



DIAMOND OFFSHORE DRILLING, INC.

FORM 10-Q

(Quarterly Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2023
OR**

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

**For the transition period from to
Commission file number 1-13926**

DIAMOND OFFSHORE DRILLING, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation
or organization)

76-0321760
(I.R.S. Employer
Identification No.)

**15415 Katy Freeway
Houston, Texas
77094
(Address of principal executive offices)
(Zip Code)
(281) 492-5300
(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	DO	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 4, 2023 Common stock, \$0.0001 par value per share 102,322,002 shares

DIAMOND OFFSHORE DRILLING, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except par value amounts)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,685	\$ 63,041
Restricted cash	14,284	34,293
Accounts receivable	206,810	177,675
Less: allowance for credit losses	(5,730)	(5,622)
Accounts receivable, net	201,080	172,053
Prepaid expenses and other current assets	137,473	48,695
Asset held for sale	1,000	—
Total current assets	383,522	318,082
Drilling and other property and equipment, net of accumulated depreciation	1,138,544	1,141,908
Other assets	265,704	67,966
Total assets	\$ <u>1,787,770</u>	\$ <u>1,527,956</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 47,459	\$ 47,647
Accrued liabilities	167,043	166,785
Taxes payable	27,170	30,264
Current finance lease liabilities	15,356	16,965
Total current liabilities	257,028	261,661
Long-term debt	365,859	360,644
Noncurrent finance lease liabilities	122,499	131,393
Deferred tax liability	705	700
Other liabilities	108,753	93,888
Commitments and contingencies (Note 7)		
Total liabilities	854,844	848,286
Stockholders' equity:		
Preferred stock (par value \$0.0001, 50,000 shares authorized, none issued and outstanding at June 30, 2023 and December 31, 2022)	—	—
Common stock (par value \$0.0001, 750,000 shares authorized; 102,287 shares issued and 101,667 shares outstanding at June 30, 2023 and 101,884 shares issued and 101,320 shares outstanding at December 31, 2022)	10	10
Additional paid-in capital	972,445	964,467
Treasury stock	(4,986)	(4,252)
Accumulated deficit	(34,543)	(280,555)
Total stockholders' equity	932,926	679,670
Total liabilities and stockholders' equity	\$ <u>1,787,770</u>	\$ <u>1,527,956</u>

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,	
	2023	2022
Revenues:		
Contract drilling	\$ 264,990	\$ 176,879
Revenues related to reimbursable expenses	16,573	28,823
Total revenues	281,563	205,702
Operating expenses:		
Contract drilling, excluding depreciation	212,947	142,150
Reimbursable expenses	15,579	28,554
Depreciation	27,906	25,693
General and administrative	16,824	19,753
Gain on disposition of assets	(1,933)	(685)
Total operating expenses	271,323	215,465
Operating income (loss)	10,240	(9,763)
Other income (expense):		
Interest income	5	—
Interest expense, net of amounts capitalized	(12,755)	(10,103)
Foreign currency transaction (loss) gain	(1,968)	1,607
Other, net	136	(47)
Loss before income tax benefit (expense)	(4,342)	(18,306)
Income tax benefit (expense)	243,125	(3,623)
Net income (loss)	<u>\$ 238,783</u>	<u>\$ (21,929)</u>
Earnings (loss) per share		
Basic	<u>\$ 2.35</u>	<u>\$ (0.22)</u>
Diluted	<u>\$ 2.29</u>	<u>\$ (0.22)</u>
Weighted-average shares outstanding		
Basic	<u>101,487</u>	<u>100,108</u>
Diluted	<u>104,236</u>	<u>100,108</u>

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	For the Six Months Ended June 30,	
	2023	2022
Revenues:		
Contract drilling	\$ 479,373	\$ 327,131
Revenues related to reimbursable expenses	34,211	64,810
Total revenues	513,584	391,941
Operating expenses:		
Contract drilling, excluding depreciation	386,436	287,052
Reimbursable expenses	32,792	64,167
Depreciation	55,812	52,645
General and administrative	36,409	36,485
Gain on disposition of assets	(3,146)	(4,729)
Total operating expenses	508,303	435,620
Operating income (loss)	5,281	(43,679)
Other income (expense):		
Interest income	12	1
Interest expense, net of amounts capitalized	(24,795)	(18,428)
Foreign currency transaction loss	(3,239)	(522)
Other, net	(17)	1,315
Loss before income tax benefit	(22,758)	(61,313)
Income tax benefit	268,770	5,030
Net income (loss)	<u>\$ 246,012</u>	<u>\$ (56,283)</u>
Earnings (loss) per share		
Basic	<u>\$ 2.43</u>	<u>\$ (0.56)</u>
Diluted	<u>\$ 2.36</u>	<u>\$ (0.56)</u>
Weighted-average shares outstanding		
Basic	<u>101,409</u>	<u>100,092</u>
Diluted	<u>104,091</u>	<u>100,092</u>

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

Three Months Ended June 30, 2023

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
April 1, 2023	101,358	\$ 10	\$ 968,539	\$ (273,326)	575	\$ (4,386)	\$ 690,837
Net income	—	—	—	238,783	—	—	238,783
Stock-based compensation, net of tax	309	—	3,906	—	52	(600)	3,306
June 30, 2023	<u>101,667</u>	<u>\$ 10</u>	<u>\$ 972,445</u>	<u>\$ (34,543)</u>	<u>627</u>	<u>\$ (4,986)</u>	<u>\$ 932,926</u>

Six Months Ended June 30, 2023

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
January 1, 2023	101,320	\$ 10	\$ 964,467	\$ (280,555)	564	\$ (4,252)	\$ 679,670
Net income	—	—	—	246,012	—	—	246,012
Stock-based compensation, net of tax	347	—	7,978	—	63	(734)	7,244
June 30, 2023	<u>101,667</u>	<u>\$ 10</u>	<u>\$ 972,445</u>	<u>\$ (34,543)</u>	<u>627</u>	<u>\$ (4,986)</u>	<u>\$ 932,926</u>

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

Three Months Ended June 30, 2022

Additional

	Common Stock		Paid-In Capital	Accumula ted Deficit	Treasury Stock		Total Stockhold ers' Equity
	Shares	Amount			Shares	Amount	
April 1, 2022	100,075	\$ 10	\$ 949,511	\$ (211,698)	—	\$ —	\$ 737,823
Net loss	—	—	—	(21,929)	—	—	(21,929)
Stock-based compensation, net of tax	56	—	8,097	—	18	(139)	7,958
June 30, 2022	<u>100,131</u>	<u>\$ 10</u>	<u>\$ 957,608</u>	<u>\$ (233,627)</u>	<u>18</u>	<u>\$ (139)</u>	<u>\$ 723,852</u>

Six Months Ended June 30, 2022

Additional

	Common Stock		Paid-In Capital	Accumula ted Deficit	Treasury Stock		Total Stockhold ers' Equity
	Shares	Amount			Shares	Amount	
January 1, 2022	100,075	\$ 10	\$ 945,039	\$ (177,344)	—	\$ —	\$ 767,705
Net loss	—	—	—	(56,283)	—	—	(56,283)
Stock-based compensation, net of tax	56	—	12,569	—	18	(139)	12,430
June 30, 2022	<u>100,131</u>	<u>\$ 10</u>	<u>\$ 957,608</u>	<u>\$ (233,627)</u>	<u>18</u>	<u>\$ (139)</u>	<u>\$ 723,852</u>

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2023	2022
Operating activities:		
Net income (loss)	\$ 246,012	\$ (56,283)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	55,812	52,645
Gain on disposition of assets	(3,146)	(4,729)
Deferred tax provision	(200,658)	(3,276)
Stock-based compensation expense	8,082	12,658
Contract liabilities, net	(2,707)	(20,870)
Contract assets, net	(1,980)	(3,348)
Deferred contract costs, net	4,893	(3,859)
Collateral deposits	—	17,464
Other assets, noncurrent	2,577	(443)
Other liabilities, noncurrent	16,870	428
Other	1,501	842
Changes in operating assets and liabilities:		
Accounts receivable	(25,996)	(5,039)
Prepaid expenses and other current assets	(6,122)	(9,417)
Current income tax assets	(85,266)	—
Accounts payable and accrued liabilities	3,965	28,832
Taxes payable	(3,094)	(16,410)
Net cash provided by (used in) operating activities	10,743	(10,805)
Investing activities:		
Capital expenditures	(58,953)	(32,353)
Proceeds from disposition of assets, net of disposal costs	348	5,788
Net cash used in investing activities	(58,605)	(26,565)
Financing activities:		
Borrowings under revolving credit facility	20,000	40,000
Repayments under revolving credit facility	(15,000)	—
Principal payments of finance lease liabilities	(10,503)	(7,735)
Net cash (used in) provided by financing activities	(5,503)	32,265
Net change in cash, cash equivalents and restricted cash	(53,365)	(5,105)
Cash, cash equivalents and restricted cash, beginning of period	97,334	62,729
Cash, cash equivalents and restricted cash, end of period	<u>\$ 43,969</u>	<u>\$ 57,624</u>

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

DIAMOND OFFSHORE DRILLING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The unaudited condensed consolidated financial statements of Diamond Offshore Drilling, Inc. and subsidiaries, which we refer to as “Diamond Offshore,” “Company,” “we,” “us” or “our,” should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022.

Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, pursuant to such rules and regulations, they do not include all disclosures required by GAAP for annual financial statements. The condensed consolidated financial information has not been audited but, in the opinion of management, includes all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Diamond Offshore’s condensed consolidated balance sheets, statements of operations, statements of stockholders’ equity and statements of cash flows at the dates and for the periods indicated. Results of operations for interim periods are not necessarily indicative of results of operations for the respective full years.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. These reclassifications did not have a material effect on our unaudited condensed consolidated financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Restricted Cash

We maintain a restricted cash bank account which is subject to restrictions pursuant to a management services agreement with an offshore drilling company. See Note 2 “Revenue from Contracts with Customers.”

