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ATWOOD OCEANICS INC
Form 10-K
December 13, 2006

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

COMMISSION FILE NUMBER 1-13167

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
(Address of principal executive offices)

77084
(Zip Code)

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

Securities registered pursuant to
Section 12(b) of the Act:
Common Stock, \$1 par value
Preferred Stock Purchase Rights
(Title of each Class)

New York Stock Exchange
New York Stock Exchange
(Name of each exchange on
which registered)

Securities registered pursuant to
Section 12(g) of the Act:
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer,
as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports
pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (or for such shorter period that the registrant
was required to file such reports), and (2) has been subject to such filings
requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation in S-K (ss.229.405 of this chapter) is not contained herein, and
will not be contained, to the best of the registrant's knowledge, in definitive
proxy or information statements incorporated by reference in Part III of this
Form 10-K or any amendment to this Form 10-K .

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which our Common Stock, \$1 par value was last sold, or the average bid and asked price of such Common Stock, as of March 31, 2006 was \$1,566,000,000.

The number of shares outstanding of our Common Stock, \$1 par value, as of December 12, 2006: 31,068,013.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Annual Report to Shareholders for the fiscal year ended September 30, 2006 - Referenced in Parts I, II and IV of this report.

(2) Proxy Statement for Annual Meeting of Shareholders to be held February 8, 2007 - Referenced in Part III of this report.

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PART I

ITEM 1. BUSINESS

Atwood Oceanics, Inc. (which together with its subsidiaries is identified as the "Company," "we" or "our," unless the context requires otherwise) is engaged in the international offshore drilling and completion of exploratory and developmental oil and gas wells and related support, management and consulting services. We are headquartered in Houston, Texas, USA. Atwood Oceanics, Inc. was organized in 1968 as a corporation and commenced operations in 1970.

During our thirty-nine year history, the majority of our drilling units have operated outside of United States waters, and we have conducted drilling operations in most of the major offshore exploration areas of the world. Our current worldwide operations include eight premium offshore mobile drilling units located in five regions of the world - offshore Southeast Asia, offshore Africa, offshore Australia, the Black Sea and the U.S. Gulf of Mexico. We also manage two modern, self-contained platform rigs. Approximately 93%, 93%, and 94% of our contract revenues were derived from foreign operations in fiscal years 2006, 2005 and 2004, respectively. The submersible RICHMOND is our only drilling unit currently working in United States waters. We support our operations from our Houston headquarters and offices currently located in Australia, Malaysia, Egypt, Malta, Indonesia, West Africa, Singapore and the United Kingdom. For information relating to the contract revenues, operating income and identifiable

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assets attributable to specific geographic areas of operations, see Note 13 of Notes to Consolidated Financial Statements contained in our Annual Report to Shareholders for fiscal year 2006, incorporated by reference herein.

The following table presents our wholly-owned and operating rig fleet as of December 12, 2006:

Rig Name -----	Rig Type -----	Upgraded -----	Water Depth Rating (feet) -----
ATWOOD EAGLE	Semisubmersible	2000/2002	5,000
ATWOOD HUNTER	Semisubmersible	1997/2001	5,000
ATWOOD FALCON	Semisubmersible	1998/2006	5,000
ATWOOD SOUTHERN CROSS	Semisubmersible	1997/2006	2,000
SEAHAWK	Semisubmersible	1992/1999/2006	600
	Tender Assist		
ATWOOD BEACON	Jack-up	2003(1)	400
VICKSBURG	Jack-up	1998	300
RICHMOND	Submersible	2000/2002	70

(1) The ATWOOD BEACON was constructed in 2003.

When necessary, we update and upgrade our fleet in order to maintain premium, modern equipment. In fiscal year 1997, we commenced an internal upgrade program of all of our active drilling units. Collectively, since fiscal year 1997, we have invested approximately \$400 million in upgrading seven offshore mobile drilling units in connection with our upgrade program. In August 2003, our eighth drilling unit, the ATWOOD BEACON, an ultra-premium, jack-up rig, commenced its initial drilling contract following completion of its construction and commissioning in early August 2003. This drilling unit was constructed on time and on budget at a cost of approximately \$120 million. We have a ninth drilling unit, the ATWOOD AURORA, another ultra-premium, jack-up, under construction at Brownsville, Texas, with scheduled delivery on or before September 2008. The total construction cost of this drilling unit (including capitalized interest) is expected to be approximately \$160 million.

All of our currently active drilling units have contractual dayrate commitments that are the highest in their respective histories. Currently, we have approximately 95% and 80% of our available rig days contracted for fiscal years 2007 and 2008, respectively. For many years, one of our strategic focuses has been maintaining high equipment utilization. We had a 100% and 98% equipment utilization rate in fiscal years 2006 and 2005, respectively and have averaged over 90% utilization over the last ten years. Today, virtually all worldwide offshore drilling areas have strong market fundamentals, with high utilization of both floating as well as bottom supported drilling units. Despite the increase in operating costs for fiscal year 2006, our operating results significantly increased for fiscal year 2006 compared to fiscal year 2005. Although we anticipate a continuing trend for increases in operating costs during the next fiscal year, with our backlog of contracted days providing increasing revenue expectations, we anticipate that revenues, operating cash flows and earnings for fiscal years 2007 and 2008 will reflect a significant improvement over fiscal year 2006 operating results, and they are expected to be the highest in our history.

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OFFSHORE DRILLING EQUIPMENT

In addition to our owned and operating rigs described above, we also manage two modern, self-contained platform rigs; thus, giving us a current

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diversified fleet of ten (10) drilling rigs.

Each type of drilling rig is uniquely designed for different purposes and applications, for operations in different water depths, bottom conditions, environments and geographical areas, and for different drilling and operating requirements. The following descriptions of the various types of drilling rigs we own or manage illustrate the diversified range of applications of our rig fleet.

Semisubmersible Rigs. Each semisubmersible drilling unit has two hulls, the lower of which is capable of being flooded. Drilling equipment is mounted on the main hull. After the drilling unit is towed to location, the lower hull is flooded, lowering the entire drilling unit to its operating draft, and the drilling unit is anchored in place. On completion of operations, the lower hull is deballasted, raising the entire drilling unit to its towing draft. This type of drilling unit is designed to operate in greater water depths than a jack-up and in more severe sea conditions than other types of drilling units. Semisubmersible units are generally more expensive to operate than jack-up drilling rigs and are often limited in the amount of supplies that can be stored on board.

Semisubmersible Tender Assist Rigs. Semisubmersible tender assist rigs operate like a semisubmersible except that their drilling equipment is temporarily installed on permanently constructed offshore support platforms. Semisubmersible rigs provide crew accommodations, storage facilities and other support for drilling operations.

Jack-up Drilling Rigs. A jack-up drilling rig contains all of the drilling equipment on a single hull designed to be towed to a well site. Once on location, legs are lowered to the sea floor and the unit is raised out of the water by jacking the hull up the legs. On completion of the well, the unit is jacked down, and towed to the next location. A jack-up drilling rig can operate in more severe sea and weather conditions than a drillship and is less expensive to operate than a semisubmersible. However, because it must rest on the sea floor, a jack-up cannot operate in water as deep as that in which a semisubmersible unit can operate. A jack-up drilling rig is a bottom supported rig.

