters cold-stacked or scrapped since the beginning of calendar 2016, and we expect plenty more floater attrition over the coming months. Sixty-three working floaters will roll off their current contracts in the next 12 months that do not have follow-on work. In addition, more than half of the 69 idle floaters have been idle for more than five months. Eventually, the cost of maintaining these rigs warm-stacked and without firm contract prospects will become unsustainable.

Our longer term perspective on the floater segment is that industry rebalancing of supply and demand may happen sooner than many people think. The positive trend of accelerating floater rig attrition is obviously a key requirement for a recovery in utilization and day rates. Based on our internal analysis, we would not be surprised to see a further 60 or more floaters taken out of the marketed supply stack over the next year.

Of course, a sustained recovery depends on the stabilization of floater demand followed by an upward trajectory. Even though the number of floaters under contract has continued to decline, we believe that floater demand will reach its trough sometime in the first quarter of 2017. Increasing floater demand will, of course, depend on oil price levels, and we continue to believe that oil prices in the mid to high-$50s or low $60 range are required to stimulate demand meaningfully.

Shifting now to the jackups, demand declined about 5% since our last call, slightly more than the floaters. Market utilization has fallen below 70% for jackups, even as we have seen an increase in retirements and cold-stacking. There are 137 working jackups rolling off contract without follow-on work over the next year, so the number of idle rigs is likely to grow further from current levels.

Cold-stacking and scrapping of jackups has occurred at too slow of a pace to have a meaningful impact on the supply overhang that exists. As a result, we expect market utilization for jackups to trend lower as we move toward 2017 unless jackup rig attrition picks up significantly.

Shifting now to Atwood's marketing efforts, we were very pleased to have secured two separate contracts for the Atwood Osprey since our last earnings call. In January 2017, the Atwood Osprey will commence drilling for ConocoPhillips for a one well plus one option well program with a maximum duration of 120 days. In January 2018, the Osprey will begin a 20- to 22-month program for Woodside at Greater Enfield. While we welcome the additional contract backlog on the Osprey, we recognize that the day rates are quite a bit lower relative than previous levels.

Fortunately, with our cost reduction efforts, coupled with our recent five-year certification of the Osprey's BOP equipment, we estimate that we can achieve a 20% to 25% net margin over the contracted periods. We are currently progressing additional marketing opportunities to fill the available time in 2017 on the Osprey schedule.

Achieving these important fixtures on the Osprey also bodes well for our prospects to secure work in Australia for the Atwood Eagle. We had obviously prioritized filling the Osprey schedule ahead of that for the Eagle so we can now focus on pursuing drilling programs exclusively for the Atwood Eagle that begin in early 2018.

Finally, we continue to make good progress on our inaugural contract for the Atwood Admiral in Brazil. We have been informed by the rig-sharing group that additional operators may be added, so this may expand the work scope for the Admiral. As I have said previously, we will make an announcement on this contract once it is signed or if the opportunity is terminated.

Let me close my opening comments by saying that we remain bullish on the longer-term prospects for offshore drilling. As we noted, this downturn will eventually give way to recovery. We plan to be there on the other side with our modern, technically-advanced rig fleet and our reputation for operation and safety excellence intact. In the meantime, we will take all steps to ensure that our company is positioned to get through this difficult period.

That wraps up my prepared comments, so I'll pass the call back over to Mark for a discussion of the financials.

Mark Smith: Thanks, Rob. Today, I will review our fiscal third quarter operating results, provide guidance for the remainder of this fiscal year, and comment on our financial position. Let's start with highlights for the recent quarter.

The company generated quarterly revenues of $228 million on 634 operating days versus $296 million on 779 operating days in the previous quarter. The reduction in revenue is primarily due to the Atwood Falcon completing its contract late in the second quarter and to the idling of the Atwood Eagle following the assignment of its remaining contract term to the Atwood Osprey. As Rob mentioned, one rig incurred several days of downtime for BOP bulk replacement, and the Achiever and Condor were both on 95% standby rate for the month of June. Our operations teams achieved revenue efficiency across the fleet of 95%.

Diluted earnings per share were $1.53 in the third quarter. Excluding the tax-affected gain on extinguishment of debt, earnings per share were $0.98.