We classify such restricted cash accounts in current assets if the restrictions are expected to expire or otherwise be resolved within one year or if such funds are considered to offset current liabilities. At June 30, 2023 and December 31, 2022, our restricted cash was considered to be current and was recorded in “Restricted cash” in our unaudited Condensed Consolidated Balance Sheets.

Asset Held for Sale

We reported the \$1.0 million carrying value of the *Ocean Monarch* as “Asset held for sale” in our unaudited Condensed Consolidated Balance Sheets at June 30, 2023. A broker has been engaged to assist in marketing the rig for sale.

2. Revenue from Contracts with Customers

The activities that primarily drive the revenue earned from our contract drilling services include (i) providing a drilling rig and the crew and supplies necessary to operate the rig, (ii) mobilizing and demobilizing the rig to and from the drill site and (iii) performing rig preparation activities and/or modifications required for the contract. Consideration received for performing these activities may consist of dayrate drilling revenue, mobilization and demobilization revenue, contract preparation revenue and reimbursement revenue. We account for these integrated services provided within our drilling contracts as a single performance obligation satisfied over time and comprised of a series of distinct time increments in which we provide drilling services.

Consideration for activities that are not distinct within the context of our contracts and do not correspond to a distinct time increment within the contract term are allocated across the single performance obligation and recognized ratably over the initial term of the contract (which is the period we estimate to be benefited from the corresponding activities and generally ranges from two to 60 months). Such consideration may include mobilization, demobilization, contract preparation and capital modification revenue that is stipulated in our drilling contracts. Consideration for activities that correspond to a distinct time increment within the contract term is recognized in the period when the services are performed. The total transaction price is determined for each individual contract by estimating both fixed and variable consideration expected to be earned over the term of the contract.

Revenues Related to Managed Rigs

We are participants in an arrangement with an offshore drilling company whereby we provide management and marketing services (or the MSA) for certain of its rigs. Per the MSA, for stacked rigs we earn a daily service fee and are entitled to reimbursement of direct costs incurred in accordance with the agreement. The daily service fee revenue is recognized in line with the contractual rate billed for the services provided and is reported in "Contract Drilling Revenue" in our unaudited Condensed Consolidated Statements of Operations. We record the revenue relating to reimbursed expenses at the gross amount incurred and billed to the rig owner, as "Revenues related to reimbursable expenses" in our unaudited Condensed Consolidated Statements of Operations. In April 2023, we received notice of termination of the marketing arrangement for the managed rigs, which will be effective in the third quarter of 2023. However, termination of the marketing arrangement does not impact the management services that we provide under the MSA.

The managed rigs *West Auriga* and *West Vela* commenced operations in the U.S. Gulf of Mexico (or GOM) in March 2022 and October 2022, respectively.

Upon commencement of drilling operations, the MSA for both rigs was suspended and replaced by a charter agreement for the duration of the drilling contracts. We entered into the drilling contract directly with the customer and recognize revenue under the terms of the contract. We report such revenue as "Contract drilling" in our unaudited Condensed Consolidated Statements of Operations. In addition, we have determined that the charter arrangement is an operating lease, and the related charter fee has been reported as lease expense within "Contract drilling, excluding depreciation" in our unaudited Condensed Consolidated Statements of Operations.

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities related to our contracts with customers (in thousands):

	June 30, 2023	December 31, 2022
Trade receivables	\$ 200,735	\$ 155,956
Current contract assets ⁽¹⁾	2,121	141
Current contract liabilities (deferred revenue) ⁽¹⁾	(9,293)	(11,513)
Noncurrent contract liabilities (deferred revenue) ⁽¹⁾	—	(487)

(1) Contract assets and contract liabilities may reflect balances which have been netted together on a contract basis. Net current contract asset and liability balances are included in "Prepaid expenses and other current assets" and "Accrued liabilities," respectively, and net noncurrent contract liability balances are included in "Other liabilities" in our unaudited Condensed Consolidated Balance Sheets.

Changes in the contract assets and the contract liabilities balances during the period are as follows (in thousands):

	Net Contract Balances
Contract assets at January 1, 2023	\$ 141
Contract liabilities at January 1, 2023	(12,000)
Net balance at January 1, 2023	(11,859)
Decrease due to amortization of revenue included in the beginning contract liability balance	7,021
Increase due to cash received, excluding amounts recognized as revenue during the period	(4,065)
Increase due to revenue recognized during the period but contingent on future performance	1,979
Decrease due to transfer to receivables during the period	(248)
Net balance at June 30, 2023	\$ (7,172)
Contract assets at June 30, 2023	\$ 2,121
Contract liabilities at June 30, 2023	\$ (9,293)

Transaction Price Allocated to Remaining Performance Obligations

The following table reflects the specified types of revenue expected to be recognized in the future related to unsatisfied performance obligations as of June 30, 2023 (in thousands):

	For the Years Ending December 31,		
	2023 ⁽¹⁾	2024	Total
Mobilization and contract preparation revenue	\$ 2,034	\$ 1,166	\$ 3,200
Capital modification revenue	2,607	3,486	6,093
Blended rate/other revenue	19	—	19
Total	<u>\$ 4,660</u>	<u>\$ 4,652</u>	<u>\$ 9,312</u>

(1) Represents the six-month period beginning July 1, 2023.

The revenue included above consists of expected fixed mobilization and upgrade revenue for both wholly and partially unsatisfied performance obligations, as well as expected variable mobilization and upgrade revenue for partially unsatisfied performance obligations, which has been estimated for purposes of allocating across the entire corresponding performance obligations. The actual timing of recognition of such amounts may vary due to factors outside of our control. We have applied certain disclosure practical expedients and, accordingly, have excluded estimated variable consideration related to wholly unsatisfied performance obligations or to distinct future time increments within our contracts, including dayrate revenue.

3. Supplemental Financial Information

Unaudited Condensed Consolidated Balance Sheets Information

Accounts receivable, net of allowance for credit losses, consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Trade receivables	\$ 200,735	\$ 155,956
Value added tax receivables	4,882	6,075
Related party receivables	99	73
Federal income tax receivables	—	9,450
Other	1,094	6,121
	206,810	177,675
Allowance for credit losses	(5,730)	(5,622)
Total	<u>\$ 201,080</u>	<u>\$ 172,053</u>

The allowance for credit losses at June 30, 2023 and December 31, 2022 represents our estimate of credit losses associated with our “Trade receivables” and “Current contract assets.” See Note 4 “Financial Instruments and Fair Value Disclosures” for a discussion of our concentrations of credit risk and allowance for credit losses.

Prepaid expenses and other current assets consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Current income tax asset	\$ 85,266	\$ —
Prepaid taxes	19,463	16,922
Deferred contract costs	9,782	14,373
Prepaid insurance	6,335	3,022
Rig spare parts and supplies	4,221	5,091
Current contract assets	2,121	141
Software maintenance agreements and subscriptions	1,910	1,212
Prepaid rig costs	1,332	4,001
Deferred survey costs	1,162	838
Other	5,881	3,095
Total	<u>\$ 137,473</u>	<u>\$ 48,695</u>

Accrued liabilities consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Contract advances	\$ 50,199	\$ 52,743
Rig operating costs	42,686	39,288
Payroll and benefits	30,483	29,408
Accrued capital project/upgrade costs	12,209	8,419
Deferred revenue	9,293	11,513
Current operating lease liability	7,161	13,480
Personal injury and other claims	5,393	3,738
Shorebase and administrative costs	5,030	4,365
Interest payable	1,812	1,897
Deposit for equipment sale	1,788	1,670
Other	989	264
Total	<u>\$ 167,043</u>	<u>\$ 166,785</u>

Other assets consist of the following (in thousands):

	June 30, 2023	December 31, 2022
Noncurrent deferred tax assets	\$ 211,274	\$ 10,612
Operating lease right of use assets	22,121	30,332
Noncurrent receivables	8,834	13,030
Noncurrent milestone payments	10,036	856
Deferred debt arrangement fees	5,702	6,716
Deferred inspection costs, noncurrent	3,470	2,489
Noncurrent deposits	1,483	1,531
Other	2,784	2,400
Total	<u>\$ 265,704</u>	<u>\$ 67,966</u>

Unaudited Condensed Consolidated Statements of Cash Flows Information

Noncash operating, investing and financing activities excluded from the unaudited Condensed Consolidated Statements of Cash Flows and other supplemental cash flow information are as follows (in thousands):

	Six Months Ended June 30,	
	2023	2022
Accrued but unpaid capital expenditures at period end	\$ 12,209	\$ 2,234
Common stock withheld for payroll tax obligations ⁽¹⁾	734	139
Cash interest payments	19,352	12,514
Cash income taxes paid, net of (refunds):		
Foreign	3,147	11,578
U.S. Federal	(5,744)	2,387
State	1	—

(1) Represents the cost of 62,597 and 17,806 shares of common stock withheld to satisfy payroll tax obligations incurred as a result of the vesting of restricted stock and restricted stock units during the six-month periods ended June 30, 2023 and June 30, 2022, respectively, which is presented as a deduction from stockholders' equity in "Treasury stock" in our unaudited Condensed Consolidated Balance Sheets.

4. Financial Instruments and Fair Value Disclosures

Concentrations of Credit Risk and Allowance for Credit Losses

Our credit risk corresponds primarily to trade receivables. The market for our services is the offshore oil and gas industry, and our customer base consists primarily of major and independent oil and gas companies, as well as government-owned oil companies. At June 30, 2023, we believed that we had potentially significant concentrations of credit risk due to the number of rigs we had contracted and our limited number of customers, as some of our customers have contracted for multiple rigs.

