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ATWOOD OCEANICS INC
Form 10-Q
February 09, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR QUARTERLY PERIOD ENDED DECEMBER 31, 2004
COMMISSION FILE NUMBER 1-13167

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

ATWOOD OCEANICS, INC.
(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of
incorporation or organization)

74-1611874
(I.R.S. Employer Identification No.)

15835 Park Ten Place Drive
Houston, Texas

77084
(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code:
281-749-7800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filings requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.) Yes X No ___.

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of January 31, 2005: 15,169,426 shares of common stock \$1 par value

ATWOOD OCEANICS, INC.

FORM 10-Q

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For the Quarter Ended December 31, 2004

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PART I. FINANCIAL INFORMATION ATWOOD OCEANICS, INC. AND SUBSIDIARIES

This Form 10-Q for the quarterly period ended December 31, 2004 includes statements about Atwood Oceanics, Inc. (which together with its subsidiaries is identified as the "Company," "we" or "our," unless the context requires otherwise) which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto) which are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements which are also forward-looking statements.

These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the

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forward-looking statements.

Important factors that could cause our actual results of operations or our actual financial conditions to differ include, but are not necessarily limited to:

- our dependence on the oil and gas industry;
- the operational risks involved in drilling for oil and gas;
- changes in rig utilization and dayrates in response to the level of activity in the oil and natural gas industry, which is significantly affected by indications and expectations regarding the level and volatility of oil and natural gas prices, which in turn are affected by such things as political, economic and weather conditions affecting or potentially affecting regional or worldwide demand for oil and natural gas, actions or anticipated actions by OPEC, inventory levels, deliverability constraints, and future market activity;
- the extent to which customers and potential customers continue to pursue deepwater drilling;
- exploration success or lack of exploration success by our customers and potential customers;
- the highly competitive and cyclical nature of our business, with periods of low demand and excess rig availability;
- the impact of the war with Iraq or other military operations, terrorist acts or embargoes elsewhere;
- our ability to enter into and the terms of future drilling contracts;
- the availability of qualified personnel;
- our failure to retain the business of one or more significant customers;
- the termination or renegotiation of contracts by customers;

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- the availability of adequate insurance at a reasonable cost;
- the occurrence of an uninsured loss;
- the risks of international operations, including possible economic, political, social or monetary instability, and compliance with foreign laws;
- the effect SARS or other public health concerns could have on our international operations and financial results;
- compliance with or breach of environmental laws;
- the incurrence of secured debt or additional unsecured indebtedness or other obligations by us or our subsidiaries;
- the adequacy of sources of liquidity;
- currently unknown rig repair needs and/or additional opportunities to accelerate planned maintenance expenditures due to presently

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unanticipated rig downtime;

- higher than anticipated accruals for performance-based compensation due to better than anticipated performance by us, higher than anticipated severance expenses due to unanticipated employee terminations, higher than anticipated legal and accounting fees due to unanticipated financing or other corporate transactions and other factors that could increase general and administrative expenses;
- the actions of our competitors in the oil and gas drilling industry, which could significantly influence rig dayrates and utilization;
- changes in the geographic areas in which our customers plan to operate, which in turn could change our expected effective tax rate;
- changes in oil and natural gas drilling technology or in our competitors' drilling rig fleets that could make our drilling rigs less competitive or require major capital investments to keep them competitive;
- rig availability;
- the effects and uncertainties of legal and administrative proceedings and other contingencies;
- the impact of governmental laws and regulations and the uncertainties involved in their administration, particularly in some foreign jurisdictions;
- changes in accepted interpretations of accounting guidelines and other accounting pronouncements and tax laws;
- the risks involved in the construction and upgrade of our drilling units.

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Undue reliance should not be placed on these forward-looking statements, which are applicable only on the date hereof. Neither we nor our representatives have a general obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof or to reflect the occurrence of unanticipated events.

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PART I. ITEM I - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

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| | Three Months Ended December 31, | |
|--------------------------------------|------------------------------------|-----------|
| | 2004 | 2003 |
| | (Unaudited) | |
| REVENUES: | | |
| Contract drilling | \$38,986 | \$35,325 |
| Business interruption proceeds | 6,440 | - |
| | ----- | ----- |
| | 45,426 | 35,325 |
| | ----- | ----- |
| COSTS AND EXPENSES: | | |
| Contract drilling | 25,203 | 22,533 |
| Depreciation | 6,526 | 7,842 |
| General and administrative | 3,571 | 2,688 |
| | ----- | ----- |
| | 35,300 | 33,063 |
| | ----- | ----- |
| OPERATING INCOME | 10,126 | 2,262 |
| | ----- | ----- |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (2,018) | (2,334) |
| Interest income | 35 | 8 |
| | ----- | ----- |
| | (1,983) | (2,326) |
| | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES | 8,143 | (64) |
| PROVISION (BENEFIT) FOR INCOME TAXES | (507) | 1,840 |
| | ----- | ----- |
| NET INCOME (LOSS) | \$8,650 | (\$1,904) |
| | ===== | ===== |
| EARNINGS (LOSS) PER COMMON SHARE: | | |
| Basic | \$ 0.57 | \$(0.14) |
| Diluted | 0.56 | (0.14) |
| AVERAGE COMMON SHARES OUTSTANDING: | | |
| Basic | 15,079 | 13,852 |
| Diluted | 15,422 | 13,852 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PART I. ITEM I - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

