ATWOOD
Rob Saltiel
Atwood Oceanics
05/06/16
09:00 am ET

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 our Q&A session. You may register to ask a question at any time by pressing the star (*) and one (1) on your touchtone phone. 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 Smith: 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, 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 risk 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-lookingstatements 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 greetings to all of you joining this morning's call. In what has become a familiar refrain, our quarterly revenues were once again bolstered by excellent operational performance as fleet revenue efficiency averaged 97%. Our operations and technical services teams continue to provide highly reliable and efficient drilling services for our clients. I am most proud of the fact that our rig crews are working with a heightened focus on personal and process safety as they continue to operate our rigs without incurring major injuries or safety incidents. They're achieving these great results despite the unhelpful backdrop of declining rig activity and rising job losses across our industry. I appreciate the outstanding efforts of Atwood's entire operations team for their commitment to excellence during these challenging times.

Our strong net income in the second quarter clearly benefited from realization of cost reduction initiative at the headquarters and field support levels that were implemented during recent quarters. Our general and administrative expenses have moved downwards in concert with our reduced fleet activity and we are now forecasting approximately 50% lower G&A cost for the fiscal year versus our budget. In addition, our onshore support costs, which are reflected in contract drilling costs, are down more than 20% from our budgeted numbers. I shared on our last call the importance of achieving the most competitive cost structure in our industry for the provision of high-specification drilling services, especially as we expect lower for longer when it comes to day rates. With the sacrifices that our people have made and the continued efforts of the best team in our industry, I am confident we will do this.

I spent a lot of time on our last call discussing the criticalities e ensuring adequate liquidity for our company during this downturn. This topic continues to be a primary focus for senior management and our board of directors. Accordingly, we are very pleased to have executed an important amendment to our revolving credit facility with our banking group in late

March. Among other provisions, this amendment removed our maximum leverage ratio covenant and had both delayed and reduced our interest coverage requirement. Our bank group worked with us very constructively on this amendment. They realized that Atwood will be a survivor in the offshore drilling industry and that the avoidance of covenant issues serves to improve client confidence in our organization. As a result of the efforts of Mark and his finance team, we now anticipate having full access to our revolver until mid-calendar year 2018, at which time we expect the assessing refinancing options. I do want to acknowledge our appreciation to the banks in our credit facility and the relationship representatives who work closely with us to secure approval for this amendment.

As we were working on the credit facility amendment, we were simultaneously investigating various delivering opportunities that could capitalize on the relatively weak trading levels of our unsecured debt while still preserving a proper cushion of financial liquidity. We ultimately concluded that open market repurchases of our bond would be the most favorable avenue given the low execution risk and low cost relative to alternative delivering options that we considered. Through transactions in February and April, we retired more than $154 million dollars of face value bond for a cash outlay of approximately $97 million for an average $0.63 on the dollar. Our net delivering of $57 million reduces our remaining bond face value to below $500 million. It also reduces our net interest expense by approximately $6 million per year over the remaining term of the bond. Importantly, these bond repurchases have been very efficient from a cash tax standpoint as Mark will explain in his section. Finally, I will add that we do not have any immediate plans for further purchases of our bond at this time.

Shifting now to our rig operation, the biggest change in our fleet since the last call was the idling of the Atwood Eagle. In March we agreed with our client, [Woodstock] Petroleum, to migrate the remaining contract term on the Atwood Eagle of approximately five months over to the Atwood Osprey. This move was a win for our client because they will now enjoy the benefits of the Osprey's expansive drilling capabilities and efficiencies. For Atwood, this loss ensures that our most capable rig in Australia stays active until late 2016,giving it a much better opportunity to bridge through this downturn. We will certainly look to restart the Atwood Eagle once the Australian market improves. In the meantime, we are towing the Atwood Eagle to Singapore where we will locate it key side in a shipyard.

The other significant change in operating fleet was our decision to scrap the Atwood Falcon for recycling. Although the Falcon has been a consistent performer and a valuable contributor to the Atwood business since 1990, we concluded that with the extended downturn coupled with the required cost for idling the survey work, we would be very unlikely to get a good return on this investment. Of the two sister rigs, the Atwood Eagle is more capable than the Falcon and the Eagle does not have the special periodic survey due until 2021.