In general, before working for a customer with whom we have not had a prior business relationship and/or whose financial stability may be uncertain, we perform a credit review on that customer, including a review of its credit ratings and financial statements. Based on our credit review, we may require that the customer have a bank issue a letter of credit on its behalf, prepay for the services in advance or provide other credit enhancements. At June 30, 2023, we had not required any credit enhancements by our customers or required any to pay for services in advance. We have historically used the specific identification method to identify and reserve for uncollectible accounts. The amounts reserved for uncollectible accounts in previous periods have not been significant, individually or in comparison to our total revenues. At June 30, 2023, \$5.6 million in trade receivables were considered past due by 30 days or more, of which \$5.5 million have been fully reserved. The remaining \$0.1 million were less than a year past due. We are working with our customers to resolve any billing issues and expect that the outstanding receivables will be collected or resolved.

Pursuant to Financial Accounting Standards Board (or FASB) Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and its related amendments (or collectively, CECL), we have reviewed our historical credit loss experience over a look-back period of ten years, which we deem to be representative of both up-turns and down-cycles in the offshore drilling industry. Based on this review, we developed a credit loss factor using a weighted-average ratio of our actual credit losses to revenues during the look-back period. In addition, we also considered current and future anticipated economic conditions in determining our credit loss factor, including crude oil prices and liquidity of credit markets. In applying the requirements of CECL, we segregated our trade receivables into three credit loss risk pools based on customer credit ratings, each of which represents a tier of increasing credit risk. We calculated a credit loss factor based on historical loss rate information and then applied a multiple of our credit loss factor to each of these risk pools, considering the impact of current and future economic information and the level of risk associated with these pools, to calculate our current estimate of credit losses. Trade receivables that are fully covered by allowances for credit losses are excluded from these risk pools for purposes of calculating our current estimate of credit losses.

For purposes of calculating our current estimate of credit losses at June 30, 2023 and December 31, 2022, all trade receivables were deemed to be in a single risk pool based on their credit ratings at each respective period. Our current estimate of credit losses under CECL was \$0.2 million at both June 30, 2023 and December 31, 2022. Our total allowance for credit losses was \$5.7 million and \$5.6 million at June 30, 2023 and December 31, 2022, respectively. See Note 3 “Supplemental Financial Information.”

Fair Values

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

There are three levels of inputs that may be used to measure fair value:

- | | |
|---------|---|
| Level 1 | Quoted prices for identical instruments in active markets. |
| Level 2 | Quoted market prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. |
| Level 3 | Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 assets and liabilities generally include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation or for which there is a lack of transparency as to the inputs used. |

Certain of our assets and liabilities are required to be measured at fair value on a recurring basis in accordance with GAAP. In addition, certain assets and liabilities may be recorded at fair value on a nonrecurring basis. Generally, we record assets at fair value on a nonrecurring basis as a result of impairment charges.

Assets and liabilities measured at fair value are summarized below (in thousands).

June 30, 2023 Fair Value Measurements Using					Total Losses for Six Months Ended ⁽¹⁾
	Level 1	Level 2	Level 3	Liabilities at Fair Value	
Recurring fair value measurements:					
Liability-classified Director restricted stock units	\$ (1,369)	\$ —	\$ —	\$ (1,369)	\$ (369)

⁽¹⁾Represents an increase in stock compensation expense due to the “marking-to-market” of liability-classified restricted stock units granted to our non-employee directors.

					December 31, 2022									
					Fair Value Measurements Using									
					Level 1	Level 2	Level 3	Liabilities at Fair Value	Total Losses for Year Ended ⁽¹⁾					
Recurring fair value measurements:														
Liability-classified Director restricted stock units					\$	(1,258)	\$	—	\$	—	\$	(1,258)	\$	(230)

⁽¹⁾Represents an increase in stock compensation expense due to the “marking-to-market” of liability-classified restricted stock units granted to our non-employee directors.

We believe that the carrying amounts of our other financial assets and liabilities (excluding our Exit Term Loans and First Lien Notes (each as defined below in Note 6 “Long-Term Debt”)), which are not measured at fair value in our unaudited Condensed Consolidated Balance Sheets, approximate fair value based on the following assumptions:

- *Cash and cash equivalents and restricted cash* – The carrying amounts approximate fair value because of the short maturity of these instruments.
- *Accounts receivable and accounts payable* – The carrying amounts approximate fair value based on the nature of the instruments.
- *Exit RCF borrowings* – The carrying amount of borrowings under our Exit RCF (as defined below in Note 6 “Long-Term Debt”) approximates fair value since the variable interest rates are tied to current market rates and the applicable margins represent market rates.

Our long-term debt is not measured at fair value on a recurring basis; however, under the GAAP fair value hierarchy, our long-term debt would be considered Level 2 liabilities. The fair value of these instruments was derived using valuation specialists at June 30, 2023 and December 31, 2022.

Fair values and related carrying values of our long-term debt are shown below (in millions).

	June 30, 2023		December 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Exit Term Loans	\$ 91.5	\$ 100.0	\$ 91.1	\$ 100.0
First Lien Notes	83.0	85.3	78.3	85.3

We have estimated the fair value amounts by using appropriate valuation methodologies and information available to management. Considerable judgment is required in developing these estimates, and accordingly, no assurance can be given that the estimated values are indicative of the amounts that would be realized in a free market exchange.

5. Drilling and Other Property and Equipment

Cost and accumulated depreciation of drilling and other property and equipment are summarized as follows (in thousands):

	June 30, 2023	December 31, 2022
Drilling rigs and equipment	\$ 1,173,854	\$ 1,126,793
Finance lease right of use asset	174,571	174,571
Land and buildings	10,016	10,001
Office equipment and other	2,871	2,515
Cost	1,361,312	1,313,880
Less: accumulated depreciation	(222,768) ⁾	(171,972) ⁾
Drilling and other property and equipment, net	<u>\$ 1,138,544</u>	<u>\$ 1,141,908</u>

6. Long-Term Debt

At June 30, 2023 and December 31, 2022, the carrying value of our long-term debt (or Exit Debt), net of unamortized discount, premium and debt issuance costs, was comprised as follows (in thousands):

	June 30, 2023	December 31, 2022
Borrowings under Exit RCF	\$ 182,478	\$ 177,478
Exit Term Loans	99,269	99,190
First Lien Notes	84,112	83,976
Total Exit Debt, net	<u>\$ 365,859</u>	<u>\$ 360,644</u>

The Exit Revolving Credit Agreement (as defined below) obligates Diamond Offshore Drilling, Inc., the borrower thereunder and their respective restricted subsidiaries to comply with certain financial maintenance covenants as specified in the Exit Revolving Credit Agreement. The Exit Revolving Credit Agreement and Exit Term Loan Credit Agreement (as defined below) and the indenture governing our 9.00%/11.00%/13.00% Senior Secured First Lien PIK Toggle Notes due 2027 (or First Lien Notes) contain negative covenants that limit, among other things, the ability of Diamond Offshore Drilling, Inc., the applicable borrower thereunder and their respective restricted subsidiaries to: (i) incur, assume or guarantee additional indebtedness; (ii) create, incur or assume liens; (iii) make investments; (iv) merge or consolidate with or into any other person or undergo certain other fundamental changes; (v) transfer or sell assets; (vi) pay dividends or distributions on capital stock or redeem or repurchase capital stock; (vii) enter into transactions with certain affiliates; (viii) repay, redeem or amend certain indebtedness; (ix) sell stock of its subsidiaries; or (x) enter into certain burdensome agreements. These negative covenants are subject to a number of important limitations and exceptions.

Additionally, these agreements contain other covenants, representations and warranties and events of default that are customary for financings of this type. At June 30, 2023, we were in compliance with all covenants under the Exit Revolving Credit Agreement and other Exit Debt.

Exit Revolving Credit Agreement

On April 23, 2021, we entered into a senior secured revolving credit agreement (or the Exit Revolving Credit Agreement), which provides for a \$400.0 million senior secured revolving credit facility and also provided for certain lenders (or the LC Lenders) to issue up to \$100.0 million of letters of credit thereunder (or the Exit RCF). As a result of the resignation of two LC Lenders since entering into the Exit Revolving Credit Agreement, the aggregate amount of the commitments of the LC Lenders to issue letters of credit under the Exit RCF was reduced from \$100.0 million to \$75.0 million effective September 30, 2022, and further reduced to \$50.0 million effective March 23, 2023.

On June 13, 2023, Wells Fargo Bank, National Association (or Wells Fargo) gave notice of its resignation (or the Notice of Resignation) as Collateral Agent, Administrative Agent and Issuing Lender (as such terms are defined in the Exit Revolving Credit Agreement) under the Exit Revolving Credit Agreement. Wells Fargo continues to have all of the rights and obligations of an Issuing Lender under the Exit RCF with respect to letters of credit issued by it prior to its resignation but, after the effective date of its resignation, is not required to issue additional letters of credit or extend, renew or increase the outstanding letters of credit. Wells Fargo had previously committed to issue up to \$25.0 million in letters of credit under the Exit RCF of which \$21.3 million had been utilized as of June 30, 2023. The LC Lenders, including Wells Fargo, have committed to issue letters of credit under the Exit RCF up to \$50.0 million in total. As a result of the resignation of Wells Fargo and after the resignation becomes effective, the aggregate amount of the commitments of the LC Lenders to issue letters of credit under the Exit RCF will be reduced from \$50.0 million to \$25.0 million. Letters of credit issued by Wells Fargo under the Exit RCF aggregating \$19.4 million and \$1.9 million expire in October 2023 and May 2024, respectively. Upon their expiration, Wells Fargo will have no further obligation as an Issuing Lender with respect to letters of credit.

