TODCO
Form 10-Q/A
December 15, 2004

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

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 1-31983

TODCO
(Exact name of registrant as specified in its charter)

DELAWARE	76-0544217
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2000 W. SAM HOUSTON PARKWAY SOUTH, SUITE 800
HOUSTON, TEXAS 77042-3615
(Address, of registrant's principal executive offices)

(713) 278-6000
(Registrant's telephone number, including area code)

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 (X) No ( )

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

The number of outstanding shares of each class of the registrant's common stock as of November 1, 2004, was 32,047,140 shares of Class A common stock and 28,260,000 shares of Class B common stock.

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EXPLANATORY NOTE

We are amending in full Item 2 of this Quarterly Report to correct the following data for the three and nine months ended September 30, 2004:

- the number of operating days,
- our utilization, and
- our average rig revenue per day.

We also have clarified our discussion of total operating and maintenance expenses for the first nine months of 2004. Except for these changes, no other information included in the original Quarterly Report on Form 10-Q is changed by this amendment.

PART I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes included in Item 1 of this report. Except for the historical financial information contained herein, the matters discussed below may be considered "forward-looking" statements. Please see " -- Cautionary Statement About Forward-Looking Statements," for a discussion of the uncertainties, risks and assumptions associated with these statements.

OVERVIEW OF OUR BUSINESS

We are a leading provider of contract oil and natural gas drilling services, primarily in the United States ("U.S. Gulf of Mexico") shallow water and inland marine region, an area that we refer to as the U.S. Gulf Coast. We

provide these services primarily to independent oil and natural gas companies, but we also service major international and government-controlled oil and natural gas companies. Our customers in the U.S. Gulf Coast typically focus on drilling for natural gas.

We provide contract oil and gas drilling and other support services and report the results of those operations in four business segments which, for our contract drilling services, correspond to the principal geographic regions in which we operate:

- U.S. Inland Barge Segment -- Our barge rig fleet in this market segment consists of 12 conventional and 18 posted barge rigs. These units operate in marshes, rivers, lakes and shallow bay or costal waterways that are known as the "transition zone". This area along the U.S. Gulf Coast, where jackup rigs are unable to operate, is the world's largest market for this type of equipment.

- U.S. Gulf of Mexico Segment -- We currently have 20 jackup and three submersible rigs in the U.S. Gulf of Mexico shallow water market segment which begins at the outer limit of the transition zone and extends to water depths of about 350 feet. Our jackup rigs in this market segment consist of independent leg cantilever type units, mat-supported cantilever type rigs and mat-supported slot type jackup rigs that can operate in water depths up to 250 feet.

- Other International Segment -- Our other international operations are currently conducted in Mexico, Trinidad and Venezuela. In Mexico, we operate two jackup rigs and are preparing our platform rig to operate for PEMEX, the Mexican national oil company. Additionally, we have two jackup rigs in Trinidad and nine land rigs and three lake barges in Venezuela. From December 2003 to September 2004, we operated a jackup rig offshore Venezuela which has been relocated to the U.S. Gulf of Mexico. We may pursue selected opportunities in other regions from time to time.

- Delta Towing Segment -- We have a partial interest in a joint venture that operates a fleet of U.S. marine support vessels consisting primarily of shallow water tugs, crewboats and utility barges ("Delta Towing"). We are also a substantial creditor of Delta Towing.

Our operating revenues for our drilling segments are based on dayrates received for our drilling services and the number of operating days during the relevant periods. The level of our operating revenues depends on dayrates, which in turn are primarily a function of industry supply and demand for drilling units in the market segments in which we operate. Supply and demand for drilling units in the U.S. Gulf Coast, which is our primary operating region, has historically been volatile. During periods of high demand, our rigs typically achieve higher utilization and dayrates than during periods of low demand.

Our operating and maintenance costs for our drilling segments represent all direct and indirect costs associated with the operation and maintenance of our drilling rigs. The principal elements of these costs are direct and indirect labor and benefits, freight costs, repair and maintenance, insurance, general taxes and licenses, boat and helicopter rentals, communications, tool rentals and services. Labor, repair and maintenance and insurance costs represent the most significant components of our operating and maintenance costs.

Operating and maintenance expenses may not necessarily fluctuate in

proportion to changes in operating revenues because we seek to preserve crew continuity and maintain equipment when our rigs are idle. In general, labor costs increase primarily due to higher salary levels, rig staffing requirements and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. Our current deductible level under our hull and machinery and protection and indemnity policies is $1.0 million and $5.0 million per occurrence, respectively. Prior to October 2004, our deductible level under each of these policies was $10.0 million per occurrence.

INDUSTRY BACKGROUND, TRENDS AND OUTLOOK

The drilling industry in the U.S. Gulf Coast is highly cyclical and is typically driven by general economic activity and changes in actual or anticipated oil and gas prices. We believe that both our earnings and demand for our rigs will typically be correlated to our customers' expectations of energy prices, particularly natural gas prices, and that sustained energy price increases will generally have a positive impact on our earnings.

There are several trends that should benefit our operations, including:

- Redeployment of Jackup Rigs. Greater demand for jackup rigs in international areas over the last two years has reduced the overall supply of jackups in the U.S. Gulf of Mexico. This has created a more favorable supply environment for the remaining jackups, including ours. This favorable supply environment has led to increased jackup dayrates.

- High Natural Gas Prices. While U.S. natural gas prices are volatile, the rolling twelve-month average price of natural gas has increased from $2.11 in January 1994 to $5.59 in September 2004. We believe high natural gas prices in the United States, if sustained, should result in more exploration and development drilling activity and higher utilization and dayrates for drilling companies like us.

- Need for Increased Natural Gas Drilling Activity. From 1994 to 2003, U.S. demand for natural gas grew at an annual rate of 0.6% while its supply grew at an annual rate of 0.2%. We believe that this supply and demand growth imbalance will continue if demand for natural gas continues to increase and production decline rates continue to accelerate. Even though the number of U.S. gas wells drilled has increased overall in recent years, a corresponding increase in production has not been realized. We believe that an increase in U.S. drilling activity will be required for the natural gas industry to meet the expected increased demand for, and compensate for the slowing production of, natural gas in the United States.

- Trend Towards Drilling Deeper Shallow Water Gas Wells. A current trend by oil and gas companies is to drill deep gas wells along the U.S. Gulf Coast in search of new and potentially prolific untapped natural gas reserves. We believe that this trend towards deeper drilling will benefit premium jackup rigs as well as barge rigs and submersible rigs that are capable of drilling deep gas wells. In addition, we believe this trend will indirectly benefit conventional jackup fleets as the use of premium rigs in the U.S. Gulf Coast to drill deep wells should reduce the supply of rigs available to drill conventional wells.

We believe that the drilling industry in the U.S. Gulf Coast has emerged

from a cyclical low point, and we expect further strengthening in the near term. Market conditions for our U.S. Gulf Coast jackup fleet improved beginning in the third quarter of 2003 and continuing through the first nine months of 2004. As shown in the following table, from the third quarter of 2003 through the third quarter of 2004, our average revenue per day for U.S. Gulf of Mexico jackups and submersibles improved by 48%. During the same period, average revenue per day for our U.S. inland barges improved by 25%. As of November 1, 2004, our 12 jackup rigs working in the U.S. Gulf Coast were contracted at dayrates ranging from $33,800 to $38,800. As of November 1, 2004, our 13 operating inland barges were contracted at dayrates ranging from $15,000 to $27,800. We anticipate that the declining jackup rig supply in the U.S. Gulf Coast and the trend towards more deep gas well drilling will continue to result in improved utilization and higher dayrates.

With respect to our Venezuelan operations, political unrest has continued to negatively impact our results of operations there. As a result, we have experienced some decrease in utilization in Venezuela during the second half of 2003 and the first nine months of 2004. Beginning in the third quarter of 2004, two of our land rigs began operating under one-year contracts, and another two land rigs began operating under one-year contracts in October and November 2004.

The following table shows our average rig revenue per day and utilization for the quarterly periods ending on or prior to September 30, 2004 with respect to each of our three drilling segments. Average rig revenue per day is defined as operating revenue earned per revenue earning day in the period. Utilization in the table below is defined as the total actual number of revenue earning days in the period as a percentage of the total number of calendar days in the period for all drilling rigs in our fleet, as adjusted to include calendar days available for rigs that were held for sale during the periods ended on or prior to December 31, 2002.

	THREE MONTHS ENDED		
	SEPTEMBER 30, 2002	DECEMBER 31, 2002	MARCH 31, 2003
AVERAGE RIG REVENUE PER DAY:			
U.S. Gulf of Mexico Jackups and Submersibles	$22,400	$21,000	$22,600
U.S. Inland Barges	20,700	19,600	19,100
Other International	23,500	19,400	19,700
UTILIZATION:			
U.S. Gulf of Mexico Jackups and Submersibles	32%	34%	31%
U.S. Inland Barges	47%	44%	47%
Other International	23%	27%	35%

	THREE MONTHS ENDED		
	DECEMBER 31, 2003	MARCH 31, 2004	JUNE 30, 2004

AVERAGE RIG REVENUE PER DAY:			
U.S. Gulf of Mexico			
Jackups and Submersibles	$26,700	$30,600	$30,700
U.S. Inland Barges	18,700	20,300	22,500
Other International	25,600	40,000	37,500
UTILIZATION:			
U.S. Gulf of Mexico			
Jackups and Submersibles	50%	43%	50%
U.S. Inland Barges	40%	40%	42%
Other International	28%	29%	29%

In the third quarter of 2003, we were awarded contracts with PEMEX, the Mexican national oil company, for two of our jackup rigs and a platform rig. After upgrades to comply with contract specifications, one rig began operating on a 720-day contract in early November 2003 at a contract dayrate of approximately $42,000. The other jackup rig began operating in early December 2003 on a 1,081-day contract at a contract dayrate of approximately $39,000. The cost to prepare the two jackup rigs to work in Mexico, including mobilization costs, which are deferred and will be recognized over the primary contract term, was approximately $22 million in the aggregate. The platform rig contract is 1,289 days in duration and is anticipated to begin operations in late 2004 at a contract dayrate of approximately $29,000. We have upgraded the platform rig to comply with PEMEX contract specifications at an aggregate cost of approximately $8 million to $9 million. Each of the contracts can be terminated by PEMEX on five days' notice, subject to certain conditions.

In the third quarter of 2004, two of our land rigs began working in Venezuela under one-year term contracts at dayrates of approximately $22,200 and $23,800 and another two land rigs were re-deployed during October and November 2004 under one-year contracts with PDVSA at contract day rates of approximately $22,000. Our jackup rig, THE 156 which began operating in Venezuela in mid-December 2003, completed its contract in September 2004 and has been relocated to the U.S. Gulf of Mexico.

Prior to October 2004, our principal insurance coverages for property damage, liability and occupational injury and illness were included in Transocean's insurance program in accordance with the master separation agreement. Effective October 15, 2004, we changed our insurance program to an independent, stand-alone insurance program, that provides for significantly lower deductibles than those in our previous insurance program. Our current deductible level under the new hull and machinery and protection and indemnity policies is $1.0 million and $5.0 million per occurrence, respectively. Prior to October 2004, our deductible level under each of these policies was $10.0 million per occurrence. Insurance premiums under the new program will be approximately $8 million for the

twelve-month policy period, or approximately $3.5 million higher than those under the previous program with Transocean. We expect that the increased premium cost will be more than offset by the benefit of the lower deductibles, primarily with respect to hull and machinery claims.

IPO AND SEPARATION FROM TRANSOCEAN

We were incorporated in Delaware on July 7, 1997 as R&B Falcon

Corporation. On January 31, 2001, we became an indirect wholly owned subsidiary of Transocean Inc. ("Transocean") as a result of the merger transaction between us and Transocean (the "Transocean Merger"). On December 13, 2002, we changed our name from R & B Falcon Corporation to TODCO.

In July 2002, Transocean announced plans to divest its Gulf of Mexico shallow and inland water ("Shallow Water") business through an initial public offering of TODCO. During 2003, we completed the transfer to Transocean of all assets not related to our Shallow Water business ("Transocean Assets"), including the transfer of all revenue-producing Transocean Assets. Accordingly, the Transocean Assets and related operations have been reflected as discontinued operations in our historical financial statements. See " -- Related Party Transactions -- Asset Transfers to Transocean" and " -- Relationship between Us and Transocean -- Master Separation Agreement -- TODCO Business" and " -- Transfer of Assets and Assignment of Liabilities" for a description of the separation of our respective businesses.

In February 2004, we completed an initial public offering, with Transocean selling 13,800,000 shares of our Class A common stock (the "IPO") as part of our separation from Transocean. Transocean sold an additional 17,940,000 shares of our Class A common stock in September 2004 in a secondary offering. We did not receive any proceeds from either offering.

Transocean currently owns 28,260,000 shares, or 100% of our outstanding Class B common stock which represents 47% of our outstanding common stock. Transocean has 82% of the combined voting power of our outstanding common stock due to the five votes per share of Class B common stock, as compared to the one vote per share of Class A common stock. Transocean does not own any of our outstanding Class A common stock. Transocean has advised us that its current long term intent is to dispose of our Class B common stock owned by it.