December 31,

Septem

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| | 2004 | 2003 |
|--|-------------|------|
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$24,880 | |
| Accounts receivable | 29,559 | |
| Insurance receivable | 9,820 | |
| Inventories of materials and supplies | 13,506 | |
| Deferred tax assets | 40 | |
| Prepaid expenses and other | 4,352 | |
| | ----- | |
| Total Current Assets | 82,157 | |
| | ----- | |
| NET PROPERTY AND EQUIPMENT | 407,590 | |
| | ----- | |
| DEFERRED COSTS AND OTHER ASSETS | 3,502 | |
| | ----- | |
| | \$493,249 | |
| | ===== | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of notes payable | \$36,000 | |
| Accounts payable | 6,505 | |
| Accrued liabilities | 11,369 | |
| Deferred Credits | 333 | |
| | ----- | |
| Total Current Liabilities | 54,207 | |
| | ----- | |
| LONG-TERM DEBT, net of current maturities: | 81,000 | |
| | ----- | |
| | 81,000 | |
| | ----- | |
| OTHER LONG TERM LIABILITIES: | | |
| Deferred income taxes | 18,630 | |
| Deferred credits and other | 3,838 | |
| | ----- | |
| | 22,468 | |
| | ----- | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, no par value; 1,000 shares authorized, none outstanding | 0 | |
| Common stock, \$1 par value, 20,000 shares authorized with 15,110 and 13,873 issued and outstanding at December 31, 2004 and September 30, 2004, respectively | 15,110 | |
| Paid-in capital | 112,015 | |
| Retained earnings | 208,449 | |
| | ----- | |
| Total Shareholders' Equity | 335,574 | |
| | ----- | |
| | \$493,249 | |

=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PART I. ITEM I - FINANCIAL STATEMENTS
 ATWOOD OCEANICS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)

| | Three Months Ended |
|---|------------------------|
| | ----- 2004 ----- |
| | (Unaudited) |
| CASH FLOW FROM OPERATING ACTIVITIES: | |
| Net Income (loss) | \$ 8,650 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | |
| Depreciation | 6,526 |
| Amortization of debt issuance costs | 201 |
| Amortization of deferred items | 158 |
| Deferred income tax benefit | (50) |
| Changes in assets and liabilities: | |
| Collection of insurance receivable | 4,233 |
| Decrease in accounts receivable | 2,916 |
| Decrease (increase) in inventory | (858) |
| Decrease (increase) in deferred costs and other assets | 2,083 |
| Decrease in accounts payable | (2,893) |
| Decrease in accrued liabilities | (2,453) |
| Net mobilization fees and credits | 211 |
| Other increases | - |
| | ----- |
| Net cash provided by operating activities | 18,724 |
| | ----- |
| CASH FLOW FROM INVESTING ACTIVITIES: | |
| Capital expenditures | (12,988) |
| Collection of insurance receivable | 11,380 |
| Other | 13 |
| | ----- |
| Net cash used by investing activities | (1,595) |
| | ----- |
| CASH FLOW FROM FINANCING ACTIVITIES: | |
| Debt issuance costs paid | - |
| Proceeds from stock offering | 53,607 |
| Proceeds from exercise of stock options | 1,728 |
| Principal payments on debt | (64,000) |
| | ----- |

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| | |
|--|-----------|
| Net cash used by financing activities | (8,665) |
| | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 8,464 |
| CASH AND CASH EQUIVALENTS, at beginning of period | \$ 16,416 |
| | ----- |
| CASH AND CASH EQUIVALENTS, at end of period | \$ 24,880 |
| | ===== |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PART I. ITEM I - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

| (In thousands) | Common Stock Shares | Common Stock Amount | Paid-in Capital | Retained Earnings |
|------------------------------------|------------------------|------------------------|--------------------|----------------------|
| | | | | |
| September 30, 2004 | 13,873 | \$13,873 | \$ 57,917 | \$199,79 |
| Net income | - | - | - | 8,65 |
| Exercise of employee stock options | 62 | 62 | 1,666 | |
| Stock offering | 1,175 | 1,175 | 52,432 | |
| | ----- | ----- | ----- | ----- |
| December 31, 2004 | 15,110 | \$15,110 | \$112,015 | \$208,44 |
| | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PART I. ITEM 1 - FINANCIAL STATEMENTS
ATWOOD OCEANICS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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1. UNAUDITED INTERIM INFORMATION