Our total capacity for borrowings under the Exit RCF will not be impacted by the resignation of Wells Fargo and remains at \$400.0 million, subject to the terms and conditions of the Exit Revolving Credit Agreement. The Exit RCF is scheduled to mature on April 22, 2026.

Since receiving the Notice of Resignation, we have been in discussions with Wells Fargo and another member of the lending group (or the Replacement Agent) for the Replacement Agent to be appointed as the replacement administrative agent under the Exit Revolving Credit Agreement, as the replacement administrative agent under the Exit Term Loan Agreement, and as the replacement collateral agent and security trustee under the Collateral Agency and Intercreditor Agreement, dated as of April 23, 2021 (or the Intercreditor Agreement). We expect the resignation of Wells Fargo and the appointment of the Replacement Agent to be effective in mid-August 2023 (or the Resignation Effective Date). Upon the Resignation Effective Date, (i) Wells Fargo will be discharged from all of its duties and obligations as administrative agent under both the Exit Revolving Credit Agreement and the Exit Term Loan Agreement and as collateral agent and security trustee under the Intercreditor Agreement, and the Replacement Agent will be appointed to such roles, and (ii) Wells Fargo, as resigning collateral agent, will assign to the Replacement Agent all powers of attorney, security interests, mortgages, liens, collateral and other rights of Wells Fargo, as resigning collateral agent, as the mortgagee, secured party, security trustee, pledgee or beneficiary, of the security and the collateral under the collateral documents. Until such time as all such collateral is under the control of the Replacement Agent and all liens granted in favor of Wells Fargo in the collateral have been assigned to the Replacement Agent in accordance with the laws of each applicable jurisdiction, Wells Fargo shall continue to hold such collateral or liens and maintain such control over such collateral as a sub-agent, sub-trustee, and bailee of the Replacement Agent until an agreed upon outside date.

Borrowings under the Exit RCF may be used to finance capital expenditures, for working capital and other general corporate purposes. Availability of borrowings under the Exit RCF is subject to the satisfaction of certain conditions, including restrictions on borrowings, as provided in the Exit Revolving Credit Agreement. At June 30, 2023, we had borrowings outstanding of \$182.5 million under the Exit RCF, including \$3.5 million in payment-in-kind loans, and \$21.3 million had been utilized for the issuance of letters of credit. The weighted average interest rate on the combined borrowings outstanding under the Exit RCF at June 30, 2023 was 9.45%.

At August 4, 2023, we had borrowings of \$192.5 million outstanding under the Exit RCF and had utilized \$18.6 million for the issuance of letters of credit. As of August 4, 2023, approximately \$192.3 million was available for borrowings or the issuance of letters of credit under the Exit RCF, subject to its terms and conditions.

Our senior secured term loan credit agreement (or the Exit Term Loan Credit Agreement) provides for a \$100.0 million senior secured term loan credit facility which is scheduled to mature on April 22, 2027. At June 30, 2023, \$100.0 million was drawn under the facility (or the Exit Term Loans), and the interest rate applicable to borrowings outstanding under the Exit Term Loan Credit Agreement was 11.20%.

7. Commitments and Contingencies

Various claims have been filed against us in the ordinary course of business, including claims by offshore workers alleging personal injuries. With respect to each claim or exposure, we have made an assessment, in accordance with GAAP, of the probability that the resolution of the matter would ultimately result in a loss. When we determine that an unfavorable resolution of a matter is probable and such amount of loss can be determined, we record a liability for the amount of the estimated loss at the time that both of these criteria are met. Our management believes that we have recorded adequate accruals for any liabilities that may reasonably be expected to result from these claims.

Non-Income Tax and Related Claims. We have received assessments related to, or otherwise have exposure to, non-income tax items such as sales-and-use tax, value-added tax, ad valorem tax, custom duties, and other similar taxes in various taxing jurisdictions. We have determined that we have a probable loss for certain of these taxes and the related penalties and interest and, accordingly, have recorded a \$13.1 million and \$12.4 million liability at June 30, 2023 and December 31, 2022, respectively, in "Other liabilities" in our unaudited Condensed Consolidated Balance Sheets. We intend to defend these matters vigorously; however, the ultimate outcome of these assessments and exposures could result in additional taxes, interest and penalties for which the fully assessed amounts would have a material adverse effect on our financial condition, results of operations and cash flows.

Other Litigation. We have been named in various other claims, lawsuits or threatened actions that are incidental to the ordinary course of our business, including a claim by one of our customers in Brazil, Petróleo Brasileiro S.A. (or Petrobras), that it will seek to recover from its contractors, including us, any taxes, penalties, interest and fees that it must pay to the Brazilian tax authorities for our applicable portion of withholding taxes related to Petrobras' charter agreements with its contractors. We intend to defend these matters vigorously; however, litigation is inherently unpredictable, and the ultimate outcome or effect of any claim, lawsuit or action cannot be predicted with certainty. As a result, there can be no assurance as to the ultimate outcome of any litigation matter. Any claims against us, whether meritorious or not, could cause us to incur significant costs and expenses and require significant amounts of management and operational time and resources. In the opinion of our management, no such pending or known threatened claims, actions or proceedings against us are expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Personal Injury Claims. Under our current insurance policies, we generally self-insure \$1.0 million to \$5.0 million per occurrence, depending on jurisdiction, with respect to personal injury claims not related to named windstorms in the U.S. Gulf of Mexico, which primarily result from Jones Act liability in the U.S. Gulf of Mexico. Depending on the nature, severity, and frequency of claims that might arise during the policy year, if the aggregate level of claims exceed certain thresholds, we may self-insure up to \$100.0 million for each subsequent occurrence.

The Jones Act is a federal law that permits seamen to seek compensation for certain injuries during the course of their employment on a vessel and governs the liability of vessel operators and marine employers for the work-related injury or death of an employee. We engage outside consultants to assist us in estimating our aggregate liability for personal injury claims based on our historical losses and utilizing various actuarial models. We allocate a portion of the aggregate liability to "Accrued liabilities" based on an estimate of claims expected to be paid within the next twelve months with the residual recorded as "Other liabilities." At June 30, 2023, our estimated liability for personal injury claims was \$17.3 million, of which \$5.4 million and \$11.9 million were recorded in "Accrued liabilities" and "Other liabilities," respectively, in our unaudited Condensed Consolidated Balance Sheets. At December 31, 2022, our estimated liability for personal injury claims was \$18.3 million, of which \$3.7 million and \$14.6 million were recorded in "Accrued liabilities" and "Other liabilities," respectively, in our unaudited Condensed Consolidated Balance Sheets. The eventual settlement or adjudication of these claims could differ materially from our estimated amounts due to uncertainties such as:

- the severity and volume of personal injuries claimed;
- the unpredictability of legal jurisdictions where the claims will ultimately be litigated;
- inconsistent court decisions; and
- the risks and lack of predictability inherent in personal injury litigation.

Purchase Obligations. At June 30, 2023, we had no purchase obligations for major rig upgrades or any other significant obligations, except for those related to our direct rig operations, which arise during the normal course of business.

Services Agreement. In February 2016, we entered into a ten-year agreement with a subsidiary of Baker Hughes Company (formerly named Baker Hughes, a GE company) to provide services with respect to certain blowout preventer and related well control equipment (or Well Control Equipment) on our drillships. Such services include management of maintenance, certification and reliability with respect to such equipment. Commitments under the contractual services agreements are estimated to be approximately \$27.0 million in 2023.

In addition, we lease Well Control Equipment for our drillships under ten-year finance leases that commenced in 2016 that also include an option to purchase the leased equipment at the end of the respective lease term.

Letters of Credit and Other. We were contingently liable as of June 30, 2023 in connection with approximately \$21.3 million in customs and tax assessment bonds and other tenant security deposits that have been issued on our behalf. The letters of credit collateralizing these bonds were issued under the Exit RCF and cannot require additional collateral except in events of default.

8. Income Taxes

We account for income taxes in interim periods in accordance with FASB Accounting Standards Codification Topic No. 740, *Income Taxes*, which requires us to estimate our annual effective tax rate (or AETR) for continuing operations by considering our forecasted pre-tax income or loss for the full year in each of the various jurisdictions in which we operate. The AETR is then applied to our current pre-tax income or loss, as adjusted, when estimating our income tax benefit or expense for the interim period. We exclude discrete tax adjustments from the computation of the AETR and record such adjustments in the quarter in which they occur.

We recorded a net income tax benefit of \$243.1 million and \$268.8 million for the three-month and six-month periods ended June 30, 2023, respectively, inclusive of a net \$14.5 million additional tax expense with respect to prior years' operations in Egypt upon final judgment by the Egyptian tax court. The effective tax rates are the result of the mix of pre-tax income and loss across jurisdictions, including significant losses in jurisdictions with zero percent tax rates resulting in no benefit. The impact is compounded by the amount of our year-to-date pre-tax loss.

9. Earnings (Loss) Per Share

We compute basic earnings (loss) per share by dividing net income (loss) available to holders of our common stock by the weighted-average number of shares of our common stock outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue our common stock (common stock equivalents) were exercised or converted into common stock. Basic and diluted earnings per share (or EPS) was calculated in accordance with the treasury stock method, and includes all potentially dilutive stock equivalents, including warrants, restricted stock awards, restricted stock unit awards and performance stock unit awards.

For periods in which a net loss available to holders of our common stock exists, no amounts are allocated to non-vested share awards, as the inclusion of such amounts would be antidilutive.

A reconciliation of the numerators and denominators of our basic and diluted EPS computations are summarized as follows (in thousands).

