ATWOOD OCEANICS INC
Form 424B3
October 05, 2004

THE INFORMATION IN THIS PRELIMINARY PROSPECTUS SUPPLEMENT IS NOT COMPLETE AND MAY BE CHANGED. THIS PRELIMINARY PROSPECTUS SUPPLEMENT IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

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Subject to Completion, Dated October 5, 2004.

Prospectus Supplement to Prospectus Dated October 5, 2004.

2,000,000 Shares

ATWOOD OCEANICS, INC.

Common Stock

Atwood Oceanics, Inc. is offering 1,000,000 of the shares to be sold in the offering. The selling shareholder identified in this prospectus supplement is offering an additional 1,000,000 shares. Atwood will not receive any of the proceeds from the sale of the shares being sold by the selling shareholder.

The common stock is listed on the New York Stock Exchange under the symbol "ATW". The last reported sale price of the common stock on October 4, 2004 was $48.75 per share.

See "Risk Factors" beginning on page S-8 of this prospectus supplement and page 7 of the accompanying prospectus to read about factors you should consider before buying shares of the common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Initial price to public....................................	$	$
Underwriting discount......................................	$	$
Proceeds, before expenses, to Atwood Oceanics, Inc.	$	$
Proceeds, before expenses, to the selling shareholder.......	$	$

To the extent that the underwriters sell more than 2,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 300,000 shares from Atwood at the initial price to public, less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on October , 2004.

GOLDMAN, SACHS & CO.

CREDIT SUISSE FIRST BOSTON

JEFFERIES & COMPANY, INC.

RAYMOND JAMES

STIFEL, NICOLAUS & COMPANY INCORPORATED

Prospectus Supplement dated October , 2004.

(PHOTO)
ATWOOD EAGLE

(PHOTO)
ATWOOD HUNTER

(PHOTO)
ATWOOD FALCON

(PHOTO)
ATWOOD SOUTHERN CROSS

SUMMARY

This summary highlights selected information from this prospectus supplement or the accompanying prospectus and does not contain all of the information you need to consider in making your investment decision. This prospectus supplement and the accompanying prospectus include or incorporate by reference information about this offering, our business and our financial and operating data. We encourage you to read the entire prospectus supplement and the accompanying prospectus carefully, including the "Risk Factors" section and the financial statements and the footnotes to those statements incorporated by reference in this document before making an investment decision. You should rely only on the information provided or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus supplement or the accompanying prospectus is accurate as of any date other than their respective dates. In this prospectus supplement, "we," "us", "our", and "Atwood" each refers to Atwood Oceanics, Inc. and, unless otherwise stated, our subsidiaries. Unless otherwise specified, all information in this prospectus supplement assumes no exercise of the underwriters' over-allotment option.

ATWOOD OCEANICS, INC.

We are 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 and commenced operations in 1970.

During our history, we have conducted drilling operations in most of the major offshore exploration areas of the world. Our current worldwide operations are conducted using eight premium offshore mobile drilling units located in four regions -- Southeast Asia, Australia, the Mediterranean Sea and the U.S. Gulf of Mexico. Historically, the majority of our drilling units have operated outside of U.S. waters. Approximately 94%, 94%, and 95% of our contract revenues were derived from foreign operations in the first nine months of fiscal year 2004 and fiscal years 2003 and 2002, respectively. The submersible RICHMOND is our only drilling unit currently working in U.S. waters. We support our operations from our Houston headquarters and affiliated offices in Australia, Malaysia, Indonesia, the United Kingdom and Egypt.

The table below presents information about our wholly-owned and operating offshore rig fleet as of October 5, 2004:

RIG NAME	RIG TYPE	UPGRADED	WATER DEPTH RATING (FEET)	LOCATION	STATU
ATWOOD EAGLE.............	Semisubmersible	2000/2002	5,000	Australia	Working
ATWOOD HUNTER............	Semisubmersible	1997/2001	5,000	Mediterranean	Working
ATWOOD FALCON............	Semisubmersible	1998	3,700	Malaysia	Working
ATWOOD SOUTHERN CROSS....	Semisubmersible	1997	2,000	Malaysia	Working
SEAHAWK..................	Semisubmersible Tender Assist	1992/1999	600	Malaysia	Working
ATWOOD BEACON............	Jack-up	2003(1)	400(2)	Singapore	Under Rep
VICKSBURG................	Jack-up	1998	300	Thailand	Working
RICHMOND.................	Submersible	2000	70	Gulf of Mexico	Working

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(1) The ATWOOD BEACON was constructed in 2003.

(2) On July 25, 2004, all three of the ATWOOD BEACON'S legs and its derrick were damaged while the rig was being positioned. After initial repairs to the ATWOOD BEACON are completed, it will have a leg length of 489 feet, giving it a nominal water depth rating of 350 feet. That water depth

rating is sufficient for the wells we plan for it to drill in the period soon after repairs are completed. During an appropriate period between future contracts, we plan to increase the leg length to 517 feet, giving the rig a nominal water depth rating of 400 feet, as per the original design. See "Recent Development" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

We update and upgrade our fleet and strive to maintain premium, modern equipment. From 1997 to 2003, we spent $340 million on upgrading seven of our active offshore mobile drilling units. The ATWOOD HUNTER and ATWOOD EAGLE were both upgraded to 5,000 foot water depth capability in 2001 and 2002, respectively. The upgrades to both rigs included new 120-bed quarters, new higher capacity cranes, along with upgraded well control, drilling and mud systems and other improvements to the drilling and subsea completion capabilities of the units. In addition, construction of the new $120 million KFELS MOD-V, Enhanced B-Class, jack-up drilling unit, the ATWOOD BEACON, was completed on schedule and the unit commenced operation in early August 2003.

This rig is currently under repair. See "Recent Development".

OUR STRATEGY

As a leading provider of premium quality offshore drilling services to the international oil and gas industry, we seek to maximize shareholder value by executing a strategy that is endorsed by our management and the board of directors. The principal elements of our strategy are to:

- FOCUS ON ATTRACTIVE INTERNATIONAL MARKETS. We expect to continue to focus our operations in international markets, which have historically been more stable than the U.S. Gulf of Mexico and have recently experienced improving activity levels from major international, national and large independent exploration and production companies. Although currently focused in Southeast Asia, Australia, the Mediterranean Sea and the U.S. Gulf of Mexico, our fleet is capable of mobilizing quickly to take advantage of attractive opportunities in other regions. We believe that concentrating our operations in international markets provides us with prospects for attractive contracts and returns over the long-term.

- CULTIVATE STRONG CLIENT RELATIONSHIPS. We seek to be a preferred provider of offshore drilling and completion services to our clients. Contracts with major international, national and large independent exploration and production companies constitute the majority of our business. We continually monitor our clients' current and future needs with the goal of consistently achieving above-market returns from our existing fleet and recognizing future opportunities to capitalize on our strengths.

- PROVIDE QUALITY SERVICES THROUGH A FOCUS ON SAFETY. Safety is a priority in every facet of our operations, and our customers are increasingly making their service decisions with safety performance as a key factor. We have safety standards and procedures and a regular training program in place that go beyond compliance with laws and regulations and reflect our commitment to provide the safest possible operating environment. We believe that our intense focus in this area allows us to maintain a high level of safety that not only benefits our customers and employees, but also enhances our reputation and relationships with our clients.

- OPTIMIZE MIX OF LONG-TERM AND SHORT-TERM CONTRACTS IN OUR PORTFOLIO. We actively manage our portfolio of customer contracts by entering into both long-term and short-term contracts, thus enabling us to benefit from changes in the cyclical nature of our business. When dayrates approach higher levels that we believe provide favorable returns, we seek to obtain longer-term contracts, which provide us with more predictable cash flow. When dayrates approach lower levels, we seek shorter-term contracts, so we are well positioned to benefit from increasing dayrates in favorable market cycles. This strategy has allowed us to average a 90% fleet utilization over the last ten fiscal years. We believe that this strategy will

allow us to maintain high fleet utilization levels and strong financial performance in down cycles, while taking advantage of improving markets and dayrates during up cycles.

- CONTINUE TO OPPORTUNISTICALLY EXPAND OUR FLEET. In the past, we have expanded our fleet through upgrades, new construction and acquisitions. We plan to opportunistically expand our fleet through upgrades and the construction of new rigs as market conditions warrant. We may also seek to acquire additional drilling assets that complement our fleet and provide us with immediate contract opportunities.

OUR COMPETITIVE STRENGTHS

We believe the following strengths are central to the successful execution of our strategy:

- PREMIUM, MODERN FLEET. We provide premium, modern equipment for our offshore drilling and completion business. Our fleet consists of three key rig types, each with unique operating capabilities: semisubmersibles capable of operating in up to 5,000 feet of water, bottom-supported units (jack-ups and a submersible) and a semisubmersible tender-assist unit. From fiscal year 1997 to 2003, we invested $340 million in upgrading seven of our existing owned units and $120 million constructing a new ultra-premium jack-up. This major upgrade and new construction program was completed on time and on budget. We expect that this significant investment will allow us to pursue selective, higher-return opportunities. We have also purchased a semisubmersible hull for future tender-assist opportunities when an upgrade could be supported by a contract with acceptable returns.

- FINANCIAL FLEXIBILITY TO TAKE ADVANTAGE OF GROWTH OPPORTUNITIES. We believe our premium, modern fleet will enable us to generate strong cash flow to pay down debt and enhance flexibility to grow our business. Following the offering, we believe we will be positioned to invest further capital into additional growth opportunities as they may arise. Pro forma for the offering, we expect to have approximately $90 million of available borrowing capacity under the revolving portion of our credit facility and approximately $15 million of cash for total liquidity of $105 million.