Submersible Drilling Rigs. The submersible drilling rig we own has two hulls, the lower being a mat, which is capable of being flooded. Drilling equipment and crew accommodations are located on the main hull. After the drilling unit is towed to its location, the lower hull is flooded, lowering the entire unit to its operating draft at which it rests on the sea floor. On completion of operations, the lower hull is deballasted, raising the entire unit to its towing draft. This type of drilling unit is designed to operate in shallow water depths ranging from 9 to 70 feet and can operate in moderately severe sea conditions. Although drilling units of this type are less expensive to operate, like a jack-up drilling rig, they cannot operate in water as deep as that in which a semisubmersible rig can operate. A submersible drilling rig is a bottom supported unit.

Modular Platform Rigs. A modular platform rig is similar to a land rig in its basic components. Modular platform rigs are temporarily installed on permanently constructed offshore support platforms in order to perform drilling operations. After the drilling phase is completed, the modular rig is broken down into convenient packages and moved by workboats. A platform rig usually stays at a location for several months, if not years, since several wells are typically drilled from a support platform.

DRILLING CONTRACTS

We obtain the contracts under which we operate our vessels either

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through individual negotiation with the customer or by submitting proposals in competition with other contractors. Our contracts vary in their terms and conditions. The initial term of contracts for our owned and/or managed vessels has ranged from the length of time necessary to drill one well to several years and is generally subject to early termination in the event of a total loss of the drilling vessel, a force majeure event, excessive equipment breakdown or failure to meet minimum performance criteria. It is not unusual for contracts to contain renewal provisions, which in time of weak market conditions are usually at the option of the customer; while in time of strong market demand, like today, are usually mutually agreeable.

The rate of compensation specified in each contract depends on the nature of the operation to be performed, the duration of the work, the amount and type of equipment and services provided, the geographic areas involved, market conditions and other variables. Generally, contracts for drilling, management and support services specify a basic rate of compensation computed on a dayrate basis. Such agreements generally provide for a reduced dayrate payable when operations are interrupted by equipment failure and subsequent repairs, field moves, adverse weather conditions or other factors beyond our control.

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Some contracts also provide for revision of the specified dayrates in the event of material changes in certain items of cost. Any period during which a vessel is not earning a full operating dayrate because of the above conditions or because the vessel is idle and not on contract will have an adverse effect on operating profits. An over-supply of drilling rigs in any market area can adversely affect our ability to employ our drilling vessels. Our active rig utilization, which excludes contractual downtime for rigs upgraded, for fiscal years 2006, 2005 and 2004 was 100%, 98% and 93%, respectively.

Of our current drilling contracts, seven of our drilling units have contract terms that extend beyond fiscal year 2007. The ATWOOD EAGLE's contract in Australia extends into fiscal year 2010. The ATWOOD FALCON, ATWOOD BEACON and VICKSBURG contracts extend into fiscal year 2009. The ATWOOD HUNTER, ATWOOD SOUTHERN CROSS, and SEAHAWK contracts extend into fiscal year 2008. Even though the RICHMOND currently does not have a contract commitment that extends beyond fiscal year 2007, we expect that this rig will remain highly utilized under the current market conditions. With the completion of the ATWOOD FALCON's water depth upgrade and the reattachment of the last leg sections on the ATWOOD BEACON in November 2006, we currently have no planned shipyard time for any of our rigs for the remainder of fiscal year 2007. Currently, the only planned downtime for the remainder of fiscal year 2007 is a ten to fourteen day required inspection planned for the ATWOOD HUNTER. However, we can provide no assurance that we will not experience some unplanned idle time on our other drilling units during fiscal year 2007. Maintaining high equipment utilization in up, as well as down, cycles is a key factor in generating cash to satisfy current and future obligations.

For long moves of drilling equipment, we attempt to obtain from our customers either a lump sum or a dayrate as mobilization compensation for expenses incurred during the period in transit. In today's strong market environment, we are able to receive a dayrate as mobilization compensation; however, a surplus of certain types of units, either worldwide or in particular operating areas, can result in our acceptance of a contract which provides only partial or no recovery of relocation costs. Additionally, under such a contract, we may not make any profit during the relocation of a rig. For example, in fiscal year 2003, the ATWOOD EAGLE was moved from offshore Greece to offshore Angola at a cost of \$8.2 million, with only \$2.7 million received in mobilization compensation, and the ATWOOD FALCON was relocated from offshore

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Australia with mobilization costs of approximately \$2 million, which approximated mobilization compensation. We can give no assurance that we will receive full or partial recovery of any future relocation costs beyond that for which we have already contracted.

Operation of our drilling equipment is subject to the offshore drilling requirements of petroleum exploration companies and agencies of foreign governments. These requirements are, in turn, subject to fluctuations in government policies, world demand and prices for petroleum products, proved reserves in relation to such demand and the extent to which such demand can be met from onshore sources.

We also contract to provide various types of services to third party owners of drilling rigs. These contracts are normally for a stated term or until termination of operations or stages of operation at a particular facility or location. The services may include, as in the case of contracts we have entered into in connection with operations offshore Australia, the supply of personnel and rig design, fabrication, installation and operation. The contracts normally provide for reimbursement to us for all out-of-pocket expenses, plus a service or management fee for all of the services performed. In most instances, the amount charged for the services may be adjusted if there are changes in conditions, scope or costs of operations. We generally obtain insurance or a contractual indemnity from the owner for liabilities which could be incurred in operations.

The majority of our contracts are denominated in United States dollars, but occasionally a portion of a contract is payable in local currency. To the extent there is a local currency component in a contract, we attempt to match revenue in the local currency to operating costs paid in the local currency such as local labor, shore base expenses, and local taxes, if any.

INSURANCE AND RISK MANAGEMENT

Our operations are subject to the usual hazards associated with the drilling of oil and gas wells, such as blowouts, explosions and fires. In addition, our equipment is subject to various risks particular to our industry which we seek to mitigate by maintaining insurance. These risks include leg damage to jack-ups during positioning (such as we experienced in fiscal year 2004 with the ATWOOD BEACON), capsizing, grounding, collision and damage from severe weather conditions. Any of these risks could result in damage or destruction of drilling rigs and oil and gas wells, personal injury and property damage, suspension of operations or environmental damage through oil spillage or extensive, uncontrolled fires. Therefore, in addition to general business insurance policies, we maintain the following insurance relating to our rigs and rig operations: hull and machinery, loss of hire, builder's risk, cargo, war risks, protection and indemnity, and excess liability, among others.

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Our operations are also subject to disruption due to terrorism. As a result of significant losses incurred by the insurance industry due to terrorism, offshore drilling rig accidents, damages from hurricanes and other events, we have experienced increases in premiums for certain insurance coverages. Although we believe that we are adequately insured against normal and foreseeable risks in our operations in accordance with industry standards, such insurance may not be adequate to protect us against liability from all consequences of well disasters, marine perils, extensive fire damage, damage to the environment or disruption due to terrorism. To date, we have not experienced difficulty in obtaining insurance coverage, although we can provide no assurance as to the future availability of such insurance or the cost thereof. The

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occurrence of a significant event against which we are not adequately insured could have a material adverse effect on our financial position. See also "Risk Factors" in Item 1A.

CUSTOMERS

During fiscal year 2006, we performed operations for 13 customers. Because of the relatively limited number of customers for which we can operate at any given time, revenues from four different customers amounted to 10% or more of our revenues in fiscal year 2006 as indicated below:

Customer	Percentage of Revenues
Woodside Energy Ltd.	28%
Burullus Gas Co.	14%
Sarawak Shell	12%
Hoang Long and Hoan Vu Companies	12%

Our business operations are subject to the risks associated with a business having a limited number of customers for our products or services, and a decrease in the drilling programs of these customers in the areas where we are employed may adversely affect our revenues and therefore, our results of operations and cash flows.