Contract drilling costs were $81 million for the quarter, excluding reimbursable cost of $5 million. This was within our guidance of $77 million to $87 million in May. One-time cost to idle the Atwood Eagle were $3 million. We recognized a $50-million pretax gain on extinguishment of debt in the quarter following open market bond repurchases, which we discussed on last quarter's call. These third quarter repurchases were comprised of $97 million cash paid of which $2 million related to accrued interest, for $146 million in face value of bonds, $141 million of which were discussed on the last earnings call.

General and administrative expenses for the quarter totaled $12 million, on the high end of our prior guidance of $10 million to $12 million, due to an increase in employee-related expenses associated with the non-competition and non-solicitation agreement entered into with certain of our key executives.

Including this quarter's operating results, our effective tax rate for the quarter was 17%, lower than our guidance in May but an increase over prior quarters due to the tax impact from the gain on extinguishment of debt, which is primarily a noncash deferred tax charge. Excluding this gain on extinguishment of debt, our effective tax rate would have been 8%.

Now looking forward to the remainder of this fiscal year, as of August 1, 2016, we had approximately $864 million of revenue backlog. As Rob mentioned, the Atwood Achiever was placed on standby rate in early June and 95% of day rate and is expected to remain on standby for the entire fourth quarter. The Atwood Condor will move from standby to full operating rate in mid-August. Finally, the Atwood Advantage has been drilling plug and abandonment wells for Noble Energy at a reduced rate, after which the rig is likely to commence a move to the Mediterranean. We estimate reimbursable revenues of $7 million for the fiscal fourth quarter ranging from $35 million to $40 million for the full fiscal year. This is slightly lower than our previous guidance.

Contract drilling costs were expected to range from $75 million to $85 million for the fourth quarter and $370 million to $390 million for the fiscal year, excluding reimbursable costs. These projections are in line with our previous guidance. We estimate one-time costs in the fourth quarter for the Atwood Beacon's demobilization and idling procedures to be approximately $3 million and ongoing idling cost of approximately $10,000.00 per day. We continue to focus on cost control to maintain optimized margins on our working rigs now and through the rest of this down cycle. To that end, we are reducing cost on the Atwood Achiever while it is on standby in order to preserve margin.

There are no planned out-of-service days for the remainder of fiscal 2016. Depreciation remains at $41 million for the fourth quarter and will total approximately $166 million for the year. General and administrative expenses should range from $11 million to $12 million for the fiscal fourth quarter, resulting in approximately $50 million for the year versus initial guidance at the beginning of the year of $56 million. These downward revisions to general and administrative costs from our beginning of the year budget parallel our onshore rig support reductions included in contract drilling cost due to reduced rig activity.

Now looking at our financial position, during the quarter, capital expenditures totaled $7 million. We expect capital expenditures to be approximately $30 million for the fourth quarter, totaling approximately $200 million to $250 million for the full fiscal year. This is less than our previous full-year guidance due to the deferral of certain projects for idled rigs. $50 million to $55 million of this full-year amount is maintenance capex, and the remaining $150 million to $160 million is related to construction and process including owner-furnished equipment and capitalized interest.

As a reminder, the significant capital obligations remaining in our new build program are the delivery payments of the Atwood Admiral for $94 million in September of 2017 and the Atwood Archer for $306 million in June 2018. Total debt reduced to $1.4 billion at June 30 with cash on hand of $199 million, resulting in net debt of $1.2 billion. The amount drawn under the revolving credit facility at June 30 reduced to $885 million from $960 million at March 31, leaving $510 million available under the revolving credit facility and resulting in liquidity of $710 million at the end of this quarter versus $662 million at the end of the previous quarter.

We closed our bond tender on July 22, repurchasing approximately $42 million of face value bonds for approximately $32 million utilizing cash on hand. When added to the bonds previously repurchased, we retired in aggregate $201 million face value of our 2020 senior notes, resulting in $449 million of bonds remaining outstanding today. With a cash target of $150 million, we project approximately $725 million in liquidity at the end of this fiscal year. We believe we will continue to have full access to the revolver as we project to be in full compliance with all of our covenants well into fiscal 2018 when we plan to refinance the revolving credit facility.