- EXTENSIVE INTERNATIONAL EXPERIENCE AND SIGNIFICANT PRESENCE IN TARGET MARKETS. Since 1970, we have continually operated in international markets. During that time, we have worked in many of the world's primary offshore oil and gas producing areas, including Southeast Asia, Australia, the Far East, the Mediterranean Sea, the Arabian Gulf, the Red Sea, India, Papua New Guinea, East and West Africa, China, South America, and the U.S. Gulf of Mexico. Our focus on providing services to our customers in various geographic regions reduces our dependence on any one geographic market. Our current areas of operations -- Southeast Asia, Australia, the Mediterranean Sea and the U.S. Gulf of Mexico -- provide attractive opportunities for our existing rigs positioned in these areas. In addition, we have demonstrated that we are able to efficiently mobilize our fleet to target other attractive international opportunities.

- HIGH UTILIZATION AND SUBSTANTIAL EARNINGS LEVERAGE TO IMPROVING DAYRATES. We have been able to maintain high utilization throughout industry cycles, averaging approximately 90% utilization over the last ten fiscal years. Because our cost structure is largely fixed, we have substantial earnings leverage to increases in dayrates due to our fleet size. Based on the current number of shares outstanding prior to this offering, we estimate that full year earnings and cash flow per share would increase by approximately $0.13 per share for every $1,000 dayrate increase across our fleet.

- EXPERIENCED MANAGEMENT WITH A COMMITMENT TO SAFETY AND QUALITY. Our executive officers have an average of over 25 years experience with us, and our operations managers have served an average of over 15 years with us. Both management and our multinational rig crews complete extensive training and development programs in order for us to meet our clients' needs and provide safe, quality services. Our track record for safety performance surpasses industry norms based upon data compiled by the International Association of Drilling Contractors. Our employees have frequently achieved client and industry recognition for their superior safety, operational and technical performance, as well as for technical innovation. We believe this commitment to safety and quality is key to maintaining client relationships.

RECENT DEVELOPMENT

On July 25, 2004, the ATWOOD BEACON incurred damage to all three legs and the derrick while positioning for its next well offshore Indonesia. All personnel were evacuated from the rig with no injuries and there were no environmental consequences. We have transported the rig and its legs to the builder's shipyard in Singapore for inspections and repairs. Presently, we expect repairs to be completed in January 2005.

After repairs are completed, the rig will have a leg length of 489 feet, giving it a nominal water depth rating of 350 feet. That water depth rating is sufficient for the wells we plan for it to drill in the period soon after repairs are completed. During an appropriate period between future contracts, we plan to increase the leg length to 517 feet, giving the rig a nominal water depth rating of 400 feet, as per the original design.

We have insurance to cover the cost of repairs in excess of a $1 million deductible. The contract for the rig had approximately 60 days remaining in its term. As a result of the damage to the rig, the contract terminated effective July 28, 2004. We have loss of hire insurance coverage of $70,000 per day up to 180 days, which begins after a 30-day waiting period commencing July 28, 2004. We expect repairs to the ATWOOD BEACON to be completed within the 180 day coverage period. The rig has been awarded a contract in Vietnam, which is to commence between January 15 and April 15, 2005. Based on our current schedule of repairs, we believe the ATWOOD BEACON will be ready to begin operations under the contract by the end of January 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

THE OFFERING

Common stock offered by Atwood.......................	1,000,000 shares
Common stock offered by the selling shareholder...........	1,000,000 shares
Total shares of common stock offered......................	2,000,000 shares
Shares of common stock outstanding after the offering.....................	14,871,951 shares(a)
Use of proceeds..............	We estimate that our net proceeds from this offering will be approximately $45.8 million. We intend to use the net proceeds to repay a portion of the outstanding indebtedness under the revolving portion of our existing credit

facility, and pending repayment, our net proceeds will be invested in short-term investment grade securities.

We will not receive any of the proceeds from the sale of common stock by the selling shareholder.

New York Stock Exchange Symbol....................... ATW

(a) The number of shares of common stock outstanding after the offering excludes up to 1,683,300 shares reserved for issuance under our employee incentive equity plans, pursuant to which options to purchase 984,675 shares at a weighted average exercise price of $30.92 per share are outstanding as of October 4, 2004.

SUMMARY FINANCIAL AND OTHER DATA

Our historical financial data included in the table below as of and for the year ended September 30, 2001 is derived from our consolidated financial statements audited by Arthur Andersen LLP, independent public accountants, which has ceased operations. See "Experts". The historical financial data included in the table below as of and for the years ended September 30, 2002 and 2003, is derived from our consolidated financial statements audited by PricewaterhouseCoopers, LLP, independent registered public accounting firm. The historical financial data presented in the table below for and as of the end of each of the nine month periods ended June 30, 2003 and 2004 is derived from our unaudited consolidated condensed financial statements. In our opinion, such unaudited consolidated condensed financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial data for such periods. The results for the nine months ended June 30, 2004 are not necessarily indicative of the results to be achieved for the full year.

The data below should be read in conjunction with our consolidated financial statements, including the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included or incorporated by reference in this prospectus supplement.

	YEARS ENDED SEPTEMBER 30,			NINE MONTHS ENDED JUNE 30,	
	2001	2002	2003	2003	2004
				(UNAUDITED)	
	(IN THOUSANDS, EXCEPT FOR PER SHARE AND FLEET DATA)				
STATEMENTS OF OPERATIONS DATA:					
Contract revenues.................	$147,541	$149,157	$144,765	$106,761	$120,521
Contract drilling costs...........	(70,014)	(75,088)	(98,500)	(71,094)	(70,519)
General and administrative expenses.......................	(9,250)	(10,080)	(14,015)	(8,822)	(8,683)
Depreciation......................	(25,579)	(23,882)	(25,758)	(18,025)	(23,587)
Operating income...............	42,698	40,107	6,492	8,820	17,732
Interest expense, net............	(1,577)	(1,330)	(4,856)	(2,811)	(6,972)

Tax provision	(13,775)	(10,492)	(14,438)	(4,554)	(6,517)
Net income (loss)	$ 27,346	$ 28,285	$(12,802)	$ 1,455	$ 4,243
PER SHARE DATA:					
Earnings (loss) per common share:					
Basic	$ 1.98	$ 2.04	$ (0.92)	$ 0.11	$ 0.31
Diluted	1.96	2.02	(0.92)	0.10	0.30
Average common shares outstanding:					
Basic	13,828	13,839	13,846	13,846	13,858
Diluted	13,978	13,994	13,846	13,903	13,999
OTHER FINANCIAL DATA:					
Net cash provided by operating activities	$ 62,356	$ 43,442	$ 13,674	$ 6,101	$ 17,775
Net cash used by investing activities	(83,619)	(88,055)	(100,711)	(86,909)	(3,714)
Net cash provided (used) by financing activities	14,144	59,647	80,933	66,703	(18,104)
Capital expenditures	107,778	89,416	101,819	87,371	3,729
FLEET DATA:					
Number of rigs owned or managed, at end of period	11	10	11	10	11
Utilization rate for in-service rigs(1)	83%	86%	92%	94%	94%

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(1) Excludes managed rigs, the SEASCOUT, and contractual downtime for rigs upgraded.

	AT SEPTEMBER 30,			AT JUNE 30, 2004	
	2001	2002	2003	HISTORICAL	AS ADJUSTED(1)
				(UNAUDITED)	
			(IN THOUSANDS)		
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 12,621	$ 27,655	$ 21,551	$ 17,508	$ 17,508
Working capital	25,057	43,735	26,063	22,608	22,608
Net property and equipment	306,254	368,397	443,102	423,229	423,229
Total assets	353,878	445,238	522,674	497,647	497,647
Total long-term debt, including current portion	60,000	115,000	205,000	187,000	141,200
Shareholders' equity	247,636	276,133	263,467	267,998	313,798

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(1) Assumes the offering and application of proceeds therefrom had taken place on June 30, 2004.

RISK FACTORS

YOU SHOULD CONSIDER THE FOLLOWING RISK FACTORS, AS WELL AS OTHER INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT, THE ACCOMPANYING PROSPECTUS AND THE DOCUMENTS WE HAVE INCORPORATED HEREIN BY REFERENCE BEFORE DECIDING TO INVEST IN OUR COMMON STOCK.

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:

- costly delays or cancellations of drilling operations;

- serious damage to, or destruction of, equipment;

- personal injury or death;

- significant impairment of producing wells or underground geological formations; and

- 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 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 demonstrating some of the hazards described above, including the recent ATWOOD BEACON incident. See "Recent Development". Because of the ongoing hazards associated with our operations:

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

- our insurance coverage may prove inadequate to cover losses that are greater than anticipated;

- our insurance deductibles may increase; or

- 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.

WE EXPECT OUR MANAGEMENT TO BE ABLE TO ISSUE ITS REPORT ON THE EFFECTIVENESS OF OUR INTERNAL CONTROLS IN A TIMELY FASHION. HOWEVER, OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM MAY NOT BE ABLE TO ISSUE AN ATTESTATION REPORT ON MANAGEMENT'S ASSESSMENT.

Beginning with our report for the year ending September 30, 2005, Section 404 of the Sarbanes-Oxley Act of 2002 will require us to include an internal control report of management with our annual report on Form 10-K, which is to include management's assessment of the effectiveness of our internal controls over financial reporting as of the end of the fiscal year. That report will also be required to include a statement that our independent registered public accounting firm has issued an attestation report on management's assessment of our internal controls over financial reporting.

In order to achieve compliance with Section 404 within the prescribed period, management has engaged outside consultants and adopted a detailed project work plan to assess the adequacy of our internal controls over financial reporting, remediate any control weaknesses that may be identified, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal controls over financial reporting. We expect that management will be able to issue its report when due. However, we can give no assurance that our independent registered public accounting firm will be able to issue an attestation report on management's assessment.

ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF INCORPORATION, 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.

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 articles of incorporation, 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:

- 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.