COMPETITION

We compete with several international offshore drilling contractors, most of which are substantially larger than we are and which possess appreciably greater financial and other resources. The offshore drilling industry is very competitive, with no single offshore drilling contractor being dominant. Thus, there is competition in securing available offshore drilling contracts.

Price competition is generally the most important factor in the offshore drilling industry; however, when there is high worldwide utilization of equipment, as currently exists, rig availability and suitability become more important factors in securing contracts than price. The technical capability of specialized drilling equipment and personnel at the time and place required by customers are also important. Other competitive factors include work force experience, rig suitability, efficiency, condition of equipment, safety performance, reputation and customer relations. We believe that we compete favorably with respect to these factors.

INDUSTRY TRENDS

The performance of the offshore drilling industry is largely determined by basic supply and demand for available equipment. Periods of high demand and high dayrates are often followed by periods of low demand and low dayrates. Offshore drilling contractors can mobilize rigs from one region of the world to another, can "cold stack" rigs (taking them out of service) or reactivate cold stacked rigs in order to adjust supply of existing equipment in various markets to meet demand. The market is highly cyclical and is typically driven by general economic activity and changes in actual or anticipated oil and gas prices. Generally, sustained high energy prices translate into increased exploration and production spending by oil and gas companies, which in turn results in increased drilling activity and demand for equipment like ours.

The offshore markets where we currently operate, offshore Southeast Asia, offshore Africa, offshore Australia, the Black Sea, and shallow water U.S. Gulf of Mexico, offer the potential for continuing high utilization and dayrates. We expect demand for all of our drilling units to continue to be strong due to demand for oil and gas in their respective regions, as well as significant growth in demand for oil and gas driven by China's and India's

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rapidly expanding economies.

INTERNATIONAL OPERATIONS

The large majority of our operations are in foreign jurisdictions which we have historically found to be more stable in market terms. We believe international operations provide a better opportunity than domestic operations

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for attractive contracts and returns over the longer term. Since 1970, we have operated offshore Southeast Asia, offshore Australia, in the Far East, in the Mediterranean Sea, in the Arabian Gulf, in the Red Sea, in the Black Sea, offshore India, offshore Papua New Guinea, offshore Vietnam, offshore East and West Africa, offshore Central and South America, offshore China and in the U.S. Gulf of Mexico. Currently, we have only one rig working in the U.S. Gulf of Mexico. We have foreign offices currently located in Australia, Malaysia, Egypt, Malta, Indonesia, West Africa, Singapore and the United Kingdom.

Virtually all of our tax provision for fiscal years 2004, 2005 and 2006 relates to taxes in foreign jurisdictions. As a result of working in foreign jurisdictions, we earned a high level of operating income in certain nontaxable and deemed profit tax jurisdictions which significantly reduced our effective tax rate for the current fiscal year when compared to the United States statutory rate. In addition, we reversed a \$1.8 million tax contingent liability during fiscal year 2006 due to the expiration of the statute of limitations in a foreign jurisdiction. Also, we were advised by a foreign tax authority that it had approved acceptance of certain amended prior year tax returns. The acceptance of these amended tax returns, along with the fiscal year 2005 tax return for this foreign jurisdiction, resulted in the recognition of a \$4.6 million tax benefit in the third quarter of the current fiscal year. Including the two previously mentioned discrete items, which reduced our rate by 7%, our effective tax rate for fiscal year 2006 was approximately 6%.

During fiscal year 2005, our tax provision was offset by two foreign discrete items. During the first quarter of fiscal year 2005, we received a \$1.7 million tax refund in Malaysia related to a previously reserved tax receivable. In addition, a \$1.0 million deferred tax benefit was recognized in June 2005 due to the filing and subsequent acceptance by the local tax authority, of amended prior year tax returns. In addition, on December 1, 2005, we received notification from the United States Department of Treasury that a previously reserved United States income tax refund we had been pursuing for over two years had been approved for payment. Based upon this approval, we reduced our income tax provision by the refund amount of \$3.3 million for the year ended September 30, 2005. Furthermore, during fiscal year 2005, operating income earned in certain nontaxable and deemed profit tax jurisdictions was higher when compared to fiscal year 2004, including business interruption proceeds earned by the ATWOOD BEACON in a zero tax jurisdiction for approximately three and a half months, which contributed to a lower effective tax rate. As a result of these items, our effective tax rate for fiscal year 2005 was significantly less when compared to fiscal year 2004 and the United States statutory rate.

Excluding any discrete items that may occur, we expect our effective tax rate to be approximately 15-20% for fiscal year 2007 due to increased earnings in foreign jurisdictions with high statutory tax rates.

We do not record federal income taxes on the undistributed earnings of our foreign subsidiaries that we consider to be permanently reinvested in foreign operations. In addition, there was no cumulative amount of such undistributed earnings and profits at September 30, 2006.

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EMPLOYEES

We currently employ approximately 1,100 persons in our domestic and foreign operations. In connection with our foreign drilling operations, we are often required by the host country to hire substantial portions of our work force in that country and, in some cases, these employees are represented by foreign unions. To date, we have experienced little difficulty in complying with such requirements, and our drilling operations have not been significantly interrupted by strikes or work stoppages. Our success depends to a significant extent upon the efforts and ability of our executive officers and other key management personnel. There is no assurance that these individuals will continue in such capacity for any particular period of time.

ENVIRONMENTAL REGULATION

The transition zone and shallow water areas of the U.S. Gulf of Mexico are ecologically sensitive. Environmental issues have led to higher drilling costs, a more difficult and lengthy well permitting process and, in general, have adversely affected decisions of oil and gas companies to drill in these areas. In the United States, regulations applicable to our operations include regulations controlling the discharge of materials into the environment, requiring removal and cleanup of materials that may harm the environment or otherwise relating to the protection of the environment. For example, as an operator of a mobile offshore drilling unit in navigable United States waters and some offshore areas, we may be liable for damages and costs incurred in connection with oil spills or other unauthorized discharges of chemicals or wastes resulting from or related to those operations. Laws and regulations protecting the environment have become more stringent, and may in some cases impose strict liability, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. Some of these laws and regulations may expose us to liability for the conduct of or conditions caused by others or for acts which were in compliance with all applicable laws at the time they were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on our financial position, results of operations or cash flows.

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The U.S. Federal Water Pollution Control Act of 1972, commonly referred to as the Clean Water Act, prohibits the discharge of specified substances into the navigable waters of the United States without a permit. The regulations implementing the Clean Water Act require permits to be obtained by an operator before specified exploration activities occur. Offshore facilities must also prepare plans addressing spill prevention control and countermeasures. Violations of monitoring, reporting and permitting requirements can result in the imposition of civil and criminal penalties.

The U.S. Oil Pollution Act of 1990, or OPA, and related regulations impose a variety of requirement on "responsible parties" related to the prevention of oils spills and liability for damages resulting from such spills. Few defenses exist to the liability imposed by OPA, and the liability could be substantial. Failure to comply with ongoing requirements or inadequate cooperation in the event of a spill could subject a responsible party to civil or criminal enforcement action. We have taken all steps necessary to comply with this law, and have received a Certificate of Financial Responsibility (Water Pollution) from the U.S. Coast Guard. Our operations in United States waters are also subject to various other environmental regulations regarding pollution, and we have taken steps to ensure compliance with those regulations.

