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Atwood Oceanics, Inc. (ATW)

Q2 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone and welcome to the second quarter earnings conference call. At this time, all participants are in a listen-only mode. Later you will have the opportunity to ask questions during the questions and answer session. [Operator Instructions] Please note this call may be recorded. I will be standing by should you need any assistance.

It is now my pleasure to turn the call over to Mark Smith, Chief Financial Officer. Please go ahead, sir.

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

Good morning, and welcome to Atwood Oceanics' conference call and webcast to review the company's operating results for the second quarter ended March 31, 2017. 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, Atwood Oceanics, Inc.

Thank you, Mark, and welcome to all of you listening in on today's call. We appreciate your interest in Atwood Oceanics.

Our second fiscal quarter's financial results were once again aided by excellent operations as our fleet revenue efficiency exceeded 99%. This was also another strong quarter for cost control, as we continue to reduce our onshore and offshore costs to align better with the current business climate. In order to be competitive with onshore unconventional plays, and to prosper in a low oil price environment, we must lower the cost of our drilling services for our clients while enhancing the safety and quality of our offering. The Atwood team has responded very well to these cost initiatives, and will continue to do so.

We are often asked whether there are additional costs we can take out of our system, and the answer is a resounding yes. Mark will announce our lower cost guidance for fiscal year 2017, and describe our plan to eliminate approximately $5 million per year in additional overhead and on-shore allocated costs over the next two quarters.

In the second quarter, we had a number of operational and project-related successes. We restarted drilling operations on the Atwood Achiever after a nine-month pause period, and we are pleased to have replicated the same safe and reliable operations that existed before the pause. This achievement is a testament to the leadership of our onshore and offshore teams, who ensured that our crews were once again fully committed to delivering incident-free drilling operations.

We also successfully restarted the Atwood Orca during the second quarter, after which the rig mobilized from Singapore to Thailand and started its one-year contract in late April. This timeline was ahead of schedule, and the project costs associated with the restart – some of which will be recognized in the third quarter – will come in under budget.

The Atwood Condor completed the first phase of project work in preparation for its 2018 Australia development drilling program, and then departed the Gulf of Mexico for Singapore, where additional projects will be completed. The work is proceeding well, and Mark will provide further color on the recognition of revenue and costs for the Condor's mobilization during its contract with Woodside. The Atwood Advantage continues to perform well in the eastern Mediterranean Sea, while the Atwood Osprey progresses its short program in Australia.

In our fleet status report released yesterday, you will notice that the exercise of the option for a second well on the Atwood Osprey that should keep the rig busy until June, after which it moves directly to its next well. We also updated estimated dates of program completion for the Advantage and Achiever programs. The references in the fleet report for these two rigs regarding lower day rates for wells in progress only apply to final wells drilled, and for the time periods that extend past the contract end date. The lower rates do not refer to the current wells that are being drilled.

In yesterday's earnings announcement, we disclosed our decision to impair and recycle the Atwood Eagle. The Eagle has been idle for over a year after being a long-time fixture for Atwood in the Australia market. However, with our company positioned to have two ultra-deepwater semi-submersibles in Australia starting in 2018, and with the overall market there for floaters having reduced during this downturn, we concluded that it was unlikely the Eagle would return to drilling service in the near or medium term. The closing on the recycling transaction should occur over the next few months.

With the impending retirement of the Eagle, we will have the youngest fleet among the long-established offshore drillers. Our average fleet age will be less than six years, and when including our two undelivered newbuilds, it will be less than five years. We have more than 10% of the global supply of ultra-deepwater rigs that are equipped with dual BOPs. Our rigs are high-specification assets that share common equipment from the leading suppliers in our industry across multiple rig types. Throughout this downturn, we have said that Atwood Oceanics is in prime position to see our way through, and our high-quality rig fleet and efficient design and technical support systems are principal reasons why.