I'll now make a few comments on the offshore drilling market which continues to be very difficult at best. However, the recent rise in oil prices has provided a welcome respite for what has been exclusively a doom and gloom year thus far for our industry. Higher oil prices are a necessary condition for a recovery in our business and offshore drilling activities are derivative of the oil price. We are hopeful that oil prices will continue to move higher through 2016 in accordance to an increasing number of consensus predictions on sharp production declines outside of OPEC. If the more optimistic price predictions prove correct, then we are more likely to see offshore drilling with its newly deflated cost structure play a role in 2107 capex budgets for more E&P operators. Until then, we will muddle through 2016 as the number of working offshore rigs continues to contract.

Starting with the floater segment, since our last call the number of working floaters has declined by about 13% or 26 rigs, with approximately two-thirds of the decline occurring in the ultra-deepwater segment. This was an accelerated demand decline over previous quarters and the only bright spot is that the number of idle floaters actually declined slightly over this period. As the number of rigs cold stacked are scrapped increased by 27 rigs. We have been predicting accelerated floater rig attrition for a few quarters now and it appears that some of our competitors have finally begun the process of hydrating their active fleets. We expect that the accelerated pace of floater retirements will continue through 2016 as we count 54 working floaters that have contracts expiring in the next 12 months that do not have follow-on work.

Shifting now to jackups, on a relative basis the jackup segment has held up much better than the floaters recently. Demand declined only about 2% since our last call but the number of idle rigs barely budged. Similar to the floater segment, we saw a significant pickup in rig retirements and cold stacking that allowed marketed utilization to remain nearly the same quarter to quarter. This more disciplined approach will continue to be tested among the jackup contractors as there are more than 150 working jackups rolling of contract without follow-on work over the next year.

Before handing it back to Mark, I'll say a couple of things about Atwood's marketing efforts. Despite the fact that we have not had any recent contract leads to announce other than the Osprey-Eagle swap, our marketing team is working on potential opportunities for most of our active rigs. Most of these are blended extend deals with existing clients for program extensions but some represent new opportunities with new clients.

We expect all new offshore programs to be heavily contested so I won't be able to provide much color on these opportunities. However, I will address two rigs specifically in my prepared comments. First, we expect that the Atwood Beacon is unlikely to maintain continuous work with the Mediterranean much beyond its current contract end date, so we are making plans to idle the rig. Despite excellent performance, our client is scaling back their offshore drilling in response to the downturn.

And finally, we continue to progress our opportunity for the Atwood Admiral to drill for a consortium of operators in Brazil. This has admittedly been a longer process than we had hoped due primarily to the difficult market conditions, but we still expect to bring this important contract to closure.

I'll now pass the call over to Mark who will provide a more detailed discussion of our financials.

Mark Smith: Thanks rob. Today, i will review our fiscal 2nd quarter's operating results, provide guidance for the 3rd 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 $296 million on 779 operating days vs $308 million on 791 operating days in the previous quarter. The reduction in revenue is primarily due to the contract completion of the Atwood Falcon in early march. These revenue reductions were offset by excellent revenue efficiency across the fleet of 97%. Diluted earnings per share were $1.89 in the second quarter. Excluding the gain on extinguishment of debt, earnings per share were $1.76. The company's adjusted net margin, excluding the gain on extinguishment of debt was 38%. Contract drilling costs were $90 million for the quarter, excluding reimbursable costs of $9 million, the total of which is slightly lower than our guidance of $95 - $105 million in February. Further, this is lower than the first quarter's $131 million, net of reimbursable costs, due in part to one-time expenses for the upgrade to the Atwood Eagle's mooring system in the previous quarter and also due to our continuing focus on cost control that Rob mentioned at the outset of the call.

We recognized an $8 million gain on extinguishment of debt in the quarter following open market bond repurchases, which rob discussed previously. These second quarter repurchases were comprised of $5 million cash paid for $13 million in face value of bonds. General and administrative expenses totaled $11 million, on the low end of our prior guidance of $11 to $13 million. Concluding this quarter's operating results, our effective tax rate for the quarter was 10%, consistent with our guidance in February.

Looking forward to the 3rd quarter and remainder of the fiscal year:

As of April 1, 2016, we had approximately $1 billion of revenue backlog, and 64% of our remaining available days for fiscal 2016 are contracted.

This excludes the Atwood Falcon as well as the two drillships under construction. Additionally, the Atwood Mako and Atwood Manta, two of our high specification pacific class jackups, together with the Atwood Eagle, constitute the majority of un-contracted days in fiscal 2016.

We estimate reimbursable revenues of $9 million for the fiscal 3rd quarter, ranging from $38 to $42 million for the full fiscal year. This is slightly higher than our previous guidance.