CHANGES IN FINANCIAL REPORTING OF FUTURE RESULTS OF OPERATIONS

As a result of our separation from Transocean, including the transfer of the Transocean Assets to Transocean in 2003 and the completion of our IPO in February 2004, our reporting of certain aspects of our results of operations differ from our historical reporting of results of operations. The following discussion describes these and other differences.

General and administrative expense includes costs related to our corporate executives, corporate accounting and reporting, engineering, health, safety and environment, information technology, marketing, operations management, legal, tax, treasury, risk management and human resource functions. Prior to June 30, 2003 and the transfer of the Transocean Assets to Transocean, general and administrative expense also included an allocation from Transocean for certain administrative support. After June 30, 2003, general and administrative expense includes costs for services provided to us under our transition services agreement with Transocean. In 2004, we expect to incur approximately $3 million of additional general and administrative expense as a result of additional costs associated with being a separate public company. In addition, we are incurring additional general and administrative expense associated with the vesting of stock options and restricted stock granted in conjunction with the IPO.

In February 2004, we adopted a long term incentive plan for certain of our employees and non-employee directors in order to provide additional incentives through the grant of awards (the "Plan"). In conjunction with the closing of the IPO, we granted restricted stock and stock options to certain employees and non-employee directors. Based upon the IPO price of $12.00 per share, the value of these awards that we will recognize as compensation expense is approximately $17.2 million. We recognized $9.3 million of compensation expense related to these awards and grants in the first nine months of 2004. We will amortize the remaining $7.9 million to compensation expense over the vesting period of the

awards and options with $1.4 million recognized during the remainder of 2004, $4.8 million in 2005 and $1.7 million in 2006 and thereafter. In addition to these initial grants under the Plan,

we may elect to make additional grants of restricted stock and stock options. The value of any additional awards under the Plan will be recognized as compensation expense over the vesting period of the awards.

In addition, certain of our employees held options to acquire Transocean ordinary shares that were granted prior to the IPO. In accordance with the employee matters agreement, the employees holding such options were treated as terminated for the convenience of Transocean on the IPO date. As a result, these options became fully vested and were modified to remain exercisable over the original contractual life. In connection with the modification of the options, we recognized $1.5 million in additional compensation expense in the first quarter of 2004. No further compensation expense will be recognized related to the Transocean options.

Interest income consists of interest earned on our cash balances and, for periods before December 31, 2003, on notes receivable from Delta Towing. Because of the adoption of the Financial Accounting Standards Board's ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 ("FIN 46") (see " -- Relationships with Variable Interest Entities"), and the resulting consolidation of Delta Towing in our consolidated balance sheet effective December 31, 2003, in the future we expect interest income to consist of interest earned on our cash balances. For periods before the IPO, interest expense consisted of financing cost amortization and interest associated with our senior notes, other debt and other related party debt as described in the notes to our condensed consolidated financial statements. We expect our debt levels and, correspondingly, our interest expense to be substantially lower in 2004 than historical debt levels and interest expense reflected in our historical operating results as a result of the retirement of notes payable to Transocean prior to the IPO. After the closing of the IPO, interest expense primarily includes interest on the approximately $24 million face value of our senior notes payable to third parties and any borrowings under our credit facility, commitment fees on the unused portion of our line of credit and the amortization of financing costs.

In conjunction with the IPO, we entered into a tax sharing agreement with Transocean Holdings, whereby, Transocean will indemnify us against substantially all pre-IPO income tax liabilities. However, we must pay Transocean for substantially all pre-closing income tax benefits utilized subsequent to the closing of the IPO. As of September 30, 2004, we had approximately $535 million of estimated pre-closing income tax benefits subject to this obligation to reimburse Transocean of which approximately $173 million of the tax benefits were reflected in our historical financial statements at December 31, 2003. The additional estimated tax benefits resulted from the closing of the IPO, specified ownership changes, statutory allocations of tax benefits among Transocean's consolidated group members and other events. Depending upon certain tax planning strategies executed by Transocean during 2004 and actual Transocean taxable income for the current year, this pre-closing tax benefit amount will change and is currently estimated to be approximately $360 million.

As part of the tax sharing agreement, we must pay Transocean for substantially all pre-closing income tax benefits which the Company may utilize or be deemed to have utilized subsequent to the closing of the IPO. Accordingly, we recorded an equity transaction in February 2004 to reflect this liability to Transocean of approximately $174 million, equal to the pre-closing income tax

benefits, as a corresponding obligation within the deferred income tax asset accounts and a reduction in additional paid-in capital. In September 2004, as a result of a 2003 return-to-provision adjustment, the liability to Transocean was revised to approximately $182 million, and we recorded an equity adjustment of $7.7 million and the additional liability to Transocean as a reduction in additional paid-in capital and an obligation within the deferred income tax asset accounts. This adjustment had no effect on our results of operations.

In addition, Transocean agreed to indemnify us for certain tax liabilities that existed as of the IPO date of $10.3 million. The tax indemnification by Transocean was recorded as a credit to additional paid-in capital with a corresponding offset to a related party receivable from Transocean.

We currently anticipate that we will be in a net tax liability position at the end of 2004 and expect to utilize a portion of the pre-closing income tax benefits to offset our federal income tax obligation. As of September 30, 2004 we have utilized $3.7 million of these pre-closing income tax benefits to offset our current federal income tax obligation for the nine months then ended. The liability to Transocean for the utilization of these pre-closing income tax benefits of $1.3 million is presented within accrued income taxes - related party in our condensed consolidated balance sheet at September 30, 2004 and is payable January 15, 2005.

Additionally, the tax sharing agreement provides that if any person other than Transocean or its subsidiaries becomes the beneficial owner of greater than 50% of the total voting power of TODCO's outstanding voting stock, we will be deemed to have utilized all of these pre-closing tax benefits, and we will be required to pay Transocean an amount for the deemed utilization of these tax benefits adjusted by a specified discount factor. This payment is required even if we are unable to utilize the pre-closing tax benefits. If an acquisition of beneficial ownership had occurred on September 30, 2004, the estimated amount that we would have been required to pay to Transocean would have been approximately $290 million based upon Transocean's tax planning strategies and estimated 2004 taxable income. See " -- Relationship Between Us and Transocean -- Tax Sharing Agreement".

We had an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, in connection with our secondary stock offering. As a result, our ability to utilize certain of our tax benefits is subject to an annual limitation. However, we believe that, in light of the amount of the annual limitation, it should not have a material effect on our ability to utilize these tax benefits for the foreseeable future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, operating revenues, expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, materials and supplies obsolescence, investments, property, equipment and other long-lived assets, income taxes, workers' injury claims, employment benefits and contingent liabilities. We base our estimates on historical experience and on various other assumptions we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these

estimates.

We believe the following are our most critical accounting policies. These policies require significant judgments and estimates used in the preparation of our consolidated financial statements.

Property and Equipment. Our property and equipment represent approximately 79% of our total assets as of September 30, 2004. We determine the carrying value of these assets based on our property and equipment accounting policies, which incorporate our estimates, assumptions and judgments relative to capitalized costs, useful lives and salvage values of our rigs. We review our property and equipment for impairment when events or changes in circumstances indicate that the carrying value of these assets or asset groups may be impaired or when reclassifications are made between property and equipment and assets held for sale as prescribed by the FASB's Statement of Financial Accounting Standards ("SFAS") 144, Accounting for Impairment or Disposal of Long-Lived Assets. Asset impairment evaluations are based on estimated undiscounted cash flows for the assets being evaluated. Our estimates, assumptions and judgments used in the application of our property and equipment accounting policies reflect both historical experience and expectations regarding future industry conditions and operations. Using different estimates, assumptions and judgments, especially those involving the useful lives of our rigs and expectations regarding future industry conditions and operations, would result in different carrying values of assets and results of operations. For example, a prolonged downturn in the drilling industry in which utilization and dayrates were significantly reduced could result in an impairment of the carrying value of our drilling rigs.

Allowance for Doubtful Accounts. We establish reserves for doubtful accounts on a case-by-case basis when we believe the collection of specific amounts owed to us is unlikely to occur. Our operating revenues are principally derived from services to U.S. independent oil and natural gas companies and international and government-controlled oil companies and our receivables are concentrated in the United States. We generally do not require collateral or other security to support customer receivables. If the financial condition of our customers deteriorates, we may be required to establish additional reserves.

Provision for Income Taxes. Our tax provision is based on expected taxable income, statutory rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws. Our effective tax rate is expected to fluctuate from year to year as our operations are conducted in different taxing jurisdictions and the amount of pre-

tax income fluctuates. Currently payable income tax expense represents either nonresident withholding taxes or the liabilities expected to be reflected on our income tax returns for the current year while the net deferred tax expense or benefit represents the change in the balance of deferred tax assets or liabilities as reported on the balance sheet.

Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized in the future. While we have considered estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowances, changes in these estimates and assumptions, as well as changes in tax laws could require us to adjust the valuation allowances for our deferred tax assets. These adjustments to the valuation allowance would impact our income tax provision in the period in which such

adjustments are identified and recorded.

Contingent Liabilities. We establish reserves for estimated loss contingencies when we believe a loss is probable and we can reasonably estimate the amount of the loss. Revisions to contingent liabilities are reflected in income in the period in which different facts or information become known or circumstances change that affect our previous assumptions with respect to the likelihood or amount of loss. Reserves for contingent liabilities are based upon our assumptions and estimates regarding the probable outcome of the matter. Should the outcome differ from our assumptions and estimates, we would make revisions to the estimated reserves for contingent liabilities, and such revisions could be material.

RESULTS OF CONTINUING OPERATIONS

The following table sets forth our operating days, average rig utilization rates, average rig revenue per day, revenues and operating expenses by operating segment for the periods indicated:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
		(IN MILLIONS EXCE
U.S. GULF OF MEXICO SEGMENT:		
Operating days	1,097	1,239
Available days(a)	2,024	2,300
Utilization(b)	54%	54%
Average rig revenue per day(c)	$ 33,800	$ 22,800
Operating revenues	$ 37.1	$ 28.3
Operating and maintenance expenses(d)	22.3	22.9
Depreciation	12.4	14.1
Impairment loss on long-lived assets	--	--
Gain on disposal of assets, net	--	--
Operating income (loss)	2.4	(8.7)
U.S. INLAND BARGE SEGMENT:		
Operating days	1,254	1,049
Available days(a)	2,760	2,760
Utilization(b)	45%	38%
Average rig revenue per day(c)	$ 22,900	$ 18,400
Operating revenues	$ 28.7	$ 19.3
Operating and maintenance expenses(d)	20.9	25.3
Depreciation	5.6	5.7
Gain on disposal of assets, net	(0.6)	(0.1)
Operating income (loss)	2.8	(11.6)
OTHER INTERNATIONAL SEGMENT:		
Operating days	549	520
Available days(a)	1,656	1,380
Utilization(b)	33%	38%
Average rig revenue per day(c)	$ 34,600	$ 21,000
Operating revenues	$ 19.0	$ 10.9
Operating and maintenance expenses(d)	15.9	8.4
Depreciation	4.7	3.0

Impairment loss on long-lived assets	--	--
Gain on disposal of assets, net	--	--
Operating loss	(1.6)	(0.5)
DELTA TOWING SEGMENT:		
Operating revenues	$ 8.3	$ --
Operating and maintenance expenses(d)	6.3	--
Depreciation	1.1	--
General and administrative expenses	1.2	--
Gain on disposal of assets	(0.2)	--
Operating loss	(0.1)	--
TOTAL COMPANY:		
Rig operating days	2,900	2,808
Rig available days(a)	6,440	6,440
Rig utilization(b)	45%	44%
Average rig revenue per day(c)	$ 29,200	$ 20,000
Operating revenues	$ 93.1	$ 58.5
Operating and maintenance expenses(d)	65.4	56.6
Depreciation	23.8	22.8
General and administrative expenses	7.0	4.0
Impairment loss on long-lived assets	--	--
Gain on disposal of assets, net	(0.8)	(0.1)
Operating loss	(2.3)	(24.8)

See notes on following page.

Notes to preceding table.

(a) Available days are the total number of calendar days in the period for all drilling rigs in our fleet.

(b) Utilization is the total number of operating days in the period as a percentage of the total number of calendar days in the period for all drilling rigs in our fleet.

(c) Average rig revenue per day is defined as revenue earned per operating day for the applicable segment, and as total U.S. Gulf of Mexico, U.S. Inland Barge and Other International revenues per rig operating days for "Total Company".

(d) Excludes depreciation, amortization and general and administrative expenses.

Our consolidated results of operations for the first nine months of 2004 reflect the consolidation of our 25% ownership interest in Delta Towing effective January 1, 2004 in accordance with FIN 46. Accordingly, our results for 2004 include revenues and expenses for Delta Towing. Prior to the adoption of FIN 46, we recorded our 25% interest in the results of Delta Towing as equity in income (loss) of joint ventures in our consolidated statements of operations and also recognized interest income -- related party related to Delta Towing's notes payable to us. See " -- Relationships with Variable Interest Entities" for a discussion of the effects of FIN 46 on our investment in Delta Towing.

THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Revenues. Total revenues increased $34.6 million, or 59%, during the third

quarter of 2004, as compared to the same period in 2003. The increase in revenue is primarily attributable to higher overall average rig revenue per day earned in 2004, as compared to the prior year period, and the inclusion of revenues from the operation of Delta Towing's fleet of marine support vessels. Overall average rig revenue per day increased from $20,000 for the three months ended September 30, 2003 to $29,200 for the three months ended September 30, 2004. The increase in average rig revenue per day reflects the continued improvement of market conditions in the U.S. Gulf of Mexico and transition zone along the U.S. Gulf Coast, as well as the addition of two of our jackup rigs which began operating offshore Mexico in late 2003 and a jackup rig that recently completed drilling operations offshore Venezuela. Average rig utilization of 45% for the three months ended September 30, 2004 increased slightly from utilization levels achieved for the same period in 2003. Increased utilization in our U.S. Inland Barge segment, was offset by lower utilization in our Other International segment.

Revenues for our U.S. Gulf of Mexico segment increased $8.8 million, or 31%, in the three months ended September 30, 2004, as compared to the same period in 2003. In the third quarter of 2004, we achieved higher average rig revenue per day for our jackup and submersible drilling fleet. Average rig revenue per day increased from $22,800 in the third quarter of 2003 to $33,800 in the third quarter of 2004, which resulted in an additional $12.9 million in operating revenues for the three months ended September 30, 2004, as compared to the same period in 2003. The increase in average rig revenue per day is the result of our success in obtaining contracts with our customers at higher day rates in response to a decreased supply of jackup drilling rigs in the U.S. Gulf of Mexico. After giving effect to the transfers of the jackup drilling units THE 156, THE 205 and THE 206 to our Other International segment in the fourth quarter of 2003, utilization for our current rig fleet in this market for the third quarter of 2004, as compared to the third quarter of 2003, remained relatively unchanged. The drilling units transferred to our Other International segment generated revenues of $4.1 million in the three months ended September 30, 2003.

Revenues for our U.S. Inland Barge segment increased $9.4 million, or 49%, in the third quarter of 2004, as compared to the same period in 2003, primarily as a result of higher average rig revenue per day achieved in 2004, as compared to the third quarter of 2003. Average rig revenue per day increased from $18,400 for the third quarter of 2003 to $22,900 for the third quarter of 2004, as a result of our successful marketing efforts in negotiating higher day rates for our inland barge fleet. The increase in average rig revenue per day resulted in additional revenue of $5.6 million for the three months ended September 30, 2004, as compared to the same period in 2003. This market continues to improve with utilization in this segment approaching the levels attained in early 2003. Utilization of our inland barge fleet was 45% for the third quarter of 2004, as compared to 38% for the same period in 2003. The increase in utilization in this segment resulted in $3.8 million higher operating revenues for the three months ended September 30, 2004, as compared to the three months ended September 30, 2003.

Revenues for our Other International segment were $19.0 million for the three months ended September 30, 2004, as compared to $10.9 million for the same period in 2003. The $8.1 million, or 74%, increase in operating revenues reported in the third quarter of 2004, as compared to the third quarter of 2003, reflects the operation of two

of our jackup rigs (THE 205 and THE 206), which began working offshore Mexico in late 2003 under long-term contracts with PEMEX and the operation of THE 156 on a multi-well contract with ConocoPhillips offshore Venezuela, which was completed

in September 2004. The operation of these rigs in the third quarter of 2004 contributed an additional $12.1 million in operating revenues during the three months ended September 30, 2004. The favorable contribution by these jackup drilling rigs was partially offset by lower utilization for our land rigs in Venezuela and a platform rig in Trinidad that completed its drilling contract in the third quarter of 2003. The lower utilization of our land rigs in Venezuela resulted in $1.3 million lower operating revenues for the three months ended September 30, 2004, as compared to the same period in 2003. Our platform rig in Trinidad generated $2.7 million in revenues in the third quarter of 2003.

Our revenues for the three months ended September 30, 2004 included $8.3 million related to the operation of Delta Towing's fleet of U.S. marine support vessels.

Operating and Maintenance Expenses. Total operating and maintenance expenses increased $8.8 million, or 16%, during the three months ended September 30, 2004, as compared to the same period in 2003. A decrease in operating expenses for our U. S. Gulf of Mexico and Inland Barge segments in the third quarter of 2004, as compared to the third quarter of 2003, was offset by higher operating expenses in our Other International segment, primarily due to the transfer of three jackup drilling rigs from the U.S. Gulf of Mexico to international locations in the fourth quarter of 2003 and the inclusion of $6.3 million in operating expenses related to Delta Towing. Operating expenses for the third quarter of 2003, included $3.8 million in one-time charges related to a well-control incident and a fire on two of our barge rigs.

Operating costs for our U.S. Gulf of Mexico segment for the three months ended September 30, 2004 declined $0.6 million to $22.3 million, as compared to $22.9 million for the same period in 2003. The decline in operating costs in 2004, as compared to 2003, is primarily related to the transfer of three of our jackup rigs to locations in Mexico and Venezuela in the fourth quarter of 2003 ($4.8 million), which was partially offset by higher personal injury and property damage claims costs ($1.4 million), higher write-downs, net of recoveries, of other receivables ($1.9 million) and higher mobilization costs ($0.6 million) associated with well-to-well rig moves for the three months ended September 30, 2004, as compared to the three months ended September 30, 2003.

Operating and maintenance costs for our U.S. Inland Barge segment declined $4.4 million, or 17%, during the third quarter of 2004, as compared to the third quarter of 2003, primarily due to the absence of $3.8 million in one-time charges related to a fire and a well-control incident on two of our inland barge rigs. In addition, other net decreases in other operating costs and lower write-downs of other receivables $(1.8 million) were partly offset by higher personal injury and property damage claims costs ($1.2 million) during the third quarter of 2004, as compared to the same period in 2003.

Operating costs for our Other International segment were $15.9 million for the three months ended September 30, 2004, as compared to $8.4 million for the three months ended September 30, 2003. The $7.5 million increase in operating and maintenance costs is primarily attributable to $9.4 million of additional operating expense related to our jackup drilling operations in Mexico and a jackup rig working offshore Venezuela in the third quarter of 2004, partly offset by the absence of operating costs related to our platform rig in Trinidad, which completed its operations in the third quarter of 2003, and lower operating costs for our land drilling operations in Venezuela as a result of lower utilization in the third quarter of 2004, as compared to the same period in 2003. Our results for this segment for the three months ended September 30, 2003 included $2.3 million of operating costs associated with the platform rig in Trinidad.

General and Administrative Expenses. General and administrative expenses were $7.0 million for the three months ended September 30, 2004, as compared to

$4.0 million for the comparable period in 2003. The $3.0 million increase in general and administrative expenses is primarily attributable to the inclusion of $1.3 million in stock compensation expense associated with post-IPO grants of stock options and restricted stock awards, $1.2 million in general and administrative expenses for Delta Towing and higher fees for professional services in the third quarter of 2004, compared to the third quarter of 2003.

Interest Expense. Third party interest expense and interest expense-related party decreased $7.9 million in the third quarter of 2004, as compared to the same period in 2003, primarily due to lower debt balances owed to third parties and Transocean. In 2003, we repaid $15.2 million of third party debt and, in conjunction with the transfer of the Transocean Assets, we retired $529.7 million in related party debt payable to Transocean. Additionally, prior to the closing of our IPO, we completed a debt-for-equity exchange of all our remaining outstanding related party debt payable to Transocean.

NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Revenues. Total revenues increased $80.4 million, or 48%, during the first nine months of 2004, as compared to the same period in 2003. The increase in revenues is primarily attributable to higher overall average rig revenue per day earned in 2004, as compared to the prior year period, and the inclusion of revenues from the operation of Delta Towing's fleet of marine support vessels. Overall average rig revenue per day increased from $20,000 for the nine months ended September 30, 2003 to $28,500 for the nine months ended September 30, 2004. The increase in average rig revenue per day reflects the continued improvement of market conditions in the U.S. Gulf of Mexico and transition zone along the U.S. Gulf Coast, as well as the addition of two of our jackup rigs which began operating offshore Mexico in late 2003 and a jackup rig that recently completed its contract offshore Venezuela. Average rig utilization of 41% for the nine months ended September 30, 2004 remained unchanged from the comparable period in 2003 due to a decrease in total available rig operating days in the 2004 period as a result of the removal of five jackup rigs from our actively marketed fleet in the second quarter of 2003, combined with the effect of lower land rig utilization in Venezuela during 2004.

Revenues for our U.S. Gulf of Mexico segment increased $21.8 million, or 30%, during the nine months ended September 30, 2004, as compared to the first nine months of 2003. In 2004, we achieved higher average rig revenue per day for our jackup and submersible drilling fleet as a result of our success in obtaining contracts with our customers at higher day rates in response to increased market demand and decreased jackup drilling rig supply in the U.S. Gulf of Mexico. Average revenue per day increased to $31,800 for the nine months ended September 30, 2004, up from $21,800 for the same period in 2003, which resulted in an additional $29.6 million in operating revenues for the nine months ended September 30, 2004, as compared to the same period in 2003. Results for the first nine months of 2004 also reflect higher utilization for our current rig fleet in this market, after giving effect to the transfers of the jackup drilling units THE 156, THE 205 and THE 206 to our Other International segment in the fourth quarter of 2003. This increase in utilization resulted in $6.3 million in additional rig revenues in the nine months ended September 30, 2004, as compared to the same period in 2003. The drilling units transferred to our Other International segment generated revenues of $14.1 million in the nine months ended September 30, 2003.

Revenues for our U.S. Inland Barge segment increased $12.9 million, or 20%, in the nine months ended September 30, 2004, as compared to the same period of the prior year, primarily due to higher average rig revenue per day achieved in 2004, as compared to 2003. Average rig revenue per day increased from $18,400

for the nine months ended September 30, 2003 to $21,900 for the nine months ended September 30, 2004, as a result of our successful marketing efforts in negotiating higher day rates for our fleet of inland barges during 2004. The increase in average rig revenue per day resulted in additional revenues of $12.4 million for the nine months ended September 30, 2004, as compared to the same period in 2003. This market has continued to improve in 2004 resulting in improved utilization of our inland barge fleet compared to utilization levels experienced beginning in the last half of 2003. Utilization of our inland barge fleet was 43% for the nine months ended September 30, 2004, as compared to 42% for the first nine months of 2003, which resulted in $0.5 million higher operating revenues in the first nine months of 2004, as compared to the same period in 2003.

Revenues for our Other International segment were $55.5 million for the nine months ended September 30, 2004. The $23.8 million, or 75%, increase over operating revenues reported for the nine months ended September 30, 2003 reflects the operation of two of our jackup rigs, (THE 205 and THE 206), which began working offshore Mexico in late 2003 under long-term contracts and the operation of THE 156, which began operating under a multi-well contract with ConocoPhillips in late December 2003. The operation of these rigs in 2004 contributed an additional $38.3 million in operating revenues during the nine months ended September 30, 2004. The favorable contribution by these jackup rigs was partially offset by lower utilization for our land rigs in Venezuela and a platform rig in Trinidad that completed its contract in the third quarter of 2003. The lower utilization for our land rigs in Venezuela resulted in a $7.4 million decrease in operating revenues for the nine months ended September 30,

2004, as compared to the same period in 2003. Our platform rig, which was operating in Trinidad until the third quarter of 2003, generated $7.4 million of operating revenues in the nine months ended September 30, 2003.

Our revenues for the first nine months of 2004 included $21.9 million related to the operation of Delta Towing's fleet of U.S. marine support vessels.

Operating and Maintenance Expenses. Total operating and maintenance expenses increased $14.8 million, or 8%, in the first nine months of 2004, as compared to operating expenses of $178.6 million for the same period in 2003. A decrease in operating expenses for our U.S. Gulf of Mexico and Inland Barge segments was partly offset by higher operating expenses in our Other International segment, primarily as a result of the three additional jackup rigs working in international locations in 2004, and the inclusion of $16.4 million in operating expenses related to Delta Towing. The decrease in operating expenses for our domestic segments for the nine months ended September 30, 2004, as compared to the same period in 2003, is primarily due to the transfer of three jackup drilling rigs from the U.S. Gulf of Mexico to international locations, the absence of one-time charges related to a well-control incident and fire on two of our barge rigs and an insurance provision for damages sustained to the mat finger on one of our jackup rigs in 2003.

Operating costs for our U.S. Gulf of Mexico segment declined $9.6 million, or 12%, in the first nine months of 2004, as compared to the same period in 2003, primarily due to the transfer of three of our jackup rigs to locations in Mexico and Venezuela in the fourth quarter of 2003 ($14.6 million) and an insurance provision in 2003 for damages sustained to one of our jackup rigs ($2.2 million). These favorable variances in operating costs were partly offset by higher costs for maintenance of our jackup rig fleet in the U.S. Gulf of Mexico ($3.2 million), personal injury claims ($1.2 million), personnel-related charges for labor and health benefits claims ($2.2 million), and write-downs, net of recoveries, of accounts and other receivables ($0.5 million) in the first

nine months of 2004, as compared to the comparable period in 2003.