Turning now to the market, many of our peers have spoken of the increased bid and inquiry activity for offshore rigs since the start of the year, and we have certainly seen this as well. In the January through April period, our number of inquiries is trending to be double what we experienced in calendar 2016. About 40% of these are for jobs that start in 2017, 50% for 2018, and 10% for 2019 and later. And more than half of our inquiries have been for floater opportunities. In addition, we have seen three offshore final investment decisions on development projects made thus far in 2017, with the expectation that up to 15 or more could occur before year-end. We expect that this renewed level of operator optimism for offshore drilling will fuel the start of a market recovery in 2018.

On a more immediate and tangible basis, the recent trend in demand levels for floaters and jackups are encouraging us that this downturn is very near its bottom. Since our February earnings call, there is just one less floater working today than three months ago. This is the lowest quarter-to-quarter decrease in working floater count that we have seen since the downturn started two and a half years ago. Market utilization also ticked up slightly for floaters, helped in part by 12 more floaters being cold-stacked or scrapped.

Jackup demand tells an even better story. Contracted rig count is up seven since our last call, with one of the additions being the Atwood Orca. We've also seen a recent flurry of jackup acquisitions in the market that suggest growing confidence in this sector and the potential for further consolidation among jackup players.

While we expect that business conditions in offshore drilling will remain challenging for at least the next year, we are more optimistic than ever that our industry is poised for a comeback starting in 2018.

We also think that the medium to longer term outlook for offshore drilling will benefit from new technologies and practices that will improve the cost effectiveness of offshore energy. With the backdrop of last week's Offshore Technology Conference here in Houston, one super major announced new seismic technology that improves reservoir estimates, and that has confirmed expanded reserves in the Gulf of Mexico. Two recently sanctioned deepwater projects in the Gulf of Mexico claim break-even oil prices of $40 or less, economics that can compete with any shale basin.

There was also a lot of discussion by offshore operators at this year's conference about standardization of development designs, modular approaches to field development, avoidance of over-specification, advanced data monitoring systems, and streamlined decision-making through more effective organizations, all of which reduce costs of offshore resource development. Some of these operators were quite vocal about the competitiveness of offshore versus onshore energy opportunities. Our industry may be in a slump, but this downturn has spurred innovations and a much-needed reset on our collective cost base that will ultimately drive the next upcycle for our industry.

Let me now say a few words about our own rig marketing efforts. It is our belief that during this downturn, it is not enough to have excellent rig performance to keep active rigs working. With relatively few new program starts, it also requires that a drilling contractor's current clients have future work on their schedules. On this front, we believe that Atwood is very well positioned relative to our peers.

With Kosmos Energy's announcement yesterday of additional exploration success in Senegal, the Atwood Achiever is in excellent shape to maintain steady drilling activity. The Atwood Advantage is well positioned to continue its successful run in the Mediterranean Sea once the second phase of the Leviathan development is sanctioned. The Atwood Osprey is at the front of the queue technically to absorb additional short-term work in the Australia market to bridge through its firm work program in 2018.

Based on discussions that are well underway, we are optimistic that we will announce meaningful new contract fixtures over the next quarter. We are in discussions with Kosmos Energy to extend the current contract. We are pursuing opportunities for our newbuild drill ships that include, but also extend beyond, the exploration opportunity in Brazil for the Atwood Admiral. We are working to close any gaps that may exist on the Osprey and Advantage work schedules. We are also hopeful to be able to restart at least one more jackup in late 2017 or early 2018 in response to visible operator tenders.

Before I hand it back to Mark, I would like to make a few comments about our balance sheet. We feel good about our options to increase liquidity, stagger our debt maturities, and/or delever our balance sheet. We expect that with the start of the recovery, we will see opportunities again to participate in debt and capital markets transactions. Perhaps more importantly, we still have the luxury of time, 24 months until the first debt maturity is due. And today, we are seeing the first tangible signs that our market is finally hitting bottom and preparing for recovery. I do want to thank all the shareholders on the call who have patiently invested in our company. We believe that the worst is behind us, and that Atwood Oceanics is well positioned for upside in the days ahead.

And with that, I'll hand it over to Mark to take us through the financials.

Mark W. Smith

Senior Vice President and Chief Financial Officer, Atwood Oceanics, Inc.

