

DIAMOND OFFSHORE DRILLING INC

Form DEF 14A

April 02, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
SCHEDULE 14A**

**Proxy Statement Pursuant To Section 14 (a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to § 240.14a-12.

Diamond Offshore Drilling, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person (s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

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DIAMOND OFFSHORE DRILLING, INC.

15415 Katy Freeway

Houston, Texas 77094

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 20, 2008

To our Stockholders:

The 2008 annual meeting of stockholders of Diamond Offshore Drilling, Inc. will be held at The Regency Hotel, 540 Park Avenue, New York, New York 10021 on Tuesday, May 20, 2008 at 11:30 a.m. local time for the following purposes:

- (1) To elect eight directors to serve until our 2009 annual meeting of stockholders;
- (2) To ratify the appointment of Deloitte & Touche LLP as our independent auditors for fiscal year 2008; and
- (3) To transact other business that may properly come before the annual meeting or any adjournment of the annual meeting.

Our stockholders of record at the close of business on March 25, 2008 are entitled to notice of, and to vote at, the annual meeting and any adjournments of the annual meeting. Stockholders who execute proxies solicited by our Board of Directors retain the right to revoke them at any time. Unless you revoke your proxy, your shares of common stock represented by your proxy will be voted at the annual meeting in accordance with the directions given in your proxy. If you do not specify a choice on your proxy, the proxy will be voted FOR the nominees for director named in the attached proxy statement and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditors. The list of our stockholders may be examined at our executive offices at 15415 Katy Freeway, Suite 100, Houston, Texas 77094.

Additional information regarding the annual meeting is included in the attached proxy statement.

YOUR VOTE IS IMPORTANT. YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. HOWEVER, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE COMPLETE, DATE, SIGN AND MAIL PROMPTLY THE ENCLOSED PROXY IN THE ENCLOSED POSTPAID ENVELOPE. THE PROXY IS REVOCABLE AND WILL NOT BE USED IF YOU ARE PRESENT AT THE ANNUAL MEETING AND PREFER TO VOTE YOUR SHARES IN PERSON.

By Order of the Board of Directors

Sincerely,

William C. Long

Senior Vice President, General Counsel and Secretary

April 2, 2008

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on May 20, 2008.

**The proxy statement and our 2007 annual report to stockholders are available at:
www.diamondoffshore.com/investors/investors_proxy.php**

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**DIAMOND OFFSHORE DRILLING, INC.
15415 KATY FREEWAY
HOUSTON, TEXAS 77094**

PROXY STATEMENT

**For the 2008 Annual Meeting of Stockholders
to be held on May 20, 2008**

ABOUT THE ANNUAL MEETING

Why am I receiving these materials?

The Board of Directors, or the Board, of Diamond Offshore Drilling, Inc., a Delaware corporation, which we refer to in this Proxy Statement as we, us, our company or Diamond Offshore, is providing you these proxy materials in connection with the Board's solicitation of proxies from our stockholders for our 2008 annual meeting of our stockholders, or the Annual Meeting, and any adjournments and postponements of the Annual Meeting. The Annual Meeting will be held at The Regency Hotel, 540 Park Avenue, New York, New York 10021 on Tuesday, May 20, 2008 at 11:30 a.m. local time. We expect to distribute this Proxy Statement and the form of proxy to our stockholders entitled to notice of the Annual Meeting beginning on or about April 14, 2008.

What is the purpose of the Annual Meeting?

At the Annual Meeting, you and our other stockholders entitled to vote at the Annual Meeting are requested to act upon proposals to elect eight members of our Board of Directors to serve until our 2009 annual meeting of stockholders and to ratify the appointment of Deloitte & Touche LLP as our independent auditors for fiscal year 2008.

Who is entitled to vote at the Annual Meeting?

Only holders of record of our common stock, par value \$.01 per share, at the close of business on March 25, 2008, the record date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting. Each stockholder is entitled to one vote for each share of common stock held. Shares of our common stock represented by a properly executed proxy in the accompanying form will be voted at the Annual Meeting. On the record date 138,876,045 shares of our common stock, which is our only outstanding class of voting securities, were outstanding and entitled to vote.

Who can attend the Annual Meeting?