	Three Months Ended June 30,	
	2023	2022
Net income (loss) – basic and diluted numerator	\$ 238,783	\$ (21,929)
Weighted average shares – basic (denominator):	101,487	100,108
Dilutive effect of stock-based awards	2,749	—
Weighted average shares including conversions – diluted (denominator)	104,236	100,108

	Six Months Ended June 30,	
	2023	2022
Net income (loss) – basic and diluted numerator	\$ 246,012	\$ (56,283)
Weighted average shares – basic (denominator):	101,409	100,092
Dilutive effect of stock-based awards	2,682	—
Weighted average shares including conversions – diluted (denominator)	104,091	100,092

As of June 30, 2023, we had 7.5 million stock warrants outstanding (or Warrants) to purchase shares of our common stock that were exercisable for one share of common stock per warrant at an exercise price of \$29.22. The Warrants are exercisable until they expire on April 23, 2026. The presumed exercise of these Warrants into shares of our common stock would have an antidilutive effect as the exercise price per warrant exceeded the average price of our common stock and have been excluded from the computation of EPS for all periods presented.

The computation of EPS for the three-month and six-month periods ended June 30, 2023 excluded non-vested stock-based awards of 431,241 shares and 391,744 shares, respectively, as the inclusion of such would have been antidilutive for the periods.

10. Segments and Geographic Area Analysis

We provide contract drilling services with different types of offshore drilling rigs and also provide such services in many geographic locations. However, we have aggregated these operations into one reportable segment based on the similarity of economic characteristics due to the nature of the revenue-earning process as it relates to the offshore drilling industry over the operating lives of our drilling rigs and other qualitative factors such as (i) the nature of services provided (contract drilling), (ii) similarity in operations (interchangeable rig crews and shared management and marketing, engineering, marine and maintenance support), (iii) similar regulatory environment (depending on customer and/or location) and (iv) similar contractual arrangements with customers.

Our drilling rigs are highly mobile and may be moved to other markets throughout the world in response to market conditions or customer needs. At June 30, 2023, our active drilling rigs were located offshore four countries in addition to the United States. Revenues by geographic area are presented by attributing revenues to the individual country where the services were performed during the periods presented, which may not be indicative of where the rigs are currently located.

The following tables provide information about disaggregated revenue by country (in thousands):

Three Months Ended June 30, 2023				
	Total Contract Drilling Revenues		Revenues Related to Reimbursable Expenses	Total
United States	\$ 129,929	\$	8,531	\$ 138,460
United Kingdom	59,841		4,592	64,433
Senegal	53,864		2,527	56,391
Brazil	21,068		—	21,068
Australia	288		923	1,211
Total	<u>\$ 264,990</u>	<u>\$</u>	<u>16,573</u>	<u>\$ 281,563</u>

Six Months Ended June 30, 2023				
	Total Contract Drilling Revenues		Revenues Related to Reimbursable Expenses	Total
United States	\$ 234,510	\$	21,089	\$ 255,599
United Kingdom	77,543		5,652	83,195
Senegal	105,995		5,708	111,703
Brazil	41,728		—	41,728
Australia	19,597		1,762	21,359
Total	<u>\$ 479,373</u>	<u>\$</u>	<u>34,211</u>	<u>\$ 513,584</u>

Three Months Ended June 30, 2022				
	Total Contract Drilling Revenues		Revenues Related to Reimbursable Expenses	Total
United States	\$ 79,171	\$	15,964	\$ 95,135
United Kingdom	19,089		2,459	21,548
Senegal	26,704		4,103	30,807
Brazil	19,753		—	19,753
Australia	32,162		3,442	35,604
Myanmar	—		2,855	2,855
Total	<u>\$ 176,879</u>	<u>\$</u>	<u>28,823</u>	<u>\$ 205,702</u>

		Six Months Ended June 30, 2022		
	Total Contract Drilling Revenues		Revenues Related to Reimbursable Expenses	Total
United States	\$ 155,453	\$	42,203	\$ 197,656
United Kingdom			3,887	
	21,395			25,282
Senegal	53,820		5,849	59,669
Brazil	39,019		—	39,019
Australia	47,860		6,046	53,906
Myanmar	9,584		6,825	16,409
Total	<u>\$ 327,131</u>	<u>\$</u>	<u>64,810</u>	<u>\$ 391,941</u>

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements (including the notes thereto) included in Item 1 of Part I of this report and Item 1A, "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2022. References to "Diamond Offshore," "Company," "we," "us" or "our" mean Diamond Offshore Drilling, Inc., a Delaware corporation, and its subsidiaries.

We provide contract drilling services to the energy industry around the globe with a fleet of 14 floater rigs (four owned drillships, eight owned semisubmersibles and two managed rigs). See "- Market Overview."

Market Overview

As we progressed into the second quarter of 2023, energy supply and security continued to be top priorities for oil and gas companies across the globe, as geopolitical and economic uncertainty persisted. Benchmark oil prices remain above the \$70 per barrel mark, providing a foundation for long-term capital investment in deepwater exploration and development projects. Brent oil prices remained robust during the second quarter, averaging approximately \$78 per barrel according to industry data. Against this backdrop, according to industry reports, analysts anticipate more than \$500 billion in global offshore projects to be sanctioned between 2022 and 2025, with more than \$200 billion of such amount attributable to deepwater projects. This reflects an increase of nearly 90% compared to total investments in deepwater projects during the years 2016 to 2019. Despite continuing commodity price volatility, some industry analysts expect the current spending cycle to be more durable and less sensitive to commodity price swings relative to prior cycles due primarily to oil and gas companies' robust balance sheets and disciplined capital spending.

During the second quarter, the offshore drilling sector continued to strengthen, driven by long-cycle developments, production capacity expansions, the return of exploration and appraisal drilling, and the criticality of gas as a long-term fuel source for energy security. Subsea tree awards have historically been a key indicator of future activity, and in 2022, 348 subsea trees were awarded, which was the highest number of annual orders in nearly a decade. According to industry analysts, 65 licensing rounds are expected to be concluded during 2023, along with the placement of orders for more than 350 subsea trees. Many industry analysts view these as indicators of future activity expansion in deepwater drilling.

The positive dynamics of increased offshore spending and the push for diversity of supply continue to expand the demand for floating drilling rigs and have increased the volume of committed work for floating rigs. According to S&P Global, as of the date of this report, contract coverage for floating rigs in 2024 is currently 25% higher than it was at this time a year ago for 2023. According to industry analysts, average duration and lead times for floater contracts signed so far in 2023 are each approaching one year, which is on par with contracts signed in 2022, a level not seen since the previous upcycle. This has considerably narrowed the 18-month look-ahead availability for drillships compared to a year ago, prompting some operators to launch multi-rig, multi-year tenders with commencements in 2025 and 2026. Upward trends in rig dayrates and increasing demand may prompt additional transactions for stranded rigs and further reactivations of stacked units. While these events may increase future active rig supply, anticipated growth in upstream capital spending may limit any impact of these reactivations on the supply/demand balance. Further, supply chain constraints and inflationary pressures could limit the pace at which these additional rigs return to the market. Inflationary pressures remain elevated, despite policy tightening by major central banks and a moderating pace of world economic expansion, which may result in continued upward pressure on operating expenses for offshore drillers.

In addition to market factors, customer capital allocation decisions will continue to affect demand for our services. Investment mixes over time, coupled with energy demand and regulatory measures, could adversely impact demand for offshore drilling services in the long term. Notwithstanding this possibility, global energy demand continues to be strong and energy supply growth remains constrained. We expect increased investment in both traditional and renewable sources of energy to be required in the future, much of which we expect to be invested in finding and producing hydrocarbons in the offshore segment. Oil and gas are expected to remain the largest sources of global energy in the foreseeable future.

See "- Contract Drilling Backlog" for future commitments of our rigs during the remainder of 2023 through 2027.

Contract Drilling Backlog

We believe that our contract drilling backlog provides a useful indicator of our future revenue-earning opportunities. Our contract drilling backlog, as presented below, includes only firm commitments (typically represented by signed contracts) and is calculated by multiplying the contracted operating dayrate by the firm contract period. The contract period is based on the number of stated days for fixed-term contracts or an estimated duration (in days) for contracts based on a fixed number of wells. Our calculation also assumes full utilization of our drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned may be different than the amounts and periods shown in the tables below due to various factors. Our utilization rates, which generally have been in the range of 92-98% during contracted periods, can be adversely impacted due to various operating factors including unscheduled repairs and maintenance, weather conditions, the effects of COVID-19 and other factors. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. Revenue is generally not earned during periods of downtime for regulatory surveys; however, certain contracts may provide for reduced revenue during the survey period. Changes in our contract drilling backlog between periods are generally a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts. In addition, under certain circumstances, our customers may seek to terminate or renegotiate our contracts, which could adversely affect our reported backlog.

The backlog information presented below does not, nor is it intended to, align with the disclosures regarding revenue expected to be recognized in the future related to unsatisfied performance obligations, which are presented in Note 2 “Revenue from Contracts with Customers” to our unaudited condensed consolidated financial statements included in Item 1 of Part I of this report. Contract drilling backlog includes only future dayrate revenue as described above, while the disclosure in Note 2 “Revenue from Contracts with Customers” excludes dayrate revenue and reflects expected future revenue for mobilization, demobilization and capital modifications to our rigs, which are related to non-distinct promises within our signed contracts. See “– Important Factors That May Impact Our Operating Results, Financial Condition or Cash Flows.”

The following table reflects our contract drilling backlog as of July 1, 2023 (based on information available at that time), January 1, 2023 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2022), and July 1, 2022 (the date reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2022) (in millions).

	July 1, 2023 ⁽¹⁾	January 1, 2023 ⁽¹⁾	July 1, 2022 ^{(1) (2)}
Contract Drilling Backlog	\$ 1,580	\$ 1,788	\$ 995

(1) Includes contract backlog of \$183.7 million, \$307.7 million and \$91.8 million at July 1, 2023, January 1, 2023 and July 1, 2022, respectively, attributable to customer drilling contracts secured for rigs managed, but not owned, by us. We entered into the drilling contracts directly with the customer and will receive and recognize revenue under the terms of the contract. Pursuant to the terms of the charter agreement with the rig owner, we will realize a gross margin equivalent to our management and marketing fee.