Given the revolving credit facility amendment completed in March and bond repurchases, interest expense should range from $17 million to $19 million net of capitalized interest for the fourth quarter. Interest expense – again, net of capitalized interest for the full fiscal year 2016 - is expected to be $68 million versus our prior guidance of $70 million. Cash interest paid will be $85 million for the year. As a reminder, this interest guidance includes finance charges payable to DSME for the delay in milestone payments in the amounts of $9,000.00 per day for the Atwood Admiral and $29,000.00 per day for the Atwood Archer.

We expect our effective tax rate for the fourth quarter to approximate 10%, which includes the tax impact from the gain on extinguishment of debt from the bond tender offer. As a consequence of the gain associated with all bond repurchases, we expect our full fiscal year projected tax rate to be in the range of 15% to 17%, consistent with our previous guidance. Note, as a result of our bond repurchases, we have substantially exhausted our U.S. net operating loss carryforward.

To conclude my prepared remarks, I would like to reiterate, as Rob has, our focus on ensuring our longer-term liquidity and financial flexibility. Although we have no financing requirements until the refinancing of the revolver which matures in May 2019, we will continue to look for opportunistic ways to increase liquidity, reduce debt, and/or stagger our maturities in order to reduce the company's refinancing risk and maintain our significant financial flexibility.

I will now turn the call over to Robbie for questions.

Operator: At this time, if you would like to ask a question, please press * and 1 on your touchtone telephone. You may withdraw your question anytime by pressing the # key. Once again, to ask a question, please press * and 1 on your touchtone phone. We'll pause a few minutes to allow questions to enter the queue.

We'll take our first question from James West with Evercore ISI. Please go ahead.

James West: Hey, good morning, gentlemen.

Mark Smith: Good morning.

James West: Rob, as you've been talking with your major customers and potential customers over the last few months, we've obviously been doing the same and it seems like there has been a little bit of a shift in tone from we're just not doing anything to okay, we need to think about 2017 and 2018 deepwater plans because they're going to be part of our portfolios forever. Is that a similar conversation that you're having and is that why you're expressing you have some confidence here that deepwater is going to trough in the first quarter of 2017?

Rob Saltiel: Well, I think that's part of it. I think that the pause that operators are taking moving away from deepwater and ultra-deepwater drilling and offshore drilling generally is one that we've always believed would have a finite duration, and I think some who follow the industry feel like perhaps it was the final straw for that kind of development and exploration work. I think what we're seeing now is just a realization that with the rebound in the oil price becoming a bit more of a reality, coupled with the declining cost of offshore drilling, because of the decline in day rates and service costs and equipment costs, that the role that offshore drilling should play in a portfolio for an operator is one that comes into clearer view.

Now, as we said in our comments, we still are seeing declining demand, and we're still believing that oil prices need to go higher from here to get a real sharp bump-up in demand. However, I think your comments are right that as operators look to 2017 and 2018, there's no question that offshore drilling will play a bigger role in their thinking and in their spending that it certainly will for 2016.

James West: Okay. Then a somewhat related follow-up, and you touched on this in your prepared remarks about stacked rigs, but we're hearing from a lot of the customer base that there's really little to no interest in cold-stacked assets at this point, that assets that have been warm-stacked. There's interest in assets that maybe are transitioning to cold-stacked but have only been in that situation for a few months there's interest, but anything that was cold-stacked earlier in the cycle we should consider the last to go back to work if we would ever expect those rigs to go back to work. Is that a fair statement?

Rob Saltiel: Well, I think, Jim, really, it is a fair statement, and it's why we're encouraged that our four ultra-deepwater rigs that are operating continue to operate and why we think it's so important to continue to build backlog on these rigs. That's why we were so pleased to get the Atwood Osprey fixtures that we got and why we continue to work on maintaining an active ultra-deepwater rig fleet. I think it's certainly fair to say as well that a number of the rigs that have gone into cold stack are unlikely to reemerge for a very long time, if at all, in part due to technology because you've got older rigs, and I'm including in this group 5th-generation rigs whose technologies really don't compare well to what we have in current generation rigs with the additional hook load efficiencies and dual BOP systems. As a result, I think a lot of that capacity that's out there, as a practical matter, we'll probably not drill again.

We are very encouraged by the increase in rig attrition, specifically in the floater fleet. As I mentioned in my prepared comments, we've seen 45 rigs exit the supply stack, 45 floaters exit the supply stack since January of this year, which is a very much stepped-pace over what we saw in 2015. We think that we're likely to see, as rigs roll off contract going forward, a greater readiness of operators, contractors to stack these rigs going forward.