The U.S. Outer Continental Shelf Lands Act authorizes regulations

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relating to safety and environmental protection applicable to lessees and permittees operating on the outer continental shelf. Included among these are regulations that require the preparation of spill contingency plans and establish air quality standards for certain pollutants, including particulate matter, volatile organic compounds, sulfur dioxide, carbon monoxide and nitrogen oxides. Specific design and operational standards may apply to outer continental shelf vessels, rigs, platforms, vehicles and structures. Violations of lease conditions or regulations related to the environment issued pursuant to the U.S. Outer Continental Shelf Lands Act can result in substantial civil and criminal penalties, as well as potential court injunctions curtailing operations and cancelling leases. Such enforcement liabilities can result from either governmental or citizen prosecution.

The U.S. Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, also known as the "Superfund" law, imposes liability without regard to fault or the legality of the original conduct on some classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. Such persons include the owner or operator of a facility where a release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at a particular site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the cost of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources. It is also not uncommon for third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

OTHER GOVERNMENTAL REGULATION

Our non-United States contract drilling operations are subject to various laws and regulations in the countries in which we operate, including laws and regulations relating to the importation of and operation of drilling units, currency conversions and repatriation, oil and gas exploration and development, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of drilling units and other equipment. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and gas and other aspects of the oil and gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and gas companies and may continue to do so. Operations in less developed countries can be subject to legal systems that are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

Our worldwide operations are also subject to a variety of laws and regulations designed to improve safety in the businesses in which we operate. International conventions, including Safety of Life at Sea, also referred to as SOLAS, and the Code for Construction of Mobile Offshore Drilling Units, also referred to as the MODU CODE, generally are applicable to our offshore operations. Historically, we have made significant capital expenditures and incurred additional expenses to ensure that our equipment complies with applicable local and international health and safety regulations. Our future efforts to comply with these regulations and standards may increase our costs and may affect the demand for our services by influencing energy prices or limiting the areas in which we may drill.

Although significant capital expenditures may be required to comply with these governmental laws and regulations, such compliance has not, to date, materially adversely affected our earnings, cash flows or competitive position.

SECURITIES LITIGATION SAFE HARBOR STATEMENT

Statements included in this report which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto) are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 forward-looking statements.

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

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

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- o the occurrence of an uninsured loss;
- o the risks of international operations, including possible economic, political, social or monetary instability, and compliance with foreign laws;
- o the effect public health concerns could have on our international operations and financial results;
- o compliance with or breach of environmental laws;
- o the incurrence of secured debt or additional unsecured indebtedness or other obligations by us or our subsidiaries;
- o the adequacy of sources of liquidity;

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- o currently unknown rig repair needs and/or additional opportunities to accelerate planned maintenance expenditures due to presently unanticipated rig downtime;
- o 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;
- o the actions of our competitors in the offshore drilling industry, which could significantly influence rig dayrates and utilization;
- o changes in the geographic areas in which our customers plan to operate, which in turn could change our expected effective tax rate;
- o changes in oil and 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;
- o rig availability;
- o the effects and uncertainties of legal and administrative proceedings and other contingencies;
- o the impact of governmental laws and regulations and the uncertainties involved in their administration, particularly in some foreign jurisdictions;
- o changes in accepted interpretations of accounting guidelines and other accounting pronouncements and tax laws;
- o the risks involved in the construction, upgrade, and repair of our drilling units; and
- o such other factors as may be discussed in this report and our other reports filed with the Securities and Exchange Commission, or SEC.

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These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. The words "believe," "impact," "intend," "estimate," "anticipate," "plan" and similar expressions identify forward-looking statements. These forward-looking statements are found at various places throughout the Management's Discussion and Analysis in our Annual Report to Shareholders for fiscal year 2006 incorporated by reference in Part II and elsewhere in this report. When considering any forward-looking statement, you should also keep in mind the risk factors described in other reports or filings we make with the SEC from time to time. 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.

COMPANY INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC's web site at www.sec.gov. Our website address is www.atwd.com. We make available free of charge on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We have adopted a code of ethics applicable to our chief executive officer and our senior financial officers which is also available on our website. We intend to satisfy the disclosure requirement regarding any changes in or waivers from our code of ethics by posting such information on our website or by filing a Form 8-K for such event. Unless stated otherwise, information on our website is not incorporated by reference into this report or made a part hereof for any purpose. You may also read and copy any document we file at the SEC's Public Reference Room at 100F Street NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and copy charges.

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ITEM 1A. RISK FACTORS

An investment in our securities involves significant risks. You should carefully consider the risk factors described below before deciding whether to invest in our securities. The risks and uncertainties described below are not the only ones we face. You should also carefully read and consider all of the information we have included, or incorporated by reference, in this report for Form 10-K before you decide to invest in our securities. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business.

WE RELY ON THE OIL AND NATURAL GAS INDUSTRY AND VOLATILE OIL AND NATURAL GAS PRICES IMPACT DEMAND FOR OUR SERVICES.

Demand for our services depends on activity in offshore oil and natural gas exploration, development and production. The level of exploration, development and production activity is affected by factors such as:

- o prevailing oil and natural gas prices;

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- o expectations about future prices;
- o the cost of exploring for, producing and delivering oil and natural gas;
- o the sale and expiration dates of available offshore leases;
- o worldwide demand for petroleum products;
- o current availability of oil and natural gas resources;
- o the rate of discovery of new oil and natural gas reserves in offshore areas;
- o local and international political and economic conditions;
- o technological advances;
- o ability of oil and natural gas companies to generate or otherwise obtain funds for capital;
- o the ability of the Organization of Petroleum Exporting Countries, or OPEC, to set and maintain production levels and pricing;
- o political or other disruptions that limit exploration, development and production in oil-producing countries;
- o the level of production by non-OPEC countries; and
- o laws and governmental regulations that restrict exploration and development of oil and natural gas in various jurisdictions.

During recent years, the level of offshore exploration, development and production activity has been volatile. Such volatility is likely to continue in the future. A decline in the worldwide demand for oil and natural gas or prolonged low oil or natural gas prices in the future would likely result in reduced exploration and development of offshore areas and a decline in the demand for our services. Even during periods of high prices for oil and natural gas, companies exploring for oil and gas may cancel or curtail programs, or reduce their levels of capital expenditures for exploration and production for a variety of reasons. Any such decrease in activity is likely to reduce our day rates and our utilization rates and, therefore, could have a material adverse effect on our financial condition, results of operations and cash flows.

RIG CONVERSIONS, UPGRADES OR NEWBUILDS MAY BE SUBJECT TO DELAYS AND COST OVERRUNS.

From time to time we may undertake to increase our fleet capacity through conversions or upgrades to rigs or through new construction. These projects are subject to risks of delay or cost overruns inherent in any large construction project resulting from numerous factors, including the following:

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- o shortages of equipment, materials or skilled labor;
- o unscheduled delays in the delivery of ordered materials and equipment;
- o unanticipated cost increases;

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- o weather interferences;
- o difficulties in obtaining necessary permits or in meeting permit conditions;
- o design and engineering problems; and
- o shipyard failures.

OPERATING HAZARDS INCREASE OUR RISK OF LIABILITY; WE MAY NOT BE ABLE TO FULLY INSURE AGAINST THESE RISKS.

Our operations are subject to various operating hazards and risks, including:

- o catastrophic marine disaster;
- o adverse sea and weather conditions;
- o mechanical failure;
- o navigation errors;
- o collision;
- o oil and hazardous substance spills, containment and clean up;
- o labor shortages and strikes;
- o damage to and loss of drilling rigs and production facilities; and
- o war, sabotage and terrorism.

These risks present a threat to the safety of personnel and to our rigs, cargo, equipment under tow and other property, as well as the environment. We could be required to suspend our operations or request that others suspend their operations as a result of these hazards. Third parties may have significant claims against us for damages due to personal injury, death, property damage, pollution and loss of business if such event were to occur in our operations.