Contract drilling costs are expected to range from $77 - $87 million for the 3rd Quarter, and $365 - $385 million for the fiscal year, excluding reimbursable costs. These projections are lower than our previous guidance due in part to the sale of the Atwood Falcon and the idling of the Atwood Eagle in Singapore. We estimate one-time costs in the 3rd quarter for the Atwood Eagle's mobilization and idling procedures to be $5 million and on-going idling costs of approximately $12,000 per day.

In addition, expected costs have reduced due to our continued pursuit of cost control measures, including: reduced offshore wages and premiums, reductions to our onshore support organization discussed last quarter, and continued monitoring of rig-based projects to ensure that only those directly related to safety and operating performance are undertaken.
There are no planned out of service days for the remainder of fiscal 2016. Depreciation remains at $41 million for the 3rd quarter and totals approximately $166 million for the year.

General & administrative expenses should range from $10 to $12 million for the fiscal 3rd quarter, resulting in approximately $49 million for the year versus initial guidance at the beginning of the year of $56 million.

These downward revisions to general & administrative costs parallel our onshore support reductions included in contract drilling costs due to reduced rig activity.

Now looking at our financial position:

During the quarter, capital expenditures totaled $36 million. We expect capital expenditures to be approximately $25 million for the 3rd quarter, totaling approximately $215 to $225 million for the full fiscal year. $60 million of this full year amount is maintenance cap-ex; the remaining $155 million is related to construction-in-process including owner furnished equipment and capital interest. As a reminder, the significant capital obligations remaining in our newbuild program are the delivery payments of the Atwood Admiral for $94 million in September 2017 and the Atwood Archer for $306 million in June 2018.

On our previous call, we discussed how our leverage covenant would become more challenged in late 2017. However, this was remedied by the revolving credit facility amendment Rob mentioned earlier. The amendment resulted in the removal of the maximum leverage ratio covenant, a delay in the implementation of the interest coverage ratio until September 2018 and consent for second lien debt. In exchange for altering the covenant structure, we added the Atwood Advantage, Atwood Achiever, and Atwood Orca to the collateral package. Our two drillships under construction at DSME remain unencumbered. Additionally, the amendment adds a new minimum liquidity covenant, increases the interest and commitment fees and reduces the total commitments by $152 million, resulting in a $1.395 billion facility through May 2018 and $1.12 billion through its May 2019 maturity.

Total debt remained at $1.6 billion at march 31 with cash on hand of $227 million, resulting in net debt of $1.4 billion; the amount drawn under the revolving credit facility was and still is $960 million; leaving $435 million available under the revolver after the commitment reduction, resulting in liquidity of $662 million at the end of the quarter versus $702 million at the end of the previous quarter.

In addition to the $13 million in face value of bonds that were retired in 2nd quarter, we repurchased approximately $141 million of face value in bonds for approximately $92 million utilizing cash on hand in April. We now have $496 million of bonds remaining. The gains associated with the repurchases are subject to tax and will increase our effective tax rate. However, due to the availability of operating loss carry-forwards the actual cash tax impact will be minimal.

With a cash target of $150 million, we project <u>at least</u> $585 million in available liquidity through the end of the 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 and bond repurchases, interest expense should range from $19 to $21 million, net of capitalized interest, for the 3rd Quarter. Interest expense, net of capital interest, for full fiscal 2016 is expected to be $70 million versus our prior guidance of $65 million. Cash interest paid will be $87 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 thousand per day for the Atwood Admiral, and, $29 thousand per day for the Atwood Archer which commenced in April.

We expect our effective tax rate for the 3rd quarter to approximate 21-24% which includes the tax impact from the gain on extinguishment of debt, noting that the negative tax rate impact is primarily a non-cash charge. As a consequence of the gain associated with the bond repurchases, we now expect our fiscal full year projected tax rate to be in the range of 15 - 17% versus our previous guidance of 11-13%.

To conclude my prepared remarks, I would like to address 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 look for opportunistic ways to increase liquidity, reduce debt and/or stagger maturities in order to reduce the company's refinancing risk and maintain financial flexibility.

I'll now turn the call over to Lindy for questions.

Operator: At this time if you would like to ask a question, please press the star (*) and one (1) on your touchtone phone. You may remove your question from the queue at any time by pressing the pound (#) key. Again if you'd like to ask a question, please press the star (*) and one (1) keys now.