The unaudited interim condensed consolidated financial statements as of December 31, 2004 and for each of the three month periods ended December 31, 2004 and 2003, included herein, have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The year end condensed consolidated balance sheet data was derived from the audited financial statements as of September 30, 2004. Although these financial statements and related information have been prepared without audit, and certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, we believe that the note disclosures are adequate to make the information not misleading. The interim financial results may not be indicative of results that could be expected for a full year. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report to Shareholders for the year ended September 30, 2004. In our opinion, the unaudited interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of our financial position and results of operations for the periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" allows companies the choice of either using a fair value method of accounting for options, which would result in expense recognition for all options granted, or using an intrinsic value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", with pro forma disclosure of the impact on net income (loss) of using the fair value option expense recognition method.

We apply the recognition and measurement principles of APB Opinion No. 25 and related interpretations. Accordingly, no compensation costs have been recognized in net income from the granting of options pursuant to our stock option plans, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Had compensation costs been determined based on the fair value at the grant dates consistent with the method of SFAS No. 123, our net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below (in thousands, except for per share amounts):

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| | Three Months Ended December 31, | |
|--|------------------------------------|-----------|
| | 2004 | 2003 |
| Net income (loss), as reported | \$8,650 | \$(1,904) |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all | | |

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| | | |
|------------------------------------|---------|------------|
| awards, net of related tax effects | (648) | (625) |
| | ----- | ----- |
| Pro Forma, net income | \$8,002 | \$ (2,529) |
| | ===== | ===== |
| Earnings (loss) per share: | | |
| Basic - as reported | \$ 0.57 | \$ (0.14) |
| Basic - pro forma | 0.53 | (0.18) |
| Diluted - as reported | \$ 0.56 | \$ (0.14) |
| Diluted - pro forma | 0.52 | (0.18) |

The fair value of grants made during the current fiscal year-to-date period were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate - 4.27%, expected volatility - 35%, expected life - 6 years, and no dividend yield.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123(R)). This Statement revises SFAS No. 123 by eliminating the option to account for employee stock options under APB No. 25 and generally requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the "fair-value-based" method). We plan to adopt SFAS 123(R) on July 1, 2005 using the modified prospective method without restatement of prior interim periods of the current fiscal year. The impact of adopting SFAS 123(R) will be to record expense for previously-issued but unvested employee stock options and any employee stock options that we issue in the future. We expect the dollar impact on our financial statements to be consistent with the impact previously disclosed above in the pro forma disclosure requirements of SFAS No. 123, beginning with the fourth quarter of fiscal year 2005.

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3. EARNINGS (LOSS) PER COMMON SHARE

The computation of basic and diluted earnings (loss) per share is as follows (in thousands, except per share amounts):

| | Three Months Ended | | |
|---------------------------------|--------------------|--------|-----------|
| | Net | | Per Share |
| | Income | Shares | Amount |
| | ----- | ----- | ----- |
| December 31, 2004: | | | |
| Basic loss per share | \$ 8,650 | 15,079 | \$ 0.57 |
| Effect of dilutive securities - | | | |
| Stock options | --- | 343 | \$(0.01) |
| | ----- | ----- | ----- |
| Diluted earnings per share | \$ 8,650 | 15,422 | \$ 0.56 |
| | ===== | ===== | ===== |

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December 31, 2003:

| | | | |
|--|------------|--------|-----------|
| Basic loss per share | (\$1,904) | 13,852 | (\$0.14) |
| Effect of dilutive securities - Stock options | --- | --- | --- |
| | ----- | ----- | ----- |
| Diluted loss per share | \$ (1,904) | 13,852 | \$ (0.14) |
| | ===== | ===== | ===== |

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4. PROPERTY AND EQUIPMENT

A summary of property and equipment by classification is as follows (in thousands):

| | December 31, 2004 | September 30, 2004 |
|--|----------------------|-----------------------|
| | ----- | ----- |
| Drilling vessels and related equipment | | |
| Cost | \$ 621,561 | \$ 608,584 |
| Accumulated depreciation | (217,725) | (211,544) |
| | ----- | ----- |
| | 403,836 | 397,040 |
| | ----- | ----- |
| Drill pipe | | |
| Cost | 10,240 | 10,240 |
| Accumulated depreciation | (7,531) | (7,259) |
| | ----- | ----- |
| Net book value | 2,709 | 2,981 |
| | ----- | ----- |
| Furniture and other | | |
| Cost | 7,519 | 7,635 |
| Accumulated depreciation | (6,474) | (6,515) |
| | ----- | ----- |
| Net book value | 1,045 | 1,120 |
| | ----- | ----- |
| NET PROPERTY AND EQUIPMENT | \$ 407,590 | \$ 401,141 |
| | ===== | ===== |