Only stockholders of record as of the close of business on March 25, 2008 and their accompanied guests, or the holders of their valid proxies, may attend the Annual Meeting. Each person attending the Annual Meeting will be asked to present valid government-issued picture identification, such as a driver's license or a passport, before being admitted to the meeting. In addition, stockholders who hold their shares through a broker or nominee (*i.e.*, in street name) should provide proof of their beneficial ownership as of March 25, 2008, such as a brokerage statement showing their ownership of shares as of that date. Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting and attendees will be subject to security inspections.

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What constitutes a quorum?

The presence at the Annual Meeting in person or by proxy of the holders of a majority of the outstanding shares of our common stock entitled to vote at the Annual Meeting is required to constitute a quorum for the transaction of business. Abstentions and broker non-votes will be counted for purposes of establishing a quorum at the Annual Meeting.

What vote is required to approve each item to be voted on at the Annual Meeting?

A plurality of the shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required for the election of directors. Accordingly, the eight nominees for election as directors at the Annual Meeting who receive the greatest number of votes cast for election will be the duly elected directors. The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required for approval of all other items being submitted to stockholders for consideration. Abstentions will be considered present for purposes of calculating the vote, but will not be considered to have been voted in favor of the matter voted upon, and broker non-votes will not be considered present for purposes of calculating the vote.

How does the Board recommend that I vote?

Our Board of Directors recommends that you vote FOR each of the nominees for director named in this Proxy Statement and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditors for fiscal year 2008.

How do I vote?

You may vote in person at the Annual Meeting or you may give us your proxy. We recommend that you vote by proxy even if you plan to attend the Annual Meeting. As described below, you can change your vote at the Annual Meeting. You can vote by proxy over the telephone by calling a toll-free number, electronically by using the Internet or through the mail by signing and returning the enclosed proxy card. The telephone and Internet voting procedures have been provided for your convenience and are designed to authenticate your identity, allow you to give voting instructions and confirm that your voting instructions have been properly recorded. If you would like to vote by telephone or by using the Internet, please refer to the specific instructions set forth on the enclosed proxy card.

Can I change my vote after I return my proxy card?

Yes. Your proxy may be revoked at any time before its exercise by sending written notice of revocation to William C. Long, Corporate Secretary, Diamond Offshore Drilling, Inc., 15415 Katy Freeway, Suite 100, Houston, Texas 77094, or by signing and delivering a proxy which is dated later, or, if you attend the Annual Meeting in person, by giving notice of revocation to the Inspectors of Election referred to below at the Annual Meeting.

How will votes be recorded?

Votes will be tabulated by Broadridge Financial Solutions, Inc., and the results will be certified by one or more inspectors of election who are required to resolve impartially any interpretive questions as to the conduct of the vote, whom we refer to as the Inspectors of Election. In tabulating votes, the Inspectors of Election will make a record of the number of shares voted for each nominee and for or against each other matter voted upon, the number of shares with respect to which authority to vote for that nominee or other matter has been withheld, and the number of shares held of record by broker-dealers and present at the Annual Meeting but not voting.

Where can I find the voting results of the Annual Meeting?

We plan to announce preliminary voting results at the Annual Meeting and to publish the final results in our quarterly report on Form 10-Q for the fiscal quarter ending June 30, 2008.

What is the date of this Proxy Statement?

The date of this Proxy Statement is April 2, 2008.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The table below shows certain information, at February 29, 2008 unless otherwise indicated, as to all persons who, to our knowledge, were the beneficial owners of 5% or more of the outstanding shares of our common stock, which is our only outstanding class of voting securities. All shares reported were owned beneficially by the persons indicated unless otherwise indicated below.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	Loews Corporation 667 Madison Avenue New York, NY 10021-8087	70,104,620(1)	50.5%

(1) Loews Corporation, or Loews, has sole investment power and sole voting power over the shares.

Because Loews holds a majority of the outstanding shares of our common stock, Loews has the power to approve matters submitted for consideration at the Annual Meeting without regard to the votes of the other stockholders. We understand that Loews intends to vote FOR the election of the eight nominees for the Board of Directors and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditors. There are no agreements between us and Loews with respect to the election of our directors or officers or with respect to the other matters which may come before the Annual Meeting.