Our first question comes from Kurt Hallead with RBC. Please go ahead, your line is open. [Pause] Kurt Hallead, your line is open. [Pause]We'll move next to Ian Macpherson with Simmons. Please go ahead.

Ian Macpherson: Thanks. Congratulations on the good numbers and the debt repurchase. Rob, do you have any more specific update with regard to how the drillship tender or I guess some LOI has progressed, what you think the updated timing is with regard to the possibility of bringing that to closure and if it's still a late 2017 start date as you envision it today?

Rob Saltiel: Yes, thanks, Ian. We've continued to have a series of meetings with the consortium to work through some of the contractual details governing that program. As I mentioned in the prepared comments, the combination of working with a number of operators who have to come to agreement on a single contract coupled with the market uncertainty that's been created through the fall of the oil prices and some of the challenges in Brazil have added to the delay in getting this agreement across the line though we continue to believe that the deal will come to closure and that we're a few months away from getting to an agreement.

I don't want to be too specific because as I said in the comment, we're already past the point where we thought we would have an agreement in place but we still think we're in a very good trajectory to bring it to closure and we certainly hope to do that in the coming months.

Ian Macpherson: Okay. Your opening remarks about the intersection of massive industry cost deflation and some optimism on higher crude prices, does that suggest to you that the most elastic demand for short-cycle jackup activity could begin to bottom and improve by the first half of '17?

Rob Saltiel: Well, it was the more of a general comment about the fact that as we visited with clients across both the floater and the jackup space, the oil prices is such a concern that the thought of additional term on existing contracts, or even more remotely, new contracts for new rigs has just been pushed completely off their radar scope. The discussions that we've been having just over the last month or two with these rebounded oil prices have opened up opportunities for further drilling on the margin that we didn’t see even 60 or 90 days ago.

So without being too specific about when things bottom and come back, look, we already had said that we think demand for both floaters and jackups will continue to fall through 2016 as programs roll to an end.But as we go into the 2017 budget season with higher oil prices and significantly lower cost for wells both on the jackup and deepwater side, we think that offshore drilling will get a seat at the table in terms of the capex budget as we go forward. It may not be the top of the table, but we do think that there’ll be a bigger role for offshore drilling in a 2017 budget season that’s anchored around say, $50.00 to $60.00 barrel oil.

So that’s really what we’re looking for here, Ian. It’s just a little hard to beat too sensitive about the role of jackups or floaters, but we do think that the more recent rise in oil prices has opened up a little bit of optimism on the operators around pursuing more offshore drilling going forward.

Ian Macpherson: Yes, that makes sense. Thanks, Rob.

Rob Saltiel: You’re welcome. Thank you.

Operator: As a reminder if you would like to ask a question, please press the star (*) and one (1) on your touchtone phone. Our next question comes from Waqar Syed with Goldman Sachs. Please go ahead, your line is open.

Sandeep: Hi, this is Sandeep on behalf of Waqar. My question is do you guys have any thoughts on three contracting prospects for the Atwood Condor? The contract for that expires later this year, any color on that?

Rob Saltiel: Yes, the Atwood Condor is contracted into November here in the Gulf of Mexico and as I mentioned in the prepared comments, our marketing team is seeing opportunities for most of the rigs that we’re operating. I don’t want to say too much about the Condor specifically other than to say that there are a limited number of opportunities in the Gulf of Mexico and we’re going to pursue those very aggressively. The Atwood Condor has done a great job filling for Shell over these past two and a half years and the rig has really established itself as a solid performer for reliability and safety. So if there’s work out there in the gulf and we’re starting to see some, we think the Condor is in a good position to compete for that work.

Sandeep: Okay. At a more broader level maybe, what are the negotiations these days with the customers in terms of contract terms? Like are most customers able to get cancellation for convenience sort of provisions now or is that not really the case? What are you guys seeing based on your discussions with customers?

Rob Saltiel: Well, as you can imagine, there’s been limited number of discussions on new contracts here in the last six months; but I will tell you in the discussions that we’ve had, we had not been agreeing to any termination for convenience without any kind of remuneration. Typically when you give the customer an opportunity to shorten or to exit a contract fully, there is a payment of some portion of the contract or a six-value that’s significant and we haven’t seen any deviation from that in any of our discussions.

Sandeep: Okay, thank you.

Rob Saltiel: You're welcome.

Operator: We'll take our next question from Praveen Narra with Raymond James. Please go ahead, your line is open.