Effective October 1, 2004, we extended the remaining depreciable life of the SEAHAWK from 2 months to 5 years, due to a recent contract that extends the rig's commercial viability for up to 5 years. We believe that this change in depreciable life provides a better matching of the revenues and expenses of this asset over its anticipated remaining useful life and will continue to depreciate this rig on a straight-line method over for the remainder of the extended period. As a result of the change in depreciable life from 2 months to 5 years, depreciation expense was reduced and net income was increased for the three months ended December 31, 2004, by approximately \$950,000, or \$.06 per share and depreciation expense going forward will be higher than it otherwise would have been.

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5. COMMITMENTS AND CONTINGENCIES

We are party to a number of lawsuits which are ordinary, routine litigation incidental to our business, the outcome of which, individually, or in the aggregate, is not expected to have a material adverse effect on our financial position, results of operations, or cash flows.

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6. CAPITAL STOCK

In October 2004, we sold in a public offering 1,175,000 shares of our common stock at an effective net price (before expenses) of \$45.83 for net proceeds of approximately \$53.6 million. We used these proceeds and cash on hand to repay the \$55 million outstanding as of September 30, 2004 under the revolving portion of our senior secured credit facility.

7. ATWOOD BEACON

The ATWOOD BEACON incurred damage to all three legs and the derrick while positioning for a well offshore of Indonesia in July 2004. The rig and its damaged legs were transported to the builder's shipyard in Singapore for inspections and repairs. At September 30, 2004, the book basis of the ATWOOD BEACON was reduced by \$16.3 million which is the estimated reduction in value caused by the incident. During the three months ended December 31, 2004, approximately \$11.4 million of capitalized costs were incurred to restore the rig to its condition prior to the incident. During this period, we collected approximately \$15.6 million of the \$25.4 million insurance receivable recorded as of September 30, 2004. In addition, we also collected all of the \$6.4 million of business interruption proceeds earned during the current quarter. We expect to collect the remaining approximate \$9.8 million insurance receivable in the second quarter of fiscal year 2005.

8. INCOME TAXES

Virtually all of our tax provision for each of the three months ended December 31, 2004 and 2003 relates to taxes in foreign jurisdictions. Accordingly, due to the operating loss in the United States and the operating losses in certain nontaxable jurisdictions during the three months ended December 31, 2003, our effective tax rate for the 2003 period exceeds the U.S. statutory rate.

In December 2004, we received a \$1.7 million tax refund in Malaysia related to a previously reserved tax receivable. In addition, we earned revenue from our loss of hire insurance coverage on the ATWOOD BEACON in a zero tax jurisdiction during the three months ended December 31, 2004. As a result, our effective tax rate for the 2004 period was significantly less than the United States statutory rate.

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OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

All non-historical information set forth herein is based upon expectations and assumptions we deem reasonable. We can give no assurance that such expectations and assumptions will prove to be correct, and actual results could differ materially from the information presented herein. Our periodic reports filed with the Securities and Exchange Commission, or SEC, should be consulted for a description of risk factors associated with an investment in us.

MARKET OUTLOOK

Current worldwide utilization of offshore drilling units is approximately 87% compared to approximately 80% in January 2004. Recent contract awards for some of our drilling units reflect higher dayrates resulting from strengthening market conditions. We have experienced higher bid activity levels for our drilling units for near term contracts and increasing inquiries from our clients for programs commencing in the second half of calendar 2005 and in calendar 2006. We believe that our eight key drilling units (seven upgraded units and one newly constructed unit) are well placed to take advantage of the upside from increasing dayrates and improvement in our international markets.

During the quarter ended December 31, 2004, all eight of our active drilling units were 100% utilized except for the SEAHAWK and the ATWOOD BEACON. The SEAHAWK incurred 12 days of idle time between the completion of its contract in Malaysia with ExxonMobil and the commencement of its current contract in Malaysia with Sarawak Shell. The impact of this idle time was offset by the \$1.8 million in demobilization revenue received from ExxonMobil. The SEAHAWK has been awarded a contract commitment for two years firm work in Equatorial Guinea starting in calendar 2006. We are in discussions for work for the SEAHAWK to bridge most of the gap between the completion of its current work (estimated in late February to early March 2005) and its preparation for its contract commitment in calendar 2006. Based upon these discussions, the SEAHAWK could incur 6 to 8 weeks of idle time between completion of its current contract and prior to commencement of its next contract in Southeast Asia. The repairs to the ATWOOD BEACON from damage it incurred in July 2004 were completed on schedule in January 2005. We earned approximately \$6.4 million in business interruption proceeds in the quarter ended December 31, 2004 under the ATWOOD BEACON's loss of hire insurance coverage. In January 2005, the ATWOOD BEACON was mobilized to Vietnam to commence working under a contract which should keep it employed into calendar 2006.