We maintain insurance coverage against the casualty and liability risks listed above. We believe our insurance is adequate, and we have never experienced a loss in excess of policy limits. However, we may not be able to renew or maintain our existing insurance coverage at commercially reasonable rates or at all. Additionally, there is no assurance that our insurance coverage will be adequate to cover future claims that may arise.

THE INTENSE PRICE COMPETITION AND CYCLICALITY OF OUR INDUSTRY, WHICH IS MARKED BY PERIODS OF LOW DEMAND, EXCESS RIG AVAILABILITY AND LOW DAYRATES, COULD HAVE AN ADVERSE EFFECT ON OUR REVENUES, PROFITABILITY AND CASH FLOWS.

The contract drilling business is highly competitive with numerous industry participants. The industry has experienced consolidation in recent years and may experience additional consolidation. Recent mergers among oil and natural gas exploration and production companies have reduced the number of available customers.

Drilling contracts are, for the most part, awarded on a competitive bid basis. Price competition is often the primary factor in determining which qualified contractor is awarded a job, although rig availability and the quality

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and technical capability of service and equipment are also factors. We compete with approximately ten other drilling contractors, most of which are substantially larger and have appreciably greater resources than us.

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The industry in which we operate historically has been cyclical, marked by periods of low demand, excess rig supply and low dayrates, followed by periods of high demand, short rig supply and increasing dayrates. Periods of excess rig supply intensify the competition in the industry and often result in rigs being idled. Several markets in which we operate are currently oversupplied. Lower utilization and dayrates in one or more of the regions in which we operate would adversely affect our revenues and profitability. Prolonged periods of low utilization and dayrates could also result in the recognition of impairment charges on certain of our drilling rigs if future cash flow estimates, based upon information available to management at the time, indicate that the carrying value of these rigs may not be recoverable. We may be required to idle rigs or to enter into lower-rate contracts in response to market conditions in the future.

WE RELY HEAVILY ON A SMALL NUMBER OF CUSTOMERS AND THE LOSS OF A SIGNIFICANT CUSTOMER COULD HAVE AN ADVERSE IMPACT ON OUR FINANCIAL RESULTS.

Our contract drilling business is subject to the usual risks associated with having a limited number of customers for our services. Woodside Energy Ltd., Burullus Gas Co., Sarawak Shell and Hoang Long and Hoan Vu Companies provided approximately 28%, 14%, 12% and 12%, respectively of our consolidated revenues in fiscal year 2006. Our results of operations could be materially adversely affected if any of our major customers terminate its contracts with us, fails to renew our existing contracts or refuses to award new contracts to us.

WE MAY SUFFER LOSSES IF OUR CUSTOMERS TERMINATE OR SEEK TO RENEGOTIATE THEIR CONTRACTS.

Certain of our contracts with customers may be cancelable upon specified notice at the option of the customer. Other contracts require the customer to pay a specified early termination payment upon cancellation, which payments may not fully compensate us for the loss of the contract. Contracts customarily provide for either automatic termination or termination at the option of the customer in the event of total loss of the drilling rig or if drilling operations are suspended for extended periods of time by reason of acts of God or excessive rig downtime for repairs, or other specified conditions. Early termination of a contract may result in a rig being idle for an extended period of time. Our revenues may be adversely affected by customers' early termination of contracts, especially if we are unable to recontract the affected rig within a short period of time. During depressed market conditions, a customer may no longer need a rig that is currently under contract or may be able to obtain a comparable rig at a lower daily rate. As a result, customers may seek to renegotiate the terms of their existing drilling contracts or avoid their obligations under those contracts. The renegotiation of a number of our drilling contracts could adversely affect our financial position, results of operations and cash flows.

WE ARE SUBJECT TO OPERATING RISKS SUCH AS BLOWOUTS AND WELL FIRES THAT COULD RESULT IN ENVIRONMENTAL DAMAGE, PROPERTY LOSS, AND PERSONAL INJURY OR DEATH.

Our drilling operations are subject to many hazards that could increase the likelihood of accidents. Accidents can result in:

- o costly delays or cancellations of drilling operations;

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- o serious damage to, or destruction of, equipment;
- o personal injury or death;
- o significant impairment of producing wells or underground geological formations; and
- o major environmental damage.

Our offshore drilling operations are also subject to marine hazards, either at offshore sites or while drilling equipment is under tow, such as vessel capsizings, collisions or groundings. In addition, raising and lowering jack-up drilling rigs and offshore drilling platforms whose three legs independently penetrate the ocean floor, flooding semisubmersible ballast tanks to help fix the floating drilling unit over the well site and drilling into high-pressure formations are complex, hazardous activities and we can encounter problems.

We have had accidents in the past due to some of the hazards described above, including the fiscal year 2004 ATWOOD BEACON incident. Because of the ongoing hazards associated with our operations:

- o we may experience a higher number of accidents in the future than expected;

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- o our insurance coverage may prove inadequate to cover losses that are greater than anticipated;
- o our insurance deductibles may increase; or
- o our insurance premiums may increase to the point where maintaining our current level of coverage is prohibitively expensive.

Any similar events could yield future operating losses and have a significant adverse impact on our business.

OUR RESULTS OF OPERATIONS WILL BE ADVERSELY AFFECTED IF WE ARE UNABLE TO SECURE CONTRACTS FOR OUR DRILLING RIGS ON ECONOMICALLY FAVORABLE TERMS.

The drilling markets in which we compete frequently experience significant fluctuations in the demand for drilling services, as measured by the level of exploration and development expenditures, and the supply of capable drilling equipment. In response to fluctuating market conditions, we can, as we have done in the past, relocate drilling rigs from one geographic area to another, but only when such moves are economically justified. If demand for our rigs declines, rig utilization and dayrates are generally adversely affected.

FAILURE TO OBTAIN AND RETAIN KEY PERSONNEL COULD IMPEDE OUR OPERATIONS.

We depend to a significant extent upon the efforts and abilities of our executive officers and other key management personnel. There is no assurance that these individuals will continue in such capacity for any particular period of time. The loss of the services of one or more of our executive officers or key management personnel could adversely affect our operations.

GOVERNMENT REGULATION AND ENVIRONMENTAL RISKS REDUCE OUR BUSINESS OPPORTUNITIES AND INCREASE OUR COSTS.

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We must comply with extensive government regulation in the form of international conventions, federal, state and local laws and regulations in jurisdictions where our vessels operate and are registered. These conventions, laws and regulations govern oil spills and matters of environmental protection, worker health and safety, and the manning, construction and operation of vessels, and vessel and port security. We believe that we are in material compliance with all applicable environmental, health and safety, and vessel and port security laws and regulations. We are not a party to any pending governmental litigation or similar proceeding, and we are not aware of any threatened governmental litigation or proceeding which, if adversely determined, would have a material adverse effect on our financial condition or results of operations. However, the risks of incurring substantial compliance costs, liabilities and penalties for non-compliance are inherent in our industry. Compliance with environmental, health and safety, and vessel and port security laws increases our costs of doing business. Additionally, environmental, health and safety, and vessel and port security laws change frequently. Therefore, we are unable to predict the future costs or other future impact of environmental, health and safety, and vessel and port security laws on our operations. There is no assurance that we can avoid significant costs, liabilities and penalties imposed as a result of governmental regulation in the future.

OUR RELIANCE ON FOREIGN OPERATIONS EXPOSES US TO ADDITIONAL RISKS NOT GENERALLY ASSOCIATED WITH DOMESTIC OPERATIONS, WHICH COULD HAVE AN ADVERSE EFFECT ON OUR OPERATIONS OR FINANCIAL RESULTS.