Praveen Narra: Hey,good morning, guys.

Rob Saltiel: Good morning.

Praveen Narra: In terms of the Atwood Admiral and the Atwood Archer and potentially take delivery of those, obviously you've got the Brazil LOI, but would there be any reason for you guys to take delivery of those before you had a fixed contract or move it to a different area, or do you think the only real reason to potentially get those is when you have a fixed contract on them?

Mark Smith: Well, I think you said it right. That's why we've delayed the delivery on those rigs because we do not intend or want to take delivery of those rigs without a contract in hand. So, that's our plan and our supplier in the shipyard, DSME, has worked with us very closely to help accommodate the delays in contracting that has taken place a cross our industry. We continue to have very constructive discussions with them about the state of the industry and the challenges it's presenting for all of us. At this point in time, we believe that we will not have to take possession of these rigs before we have contracts in hand and that's certainly what we're going to do going forward.

Praveen Narra: So if we think about it that way, in terms of the repurchase of debt and you still have debt trading at a pretty significant discount, is that still an option, does that kind of becomes the first call on capital?

Mark Smith: Well, we continue to evaluate opportunistic ways to deploy our capital and these decisions on any sorts of capital allocation have to consider also lower for longer view of cash being important and liquidity being important through to the refinancing of the revolving credit facility.

Rob Saltiel: Yes. I think as Mark said in his comment, we're going to be really focused on maintaining adequate liquidity and preserving financial flexibility and we're not going to rule anything out. So, we had this opportunity to repurchase bond at a nice discount. We're going to continue to look at ways to strengthen the balance sheet and take advantage potentially of market dislocation. At this point in time, we're not going to be more specific than that, just to say that everything is still on the table and we'll monitor the market in relation to where our industry is and where the company is and take advantage of the best opportunities.

Praveen Narra: Thank you very much and great job on the quarter, guys.

Rob Saltiel: You're welcome. Thanks.

Operator: Our next question comes from Darren Gacicia with KLR Group. Please go ahead, your line is open.

Darren Gacicia: Hey, good morning.

Mark Smith: Good morning.

Darren Gacicia: Hey, I wanted to ask I think you said that idle costs were around $12,000.00 a day. Is that idle and stacking costs across average all the assets, or how are we breaking that down between jackups and floaters? I just want to understand where they are and maybe how you've gotten it down to this low.

Mark Smith: Well, Darren, good morning and thanks for the question. As we talked about on our last call, we have the Atwood Mako and Atwood Manta below the $10,000.00 level per day and the Atwood Eagle's at $12,000.00. Now the differentiation on the Eagle versus some of our other floaters is its mooring. So it's a lot simpler to idle that vessel and keep it actively marketed potentially than a dynamically-positioned vessel. So you really have to consider each haul type in terms of the cost.

I will say, however, that our maintenance team has been proactively scouting out idling locations for our vessels given the market environment for several months and importantly, we have secured dockside space close to vessel locations when they roll off of contract in the event that they do not attain direct continuation work. So we will look to continue to idle vessels when that becomes necessary, keep them in an actively marketed condition in a very cost efficient manner at dockside with onshore power, etc.

Darren Gacicia: Got you and then switching to the debt repurchases which people touched on a little bit, it would strike me given the fact that you do have payments due in '18 that you may have to consider raising some debt in order to make those payments, just if I look at the way the cash flow scenario may play out. Is implicitly saying you think the market will be healthier in ‘18 to raise capital to be buying back at a discount now?

Mark Smith: I think you’re right, Darren. I think as we move through time and the commodity continues to stabilize and increase, capital markets will eventually reopen for us. Also, the recent credit facility amendment gives us the capability to incur up to $400 million second lien secured debt on the revolver’s collateral package. We will look for opportunistic ways as we’ve said today to increased liquidity, reduce debt or stagger maturities, but we have the benefit of time. Such opportunities would be market-dependent, as you mentioned, and could range from new money notes to debt exchanges. We are certainly considering, as Rob said a moment ago, all options.

Darren Gacicia: Great. Thanks for your help.

Operator: Our next question comes from Gary Stromberg with Barclays. Please go ahead, your line is open.

Gary Stromberg: Good morning. You just answered my question, thank you.

Operator: We’ll go next to Mark Brown with Seaport Global. Please go ahead.

Mark Brown: Hi, I was just curious. The timing of your amended interest coverage covenant I think you said it kicks in in September 2018. Again, is that timing just where you expect to be kind of in the clear in terms of having the market stabilized and having enough liquidity from your cash flow from operations, that September 2018 timeframe?

