ATWOOD OCEANICS INC
Form 10-Q
August 02, 2016

UNITED STATES
SECURITIES AND
EXCHANGE
COMMISSION
WASHINGTON, DC 20549

(Mark One) Form 10-Q

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

For the quarterly period ended June 30, 2016

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 1-13167

ATWOOD OCEANICS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Texas	74-1611874
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
15011 Katy Freeway, Suite 800, Houston, Texas	77094
(Address of Principal Executive Offices including Zip Code)	(Zip Code)

Registrant’s Telephone Number, Including Area Code: (281) 749-7800

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
As of July 27, 2016, there were 64,800,353 shares of common stock, $1.00 par value per share, outstanding.

ATWOOD OCEANICS, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2016
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands, except per share amounts)	2016	2015	2016	2015
REVENUES:				
Contract drilling	$217,818	$317,531	$794,979	$992,913
Revenues related to reimbursable expenses	9,979	13,031	36,988	39,762
Total revenues	227,797	330,562	831,967	1,032,675
COSTS AND EXPENSES:				
Contract drilling	80,524	134,258	301,094	401,847
Reimbursable expenses	5,489	9,066	22,898	29,634
Depreciation	41,084	42,534	124,964	129,637
General and administrative	12,028	10,473	38,693	42,619
Asset impairment	(659)	—	64,773	60,777
Loss on sale of assets	—	27	77	15,362
Other, net	16	—	(1,044)	—
	138,482	196,358	551,455	679,876
OPERATING INCOME	89,315	134,204	280,512	352,799
OTHER INCOME (EXPENSE):				
Interest expense, net of capitalized interest	(19,674)	(11,677)	(50,533)	(40,028)
Interest income	9	12	19	84
Gains on extinguishment of debt	50,466	—	58,863	—
Other income	—	—	17,976	—
	30,801	(11,665)	26,325	(39,944)
INCOME BEFORE INCOME TAXES	120,116	122,539	306,837	312,855
PROVISION FOR INCOME TAXES	20,611	9,547	45,814	30,976
NET INCOME	$99,505	$112,992	$261,023	$281,879
EARNINGS PER COMMON SHARE (NOTE 2):				
Basic	$1.54	$1.75	$4.03	$4.37
Diluted	$1.53	$1.73	$4.02	$4.33
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (NOTE 2):				
Basic	64,795	64,649	64,750	64,557
Diluted	64,847	65,130	64,852	65,063

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

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ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Net income	$99,505	$112,992	$261,023	$281,879
Other comprehensive income (loss):				
Derivative financial instruments:				
Unrealized holding gains/(losses)	(452)	(2,870)	(5,214)	87
Gains/(losses) reclassified to net income	351	(216)	3,032	(483)
Total other comprehensive income (loss)	(101)	(3,086)	(2,182)	(396)
Comprehensive income	$99,404	$109,906	$258,841	$281,483

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	June 30, 2016 (Unaudited)	September 30, 2015
ASSETS		
Cash	$198,974	$113,983
Accounts receivable, net	166,534	311,514
Income tax receivable	8,194	8,705
Inventories of materials and supplies, net	113,161	137,998
Prepaid expenses, deferred costs and other current assets	10,040	33,735
Total current assets	496,903	605,935
Property and equipment, net	4,198,069	4,172,132
Other receivables	11,831	11,831
Deferred income taxes	150	150
Deferred costs and other assets	8,174	11,285
Total assets	$4,715,127	$4,801,333
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	$43,252	$70,161
Accrued liabilities	12,496	23,572
Dividends payable	—	16,164
Interest payable	15,506	7,704
Income tax payable	13,530	13,906
Deferred credits and other liabilities	1,486	3,941
Total current liabilities	86,270	135,448
Long-term debt	1,374,780	1,678,268
Deferred income taxes	1,148	1,658
Deferred credits	—	800
Other	30,409	37,989
Total long-term liabilities	1,406,337	1,718,715
Commitments and contingencies (Note 8)		
Preferred stock, no par value, 1,000 shares authorized, none outstanding	—	—
Common stock, $1.00 par value, 180,000 shares authorized with 64,798 issued and outstanding as of June 30, 2016 and 180,000 shares authorized and 64,654 shares issued and outstanding as of September 30, 2015	64,798	64,654
Paid-in capital	235,043	213,096
Retained earnings	2,925,589	2,670,148
Accumulated other comprehensive income	(2,910)	(728)
Total shareholders' equity	3,222,520	2,947,170
Total liabilities and shareholders' equity	$4,715,127	$4,801,333