Thanks, Rob. Today I will review our fiscal second quarter's operating results, provide guidance for the third 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 $168 million on 273 operating days, versus $158 million on 374 operating days in the previous quarter. The increase in revenue is primarily related to the Atwood Achiever, as the client exercised its option to revert the day rate back to the higher original contracted rate in term beginning in early February. As disclosed in the previous earnings call, the exercise of this option resulted in a one-time make-whole payment of $48.1 million recognized this quarter.

Once again, our fleet performed very well, with excellent revenue efficiency of 99.5%. We recognized a noncash impairment related to the Atwood Eagle of $57.6 million net of tax or $0.74 per diluted share in the second quarter. This impairment charge includes a pre-tax write-down of property and equipment and deferred costs of $49.6 million to salvage value, a write-down of materials and supplies inventory specific to this rig of $8.4 million.

On May 5, 2017, we executed a sale and recycling agreement with respect to the Atwood Eagle, pursuant to which the vessel, together with associated equipment and machinery, will be sold to a third party to be recycled. We do not anticipate further write-downs, given our fleet now has an average age of less than six years excluding the two remaining newbuilds. The company incurred a diluted loss per share of $0.37 in the second quarter versus earnings of $0.15 in the previous quarter. Excluding the noncash impairment charge of the Atwood Eagle, diluted earnings per share were $0.37.

Excluding reimbursable costs of $5 million, contract drilling costs were $64 million for the second quarter, compared to $66 million excluding reimbursable costs for the previous quarter. The second quarter costs were lower than our previous guidance of $72 million to $78 million, excluding reimbursables, due in part to three factors. First, we restarted the Atwood Orca at a cost lower than our $5 million budget, which is equally split between Q2 and Q3 and well ahead of schedule due to the excellent project planning and solid execution of the restart project.

Second, the Atwood Condor project work that we are undertaking in preparation for its program in Australia is being completed on a lower-cost schedule for the second quarter than we had previously forecasted. Finally, we continue to reduce our contract drilling costs, on-shore and off-shore, for our operating rigs and our idle rigs through efficiency improvements.

General and administrative expenses totaled $12 million, at the lower end of our prior guidance of $12 million to $14 million for the quarter. As Rob stated in his opening comments, we continue to make cost control a priority as we drive unnecessary costs out of business and right-size our organization for this period of reduced rig activity. We are in the midst of realizing an additional $5 million of cost reduction on an annualized basis versus our second quarter shore-based and headquarters costs. These reductions will be phased in over the next two quarters and will be fully realized in our cost structure in fiscal 2018, between both drilling costs and G&A.

Concluding the second quarter's operating results, our effective tax rate for the quarter was negative six percent and our tax expense was $1.5 million. This is due to our generation of taxable income in the geographies where we operate even though we incurred an overall consolidated loss for the quarter.

Looking forward to the third quarter and remainder of the fiscal year. As discussed in our previous earnings call, we are receiving a mobilization fee of $36.5 million for the Atwood Condor, which offsets a similar level of costs, including mobilization to Australia, certain maintenance costs, and other startup costs. The full mobilization fee and the direct mobilization costs, which we estimate to be $13 million, will both be ratably amortized over the duration of the contract term. The maintenance and startup costs not amortized over the contract term will be expensed as incurred, and are included in our contract drilling cost guidance, which I will cover in a moment. We estimate reimbursable revenues to range from $2 million to $4 million for the third quarter and $14 million to $19 million for the full fiscal year.

Moving to cost estimates, fleet-wide contract drilling costs are expected to range from $60 million to $65 million for the third quarter, excluding reimbursable costs. Full fiscal 2017 guidance is revised down to $255 million approximately. This is below previous guidance of $260 million to $275 million. Depreciation is expected to reduce to $39 million per quarter and total $160 million for the full fiscal year, due to the impairment of the Atwood Eagle. General and administrative expenses are expected to be approximately $12 million for the fiscal third quarter. Full-year G&A expense is expected to be approximately $50 million.

Interest expense will be approximately $13 million for the third quarter and approximately $20 million for the quarter following, net of capitalized interest. Interest expense will be higher in the fourth quarter because we will no longer capitalize interest for the Atwood Archer after June, when we now expect it to enter its holding phase at the DSME shipyard. We still expect to pay cash interest of $80 million for the full fiscal year.