Mark Smith: Mark, good morning. That's the last year of the facility. When that covenant comes back in at a rate of 1.15%, which is less than what it was previously. At that time we are in, and as I said, the last year and we'll be at the table with the bank discussing the refinancing of the facility, in any case. We do plan, as I mentioned, to have sufficient liquidity through time and cash on hand as we enter that covenant. It becomes effective July 1 and is measured quarterly after December 30 quarter end date.

Mark Brown: Okay. Okay, that's helpful. The other question I had is some nice constructive commentary around E&P companies coming back to the table and having offshore a seat at the table if we start to see oil prices getting up in that $50.00 to $60.00 range. I was just curious if that range of oil prices where you expect to be high enough to stimulate demand, has that improved given we had heard $60.00, $65.00, $70.00 in the past as that breakeven point, so I just wanted to check if you feel $50.00 to $60.00 is a range where you're pretty confident we'll see some demand come back?

Rob Saltiel: Well, I think that breakeven number has come down as we've seen the cost of offshore drilling come down. I mean, we've seen day rates fall significantly from the peak; but even over the last year, they've fallen materially. Service costs continue to come down and we mustn't forget because this is very important, the operators themselves have become much more efficient in terms of how they staff and staff their projects and procure their equipment and services for drilling wells.

So the entire chain, supply chain supporting offshore drilling has enabled a significant deflation of prices and that's basically a well cost and that lowers the breakeven price of oil that makes sense. Keep in mind the E&P operators are in the business of maintaining or increasing reserves in production. So eventually they have to get their drilling rigs to work in terms of the right and we think that this period of effectively not doing any offshore drilling will come to an end at some point here in the late ’16, early ‘17 timeframe and we’re going to start to see demand pick up from there.

In talking with clients themselves, they have shared with me the $60.00 number as being a number that used to be the $100.00 number for making decisions around some offshore investments. Now that’s not across the board, that’s obviously anecdotal; but I think if we see prices move into the mid to high-$50s, I’m relatively confident that we’re going to see a number of operators increase their appetite for offshore drilling.

Mark Brown: Great. Well, thank you very much.

Rob Saltiel: You’re welcome.

Operator: As a reminder if you would like to ask a question, please press the star (*) and one (1) on your touchtone phone. Our next question comes from Gregory Lewis with Credit Suisse. Please go ahead, your line is open.

Gregory Lewis: Yes. Thank you and good morning, gentlemen.

Rob Saltiel: Good morning.

Gregory Lewis: Rob, I guess a couple of weeks ago we saw one offshore driller move some rigs out of the Southeast, Southeast Asia. Just as you think about where potential opportunities are going to develop – and there’s been talk obviously given the shorter cycle nature of the jackup market that we could see some tenders pick up in the jackup market maybe quicker than the deepwater market – are we comfortable with Atwood's geographic footprint with where the rigs are located? I mean, you mentioned the Atwood Beacon potential – you mentioned maybe not some work in the near-term for the Beacon, could we see you guys maybe reconfigure where your jackups are located in sort of anticipation of maybe a little bit of a pick up somewhere?

Rob Saltiel: It's always difficult to know exactly where to position your rigs for the next job. If you think about the fact that we're likely to have the Atwood Beacon ready to go to work in the Mediterranean after its current contract, we have the Atwood Aurora already in West Africa with a relatively near-term opportunity for a contract extension or change, and then the other three rigs in Southeast Asia, it's going to be very difficult for us to have the conviction that says, "Let's spend a multimillion dollar cost for moving a rig to a region without having a contract in hand."

I would much rather spend the cost for mobilization of a rig on the back of a contract commitment and I have no problem doing that. But speculatively moving a rig in order to compete for work oftentimes ends up being a false economy because you may not get the job or you're probably moving it to a place where as you're waiting for that next job, it's costing you more to be idle. I mean, we've got extremely competitive idling costs on our two idle jackups, the Atwood Mako and the Atwood Manta, and we're getting great service there because we're right at a dockside where we've got lots of services available. So we're very happy to make the move speculatively. We'll rather compete with the business and if it's remote, at that point we'll roll on the cost of moving the rig if that's what's required to win the work.