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

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ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(In thousands)	Common Stock Shares	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
September 30, 2015	64,654	$64,654	$213,096	$2,670,148	$ (728)	$2,947,170
Net income	—	—	—	261,023	—	261,023
Other comprehensive income	—	—	—	—	(2,182)	(2,182)
Dividends	—	—	—	(5,582)	—	(5,582)
Vesting of restricted stock and performance unit awards	144	144	(1,074)	—	—	(930)
Stock compensation expense	—	—	8,224	—	—	8,224
Stock compensation windfall tax benefits	—	—	14,797	—	—	14,797
June 30, 2016	64,798	$64,798	$235,043	$2,925,589	$ (2,910)	$3,222,520

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.
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ATWOOD OCEANICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30,	
(In thousands)	2016	2015
Cash flows from operating activities:		
Net income	$261,023	$281,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	124,964	129,637
Amortization	2,407	5,179
Provision for doubtful accounts	4,619	3,337
Deferred income tax benefit	(378)	(3,453)
Share-based compensation expense	8,224	9,277
Asset impairment	64,753	60,777
Loss on sale of assets	(71)	15,362
(Gain) on extinguishment of debt	(58,863)	—
Other, net	(1,137)	—
Changes in assets and liabilities:		
Accounts receivable	121,964	(17,917)
Income tax receivable	511	(3,868)
Inventories of materials and supplies	12,988	(16,917)
Prepaid expenses, deferred costs and other current assets	19,377	13,274
Deferred costs and other assets	(1,019)	(341)
Accounts payable	(33,674)	(17,511)
Accrued liabilities	(3,274)	24,049
Income tax payable	(376)	(5,450)
Deferred credits and other liabilities	(6,623)	6,291
Net cash provided by operating activities	515,415	483,605
Cash flows from investing activities:		
Capital expenditures	(198,248)	(420,077)
Proceeds from sale of assets	20,813	2,339
Net cash used in investing activities	(177,435)	(417,738)
Cash flows from financing activities:		
Proceeds from borrowing of long-term debt	45,000	225,000
Principal repayments on long-term debt	(290,110)	(250,000)
Repayments on short-term debt, net	—	(11,885)
Debt issuance costs paid	—	(3,440)
Dividends paid	(21,746)	(32,397)
Proceeds (payments) related to exercise of stock options	(930)	1,279
Windfall tax benefits from share-based payment arrangements	14,797	—
Net cash used by financing activities	(252,989)	(71,443)
Net increase in cash and cash equivalents	84,991	(5,576)
Cash and cash equivalents, at beginning of period	113,983	80,080
Cash and cash equivalents, at end of period	198,974	74,504
Non-cash activities:		
Increase (decrease) in accounts payable and accrued liabilities related to capital expenditures	$7,902	$(15,501)

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

ATWOOD OCEANICS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—UNAUDITED INTERIM INFORMATION
The accompanying unaudited condensed consolidated financial statements of Atwood Oceanics, Inc. and its subsidiaries as of June 30, 2016 and for the three and nine months ended June 30, 2016 and 2015, have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Unless otherwise indicated, references to “we”, “us”, “our” and the “Company” refer collectively to Atwood Oceanics, Inc. and subsidiaries. The year-end condensed consolidated balance sheet data was derived from the audited financial statements as of September 30, 2015. Although these financial statements and related information have been prepared without audit and certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, we believe that the note disclosures are adequate to make the information not misleading. The interim financial results may not be indicative of results that could be expected for a full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended September 30, 2015. In our opinion, the unaudited interim financial statements reflect all adjustments considered necessary for a fair statement of our financial position, results of operations, changes in shareholders' equity, and cash flows for the periods presented. Certain prior period amounts have been reclassified to conform to current year presentation.
Recently issued accounting pronouncements
In June, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326). The ASU introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income, and (4) beneficial interests in securitized financial assets. This update is effective for annual and interim periods beginning after December 15, 2019. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.
In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, as part of its simplification initiative. The ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities, and classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842): Amendments to the FASB Accounting Standards Codification ("Update 2016-02"), which requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key qualitative and quantitative information about the entity's leasing arrangements. This update is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. A modified retrospective approach is required. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.
In November 2015, amended guidance from the FASB was issued for the balance sheet classification of deferred income taxes. The amended guidance requires the classification of all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. Deferred tax assets and liabilities will continue to be offset and presented as a single amount under the amended guidance. The effective date for public business entities is for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We have not yet adopted nor selected a transition method and are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in