Table of Contents**SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS**

The following table shows the amount and nature of beneficial ownership of our common stock and of the common stock, par value \$1.00 per share, of Loews, or Loews Common Stock, beneficially owned by each of our directors, each of our executive officers named in the Summary Compensation Table below, and all of our directors and executive officers as a group, as of February 29, 2008. All of our directors and executive officers individually and as a group own less than 1% of our common stock. None of our directors or executive officers owns any shares of Loews's Carolina Group Stock. Except as otherwise noted, the named beneficial owner has sole voting power and sole investment power with respect to the number(s) of shares shown below. The number of shares included with respect to stock appreciation rights, or SARs, granted under our Second Amended and Restated 2000 Stock Option Plan, as amended, or the Stock Option Plan, is the number of shares of our common stock each person would have received had they exercised their SARs, based on the closing price (\$120.83) per share of our common stock on February 29, 2008.

Name of Beneficial Owner	Shares of Our Common Stock	Shares of Loews Common Stock	% of Loews Common Stock
James S. Tisch(1)	15,921	13,421,856	2.5%
Lawrence R. Dickerson(2)	8,195	0	*
Alan R. Batkin(3)	11,605	0	*
John R. Bolton	737	0	*
Charles L. Fabrikant(4)	3,605	0	*
Paul G. Gaffney, II(5)	4,105	0	*
Herbert C. Hofmann	0	0	*
Arthur L. Rebell(6)	105	115,734	*
Raymond S. Troubh(7)	13,605	30,000	*
John L. Gabriel, Jr.(8)	3,031	0	*
Gary T. Krenek(9)	2,166	0	*
John M. Vecchio(10)	3,033	0	*
All Directors and Executive Officers as a Group (16 persons including those listed above)(11)	75,761	13,567,590	2.6%

* Less than 1% of the Loews Common Stock.

- (1) The number of shares of our common stock includes 10,921 shares of common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter. The number of shares of Loews Common Stock includes 390,000 shares of Loews Common Stock issuable upon the exercise of options granted under the Loews Corporation Stock Option Plan which are currently exercisable. The number of shares of Loews Common Stock also includes 10,820,058 shares held by trusts of which Mr. Tisch is the managing trustee (inclusive of 2,347,625 shares held in trust for his benefit), and 484,100 shares held by a charitable foundation as to which Mr. Tisch has shared voting and investment power.

(2)

Includes 8,195 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter.

- (3) Includes 3,105 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter. In addition, Mr. Batkin holds 1,000 shares of our common stock with respect to which he shares voting and investment power with his spouse.
- (4) Includes 3,605 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter.
- (5) Includes 4,105 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter.

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- (6) Includes 105 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter. The number of shares of Loews Common Stock includes 112,510 shares of Loews Common Stock issuable upon the exercise of options granted under the Loews Corporation Stock Option Plan which are currently exercisable. The number of shares of Loews Common Stock also includes 224 shares held by Mr. Rebell's wife.
- (7) Includes 8,605 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter.
- (8) Includes 3,029 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter. Also includes two shares held by virtue of Mr. Gabriel's investment in our common stock pursuant to our Retirement Plan, in which he shares voting and investment power with his spouse.
- (9) Includes 2,166 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter.
- (10) Includes 3,029 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter. Also includes four shares held by virtue of Mr. Vecchio's investment in our common stock pursuant to our Retirement Plan, in which he shares voting and investment power with his spouse.
- (11) The number of shares of our common stock owned by all directors and executive officers as a group includes 1,850 shares held by virtue of the investment in our common stock pursuant to our Retirement Plan and 7,803 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 29, 2008 or within 60 days thereafter, by our executive officers who are not Named Executive Officers in the Summary Compensation Table below. See Executive Compensation. Investment and voting power with respect to shares owned by Mr. Baudoin, our Senior Vice President Administration and Operations Support, and Ms. Gordon, our Controller and Chief Accounting Officer, is shared with each such executive officer's spouse.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our executive officers and directors, and persons who beneficially own more than ten percent of our common stock, file initial reports of ownership and reports of changes in ownership of our equity securities with the Securities and Exchange Commission, or the Commission, and the New York Stock Exchange. Executive officers, directors and greater than ten percent beneficial owners are required by Commission regulations to furnish us with copies of all Section 16(a) reports they file. Based solely on a review of these reports furnished to us and written representations that no report on Form 5 was required for 2007, we believe that no director, executive officer or beneficial owner of more than ten percent of our common stock failed to file a Section 16(a) report on a timely basis during 2007.