Operating and maintenance expenses for our U.S. Inland Barge segment were $63.2 million for the nine months ended September 30, 2004, as compared to $77.3 million for the same period in 2003. Our results for the first nine months of 2003 included one-time charges of $7.5 million and $3.5 million related to a June 2003 well-control incident and September 2003 fire on two of our inland barge rigs, respectively. The further decrease in operating expenses for this segment in the first nine months of 2004, as compared to the comparable period in 2003, was primarily the result of lower personnel-related charges ($2.2 million) due primarily to lower labor and health benefits costs, lower write-downs of other receivables ($0.8 million) and lower other operating costs, including costs related to support vessels and other equipment rentals ($2.2 million). These favorable decreases were partly offset by $2.1 million in higher maintenance costs in the first nine months of 2004.

Operating costs for our Other International segment for the first nine months of 2004 increased $22.1 million, as compared to the same period in 2003, primarily due to $19.8 million of additional operating expenses as a result of our jackup drilling operations in Mexico. Operating expenses in the first nine months of 2004 also included $10.3 million of costs related to the operation of THE 156 offshore Venezuela, partly offset by lower operating costs of $2.7 million as a result of lower utilization of our land rigs in Venezuela. Our results for this segment in the first nine months of 2003 included $5.3 million of additional operating costs related to our platform rig in Trinidad, which completed its contract in the third quarter of 2003.

General and Administrative Expenses. General and administrative expenses were $26.6 million for the nine months ended September 30, 2004, as compared to $12.6 million for the comparable period in 2003. The $14.0 million increase in general and administrative expenses was due primarily to the inclusion of $9.3 million of stock compensation expense associated with post-IPO grants of stock options and restricted stock awards, $1.5 million in stock compensation expense related to the modification of Transocean stock options held by some of our employees, $3.0 million in general and administrative expenses for Delta Towing and $1.3 million in higher other overhead costs, primarily related to corporate insurance policies and professional fees. These unfavorable variances in general and administrative expenses in the first nine months of 2004, as compared to the same period in 2003, were partly offset by lower administrative charges of $1.1 million for the nine months ended September 30, 2004 under our transition services agreement with Transocean, which became effective in the third quarter of 2003. See " -- Related Party Transactions -- Allocation of Administrative Costs."

Impairment Loss on Long-Lived Assets. During the second quarter of 2003, we recorded a non-cash impairment charge of $10.6 million resulting from our decision to take five jackup rigs out of drilling service and market the rigs

for alternative uses. We do not anticipate returning these rigs to drilling service, as we believe it would be cost prohibitive to do so. As a result of this decision, and in accordance with SFAS 144, the carrying value of these assets was adjusted to fair market value. The fair market value of these units as non-drilling rigs was based on third party valuations. Additionally in the second quarter of 2003, we recorded a $1.0 million non-cash impairment resulting from our determination that assets of entities in which we had an investment did not support our recorded investment. The impairment was determined and measured based upon the remaining book value of the assets and our assessment of the fair value at the time the decision was made. The entities were liquidated in early 2004.

Gain on Disposal of Assets, Net. During the nine months ended September 30, 2004, we realized gains on disposal of assets of $5.4 million, primarily related to the sale of five marine support vessels by Delta Towing ($2.0 million), the settlement of an October 2000 insurance claim for one of our jackup rigs ($1.5 million), and sales and disposals of used drill pipe ($1.5 million). Net gains (losses) on disposal of assets were not significant in the first nine months of 2003.

Interest Expense. Third party interest expense and interest expense-related party decreased $30.9 million in the nine months ended September 30, 2004, as compared to the same period in 2003, primarily due to lower debt balances owed to third parties and Transocean, partly offset by $1.0 million in bank commitment fees related to our $75 million line of credit entered into in December 2003. In 2003, we repaid $15.2 million of third party debt and, in conjunction with the transfer of the Transocean Assets, we retired $529.7 million in related party debt payable to Transocean. Additionally, prior to the closing of our IPO, we completed a debt-for-equity exchange of all our remaining outstanding related party debt payable to Transocean.

Loss on Retirement of Debt. In conjunction with the retirement of debt held by Transocean in 2003, we recorded losses on retirement of related party debt for the nine months ended September 30, 2003 of $79.5 million. In the first quarter of 2004, we wrote off the remaining balance of unamortized fees of approximately $1.9 million associated with the exchange of Transocean debt for our outstanding senior notes in March 2002 due to the retirement of the debt in conjunction with the IPO. See " -- Related Party Transactions -- Long-Term Debt -- Transocean."

Impairment of Investment in and Advance to Joint Venture. Based on cash flow projections and industry conditions, we recorded a $21.3 million impairment of our notes receivable from Delta Towing during the second quarter of 2003. See " -- Relationships with Variable Interest Entities."

Other, Net. Other expense, net was $2.3 million for the nine months ended September 30, 2003, including a $2.4 million loss on revaluation of our local currency in Venezuela. In January 2003, Venezuela implemented foreign exchange controls that limit our ability to convert local currency into U.S. dollars and transfer excess funds out of Venezuela. The exchange controls caused an artificially high value to be placed on the local currency. As a result, we recognized a loss on revaluation of the local currency into functional U.S. dollars during the second quarter of 2003. Other income, net was $1.3 million for the nine months ended September 30, 2004 and related primarily to a $0.7 million reduction of the excess reserve for revaluation of Venezuelan local currency due to a sustained decrease in the net carrying value of assets denominated in local currency in 2004 and other foreign currency translation gains recognized during the period.

Income Tax Benefit. The income tax benefit of $13.4 million for the nine months ended September 30, 2004 reflects an effective tax rate ("ETR") of 29.4%, as compared to $50.4 million for the comparable period in 2003, based on an ETR of 10.6%. The increased ETR is primarily the result of providing a valuation allowance on net operating losses generated in 2003. During the first nine months of 2003, we recorded a valuation allowance on net operating loss carry forwards and foreign tax credits generated during the period.

DISCONTINUED OPERATIONS

In July 2002, Transocean announced plans to divest its Shallow Water business through an initial public offering of TODCO. During 2003, we completed the transfer to Transocean of the Transocean Assets, including all revenue-producing Transocean Assets. Accordingly, the Transocean Assets and

related operations have been reflected as discontinued operations in our historical financial statements. See Note 15 to our condensed consolidated financial statements, for a discussion of discontinued operations. See " -- Related Party Transactions -- Asset Transfers to Transocean" for a description of the separation of our respective businesses.

FINANCIAL CONDITION

At September 30, 2004 and December 31, 2003, we had total assets of $750.7 million and $778.2 million, respectively. The $27.5 million decrease in assets during the first nine months of 2004 is primarily attributable to normal depreciation of $72.0 million, $2.7 million in net amortization of deferred preparation and mobilization costs, the write-off of $1.9 million in unamortized consent fees associated with the Transocean senior note exchange and other net decreases in assets of $0.9 million. These decreases in assets were partly offset by $5.9 million in deferred income tax assets recognized in the first nine months of 2004, a $10.3 million increase in amounts receivable from Transocean in recognition of the post-IPO business and tax indemnities, and $33.8 million in higher cash and cash equivalents (see " -- Liquidity and Capital Resources").

Working capital at September 30, 2004 was $54.9 million, as compared to a working capital deficit of $2.6 million at December 31, 2003. The increase in working capital during the nine months ended September 30, 2004 is primarily attributable to our operating results for the year-to-date period in 2004, combined with the effect of lower cash interest payments as the result of the retirement of debt in 2003 and the pre-IPO debt-for-equity exchanges with Transocean.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES AND USE OF CASH

The following discussion relates to our historical sources and uses of cash, which includes components from both continuing operations and discontinued operations during 2003.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003. Net cash provided by operating activities was $30.9 million for the nine months ended September 30, 2004, as compared to $94.6 million for the same period in 2003. The $63.7 million decrease in net cash provided by operating activities is primarily attributable to lower adjustments to reconcile net loss as reported to net cash used in operating activities and less cash provided by changes in operating assets and liabilities, partly offset by a lower reported net loss in the first nine months of 2004 as compared to the same period of 2003. We reported a $226.5 million lower net loss in the first nine months of 2004, as compared to the first nine months of 2003, primarily due to the absence of net losses attributable to the Transocean Assets ($65.0 million) which were transferred to Transocean during 2003, a lower operating loss from continuing operations, lower net interest expense ($30.9 million) and lower other non-cash charges in the first nine months of 2004. Total non-cash adjustments decreased $83.9 million for the nine months ended September 30, 2004, as compared to the first nine months of 2003, primarily related to depreciation ($7.6 million), (gain) loss on disposal of assets ($14.8 million), loss on retirement of debt and impairment losses on long-lived assets and our investment in and advances to Delta Towing ($98.9 million). Non-cash adjustments for the first nine months of 2004 also included favorable adjustments of $19.7 million for deferred income taxes, $10.8 million related to stock-based compensation expense associated with our post-IPO stock option grants and

restricted stock awards, as well as the modification of the Transocean stock options held by TODCO employees, and $7.3 million for deferred revenue. Cash provided by changes in operating assets and liabilities, net of effect of distributions to affiliates, was $2.9 million for the first nine months of 2004 as compared to $209.2 million for the same period in 2003. The $206.3 million decrease in cash provided by changes in operating assets and liabilities is primarily the result of the transfer of the Transocean Assets to Transocean and the related settlement of outstanding balances with Transocean.

Net cash provided by investing activities amounted to $3.2 million for the first nine months of 2004 compared to $67.2 million for the same period in 2003. The $64.0 million decrease in net cash provided by investing activities relates primarily to the sales of the Transocean Assets to Transocean which were completed by the end of the second quarter of 2003.

Net cash used in financing activities amounted to $0.3 million for the first nine months of 2004, as compared to $235.0 million for the same period in 2003. Financing activities for the 2004 period included $0.7 million in net short-term borrowings under our Venezuela line of credit, offset by $1.0 million in net retirements of capital lease obligations. Cash used in financing activities in the first nine months of 2003 included $103.9 million in cash

balances transferred to Transocean in connection with the sale and distribution of subsidiaries to Transocean, the net repayment of long-term advances from Transocean of $54.0 million and $78.8 million in repayments of other debt. See " -- Related Party Transactions".

SOURCES OF LIQUIDITY AND CAPITAL EXPENDITURES

Our cash flows from operations and asset sales were our primary sources of liquidity for the nine months ended September 30, 2004. Our primary sources of liquidity for the nine months ended September 30, 2003 were our cash flows from continuing and discontinued operations. For the nine months ended September 30, 2004, our primary uses of cash were capital expenditures of $8.3 million related to upgrades and replacements of equipment and the retirement of amounts owed under capital lease obligations. Primary uses of cash for the first nine months of 2003 were debt repayments, including amounts due to Transocean, the transfer of cash balances in conjunction with the sale or distribution of Transocean Assets to Transocean and capital expenditures of $7.4 million for upgrades and replacements of equipment. At September 30, 2004, we had $53.8 million in cash and cash equivalents.

We anticipate that we will rely primarily on internally generated cash flows to maintain liquidity. From time to time, we may also make use of our revolving line of credit for cash liquidity. In December 2003, we entered into a two-year $75 million floating-rate secured revolving credit facility that will decline to $60 million in December 2004.

The facility is secured by most of our drilling rigs, our receivables, and the stock of most of our U.S. subsidiaries and is guaranteed by some of our subsidiaries. Borrowings under the facility bear interest at our option at either (1) the higher of (A) the prime rate and (B) the federal funds rate plus 0.5%, plus a margin in either case of 2.50% or (2) the Eurodollar rate plus a margin of 3.50%. Commitment fees on the unused portion of the facility are 1.50% of the average daily balance and are payable quarterly. Borrowings and letters of credit issued under the facility are limited by a borrowing base equal to the lesser of (A) 20% of the orderly liquidated value of the drilling rigs securing the facility, as determined from time to time by a third party selected by the agent under the facility, and (B) the sum of 10% of the orderly liquidated value

of the drilling rigs securing the facility plus 80% of the U.S. accounts receivable outstanding less than 90 days, net of any provision for bad debt associated with such U.S. accounts receivable.

Financial covenants include maintenance of the following:

- a ratio of (1) current assets plus unused availability under the facility to (2) current liabilities (excluding specified subordinated liabilities owed to Transocean) of at least 1.2 to 1,

- a ratio of total debt to total capitalization of not more than 20% (excluding specified subordinated liabilities owed to Transocean from debt but including those liabilities in total capitalization),

- tangible net worth plus specified subordinated liabilities owed to Transocean of not less than the sum of (1) $425 million plus (2) to the extent positive, 50% of net income after December 31, 2003,

- a ratio of (1) the orderly liquidation value of the drilling rigs securing the facility to (2) the amount of borrowings and letters of credit outstanding under the facility of not less than 3 to 1, and

- in the event liquidity (defined as working capital (excluding specified subordinated liabilities owed to Transocean) plus availability under the facility) is less than $25 million, a ratio of (1) EBITDA minus capital expenditures during the preceding 12 fiscal months to (2) interest expense (excluding interest on specified subordinated debt owed to Transocean) during such period of not less than 2 to 1.