our financial statements.
In April 2015, the FASB issued new guidance intended to simplify the presentation of debt issuance costs. This new guidance requires that debt issuance costs related to outstanding debt be netted against that liability in the balance sheet, consistent with the treatment of debt discounts. In August 2015, the FASB issued additional guidance to clarify that this presentation change does not address debt issuance costs related to line of credit arrangements. The new presentation guidance is effective for fiscal years and interim periods beginning after December 15, 2015 and early adoption is permitted. We adopted this guidance in the first quarter of fiscal 2016. We reclassified $1.7 million from Prepaid Expenses, Deferred Costs and Other Current Assets and $6.0 million from Deferred Costs and Other Assets to Long-Term Debt in the September 30, 2015 Condensed Consolidated Balance Sheet presented in this Form 10-Q to conform to the current year presentation of debt issuance costs.

In May 2014, the FASB issued new guidance intended to change the criteria for recognition of revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

NOTE 2—EARNINGS PER COMMON SHARE

The computation of basic and diluted earnings per share for the three and nine months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended			Nine Months Ended		
(In thousands, except per share amounts)	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
June 30, 2016						
Basic earnings per share	$99,505	64,795	$ 1.54	$261,023	64,750	$ 4.03
Effect of dilutive securities:						
Stock options	—	—	—	—	—	—
Restricted stock and performance units	—	52	(0.01)	—	102	(0.01)
Diluted earnings per share	$99,505	64,847	$ 1.53	$261,023	64,852	$ 4.02
June 30, 2015						
Basic earnings per share	$112,992	64,649	1.75	281,879	64,557	$ 4.37
Effect of dilutive securities:						
Stock options	—	61	—	—	74	—
Restricted stock and performance units	—	420	(0.02)	—	432	(0.04)
Diluted earnings per share	$112,992	65,130	$ 1.73	281,879	65,063	$ 4.33

For the purpose of calculating diluted earnings per share for the three and nine months ended June 30, 2016, there were approximately 2,377,436 and 2,070,774 anti-dilutive securities and for the three and nine months ended June 30, 2015, there were approximately 873,000 and 867,000 anti-dilutive securities.

NOTE 3—PROPERTY AND EQUIPMENT

A summary of property and equipment by classification is as follows:

(In thousands)	June 30, 2016	September 30, 2015
Drilling vessels and equipment	$3,951,885	$4,003,483
Construction work in progress	843,778	720,852
Drill pipe	52,725	55,248
Office equipment and other	39,155	36,379
Total cost	4,887,543	4,815,962
Less: Accumulated depreciation	(689,474)	(643,830)
Property and equipment, net	$4,198,069	$4,172,132

Impairments

The Atwood Falcon completed the contract it was working under in early March 2016. Based on the lack of contracting opportunities and the further deterioration of commodity prices, we determined that it was not likely that additional work would be obtained in the foreseeable future. Based on our analysis, we concluded that the Atwood

Falcon and its materials and supplies were impaired as of December 31, 2015, and we wrote them down to their approximate salvage value. We recorded a non-cash impairment charge of approximately $64.7 million ($64.7 million, net of tax, or $1.00 per diluted share), which is included in Asset Impairment on the Condensed Consolidated Statement of Operations for the three months ended December 31, 2015. This impairment charge includes a write-down of property and equipment of $53.0 million and a write-down of our inventory of materials and supplies specific to the Atwood Falcon of $11.7 million.

Following contract completion and mobilization of the vessel to international waters, on March 24, 2016, we executed a sale and recycling agreement with respect to the Atwood Falcon, pursuant to which the vessel, together with associated equipment and machinery would be sold to a third party to be demolished and recycled. On April 13, 2016, the Atwood Falcon sale and recycling transaction closed and title of the vessel and associated equipment and machinery transferred to a third party buyer.
The total non-cash impairment charges recorded for the Atwood Falcon of approximately $64.8 million is included in Asset Impairment on the Condensed Consolidated Statement of Operations for the nine months ended June 30, 2016.
The Atwood Hunter completed the contract it was working under in December 2014. Based on the lack of contracting opportunities and the further deterioration of commodity prices, in January 2015, we determined that it was not likely that additional work would be obtained in the foreseeable future. Based on our analysis, in the three months ended December 31, 2014, we determined that the Atwood Hunter and its materials and supplies were impaired, and we wrote them down to their salvage value. We recorded a non-cash impairment charge of approximately $60.8 million ($56.1 million, net of tax, or $0.86 per diluted share), which is included in Asset Impairment on the Condensed Consolidated Statement of Operations for the three months ended December 31, 2014. This impairment charge included write-downs of property and equipment of $48.0 million and write-downs of our inventory of materials and supplies that was specific to the Atwood Hunter of $8.4 million. In August 2015, we completed the sale of the Atwood Hunter.