Table of Contents**ELECTION OF DIRECTORS****(Proposal No. 1)**

Our Board of Directors currently consists of nine directors. In light of Mr. Batkin's decision not to stand for re-election to the Board of Directors, the Board of Directors has adopted a resolution fixing the size of the entire Board of Directors at eight members, effective on the date of the Annual Meeting, in accordance with our Bylaws. All directors are elected annually to serve until the next annual meeting of stockholders and until their respective successors are duly elected and qualified or until their earlier resignation or removal. Our Board of Directors elects our officers annually to serve until the next annual meeting of the Board of Directors and until their successors are duly elected and qualified, or until their earlier death, resignation, disqualification or removal from office. Information about our current directors is below.

The nominees for director are James S. Tisch, Lawrence R. Dickerson, John R. Bolton, Charles L. Fabrikant, Paul G. Gaffney, II, Herbert C. Hofmann, Arthur L. Rebell and Raymond S. Troubh. Each of the eight directors to be elected at the Annual Meeting will serve a term of one year to expire at our 2009 annual meeting of stockholders.

It is intended that the proxies received from holders of our common stock, in the absence of contrary instructions, will be voted at the Annual Meeting for the election of Messrs. Tisch, Dickerson, Bolton, Fabrikant, Gaffney, Hofmann, Rebell and Troubh, each of whom is now a director. Although we do not contemplate that any of the nominees will be unable to serve, decline to serve, or otherwise be unavailable as a nominee at the time of the Annual Meeting, if that occurs we expect that the proxies will be voted for such other candidate or candidates as our Board of Directors may nominate.

Further information concerning the nominees for election as directors at the Annual Meeting, including their business experience during the past five years, appears below.

Name	Position	Age as of January 31, 2008	Director Since
James S. Tisch(1)	Chairman of the Board and Chief Executive Officer	55	1989
Lawrence R. Dickerson(1)	Director, President and Chief Operating Officer	55	1998
John R. Bolton	Director	59	2007
Charles L. Fabrikant(2)	Director	63	2004
Paul G. Gaffney, II(3)	Director	61	2004
Herbert C. Hofmann(1)	Director	65	1992
Arthur L. Rebell	Director	67	1996
Raymond S. Troubh(2)(3)	Director	81	1995

(1) Member, Executive Committee of the Board of Directors

(2) Member, Audit Committee of the Board of Directors

(3) Member, Compensation Committee of the Board of Directors

James S. Tisch has served as our Chief Executive Officer since March 1998. Mr. Tisch has served as Chairman of the Board since November 1995 and as a director since June 1989. Mr. Tisch is the President and Chief Executive Officer and a director of Loews, a diversified holding company. Mr. Tisch also serves as a director of CNA Financial Corporation, a subsidiary of Loews.

Lawrence R. Dickerson has served as our President and Chief Operating Officer and as a director since March 1998. Mr. Dickerson also serves as a director of Global Industries, Ltd. Mr. Dickerson served on the United States Commission on Ocean Policy from 2001 to 2004.

John R. Bolton has served as a director since January 2007. Mr. Bolton is a Senior Fellow of the American Enterprise Institute and is a senior advisor to Kirkland & Ellis LLP. Mr. Bolton served in the U.S. Department of

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State as the U.S. Permanent Representative to the United Nations from 2005 to 2006 and as Under Secretary for Arms Control and International Security from 2001 to 2005.

Charles L. Fabrikant has served as a director since January 2004. Mr. Fabrikant is the Chairman of the Board, Chief Executive Officer and President of SEACOR Holdings Inc., which operates offshore support vessels servicing oil and gas exploration and development. Mr. Fabrikant is also President of Fabrikant International Corporation, a privately owned corporation engaged in marine investments.