The revolving credit facility provides, among other things, for the issuance of letters of credit that we may utilize to guarantee our performance under some drilling contracts, as well as insurance, tax and other obligations in various jurisdictions. The facility also provides for customary fees and expense reimbursements and includes other covenants (including limitations on the incurrence of debt, mergers and other fundamental changes, asset sales and dividends) and events of default (including a change of control) that are customary for similar secured non-investment grade facilities.

In the third quarter of 2004, we entered into an unsecured line of credit with a bank in Venezuela that provides for a maximum of 4.5 billion Venezuela Bolivars ($2.3 million U.S. dollars at the current exchange rate at September 30, 2004) in order to establish a source of local currency to meet our current obligations in Venezuela Bolivars. Each draw on the line of credit is denominated in Venezuela Bolivars and is evidenced by a 30-day promissory note that bears interest at the then market rate as designated by the bank. The promissory notes are pre-payable at any time; however, if not repaid within 30 days, the promissory notes automatically renew for an additional 30-day period at the then designated interest rate. There are no commitment fees payable on the unused portion of the line of credit, and the facility is reviewed annually by the bank's board of directors.

At September 30, 2004, we had $0.7 million (1.4 billion Venezuela Bolivars) in borrowings outstanding with respect to the line of credit, which bears interest at 17% per annum.

We expect capital expenditures to be approximately $14 million in 2004, primarily for rig refurbishments and the purchase of capital equipment. The timing and amounts we actually spend in connection with our plans to upgrade and

refurbish other selected rigs, including rigs requiring substantial refurbishment, is subject to our discretion and will depend on our view of market conditions and our cash flows. We would expect capital expenditures to increase as market conditions improve. From time to time we may review possible acquisitions of drilling rigs or businesses, joint ventures, mergers or other business combinations and may in the future make significant capital commitments for such purposes. Any such transactions could involve the issuance of a substantial number of additional shares or other securities or the payment by us of a substantial amount of cash. We would likely fund the cash portion, if any, of such transactions through cash balances on hand, the incurrence of additional debt, sales of assets, shares or other securities or a combination thereof. In addition, from time to time we may consider possible dispositions of drilling rigs. Our ability to fund capital expenditures would be adversely affected if conditions deteriorate in our business, we experience poor results in our operations or we fail to meet covenants under the revolving credit facility described in the previous paragraph.

We anticipate that our available funds, together with our cash generated from operations and amounts that we may borrow, will be sufficient to fund our required capital expenditures, working capital and debt service requirements for the foreseeable future. Future cash flows and the availability of outside funding sources, however, are subject to a number of uncertainties, especially the condition of the oil and natural gas industry. Accordingly, these resources may not be available or sufficient to fund our cash requirements.

As of September 30, 2004, our scheduled debt maturities and other contractual obligations are presented in the table below with debt obligations presented at face value:

		FOR THE TWELVE MONTH PER	
	TOTAL	2005	2006 TO 2007
			(IN MILLIONS
CONTRACTUAL OBLIGATIONS			
Debt	$ 23.6	$ 7.7	$ --
Debt -- Related Party	3.0	3.0	--
Operating Leases	4.8	1.5	1.9
Accrued Income Taxes -- Related Party	1.3	1.3	--
Other	1.5	1.2	0.3
Total Contractual Obligations	$ 34.2	$ 14.7	$ 2.2

Prior to our IPO in February 2004, we exchanged $488.1 million principal amount of our outstanding senior note obligations payable to Transocean for shares of our Class B common stock. See "- Related Party Transactions - Long-Term Debt - Transocean."

At September 30, 2004, we had other commitments that we are contractually obligated to fulfill with cash should the obligations be called. These obligations represent surety bonds that guarantee our performance as it relates

to our drilling contracts, insurance, tax and other obligations in various jurisdictions. These obligations could be called at any time prior to their expiration dates. The obligations that are the subject of these surety bonds are geographically concentrated in the United States and Mexico.

		FOR THE TWELVE MONTH PERI	
			2006 TO
	TOTAL	2005	2007
			(IN MILLIONS)
OTHER COMMERCIAL COMMITMENTS			
Surety Bonds (a)	$ 12.3	$ 0.4	$ 3.3

(a) Relates to bonds issued primarily in connection with our contracts with PEMEX. These bonds have been issued under a Transocean facility. Our master separation agreement with Transocean requires us to use our best efforts to replace this facility with our own and to indemnify Transocean for any claims related to the bonds. Transocean has agreed to leave these bonds in place, subject to certain conditions.

DERIVATIVE INSTRUMENTS

We have established policies and procedures for derivative instruments that have been approved by our board of directors. These policies and procedures provide for the prior approval of derivative instruments by our board of directors. From time to time, we may enter into a variety of derivative financial instruments in connection with the management of our exposure to fluctuations in foreign exchange rates and interest rates. We do not plan to enter into derivative transactions for speculative purposes; however, for accounting purposes, certain transactions may not meet the criteria for hedge accounting.

Gains and losses on foreign exchange derivative instruments that qualify as accounting hedges are deferred as accumulated other comprehensive income and recognized when the underlying foreign exchange exposure is realized. Gains and losses on foreign exchange derivative instruments that do not qualify as hedges for accounting purposes are recognized currently based on the change in market value of the derivative instruments. At September 30, 2004, we did not have any outstanding foreign exchange derivative instruments.

From time to time, we may use interest rate swaps to manage the effect of interest rate changes on future income. Interest rate swaps would be designated as a hedge of underlying future interest payments and would not be used for speculative purposes. The interest rate differential to be received or paid under the swaps is recognized over the lives of the swaps as an adjustment to interest expense. If an interest rate swap is terminated, the gain or loss is amortized over the life of the underlying debt. At September 30, 2004, we did not have any outstanding interest rate swaps.

RELATIONSHIPS WITH VARIABLE INTEREST ENTITIES

We own a 25% equity interest in Delta Towing, which was formed to own and operate our U.S. marine support vessel business consisting primarily of shallow

water tugs, crewboats and utility barges. We contributed this business to Delta Towing in return for a 25% ownership interest and secured notes issued by Delta Towing with a face value of $144.0 million. No value was assigned to the ownership interest in Delta Towing. The note agreement was subsequently amended to provide for a $4.0 million, three-year revolving credit facility which has since been cancelled. Delta Towing's property and equipment, with a net book value of $41.6 million at September 30, 2004, are collateral for our notes receivable from Delta Towing. The remaining 75% ownership interest is held by Beta Marine Services, L.L.C. ("Beta Marine"), which also loaned $3.0 million to Delta Towing. See "- Related Party Transactions - Long-Term Debt - Beta Marine".

As a result of restrictions on the ownership or operation of vessels involved in the coastwise trade by non-U.S. citizens, our ability to take ownership of the assets owned by Delta Towing in connection with its default under its notes issued to us would be restricted. These restrictions apply to us because Transocean, a company organized under the laws of the Cayman Islands, currently owns a majority voting interest in our common stock.

As a result of its issuance of notes to us, Delta Towing is highly leveraged. In January 2003, Delta Towing defaulted on the notes by failing to make its scheduled quarterly interest payments and remains in default as a result of its continued failure to make its quarterly interest payments, as well as a scheduled principal repayment due in January 2004. As a result of our continued evaluation of the collectibility of the notes, we recorded a $21.3 million impairment of the notes in June 2003 based on Delta Towing's discounted cash flows over the terms of the notes, which deteriorated in the second quarter of 2003 as a result of the continued decline in Delta Towing's business outlook. As permitted in the notes in the event of default, we began offsetting a portion of the amount owed by us to Delta Towing against the interest due under the notes. Additionally, in the third quarter of 2003, we established a $1.6 million reserve for interest income earned during the quarter on the notes receivable.

In January 2003, the FASB issued FIN 46 which requires that an enterprise consolidate a variable interest entity ("VIE") if the enterprise has a variable interest that will absorb a majority of the entity's expected losses and/or receives a majority of the entity's expected residual returns as a result of ownership, contractual or other financial interests in the entity, if such loss or residual return occurs. If one enterprise absorbs a majority of a VIE's expected losses and another enterprise receives a majority of that entity's expected residual returns, the enterprise absorbing a majority of the expected losses is required to consolidate the VIE and will be deemed the primary beneficiary for accounting purposes.

Under FIN 46, Delta Towing is considered a VIE because its equity is not sufficient to absorb the joint venture's expected future losses. TODCO is deemed to be the primary beneficiary of Delta Towing for accounting purposes because we have the largest percentage of investment at risk through the secured notes held by us and would thereby absorb the majority of the expected losses of Delta Towing. We have consolidated Delta Towing as of December 31, 2003.

As of September 30, 2004 and December 31, 2003, we have eliminated in consolidation all intercompany account balances with Delta Towing as a result of the adoption of FIN 46, as amended, as well as the elimination of all intercompany transactions during the three and nine months ended September 30, 2004.

Prior to December 31, 2003, we accounted for our investment in Delta Towing under the equity method and recorded $0.1 million and $2.6 million in equity losses for the three and nine months ended September 30, 2003,

respectively, as a reduction in the carrying value of Delta Towing's notes receivable held by us. In addition, during the three and nine months ended September 30, 2003, we earned interest income of $0 million and $3.3 million, respectively, on interest-bearing debt due from Delta Towing.

As part of the formation of the joint venture on January 31, 2001, we entered into a charter arrangement with Delta Towing under which we committed to charter for a period of 2.5 years from date of delivery 10 crewboats then under construction, all of which were in service as of September 30, 2004. We also entered into an alliance agreement with Delta Towing under which we agreed to treat Delta Towing as a preferred supplier for the provision of marine support services. During the three and nine months ended September 30, 2003, we incurred charges totaling $3.4 million and $9.2 million, respectively, from Delta Towing for services rendered which were reflected in operating and maintenance -- related party expense.

The creditors of Delta Towing have no recourse to the general credit of the Company.

RELATED PARTY TRANSACTIONS

LONG-TERM DEBT -- BETA MARINE

In connection with the acquisition of the marine business, Delta Towing entered into a $3.0 million note agreement with Beta Marine dated January 30, 2001. The note bears interest at 8%, payable quarterly. In January 2004, Delta Towing failed to make its scheduled principal payment to Beta Marine. The $3.0 million principal amount of the note payable has been classified as a current obligation in our consolidated balance sheet. In the first half of 2004, Delta Towing repaid a portion of accrued interest payable to Beta Marine from proceeds from the sales of four marine vessels. We have no obligation to fund this debt on behalf of Delta Towing. Interest expense related to the note payable to Beta Marine was $0.1 million and $0.2 million of the three and nine months ended September 30, 2004, respectively.

ALLOCATION OF ADMINISTRATIVE COSTS

Transocean has historically provided specified administrative support to us. Transocean has charged us a proportional share of its administrative costs based on estimates of the percentage of work each Transocean department performs for us. The amount of expense allocated to us was $0.1 million and $1.4 million for the three and nine months ended September 30, 2003, respectively, and was classified as general and administrative -- related party expense. Following the IPO, some of these functions are provided to us under the transition services agreement with Transocean. Charges under the transition services agreement amounted to $0.1 million and $0.3 million for the three and nine months ended September 30, 2004, respectively, and are reported as general and administrative -- related party expense.

LONG-TERM DEBT -- TRANSOCEAN

We were party to a $1.8 billion two-year revolving credit agreement (the "Transocean Revolver") with Transocean, dated April 6, 2001. During the first quarter of 2003, we recognized $0.8 million in interest expense related to the Transocean Revolver. On April 6, 2003, the approximately $81.2 million then outstanding under the Transocean Revolver was converted to a 2.76% fixed rate promissory note issued by us to Transocean which was scheduled to mature on April 6, 2005. This note was cancelled in 2003 in connection with a series of transactions.

In March 2002, together with Transocean, we completed exchange offers and consent solicitations for our 6.5%, 6.75%, 6.95%, 7.375%, 9.125% and 9.5% Senior Notes (the "Exchange Offer"). As a result of the Exchange Offer, Transocean exchanged approximately $234.5 million, $342.3 million, $247.8 million, $246.5 million, $76.9 million and $289.8 million principal amount of our outstanding 6.5%, 6.75%, 6.95%, 7.375%, 9.125% and 9.5% Senior Notes, respectively, (the "Exchanged Notes") for newly issued Transocean notes having the same principal amount, interest rate, redemption terms and payment and maturity dates.

During 2003, we sold to Transocean, in separate transactions, our investment in Arcade Drilling AS, Cliffs Platform Rig 1, our 50% interest in Deepwater Drilling LLC, our 60% interest in Deepwater Drilling II LLC and our membership interests in R&B Falcon Drilling (International & Deepwater) Inc. LLC. As consideration for the sale of these assets, Transocean cancelled $529.7 principal amount outstanding of our senior notes held by Transocean. See " -- Asset Transfers to Transocean" for a further description of these transactions.