For the remainder of the fiscal year, we expect to incur income tax expenses related to our operations in the Mediterranean, Australia, Asia and West Africa regions. We expect to incur $5 million to $7 million tax expense for the remainder of this fiscal year.

Now, looking at our financial position, during the quarter, capital expenditures totaled $17 million for the second quarter versus $139 million for the previous quarter, which included a $125 million payment on the Atwood Archer in December. The second quarter increase in CapEx versus prior guidance is due to a shift in miscellaneous project timing from Q3/Q4 to Q2.

We expect capital expenditures to be approximately $34 million for the third quarter, inclusive of capitalized interest. Total CapEx for full fiscal 2017 will be $205 million, higher than our previous guidance of $197 million due to additional capitalized interest for the Atwood Archer before entering its holding phase. Of the $49 million remaining CapEx in the fiscal year, $15 million is planned upon delivery and installation of the Condor's second BOP, $10 million is for the Admiral DSME payment due September 30, and the balance is capitalized interest.

Between this fiscal year-end and the final milestone payments for the remaining two newbuild drill ships, which I will remind you are financed by DSME at our option upon delivery and are not due until December 2022, the only planned significant capital expenditure is $15 million payment on the Atwood Archer due June of 2018.

Total debt remained flat at $1.3 billion in the second quarter. Cash on hand at March 31 increased to $435 million, due to our equity issuance proceeds and to the collection of the Kosmos reversion payment, resulting in net debt of $865 million. The amount drawn under the revolving credit facility on March 31 remained $850 million, leaving $545 million available under the revolver. This resulted in liquidity of $980 million at the end of the quarter versus $705 million at the end of the previous quarter.

While we remain confident that we have adequate liquidity to see through the next two years, we will continue to be proactive with our capital structure to ensure access to liquidity, maintain financial flexibility, and extend debt maturities. Our relationships with the members of our revolving credit facility remain strong. In the last six months, we have delayed $250 million of payments on our newbuild drill ships to 2022 and executed a successful equity offering.

Our current focus is to monitor credit markets to assess opportunities to stagger our debt maturities to facilitate the company's refinancing in the 2019 and 2020 timeframe. Despite the current volatility in today's capital markets, we expect to have ample opportunities to improve our debt schedule meaningfully within the next 24 months, before our first debt maturity comes due.

That concludes our prepared comments. I will now turn the call over to Lexi for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] We will take our first question from Ian Macpherson. Please go ahead.

Ian Macpherson
Analyst, Simmons & Company International

Q

Hi. Thanks, good morning. Rob or Mark, I suppose, the recent jackup transactions that we've seen over the past couple of months, everyone will have their own estimates, by my estimates, they were struck at prices that were, I would say, richer than the embedded jackup valuation in your fleet. Have you considered just asset disposals as part of your refinancing playbook? And do you think that there is a plausible window for asset sales that could help you in this market?

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

A

Yes. Hey, thanks, Ian. This is Rob. Well look, we find it both interesting and encouraging that we are seeing capital being spent for what looks to be aggregation of jackup assets. And we've been saying for a while that one of the signs of the recovery for our business will be some aggregation of assets, whether those are jackups or floaters. And with some new capital coming in and some existing players paying what you're calling rich prices, it certainly looks as if confidence is returning to the jackup sector, and probably leading a little bit the confidence that is starting to return to the floater sector.

Look, we don't take anything off the table here, in terms of opportunities for improving our balance sheet. Obviously, selling assets that we believe are very marketable and have long useful lives ahead of them is certainly not our first port of call. But I'll be frank and honest about it, we don't take anything off the table, and if we were given an opportunity to monetize assets at prices that we thought really made sense for the company, we would not rule it out. But I will also tell you that that's not our first option for balance sheet improvement.

Ian Macpherson
Analyst, Simmons & Company International

Q

Okay. Thanks, Rob. My follow-up question would be for the Advantage and the Achiever. We have first short-term extensions of wells in progress, and then I think we have, between Kosmos and Noble, pretty good visibility of their follow-on work. When we look at the short-term extensions for wells in progress, are those re-pricings determined by pre-existing contract provisions for extensions? Or should we think as those of being reflective of a true current market price reset?