- Special meetings of shareholders may not be called by anyone other than our board of directors, its chairman, president, or the holders of at least one-tenth of all shares entitled to vote at the meeting.

- 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.

- 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.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of our common stock by us will be approximately $45.8 million, after deducting underwriting discounts and commissions and our estimated offering expenses. If the underwriters fully exercise their over-allotment option, the net proceeds to us will be approximately $59.6 million. For the purpose of estimating the net proceeds, we are assuming that the offering price will be $48.75 per share (the last sale price of our common stock as reported by the New York Stock Exchange on October 4, 2004). We expect to use the net proceeds to us from this offering to repay a portion of the $181 million currently outstanding under our credit facility. Funds borrowed under our credit facility were used to pay for a portion of the costs of our upgrade program and construction of the ATWOOD BEACON. Our credit facility matures April 1, 2008 and our current interest rate is approximately 4% per year. Amounts repaid under this facility will be applied to the revolving portion of our credit facility and may be subsequently reborrowed for other corporate or working capital purposes. Pending application of the net proceeds, we will invest the proceeds in short-term investment grade securities. We will not receive any of the net proceeds from the sale of shares of common stock by the selling shareholder.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our common stock is traded on the New York Stock Exchange under the symbol "ATW." The table below provides the quarterly high and low sales prices for our common stock for the periods indicated.

	PRICE RANGE	
	HIGH	LOW
FISCAL YEAR 2002		
First Quarter	$35.99	$24.23
Second Quarter	47.14	29.81
Third Quarter	50.32	37.50
Fourth Quarter	37.72	27.49
FISCAL YEAR 2003		
First Quarter	$32.96	$24.39
Second Quarter	31.10	24.45
Third Quarter	30.30	24.81
Fourth Quarter	28.20	23.06
FISCAL YEAR 2004		
First Quarter	$33.69	$23.30
Second Quarter	40.27	31.53
Third Quarter	42.90	33.64
Fourth Quarter	48.75	36.48

On October 4, 2004, the last reported sales price of our common stock on the New York Stock Exchange was $48.75 per share. As of October 4, 2004, and before the issuance of shares pursuant to this prospectus supplement, we had 13,871,951 shares of common stock outstanding. As of October 4, 2004, there were approximately 100 holders of record of our common stock with approximately 750 beneficial owners of our common stock.

We have never declared or paid any cash dividends to our shareholders and do not plan to pay any cash dividends in the foreseeable future. We currently intend to retain our earnings for use in the operation and expansion of our business. Furthermore, our credit facility restricts the payment of dividends. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2004, and as adjusted to give effect to the issuance of the common stock we are selling in this offering and the application of the net proceeds received by us from this offering.

This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources," our consolidated financial statements and related notes incorporated by reference to this prospectus supplement and other financial information included elsewhere in this prospectus supplement.

	AS OF JUNE 30, 2004	
	ACTUAL	AS ADJUSTED(3)
	(IN THOUSANDS, EXCEPT FOR SHARE DATA)	
Cash and cash equivalents	$ 17,508	$ 17,508
LONG-TERM DEBT, INCLUDING CURRENT PORTION(1)	$187,000	$141,200
SHAREHOLDERS' EQUITY:		
Common stock, par value $1.00 per share, 20,000,000 shares authorized; 13,866,201 shares issued and outstanding, actual; 14,866,201 shares issued and outstanding, pro forma as adjusted for this offering(2)	$ 13,866	$ 14,866
Additional paid-in capital	57,677	102,477
Retained earnings	196,455	196,455
Total shareholders' equity	$267,998	$313,798
Total capitalization	$454,998	$454,998

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(1) At September 30, 2004, our long-term debt consisted solely of credit facility borrowings. Our borrowings under the revolving portion of our credit facility were approximately $55 million and approximately $126 million under the term portion of our credit facility.

(2) Excludes an aggregate of 1,683,300 shares of common stock reserved for issuance under our employee incentive equity plans, pursuant to which options to purchase 984,675 shares at a weighted average exercise price of $30.92 per share are outstanding as of October 4, 2004.

(3) As adjusted amounts are presented assuming that the net proceeds from the offering total $45.8 million (net of expenses), assuming a public offering price of $48.75 per share, and excluding the underwriters' over-allotment option. Further, it is assumed that the net proceeds will be used to repay a portion of the approximately $55 million currently borrowed under the revolving portion of our credit facility.

SELECTED FINANCIAL DATA

Our historical financial data included in the table below as of and for the years ended September 30, 2001, 2000, and 1999 is derived from our consolidated financial statements audited by Arthur Andersen LLP, independent public accountants, which has ceased operations. See "Experts". The historical financial data included in the table below as of and for the years ended September 30, 2002 and 2003, is derived from our consolidated financial statements audited by PricewaterhouseCoopers, LLP, independent registered public accounting firm. The historical financial data presented in the table below for and at the end of each of the nine month periods ended June 30, 2003 and 2004 is derived from our unaudited consolidated condensed financial statements. In our opinion, such unaudited consolidated condensed financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial data for such periods. The results for the nine months ended June 30, 2004 are not necessarily indicative of the results to be achieved for the full year.

The data below should be read in conjunction with our consolidated financial statements, including the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included or incorporated by reference in this prospectus supplement.

	YEARS ENDED SEPTEMBER 30,					NIN
	1999	2000	2001	2002	2003	20
	(IN THOUSANDS, EXCEPT FOR SHARE AND FLEET DATA					
STATEMENTS OF OPERATIONS DATA:						
Contract revenues.................	$152,850	$135,973	$147,541	$149,157	$144,765	$106
Contract drilling costs...........	(73,196)	(60,709)	(70,014)	(75,088)	(98,500)	(71
General and administrative expenses.......................	(7,519)	(8,449)	(9,250)	(10,080)	(14,015)	(8
Depreciation......................	(23,904)	(29,624)	(25,579)	(23,882)	(25,758)	(18
Operating income................	48,231	37,191	42,698	40,107	6,492	8
Interest expense, net............	(1,724)	(1,293)	(1,577)	(1,330)	(4,856)	(2
Tax provision....................	(18,787)	(12,750)	(13,775)	(10,492)	(14,438)	(4
Net income (loss)..............	$ 27,720	$ 23,148	$ 27,346	$ 28,285	$(12,802)	$ 1
PER SHARE DATA:						
Earnings (loss) per common share:						
Basic..........................	$ 2.03	$ 1.68	$ 1.98	$ 2.04	$ (0.92)	$
Diluted........................	2.01	1.66	1.96	2.02	(0.92)	
Average common shares outstanding:						
Basic..........................	13,649	13,763	13,828	13,839	13,846	13

Diluted........................	13,791	13,916	13,978	13,994	13,846	13
OTHER FINANCIAL DATA:						
Capital expenditures..............	$ 38,760	$ 34,841	$107,778	$ 89,416	$101,819	$ 87
FLEET DATA:						
Number of rigs owned or managed, at end of period................	11	11	11	10	11	
Utilization rate for in-service rigs(1).........................	77%	71%	83%	86%	92%	

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(1) Excludes managed rigs, the SEASCOUT and contractual downtime for rigs upgraded.

	AT SEPTEMBER 30,				
	1999	2000	2001	2002	2003
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash and cash equivalents.................	$ 43,041	$ 42,661	$ 12,621	$ 27,655	$ 21,5
Working capital...........................	31,519	47,433	25,057	43,735	26,0
Net property and equipment................	218,914	224,107	306,254	368,397	443,1
Total assets..............................	293,604	313,251	353,878	445,238	522,6
Total long-term debt......................	54,000	46,000	60,000	115,000	205,0
Shareholders' equity......................	192,229	218,205	247,636	276,133	263,4

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OUTLOOK

The current worldwide utilization of offshore drilling units is approximately 83%. For the first time since we commenced our upgrade program in 1997, all eight of our active premium offshore mobile drilling units had 100% contract commitments during the quarter ended June 30, 2004, with all units except the ATWOOD EAGLE and ATWOOD FALCON having 100% revenue days for the quarter. The ATWOOD EAGLE had six zero rate days during the quarter due to certain equipment repairs. The ATWOOD FALCON had no rate days while it was being mobilized the last week of the quarter. Our rig utilization for the nine months ended June 30, 2004 was approximately 94%. The utilization of jack-up drilling units (current worldwide utilization of approximately 88%) continues as the strongest sector of the market, and semisubmersible utilization (current worldwide utilization of approximately 80%) remains the weakest sector. For the first nine months of fiscal year 2004, our two jack-up drilling units were fully utilized, while our four semisubmersible drilling units had a combined 90% utilization rate. The operating results for the quarter ended June 30, 2004 were our best since the quarter ended September 30, 2002.

On July 25, 2004, the ATWOOD BEACON incurred damage to all three legs and the derrick while positioning for its next well offshore Indonesia. All personnel were evacuated from the rig with no injuries and there were no environmental consequences. We have transported the rig and its legs to the builder's shipyard in Singapore for inspections and repairs. Presently, we expect repairs to be completed in January 2005.

We have insurance to cover the cost of repairs in excess of a $1 million deductible. The contract for the rig had approximately 60 days remaining in its term. As a result of the damage to the rig, the contract terminated effective July 28, 2004. We have loss of hire insurance coverage of $70,000 per day up to 180 days, which begins after a 30-day waiting period commencing July 28, 2004. We expect repairs to the ATWOOD BEACON to be completed within the 180 day coverage period. The rig has been awarded a contract in Vietnam which is to commence between January 15 and April 15, 2005. Based on our current schedule of repairs, we believe the ATWOOD BEACON will be ready to begin operations under the contract by the end of January 2005.

During the quarter ended June 30, 2004, the ATWOOD FALCON completed its drilling program in Japan, relocated and completed a short drilling program in China. During the last week of June 2004, the rig commenced mobilizing to its next contract location, which normally takes approximately 12 days to complete; however, the rig stopped at a shipyard in the Philippines to undergo some planned maintenance and upgrade of its quarters. This shipyard work has subsequently been completed with the rig relocated to Malaysia, where it has commenced its next drilling program.