In order for this market to recover, we've got to get supply and demand back in balance. Again, demand is going to be left up to the operators and the oil price, but I think supply is really more up to the drillers in terms of how capacity is managed going forward, and we are definitely encouraged by the increased stacking that's taking place on the floater side.

James West: Great. Thanks, Rob.

Rob Saltiel: You're welcome.

Operator: We'll take our next question from Gregory Lewis with Credit Suisse. Please go ahead.

Gregory Lewis: Yes. Thank you and good morning.

Rob Saltiel: Good morning.

Gregory Lewis: Rob, you touched on the potential work for the Admiral in Brazil and just as we think about that, it sounds like we're not going to really hear anything either way unless the contract is actually terminated. If you could just talk, have discussions been moving forward? Are they stalled? If you could just try to frame any color around that, that would probably be pretty helpful.

Rob Saltiel: Yes. No problem, Greg. Look, I can be very specific on this. Constructive discussions continue with the rig share group on advancing the terms and conditions of the contract and bringing that deal to closure. As I mentioned in my prepared comments, there's a potential for the rig share group to expand which could potentially extend the program, but also it could involve another party at the table in terms of negotiations. As I said on a previous call, this is obviously taking a bit longer than we had thought when we were selected as the preferred driller for this work.

However, we remain very encouraged and focused on bringing this deal to closure and, as I said, constructive discussions have continued and will continue.

Gregory Lewis: Okay, great. Thanks. Then just one more for me. Mark, I guess you got a little bit of a tender offer that you went seeking out for in the market. I guess my question is, just seeing what Transocean recently did, it almost looks like given the lack of interest for bondholders to want to tender their bonds at the pricing that you offered, it almost makes sense that you should explore the potential to go out and refinance that debt and push it out along the duration curve. Is that something that management is thinking about, just given the fact that maybe not as many people tender bonds as maybe we thought were going to? The yields come in a little bit.

Mark Smith: Well, Greg, thanks for the question. When we did our April repurchases, we were surprised to find the bonds remained at $0.65 on the dollar and we analyzed bondholders and determined that before the tender a dozen or so really had a concentrated amount. So the balance, we're not being – were widely held but very little has ever really traded on the secondary markets. So we decided to use the tender to create a liquid market and try and retire some of the widely-held amount of bonds at a discount, and we went in hoping for the best and we're really happy with any amount we could get.

Now having said that, we will opportunistically certainly monitor credit markets to access capital, to de-lever and stagger maturities between now and mid-2018 when we will be in the refinancing window.

Gregory Lewis: Okay, guys. Hey, thank you very much for the time.

Rob Saltiel: You're welcome. Thanks, Greg.

Operator: We'll take our next question from Ian Macpherson with Simmons. Please go ahead.

Ian Macpherson: Thanks. Good morning.

Rob Saltiel: Good morning, Ian.

Ian Macpherson: I had a question on the specific sequencing for the Advantage when Noble takes it from the Gulf of Mexico back over to Israel. You're on the P&A day rate through mid-September, correct? Then it says you resume full-day rate November. Are you [mob-ing] between mid-September and November and if so, what kind of day rate are you on then?

Rob Saltiel: Well, Ian, the likelihood of the rig moving to Israel is a fairly recent development and as you may recall, when we originally signed our contract with Noble, the rig was slated to go to Israel. Noble has made a lot of progress over there, so now it looks very likely that we will go to Israel. The actual sequencing of the mobilization and all of that, we're really going to have to defer at this point because it's still a bit fresh and Noble's program, I think, is still to be finalized. So we're going to defer that one for now.

Ian Macpherson: Okay, fair enough. Can you talk a little bit more about the prospects in Australia to fill up Osprey next year? Is there more than one? Are there two or three opportunities that you're bidding that could come to fruition or any color there?

Rob Saltiel: Yes. Obviously, like every market, Australia is a very competitive market. I will say that we do see more than one opportunity to fill the gap and we're very focused on filling the gap. So we'll have to ask you to stay tuned on that.

Ian Macpherson: No problem. The 20% to 25% net margin that you or Mark alluded to on the recent fixtures there, are you referring to just a daily cash margin?

Rob Saltiel: Yes.

Ian Macpherson: Okay. Got it. Thanks very much.