In January 2005, the ATWOOD SOUTHERN CROSS incurred around ten days of zero rate time following the completing of its contract offshore Malaysia and the commencement of its mobilization for its current contract offshore Myanmar. We also anticipate that the ATWOOD SOUTHERN CROSS could incur up to four weeks of additional downtime in the third quarter of fiscal year 2005 following the completion of its current contract. We expect that the ATWOOD HUNTER, ATWOOD EAGLE, ATWOOD FALCON, VICKSBURG and RICHMOND will be highly utilized during the remainder of fiscal year 2005.

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We are optimistic about the longer-term outlook and fundamentals of the offshore drilling market. With the expected downtime for the SEAHAWK and ATWOOD SOUTHERN CROSS during a portion of the next two quarters in jurisdictions with a higher effective tax rate than the U.S. statutory rate, we expect net income for these quarters to be below the net income for the first quarter; however, compared to fiscal year 2004, we expect fiscal year 2005 will reflect increasing earnings and cash flows.

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RESULTS OF OPERATIONS

Revenues for the three months ended December 31, 2004 increased 29% compared to the three months ended December 31, 2003. A comparative analysis of revenues is as follows:

| REVENUES (In millions) | | | |
|---|---------------|---------------|-------------------|
| ----- Three Months Ended December 31, ----- | | | |
| | 2004 ----- | 2003 ----- | Variance ----- |
| ATWOOD EAGLE | \$ 8.5 | \$ 4.7 | \$ 3.8 |
| ATWOOD HUNTER | 5.6 | 2.7 | 2.9 |
| ATWOOD BEACON | 6.4 | 4.4 | 2.0 |
| ATWOOD FALCON | 7.7 | 6.0 | 1.7 |
| RICHMOND | 2.7 | 2.2 | 0.5 |
| VICKSBURG | 5.9 | 5.8 | 0.1 |
| ATWOOD SOUTHERN CROSS | 3.6 | 3.9 | (0.3) |
| SEAHAWK | 4.4 | 5.2 | (0.8) |
| OTHER | 0.6 | 0.4 | 0.2 |
| | --- | --- | --- |
| | \$45.4 | \$35.3 | \$10.1 |
| | ===== | ===== | ===== |

The increase in revenue for the ATWOOD EAGLE was due to being 100% utilized and earning dayrates ranging from \$89,000 - \$109,000 during the current quarter compared to an approximate 60% utilization at a dayrate of \$90,000 during the first quarter of the prior fiscal year. Revenue for the ATWOOD HUNTER increased due to 100% utilization at a dayrate of approximately \$62,000 during the quarter ended December 31, 2004 compared to 80% utilization at dayrates ranging from \$40,000 - \$44,000 during the quarter ended December 31, 2003. The ATWOOD BEACON earned loss of hire insurance at \$70,000 per day during the first quarter of the current fiscal year compared to earning an operating dayrate of approximately \$52,000 during the first quarter of the prior fiscal year. For approximately 20 days of the first quarter of the prior fiscal year, the ATWOOD FALCON was being mobilized to Japan and was thus, not earning revenue during this period as the lump sum mobilization revenue earned while relocating was amortized over the firm operating period of the contract. The increase in revenue for the RICHMOND was due to earning a dayrate of \$29,000 in the current quarter compared to a dayrate range of \$23,000 - \$24,000 in the same quarter in the prior fiscal year. Revenues for the VICKSBURG and ATWOOD SOUTHERN CROSS were comparable to the same period for in the prior year, while the decrease in revenue for the SEAHAWK was attributable to the fact that for the quarter ended December 31, 2003, there were two months amortization of deferred upgrade revenue of approximately \$1.3

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million compared to no amortization of such revenue in the quarter ended December 31, 2004 as amortization of the upgrade revenue ended November 2003.