We expect that the ATWOOD HUNTER, ATWOOD EAGLE, VICKSBURG, RICHMOND, ATWOOD SOUTHERN CROSS and SEAHAWK will be fully utilized during the fourth quarter of fiscal year 2004. The ATWOOD SOUTHERN CROSS has been awarded a contract to drill two firm wells plus an option to drill one additional well offshore Myanmar. It currently has contract commitments into October 2004. Immediately upon the rig completing its current contract commitment, it will commence its next drilling program offshore Myanmar.

With the ATWOOD BEACON incident and the ATWOOD FALCON having no revenues for the entire month of July due to its quarters upgrade and planned maintenance and mobilization to Malaysia, we expect earnings for the fourth quarter of fiscal year 2004 to decline from the results in the third quarter of fiscal year 2004. Despite the decline in earnings in the fourth quarter of fiscal year 2004, we remain optimistic about the longer-term outlook and fundamentals of the offshore drilling market, and believe that we are well-positioned for increased earnings and cash flows.

RESULTS OF OPERATIONS

THREE AND NINE MONTH PERIODS ENDED JUNE 30, 2004 VERSUS SAME PERIODS IN FISCAL YEAR 2003

Contract revenues for the three months and nine months ended June 30, 2004, increased 16% and 13%, respectively, compared to the three months and nine months ended June 30, 2003. A comparative analysis of contract revenues is as follows:

	CONTRACT REVENUES					
	THREE MONTHS ENDED JUNE 30,			NINE MONTHS ENDED JUNE 30,		
	2004	2003	VARIANCE	2004	2003	VARIANCE

(IN MILLIONS)

ATWOOD BEACON...............	$ 6.1	$ --	$ 6.1	$ 15.2	$ --	$15.2
ATWOOD EAGLE................	11.9	7.7	4.2	19.9	10.6	9.3
ATWOOD HUNTER...............	5.6	4.8	0.8	14.1	14.8	(0.7)
RICHMOND....................	2.4	2.2	0.2	6.9	6.3	0.6
VICKSBURG...................	6.0	6.3	(0.3)	18.2	18.6	(0.4)
SEAHAWK.....................	4.6	5.9	(1.3)	14.0	16.9	(2.9)
ATWOOD SOUTHERN CROSS.......	3.5	4.9	(1.4)	9.1	12.8	(3.7)
ATWOOD FALCON...............	7.8	9.6	(1.8)	21.6	25.4	(3.8)
OTHER.......................	0.5	0.4	0.1	1.5	1.4	0.1
	$48.4	$41.8	$ 6.6	$120.5	$106.8	$13.7

The ATWOOD BEACON was under construction during the three month and nine month periods of fiscal year 2003 and thus, generated no revenue compared to being fully utilized during fiscal year 2004. The increase in revenue for the ATWOOD EAGLE during the current quarter was due to a higher average dayrate ($110,000 versus $85,000 during the prior fiscal year quarter) and to an increase in amortization of mobilization revenue from $700,000 in the prior fiscal year to $2.7 million in the current quarter. The year-to-date increase in revenue for the ATWOOD EAGLE also includes higher utilization during fiscal year 2004 compared to fiscal year 2003 due to the rig being upgraded and then subsequently relocated to West Africa in fiscal year 2003. The ATWOOD HUNTER was fully utilized during the second quarter of both fiscal years. However, the average dayrate was approximately $62,000 for the second quarter of fiscal year 2004 compared to approximately $53,000 for the same quarter of the prior fiscal year. The decrease in revenue for the ATWOOD HUNTER in the nine month period was due to the rig being utilized only eight months in the current period compared to being fully utilized in the same period during the prior fiscal year. The increase in revenues for the RICHMOND was due to an increase in its dayrate in fiscal year 2004 compared to fiscal year 2003.

The VICKSBURG continues to operate in Malaysia. The decrease in revenue for the SEAHAWK for the three month and nine month periods ended June 30, 2004 was due to the completion of amortizing deferred revenues associated with the client reimbursement of a significant portion of fiscal year 2000 upgrade costs at the end of the first quarter of the current fiscal year. The decrease in revenue for the quarter for the ATWOOD SOUTHERN CROSS was due to a decrease in its average dayrate from $52,000 in the prior fiscal year quarter to $35,000 in the current quarter. The decrease in revenue for the nine month period was due to the rig being utilized for approximately five months at $35,000 per day plus $3.7 million of mobilization revenue recognized during the period compared to being utilized for seven months at approximately $58,000 per day in the prior fiscal year period. Utilization for the ATWOOD FALCON was comparable for both the quarter and year-to-date periods of the current and prior fiscal years. However, the June 2004 quarterly average dayrate was approximately $85,000 compared to approximately $105,000 for the

June 2003 quarter. On a year-to-date basis, the ATWOOD FALCON had an average dayrate of approximately $80,000 in fiscal year 2004 compared to approximately $93,000 in fiscal year 2003.

Contract drilling costs for the three months and nine months ended June 30, 2004, decreased 4% and 1%, respectively, as compared to the same periods in the prior fiscal year. An analysis of contract drilling costs by rig is as follows:

	CONTRACT DRILLING COSTS					
	THREE MONTHS ENDED JUNE 30,			NINE MONTHS ENDED JUNE 30,		
	2004	2003	VARIANCE	2004	2003	VARIANCE
	(IN MILLIONS)					
ATWOOD BEACON.................	$ 2.3	$ --	$ 2.3	$ 6.8	$ --	$ 6.8
ATWOOD EAGLE..................	7.3	6.8	0.5	14.1	8.9	5.2
VICKSBURG.....................	2.2	2.2	--	6.6	7.0	(0.4)
RICHMOND......................	2.1	2.2	(0.1)	6.0	6.3	(0.3)
ATWOOD HUNTER.................	3.1	3.3	(0.2)	8.9	10.1	(1.2)
SEAHAWK.......................	2.0	2.2	(0.2)	6.2	7.6	(1.4)
ATWOOD SOUTHERN CROSS.........	2.8	3.9	(1.1)	9.6	11.9	(2.3)
ATWOOD FALCON.................	3.7	5.8	(2.1)	9.9	15.5	(5.6)
OTHER.........................	1.1	1.2	(0.1)	2.4	3.8	(1.4)
	$26.6	$27.6	$(1.0)	$70.5	$71.1	$(0.6)

The ATWOOD BEACON was under construction during the three month and nine month periods of fiscal year 2003 and thus, incurred no operating costs compared to a full quarter and nine month period of operations for fiscal year 2004. The increase in costs for the nine month period for the ATWOOD EAGLE was due to incurring operating costs for seven months in the current fiscal year compared to only four months in the prior fiscal year resulting from the timing and length of upgrades and mobilizations. The level of operating costs for the VICKSBURG and RICHMOND continue to be very consistent. The decrease in costs for the ATWOOD HUNTER for the year-to-date period was due to a reduction of payroll costs resulting from the greater utilization of local labor instead of expatriate staff. The decrease in costs for the SEAHAWK during fiscal year 2004 was primarily due to lower repair and maintenance costs in the current fiscal year compared to the prior fiscal year. The decrease in costs for the ATWOOD SOUTHERN CROSS was due to the rig incurring lower operating costs in India and Malaysia during the current fiscal year compared to operating in the higher cost area of Italy in the prior year along with amortization of the planned maintenance and upgrade costs in fiscal year 2003 to meet Italian operating standards. During most of the nine month period of fiscal year 2003, the ATWOOD FALCON operated in Australia at approximately $25,000 per day higher operating costs than in Asia, where the rig has worked during fiscal year 2004. The year-to-date decrease in "Other" was due to the settlement of a contract dispute with a customer during the current fiscal year which resulted in a $600,000 reversal of an expense accrual from the prior year and also due the receipt of a $400,000 refund of insurance premiums from the prior policy year resulting from the annual policy year audit.

An analysis of depreciation expense by rig for the three months and nine months ended June 30, 2004, as compared to the same periods in the prior fiscal year is as follows:

DEPRECIATION EXPENSE

	THREE MONTHS ENDED JUNE 30,			NINE MONTHS ENDED JUNE 30,		
	2004	2003	VARIANCE	2004	2003	VARIANCE
	(IN MILLIONS)					
ATWOOD BEACON	$1.3	$ --	$ 1.3	$ 4.0	$ --	$ 4.0
SEAHAWK	1.3	1.2	0.1	3.8	3.5	0.3
VICKSBURG	0.7	0.6	0.1	2.0	1.9	0.1
ATWOOD SOUTHERN CROSS	1.1	1.0	0.1	3.1	3.0	0.1
ATWOOD HUNTER	1.3	1.3	--	4.0	4.0	--
ATWOOD FALCON	0.7	0.7	--	2.0	1.9	0.1
ATWOOD EAGLE	1.2	1.3	(0.1)	3.6	1.7	1.9
RICHMOND	0.2	0.5	(0.3)	0.6	1.4	(0.8)
OTHER	0.1	0.2	(0.1)	0.5	0.6	(0.1)
	$7.9	$6.8	$ 1.1	$23.6	$18.0	$ 5.6

We do not recognize depreciation expense during the period a rig is out of service for a significant upgrade that extends its useful life or construction, which accounts for the increase in depreciation expense for the current quarter and year-to-date period for the ATWOOD BEACON and the year-to-date period for the ATWOOD EAGLE. The decrease in depreciation expense for the RICHMOND was due to extending the remaining depreciable life of the rig from two to five years at the beginning of the current year fiscal year.