(2) Previously reported contract backlog at July 1, 2022 included \$85.8 million attributable to the term of a contract for the *Ocean Patriot* for which the customer executed its right to terminate the drilling contract.

The following table reflects the amount of revenue related to our contract drilling backlog by year as of July 1, 2023 (in millions).

		For the Years Ending December 31,				
	Total	2023 ⁽¹⁾	2024	2025	2026	2027
Contract Drilling Backlog ⁽²⁾	\$ 1,580	\$ 492	\$ 719	\$ 162	\$ 106	\$ 101

⁽¹⁾ Represents the six-month period beginning July 1, 2023.

⁽²⁾ Includes contract backlog of \$145.0 million and \$38.7 million in the remainder of 2023 and in 2024, respectively, attributable to customer drilling contracts secured for two rigs managed under an arrangement with an offshore drilling company whereby we provide management services (or the MSA) for certain of its rigs. We have entered into the drilling contracts directly with the customer and will receive and recognize revenue under the terms of the contract. Pursuant to the terms of the charter agreement with the rig owner, we will realize a gross margin equivalent to our management and marketing fee.

The following table reflects the percentage of rig days per year committed as of July 1, 2023. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in our fleet, to total available days (number of rigs, including cold-stacked rigs, multiplied by the number of days in a particular year).

	2023 ⁽¹⁾	For the Years Ending December 31,			
	2024	2025	2026	2027	
Percentage of Rig Days Committed ⁽²⁾	74 %	51 %	12 %	8 %	8 %

⁽¹⁾ Represents the six-month period beginning July 1, 2023.

⁽²⁾ As of July 1, 2023, includes approximately 280 rig days currently known and scheduled for shipyard projects, including capital upgrades, surveys and contract preparation activities for the remainder of 2023.

Important Factors That May Impact Our Operating Results, Financial Condition or Cash Flows

Regulatory Surveys and Planned Downtime. We perform certain regulatory inspections, which we refer to as a special survey, that are due every five years for most of our rigs and an intermediate survey, which is performed every two-and-one-half years, for our North Sea rigs. Our operating income is negatively impacted when we perform these required regulatory surveys due to planned downtime during the inspection period. Our operating income is also reduced by planned downtime for upgrades, contract preparation and mobilization of rigs; however, in some cases, we may be compensated for all or a portion of this downtime. During the remainder of 2023, we expect to incur approximately 280 days of planned downtime, including approximately 117 days for contract preparation and mobilization activities for the *Ocean BlackHawk*, approximately 101 days for capital modifications, contract preparation and acceptance testing activities for the *Ocean Courage*, approximately 46 days for a special periodic survey and regulatory and other upgrades for the *Ocean Apex* and approximately 16 days for mobilization of rigs between wellsites. We can provide no assurance as to the exact timing and/or duration of downtime associated with regulatory inspections, repairs, contract preparation, rig mobilizations and other shipyard projects. See “ – Contract Drilling Backlog.”

Physical Damage and Marine Liability Insurance. We are self-insured for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico, as defined by the relevant insurance policy. If a named windstorm in the U.S. Gulf of Mexico causes significant damage to our rigs or equipment, it could have a material adverse effect on our financial condition, results of operations and cash flows. Under our current insurance policy, we carry physical damage insurance for certain losses other than those caused by named windstorms in the U.S. Gulf of Mexico for which our deductible for physical damage is \$10.0 million per occurrence. In addition, we currently carry loss-of-hire insurance on certain of our owned rigs to cover lost cash flow when a rig is damaged (other than when caused by named windstorms in the U.S. Gulf of Mexico).

In addition, we carry marine liability insurance covering certain legal liabilities, including coverage for certain personal injury claims, collisions, and wreck removals, and generally covering liabilities arising out of or relating to pollution and/or environmental risk. We believe that the policy limit for our marine liability insurance is within the range that is customary for companies of our size in the offshore drilling industry and is appropriate for our business. Under these marine liability policies, we generally self-insure \$1.0 million to \$5.0 million per occurrence, depending on jurisdiction, but up to \$25.0 million for liabilities arising out of named windstorms in the U.S. Gulf of Mexico. Depending on the nature, severity, and frequency of claims that might arise during the policy year, if the aggregate level of claims exceeds certain thresholds, we may self-insure up to \$100.0 million for each subsequent occurrence.

Critical Accounting Policies

Our significant accounting policies are discussed in Note 1 “General Information” of our notes to the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022.

Results of Operations

We have elected to present a comparison of our results of operations for the current quarter with that of the immediately preceding quarter, as permitted under Item 303(c)(2)(ii) of Regulation S-K. We believe this comparison is more useful in identifying business trends and provides a more meaningful analysis of our business as our results are largely driven by market changes rather than seasonal business activity. We continue to present the required comparison of current year-to-date results with the same period of the prior year.

Our operating results for contract drilling services are dependent on three primary metrics or key performance indicators: revenue-earning (or R-E) days, rig utilization and average daily revenue. We believe that R-E days provide a comparative measurement of the activity level of our fleet, rig utilization is an indicator of our ability to secure work for and the operational efficiency of our fleet and average daily revenue provides a comparative measure for our revenue-earning performance. We utilize these performance indicators in the review of our business and operating results and believe these are useful metrics for investors to utilize in evaluating our performance. The tables presented below include these three key performance indicators and other comparative data relating to our revenues and operating expenses for the respective periods (in thousands, except days, daily amounts and percentages) for the three-month periods ended June 30, 2023 and March 31, 2023 and the six-month periods ended June 30, 2023 and June 30, 2022.

Results for the Three-Month Periods Ended June 30, 2023 and March 31, 2023

	Three Months Ended	
	June 30, 2023	March 31, 2023
REVENUE-EARNING DAYS ⁽¹⁾	887	789
UTILIZATION ⁽²⁾	70 %	63 %
AVERAGE DAILY REVENUE ⁽³⁾	\$ 298,700	\$ 271,700
CONTRACT DRILLING REVENUE	\$ 264,990	\$ 214,383
REVENUE RELATED TO REIMBURSABLE EXPENSES	16,573	17,638
TOTAL REVENUES	<u>\$ 281,563</u>	<u>\$ 232,021</u>
CONTRACT DRILLING EXPENSE, EXCLUDING DEPRECIATION	\$ 212,947	\$ 173,490
REIMBURSABLE EXPENSES	\$ 15,579	\$ 17,213
OPERATING INCOME (LOSS)		
Contract drilling services, net	\$ 52,043	\$ 40,893
Reimbursable expenses, net	994	425
Depreciation	(27,906)	(27,906)
General and administrative expense	(16,824)	(19,585)
Gain on disposition of assets	1,933	1,213
Total Operating Income (Loss)	<u>\$ 10,240</u>	<u>\$ (4,960)</u>
Other income (expense):		
Interest income	5	7
Interest expense, net of amounts capitalized	(12,755)	(12,040)
Foreign currency transaction loss	(1,968)	(1,271)
Other, net	136	(152)
Loss before income tax benefit	(4,342)	(18,416)
Income tax benefit	243,125	25,645
NET INCOME	<u>\$ 238,783</u>	<u>\$ 7,229</u>

(1) An R-E day is defined as a 24-hour period during which a rig earns a dayrate after commencement of operations and excludes mobilization, demobilization and contract preparation days.

(2) Utilization is calculated as the ratio of total R-E days divided by the total calendar days in the period for all rigs in our fleet (including managed and cold-stacked rigs).

(3) Average daily revenue is defined as total contract drilling revenue for all of the rigs in our fleet (including managed rigs) per R-E day.

Three Months Ended June 30, 2023 Compared to Three Months Ended March 31, 2023

Contract Drilling Revenue. Contract drilling revenue increased \$50.6 million during the three months ended June 30, 2023, compared to the three months ended March 31, 2023, primarily due to a 98-day increase in R-E days (\$26.7 million), in addition to higher average daily revenue earned (\$23.9 million).

R-E days increased during the second quarter of 2023 primarily due to incremental operating days for the recently reactivated *Ocean GreatWhite* (77 days), the *Ocean Endeavor* (75 days), which returned to service in the first quarter of 2023 after completion of a shipyard project that commenced in the fourth quarter of 2022, and aggregate incremental R-E days for other rigs in our fleet (33 days). The increase in R-E days was partially offset by downtime associated with the special periodic survey and regulatory and other upgrades for the *Ocean Apex* (87 days).

Average daily revenue earned during the second quarter of 2023 increased, quarter-over-quarter, primarily due to higher dayrates earned by the *Ocean BlackHornet* and *West Auriga*, operating under contract extensions in the U.S. Gulf of Mexico that commenced in the latter part of the first quarter of 2023. Average daily revenue for the second quarter of 2023 was also favorably impacted by \$12.2 million in revenue related to the early termination of the *Ocean Patriot's* contract in the North Sea.

Revenue Related to Reimbursable Expenses. During the second quarter of 2023, we recognized gross reimbursable revenue and expenses of \$16.6 million. Gross reimbursable revenue and expenses for the first quarter of 2023 were \$17.6 million, which included \$6.4 million earned under the MSA.

Contract Drilling Expense, Excluding Depreciation. Contract drilling expense, excluding depreciation increased \$39.5 million during the second quarter of 2023 compared to the first quarter of 2023. Increased costs for the second quarter of 2023 reflected incremental contract drilling expense associated with the *Ocean GreatWhite*, which commenced drilling activities late in the first quarter of 2023, maintenance and mobilization costs for the *Ocean Apex*, which was in a shipyard in the second quarter of 2023, and higher charter and other costs for our two managed rigs under the MSA.