Other Income—During the three months ended December 31, 2015, we recognized approximately $18.0 million ($18.0 million, net of tax, or $0.28 per diluted share) of additional expected insurance recoveries related to cyclone damage to the Atwood Osprey. This amount is included in Other Income on the Condensed Consolidated Statement of Operations for the nine months ended June 30, 2016. We collected receivables from the insurance company of approximately $6.7 million and $11.8 million during the three month periods ending March 31, 2016 and June 30, 2016, respectively.

Loss on sale of assets— Our loss on sale of assets for the nine months ended June 30, 2015 was primarily due to a loss of approximately $8.0 million ($7.1 million, net of tax, or $0.11 per diluted share) due to the sale of the Atwood Southern Cross and a loss of approximately $5.5 million ($5.5 million, net of tax, or $0.08 per diluted share), due to the sale of Atwood Hunter.

Construction Projects

On December 17, 2015, we entered into a supplemental agreement (collectively, "Supplemental Agreement No. 4") to the construction contracts with Daewoo Shipbuilding and Marine Engineering Co., Ltd ("DSME") which delay our requirements to take delivery of the Atwood Admiral to September 30, 2017 and the Atwood Archer to June 30, 2018. Supplemental Agreement No. 4 amends all material terms of the previous agreements. In consideration of the agreement, we made a payment of $50 million for each drillship on December 31, 2015. DSME has extended all remaining milestone payments, $93.9 million for the Atwood Admiral and $305.9 million for the Atwood Archer, until their respective delivery dates. We retain the option to take earlier delivery of each vessel, subject to a forty-five-day notice period to DSME.

In May 2016, we entered into an agreement with Hydril USA Distribution, LLC ("GE") to manufacture a complete second Blowout Preventer stack ("BOP") and an Auxiliary Stack Test System ("ASTS") for the Atwood Condor. The addition of the second BOP will increase the marketability and operational efficiency of the vessel. Total consideration for this agreement is approximately $19 million with 20% due upon placement of the purchase order and the remaining 80% due upon delivery. To accelerate the manufacturing and delivery process, which is targeted for February 2017, we provided certain capital spares we maintained to GE to be used in the manufacturing process. These capital spares will be replenished by GE with similar capital spares upon delivery of the BOP.

NOTE 4—DEBT

A summary of long-term debt is as follows:

(In thousands)	June 30, 2016	September 30, 2015
6.5% Senior Notes due February 2020 ("Senior Notes")	$489,780	$ 648,268
Revolving Credit Facility	885,000	1,030,000
Total long-term debt	$1,374,780	$ 1,678,268

Senior Notes (Due February 2020)
As of June 30, 2016, $490.7 million aggregate principal amount of our Senior Notes were outstanding. Our Senior Notes are presented in the table above together with the unamortized premium from their issuance of $3.8 million and $5.9 million and net of unamortized debt issuance costs of $4.7 million and $7.7 million as of June 30, 2016 and September 30, 2015, respectively. Our Senior Notes are unsecured obligations and are not guaranteed by any of our subsidiaries.