The increase in net interest expense for the three months and nine months of fiscal year 2004 compared to the same periods of fiscal year 2003 was due to an increase in the average amount of debt outstanding, and our recording of no capitalized interest during fiscal year 2004 due to all upgrade and construction programs being completed during fiscal year 2003. During the three months and nine month periods ended June 30, 2003, interest was capitalized in the amount of $0.9 million and $3.9 million, respectively. No interest has been capitalized during the current fiscal year.

Virtually all of our tax provision for the three months and nine months ended June 30, 2004 and 2003 relates to taxes in foreign jurisdictions. Our consolidated effective income tax rate for the year-to-date is significantly higher than the United States statutory tax rate primarily due to a high level of operating losses in foreign jurisdictions with low or zero effective tax rates. Although the total tax provision has increased for the three month and nine month periods ended June 30, 2004 as compared to the prior fiscal year periods due to increased revenues, our effective income tax rate has decreased for both periods in the current fiscal year as compared to the prior fiscal year due to a reduction in operating losses in foreign jurisdictions with low or zero effective tax rates.

FISCAL YEAR 2003 VERSUS FISCAL YEAR 2002

A comparative analysis of contract revenues by rig for fiscal years 2003 and 2002 is as follows:

CONTRACT REVENUES

	FISCAL 2003	FISCAL 2002	VARIANCE
	(IN MILLIONS)		
ATWOOD EAGLE	$ 19.8	$ 15.2	$ 4.6
ATWOOD BEACON	3.0	--	3.0
VICKSBURG	25.0	22.5	2.5
RICHMOND	8.3	7.1	1.2
SEAHAWK	22.8	22.3	0.5
GOODWYN 'A'/NORTH RANKIN 'A'	1.8	1.9	(0.1)
ATWOOD FALCON	32.4	33.5	(1.1)
ATWOOD SOUTHERN CROSS	14.5	19.3	(4.8)
ATWOOD HUNTER	17.2	27.4	(10.2)
	$144.8	$149.2	$ (4.4)

While utilization was consistent with the prior fiscal year, the average dayrate for ATWOOD EAGLE during fiscal year 2003 was approximately $85,000 compared to $75,000 in the prior year. The current fiscal year also included $2.7 million of mobilization revenue for the rig's relocation to West Africa. The ATWOOD BEACON commenced operations in August 2003 while being under construction all of the prior fiscal year. The current fiscal year revenue for the VICKSBURG included $2.0 million of client reimbursements for capital upgrades, as utilization and average dayrates were consistent with the prior year. The increase in revenue for the RICHMOND was primarily due to the rig being 100% utilized in fiscal year 2003 compared to having 76 days of idle time in fiscal year 2002. The decrease in revenue for the ATWOOD FALCON was due to its mobilization to Australia and back to Malaysia during the current fiscal year compared to working at full operating dayrates for all of the prior fiscal year. Due to the softness of the Mediterranean market, utilization for the ATWOOD SOUTHERN CROSS decreased from approximately 85% in fiscal year 2002 to 70% in the current fiscal year. Average dayrates for the ATWOOD HUNTER decreased from approximately $90,000 to $55,000 for the same periods.

Contract drilling costs for fiscal year 2003 increased 31% as compared to the prior year. As discussed below, in order to maintain relatively high utilization of our fleet during the recent downturn in the offshore drilling market, we pursued short-term contract opportunities for the ATWOOD EAGLE, ATWOOD FALCON and ATWOOD SOUTHERN CROSS in high operating cost areas of West Africa, Australia and Italy. Compared to fiscal year 2002, approximately 90% of the increase in

contract drilling costs in fiscal year 2003 related to these three rigs. A comparative analysis of contract drilling costs by rig for fiscal years 2003 and 2002 is as follows:

	CONTRACT DRILLING COSTS		
	FISCAL 2003	FISCAL 2002	VARIANCE
	(IN MILLIONS)		
ATWOOD EAGLE	$19.4	$ 9.0	$10.4

ATWOOD FALCON	18.7	10.2	8.5
ATWOOD SOUTHERN CROSS	14.3	11.1	3.2
ATWOOD BEACON	1.4	--	1.4
SEAHAWK	9.7	9.2	0.5
GOODWYN 'A'/NORTH RANKIN 'A'	2.0	2.1	(0.1)
VICKSBURG	9.3	9.5	(0.2)
ATWOOD HUNTER	12.9	13.4	(0.5)
RICHMOND	8.2	9.3	(1.1)
OTHER	2.6	1.3	1.3
	$98.5	$75.1	$23.4

Contract drilling costs for the ATWOOD EAGLE include $8.2 million of mobilization expenses incurred during the rig's relocation to West Africa. In addition, daily operating costs of the ATWOOD EAGLE have increased as operating costs in West Africa are approximately 30% higher than in the Mediterranean, the rig's previous location. This increase in daily operating costs relates primarily to a significantly higher onshore cost of services to support our offshore operations, plus higher local labor costs. Due to limited office and living facilities in West Africa compared to the rig's previous location in the Mediterranean, the daily costs for such facilities and other services in West Africa is significantly higher than most other areas of the world. During fiscal year 2003, the ATWOOD FALCON worked seven months in Australia, where operating costs are higher than Southeast Asia, its primary operating location for all of the prior fiscal year, by approximately $25,000 per day due to increased personnel-related costs. Australian labor regulations require that marine union personnel must be employed for all offshore vessels that have propulsion. During the period that the ATWOOD FALCON worked in Australia, it was equipped with propulsion assist, which required the employment of marine personnel that was not required when the rig worked in Southeast Asia. We also incurred approximately $2.0 million in mobilization costs re-locating the ATWOOD FALCON to and from Australia.

The increase in costs for the ATWOOD SOUTHERN CROSS resulted from the amortization of the planned maintenance and upgrade costs to meet Italian operating standards, as well as higher costs of operating in Italy for travel, shorebase operations and rentals. In addition, Italian regulations do not allow drilling rigs to operate in Italian waters without having original certification for all electrical equipment. We incurred additional operating costs in complying with this requirement. The ATWOOD BEACON commenced operations in August 2003 while being under construction all of the prior fiscal year. The decrease in costs for the RICHMOND for fiscal year 2003 is due to the shipyard repairs incurred during the prior fiscal year.

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Depreciation expense for the current fiscal year increased 8% as compared to the prior fiscal year. A comparative analysis of depreciation expense by rig for fiscal year 2003 and 2002 is as follows:

	DEPRECIATION EXPENSE		
	FISCAL 2003	FISCAL 2002	VARIANCE
	(IN MILLIONS)		

ATWOOD HUNTER	$ 5.4	$ 4.2	$1.2
ATWOOD EAGLE	3.1	2.2	0.9
ATWOOD BEACON	0.7	0.0	0.7
RICHMOND	1.9	1.6	0.3
VICKSBURG	2.5	2.3	0.2
ATWOOD SOUTHERN CROSS	4.0	3.9	0.1
ATWOOD FALCON	2.6	2.7	(0.1)
SEAHAWK	4.7	4.8	(0.1)
OTHER	0.9	2.2	(1.3)
	$25.8	$23.9	$1.9

During the period when a rig is out of service for a significant upgrade that extends its useful life, no depreciation expense is recognized. The increased depreciation on the ATWOOD HUNTER in fiscal year 2003 was due to a full year of depreciation expense compared to only three quarters in the prior fiscal year as the rig was completing its upgrade and relocation to the Mediterranean during the first quarter of fiscal year 2002. The increase for the ATWOOD EAGLE was due to an increase in the rig's depreciable basis resulting from the completion of its $90 million upgrade during the current fiscal year. The ATWOOD BEACON commenced operations in August 2003 while being under construction all of prior fiscal year. The depreciable basis of the RICHMOND increased by approximately $1 million during the current fiscal year which will be depreciated over the rig's remaining useful life of 2 years. Other depreciation expense decreased due to RIG-200 (sold in May 2003) being fully depreciated to its salvage value in fiscal year 2002 and thus had no depreciation expense for fiscal year 2003.

General and administrative expense increased 39% in fiscal year 2003 primarily due to higher professional fees related to our worldwide restructuring initiative. Our worldwide group of consolidated entities derives substantially all of their operating revenues from international offshore drilling of exploratory and developmental oil and gas wells and related support services. At the beginning of fiscal year 2003, we initiated a restructuring of our foreign subsidiaries and deployment of our worldwide assets to focus potential civil litigation which may arise from future offshore activities in foreign operations in the jurisdictions of the areas of those operations, to simplify our worldwide organizational structure for administrative and marketing reasons, to facilitate more efficient management and control of business operations, and to deploy our worldwide assets and capital in a more efficient manner among our consolidated group of companies. In addition to these operational efficiencies, it is expected that this restructuring will also provide long-term tax efficiencies. A significant part of this restructuring involved the contribution of a majority of our non-U.S. operations to Atwood Oceanics Pacific Limited, a wholly-owned Cayman Islands company, which had historically served as our offshore company for marketing, negotiating and performing drilling contracts outside of the United States. At September 30, 2003, most of our planned restructuring initiative had been completed, with approximately $3 million of the increase in general and administrative expenses related to professional fees associated with this restructuring process.

The $3.4 million increase in net interest expense was due to an increase in the average amount of debt outstanding, a $1.2 million write-off of deferred financing costs related to our prior credit facility, and a $1.9 million decrease in capitalized interest, as compared to the prior fiscal year,

as a result of the completion of the upgrade program and construction of the

ATWOOD BEACON during fiscal year 2003.

Virtually all of our current tax provision for fiscal year 2003 related to taxes in foreign jurisdictions. Due to the operating loss in the United States, in addition to operating losses in certain nontaxable foreign jurisdictions, our effective tax rate for the fiscal year 2003 significantly exceeded the United States statutory rate.

We recorded deferred foreign tax liabilities of $4.7 million relating to Australian and Malaysian taxes after reassessing certain tax planning strategies in conjunction with the reorganization of our foreign subsidiaries undertaken in fiscal year 2003. This deferred tax expense had no cash effect on us.