Paul G. Gaffney, II has served as a director since October 2004. Mr. Gaffney has served as President of Monmouth University since 2003 and was the President of National Defense University from 2000 to 2003. Mr. Gaffney served as Commissioner of the U.S. Commission on Ocean Policy from 2001 to 2004. Mr. Gaffney is a director of Meridian Health Systems. He also serves as a public trustee for NJ Marine Sciences Consortium.

Herbert C. Hofmann has served as a director since January 1992. Mr. Hofmann is a Senior Vice President of Loews and was the President and Chief Executive Officer of Bulova Corporation, formerly a subsidiary of Loews, until January 2008.

Arthur L. Rebell has served as a director since July 1996. Mr. Rebell is a Senior Vice President of Loews. Mr. Rebell also serves as the Chairman of the Board of Boardwalk Pipeline Partners, LP, a subsidiary of Loews.

Raymond S. Trough has served as a director since November 1995. Mr. Trough is a financial consultant, a former Governor of the American Stock Exchange and a former general partner of Lazard Freres & Co., an investment banking firm. Mr. Trough is a director of General American Investors Company, Gentiva Health Services, Inc. and Triarc Companies, Inc.

Director Independence

Because more than 50% of our outstanding common stock is held by Loews, we are a controlled company under the corporate governance listing standards of the New York Stock Exchange, or the NYSE Listing Standards. Although the NYSE Listing Standards do not require controlled companies to maintain a majority of independent directors, our Board currently is comprised of a majority of independent directors. Our Board of Directors has determined that Mr. Batkin, Mr. Bolton, Mr. Gaffney, Mr. Fabrikant and Mr. Trough, whom we refer to as Independent Directors, are independent under the NYSE Listing Standards. The Board considered all relevant facts and circumstances and applied the independence guidelines described below in determining that none of the Independent Directors has any material relationship with us or our subsidiaries. In making its determination with respect to Mr. Fabrikant, our Board also considered the commercial relationship between our company and certain subsidiaries of SEACOR Holdings Inc., of which Mr. Fabrikant is the Chairman of the Board of Directors, President and Chief Executive Officer, and determined that Mr. Fabrikant meets all of the requirements described above for Independent Directors and does not have a material relationship with us. Please read [Transactions with Related Persons](#) [Transactions with Other Related Parties](#) below for more information concerning Mr. Fabrikant's relationship with us.

The Board has established guidelines to assist it in determining director independence. Under these guidelines, a director would not be considered independent if:

(1) any of the following relationships existed during the past three years:

(i) the director is our employee or the employee of any of our subsidiaries or has received more than \$100,000 per year in direct compensation from us or any of our subsidiaries, other than director and committee fees and pension or certain other forms of deferred compensation for prior service;

(ii) the director provided significant advisory or consultancy services to us or any of our subsidiaries or is affiliated with a company or a firm that has provided significant advisory or consultancy services to us or any of our subsidiaries (annual revenue of the greater of 2% of the other company's consolidated gross revenues or \$1 million is considered significant);

(iii) the director has been a significant customer or supplier of us or any of our subsidiaries or affiliated with a company or firm that is a significant customer or supplier of us or any of our subsidiaries (annual

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revenue of the greater of 2% of the other company's consolidated gross revenues or \$1 million is considered significant);

(iv) the director has been employed by or affiliated with an internal or external auditor that within the past three years provided services to us or any of our subsidiaries; or

(v) the director has been employed by another company where any of our current executives serve on that company's compensation committee;

(2) the director's spouse, parent, sibling, child, mother- or father-in-law, son- or daughter-in-law or brother- or sister-in-law, or any other person sharing the director's home (other than a domestic employee), has a relationship described in (1) above; or

(3) the director has any other relationships with us or any of our subsidiaries or with members of senior management that our Board of Directors determines to be material.

Committees of the Board of Directors

Our Board of Directors has three standing committees, the Executive Committee, the Audit Committee and the Compensation Committee. We do not have a nominating committee or charter. Because we are a controlled company under the NYSE Listing Standards, this committee is not required and our Board of Directors has determined that it is appropriate not to have this committee. The entire Board of Directors participates in the consideration of director nominees.