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

A

Yes. Those well-in-progress costs, or day rates that we've agreed with our clients, were really done to reflect market conditions that have obviously changed over the course of the contract life, and really to incentivize additional drilling. I should also point out that while the day rates are lower, they're significantly above cash break-even. And therefore, we think that they're fair rates for continuing work under an existing agreement without going to a full renegotiation.

As I did say in my prepared comments, we think we're fortunate that both our client for the Atwood Advantage and for the Atwood Achiever has visible work. And in fact, in the case of the Achiever, I would say the prospects for visible work are improving, based on yesterday's announcements. So, we feel quite good about our ability to keep those two ultra-deepwater drill ships busy. And that's obviously a prime priority for this company, to keep our active ultra-deepwater drill ships and semis working, and then to work the Atwood Admiral and the Atwood Archer into the active fleet over the next year or two.

Ian Macpherson
Analyst, Simmons & Company International

Q

Good. All right. Well, thank you very much.

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

A

Appreciate it. Thanks, Ian.

Operator: We will take our next question from Gregory Lewis. Please go ahead.

Gregory Lewis
Analyst, Credit Suisse Securities (USA) LLC

Q

Yes. Thank you, and good morning.

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

A

Morning, Greg.

Gregory Lewis
Analyst, Credit Suisse Securities (USA) LLC

Q

Rob, you sounded pretty confident on the prospects for the Achiever. Just as we think about that, clearly Kosmos had a call yesterday. They sound pretty constructive on their opportunities. I know you can't speak for them directly. I guess what I'm wondering is, they now have a partner in that development. Does that change Atwood's position at all?

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

A

Well look, our position is about providing safe and reliable drilling operations at the highest level of efficiency, regardless of who we're working with, and the fact that there's a new partner in that group only really enhances I think the opportunities for further drilling. And then if you couple that with all the exploration success that has happened really through the work that Kosmos has done, we think we're extremely well positioned with that rig to continue work in that area, and that is – if you're hearing confidence in my voice, it's basically reflective of the great performance of the rig and the outstanding exploration success of our client.

Gregory Lewis
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, hey, that's great news. And then just, I mean, I guess last quarter we were talking about the Orca and that ability to win work. I mean, you guys – and you've seemed a little bit more optimistic maybe than you were from last quarter. Clearly you guys are having more conversations, you laid that out. I mean, as we look at the next couple quarters, is there any signs that we could maybe see some of the idle jackups get back to work? Or is it more just hey, there are opportunities but the types of opportunities we need to reactivate our rigs just aren't really there right now?

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

A

Well, I mentioned in my prepared comments that we're hopeful to restart at least one of our jackups either later this year or early next year. You know, look, our job here is to convert all this discussion about green shoots into tangible contracts, and that's what we're focused on doing. We're seeing lots more opportunities. As I mentioned, our bid inquiry count is double what we saw in 2016, a lot of opportunities for both 2017 and 2018 starts. So, again, we need to get contracts for these rigs, and fortunately now there's enough prospects out there that we feel better about our chances to do that.

Gregory Lewis
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Hey, that's great too. And then just on the Eagle, I mean, you made the decision to retire that one. That was sort of your deepwater semi. You know, just as we think about that, was, I'm just kind of curious in what drove that decision as – I mean, clearly the rig has been idle for a while. There's a lot of rigs idle out in the industry. Was it something where – or should I put it another way? Are you able to provide any color on how much cost savings you're able to save on, I don't know whether you want to think about it on like a daily basis or really what was the cost benefit of making that decision, while albeit tough, to retire that rig, how much cost savings do we think that's really going to flow into Atwood over like a 12-month period?

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

A

Yes, I mean keep in mind, decisions to impair rigs involve a number of factors, including accounting outlook for cash flow generation. And as I said in the prepared comments, with the contraction of the Australia market, which is really where we were keeping the Atwood Eagle, for the fact that the rig is 35 years old in a market that's oversupplied with floaters, the decision about whether or not we needed to impair the rig I think was fairly straight forward.