In February 2004, prior to the closing of our IPO, we exchanged $45.8 million in principal amount of our outstanding 7.375% Exchanged Notes held by Transocean Holdings Inc. (a wholly owned subsidiary of Transocean), plus accrued interest thereon, for 359,638 shares of our Class B common stock (4,367,714 shares of Class B common stock after giving effect to the stock dividend, see " -- Other Transactions Between Us and Transocean"). Immediately following this exchange, we exchanged $152.5 million and $289.8 million principal amount of our outstanding 6.75% and 9.5% Exchanged Notes, respectively, held by Transocean, plus accrued interest thereon, for 3,580,768 shares of our Class B common stock (43,487,535 shares of Class B common stock after giving effect to the stock dividend). The determination of the number of shares issued in the exchange transactions was based on a method that took into account the IPO price of $12.00 per share. The net effect of these transactions was to decrease notes payable -- related party and interest payable -- related party by $528.9 million with an offsetting increase in common stock of $0.5 million and additional paid-in capital of $528.4 million. There were no Exchanged Notes payable to Transocean outstanding at September 30, 2004. We recognized $3.1 million in interest expense - related party associated with these notes prior to their cancellation in February 2004. For the three and nine months ended September 30, 2003, we recognized $8.4 million and $34.2 million, respectively, in interest expense - related party with respect to the Exchanged Notes.

ASSET TRANSFERS TO TRANSOCEAN

We transferred the Transocean Assets to Transocean primarily as in-kind dividends and transfers in exchange for the cancellation of debt to Transocean and, in some instances, for cash. Specified contracts were assigned to Transocean for no consideration. These transactions had no effect on our results of continuing operations except to the extent that debt was retired and any gain or loss was recognized.

The following describes transfers of certain of our assets to Transocean during the first half of 2003. None of the drilling rigs transferred to Transocean were currently involved in the business activities that fall within the TODCO business as defined in the master separation agreement with Transocean.

In January 2003, we assigned to Transocean for no consideration a 12.5% undivided interest in an aircraft at net book value of $1.0 million. The transaction was recorded as a decrease to additional paid-in capital.

Also in January 2003, we distributed to Transocean as an in-kind dividend for no consideration some accounts receivable balances from related parties in the amount of $200.9 million. The transaction was recorded as a decrease to additional paid-in capital.

In February 2003, we distributed to Transocean for no consideration the stock of our subsidiaries R&B Falcon (A) Pty. Ltd., which owns the drilling unit Ron Tappmeyer and Cliffs Drilling do Brazil Servicios de Petroleo S/C Ltda. a dormant Brazilian entity. The aggregate net book value of $44.6 million for these transfers was recorded as a decrease to additional paid-in capital.

In March 2003, we assigned the drilling contract for the Deepwater Frontier to Transocean for no consideration. Additionally, in March 2003, we distributed to Transocean miscellaneous deepwater assets with a value of $1.4 million for no consideration. The transactions were recorded as a decrease to additional paid-in capital.

In March 2003, we sold to Transocean the stock of Arcade Drilling AS, a subsidiary that owns and operates the Paul B. Loyd, Jr. and owns the Henry Goodrich, for net proceeds of $264.1 million and recorded a net pre-tax loss of $11.0 million. The sales price was determined based on an independent appraisal. In consideration for the sale of the subsidiary, Transocean cancelled $233.3 million principal amount of our 6.95% Exchanged Notes due April 2008. The market value attributed to the notes, 113.21% of the principal amount, was determined based on available market information. We recorded a net pre-tax loss on retirement of debt of approximately $30 million.

In May 2003, we sold Cliffs Platform Rig 1 to Transocean in consideration for the cancellation of $13.9 million of the 6.95% Exchanged Notes. We recorded the excess of the sales price over the net book value of $1.6 million as an increase to additional paid-in capital and a pre-tax loss on the retirement of debt of $1.5 million in the second quarter of 2003.

Also in May 2003, we sold our 50 percent interest in Deepwater Drilling L.L.C. ("DD LLC"), and our 60 percent interest in Deepwater Drilling II L.L.C. ("DDII LLC") in consideration for the cancellation of $43.7 million principal amount of our debt held by Transocean. The value of our interests in DD LLC and DDII LLC was determined based on a similar third party transaction. We recorded the excess of the sales price over the net book value of our membership interests of $21.6 million as an increase to additional paid-in capital.

In June 2003, we sold our membership interests in our wholly-owned subsidiary, R&B Falcon Drilling (International & Deepwater) Inc. LLC. As consideration for the stock sold, Transocean cancelled $238.8 million of our outstanding debt held by them. The sales transaction was based on a valuation which took into account valuations of the drilling units owned by the entities sold. We recorded the excess of the net book value over the sales price of our membership interests of $60.9 million as a loss on sale of assets, which we included in the results of discontinued operations, and a pre-tax loss on the retirement of debt of $48.0 million in the second quarter of 2003.

At the time of the transactions, some of the drilling units discussed above were being utilized in connection with drilling contracts between our subsidiaries and customers. These contracts were not transferred and we secured the use of the drilling units for the purpose of performing these contracts through charters or other arrangements. The costs of these charters or other arrangements were included in discontinued operations and totaled $0.4 million and $1.2 million for the three and nine months ended September 30, 2003.

OTHER TRANSACTIONS BETWEEN US AND TRANSOCEAN

In August 2003, we received $11.4 million from Transocean in order for us to have the amount of cash and cash equivalents agreed to in the master separation agreement between us and Transocean, as more fully described in " -- Relationship Between Us and Transocean -- Master Separation Agreement -- Working Capital".

In February 2004, Transocean made equity contributions to us totaling $2.8 million, including $1.0 million in intercompany payable balances that we owed to Transocean as of the IPO date.

In February 2004, prior to the IPO, we exchanged $45,784,000, $152,463,000 and $289,793,000 in principal amount of our outstanding 7.375%, 6.750% and 9.500% notes, respectively, held by Transocean for 3,940,406 shares of our Class B common stock. Immediately following this exchange, we declared a dividend of 11.145 shares of our Class B common stock with respect to each share of our Class B common stock outstanding immediately following the exchange. As a result, 60,000,000 shares of our Class B common stock were issued and outstanding immediately prior to the IPO. Transocean currently holds 46,200,000 shares of our Class B common stock. The Class B common stock is convertible at any time into shares of our Class A common stock on a share per share basis at the sole option of Transocean. The stock for debt exchange was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

In February 2004, we recorded an increase in equity related to net liabilities attributable to Transocean's business of $0.4 million for which legal title had not been transferred to Transocean as of the IPO date in accordance with the business indemnity between us and Transocean. The indemnification by Transocean was recorded as a credit to additional paid-in capital and a corresponding related party receivable from Transocean. See " -- Relationship Between Us and Transocean -- Indemnification and Release".

As part of the tax sharing agreement, we must pay Transocean for substantially all pre-closing income tax benefits utilized or deemed to have been utilized subsequent to the closing of the IPO. Accordingly, we recorded an equity transaction in February 2004 to reflect this liability to Transocean of approximately $174 million, equal to the pre-closing income tax benefits, as a corresponding obligation within the deferred income tax asset accounts and a reduction in additional paid-in capital. In September 2004, as a result of a 2003 return-to-provision adjustment, the liability to Transocean was revised to approximately $182 million, and we recorded an equity adjustment of $7.7 million and the additional liability to Transocean as a reduction in additional paid-in capital and an obligation within the deferred income tax asset accounts.

In addition, Transocean agreed to indemnify us for certain tax liabilities that existed as of the IPO date, which are currently estimated to be $10.3 million. We recorded the tax indemnification by Transocean as a credit to additional paid-in capital with a corresponding offset to a related party receivable from Transocean. See " -- Relationship Between Us and Transocean -- Tax Sharing Agreement".

At the closing of the IPO, we completed the following transactions:

- We assigned to Transocean for no consideration any other agreements relating to drilling units and other assets not owned by us or our subsidiaries upon the closing of the IPO.

- We assigned to Transocean the rights to any receivables outstanding upon the closing of the IPO which were not related to the "TODCO business" as that term is used in the master separation agreement. We will remit the proceeds from those receivables as they are collected.

- We transferred to Transocean any remaining miscellaneous equipment and other assets that did not relate to our business following the closing of the IPO.

To the extent the transfer of legal title to any of the above assets could not be completed prior to the closing of the IPO, beneficial ownership of such assets was transferred to Transocean, and we or our applicable subsidiary will hold such asset as agent for the other party until such time as legal title can be transferred.

RELATIONSHIP BETWEEN US AND TRANSOCEAN

We have provided below a summary description of the material terms and conditions of a master separation agreement and several other important related agreements between Transocean and us.

MASTER SEPARATION AGREEMENT

The master separation agreement between Transocean and us provided for the completion of the separation of our assets and businesses from those of Transocean. In addition, it contains several agreements governing the relationship between us and Transocean following the IPO and specifies the ancillary agreements that we and Transocean signed.

TODCO BUSINESS

The master separation agreement defines the TODCO business to mean the following businesses and activities:

- contract drilling, workover, production and similar services for oil and gas wells using jackup, submersible, barge (including workover) and platform drilling rigs in the U.S. Gulf of Mexico and U.S. inland waters, including maintenance and mobilization activities to the extent related to rigs providing these services,

- contract drilling, workover, production and similar services for oil and gas wells in and offshore Mexico, Trinidad, Colombia and Venezuela (including the turnkey drilling services formerly provided by our subsidiaries in Venezuela), including maintenance and mobilization activities to the extent related to rigs providing these services,

- construction activities (including construction activities involving an upgrade to, or modification of, a rig) in connection with rigs owned by us or our subsidiaries after the closing of the IPO,

- office or yard facilities owned or used by us and our subsidiaries to the extent related to the services and activities described in

this definition,

- our joint venture interest in Delta Towing Holdings, LLC, the operation of the business transferred to Delta Towing prior to that transfer and the notes issued in connection with that transfer,

- our investment in Energy Virtual Partners, Inc. and Energy Virtual Partners, LP (which has been liquidated),

- activities that were related primarily to the above activities at the time those activities ceased, and

- any business conducted by TODCO or any of its subsidiaries after the closing of the IPO.

The following businesses and activities are excluded from the definition of the TODCO business to the extent they were conducted prior to the closing of the IPO:

- contract drilling, workover, production or similar services for oil and gas wells using semisubmersibles and drillships in the U.S. Gulf of Mexico, including maintenance and mobilization activities to the extent related to rigs providing these services,

- contract drilling, workover, production or similar services for oil and gas wells in geographic regions outside of the U.S. Gulf of Mexico, U.S. inland waters, Mexico, Colombia, Trinidad and Venezuela, including maintenance and mobilization activities to the extent related to rigs providing these services and such services using land rigs,

- construction activities (including construction activities involving an upgrade to, or modification of, a rig) in connection with rigs or other assets owned by (1) Transocean or its subsidiaries (excluding us) after the closing of the IPO or (2) neither Transocean nor us after the closing of the IPO,

- oil and gas exploration and production activities (but not including our ownership interest in Energy Virtual Partners, which has been liquidated),

- coal production activities, and

- the turnkey drilling business that we formerly operated in the U.S. Gulf of Mexico and offshore Mexico, except that contract drilling services provided to that business which otherwise fall within the definition of TODCO business are not excluded.

TRANSFER OF ASSETS AND ASSIGNMENT OF LIABILITIES

We have transferred the stock of various subsidiaries and other assets to Transocean and Transocean has assumed liabilities associated with the transferred assets and businesses. See " -- Asset Transfers to Transocean." The master separation agreement provides for any additional transfers of assets and assumptions of liabilities necessary to effect the separation of the TODCO business from the business of Transocean. The master separation agreement provides that assets or liabilities that could not legally be transferred or assumed prior to the closing of the IPO would be transferred or assumed as soon as practicable following receipt of all necessary consents of third parties and

regulatory approvals. In any such case, the master separation agreement provides that the party retaining the assets or liabilities will hold the assets in trust for the use and benefit of, or retain the liabilities for the account of, the party entitled to the assets or liabilities (at the expense of that party), until the transfer or assumption can be completed. The party retaining these assets or liabilities will also take any action reasonably requested by the other party in order to place the other party in the same position as would have existed if the transfer or assumption had been completed. We refer to all of these transfers of assets and assumptions of liabilities together as the "separation."

Except as set forth in the master separation agreement, no party is making any representation or warranty as to the assets or liabilities transferred or assumed as a part of the separation and all assets were and will be transferred on an "as is, where is" basis. As a result, we and Transocean each have agreed to bear the economic and legal risks that any conveyances of assets are insufficient to vest good and marketable title to such assets in the party who should have title under the master separation agreement.

The parties also agreed that for a period of one year following the IPO, if Transocean determines in its good faith judgment that:

- any assets owned by us or our subsidiaries were used primarily during the prior 12 months in Transocean's business, we will transfer those assets to Transocean without additional consideration, or

- any assets owned by Transocean were used primarily during the prior 12 months in our business, Transocean will transfer those assets to us without additional consideration.

WORKING CAPITAL

The master separation agreement contains an acknowledgement that our cash and cash equivalents as of June 30, 2003 were $25.0 million after giving effect to a subsequent payment by Transocean to us of $11.4 million. The amount paid to us by Transocean equaled the difference between $25.0 million and the amount of our cash and cash equivalents as of June 30, 2003, prior to giving effect to the payment by Transocean. The master separation agreement provided that we retain all cash and cash equivalents generated by our business following June 30, 2003. Transocean will not be required to make any additional payments to us for our working capital needs under the master separation agreement.