During the past five years, we derived substantially all of our revenues from foreign sources. We, therefore, face risks inherent in conducting business internationally, such as:

- o legal and governmental regulatory requirements;
 - o difficulties and costs of staffing and managing international operations;
 - o language and cultural differences;
 - o potential vessel seizure or nationalization of assets;
 - o import-export quotas or other trade barriers;
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- o renegotiation or nullification of existing contracts;
 - o difficulties in collecting accounts receivable and longer collection periods;
 - o foreign and domestic monetary policies;
 - o political and economic instability;
 - o terrorist acts, war and civil disturbances;
 - o assault on property or personnel;
 - o travel limitations or operational problems caused by severe acute respiratory syndrome (SARS) or other public health threats;
 - o imposition of currency exchange controls; and
 - o potentially adverse tax consequences, including those due to

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changes in laws or interpretation of existing laws.

In the past, these conditions or events have not materially affected our operations. However, we cannot predict whether any such conditions or events might develop in the future. Also, we organized our subsidiary structure and our operations, in part, based on certain assumptions about various foreign and domestic tax laws, currency exchange requirements, and capital repatriation laws. While we believe our assumptions are correct, there can be no assurance that taxing or other authorities will reach the same conclusion. If our assumptions are incorrect, or if the relevant countries change or modify such laws or the current interpretation of such laws, we may suffer adverse tax and financial consequences, including the reduction of cash flow available to meet required debt service and other obligations. Any of these factors could materially adversely affect our international operations and, consequently, our business, operating results and financial condition.

WE MAY SUFFER LOSSES AS A RESULT OF FOREIGN EXCHANGE RESTRICTIONS AND FOREIGN CURRENCY FLUCTUATIONS.

A significant portion of the contract revenues of our foreign operations are paid in United States dollars; however, some payments are made in foreign currencies. As a result, we are exposed to currency fluctuations and exchange rate risks as a result of our foreign operations. To minimize the financial impact of these risks when we are paid in foreign currency, we attempt to match the currency of operating costs with the currency of contract revenue. However, any increase in the value of the United States dollar in relation to the value of applicable foreign currencies could adversely affect our operating revenues when translated into United States dollars. To date, currency fluctuations have not had a material impact on our financial condition or results of operations.

WE ARE SUBJECT TO WAR, SABOTAGE AND TERRORISM, WHICH COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS.

The terrorist attacks of September 11, 2001 have had a continuing impact, including those related to the current United States military campaigns in Afghanistan and Iraq, on the energy industry. It is unclear what impact the current United States military campaigns or possible future campaigns will have on the energy industry in general, or us in particular, in the future. Uncertainty surrounding retaliatory military strikes or a sustained military campaign may affect our operations in unpredictable ways, including changes in the insurance markets, disruptions of fuel supplies and markets, particularly oil, and the possibility that infrastructure facilities, including pipelines, production facilities, refineries, electric generation, transmission and distribution facilities, could be direct targets of, or indirect casualties of, an act of terror. War or risk of war may also have an adverse effect on the economy.

The terrorist attacks have resulted in a hardening of the insurance market. We maintain insurance coverage against casualty and liability risks and have renewed our primary insurance program for the insurance year 2006-2007. We will evaluate the need to maintain this coverage as it applies to our drilling fleet in the future. We believe our insurance is adequate, and we have never experienced a loss in excess of policy limits. There is no assurance that our insurance coverage will be available or affordable and, if available, whether it will be adequate to cover future claims that may arise.

Instability in the financial markets as a result of war, sabotage or terrorism could also affect our ability to raise capital and could also

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adversely affect the oil, gas and power industries and restrict their future growth.

OUR SIGNIFICANT DEBT LEVEL MAY HINDER OUR OPERATIONAL FLEXIBILITY AND MAKE IT DIFFICULT TO MEET OUR DEBT SERVICE OBLIGATIONS.

We have significant indebtedness and will require substantial cash flow to meet our debt service requirements. At September 30, 2006, our long-term debt was \$64 million. A high level of indebtedness will affect our future operations in several ways, including the following:

- o We may be more vulnerable to general adverse economic and industry conditions than some of our competitors who have less debt, and therefore, we may be at a competitive disadvantage.
- o Covenants in our debt obligations require us to meet certain financial tests and limit our ability to borrow additional funds, make certain capital expenditures, sell assets, pay cash dividends, or repurchase any of our outstanding common stock.
- o We may experience difficulties in obtaining additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes.

Our ability to meet our debt obligations will depend on our future performance, which will be affected by a range of economic, competitive, and business factors. We cannot control many of these factors, such as general economic and financial conditions in the oil and gas industry, the economy at large and competitive initiatives of our competitors. Our future cash flows may be insufficient to meet all of our debt obligations and commitments, and any insufficiency could negatively impact our business. To the extent that we are unable to repay our indebtedness as it becomes due or at maturity with cash on hand or from other sources, we will need to refinance our debt, sell assets or repay the debt with the proceeds of an equity offering. There is no assurance that additional indebtedness or equity financing will be available to us in the future for the refinancing or repayment of existing indebtedness, nor can we give any assurance as to the timing of any asset sales or the proceeds that could be realized by us from any such asset sale.

THE SUBSTANTIAL EQUITY INTEREST OWNED BY CERTAIN SHAREHOLDERS MAY LIMIT THE ABILITY OF OTHER SHAREHOLDERS TO INFLUENCE THE OUTCOME OF DIRECTOR ELECTIONS AND OTHER MATTERS REQUIRING SHAREHOLDER APPROVAL.

As of December 12, 2006, Helmerich & Payne International Drilling Co., owns of record and beneficially 4,000,000 shares, or approximately 13% of the issued and outstanding shares of our common stock. One of our directors, Hans Helmerich is an executive officer of Helmerich & Payne, Inc, ("H&P") the parent company of Helmerich & Payne International Drilling Co. Another director, George Dotson, was also an executive officer of H&P up until his retirement in 2006. The beneficial ownership of our common stock and membership of an officer of H&P on our board enables H&P to exercise some influence over the election of directors and other corporate matters requiring shareholder or board of directors' approval.

FUTURE SALES OF OUR COMMON STOCK BY HELMERICH & PAYNE INTERNATIONAL DRILLING CO. COULD ADVERSELY AFFECT OUR MARKET PRICE.

Helmerich & Payne International Drilling Co. has advised us that, consistent with its pursuit of a strategy of focusing on its core drilling

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business, it intends to evaluate its entire investment portfolio, which includes shares of our common stock, and its cash requirements on a continuous basis and that it may seek to dispose of all or a portion of the shares of our common stock owned by it when and as necessary, from time to time, to fund its corporate needs. Until the sale of all of the shares of common stock owned by Helmerich & Payne International Drilling Co. which are currently registered on Form S-3, Registration No. 333-117534, are sold or are de-registered, we will or may have a large number of shares of common stock outstanding and available for resale beginning at various points in the future. Sales of a substantial number of shares of our common stock in the public market, or the possibility that these sales may occur, could also make it more difficult for us to sell our common stock or other equity securities in the future at a time and at a price that we deem appropriate.

ANTI-TAKEOVER PROVISIONS IN OUR AMENDED AND RESTATED CERTIFICATE OF FORMATION, SECOND AMENDED AND RESTATED BYLAWS, AND RIGHTS PLAN COULD MAKE IT DIFFICULT FOR HOLDERS OF OUR COMMON STOCK TO RECEIVE A PREMIUM FOR THEIR SHARES UPON A CHANGE OF CONTROL.