FISCAL YEAR 2002 VERSUS FISCAL YEAR 2001

An analysis of contract revenues by rig for fiscal years 2002 and 2001 is as follows:

	CONTRACT REVENUES		
	FISCAL 2002	FISCAL 2001	VARIANCE
	(IN MILLIONS)		
ATWOOD HUNTER	$ 27.4	$ 15.8	$11.6
VICKSBURG	22.5	12.7	9.8
ATWOOD SOUTHERN CROSS	19.3	17.9	1.4
SEAHAWK	22.3	23.4	(1.1)
RICHMOND	7.1	11.3	(4.2)
GOODWYN 'A'/NORTH RANKIN 'A'	1.9	6.1	(4.2)
ATWOOD EAGLE	15.2	19.9	(4.7)
ATWOOD FALCON	33.5	40.4	(6.9)
	$149.2	$147.5	$ 1.7

The ATWOOD HUNTER worked continually in Egypt during fiscal year 2002 at dayrates ranging from $90,000 to $110,000, compared to being idle for upgrade during a significant portion of fiscal year 2001, which accounts for its increase in revenue. In April/May 2001, the VICKSBURG was relocated from India to Southeast Asia, and after its relocation, received higher dayrates than those received while in India, which accounts for its increase in revenue. The ATWOOD SOUTHERN CROSS had an average per day revenue of approximately $53,000 in fiscal year 2002 compared to approximately $49,000 in fiscal year 2001. In February 2000, the SEAHAWK commenced its four-year contract extension in Malaysia, with its contractual dayrate ranging from a high of $50,000 to a low of $30,000 depending upon the price of oil. The rig was at the top of this dayrate range in fiscal year 2002 and fiscal year 2001. RICHMOND revenues declined in fiscal year 2002 compared to fiscal year 2001 due to 76 days of idle time incurred during the year for certain repairs and inspections and to a decline in dayrate levels in the Gulf of Mexico. An indefinite planned break in drilling activities commenced at the end of fiscal year 2001 for the GOODWYN 'A'/NORTH RANKIN 'A' platform rigs,. The decline in revenues for the ATWOOD EAGLE was due to the rig undergoing upgrades in a shipyard in Greece from April 2002 to November 2002. In May 2002, the ATWOOD FALCON was relocated from the Philippines to Malaysia following the completion of a long-term contract. The rig's effective dayrate in the Philippines was over $100,000 compared to $70,000 in Malaysia, which accounts for the decline in revenues.

Contract drilling costs during fiscal year 2002 increased 7% primarily due to the ATWOOD HUNTER returning to work following its upgrade and to higher operating costs associated with the VICKSBURG, RICHMOND, ATWOOD FALCON, SEAHAWK and ATWOOD SOUTHERN CROSS. An analysis of contract drilling costs by rig for fiscal year 2002 and 2001 is as follows:

	CONTRACT DRILLING COSTS		
	FISCAL 2002	FISCAL 2001	VARIANCE
	(IN MILLIONS)		
ATWOOD HUNTER	$13.4	$ 8.1	$ 5.3
VICKSBURG	9.5	7.4	2.1
RICHMOND	9.3	7.6	1.7
ATWOOD FALCON	10.2	8.6	1.6
SEAHAWK	9.2	7.8	1.4
CROSS	11.1	10.3	0.8
ATWOOD EAGLE	9.0	11.9	(2.9)
GOODWYN 'A'/NORTH RANKIN 'A'	2.1	5.7	(3.6)
OTHER	1.3	2.6	(1.3)
	$75.1	$70.0	$ 5.1

During the period that the ATWOOD HUNTER was in a shipyard in the United States for upgrades and its subsequent relocation to Egypt (April 2001 through November 2001), no drilling costs were incurred. Higher drilling costs for the VICKSBURG were due to operating costs being higher in Southeast Asia than in India. During fiscal year 2002, the RICHMOND incurred higher repairs and maintenance costs. The increase in operating costs for the ATWOOD FALCON was primarily due to additional costs incurred on relocating the rig from the Philippines to Malaysia. The decline in costs for the ATWOOD EAGLE was due to the rig being in a shipyard during the last few months of fiscal year 2002 for upgrade, whereby no drilling costs were incurred. Drilling costs on the GOODWYN 'A'/NORTH RANKIN 'A' platforms declined due to the planned break in drilling activities.

An analysis of depreciation expense by rig is as follows:

	DEPRECIATION EXPENSE		
	FISCAL 2002	FISCAL 2001	VARIANCE
	(IN MILLIONS)		
ATWOOD HUNTER	$ 4.2	$ 1.5	$ 2.7
RICHMOND	1.6	1.5	0.1
ATWOOD SOUTHERN CROSS	3.9	3.9	0.0
ATWOOD FALCON	2.7	2.7	0.0
VICKSBURG	2.3	2.6	(0.3)

ATWOOD EAGLE...	2.2	3.6	(1.4)
SEAHAWK..	4.8	6.9	(2.1)
OTHER..	2.2	2.9	(0.7)
	-----	-----	-----
	$23.9	$25.6	$(1.7)
	=====	=====	=====

The reduced depreciation on the ATWOOD HUNTER in fiscal year 2001 and the ATWOOD EAGLE in fiscal year 2002 was due to the policy of not recognizing depreciation expense during the period a rig is out of service for a significant upgrade. The decrease in depreciation expense for the SEAHAWK was due to the rig's 1992 upgrade costs becoming fully depreciated, thereby leaving approximately $12 million of its 2000 upgrade cost of approximately $22 million to be depreciated over a remaining period of approximately three years.

General and administrative expenses increased 9% in both fiscal year 2002 and 2001, primarily due to higher travel, communication, and other personnel related costs. Our effective tax rate was 27% in fiscal year 2002 compared to 33% in fiscal year 2001. The effective tax rate in fiscal year 2002 was reduced by a $2.3 million foreign income tax credit benefit generated in September 2002. The 44% decline in net interest expense was primarily due to a $1.8 million increase in capitalized interest. Investment income in fiscal year 2002 declined 76% due to us having fewer funds to invest due to its capital expenditure requirements.

LIQUIDITY AND CAPITAL RESOURCES

During the first nine months of fiscal year 2004, we utilized $4.0 million of cash on hand plus $17.8 million net cash provided by operating activities to repay $18 million of long-term debt and finance $3.7 million of capital expenditures.

We estimate the total costs for repair and associated costs for the ATWOOD BEACON to be $25 million. We expect insurance to cover these costs in excess of the $1 million deductible; however, we may have to temporarily fund a portion of these costs prior to receiving insurance reimbursements. Depending upon timing of the funding of ATWOOD BEACON repair costs through insurance reimbursements, we may have to borrow additional funds under our credit facility. Currently, we have approximately $45 million of borrowing capacity under the revolving portion of our credit facility. After the offering, we anticipate having approximately $90 million of borrowing capacity available under the revolving portion of our credit facility, and that any additional borrowings required for the ATWOOD BEACON repairs will be repaid upon receipt of insurance proceeds.

Except for the pending repairs to the ATWOOD BEACON and routine maintenance costs, we presently have no plans to incur any repair or upgrade costs or other significant capital projects. In the first nine months of fiscal year 2004, we repaid $18 million on the term portion of our credit facility. An additional payment of $6 million was made on September 30, 2004. We were in compliance with all financial covenants at June 30, 2004. The bank group's collateral for the credit facility consists primarily of preferred mortgages on all of our active drilling fleet. Except for possible short-term funding requirements associated with the ATWOOD BEACON repairs, we feel that our expected net cash to be provided by operating activities will adequately meet all anticipated cash funding requirements for the remainder of fiscal year 2004. We expect that any short-term financing requirements to fund ATWOOD BEACON repairs will be available under our current credit facility. As we continue to focus on international operations of our premium equipment and on improvement in our financial strength, we will continue to periodically review market conditions for equity capital or additional debt financing.

COMMITMENTS (IN THOUSANDS)

The following table summarizes our obligations and commitments at June 30, 2004:

	JULY 1, 2004 -- SEPTEMBER 30, 2004	FISCAL 2005	FISCAL 2006	FISCAL 2007	FISCAL 2008
Long-Term Debt...........	$6,000	$36,000	$36,000	$36,000	$73,000
Operating Leases.........	150	628	647	647	54
	$6,150	$36,628	$36,647	$36,647	$73,054

CRITICAL ACCOUNTING POLICIES

Significant accounting policies are included in Note 2 to our consolidated financial statements for the year ended September 30, 2003 included in our Annual Report to Shareholders incorporated by reference to our Form 10-K for the period ended September 30, 2003. These policies, along with

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the underlying assumptions and judgments made by management in their application, have a significant impact on our consolidated financial statements. We identify our most critical accounting policies as those that are the most pervasive and important to the portrayal of our financial position and results of operations, and that require the most difficult, subjective and/or complex judgments by management regarding estimates about matters that are inherently uncertain. Our most critical accounting policies are those related to property and equipment, impairment of assets and income taxes.

We currently operate eight active offshore drilling units. All of these assets are premium equipment and should provide many years of quality service. At June 30, 2004, the carrying value of our property and equipment totaled $423.2 million, which represented 85% of total assets. This carrying value reflects the application of our property and equipment accounting policies, which incorporate estimates, assumptions and judgments by management relative to the useful lives and salvage values of our rigs and vessels. The estimated useful lives of our drilling units and related equipment range from 5 years to 22 years and our salvage values are generally based on 5% of capitalized costs. Any future increases in our estimates of useful lives or salvage values will have the effect of decreasing future depreciation expense in earlier future years and spreading the expense to later years. Any future decreases in our useful lives or salvage values will have the effect of accelerating future depreciation expense. For example, effective October 1, 2003, we extended the remaining depreciable life of the RICHMOND from 2 to 5 years, due to our recent assessment of the rig's commercial viability, coupled with our intent to continue marketing and operating the rig beyond 2 years. However, as a result of the change in depreciable life and related depreciation expense being extended into years 3 to 5, depreciation expense will be lower in the next 2 years than it otherwise would have been.