Gains on extinguishment of debt— During the nine months ended June 30, 2016, we repurchased, through open market transactions, $159.3 million aggregate principal amount of our Senior Notes at an aggregate cost of $102.5 million, including accrued interest. As a result of the repurchases, we recognized a total gain on debt retirement, net of the write-off of debt issuance costs and premium, of $58.9 million ($44.1 million net of tax, or $0.68 per diluted share) in Gains on extinguishment of debt on the Condensed Consolidated Statements of Operations for the nine months ended June 30, 2016. The repurchases were made using available cash balances.
Revolving Credit Facility
On March 25, 2016, we entered into an amendment to our senior secured revolving credit facility (the "Credit Facility") that, among other things, effective on March 28, 2016, (i) removes the maximum leverage ratio and maximum secured leverage ratio financial covenants, (ii) amends the minimum interest expense coverage ratio such that it is not applicable until the quarter ending September 30, 2018, and decreases the minimum ratio required to 1.15:1.00, (iii) adds a minimum liquidity financial covenant of $150 million, (iv) revises the restricted payments covenant to prohibit us from paying dividends, (v) reduces the total commitments under the Credit Facility by $152 million, and (vi) permits the incurrence of up to $400 million of second lien debt, subject to the parameters set forth therein. After giving effect to the amendment, commitments under the Credit Facility are $1.395 billion through May 2018 and $1.12 billion through May 2019. As a result of the amendment, borrowings under the Credit Facility will bear interest at the Eurodollar rate plus a margin ranging from 2.50% to 3.25% and the commitment fee on the unused portion of the underlying commitment ranges from 1.00% to 1.30% per annum, in each case based on our corporate credit ratings.
In connection with the amendment, we mortgaged the Atwood Achiever, the Atwood Advantage and the Atwood Orca, as additional collateral under the Credit Facility, as well as pledged the equity interests in our subsidiaries that own, directly or indirectly, these three vessels. Additionally, the Atwood Eagle and Atwood Falcon, along with the pledged equity interests in certain of our subsidiaries that, directly or indirectly, own these two vessels, were removed as collateral under the Credit Facility. On April 13, 2016, the Atwood Falcon sale and recycling transaction closed and title of the vessel and associated equipment and machinery transferred to a third party buyer. Our interest in the two drillships under construction remain unencumbered by the Credit Facility.
As of June 30, 2016, our Credit Facility had $1.395 billion of total commitments and we had $885 million of outstanding borrowings. As of June 30, 2016, we had approximately $510 million available for borrowings under the Credit Facility. Approximately $275 million of the commitments mature in May 2018 and approximately $1.12 billion of the commitments under the Credit Facility mature in May 2019.
Obligations under the Credit Facility are secured primarily by first preferred mortgages on nine of our drilling units (Atwood Aurora, Atwood Beacon, Atwood Condor, Atwood Mako, Atwood Manta, Atwood Osprey, Atwood Achiever, Atwood Advantage and Atwood Orca), as well as liens on the equity interests of our subsidiaries that own, directly or indirectly, such drilling units. We were in compliance with all financial covenants under the Credit Facility as of June 30, 2016 and we anticipate that we will continue to be in compliance for the next 12 months.

The weighted-average effective interest rate on our long-term debt was approximately 4.4% per annum as of June 30, 2016. The effective rate was determined after giving consideration to the effect of our interest rate swaps accounted for as hedges and the amortization of debt issuance costs and our debt premiums. Interest capitalized for the three and nine months ended June 30, 2016 was approximately \$4 million and \$13 million respectively. Interest capitalized for the three and nine months ended June 30, 2015 was approximately \$6 million and \$15 million respectively.

NOTE 5—FAIR VALUE OF FINANCIAL INSTRUMENTS

We have certain assets and liabilities that are required to be measured and disclosed at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels. Priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Assets and liabilities measured at fair value are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The determination of the fair values, stated below, takes into account the market for our financial assets and liabilities, the associated credit risk and other considerations.

We have classified and disclosed fair value measurements using the following levels of the fair value hierarchy:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
Level 3: Measurement based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable for objective sources (i.e., supported by little or no market activity).

Fair value of Certain Assets and Liabilities
The fair value of cash, accounts receivable and accounts payable approximate fair value because of their short term maturities.

Fair Value of Financial Instruments
Independent third party services are used to determine the fair value of our financial instruments using quoted market prices and observable inputs. When independent third party services are used, we obtain an understanding of how the fair values are derived and selectively corroborate fair values by reviewing other readily available market based sources of information.

Senior Notes— The carrying value of our Senior Notes, net of unamortized premium and debt issuance costs, is $490 million ($490.7 million principal amount) while the fair value of our Senior Notes was $367 million as of June 30, 2016. The fair value is determined by a market approach using quoted period-end bond prices. We have classified this as a Level 2 fair value measurement as valuation inputs for fair value measurements are quoted market prices as of June 30, 2016 that can only be obtained from independent third party sources. The fair value amount has been calculated using these quoted prices. However, no assurance can be given that the fair value would be the amount realized in an active market exchange.

Credit Facility— Our Credit Facility is variable-rate and the carrying value of our variable-rate debt approximates fair value because such debt bears short-term, market-based interest rates. We have classified the fair value measurement of this instrument as Level 2 as valuation inputs for purposes of determining our fair value disclosure are readily available published Eurodollar rates.