LETTERS OF CREDIT AND GUARANTEES

The master separation agreement requires that we and Transocean use our reasonable best efforts to terminate (or have us or one of our subsidiaries substituted for Transocean, or Transocean or one of its subsidiaries substituted for us, as applicable) all existing guarantees by one party of obligations relating to the business of the other party, including financial, performance and other guarantee obligations. We have also agreed with Transocean that each party will use its reasonable best efforts to have the other party substituted under letters of credit or other surety instruments issued by third parties for the account of either party or any of its subsidiaries issued on behalf of the other party's business.

As of September 30, 2004, we have various surety bonds in place totaling $12.3 million that were issued under a Transocean facility. These bonds secure customs obligations and certain performance and other obligations, which were issued principally in connection with our contracts with PEMEX. Our master separation agreement with Transocean requires that we use our best efforts to replace this facility with our own and to indemnify Transocean for any claims related to the bonds. Transocean has agreed to leave these bonds in place, subject to certain conditions.

INDEMNIFICATION AND RELEASE

The master separation agreement provides for cross-indemnities that will generally place financial responsibility on us and our subsidiaries for all liabilities associated with the businesses and operations falling within the definition of TODCO business, and that will generally place financial responsibility for liabilities associated with all of Transocean's businesses and operations with Transocean and its subsidiaries, regardless of the time those liabilities arise. The master separation agreement also contains indemnification provisions under which we and Transocean each indemnify the other with respect to breaches of the master separation agreement or any ancillary agreements.

In connection with our separation from Transocean, the allocation of liabilities related to taxes and employment matters will be governed separately in a tax sharing agreement and an employee matters agreement. See " -- Tax Sharing Agreement" and " -- Employee Matters Agreement."

Under the master separation agreement, we generally released Transocean and its affiliates, agents, successors and assigns, and Transocean generally released us and our affiliates, agents, successors and assigns, from any liabilities between us or our subsidiaries on the one hand, and Transocean or its subsidiaries on the other hand, arising from acts or events occurring on or before the closing of the IPO, including acts or events occurring in connection with the separation or the IPO. The general release does not apply to obligations under the master separation agreement or any ancillary agreement or to specified debt and other ongoing contractual arrangements.

Under the master separation agreement, we will be strictly liable to Transocean for any misstatements or omissions in information supplied to Transocean in connection with SEC filings and other public disclosures.

NONCOMPETITION AND OTHER COVENANTS

The master separation agreement includes provisions that restrict us from competing with Transocean in specified business activities. These provisions do not restrict us from engaging in any contract drilling, workover, production or similar services for oil and gas wells using jackup, barge, platform or land rigs in the following geographic locations: U.S. onshore, U.S. inland water, U.S. Gulf of Mexico and offshore or onshore Mexico, Trinidad, Venezuela or Colombia. However, except for the activities described in the foregoing sentence, we are restricted from engaging in any contract drilling, workover, production or similar services for oil and gas wells using any type of drilling unit in the following geographic locations: offshore North America, offshore South America, offshore Europe, offshore Africa, offshore Middle East, offshore India, offshore Southeast Asia, offshore Asia, offshore Australia, the Gulf of Mexico, the North Sea, the Mediterranean Sea, the Red Sea, the Persian Gulf and the Caspian Sea. These provisions remain in effect so long as Transocean beneficially owns at least a majority of the voting power of our outstanding voting stock.

The master separation agreement required us to use reasonable commercial efforts to satisfy the conditions precedent for the closing of the IPO. The master separation agreement also includes provisions relating to a tax-free distribution by Transocean of the remainder of our common stock it owns, but does not obligate Transocean to effect such a distribution. If Transocean chooses to conduct a tax-free distribution, we have agreed to take all action reasonably requested by Transocean to facilitate that transaction at our own expense.

The master separation agreement also contains provisions relating to the exchange of information, provision of information for financial reporting purposes, the preservation of legal privileges, dispute resolution, and provision of corporate records.

Some of the rights granted to Transocean in the master separation agreement would apply to and be binding upon any entity that acquires control of us.

INSURANCE

The master separation agreement provides that we will continue to be eligible for coverage under substantially all current insurance policies of Transocean (other than employee welfare or benefit plan policies, which are addressed in the employee matters agreement) and future insurance policies determined jointly by us and Transocean. We have agreed to reimburse Transocean for premium expenses related to those insurance policies. Transocean has agreed not to terminate our coverage under the insurance policies unless it provides us prior notice. However, we will cease to be eligible coverage under Transocean's insurance policies when Transocean ceases to own at least a majority of the voting power of our outstanding voting stock, and no prior notice will be required in that case. In no event will Transocean be liable to us in the event of the termination of any insurance policy (unless in the case of termination by Transocean, Transocean failed to provide us the notice required by the master separation agreement), the failure of insurance policies to cover our liabilities or the non-renewal of insurance policies beyond their expiration dates as of the date of the master separation agreement.

In October 2004 we obtained separate, stand-alone insurance policies for hull and machinery, property and indemnity and directors and officers liability coverage.

CORPORATE GOVERNANCE

The master separation agreement also contains several provisions regarding our corporate governance that apply as long as Transocean owns specified percentages of our common stock. As long as Transocean owns shares representing a majority of the voting power of our outstanding voting stock, Transocean will have the right to:

- nominate for designation by our board of directors, or a nominating committee of the board, a majority of the members of the board, as well as the chairman of the board, and

- designate at least a majority of the members of any committee of our board of directors.

If Transocean's beneficial ownership of our common stock is reduced to a

level of at least 10% but less than a majority of the voting power of our outstanding voting stock, Transocean will have the right to:

- designate for nomination a number of directors proportionate to its voting power, and

- designate one member of any committee of our board of directors.

In the master separation agreement, we have also agreed to use our best efforts to cause Transocean's nominees to be elected.

The master separation agreement specified the form of our amended and restated certificate of incorporation and bylaws to be in effect at the time of the IPO. It also provides that for so long as Transocean beneficially owns shares representing at least 15% of the voting power of our outstanding voting stock, we will not, without the prior consent of Transocean, adopt any amendments to our amended and restated certificate of incorporation or bylaws or take any action to recommend to our stockholders certain actions which would, among other things, limit the legal rights of Transocean, or deny any benefit to Transocean or any of its subsidiaries as our stockholders in a manner not applicable to our stockholders generally.

We have also agreed that for so long as Transocean and its subsidiaries own 50% or more of the voting power of our outstanding voting stock, we will maintain the same accounting principles and practices as Transocean, and we will not select a different accounting firm than Transocean's, which is currently Ernst & Young LLP, to serve as our independent certified public accountants.

We have also agreed that for so long as Transocean owns at least a majority of the voting power of all the outstanding shares of voting stock, we will not take any action or enter into any commitment or agreement that could result in a contravention or default by us or any of our affiliates, of or under any provisions of applicable law, any provision of Transocean's memorandum of association or articles of association or any credit agreement or other material agreement by which Transocean is bound. Also, for so long as Transocean owns at least a majority of the voting power of our outstanding voting stock, we will not enter into any commitment or agreement that contains provisions triggering a default or material payment when Transocean exercises its right to convert its shares of our Class B common stock into shares of our Class A common stock or otherwise disposes of its shares of our Class B common stock.

We have agreed to grant to Transocean a continuing right to purchase from us, at the times set forth in the master separation agreement,

- such number of shares of our voting stock as is necessary to allow Transocean to maintain its then-current percentage following the IPO, and

- 80% of the shares of each other class of capital stock that we issue.

These rights terminate if at any time Transocean owns less than 80% of the voting power of our outstanding voting stock.

TAX SHARING AGREEMENT

Until the closing of our IPO, we were included in Transocean Holdings' consolidated group for U.S. federal income tax purposes. As of the closing of the IPO, we are not included in Transocean Holdings' U.S. federal consolidated group because no U.S. subsidiary of Transocean owns at least 80% of the aggregate voting power and value of our outstanding stock.

We have entered into a tax sharing agreement with Transocean Holdings which governs Transocean Holdings' and our respective rights, responsibilities and obligations with respect to taxes and tax benefits. References in this summary description of the tax sharing agreement to the terms "tax" or "taxes" mean taxes and any interest, penalties, additions to tax or additional amounts in respect of such taxes. The general principles of the tax sharing agreement include the following:

- Except for special tax items discussed in the bullet below, all U.S. federal, state, local and foreign income taxes and income tax benefits (including income taxes and income tax benefits attributable to the TODCO business) that accrued on or before the closing of the IPO generally will be for the account of Transocean Holdings. Accordingly, we generally will not be liable for any income taxes accruing on or before the closing of the IPO, but we generally must pay Transocean Holdings for the amount of any income tax benefits, calculated as described below, created on or before the closing of the IPO ("pre-closing tax benefits") that we use or absorb on a return with respect to a period after the closing of the IPO. We will have no obligation to pay Transocean Holdings for any pre-closing tax benefits arising out of or relating to the alternative minimum tax provisions of Sections 55 through 59 of the U.S. Internal

Revenue Code, but we will be required to pay Transocean Holdings for any pre-closing tax benefits we use that are alternative minimum tax credits described in Section 53 of the Internal Revenue Code. Our obligation to pay Transocean Holdings for the use of pre-closing tax benefits and our potential obligation to pay alternative minimum tax to the Internal Revenue Service may result in our paying more, in the aggregate, to the Internal Revenue Service and to Transocean Holdings than we would otherwise have paid if we had utilized no pre-closing tax benefits. For purposes of the tax sharing agreement, deferred tax liabilities reflected in our financial statements, which represent future tax effects of temporary differences between the financial statement basis and the tax basis of our assets and liabilities, are not considered to constitute income tax liabilities accrued on or before the closing of the IPO. As of September 30, 2004, we had approximately $535 million of income tax benefits subject to our obligation to reimburse Transocean Holdings. See Note 10 to our condensed consolidated financial statements. The amount of these tax benefits will be calculated as follows:

(1) in the case of a deduction used or absorbed, by multiplying the deduction by the highest applicable statutory tax rate in effect, and

(2) in the case of a credit used or absorbed, by allowing 100% of the credit.

However, if the use or absorption of a pre-closing tax benefit

defers or precludes our use or absorption of any income tax benefit created after the closing of the IPO ("post-closing tax benefit"), our payment obligation with respect to the pre-closing tax benefit generally will be deferred until we actually use or absorb such post-closing tax benefit. This payment deferral will not apply with respect to, and we will have to pay currently for the use or absorption of pre-closing tax benefits to the extent of:

(1) up to 20% of any deferred or precluded post-closing tax benefit arising out of our payment of foreign income taxes, and

(2) 100% of any deferred or precluded post-closing tax benefit arising out of a carryback from a subsequent year.

If any person other than Transocean or its subsidiaries becomes the beneficial owner of greater than 50% of the aggregate voting power of our outstanding voting stock, we will be deemed to have used or absorbed all pre-closing tax benefits, and we generally will be required to pay Transocean Holdings an amount for the deemed use or absorption of these pre-closing tax benefits. The amount paid for the deemed use of these tax benefits will be calculated by:

(1) in the case of a deduction (including, for these purposes, all pre-closing income taxes, whether claimed as a deduction or credit), multiplying the deduction by the highest applicable statutory tax rate in effect,

(2) in the case of a credit other than a pre-closing foreign tax credit, allowing 100% of such credit, and

(3) multiplying the amounts by a specified discount factor.

The specified discount factor will vary depending on the year in which another person becomes the beneficial owner of greater than 50% of the voting power of our stock: if in 2003, 2004, 2007 or 2008, then the factor is 0.80; if in 2005 or 2006, then the factor is 0.70; if in 2009, then the factor is 0.85; if in 2010, then the factor is 0.90; if in 2011 or 2012, then the factor is 0.95; and if in 2013 or a later year, then the factor is 1.00). Moreover, if any of our subsidiaries that join with us in the filing of consolidated returns ceases to join in the filing of such returns, we will be deemed to have used that portion of the pre-closing tax benefits attributable to that subsidiary following the cessation, and we generally will be required to pay Transocean Holdings the amount of this deemed tax benefit, calculated as described above with regard to an acquisition of beneficial ownership, at the time such subsidiary

ceases to join in the filing of such returns. In the case of any of our payments to Transocean resulting from another person becoming the owner of greater than 50% of our voting stock or a subsidiary ceasing to join in the filing of a consolidated return with us, the payment will in no case be deferred, regardless of whether the existence of the related pre-closing tax benefit would or could defer or preclude our use or absorption of any post-closing tax benefit. Moreover, the payment will not be subsequently adjusted for

any difference between the tax benefits that we are deemed to use or absorb in such case and the tax benefits that we actually use or absorb, and the difference between those amounts could be substantial. Among other considerations, applicable tax laws may, as a result of another person becoming the owner of greater than 50% of our voting power significantly limit our use of such tax benefits, and these limitations are not taken into account in determining the amount of the payment to Transocean. A substantial portion of the pre-closing tax benefits are net operating losses, most or all of which should be eligible to be carried forward at least fourteen more years.