Contract drilling costs for the three months ended December 31, 2004 increased 12% compared to the three months ended December 31, 2003. An analysis of contract drilling costs by rig is as follows:

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CONTRACT DRILLING COSTS
(In millions)

| | Three Months Ended December 31, | | |
|-----------------------|---------------------------------|--------|----------|
| | 2004 | 2003 | Variance |
| ATWOOD EAGLE | \$ 5.3 | \$ 3.8 | \$ 1.5 |
| ATWOOD FALCON | 3.3 | 2.4 | 0.9 |
| SEAHAWK | 2.4 | 2.1 | 0.3 |
| VICKSBURG | 2.5 | 2.2 | 0.3 |
| ATWOOD BEACON | 2.4 | 2.2 | 0.2 |
| RICHMOND | 2.0 | 1.9 | 0.1 |
| ATWOOD HUNTER | 2.9 | 2.9 | - |
| ATWOOD SOUTHERN CROSS | 3.0 | 4.4 | (1.4) |
| OTHER | 1.4 | 0.6 | 0.8 |
| | ----- | ----- | ----- |
| | \$25.2 | \$22.5 | \$ 2.7 |
| | ===== | ===== | ===== |

The increase in drilling costs for the ATWOOD EAGLE was due to an approximate \$20,000 per day higher salary expense attributable to higher Australian labor costs and additional rig personnel required due to local operating requirements in Australia during the quarter ended December 31, 2004, compared to operating in West Africa, its location in the first quarter of the prior fiscal year. As mentioned earlier, the ATWOOD FALCON was relocating to Japan for approximately 20 days during the quarter ended December 31, 2003, and thus, all costs incurred during the mobilization period were deferred and subsequently amortized over the firm operating portion of the contract. The increase in drilling costs for the SEAHAWK and VICKSBURG were due to higher repair and maintenance expenses incurred on the rigs during the current quarter as compared to the same quarter of the prior fiscal year. The RICHMOND and ATWOOD HUNTER experienced a similar level of drilling costs compared to the first quarter of the prior year, while drilling costs for the ATWOOD SOUTHERN CROSS decreased due to the fact the rig incurred approximately \$1.6 million of boat towing costs while relocating from Egypt to India during the quarter ended December 31, 2003 compared to no such costs in the quarter ended December 31, 2004. Despite being under repair for the entire quarter ended December 31, 2004, the ATWOOD BEACON incurred labor, insurance, supplies and other drilling costs during the quarter. Other drilling costs have increased as the prior fiscal year quarter includes an insurance premium refund of approximately \$500,000.

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An analysis of depreciation expense by rig for the three months ended December 31, 2004 compared to the three months ended December 31, 2003 is as follows:

DEPRECIATION EXPENSE
(In millions)

| | Three Months Ended December 31, | | |
|--|---------------------------------|-------|----------|
| | 2004 | 2003 | Variance |
| | ----- | ----- | ----- |

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| | | | |
|-----------------------|--------|--------|----------|
| ATWOOD SOUTHERN CROSS | \$ 1.1 | \$ 1.0 | \$ 0.1 |
| ATWOOD FALCON | 0.7 | 0.7 | - |
| VICKSBURG | 0.7 | 0.7 | - |
| ATWOOD HUNTER | 1.3 | 1.3 | - |
| RICHMOND | 0.2 | 0.2 | - |
| ATWOOD EAGLE | 1.2 | 1.3 | (0.1) |
| ATWOOD BEACON | 1.2 | 1.3 | (0.1) |
| SEAHAWK | 0.1 | 1.2 | (1.1) |
| OTHER | 0.0 | 0.1 | (0.1) |
| | ----- | ----- | ----- |
| | \$ 6.5 | \$ 7.8 | \$ (1.3) |
| | ===== | ===== | ===== |

Effective October 1, 2004, we extended the remaining depreciable life of the SEAHAWK from 2 months to 5 years which resulted in reduction of depreciation expense of \$950,000 as discussed in Note 4. The depreciable life of this rig was extended based upon a recent contract that extends the rig's commercial viability for up to 5 years, coupled with our intent to continue marketing and operating the rig beyond 2 months.

General and administrative expenses for the first quarter of fiscal year 2005 increased compared to the first quarter of the prior fiscal year due to the fact that \$0.8 million in bonuses were paid during the current quarter versus no bonus payments in the prior fiscal year. Although the level of our outstanding debt has been reduced significantly from the prior fiscal year, interest expense has only decreased slightly due to rising interest rates.

Virtually all of our tax provision for each of the three months ended December 31, 2004 and 2003 relates to taxes in foreign jurisdictions. In December 2004, we received a \$1.7 million tax refund in Malaysia related to a previously reserved tax receivable. In addition, we earned revenue from our loss of hire insurance coverage on the ATWOOD BEACON in a zero tax jurisdiction during the three months ended December 31, 2004. As a result, our effective tax rate for this period was significantly less than the United States statutory rate. This effective tax rate for the current quarter is also significantly less when compared to the first quarter of the prior year due to an operating loss in the United States and operating losses in certain nontaxable jurisdictions which produced an effective tax rate significantly higher than the United States statutory rate for the three months ended December 31, 2003. Excluding any other discrete items that may be incurred, we expect our effective tax rate to be within a range of 15 to 20% for fiscal year 2005.