General and Administrative Expense. General and administrative expense for the second quarter of 2023 decreased by \$2.8 million compared to the first quarter of 2023, primarily due to decreased personnel costs and professional fees.

Income Tax Benefit. We estimate our annual effective tax rate (or AETR) for continuing operations in recording our interim quarterly income tax provision, considering the various jurisdictions in which we operate. We exclude discrete tax adjustments from the computation of the AETR and record such adjustments in the quarter in which they occur.

We recorded a net income tax benefit of \$243.1 million for the three months ended June 30, 2023, inclusive of a net \$14.5 million additional tax expense with respect to prior years' operations in Egypt upon final judgment by the Egyptian tax court. For the three months ended March 31, 2023, we recorded a net income tax expense of \$25.6 million. The effective tax rate for the quarter ended June 30, 2023 is a result of the mix of pre-tax income and loss across jurisdictions, including significant losses in jurisdictions with zero percent tax rates resulting in no tax benefit.

Results for the Six-Month Periods Ended June 30, 2023 and June 30, 2022

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
REVENUE-EARNING DAYS	1,676	1,445
UTILIZATION	66 %	55 %
AVERAGE DAILY REVENUE	\$ 286,000	\$ 226,000
CONTRACT DRILLING REVENUE	\$ 479,373	\$ 327,131
REVENUE RELATED TO REIMBURSABLE EXPENSES	34,211	64,810
TOTAL REVENUES	<u>\$ 513,584</u>	<u>\$ 391,941</u>
CONTRACT DRILLING EXPENSE, EXCLUDING DEPRECIATION	\$ 386,436	\$ 287,052
REIMBURSABLE EXPENSES	\$ 32,792	\$ 64,167
OPERATING INCOME (LOSS)		
Contract drilling services, net	\$ 92,937	\$ 40,079
Reimbursable expenses, net	1,419	643
Depreciation	(55,812)	(52,645)
General and administrative expense	(36,409)	(36,485)
Gain on disposition of assets	3,146	4,729
Total Operating Income (Loss)	<u>\$ 5,281</u>	<u>\$ (43,679)</u>
Other income (expense):		
Interest income	12	1
Interest expense, net of amounts capitalized	(24,795)	(18,428)
Foreign currency transaction loss	(3,239)	(522)
Other, net	(17)	1,315
Loss before income tax benefit	(22,758)	(61,313)
Income tax benefit	268,770	5,030
NET INCOME (LOSS)	<u>\$ 246,012</u>	<u>\$ (56,283)</u>

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Contract Drilling Revenue. Contract drilling revenue increased \$152.2 million during the six months ended June 30, 2023, compared to the six months ended June 30, 2022. Comparing the periods, the increase in contract drilling revenue was the result of a higher average daily revenue earned (\$99.8 million), combined with a 231-day increase in R-E days (\$52.4 million).

Average daily revenue for the six months ended June 30, 2023 increased, compared to the prior year period, primarily due to dayrates earned by the *Ocean GreatWhite* and *West Vela*, which commenced drilling operations in March 2023 and October 2022, respectively, as well as the *Ocean BlackHornet*, *Ocean BlackHawk* and *West Auriga*, which operated under new contracts or extensions during 2023 at higher dayrates than those earned in the same period of 2022. Contract drilling revenue for the six months ended June 30, 2023 also included \$12.2 million in revenue related to the early termination of the *Ocean Patriot's* contract in the North Sea.

R-E days for the first six months of 2023 included incremental R-E days for the *Ocean GreatWhite* (91 days), the *Ocean Patriot* and *Ocean BlackHawk*, which were in shipyards during the first half of 2022 (154 days), and our two managed rigs, which commenced contracts in 2022 (210 days), as well as other incremental R-E days (39 days). R-E days in the first half of 2023 were reduced by downtime associated with the cold stacking of the *Ocean Onyx* in the fourth quarter of 2022 (181 fewer days) and *Ocean Monarch* in the second quarter of 2022 (82 fewer days).

Revenue Related to Reimbursable Expenses. Gross reimbursable revenue and expenses for the first six months of 2023 were \$34.2 million, including \$6.4 million earned under the MSA, compared to \$64.8 million, including \$34.8 million earned under the MSA, for the first half of 2022.

Contract Drilling Expense, Excluding Depreciation. Contract drilling expense, excluding depreciation increased \$99.4 million during the six months ended June 30, 2023, compared to the same period in 2022. Higher contract drilling expense for the first six months of 2023 included incremental costs for the recently reactivated *Ocean GreatWhite*, costs associated with the *Ocean Apex* shipyard project that commenced in March 2023, a higher cost structure for our two rigs offshore Senegal, including amortization of deferred costs, and contract drilling expense associated with rigs managed under the MSA, including the *West Vela*, a second rig which we began managing in the second quarter of 2022. Contract drilling expense for the 2023 period was favorably impacted by reduced expense attributable to the cold-stacked *Ocean Onyx* and *Ocean Monarch*.

Gain on Disposition of Assets. During the first six months of 2023, we recognized an aggregate gain on disposition of assets of \$3.1 million, primarily related to the sale of surplus equipment. During the first quarter of 2022, we sold the *Ocean Valor* for aggregate proceeds of approximately \$6.6 million and recognized a net gain on the transaction of \$4.2 million.

Interest Expense. Interest expense for the six-month period ended June 30, 2023 increased \$6.4 million compared to the six month period ended June 30, 2022, primarily due to higher market interest rates on outstanding indebtedness, combined with a higher average borrowing volume in the first six months of 2023.

Income Tax Benefit. We recorded a net income tax benefit of \$268.8 million for the six months ended June 30, 2023, as compared to a net income tax benefit of \$5.0 million for the six months ended June 30, 2022. The effective tax rate for the six months ended June 30, 2023 is a result of the mix of pre-tax income and loss across jurisdictions, including significant losses in jurisdictions with zero percent tax rates resulting in no tax benefit.

Liquidity and Capital Resources

We have available a senior secured revolving credit agreement (or the Exit Revolving Credit Agreement), which provides for a \$400.0 million senior secured revolving credit facility and an aggregate of \$25.0 million of commitments for the issuance of letters of credit thereunder (or the Exit RCF). The Exit RCF is scheduled to mature on April 22, 2026. See Note 6 "Long-Term Debt" to our unaudited condensed consolidated financial statements included in Item 1 of Part I of this report for a discussion of the Exit RCF, including the reduction of commitments for the issuance of letters of credit thereunder, and certain of our other commercial commitments.

At August 4, 2023, we had borrowings of \$192.5 million outstanding under the Exit RCF and had utilized \$18.6 million for the issuance of letters of credit. As of August 4, 2023, approximately \$192.3 million was available for borrowings or the issuance of letters of credit under the Exit RCF, including approximately \$25.0 million for the issuance of additional letters of credit thereunder. However, the availability of borrowings and letters of credit under the Exit RCF is subject to the satisfaction of certain conditions as specified in the Exit Revolving Credit Agreement, including restrictions on borrowings.

Additionally, we have approximately \$39.7 million in the form of delayed draw note commitments that may be issued as additional 9.00%/11.00%/13.00% Senior Secured First Lien PIK Toggle Notes due 2027 (or First Lien Notes). The right to issue such additional First Lien Notes expires on April 22, 2025. None had been issued as of August 4, 2023.

Historically, we have relied on our cash flows from operations and cash reserves to meet our liquidity needs, which primarily include funding of our working capital requirements and capital expenditures, as well as the servicing of our debt repayments and interest payments. As of August 4, 2023, all of our rigs, excluding managed rigs, are owned and operated, directly or indirectly, by Diamond Foreign Asset Company (or DFAC). Our management has determined that we will permanently reinvest foreign earnings, which restricts the ability to utilize cash flows of DFAC on a company-wide basis. To the extent possible, we expect to utilize the operating cash flows and cash reserves of DFAC and the operating cash flows available to and cash reserves of Diamond Offshore Drilling, Inc. to meet each respective entity's working capital requirements and capital commitments.

From time to time, based on market conditions and other factors, we may seek to repay, refinance or restructure all or a portion of our outstanding indebtedness or otherwise enter into transactions regarding our capital structure to obtain more favorable terms, enhance flexibility in conducting our business, increase liquidity or otherwise. We regularly evaluate capital markets to consider future opportunities for enhancements of our capital structure and may opportunistically pursue financing transactions to optimize our capital structure. Our ability to access the capital markets by issuing debt or equity securities will be dependent on our results of operations, our current financial condition, current credit ratings, current market conditions and other factors beyond our control, and there can be no assurance that we would be able to complete any such offering of securities.

As of July 1, 2023, our contractual backlog was approximately \$1.6 billion. At June 30, 2023, we had cash of \$44.0 million, including \$14.3 million that is subject to restrictions pursuant to the MSA.

Sources and Uses of Cash

Cash Flows and Cash Expenditures

For the six-month period ended June 30, 2023, our operating activities generated cash of \$10.7 million. Cash receipts from contract drilling services (\$486.9 million) were partially offset by cash expenditures for contract drilling, shorebase support, and general and administrative costs (\$476.2 million).

Cash outlays for capital expenditures during the first two quarters of 2023 aggregated \$59.0 million, primarily related to shipyard projects for the *Ocean Endeavor*, *Ocean GreatWhite*, *Ocean Apex* and *Ocean BlackHawk*. During the first six months of 2023, we borrowed a net \$5.0 million under the Exit RCF and made payments in connection with finance lease obligations aggregating \$10.5 million related to well control equipment on our owned drillships.