Rob Saltiel: Yes. You're welcome. I made the comment there, Ian, really around the fact that I think there was a lot of thought that this was a breakeven fixture, so we want to at least provide a little margin guidance on that.

Ian Macpherson: Yes. Got it.

Operator: We'll take our next question from Veb Vaishnav with Cowen. Please go ahead.

Vebs Vaishnav: Hey, good morning. Thanks for taking my question. Just following up on the Advantage, I understand it's still in flux as to the timing but whenever it [mobes], is that fair to assume that during the mobilization you would amortize your revenue and opex, or am I incorrect in thinking that?

Rob Saltiel: Yes, Veb. As we were just responding on the previous question, this is a very recent development and we obviously have to work out a change of locale provision with our client because we would be moving the rig across the Atlantic. At this point in time, we really can't provide any more detail on that.

Vebs Vaishnav: Okay, fair enough. On Achiever, you said during the standby time, you would actually lower the cost. Can you help us quantify how much are we talking about?

Mark Smith: As I alluded to, Vebs, in my prepared comments, it's by a commensurate amount really to maintain our pre-standby margin.

Vebs Vaishnav: Okay. Last question on bolt issues, I don't know if I missed that. Did you quantify how many days were those?

Mark Smith: That was approximately six days on, as Rob alluded to, one rig. I'm happy to say that our relationship with our supply chain partner, G.E., allowed us to plan other bolt changeouts throughout the fleet in regular BOP pools and scheduled maintenance intervals.

Vebs Vaishnav: Okay, all right. That's all for me. Thank you.

Operator: We'll take our next question from Eduardo Royes with Jefferies. Please go ahead.

Eduardo Royes: Hey, guys. Good morning.

Rob Saltiel: Good morning, Eduardo.

Eduardo Royes: I'd like to touch on the Condor a little bit, just how you guys are thinking about that. On the one hand, obviously, it's in a market that has got some real high-spec drillship availability. On the other hand, this starts to feel a little bit like a niche asset to me. I know it has done some special P&A type work. Any color you can really provide on how you're thinking about the outlook for that rig? Obviously, there's a lot of ultra-deepwater floaters in the gulf.

Rob Saltiel: Well, your comment is right. It's in a competitive market, but fortunately it's in a market where there is some potential follow-on work. It's obviously very high priority for us to keep that rig busy. We think we have a reasonable chance to do that, and that's going to be the focus of our marketing team over the coming weeks.

Eduardo Royes: Okay. Thanks. Then I know Ian touched a little bit on the Osprey, but how should we think about that window that it does have availability in terms of – are there certain contracts that will be too small for you guys, that it'd be better to warm-stack it or is there a certain period before – I don't know if it's a month or a couple of months - where you'd need to be in the yard in anticipation of the Woodside job? Any way to do stuff there? Is there any other color you can offer to help us think not necessarily what the work you're going to get, but what can make sense and what doesn't make sense, especially given that the rates are pretty depressed? Obviously, at some point, you could think about just keeping the thing fully crewed, obviously bringing the cost down quite a bit and saving on margin on that front, I guess.

Rob Saltiel: Well, Eduardo, we're very focused on maintaining continuity of operations and in closing the window. As I mentioned, there are some opportunities there and we're working to sign those up and not really have to address an issue of what to do with any open time on the schedule.

Eduardo Royes: Does it need any prep or anything specific ahead of the Woodside job? Obviously, it's already working for them or no?

Rob Saltiel: No. The rig's in great shape and can work continuously all the way up through and including that program.

Eduardo Royes: Great. Thank you very much. I'll turn it over.

Rob Saltiel: You're welcome.

Operator: We'll take our next question from Waqar Syed with Goldman Sachs. Please go ahead.

Waqar Syed: Thank you and good morning. Just had a couple of questions on the jackups. You have Mako and Manta now idle for a while. Are there any thoughts on moving it to maybe a different market like the Middle East?

Rob Saltiel: At this point in time, Waqar, we don't have any plans to move rigs without contracts in place. Obviously, we're looking at opportunities around the world and clearly, there have been some that have come up and will continue to come up in the Middle East, but we don't have any plans to move a rig to position it for future work. We feel like we would just include any cost of that in terms of our economic evaluation of opportunities if they were in the Middle East or elsewhere.

Waqar Syed: Okay. Then prospects for follow-on work for Orca and Aurora? Any thoughts on that?