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LIQUIDITY AND CAPITAL RESOURCES

Due to the cyclical nature of the offshore drilling industry, maintaining high equipment utilization of our eight active drilling units in up, as well as down, cycles is a key factor in generating cash to satisfy current and future obligations. Since fiscal year 2000, net cash provided by operating activities ranged from a low of approximately \$14 million in fiscal year 2003 to a high of approximately \$62 million in fiscal year 2001, with net cash provided by operating activities in fiscal year 2004 of approximately \$26 million. Net cash

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provided by operating activities for the quarter ended December 31, 2004 was approximately \$19 million. We expect that in fiscal year 2005, net cash provided by operating activities will range between \$40 and \$50 million. Our operating cash flows are primarily driven by our operating income, which reflects dayrate and rig utilization. Assuming higher dayrates and strengthening market conditions, we should have higher cash flows and earnings in fiscal year 2005 compared to fiscal year 2004. Currently, our existing cash commitments for the remainder of fiscal year 2005 and beyond, outside of funding current rig operations, and restoration of the ATWOOD BEACON which is fully reimbursed through insurance, includes annual capital expenditures of \$6 to \$10 million for maintenance of our eight active drilling rigs and quarterly repayments of \$9 million under the term portion of our senior secured credit facility. We expect to generate sufficient cash flows from operations to satisfy these obligations.

At December 31, 2004, we had \$117 million outstanding under the term portion of our senior secured credit facility. In October 2004, upon concluding our 1,175,000 stock offering, we repaid the \$55 million then outstanding under the revolving portion of our senior secured credit facility with proceeds from the offering and cash on hand. In January 2005, we re-borrowed \$10 million under the revolving portion of our senior secured credit facility. We currently have approximately \$89 million of available borrowing capacity and with a debt to total capitalization ratio currently less than 30%, we expect to remain in compliance with all financial covenants during the remainder of fiscal year 2005. The collateral for our senior secured credit facility consists primarily of preferred mortgages on all eight of our active drilling units (with an aggregate net book value at December 31, 2004 totaling approximately \$391 million). We are required to pay a fee of approximately .80% per annum on the unused portion of the revolving loan facility and certain other administrative costs.

The SEASCOUT, a semisubmersible hull planned for future conversion and upgrade to a semisubmersible tender assist vessel, continues to be cold-stacked. We expect that the cost to convert and upgrade the SEASCOUT to be approximately \$70 million. We have no current capital commitments on the SEASCOUT, as we do not expect to undertake a conversion and upgrade until an acceptable contract opportunity has been secured and adequate financing is in place. We continue to periodically increase and adjust our planned capital expenditures and financing of such expenditures in light of current market conditions.

Our portfolio of accounts receivable is comprised of major international corporate entities with stable payment experience. Historically, we have not encountered significant difficulty in collecting receivables and typically do not require collateral for our receivables. The insurance receivable of approximately \$25 million at September 30, 2004 and approximately \$10 million at December 31, 2004 related to repairs made to the ATWOOD BEACON. We expect to encounter no difficulty in collecting the remaining approximately \$10 million due from the repairs made to the ATWOOD BEACON.

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PART I. ITEM 3 ATWOOD OCEANICS, INC. AND SUBSIDIARIES QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including adverse change in interest rates and foreign currency exchange rates as discussed below.

INTEREST RATE RISK

With the interest rate on our long-term debt under our current credit

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facilities at a floating rate, the outstanding long-term debt of \$117 million at December 31, 2004 approximates its fair value. The impact on annual cash flow of a 10% change in the floating rate (approximately 45 basis points) would be approximately \$0.5 million, which we do not believe to be material. We did not have any open derivative contracts relating to our floating rate debt at December 31, 2004.

FOREIGN CURRENCY RISK

Certain of our subsidiaries have monetary assets and liabilities that are denominated in a currency other than their functional currencies. Based on December 31, 2004 amounts, a decrease in the value of 10% in the foreign currencies relative to the U.S. dollar from the year-end exchange rates would result in a foreign currency transaction loss of approximately \$0.6 million, which we do not believe to be material. We did not have any open derivative contracts relating to foreign currencies at December 31, 2004.