Executive Committee

The Executive Committee of the Board of Directors consists of three members, Mr. Tisch, Mr. Dickerson and Mr. Hofmann. The Executive Committee has and may exercise all the powers of our Board of Directors in the management of our business that may lawfully be delegated to it by our Board of Directors. During 2007, the Executive Committee held three meetings.

Audit Committee

The Audit Committee of the Board of Directors currently consists of three members, Mr. Batkin, Mr. Fabrikant and Mr. Troubh. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its responsibility to oversee management's conduct of our financial reporting process, including review of our financial reports and other financial information, our system of internal accounting controls, our compliance with legal and regulatory requirements, the qualifications and independence of our independent auditors and the performance of our internal audit staff and independent auditors. The Audit Committee has sole authority to appoint, retain, compensate, evaluate and terminate the independent auditors and to approve all engagement fees and terms for the independent auditors. Our Board of Directors has adopted a written Audit Committee charter which can be found on our website at www.diamondoffshore.com and is available in print to any stockholder who requests a copy by writing to our Corporate Secretary. The Board has determined that each member of the Audit Committee is an Independent Director and satisfies the additional independence and other requirements for Audit Committee members provided for in the NYSE Listing Standards. The Board has determined that Mr. Batkin qualifies as an audit committee financial expert under the rules of the Commission. Mr. Batkin has advised the Board of Directors that, in addition to serving on our Audit Committee, he also serves on the audit committee of one other public company.

Compensation Committee

The Compensation Committee of the Board of Directors consists of two members, Mr. Gaffney and Mr. Troubh, each of whom is an Independent Director. The primary function of the Compensation Committee is to assist the Board in discharging its responsibilities relating to compensation of our executive officers. The Compensation Committee is also responsible to review and make recommendations to our Board with respect to our Incentive Compensation Plan for Executive Officers as amended and restated as of January 1, 2007, or the Incentive Compensation Plan, and our Stock Option Plan, with respect to our executive officers, and to oversee these plans. The Compensation Committee is authorized to discharge any responsibilities imposed on it by these plans and has

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powers and responsibilities with respect to those plans as were formerly vested in our Board's Incentive Compensation Committee. The Compensation Committee has succeeded to all of the duties of the former Incentive Compensation Committee, which the Board dissolved when it formed the Compensation Committee in January 2007. Our Board of Directors has adopted a written Compensation Committee charter which can be found on our website at www.diamondoffshore.com and is available in print to any stockholder who requests a copy by writing to our Corporate Secretary. In accordance with its charter, the Compensation Committee may form and delegate authority to sub-committees consisting of one or more of its members when appropriate. See Compensation Discussion and Analysis for more information about the responsibilities of the Compensation Committee and the role of executive officers with respect to compensation matters.

Director Nominating Process

Our Board of Directors will, subject to the terms of our Certificate of Incorporation and Bylaws, review candidates recommended by stockholders for positions on the Board of Directors. The Bylaws provide that any stockholder entitled to vote generally in the election of directors at a meeting of stockholders who complies with the procedures specified in the Bylaws, may nominate persons for election to the Board of Directors, subject to any conditions, restrictions and limitations imposed by our Certificate of Incorporation or Bylaws. These procedures include a requirement that our Corporate Secretary receive timely written notice of the nomination, which, for the 2009 annual meeting of stockholders, means that the nomination must be received no later than February 19, 2009. Any notice of nomination must be addressed to Diamond Offshore Drilling, Inc., 15415 Katy Freeway, Suite 100, Houston, Texas 77094, Attention: Corporate Secretary and must include, in addition to any other information or matters required by our Certificate of Incorporation or Bylaws, the following:

- (i) the name and address of the stockholder submitting the nomination and of the person or persons to be nominated;
- (ii) a representation that the stockholder is a holder of our capital stock entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;
- (iii) a description of all contracts, arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;
- (iv) such other information regarding each nominee proposed by the stockholder as would be required to be included in a proxy or information statement filed pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations under it; and
- (v) the consent of each nominee to serve as our director if so elected.