Mark Smith: Well, we're working on those. At this point in time, I think it's too early to tell. As I mentioned in my prepared comments, the jackup space continues to be very challenged. Demand continues to fall but we're hopeful that we can keep one or both of those rigs busy.

Waqar Syed: Okay. Great. That's all I have. Thank you very much.

Mark Smith: Thank you. Waqar.

Operator: Once again, to ask a question, please press * and 1 on your touchtone phone. We'll take our next question from Matt Marietta with Stephens. Please go ahead.

Matt Marietta: Hey. Thanks a lot for taking the questions this morning.

Mark Smith: Good morning, Matt.

Matt Marietta: Hey. When you look at the Admiral and the Archer, the relationship with DSME and the shipyard there, what options do you think there are for further delaying if finding work takes a little bit longer than the current delivery schedule or…? They've been very flexible obviously so far. Do you think you can continue to work with them if you need to and how willing they may be?

Mark Smith: Well, Matt, I guess at the outset I would just say that we've got over a year to go before the defined delivery date for the Admiral so we're not really thinking at this point about the need for further delays. To entertain your question, given the challenges that the industry is facing, both on the offshore driller side as well as on the shipyard side, if we did need additional time, we believe we've got an excellent relationship with DSME and we could secure that.

Matt Marietta: That's helpful. I think it's always worth keeping that in mind, the what-ifs out there. Then moving to the jackups, can you remind us the state of the Mako and Manta? Are the rigs currently in working condition, crewed up, and how long do you think it would take for them to get active if an opportunity were to materialize?

Mark Smith: Yes. We think it would be about 45 to 60 days to activate those rigs and put them to work.

Matt Marietta: Great. Thank you.

Operator: We'll take our next question from Mark Brown with Seaport Global. Please go ahead.

Mark Brown: Hi. I was wondering just when you look at your two new builds under construction, if you think that they may be at a disadvantage to some of your competitors who have similar spec drillships but have been active and working. I know the Admiral has a contract in place, so that seems to suggest it's not an issue, but do you think that that could be an issue in terms of competing for a scarce amount of work that seems to be out there?

Rob Saltiel: Well, I think you made our point to some extent, which is that when the technical requirements demand it, there's no question that those two rigs offer capabilities that very few rigs in the industry offer, with the dual BOP system and the additional hook load and efficiencies. As far as the Admiral is concerned, we've already got a very strong opportunity that we're working through, and that's among a fleet of active rigs that ostensibly could be considered for that work.

The technical advantage, I think, that those rigs afford is certainly something that when it's in demand I think will put those rigs on a better footing than a lot of the rigs that are working. Now, if you've got work that doesn't require a lot of technical complexity and you've got a rig that's in a particular region, we'll certainly, then the question of mobilizing a rig around and especially a new build may be called into question. We're really marketing these rigs for the technically complex work and we feel like we're in very good position to do that.

Mark Brown: Okay. That makes a lot of sense. Just the other question I had maybe for Mark is in your prepared remarks, I just didn't quite hear what you said, but that given the revolver maturity coming up in a few years that you would be looking at ways to potentially stagger debt or other opportunistic ways to improve liquidity. I just was wondering if you could elaborate on that perhaps.

Mark Smith: Certainly. As I mentioned earlier in the Q&A, we're going to continue to opportunistically monitor credit and equity markets to access capital to de-lever and/or stagger between now and mid-2018 when we'll be in the refinancing window for the facility.

Look, our options include, but are certainly not limited to, use of the $400-million second lien consent on the revolving credit facility collateral package, which remains over-collateralized; the two unencumbered drillships at DSME, especially considering one of them has an LOI which could be converted to a contract-backed asset; future open high-yield markets in a recovering commodity environment; and then finally, equity at the right point in the market. These are just a few of the highlights of the many options that we have in our capital structure playbook, and we feel pretty confident in where we're headed, given the number of options.

Mark Brown: Well, thank you very much.

Mark Smith: Thank you, Mark.

Operator: We'll take our next question from Steven Karpel with Credit Suisse. Please go ahead.

Steven Karpel: Good morning.

Mark Smith: Good morning.