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Holders of the common stock of acquisition targets often receive a premium for their shares upon a change of control. Texas law and the following provisions, among others, of our certificate of formation, bylaws and rights plan could have the effect of delaying or preventing a change of control and could prevent holders of our common stock from receiving such a premium:

- o We are subject to a provision of Texas corporate law that prohibits us from engaging in a business combination with any shareholder for three years from the date that person became an affiliated shareholder by beneficially owning 20% or more of our outstanding common stock, unless specified conditions are met.
- o Special meetings of shareholders may not be called by anyone other than our chairman of the board of directors, president, or the holders of at least one-tenth of all shares issued, outstanding, and entitled to vote.
- o Our board of directors has the authority to issue up to 1,000,000 shares of "blank-check" preferred stock and to determine the voting rights and other privileges of these shares without any vote or action by our shareholders.
- o We have issued "poison pill" rights to purchase Series A Junior Participating Preferred Stock under our rights plan, whereby the ownership of our shares by a potential acquirer can be significantly diluted by the sale at a significant discount of additional shares of our common stock to all other shareholders, which could discourage unsolicited acquisition proposals.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Information regarding the current location and general character of our principal assets may be found in the table with the caption heading "Offshore Drilling Operations" in the Company's Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

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Collectively since fiscal year 1997, we have expended \$386 million in upgrading seven offshore mobile drilling units. The timing and costs of the various upgrades are as follows:

DRILLING UNITS	YEAR UPGRADE COMPLETED	COST OF UPGRADE
		(In Millions)
ATWOOD HUNTER (PHASE I)	1997	\$ 40
ATWOOD SOUTHERN CROSS (PHASE I)	1997	35
ATWOOD FALCON (PHASE I)	1998	45
VICKSBURG	1998	35
SEAHAWK (PHASE I)	1999	22
ATWOOD EAGLE (PHASE I)	2000	8
RICHMOND	2000	7
ATWOOD HUNTER (PHASE II)	2001	58
ATWOOD EAGLE (PHASE II)	2002	90
ATWOOD SOUTHERN CROSS (PHASE II)	2006	7
SEAHAWK (PHASE II)	2006	16
ATWOOD FALCON (PHASE II)	2006	23

		\$386
		=====

In August 2003, our eighth active drilling unit, the newbuild ultra-premium jack-up, ATWOOD BEACON, commenced its initial drilling contract following completion of construction and commissioning. This drilling unit was constructed at a cost of approximately \$120 million. On July 25, 2004, all three of the ATWOOD BEACON'S legs and its derrick were damaged while the rig was being positioned. The rigs and its legs were transported to the builder's shipyard in Singapore for inspection and initial repairs which were completed in January 2005. The remainder of the repairs were completed in November 2006. For more information concerning these costs, see Note 4 in Consolidated Financial Statements contained in our Annual Report to Shareholders for fiscal year 2006, incorporated by reference herein.

The ATWOOD AURORA, another ultra-premium jack-up will become our ninth drilling unit upon expected completion of its construction on or before September 2008. This drilling unit is expected to have a total construction cost of approximately \$160 million. In October 2005, we sold our semisubmersible hull, SEASCOUT, that we had purchased in 2000, for \$10 million (net after certain expenses), which resulted in a gain of approximately \$1 million. We purchased this hull for a possible upgrade to a tender assist vessel, but we never identified an acceptable contract opportunity. Also, in October 2005, we sold our spare 15,000 P.S.I. BOP stack for approximately \$15 million, which resulted in an after tax gain of approximately \$9 million. We completed this stack in 2003 for a possible future contractual requirement; however, the stack had never been utilized and we had no current contractual requirements for its use. At September 30, 2006, the collateral for our credit facility consisted primarily of preferred mortgages held by our senior lender covering all eight of our active drilling units.

ITEM 3. LEGAL PROCEEDINGS

We are party to a number of lawsuits which are ordinary, routine litigation incidental to our business, the outcome of which, individually, or in

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the aggregate, is not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

During the fourth quarter of fiscal year 2006, no matters were submitted to a vote of shareholders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

As of December 12, 2006 there were approximately 3,300 beneficial owners of our common stock based upon information provided to us by a third party service provider. Our common stock is traded on the New York Stock Exchange.

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We did not pay cash dividends in fiscal years 2005 or 2006 and we do not anticipate paying cash dividends in the foreseeable future because of the capital-intensive nature of our business. To enable us to maintain our high competitive profile in the industry, we expect to utilize cash reserves at the appropriate time to upgrade existing equipment or to acquire additional equipment. Our credit facility prohibits payment of cash dividends on common stock without lender approval. We did declare a two-for-one stock split of our common stock effected in the form of a 100% common stock dividend in March 2006.

Market information concerning our common stock may be found under the caption heading "Stock Price Information" in our Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

Equity compensation plan information required by this item may be found in Note 3 to Consolidated Financial Statements contained in our Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

ITEM 6. SELECTED FINANCIAL DATA

Information required by this item may be found under the caption "Five Year Financial Review" in our Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this item may be found in our Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item may be found under the caption "Disclosures About Market Risk" in the Company's Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this item may be found in our Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 effective at the reasonable assurance level so that the information required to be disclosed by us in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specific in the SEC's rules 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) Management's Annual Report on Internal Control over Financial Reporting

A copy of our Management's Report of Internal Control over Financial Reporting is included in our Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

(c) Attestation Report of the Independent Registered Public Accounting Firm.

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A copy of the attestation report of PricewaterhouseCoopers, LLP, our independent registered public accounting firm is included in our Annual Report to Shareholders for fiscal year 2006, which is incorporated by reference herein.

(d) Change 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.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

This information is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 8, 2007, to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

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This information is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 8, 2007, to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 8, 2007, to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 8, 2007, to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

This information is incorporated by reference from our definitive Proxy Statement for the Annual Meeting of Shareholders to be held February 8, 2007, to be filed with the SEC not later than 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS

(a) FINANCIAL STATEMENTS AND EXHIBITS

1. and 2. FINANCIAL STATEMENTS AND SCHEDULES

The following financial statements, together with the report of PricewaterhouseCoopers LLP dated December 12, 2006 appearing in our Annual Report to Shareholders for fiscal year 2006, are incorporated by reference herein:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of September 30, 2006 and 2005

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Consolidated Statements of Operations for each of the three years in the period ended September 30, 2006

Consolidated Statements of Cash Flows for each of the three years in the period ended September 30, 2006

Consolidated Statements of Changes in Shareholders' Equity for each of the three years in the period ended September 30, 2006

Notes to Consolidated Financial Statements

3. MANAGEMENT CONTRACTS AND COMPENSATORY PLANS OR ARRANGEMENTS

The management contracts and compensatory plans or arrangements required to be filed as exhibits to this report

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are as follows:

Atwood Oceanics, Inc. 1996 Incentive Equity Plan -
See Exhibit 10.1.1 hereof.

Form of Atwood Oceanics, Inc. Stock Option Agreement (1996 Incentive
Equity Plan) - See Exhibit 10.1.2 hereof.

Amendment No. 1 to Atwood Oceanics, Inc. 1996 Incentive Equity
Plan - See Exhibit 10.1.3 hereof.

Form of Amendment No. 1 to the Atwood Oceanics, Inc. Stock Option
Agreement (1996 Incentive Equity Plan) - See Exhibit 10.1.4 hereof.

Amendment No. 2 to Atwood Oceanics, Inc. 1996 Incentive Equity
Plan - See Exhibit 10.1.5 hereof.