The decision to recycle the rig is really based on the fact that we think that the prospects of the rig going back to work were pretty remote. We're going to save around $3 million to $3.5 million a year in taking that rig off our rolls. That's not the primary reason for doing it; it's just more of an acknowledgement that it's kind of dead money, and there's no reason to continue to spend it.

I will point out that as we talk about the recovery of this market, I'm much more focused on demand and concerned about demand than I would be about floater supply. There are 60 rigs out there that are currently idle in the floater category, 40 of which have been idle for more than six months. And the Atwood Eagle was one of those. And we're going to see a tremendous number of additional retirements take place through just the idle rigs that are out there, as well as the rigs that are going to roll off contract, many of which over this year and next are over 25 years old.

So, I think Atwood has probably done more than our fair share of scrapping rigs and acknowledging the true economic prospects of our older fleet. I think many of our competitors have been resistant to do that, for reasons only they can describe. But as a practical matter, there are many rigs out there similar to the Atwood Eagle that will not work again and really shouldn't be considered part of what I would call the competitive supply.

Gregory Lewis
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Hey, guys. Hey, thank you very much for the time. Have a great day.

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

A

Thank you, Greg.

Operator: [Operator Instructions] We will take our next question from Waqar Syed. Please go ahead.

Waqar Syed
Analyst, Goldman Sachs & Co.

Q

Thank you for taking my question. Rob, with the recent pull-back in oil prices, have you seen some of the customers push back on the tender activity – tenders for 2017, or are they still pretty intact?

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

A

We haven't seen it, yet, Waqar. We're conscious of the fact that if oil prices go the other way and don't continue to move up, that could have a negative effect on near- and maybe even medium-term opportunities. But the pull-back that's taken place thus far has had no impact on the opportunities we're responding to.

Waqar Syed
Analyst, Goldman Sachs & Co.

Q

Great. And then, secondly, just on M&A question, we've seen some asset transactions. Do you foresee more such transactions, as well as on the corporate side? Do you see additional opportunity over the next 12 months or so?

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

A

Well, consolidation has historically been part of our industry, Waqar, but it's also been very difficult to predict when it will happen, who's involved, which asset class. Frankly, we were a little surprised to see such a flurry of activity in the jackup segment. We wouldn't have predicted it six months before. So, I think you just have to keep in mind that there's a lot of uncertainty around when consolidation occurs.

We've said in our investment packs for quite some time that this industry has fragmented over the past, call it, 10 years, as we went through a building boom on both the jackup and floater side. Historically, we would have seen some level of corporate and/or asset consolidation before now. It's been a long time coming, and we really haven't seen that much, yet. So, we wouldn't be surprised to see more consolidation, but as it is historically, it's difficult to predict when it will happen and who may be involved.

Waqar Syed
Analyst, Goldman Sachs & Co.

Q

Okay. And do you think the industry can consolidate enough to change the nature of the market, or it is just so fragmented that one or two even big transactions would not change the nature of the business or the structure of the market?

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

A

Well, the obvious answer to that is, yes, consolidation will help this industry. If you just think about the fact that we are now in a lower day-rate environment, and I think we would all agree for longer, efficiency becomes even more vital than ever. And many of the costs that we as drillers incur to support our organizations, to support a lower rig count and a lower revenue base, now become costs that, as an industry, we would do well to try to find a way to save, so that we could offer more cost-effective drilling services to our clients and really grow the market by making it more competitive with some of the unconventional onshore plays.

So, efficiency gains through consolidation are very important to consider when you think about that equation. And so, I do believe that any kind of consolidation that takes place improves efficiency, improves the competitiveness of offshore drilling, and ultimately is good for our business.

Waqar Syed
Analyst, Goldman Sachs & Co.

Q

Thank you very much.

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

A

You're welcome.

Operator: At this time, it appears we have no further questions.

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

Okay, if there are no further questions, I want to thank everybody for joining today's earnings call. Please join for our next call in August to discuss our fiscal third quarter results. In the meantime, have a great day.

Operator: Thank you all so much for your participation. You may disconnect at any time.