Gregory Lewis: Okay, great and then just one follow-up for me. It's on the Atwood Admiral and it's regarding the rig share agreement. As we think about rig sharing agreements and the timing of I guess certain language in some of the contracts, it seems like contracts coming up today – more so than in the past, just the nature of the market – are having termination for convenience sort of language in the document. Could that be something where it will be on each individual member of the consortium in sort of that language or is it going to be like a blanket language?

Rob Saltiel: Well, if you're talking specifically about negotiating a contract with a group of operators, I don't think it's any different than it's ever been. You've got to come up with a common contract form that everyone can live with. Clearly in this environment, contractual terms and conditions aren't getting any better for the drilling contractor. However, in response to a previous question on the same topic, we haven't seen the requirement to agree to termination for convenience without any remuneration at all from the operator or the operator consortium. I do think that there may be lower cost of exit in some of these contracts would asunder in this period of time so you may not get full either payout a dayrate or payout a margin in order to provide a little more flexibility. We haven't really seen a drastic change in the general structure of these contracts, at least the ones that we've been involved with.

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

Rob Saltiel: You're welcome. Thanks.

Operator: We'll go next to Eduardo Royes with Jefferies. Please go ahead, your line is open.

Eduardo Royes: Hey, guys, good morning.

Rob Saltiel: Good morning.

Eduardo Royes: Rob, a question for you. This is a bit more of an industry-wide maybe than Atwood, but I think I feel like for the first earnings seasons since the downturn began, we've heard some of your competitors speak more kind of broadly about looking ahead and asset acquisitions and you've sort of had a status quo for the last 18 months but obviously you've got a couple of rigs get sold at pretty depressed prices recently – or at least one did – and some of the guys speaking more aggressively or openly about things are going to look quite different and things are going to change pretty soon, including some guys obviously doing stuff to the balance sheet to get them in a better position. Curious if you feel like, especially as you have your ear to the ground and talk to the shipyard and what not, if you hear that we may actually be seeing quite a bit changing, whether it's third-party arrangements or assets getting sold, do you think that there's a real change coming kind of in the near-term?

Rob Saltiel: Well, it's interesting that the asset type to purchase some of these one-off assets has been muted at best, at least thus far. I think what you've heard others in the industry say is that, first of all, asset quality is very important. When people think about adding assets to their existing portfolio breaks, especially in a market that's going to be challenging as we go through an emerge from this downturn, it's going to be more important than ever that asset quality be at the highest level in order to compete for work. Because at the end of the day, those most capable rigs wield in the ties in terms of matching day rates in order to get work. Of course, those most capable assets will have the longest lives ahead of them and rigs that were built just 10 or 15 years ago will start to look obsolete or may have intense difficulty getting back to work without a significant uplift in demand, which we don't expect any time soon.

So asset quality is going to be key. I think the other thing is that you're seeing is everybody's very focused on their balance sheet, which means that there's going to be a hesitation to spend a lot of cash to buy assets. So we may see a handful of assets trade hands for cash, but I think going forward as our industry always has when we come through this kind of a period, I think you're likely to see some consolidation across the space and some of that will probably involve share for share exchanges with a lesser component in cash, again, to support balance sheets.

But some of this is getting ahead of ourselves. Obviously it's still early days for those discussions and what this industry will look like when we come through it. My view is that these kind of topics are going to me much more relevant in 2017 than 2016.

Eduardo Royes: Great, thank you. If I could just switch gears for my follow-up, we've seen the Atwood Osprey change hands; obviously Woodside's getting it for a few months. I'm curious if you can offer any color on that. Woodside, obviously one of the more active players or they seem to have a more active position in Australia despite the recent big deferral of a project. I'm just wondering how much of that is sort of you guys hoping that there's work they're almost offering them a test drive, if you will, giving them the rig for a few months. And obviously I guess the other party, well, and being able to give up the rig a little early maybe – well, actually I guess not in Chevron's case – but really just curious how much of that is sort of and it only ever works for Chevron. You're going to put it with Woodside, it's a bit of a test drive and you think maybe there's some real opportunity there if all goes well for that six-month term.

Rob Saltiel: Well, I think that's a good point. I mean, look, we've had an excellent relationship with Woodside over many years and that certainly facilitated the discussion of the potential swap. Obviously we were able to offer a more capable rig. I mean, the Atwood Osprey is much more capable than the Atwood Eagle. It's established a fantastic reputation in Australia on two major developments there, working since it came out of the shipyard in 2011, so it really wasn't much of an arm twist to sell the merits of the Atwood Osprey and basically just migrate the same term and the same contractual conditions, including dayrate, from the Atwood Eagle to the Atwood Osprey.