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PART I. ITEM 4 ATWOOD OCEANICS, INC. AND SUBSIDIARIES CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in our periodic SEC filings is recorded, process, summarized and reported within the time periods specified in the SEC's rules, regulations and forms. We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION ATWOOD OCEANICS, INC. AND SUBSIDIARIES

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1.1 Restated Articles of Incorporation dated January 1972 (Incorporated herein by reference to Exhibit 3.1.1 of our Form 10-K for the year ended September 30, 2002).
- 3.1.2 Articles of Amendment dated March 1975 (Incorporated herein by reference to Exhibit 3.1.2 of our Form 10-K for the year ended September 30, 2002).
- 3.1.3 Articles of Amendment dated March 1992 (Incorporated herein by reference to Exhibit 3.1.3 of our Form 10-K for the year ended September 30, 2002).
- 3.1.4 Articles of Amendment dated November 1997 (Incorporated herein by reference to Exhibit 3.1.4 of our Form 10-K for the year ended September 30, 2002).
- 3.1.5 Certificate of Designations of Series A Junior Participating Preferred Stock of Atwood Oceanics, Inc. dated October 17, 2002 (Incorporated herein by reference to Exhibit 3.1.5 of our Form 10-K for the year ended September 30, 2002).
- 3.2 Bylaws, as amended and restated, dated January 1993 (Incorporated herein by reference to Exhibit 3.2 of our Form 10-K for the year ended September 30, 1993).
- 4.1 Rights Agreement dated effective October 18, 2002 between the Company and Continental Stock & Transfer & Trust Company (Incorporated herein by reference to Exhibit 4.1 of our Form 8-A filed October 21, 2002).
- *31.1 Certification of Chief Executive Officer
- *31.2 Certification of Chief Financial Officer
- *32.1 Certificate of Chief Executive Officer pursuant to Section 9006 of Sarbanes - Oxley Act of 2002.
- *32.2 Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes - Oxley Act of 2002.

*Filed herewith

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(b) Reports on Form 8-K

- 1) On October 5, 2004, we filed a report on Form 8-K announcing that we had filed a preliminary prospectus supplement for an underwritten joint public offering with a selling shareholder of a total of 2,000,000 shares of common stock pursuant to effective shelf registration statements on Form S-3 previously filed with the Securities and Exchange Commission.
- 2) On October 14, 2004, we filed a report on Form 8-K announcing that we had entered into an underwriting agreement with Goldman, Sachs & Co.,

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Credit Suisse First Boston LLC, Jefferies & Company, Inc., Raymond James & Associates, Inc. and Stifel, Nicolaus & Company, Incorporated related to our underwritten joint public offering with a selling shareholder of a total of 2,175,000 shares of our common stock at a public offering price of \$48.50 per share less the underwriters discount of \$2.67 per share, for net proceeds before expenses of \$45.83 per share pursuant to effective shelf registration statement on Form S-3 previously filed with the Security and Exchange Commission.

- 3) On October 19, 2004, we filed a report on Form 8-K announcing the closing of our underwritten joint public offering with a selling shareholder of a total of 2,175,000 shares of common stock at a public offering price of \$48.50 per share less the underwriter discount of \$2.67 per share, for net proceeds before expenses of \$45.83 per share pursuant to effective shelf registration statements on Form S-3 previously filed with the Securities and Exchange Commission.
- 4) On October 20, 2004, we furnished a report on Form 8-K announcing that the SEAHAWK had completed its contract with ExxonMobil Exploration & Production Malaysia Inc. and had received a commitment from Sarawak Shell Berhad ("Shell") to use the rig to drill a two-well program offshore Malaysia and providing an update on contract status for our other drilling units.
- 5) On November 1, 2004, we filed a report on Form 8-K announcing that the ATWOOD FALCON had been awarded a contract with Japan Energy Development Co., Ltd. to drill one firm well with an option to drill one additional well off the coast of Japan and that the ATWOOD EAGLE has been awarded additional work under an existing contract with Woodside Energy, Ltd.
- 6) On November 16, 2004, we furnished a report on Form 8-K announcing our earnings for the quarter and year ended September 30, 2004, along with supporting information.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATWOOD OCEANICS, INC.
(Registrant)

Date: February 9, 2005

/s/JAMES M. HOLLAND_
James M. Holland
Senior Vice President, Chief Financial
Officer, Chief Accounting Officer and
Secretary

EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION |
|-------------|--|
| 3.1.1 | Restated Articles of Incorporation dated January 1972 (Incorporated herein by reference to Exhibit 3.1.1 of our Form 10-K for the year ended September 30, 2002). |
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| *32.2 | Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes - Oxley Act of 2002. |

*Filed herewith

EXHIBIT 31.1

CERTIFICATIONS

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I, John R. Irwin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Atwood Oceanics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]; and

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report

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financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2005

/s/ JOHN R. IRWIN
John R. Irwin
Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATIONS

I, James M. Holland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Atwood Oceanics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]; and
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred

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during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2005

/s/ JAMES M. HOLLAND
James M. Holland
Chief Financial Officer

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EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Atwood Oceanics, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Irwin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

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Date: February 9, 2005

/s/ JOHN R. IRWIN
John R. Irwin
President and Chief Executive Officer

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EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Atwood Oceanics, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James M. Holland, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

Date: February 9, 2005

/s/JAMES M. HOLLAND
James M. Holland
Senior Vice President and
Chief Financial Officer

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