Derivative financial instruments— Our derivative financial instruments consist of our interest rate swap contracts and our foreign currency forward exchange contracts. We record our derivative contracts at fair value on our consolidated balance sheets. The fair values of our interest rate swaps and our foreign currency forward exchange contracts are based upon valuations calculated by an independent third party. The derivatives were valued according to the "market approach" where possible, and the "income approach" otherwise. A third party independently valued each instrument using forward price data obtained from reputable data providers (e.g., Bloomberg and Reuters) and reviewed market activity and similarity of pricing terms to determine appropriate reliability level assertions for each instrument. The contribution of the credit valuation adjustment to total fair value is less than 1% for all derivatives and is therefore not significant. Based on valuation inputs for fair value measurement and independent review performed by third party consultants, we have classified our derivative contracts as Level 2 as they were valued based upon observable inputs from dealer markets.

The following table sets forth the estimated fair value of our derivative financial instruments, for which we elected hedge accounting, as of June 30, 2016 and September 30, 2015, which are measured and recorded at fair value on a recurring basis:

(In thousands)	Balance Sheet Classification	June 30, 2016	September 30, 2015
Derivative assets designated as hedges:			
Short-term foreign currency forwards	Prepaid expenses, deferred costs and other current assets	$114	$ 3,822
Derivative liabilities designated as hedges:			
Short-term interest rate swaps	Accrued liabilities	(1,765)	(1,326)
Short-term foreign currency forwards	Deferred credits and other liabilities	—	—
Long-term interest rate swaps	Other long-term liabilities	(1,144)	(974)
Total derivative contracts, net		$(2,795)	$ 1,522

Accounts receivable

We record accounts receivable at the amount we invoice our clients. Our clients are major international corporate entities and government organizations with stable payment experience. Historically, our uncollectible accounts receivable have been immaterial, and typically, we do not require collateral for our receivables. We provide an allowance for uncollectible accounts, as necessary, on a specific identification basis. Our allowance for doubtful accounts as of June 30, 2016 and September 30, 2015 was $2.4 million and $3.8 million, respectively. Our provision for doubtful accounts for the three months ended June 30, 2016 and 2015 was $3.4 million and $0.2 million, respectively and for the nine months period ended June 30, 2016 and 2015 was $4.5 million and $0.3 million, respectively. The provision for doubtful accounts is reported as a component of Contract Drilling costs in our Condensed Consolidated Statements of Operations.

NOTE 6—SHARE-BASED COMPENSATION

A summary of our share-based compensation expense during the nine months ended June 30, 2016 and 2015 is as follows:

(In thousands, except average service periods)	Nine Months Ended June 30, 2016	2015
Share-based compensation recognized	$8,224	$9,277
Unrecognized compensation cost, net of estimated forfeitures	18,085	19,416
Remaining weighted-average service period (years)	1.9	2.1

Restricted Stock Units

During the nine months ended June 30, 2016, we granted to certain employees and our non-employee directors, restricted stock units that are subject to vesting conditions. The grant date fair value of these awards was based on the fair value of our common stock on the date of grant. A summary of our restricted stock activity for the nine months ended June 30, 2016 is as follows:

	Number of Shares (000s)	Weighted Average Fair Value
Unvested as of October 1, 2015	711	$ 43.14
Granted	1,091	13.20
Vested	(192)	45.60
Forfeited	(91)	31.20

Unvested as of June 30, 2016	1,519	22.07

Performance Units

During the nine months ended June 30, 2016, we granted to certain employees share-based awards that are subject to market-based performance conditions ("Performance Units"). The grant date fair value of these performance units was determined through

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use of the Monte Carlo simulation method. A summary of Performance Units stock activity for the nine months ended June 30, 2016 is as follows:

	Number of Shares (000s)	Weighted Average Fair Value
Unvested as of October 1, 2015	240	$ 43.73
Granted	254	15.63
Vested	—	—
Forfeited	(68)	45.20
Unvested as of June 30, 2016	426	26.69

Stock Options

A summary of stock option activity for the nine months ended June 30, 2016 is as follows:

	Number of Options (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (000s)
Outstanding as of October 1, 2015	685	$ 34.90		
Granted	—	—		
Exercised	—	—		—
Forfeited	—	—		
Expired	(49)	30.85		
Outstanding as of June 30, 2016	636	35.22	3.6	(14,427)
Exercisable as of June 30, 2016	636	35.22	3.6	(14,427)

NOTE 7— INCOME TAXES