We evaluate the carrying value of our property and equipment when events or changes in circumstances indicate that the carrying value of such assets may be impaired. Asset impairment evaluations are, by nature, highly subjective. Operations of our drilling equipment are subject to the offshore drilling requirements of oil and gas exploration and production companies and agencies of foreign governments. These requirements are, in turn, subject to fluctuations in government policies, world demand and price for petroleum products, proved reserves in relation to such demand and the extent to which such demand can be met from onshore sources. The critical estimates which result from these dynamics include projected utilization, dayrates and operating expenses, each of which impact our estimated future cash flows. Over the last ten years, our equipment utilization rate has averaged approximately 90%; however, if a drilling vessel incurs significant idle time or receives dayrates below operating costs, its carrying value could become impaired. The estimates, assumptions and judgments used by management in the application of our property and equipment and asset impairment policies reflect both historical experience and expectations regarding future industry conditions and operations. The use of different estimates, assumptions and judgments, especially those involving the useful lives of our rigs and vessels and expectations regarding future industry conditions and operations, would likely result in materially different carrying values of assets and results of operations.

We conduct operations and earn income in numerous foreign countries and are subject to the laws of taxing jurisdictions within those countries, as well as United States federal and state tax laws. At June 30, 2004, we have a $20.1 million net deferred income tax liability, with a current United States federal income tax receivable of approximately $3.3 million. These balances reflect the application of our income tax accounting policies in accordance with statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Such accounting policies incorporate estimates, assumptions and judgments by management relative to the interpretation of applicable tax laws, the application of accounting standards, and future levels of taxable income. The estimates, assumptions and judgments used by management in connection with accounting for income taxes reflect both historical experience and expectations regarding future industry conditions and operations. Changes in these estimates, assumptions and judgments could result in materially different provisions for deferred and current income taxes.

BUSINESS

GENERAL

We are 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, and commenced operations in 1970.

During our 36 year history, the majority of our drilling units have operated outside of U.S. waters, and we have conducted drilling operations in most of the major offshore exploration areas of the world. Our current worldwide operations revolve around eight premium offshore mobile drilling units located in four regions -- Southeast Asia, Australia, the Mediterranean Sea and the U.S. Gulf of Mexico. Approximately 94%, 94%, and 95% of our contract revenues were derived from foreign operations in the first nine months of fiscal year 2004 and fiscal years 2003 and 2002, respectively. The submersible RICHMOND is our only drilling unit currently working in U.S. waters. We support our operations from our Houston headquarters and affiliated offices in Australia, Malaysia, Indonesia, the United Kingdom and Egypt.

The table below represents summary information about our wholly-owned and operating offshore rig fleet as of October 5, 2004:

RIG NAME	RIG TYPE	UPGRADED
ATWOOD EAGLE............................	Semisubmersible	2000/2002
ATWOOD HUNTER...........................	Semisubmersible	1997/2001
ATWOOD FALCON...........................	Semisubmersible	1998
ATWOOD SOUTHERN CROSS...................	Semisubmersible	1997
SEAHAWK.................................	Semisubmersible Tender Assist	1992/1999
ATWOOD BEACON(1)........................	Jack-up	2003(2)
VICKSBURG...............................	Jack-up	1998
RICHMOND................................	Submersible	2000

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(1) On July 25, 2004, all three of the ATWOOD BEACON'S legs and derrick were damaged while the rig was being positioned. No injuries or environmental consequences occurred. The ATWOOD BEACON is insured with a $1 million deductible and has loss of hire insurance coverage of $70,000 per day up to 180 days following a 30-day waiting period. See "Recent Development."

(2) The ATWOOD BEACON was constructed in 2003.

We also own a semisubmersible hull which is a candidate for a future conversion to a tender-assist unit once an acceptable contract is identified. In addition to the owned drilling units, we also manage the maintenance and operations of two operator-owned platform rigs offshore northwest Australia. There is currently a planned break in drilling activity for these two operator-owned rigs. We continue, however, to provide maintenance of these two rigs for future drilling programs.

We update and upgrade our fleet and strive to maintain premium, modern equipment. In 1997, we commenced an internal upgrade program of all of our active drilling units. Our upgrade program was concluded with the completion of the upgrade of the ATWOOD EAGLE in November 2002. Collectively, we invested $340 million in upgrading seven of our offshore mobile drilling units. 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. The rig is currently under repair for damage sustained while positioning for a well offshore Indonesia. See "Recent Development".

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Our profitability depends on maintaining a relatively high level of equipment utilization. Except for the ATWOOD BEACON, all of our active units are currently under contract. The rig has been awarded a contract in Vietnam which is to commence between January 15 and April 15, 2005. Based on our current schedule of repairs, we believe the ATWOOD BEACON will be ready to begin operations under the contract by the end of January 2005. Based on the results of operations for the year to date and current contract commitments, we expect to end fiscal year 2004 profitably.

BUSINESS STRATEGY

As a leading provider of premium quality offshore drilling services to the international oil and gas industry, we seek to maximize shareholder value by executing a strategy that is endorsed by our management and the board of directors. The principal elements of our strategy are to:

- FOCUS ON ATTRACTIVE INTERNATIONAL MARKETS. We expect to continue to focus our operations in international markets, which have historically been more stable than the U.S. Gulf of Mexico and have recently experienced improving activity levels from major international, national and large independent exploration and production companies. Although currently focused in Southeast Asia, Australia, the Mediterranean Sea and the U.S. Gulf of Mexico, our fleet is capable of mobilizing quickly to take advantage of attractive opportunities in other regions. We believe that concentrating our operations in international markets provides us with prospects for attractive contracts and returns over the long-term.

- CULTIVATE STRONG CLIENT RELATIONSHIPS. We seek to be a preferred provider of offshore drilling and completion services to our clients. Contracts with major international, national and large independent exploration and production companies constitute the majority of our business. We continually monitor our clients' current and future needs with the goal of consistently achieving above-market returns from our existing fleet and recognizing future opportunities to capitalize on our strengths.

- PROVIDE QUALITY SERVICES THROUGH A FOCUS ON SAFETY. Safety is a priority in every facet of our operations, and our customers are increasingly making their service decisions with safety performance as a key factor. We have safety standards and procedures and a regular training program in place that go beyond compliance with laws and regulations and reflect our commitment to provide the safest possible operating environment. We believe that our intense focus in this area allows us to maintain a high level of safety that not only benefits our customers and employees, but also enhances our reputation and relationships with our clients.

- OPTIMIZE MIX OF LONG-TERM AND SHORT-TERM CONTRACTS IN OUR PORTFOLIO. We actively manage our portfolio of customer contracts by entering into both long-term and short-term contracts, thus enabling us to benefit from changes in the cyclical nature of our business. When dayrates approach higher levels that we believe provide favorable returns, we seek to obtain longer-term contracts, which provide us with more predictable cash flow. When dayrates approach lower levels, we seek shorter-term contracts, so we are well positioned to benefit from increasing dayrates in favorable market cycles. This strategy has allowed us to average a 90% fleet utilization over the last ten fiscal years. We believe that this strategy will allow us to maintain high fleet utilization levels and strong financial performance in down cycles, while taking advantage of improving markets and dayrates during up cycles.

- CONTINUE TO OPPORTUNISTICALLY EXPAND OUR FLEET. In the past, we have expanded our fleet through upgrades, new construction and acquisitions. We plan to opportunistically expand our fleet through upgrades and the construction of new rigs as market conditions warrant. We may also seek to acquire additional drilling assets that complement our fleet and provide us with immediate contract opportunities.

OUR COMPETITIVE STRENGTHS

We believe the following strengths are central to the successful execution of our strategy:

- PREMIUM, MODERN FLEET. We provide premium, modern equipment for our offshore drilling and completion business. Our fleet consists of three key rig types, each with unique operating capabilities: semisubmersibles capable of operating in up to 5,000 feet of water, bottom-supported units (jack-ups and a submersible) and a semisubmersible tender-assist unit. From fiscal year 1997 to 2003, we invested $340 million in upgrading seven of our existing owned units and $120 million constructing a new ultra-premium jack-up. This major upgrade and new construction program was completed on time and on budget. We expect that this significant investment will allow us to pursue selective, higher-return opportunities. We have also purchased a semisubmersible hull for future tender-assist opportunities when an upgrade could be supported by a contract with acceptable returns.

- FINANCIAL FLEXIBILITY TO TAKE ADVANTAGE OF GROWTH OPPORTUNITIES. We believe our premium, modern fleet will enable us to generate strong cash flow to pay down debt and enhance flexibility to grow our business. Following the offering, we believe we will be positioned to invest further capital into additional growth opportunities as they may arise. Pro forma for the offering, we expect to have approximately $90 million of available borrowing capacity under the revolving portion of our credit facility and approximately $15 million of cash for total liquidity of $105 million.

- EXTENSIVE INTERNATIONAL EXPERIENCE AND SIGNIFICANT PRESENCE IN TARGET MARKETS. Since 1970, we have continually operated in international markets. During that time, we have worked in many of the world's primary offshore oil and gas producing areas, including Southeast Asia, Australia, the Far East, the Mediterranean Sea, the Arabian Gulf, the Red Sea, India, Papua New Guinea, East and West Africa, China, South America, and the U.S. Gulf of Mexico. Our focus on providing services to our customers in various geographic regions reduces our dependence on any one geographic market. Our current areas of operations -- Southeast Asia, Australia, the Mediterranean Sea and the U.S. Gulf of Mexico -- provide attractive opportunities for our existing rigs positioned in these areas. In addition, we have demonstrated that we are able to efficiently mobilize our fleet to target other attractive international opportunities.