- We are responsible for all special tax items accruing on or after the date on which we issued shares of our common stock to Transocean in repayment of our notes, as described in " -- Debt Retirement and Debt Exchange Offers." For this purpose, special tax items means taxes with respect to items specified in U.S. Treasury regulation section 1.1502-76(b)(2)(ii)(C) (generally referring to transactions outside the ordinary course of our business). However, special tax items do not include taxes with respect to transactions to effect the separation of the TODCO business from the business of Transocean. See " -- Master Separation Agreement." Moreover, there were no special tax items that accrued during the period beginning on the date of issuance of such shares to Transocean and ending on the date of the closing of the IPO.

- We and Transocean Holdings are not currently members of a U.S. federal consolidated group or state, local or foreign combined group. If we and Transocean Holdings (or any affiliate of Transocean Holdings other than us) were to become members of a U.S. federal consolidated group or state, local or foreign combined group for any period after the closing of the IPO, we would be responsible for all income taxes attributable to us for that period, determined as if we had filed separate U.S. federal, state, local or foreign income tax returns. We would be entitled to reimbursement by Transocean Holdings for any income tax benefits realized by Transocean Holdings or any of its affiliates as a result of our being a member of any such consolidated or combined group.

- We must pay Transocean Holdings for any tax benefits attributable to us resulting from (1) the payment by Transocean Holdings, after the closing of the IPO, of any additional taxes of the TODCO business that are not U.S. federal income taxes or (2) the delivery by Transocean or its subsidiaries, after the closing of the IPO, of stock of Transocean to an employee of ours in connection with the exercise of an employee stock option. We will generally be required to pay the deemed value of these tax benefits within 30 days of the payment of such additional taxes or the delivery of Transocean stock, whether or not we ever actually use or absorb such tax benefits. However, items in excess of $1.0 million will be subject to the same rules as discussed above for pre-closing tax benefits, and therefore the payment of these items may be deferred in some circumstances.

- Apart from (1) income taxes and income tax benefits that accrued on or before the closing of the IPO and (2) tax benefits resulting from Transocean's payment of our taxes that are not U.S. federal income taxes or delivery of stock to our employees, described above, Transocean Holdings will be responsible for all income taxes, and will be entitled to all income tax benefits, attributable to Transocean Holdings or its affiliates (other than us), and we will be responsible for all income taxes, and will be entitled to all

income tax benefits, attributable to us.

- Our ability to obtain a refund from a carryback to a year in which we and Transocean Holdings joined in a consolidated or combined return will be at the discretion of Transocean Holdings. Moreover, any refund that we may obtain will be net of any increase in taxes resulting from the carryback that are otherwise for the account of Transocean Holdings.

- We will have the right to be notified of tax matters for which we are responsible under the terms of the tax sharing agreement, although Transocean Holdings will have sole authority to respond to and conduct all tax proceedings, including tax audits, relating to any Transocean Holdings consolidated, or Transocean combined, income tax returns in which we are included.

- Transocean Holdings will have substantial control over our filing of tax returns with respect to (1) any period in which Transocean or Transocean Holdings possess greater than 50% of the voting power of all of our outstanding stock or (2) any period after the closing of the IPO so long as there remains a present or potential obligation for us to pay Transocean Holdings for pre-closing tax benefits.

- We will also be responsible for all taxes, other than income taxes, attributable to the TODCO business, whether accruing before, on or after the closing of the IPO.

- We generally will be required to pay Transocean Holdings for the amount of pre-closing tax benefits that we use in determining the amount of any installment of estimated taxes we pay to Transocean Holdings or any tax authority within thirty days after the installment of estimated taxes is or would have been paid. If, after any installment payment of estimated taxes or after the relevant return is due (with or without any extensions), the estimated amount of pre-closing tax benefits for which we have previously paid differs from the most recent estimate or actual amount of pre-closing tax benefits that we use or absorb on that return, we and Transocean Holdings must make appropriate true-up payments between us. However, under some circumstances, payments by us for the use of pre-closing tax benefits, whether estimated or actual, may be deferred (subject to an interest charge) under a subordination agreement between us and Transocean in favor of our third-party lenders.

The tax sharing agreement further provides for cooperation between Transocean Holdings and us with respect to tax matters, the exchange of information and the retention of records that may affect the income tax liability of the parties to the agreement. However, if we fail to cooperate with Transocean Holdings in any tax contest with respect to taxes that are otherwise for the account of Transocean Holdings, any additional taxes resulting from such tax contest will be for our account, notwithstanding any other provision in the tax sharing agreement.

Notwithstanding the tax sharing agreement, under U.S. treasury regulations, each member of a consolidated group is severally liable for the U.S. federal income tax liability of each other member of the consolidated group. Accordingly, with respect to periods in which we have been included in Transocean Holdings' consolidated group, we could be liable to the U.S. government for any U.S. federal income tax liability incurred, but not

discharged, by any other member of Transocean Holdings' consolidated group. However, if any such liability were imposed, we would generally be entitled to be indemnified by Transocean Holdings for tax liabilities allocated to Transocean Holdings under the tax sharing agreement.

REGISTRATION RIGHTS AGREEMENT

Because our shares of common stock held by Transocean are deemed "restricted securities" as defined in Rule 144, Transocean may only sell a limited number of shares of our common stock into the public markets without registration under the Securities Act. We entered into a registration rights agreement with Transocean under which, at the request of Transocean, we would use our best efforts to register shares of our common stock that were held by Transocean after the closing of the IPO, or were subsequently acquired, for public sale under the Securities Act. As long as Transocean owns a majority of the voting power of our outstanding common stock, there is no limit to the number of registrations that it may request. Once Transocean owns less than a majority of the voting power of our outstanding common stock, it can request a total of three additional registrations. If Transocean sells more than 10% of our outstanding shares of common stock to a transferee, Transocean may transfer all or a portion of its rights under the agreement, except that a transferee that acquires a majority of our outstanding common stock can only request two additional registrations after it owns less than a majority of our outstanding common stock, and a transferee of less than a majority of our outstanding common stock can only request either one or two registrations, depending on the percentage of our outstanding common stock it acquires. The transfer of rights under the agreement to a transferee does not limit the number of registrations Transocean may request. We also provide Transocean and its permitted transferees with "piggy-back" rights to include its shares in future registrations of our common stock under the Securities Act. There is no limit on the number of these "piggy-back" registrations in which Transocean may request its shares be included. These rights will terminate once Transocean or a permitted transferee is able to dispose of all of its shares of our common stock within a three-month period pursuant to the exemption from registration provided under Rule 144 of the Securities Act. We have agreed to cooperate in these

registrations and related offerings. We and Transocean have agreed to restrictions on the ability of each party to sell securities following registrations requested by either party.

TRANSITION SERVICES AGREEMENT

We entered into a transition services agreement with Transocean under which Transocean provides specified administrative support during the transitional period following the closing of the IPO. Transocean may provide specified information technology and systems, financial reporting, accounting, human resources, treasury and claims administration services to us in exchange for agreed fees based on Transocean's actual costs. We are required to use specified services so long as Transocean owns at least 50% of the voting power of our outstanding shares of voting stock. However, we expect to replace the computerized accounting system provided by Transocean with our own system by January 1, 2005. Only in limited circumstances will Transocean be liable to us with respect to the provision of services under the transition services agreement.

EMPLOYEE MATTERS AGREEMENT

We entered into an agreement with Transocean and Transocean Holdings to allocate specified assets, liabilities, and responsibilities relating to our

current and former employees and their participation in Transocean's benefit plans.

Benefits under our U.S. pension plan ceased to accrue as of July 1, 1999. As of August 1, 2001, our employees' existing accrued benefits under that plan were fully vested. Sponsorship of that plan has been assumed by Transocean Holdings effective August 1, 2002. Effective as of the date that we no longer are a part of a controlled group of companies with Transocean for U.S. federal income tax purposes, affected employees will be entitled to take a distribution from that plan, subject to the provisions of the plan and to taxation and possible early withdrawal penalties. We do not expect to establish a new pension plan for our employees.

Our employees became eligible to participate in our U.S. savings plan effective November 1, 2002. Our employees may make pre-tax contributions to that plan. Employees who are not considered highly compensated for tax purposes may also make post-tax contributions. We provide matching contributions up to 100% of the first 3% of participant contributions, plus 50% of the next 3% of participant contributions for a total 4.5% in matching contributions. Additionally, the plan allows for a discretionary annual contribution allocable to all eligible employees, subject to a two-year vesting requirement. We have agreed that we will make an annual contribution of 1.5% of compensation for all eligible employees (as defined in the plan) for so long as we are part of a controlled group of companies with Transocean for U.S. federal income tax purposes. Annual contributions were made in 2002 and 2003. On or about January 1, 2003, liabilities for our employees' accounts under the Transocean U.S. Savings Plan, and assets associated with those liabilities, were transferred to our U.S. savings plan. Our employees who have invested in Transocean ordinary shares under the Transocean U.S. Savings Plan may retain that investment, if they choose to do so, until December 31, 2005, but will not be eligible to acquire additional Transocean ordinary shares under our U.S. savings plan.

Under the terms of the Transocean stock option awards granted prior to the closing of the IPO, our employees will continue to retain outstanding options to acquire Transocean ordinary shares for the duration of their original term.

With some exceptions, we have agreed to indemnify Transocean for employment liabilities arising from any acts of our employees or from claims by our employees against Transocean and for liabilities relating to benefits for our employees. Transocean has agreed to similarly indemnify us.

SERVICE AND SECONDMENT AGREEMENT

We have entered into an agreement with Transocean under which we provide to Transocean specified administrative services and seconded personnel in connection with a drilling contract Transocean has for drilling oil and gas wells offshore Trinidad and Tobago for a fee of $2,750 per day for an expected duration of 60 to 100 days, beginning in early September 2004. In connection with the provision of these services, we have agreed to indemnify

Transocean for liabilities pertaining to our employees (excluding the seconded personnel), and Transocean has agreed to indemnify us for liabilities pertaining to its employees (including the seconded personnel).

CAUTIONARY STATEMENT ABOUT FORWARD -- LOOKING STATEMENTS

This report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements include information

concerning our possible or assumed future financial performance and results of operations, including statements about the following subjects:

- our strategy,
- improvement in the fundamentals of the oil and gas industry,
- the supply and demand imbalance in the oil and gas industry,
- the correlation between demand for our rigs and our earnings and customers' expectations of energy prices,
- our plans, expectations and any effects of focusing on agreements and marine assets and drilling for natural gas along the U.S. Gulf Coast, pursuing efficient, low-cost operations and a disciplined approach to capital spending, maintaining high operating standards and maintaining a conservative capital structure,
- the emergence of the drilling industry from a low point in the cycle,
- expected revenues, operating income (loss) and net income (loss) from continuing operations for the remainder of 2004,
- estimated tax benefits,
- expected capital expenditures,
- expected general and administrative expense,
- refurbishment costs,
- our ability to take advantage of opportunities for growth and our ability to respond effectively to market downturns,
- sufficiency of funds for required capital expenditures, working capital and debt service,
- deep gas drilling opportunities,
- operating standards,
- payment of dividends,
- competition for drilling contracts,
- matters relating to derivatives,
- matters related to our letters of credit and surety bonds,
- future restructurings,
- matters relating to our future transactions, agreements and relationship with Transocean,
- payments under agreements with Transocean,
- interests conflicting with those of Transocean,
- liabilities under laws and regulations protecting the environment,
- results and effects of legal proceedings,

- future utilization rates,

- future dayrates, and

- expectations regarding improvements in offshore drilling activity, demand for our drilling rigs, our plan to operate primarily in the U.S. Gulf Coast, operating revenues, operating and maintenance expense, insurance expense and deductibles, interest expense, debt levels and other matters with regard to outlook.

Forward-looking statements in this Form 10-Q/A are identifiable by use of the following words and other similar expressions:

- "anticipate,"

- "believe,"

- "budget,"

- "could,"

- "estimate,"

- "expect,"

- "forecast,"

- "intent,"

- "may,"

- "might,"

- "plan,"

- "potential,"

- "predict,"

- "project," and

- "should."

The following factors could affect our future results of operations and could cause those results to differ materially from those expressed in the forward-looking statements included in this Form 10-Q/A:

- worldwide demand for oil and gas,

- exploration success by producers,

- demand for offshore and inland water rigs,

- our ability to enter into and the terms of future contracts,

- labor relations,

- political and other uncertainties inherent in non-U.S. operations (including exchange controls and currency fluctuations),
- the impact of governmental laws and regulations,
- the adequacy of sources of liquidity,
- uncertainties relating to the level of activity in offshore oil and gas exploration and development,
- oil and natural gas prices (including U.S. natural gas prices),
- competition and market conditions in the contract drilling
- work stoppages,
- the availability of qualified personnel,
- operating hazards,
- war, terrorism and cancellation or unavailability of insurance coverage,
- compliance with or breach of environmental laws,
- the effect of litigation and contingencies,
- our inability to achieve our plans or carry out our strategy, and
- other factors discussed in this Form 10-Q/A.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated. Shareholders should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBIT

EXHIBIT NO.	DESCRIPTION	FILED HEREWITH BY REFERE
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed h
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed h

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in Houston, Texas, on this 15th day of December, 2004.

TODCO

/s/ T. Scott O'Keefe

T. Scott O'Keefe
Senior Vice President and Chief Financial Officer
(on behalf of TODCO and as Principal Financial Officer)

EXHIBIT INDEX

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