Steven Karpel: Just following up on that question on the cap structure, and maybe you haven't been quite as successful as you like, but you've done a very good job taking out some debt on the high yield side. A little tougher on the loan side. I'm going to go with the presumption, despite your comments, Mark, that it's over-collateralized, that you'd like to see that number smaller. What can you do in the next, call it a year or so just to flat out reduce the absolute level of debt because the bank debt's the real [tower], not the high yield bonds anymore?

Mark Smith: Well, Steven, actually, we think about the whole package and adding the two together and we'll look at the menu of any one of the options that I just went through. The interesting thing is we certainly don't have any sort of timeline in the near term or even over the next year that forces us into any capital-raise action. We have the luxury of being able to assess credit and equity markets as we move through time to access capital and de-lever, but delevering is not the only option. Staggering is an option as well, so we'll consider both of those individually and in combination as we move through time.

Steven Karpel: Talking about capital, can you talk about alternative forms of capital and how you think about that, not so much just for your current structure for doing transactions outside of bringing more assets, different types of assets with alternative forms of capital? Is that something that you would consider and have you considered and looked at it at this point?

Mark Smith: Well, certainly we consider that, such as the second lien on the existing collateral package. We entertain and seek out all sorts of options to augment our playbook as we move through time. Again, we're not up against any sort of specific triggering event in the near term or even over the next year-plus horizon, so we're going to look for the right opportunity for Atwood at the best cost.

Steven Karpel: How about with bringing in new assets to the company or are we still at the point where, given where everything is, that you want to hold off on that?

Mark Smith: I think our first matter of business is to contract the assets that we have across our fleet. Rob spent a good deal of today's call talking about the great work that we have done here in recent weeks and some of the prospects we have to add certainty of cash flow over the planning horizon.

After that, the second priority besides backlog is getting to the delevering and staggering of maturities. Once we're finished with all of that, then we'll consider future steps related to the fleet make-up, but that's much later.

Steven Karpel: Thank you.

Operator: Once again, to ask a question, please press * and 1 on your touchtone phone. We'll take our next question from Brenden Stoner with Stoner Equities. Please go ahead.

Brenden Stoner: Hi. I just wanted to ask a quick question regarding your new build drillships. I'm going to take that you had to raise some money. What kind of mortgage, I would say, do you think you can get for those assets?

Mark Smith: Well, that's really to be determined in today's market. All in, those assets cost $635 million including shipyard costs, owner-furnished equipment, and project cost. Based on collateral evaluations we have today on the fleet that is included in the revolving credit facility collateral package, we're pretty confident that we can raise pretty significant amounts of money on those assets. Importantly, one of the two will hopefully be contract-backed should we convert that LOI for the Brazil deal.

Brenden Stoner: Excellent. Okay. Thanks for the clarity. Thanks.

Mark Smith: Thank you for the interest.

Operator: We'll take our next question from Jeffrey Campbell with Tuohy Brothers. Please go ahead.

Jeffrey Campbell: Good morning and congratulations on the success with the debt work. Just to finish off this discussion that we've been dancing around with, with the

Osprey, is there anything in the January 2018 contract with Woodside that might be affected if the Osprey was inactive prior to the beginning of that contract?

Rob Saltiel: No. There is not.

Jeffrey Campbell: Okay, perfect. My other question is just a little bit broader. We've had a lot of floater discussion today, but it looks like most or all of your jackups could be idled at some point this year. I just wondered, what's your current jackup outlook? What's the status of the currently-idled rigs, meaning warm-stacked versus cold-stacked whatever? Where are you thinking some opportunities might emerge?

Rob Saltiel: Well, I think we may have covered this one already, but we're going to have three of our rigs idled and all three of those will be a in a position to go back to work within 45 to 60 days. Probably our near-term focus is on keeping the remaining two rigs, the Atwood Aurora and the Atwood Orca active.

As I mentioned in the prepared comments, the jackup market continues to be a very challenging market, a lot of competition, very few opportunities and in the number of rigs rolling off contracts. So we're going to have our work cut out for us, but that's our primary focus, is to keep one or both of those rigs busy into 2017.

Jeffrey Campbell: Okay, great. Thank you. Appreciate it.

Rob Saltiel: You're welcome.

Operator: Once again, to ask a question, please press * and 1 on your touchtone phone. It appears we have no further questions at this time. I'll now turn the program back over to our presenters for any additional or some closing remarks.

Rob Saltiel: Thank you for joining us on today's call. Have a good day.

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