Again in this market its most important that you keep your best rigs running as long as you can and try to bridge across the trough here of demand for floaters. So we really felt that giving that extra term to the Atwood Osprey was best long-term for our fleet. Obviously it was a tough call because the Eagle was doing a great job for us, but we decided to put our eggs in the basket of the Atwood Osprey and then delay putting the Atwood Eagle back to work because obviously it will be idle for some time until the Australian market improves. So those were the factors that went in and again it really was a win-win for us and for our client.

Eduardo Royes: Great, thank you.

Rob Saltiel: You're welcome.

Operator: Our next question comes from David Smith with Heikkinen Energy Advisors. Please go ahead, your line is open.

David Smith: Hey, good morning. Thank you and congratulations on the solid quarter and the opportunistic debt repurchase. I just had a housekeeping question. You gave us good detail on the interest expense for the two deferred new builds, could you please remind us what the cost structure is for those as well?

Rob Saltiel: Yes. The cost currently incurred for the Atwood Admiral is about $35,000.00 per day. Again it's at the dockside and that maintains the rig in topnotch condition. We can get it delivered with only a 45-day notice should we be able to complete the LOI and convert it to a contract and have an earlier start date than anticipated.

The last vessel, the Archer, does not get to a stage where it will be substantially finished until the end of the calendar year beginning 2017 and when that becomes clearer through time, we'll let you know; but the cost at that time will be the same, $35,000.00 a day.

David Smith: Great, thank you.

Rob Saltiel: Thank you, David.

Operator: Once again if you would like to ask a question, please press the star (*) and one (1) on your touchtone phone to enter the queue. We'll go next to Jeffrey Campbell with Tuohy Brothers. Please go ahead, your line is open.

Jeffrey Campbell: Good morning and congratulations on the successful negotiation with your bankers. I apologize that I couldn't hear it clearly to begin with. Did you say that the Atwood Eagle is being warm stacked in Singapore?

Mark Smith: Yes. The rig is being idled and actively marketed. It will have a minimal crew, it will be at the dockside in the shipyard with onshore power. It's a very efficient idling structure and we have no need for supply boats for any of our inventory consumables nor any cost to move our personnel. So that is the same approach we had taken previously with the Atwood Mako and Atwood Manta and as I mentioned a bit ago, that will be the exact same approach we'll take as we idle vessels that do not have direct continuation.

Jeremey Campbell: Okay, thank you. In recent presentations, you've mentioned that high-spec jackup in all four of Atwood's drillships are available as collateral. First, I'm just thinking theoretically, how receptive do you believe lenders would be towards taking rigs as collateral and what scenario would need to unfold for Atwood to use them in that manner?

Mark Smith: Well, as I explained in the opening comments, the final jackup that was unencumbered, the Atwood Orca, and the first two drillships that are out and working, the Atwood Advantage and the Atwood Achiever, have now been put in the collateral package. It can be the recent amendment. Importantly, the two remaining drillships with DSME are still unencumbered, but obviously banks are willing to take that collateral because that was an important part of the amendment.

Jeremy Campbell: Okay, thank you. I missed that in the early part of the call, so thanks for clearing that up. The last question just kind of a theoretical one, but it seems like the shipyards are taking on more and more rigs as their delivery is delayed. I was just wondering do you think there could ever come a point where a shipbuilder might be willing to discount a new build unit to move it to the market and in order fot that to occur, could it have any effect on the price of Atwood's yet-to-be-delivered rigs?

Rob Saltiel: Well, I think there's no question that the shipyards are part and parcel of what's happening in the offshore drilling industry and a number of us have delayed the delivery of our rigs, then we could track it while still honoring our commitments. In other cases, some rigs have been left in the yard and there are some legalities to be worked out between the drilling contractor and the shipyard for the final disposition of those rigs.

I think we just have to watch the space and see what the shipyards do. So far I think we have exercised some reasonably good discipline about not trying to sell these rigs at bargain basement prices, but there's no question asset values have fallen and it wouldn't be too surprising to see some rigs go from the shipyard into the open market. I think we'll just have to wait and see what happens.

Jeremy Campbell: Okay, thanks for that. I appreciate it.

Rob Saltiel: You're welcome.

Operator: It appears we have no further questions at this time.

Rob Saltiel: Okay, if there are no further questions, we want to thank everybody for joining this call and we appreciate your interest in Atwood Oceanics. Have a good day.

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