Nominations of directors may also be made by the Board of Directors or as otherwise provided in our Certificate of Incorporation or Bylaws. In determining whether it will nominate a candidate for a position on our Board of Directors, the Board considers those matters it deems relevant, which may include, but are not limited to, integrity, judgment, business specialization, technical skills, independence, potential conflicts of interest and the present needs of the Board of Directors. The Board retains its full discretion in making such determinations, and also takes into account any restrictions, requirements or limitations contained in our Certificate of Incorporation or Bylaws, or any agreement to which we are a party.

Executive Sessions of Non-Management Directors

Our non-management directors meet in regular executive sessions without management participation. In addition, an executive session including only the Independent Directors is held at least annually. Upon the recommendation of the non-management directors and Independent Directors, our Board of Directors has selected Alan R. Batkin to act as the current Lead Director and to serve as the presiding director at these meetings.

Table of Contents**Director Attendance at Meetings**

During 2007 there were six meetings of the Board of Directors, eight meetings of the Audit Committee and four meetings of the Compensation Committee. During 2007, each of our incumbent directors then in office attended not less than 75% of the total number of meetings of the Board of Directors and committees of the Board on which that director served except for Mr. Fabrikant, who attended approximately 64% of such meetings. We do not have a specific policy regarding attendance by directors at annual meetings of stockholders, but the Board encourages all directors to attend the annual meeting while recognizing that circumstances may prevent attendance from time to time. All except one of our directors then in office attended our 2007 annual meeting of stockholders.

Director Compensation

Each director who is not our employee receives a quarterly award of options to purchase 500 shares of our common stock or 500 SARs in accordance with the terms of our Stock Option Plan. The options or SARs vest immediately with some options having terms of five years and some ten years from the date of grant, and SARs having terms of ten years from the date of grant. Since July 2007, we have awarded only SARs to our non-employee directors. In addition, all non-employee directors receive an annual cash retainer of \$25,000. The Lead Director receives an annual cash retainer of \$10,000 and the Chairman of the Audit Committee receives an annual cash retainer of \$10,000. We pay each of our directors who is not our employee or an employee of any of our subsidiaries or of Loews or any other affiliated companies a fee of \$1,500 for attendance at each meeting of our Board of Directors and \$1,000 for attendance at each meeting of the Audit Committee and Compensation Committee, in addition to the reasonable costs and expenses incurred by these directors in relation to their services.

The following table provides information on our compensation of non-employee directors for 2007:

Director Compensation for 2007

Name	Fees Earned or Paid in Cash(1)	Option Awards(2)	All Other Compensation(3)	Total
Alan R. Batkin	\$ 62,000	\$ 70,965	\$ 5,000	\$ 137,965
John R. Bolton	32,500	51,938	1,250	85,688
Charles L. Fabrikant	37,000	70,965	5,625	113,590
Paul G. Gaffney, II	36,000	70,965	6,250	113,215
Herbert C. Hofmann		70,965	1,250	72,215
Arthur L. Rebell		70,965	1,250	72,215
Raymond S. Toubh	42,500	70,965	12,500	125,965

(1) These amounts represent all fees earned for service as a director during 2007. Mr. Batkin received a \$10,000 annual retainer as Lead Director and received a \$10,000 annual retainer as Chairman of the Audit Committee.

(2) These amounts represent the dollar amount recognized for financial statement reporting purposes for the fiscal year ended on December 31, 2007, in accordance with the Financial Accounting Standards Board's revised Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, or FAS 123(R), of awards pursuant to our Stock Option Plan through December 31, 2007 as well as the full grant date fair value of these awards. Assumptions used in the calculation of these amounts are included in footnote 2

to our audited financial statements for the fiscal year ended December 31, 2007 included in our Annual Report on Form 10-K filed with the Commission on February 25, 2008. Each director who is not our employee receives a quarterly award of options to purchase 500 shares of our common stock or 500 SARs in accordance with the terms of our Stock Option Plan. The options or SARs vest immediately with some options having terms of five years and some ten years from the date of grant, and SARs having terms of ten years from the date of grant. At December 31, 2007, the aggregate number of option awards and SARs outstanding for each director was as follows: Mr. Alan R. Batkin, 4,000; Mr. John R. Bolton, 0; Mr. Charles L. Fabrikant, 4,500; Mr. Paul G. Gaffney, II, 5,000; Mr. Herbert C. Hofmann, 0; Mr. Arthur L. Rebell, 1,000; and Mr. Raymond S. Troubh, 10,000.