For the six-month period ended June 30, 2022, our operating activities used cash of \$10.8 million. Cash expenditures for contract drilling, shorebase support, and general and administrative costs (\$392.7 million) and cash income taxes paid, net of refunds (\$14.0 million), were partially offset by cash receipts from contract drilling services (\$378.4 million) during the six-month period. Collateral deposits aggregating \$17.5 million were exchanged for letters of credit drawn under the Exit RCF, positively impacting cash flow but with a neutral effect on total liquidity.

Cash outlays for capital expenditures during the first six months of 2022 aggregated \$32.4 million (including capital outlays for the *Ocean Endeavor* and *Ocean Patriot* shipyard work). We also paid \$7.7 million in finance lease obligations during the period. Asset sales, including the sale of the *Ocean Valor*, generated cash proceeds of \$5.8 million, and we borrowed \$40.0 million under the Exit RCF during the first six months of 2022.

Capital Expenditures and Other Projects

We have historically invested a significant portion of our cash flows in the enhancement of our drilling fleet and our ongoing rig equipment replacement and capital maintenance programs. The amount of cash required to meet our capital commitments is determined by evaluating the need to upgrade our rigs to meet specific customer requirements and our rig equipment enhancement, maintenance and replacement programs. We make periodic assessments of our capital spending programs based on current and expected industry conditions and our cash flow forecast. As of the date of this report, we expect total capital expenditures for 2023 to be approximately \$120.0 million to \$135.0 million.

Other Obligations

As of June 30, 2023, the total net unrecognized tax benefits related to uncertain tax positions that could result in a future cash payment was \$46.1 million. Due to the high degree of uncertainty regarding the timing of future cash outflows associated with the liabilities recognized in these balances, we are unable to make reasonably reliable

estimates of the period of cash settlement with the respective taxing authorities. Included in the balance is \$17.0 million related to prior years' operations in Egypt.

Other Commercial Commitments - Letters of Credit

See Note 7 "Commitments and Contingencies" to our unaudited condensed consolidated financial statements included in Item 1 of Part I of this report for a discussion of certain of our other commercial commitments.

Forward-Looking Statements

We or our representatives may, from time to time, either in this report, in periodic press releases or otherwise, make or incorporate by reference certain written or oral statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (or the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (or the Exchange Act). All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain or be identified by the words "expect," "intend," "plan," "predict," "anticipate," "estimate," "believe," "should," "could," "would," "may," "might," "will," "will be," "will continue," "will likely result," "project," "forecast," "budget" and similar expressions. In addition, any statement concerning future financial performance (including, without limitation, future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by or against us, which may be provided by management, are also forward-looking statements as so defined. Statements made by us in this report that contain forward-looking statements may include, but are not limited to, information concerning our possible or assumed future results of operations and statements about the following subjects:

- market conditions and the effect of such conditions on our future results of operations;
- offshore exploration activity, future investment in hydrocarbons, customer capital allocation and customer spending programs;
- sources and uses of and requirements for financial resources and sources of liquidity;
- environmental social and governance trends, practices and related matters;
- business plans or financial condition of our customers, including with respect to or as a result of the COVID-19 pandemic;
- expectations regarding our plans and strategies;
- contractual obligations and future contract negotiations;
- the transition to renewable energy sources and other alternative forms of energy;
- future energy demand and future demand for offshore drilling services;
- interest rate and foreign exchange risk and the transition away from LIBOR;
- operations outside the United States;
- geopolitical events and risks including Russia's invasion of Ukraine and related sanctions;
- business strategy;
- growth opportunities;
- competitive position including, without limitation, competitive rigs entering the market;
- expected financial position and liquidity;
- cash flows and contract backlog;
- idling drilling rigs or reactivating stacked rigs;

- outcomes of litigation and legal proceedings;
- financing plans;
- any repayment, refinancing or restructuring of our outstanding indebtedness or other transaction regarding our capital structure or any offering of securities or other capital markets transaction;
- market outlook;
- inflation;
- future economic trends, including interest rates and recessionary economic conditions;
- future commodity prices, dayrates or utilization;
- tax planning;
- cybersecurity;
- unionization efforts;
- changes in tax laws and policies or adverse outcomes resulting from examination of our tax returns;
- debt levels and the impact of changes in the credit markets, including interest rates;
- budgets for capital and other expenditures;
- contractual obligations related to our well control equipment services agreement and potential exercise of the purchase option at the end of the original lease term;
- the MSA with an offshore drilling company and future management and marketing services thereunder;
- duration and impacts of the COVID-19 pandemic, including new variants of the virus, lockdowns, re-openings and any other related actions taken by businesses and governments on the offshore drilling industry and on our business, operations, supply chain and personnel, financial condition, results of operations, cash flows and liquidity;
- the effects of our former bankruptcy proceedings on our operations, including our relationships with employees, regulatory authorities, customers, suppliers, banks, insurance companies and other third parties, and agreements;
- timing and duration of required regulatory inspections for our drilling rigs and other planned downtime;
- process and timing for acquiring regulatory permits and approvals for our drilling operations;
- timing and cost of completion of capital projects;
- delivery dates and drilling contracts related to capital projects;
- plans and objectives of management;
- sale or scrapping of retired rigs;
- asset impairments and impairment evaluations;
- assets held for sale;
- our internal controls and internal control over financial reporting;
- performance of contracts;
- compliance with applicable laws; and
- availability, limits and adequacy of insurance or indemnification.

These types of statements are based on current expectations about future events and inherently are subject to a variety of assumptions, risks and uncertainties, many of which are beyond our control, that could cause actual results

to differ materially from those expected, projected or expressed in forward-looking statements. These risks and uncertainties include, among others, those described or referenced in Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022.

The risks and uncertainties referenced above are not exhaustive. Other sections of this report and our other filings with the Securities and Exchange Commission include additional factors that could adversely affect our business, results of operations and financial performance. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements included in this report speak only as of the date of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in our expectations or beliefs with regard to the statement or any change in events, conditions or circumstances on which any forward-looking statement is based. In addition, in certain places in this report, we may refer to reports published by third parties that purport to describe trends or developments in energy production or drilling and exploration activity. While we believe that these reports are reliable, we have not independently verified the information included in such reports. We specifically disclaim any responsibility for the accuracy and completeness of such information and undertake no obligation to update such information.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

The information included in this Item 3 constitutes “forward-looking statements” for purposes of the statutory safe harbor provided in Section 27A of the Securities Act and Section 21E of the Exchange Act. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements” in Item 2 of Part I of this report.

Interest Rate Risk. We have exposure to interest rate risk on our debt instruments arising from changes in the level or volatility of interest rates. As of June 30, 2023, our variable interest rate debt included \$182.5 million of outstanding borrowings under the Exit RCF, including \$3.5 million in payment-in-kind loans and \$100.0 million outstanding under our senior secured term loan agreement. At this level of variable-rate debt, the impact of a 100-basis point increase in market interest rates would not have a material effect (estimated \$2.8 million increase in interest expense on an annualized basis). Our First Lien Notes have been issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts.

There were no other material changes in our market risk components for the six months ended June 30, 2023. See “Quantitative and Qualitative Disclosures About Market Risk” included in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2022 for further information.

ITEM 4. Controls and Procedures.

We maintain a system of disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the federal securities laws, including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us under the federal securities laws is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure.

Our Chief Executive Officer (or CEO) and Chief Financial Officer (or CFO) participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2023. Based on their participation in that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2023.

There were no changes in our internal control over financial reporting identified in connection with the foregoing evaluation that occurred during our second fiscal quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

Information related to certain legal proceedings is included in Note 7 “Commitments and Contingencies” to our unaudited condensed consolidated financial statements included in Item 1 of Part I of this report, which is incorporated herein by reference.

ITEM 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2022 includes a detailed discussion of certain material risk factors facing the Company. The risk factors included under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 are incorporated herein by reference. No material changes have been made to such risk factors as of June 30, 2023.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Items 2(a) and 2(b) are not applicable.

(c) During the three months ended June 30, 2023, in connection with the vesting of restricted stock units held by our officers and certain other employees, which were awarded under an equity incentive compensation plan, we acquired shares of our common stock in satisfaction of tax withholding obligations that were incurred in connection with such vesting. The date of acquisition, number of shares and average effective acquisition price per share were as follows:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Acquired	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2023 through April 30, 2023	—	—	N/A	N/A
May 1, 2023 through May 31, 2023	49,569	11.58	N/A	N/A
June 1, 2023 through June 30, 2023	2,082	12.39	N/A	N/A
Total	<u>51,651</u>	<u>\$ 11.61</u>	<u>N/A</u>	<u>N/A</u>

ITEM 5. Other Information.

Items 5(a) and 5(b) are not applicable.

(c) During the quarter ended June 30, 2023, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, in each case as such terms are defined in Item 408 of Regulation S-K.

ITEM 6. Exhibits.

Exhibit No.	Description of Exhibit
3.1	<u>Fourth Amended and Restated Certificate of Incorporation of Diamond Offshore Drilling, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on May 10, 2023).</u>
3.2	<u>Third Amended and Restated Bylaws of Diamond Offshore Drilling, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on February 10, 2023).</u>
10.1	<u>The Diamond Offshore Drilling, Inc. Short-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 28, 2023).</u>
31.1*	<u>Rule 13a-14(a) Certification of the Chief Executive Officer.</u>
31.2*	<u>Rule 13a-14(a) Certification of the Chief Financial Officer.</u>
32.1*	<u>Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer.</u>
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE*	Inline XBRL Presentation Linkbase Document.
101.DEF*	Inline XBRL Definition Linkbase Document.
104*	The cover page of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in Inline XBRL (included with the Exhibit 101 attachments).

* Filed or furnished herewith.

SIGNATURES

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

DIAMOND OFFSHORE DRILLING, INC.

(Registrant)

Date August 8, 2023

By: /s/ Dominic A. Savarino
Dominic A. Savarino
Senior Vice President and Chief Financial Officer