- HIGH UTILIZATION AND SUBSTANTIAL EARNINGS LEVERAGE TO IMPROVING DAYRATES. We have been able to maintain high utilization throughout industry cycles, averaging approximately 90% utilization over the last ten fiscal years. Because our cost structure is largely fixed, we have substantial earnings leverage to increases in dayrates due to our fleet size. Based on the current number of shares outstanding prior to this offering, we estimate that full year earnings and cash flow per share would increase by approximately $0.13 per share for every $1,000 dayrate increase across our fleet.

- EXPERIENCED MANAGEMENT WITH A COMMITMENT TO SAFETY AND QUALITY. Our executive officers have an average of over 25 years experience with us, and our operations managers have served an average of over 15 years with us. Both management and our multinational rig crews complete extensive training and development programs in order for us to meet our clients' needs and provide safe, quality services. Our track record for safety performance surpasses industry norms based upon data compiled by the International Association of Drilling Contractors. Our employees have frequently achieved client and industry recognition for their superior safety, operational and technical performance, as well as for technical innovation. We believe this commitment to safety and quality is key to maintaining client relationships.

OFFSHORE DRILLING EQUIPMENT

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 table presents our wholly-owned and operating rig fleet as of October 5, 2004:

RIG NAME	RIG TYPE	UPGRADED	WATER DEPTH RATING (FEET)	LOCATION	STATU
ATWOOD EAGLE.............	Semisubmersible	2000/2002	5,000	Australia	Working
ATWOOD HUNTER............	Semisubmersible	1997/2001	5,000	Mediterranean	Working
ATWOOD FALCON............	Semisubmersible	1998	3,700	Malaysia	Working
ATWOOD SOUTHERN CROSS....	Semisubmersible	1997	2,000	Malaysia	Working
SEAHAWK..................	Semisubmersible Tender Assist	1992/1999	600	Malaysia	Working
ATWOOD BEACON............	Jack-up	2003(1)	400(2)	Singapore	Under Rep
VICKSBURG................	Jack-up	1998	300	Thailand	Working
RICHMOND.................	Submersible	2000	70	Gulf of Mexico	Working

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(1) The ATWOOD BEACON was constructed in 2003.

(2) On July 25, 2004, all three of the ATWOOD BEACON'S legs and its derrick were damaged while the rig was being positioned. After initial repairs to the ATWOOD BEACON are completed, it will have a leg length of 489 feet, giving it a nominal water depth rating of 350 feet. That water depth rating is sufficient for the wells we plan for it to drill in the period soon after repairs are completed. During an appropriate period between future contracts, we plan to increase the leg length to 517, giving the rig a nominal water depth rating of 400 feet, as per the original design. See "Recent Development" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The following descriptions of the various types of drilling rigs we own or operate 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 rigs and are often limited in the amount of supplies that can be stored on board.

SEMISUBMERSIBLE TENDER-ASSIST RIGS. Semisubmersible tender assist vessels operate like a semisubmersible except that their drilling equipment is temporarily installed on permanently constructed offshore support platforms. The semisubmersible vessel provides crew accommodations, storage facilities and other support for the drilling operations.

JACK-UP RIGS. A jack-up drilling unit contains all of the drilling equipment on a single hull designed to be towed to the 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 unit 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 rig is a bottom supported unit.

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 the jack-up rig, they cannot operate in water as deep as that in which a semisubmersible unit can operate. A submersible drilling rig is a bottom supported unit.

DRILLING CONTRACTS

The contracts under which we operate our vessels are obtained either through individual negotiations with the customer or by submitting proposals in competition with other contractors and vary in their terms and conditions. The initial term of contracts for our owned and/or operated 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 at the option of the customer.

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. 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 for fiscal years 2003, 2002 and 2001 was 92%, 86% and 83%, respectively. For the first three quarters of fiscal year 2004, our rig utilization was 94%.

Of our current eight active drilling units, all but the ATWOOD FALCON and ATWOOD BEACON have contract commitments that should keep them employed for the remainder of fiscal year 2004. As a result of the damage incurred by the ATWOOD BEACON on July 25, 2004, the rig was transported to the builder's shipyard in Singapore for inspection and repairs. As a result of the damage to the rig, its contract terminated effective July 28, 2004. We currently have approximately 40% of our available rig days committed in fiscal year 2005, with an additional 20% assuming all options are exercised.

The following chart shows the operating day rates and contract term of our active fleet, assuming no options are exercised, as of October 5, 2004:

RIG NAME	OPERATING(1) DAYRATE (US$/DAY)	APPROXIMATE CONTRACT TERM(2)
ATWOOD EAGLE	89,000	November 2004
ATWOOD HUNTER	62,400	January 2005
ATWOOD FALCON	83,300	December 2004
ATWOOD SOUTHERN CROSS	40,000	January 2005
SEAHAWK	50,000	October 2004
ATWOOD BEACON(3)	62,000	June 2005
VICKSBURG	66,500	February 2006
RICHMOND	29,000	December 2004

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(1) Dayrates can vary over a contract term for several reasons including, among others, water depth and whether a firm or option well is being drilled.

(2) Contracts are frequently based on the number of wells to be drilled, and contact terms are often based on the estimate of time required to drill the number of wells under contract.

(3) The ATWOOD BEACON is currently under repair. See "Recent Development". The ATWOOD BEACON has been awarded a contract to commence in Vietnam after January 15, 2005.

For long moves of drilling equipment, we attempt to obtain either a lump sum or a dayrate as mobilization compensation for expenses incurred during the period in transit. 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. In order to maintain equipment utilization during these soft market conditions, a few of our rigs incurred long moves during fiscal year 2003 and the first half of fiscal year 2004. During fiscal year 2003, the ATWOOD EAGLE was moved from Greece to Angola at a cost of $8.2 million, with only $2.7 million received in mobilization compensation, and the ATWOOD FALCON was relocated from Australia with mobilization costs of approximately $2 million, which approximated mobilization compensation. During the first half of fiscal year 2004, the ATWOOD EAGLE was moved from Angola to Australia at a cost of approximately $5 million, with $5.5 million received in mobilization compensation, and the ATWOOD SOUTHERN CROSS was relocated from the Mediterranean Sea to India and then to Malaysia at a total cost of approximately $4.4 million, which approximated mobilization compensation. We can give no assurance that we will receive full recovery of any future relocation costs.

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 U.S. 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 such as local labor, shore base expenses and local taxes, if any.

INSURANCE AND RISK MANAGEMENT

Our operations are subject to various risks particular to our industry which we seek to mitigate by maintaining insurance. See "Risk Factors" in this prospectus supplement and in the accompanying prospectus. 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 risks, cargo, war risks, protection and indemnity, and excess liability, among others.

CUSTOMERS

During the first nine months of fiscal year 2004, we performed operations for 21 customers. Revenues from two different customers amounted to 10% or more of our revenues for the first nine months of fiscal year 2004 as indicated below:

CUSTOMER	PERCENTAGE OF REVENUES FOR THE FIRST NINE MONTHS OF FISCAL YEAR 2004
ExxonMobil Production Malaysia, Inc.	24%
Japan Energy Development	11%

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.

COMPETITION

We compete with approximately 10 other offshore drilling contractors, most of which are substantially larger than we are and possess appreciably greater financial and other resources. Although some business combinations among offshore drilling companies have resulted in a decrease in the total number of competitors, the offshore drilling industry still remains very competitive, with no single offshore drilling contractor being dominant. Thus, there continues to be competition in securing available offshore drilling contracts.

Price competition is generally the most important factor in the offshore drilling industry, but 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 or can "cold stack" rigs, taking them out of service, in order to adjust supply 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 markets where we currently operate, offshore Southeast Asia and offshore Australia, the Mediterranean Sea and shallow water U.S. Gulf of Mexico, offer the potential for higher utilization and dayrates. We expect offshore Southeast Asia and offshore Australia to continue to improve over the longer term based on the stronger demand for oil and gas in that region, largely as a result of the significant growth driven by China's rapidly expanding economy. We also believe that there are attractive future opportunities for the ATWOOD HUNTER, which is currently working in the Mediterranean Sea, and that the improving supply and demand balance of jack-up rigs in the U.S. Gulf of Mexico will lead to higher dayrates for our cantilever submersible, the RICHMOND, which competes against these rigs in the shallow waters of that area.

INTERNATIONAL OPERATIONS

The large majority of our operations are in foreign jurisdictions which we have historically found to be more stable. We believe international operations provide a better opportunity for attractive contracts and returns over the longer term. Since 1970, we have operated in Southeast Asia, Australia, the Far East, the Mediterranean Sea, the Arabian Gulf, the Red Sea, India, Papua New Guinea, East and West Africa, Central and South America and the U.S. Gulf of Mexico. Currently, only one rig is working in the U.S. Gulf of Mexico. Of our international operations, over half are currently in Southeast Asia. We have foreign support offices in Australia, Malaysia, Indonesia, the United Kingdom and Egypt.

Because many of our operations are foreign, virtually all of our tax provision for the nine months ended June 30, 2004 and for fiscal year 2003 related to taxes in foreign jurisdictions. Due to operating losses in certain foreign jurisdictions with low or zero effective tax rates, our consolidated effective tax rate for the nine months ended June 30, 2004 and fiscal year 2003 significantly exceeded the U.S. statutory rate. Based on our operations for fiscal year 2004 to date, we expect that our effective tax rate for fiscal year 2004 will be approximately 60%. In some instances, our tax rate is based on revenues rather than taxable earnings. To the extent our revenues increase, our effective tax rate should decrease. We have recently reorganized our foreign operations to improve management and tax efficiencies, which is expected to lower our effective tax rate in the future.

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.

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 U.S. 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 or results of operations.

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 Unites 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 U.S. waters are also subject to various other environmental regulations regarding pollution, and we have taken steps to ensure compliance with these regulations.

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