Amended and Restated Atwood Oceanics, Inc. 2001 Stock Incentive
Plan - See Exhibit 10.1.6 hereof.

Form of Atwood Oceanics, Inc. Stock Option Agreement (2001 Stock
Incentive Plan) - See Exhibit 10.1.7 hereof.

Form of Atwood Oceanics, Inc. Restricted Stock Award Agreement
(2001 Stock Incentive Plan) - See Exhibit 10.1.8 hereof.

Form of Non-Employee Director Restricted Stock Award Agreement
Amended and Restated 2001 Stock Incentive Plan - See Exhibit
10.1.9 hereof.

Atwood Oceanics, Inc. Retention Plan for Certain Salaried
Employees dated effective as of January 1, 2006 - See Exhibit
10.2.1 hereof.

Atwood Oceanics, Inc. Retention Plan for Certain Salaried
Employees dated effective as of January 1, 2007 - See Exhibit
10.2.2 hereof.

Executive Agreement dated as of September 18, 2002 between the
Company and John R. Irwin - See Exhibit 10.3.1 hereof.

Executive Agreement dated as of September 18, 2002 between the
Company and James M. Holland - See Exhibit 10.3.2 hereof.

Executive Agreement dated as of September 18, 2002 between the
Company and Glen P. Kelley - See Exhibit 10.3.3 hereof.

(b) See the "EXHIBIT INDEX" for a listing of all of the
Exhibits filed as part of this report.

(c) NONE

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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ATWOOD OCEANICS, INC.

/S/JOHN R. IRWIN

JOHN R. IRWIN, President
and Chief Executive Officer
DATE: December 13, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ JAMES M. HOLLAND

JAMES M. HOLLAND
Senior Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: December 13, 2006

/S/ JOHN R. IRWIN

JOHN R. IRWIN
President, Chief Executive
Officer and Director
(Principal Executive Officer)
Date: December 13, 2006

/S/ ROBERT W. BURGESS

ROBERT W. BURGESS
Director
Date: December 13, 2006

/S/ GEORGE S. DOTSON

GEORGE S. DOTSON
Director
Date: December 13, 2006

/S/ HANS HELMERICH

HANS HELMERICH
Director
Date: December 13, 2006

/S/ WILLIAM J. MORRISSEY

WILLIAM J. MORRISSEY
Director
Date: December 13, 2006

/S/ DEBORAH A. BECK

DEBORAH A. BECK
Director
DATE: December 13, 2006

/S/JAMES R. MONTAGUE

JAMES R. MONTAGUE
Director
DATE: December 13, 2006

EXHIBIT INDEX

- 3.1 Amended and Restated Certificate of Formation dated February 9, 2006 (Incorporated herein by reference to Exhibit 3.1 of our Form 8-K filed February 14, 2006).
- 3.2 Second Amended and Restated By-Laws dated May 5, 2006 (Incorporated herein by reference to Exhibit 3.2 of our Form 10-Q filed May 10, 2006).
- 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).

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- 4.2 Certificate of Adjustment of Atwood Oceanics, Inc. dated March 17, 2006 (Incorporated herein by reference to Exhibit 4.1 of our Form 8-K filed March 23, 2006).
- 10.1.1 Atwood Oceanics, Inc. 1996 Incentive Equity Plan (Incorporated herein by reference to Exhibit 10.1 of our Form 10-Q for the quarter ended June 30, 1997).
- 10.1.2 Form of Atwood Oceanics, Inc. Stock Option Agreement - 1996 Incentive Equity Plan (Incorporated herein by reference to our Form 10-K for the year ended September 30, 1999).
- 10.1.3 Amendment No. 1 to the Atwood Oceanics, Inc. 1996 Incentive Equity Plan (Incorporated herein by reference to our Form 10-K for the year ended September 30, 1999).
- 10.1.4 Form of Amendment No. 1 to the Atwood Oceanics, Inc. Stock Option Agreement - 1996 Incentive Equity Plan (Incorporated herein by reference to Exhibit 10.3.4 of our Form 10-K for the year ended September 30, 1999).
- 10.1.5 Amendment No. 2 to the Atwood Oceanics, Inc. 1996 Incentive Equity Plan (Incorporated herein by reference to Appendix A to our Form DEF 14A filed January 12, 2001).
- 10.1.6 Atwood Oceanics, Inc. Amended and Restated 2001 Stock Incentive Plan (Incorporated herein by reference to Appendix D to our definitive proxy statement on Form DEF 14A filed January 13, 2006).
- 10.1.7 Form of Atwood Oceanics, Inc. Stock Option Agreement - 2001 Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.3.7 of our Form 10-K for the year ended September 30, 2005).
- 10.1.8 Form of Atwood Oceanics, Inc. Restricted Stock Award Agreement - 2001 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.3.8 of our Form 10-K for the year ended September 30, 2005).
- 10.1.9 Form of Non-Employee Director Restricted Stock Award Agreement Amended and Restated 2001 Stock Incentive Plan (Incorporated herein by reference to Exhibit 10.1 of our Form 8-K filed June 1, 2006).
- 10.2.1 Atwood Oceanics, Inc. Retention Plan for Certain Salaried Employees effective as of January 1, 2006 (Incorporated herein by reference to Exhibit 10.4.2 of our Form 10-K for the year ended September 30, 2005).
- *10.2.2 Atwood Oceanics, Inc. Retention Plan for Certain Salaried Employees dated as of January 1, 2007.
- 10.3.1 Executive Agreement dated as of September 18, 2002 between the Company and John R. Irwin (Incorporated herein by reference to Exhibit 10.5.1 of our Form 10-K for the year ended September 30, 2002).
- 10.3.2 Executive Agreement dated as of September 18, 2002 between the Company and James M. Holland (Incorporated herein by reference to Exhibit 10.5.2 of our Form 10-K for the year ended September 30, 2002).
- 10.3.3 Executive Agreement dated as of September 18, 2002 between the Company

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and Glen P. Kelley (Incorporated herein by reference to Exhibit 10.5.3 of our Form 10-K for the year ended September 30, 2002).

- 10.4 Credit Agreement for \$225 million dated April 1, 2003 among the Company, Atwood Oceanics Pacific Limited and Nordea Bank Finland Plc and other Financial Institutions (Incorporated herein by reference to Exhibit 99.1 of our 8-K filed April 7, 2003).

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- 10.5 Pooled Assignment and First Amendment to Credit Agreement dated June 27, 2003 among the Company, Atwood Oceanics Pacific Limited and Nordea Bank Finland Plc and other Financial Institutions (Incorporated herein by reference to Exhibit 99.1 of our Form 8-K filed July 30, 2003).

- 10.6 Second Amendment to Credit Agreement dated June 27, 2003 among the Company, Atwood Oceanics Pacific Limited and Nordea Bank Finland Plc and other Financial Institutions (Incorporated herein by reference to Exhibit 99.2 of our Form 8-K filed July 30, 2003).

- 10.7 Third Amendment to Credit Agreement dated November 12, 2003 among the Company, Atwood Oceanics Pacific Limited and Nordea Bank Finland Plc and other Financial Institutions (Incorporated herein of reference to Exhibit 99.2 of our Form 8-K filed November 13, 2003).

- 10.8 Platform Construction Agreement by and between Atwood Oceanics Pacific Limited and Keppel AmFELS , Inc. dated March 1, 2006 (Incorporated herein by reference to Exhibit 10.1 of our Form 8-K filed March 2, 2006).

*13.1 Annual Report to Shareholders.

*21.1 List of Subsidiaries.

*23.1 Consent of Independent Registered Public Accounting Firm.

*31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Filed herewith

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