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- (3) These amounts represent the payment of cash in the amount of \$1.25 per outstanding and unexercised stock option and/or SAR to directors with option and/or SAR awards outstanding as of November 2, 2007, all of which were then vested, pursuant to an anti-dilution adjustment under the terms of our Stock Option Plan.

Code of Ethics and Corporate Governance Guidelines

We have a Code of Business Conduct and Ethics which applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. This code can be found on our website at www.diamondoffshore.com and is available in print to any stockholder who requests a copy by writing to our Corporate Secretary. We intend to post changes to or waivers of this code for our principal executive officer, principal financial officer and principal accounting officer on our website. In addition, our website contains a corporate governance section that includes our corporate governance guidelines. We will provide a printed copy of our corporate governance guidelines to any stockholder upon request.

AUDIT COMMITTEE REPORT

As discussed above under the heading "Committees of the Board of Directors - Audit Committee," the primary role of the Board's Audit Committee is to oversee our financial reporting process and manage our relationship with our independent auditors. In fulfilling its responsibilities, the Audit Committee has reviewed and discussed our audited financial statements for the year ended December 31, 2007 with our management and independent auditors. The Audit Committee has also discussed with our independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended. In addition, the Audit Committee has discussed with the independent auditors their independence in relation to us and our management, including the matters in the written disclosures provided to the Audit Committee as required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and has determined that the provision of non-audit services provided by the auditors is compatible with maintaining the auditors' independence.

The members of the Audit Committee rely without independent verification on the information provided to them by management and the independent auditors and on management's representation that our financial statements have been prepared with integrity and objectivity. They do not provide any expert or special assurance as to our financial statements or any professional certification as to the independent auditors' work. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has applied appropriate accounting and financial reporting principles or internal controls and procedures, that the audit of our financial statements has been carried out in accordance with generally accepted auditing standards, that our financial statements are presented in accordance with generally accepted accounting principles, or that our auditors are in fact independent.

Based on the review and discussions referred to above, the Audit Committee recommended to our Board of Directors that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which we have filed with the Commission.

THE AUDIT COMMITTEE

Alan R. Batkin, Chairman
Charles L. Fabrikant
Raymond S. Troubh

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COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee of our Board of Directors is currently comprised of two Independent Directors. The Compensation Committee's primary function is to assist the Board in discharging its responsibilities relating to compensation of our executive officers (including our Named Executive Officers). The Compensation Committee has responsibility to:

- review our general compensation philosophy for executive officers;
- oversee the development and implementation of compensation programs for executive officers;
- review and approve compensation, including incentive and equity-based compensation, of executive officers; and
- review and report to our Board of Directors on compensation of directors and Board committee members.

The Compensation Committee is also responsible to review and make recommendations to our Board of Directors with respect to our Incentive Compensation Plan and our Stock Option Plan, with respect to our executive officers, and to oversee these plans. The Compensation Committee is authorized to discharge any responsibilities imposed on the Compensation Committee by these plans and has powers and responsibilities with respect to those plans as were formerly vested in our Board's Incentive Compensation Committee.

Before the Compensation Committee was formed in January 2007, the Board's Executive Committee and the former Incentive Compensation Committee participated in the consideration of executive compensation. The Compensation Committee has succeeded to all of the duties of the former Incentive Compensation Committee, which was dissolved when the Compensation Committee was formed, and in 2007 decisions concerning compensation of executive officers were made by the Compensation Committee.

Objectives and Compensation Philosophy. Our executive compensation program is designed to enable us to attract and retain highly qualified executive officers and motivate them to provide a high level of performance for our stockholders. To achieve this objective we have established a compensation policy for executive officers which combines elements of base salary with cash and stock-based incentive compensation, as well as benefits, which collectively provides a competitive total compensation opportunity based on performance. In selecting these elements of executive compensation, we have considered our historical compensation policies and practices as they have developed over time, national surveys of executive compensation at comparable sized companies and the executive compensation programs of various peer and other companies engaged in businesses similar to ours, as well as applicable tax and accounting impacts of executive compensation.