

DIAMOND OFFSHORE DRILLING INC

Form DEF 14A

March 31, 2010

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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.

(1) Amount Previously Paid:

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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 24, 2010**

To our Stockholders:

The 2010 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 Monday, May 24, 2010 at 11:30 a.m. local time for the following purposes:

- (1) To elect nine directors to serve until our 2011 annual meeting of stockholders;
- (2) To ratify the appointment of Deloitte & Touche LLP as our independent auditors for fiscal year 2010; 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 29, 2010 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 OR, IF YOU PREFER, VOTE BY TELEPHONE OR VIA THE INTERNET. 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

March 31, 2010

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on May 24, 2010.

The proxy statement and our 2009 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 2010 Annual Meeting of Stockholders
to be held on May 24, 2010**

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 2010 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 Monday, May 24, 2010 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, 2010.

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 nine members of our Board of Directors to serve until our 2011 annual meeting of stockholders and to ratify the appointment of Deloitte & Touche LLP as our independent auditors for fiscal year 2010.

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 29, 2010, 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 139,026,178 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 29, 2010 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 29, 2010, 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 nine 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 2010.

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 a current report on Form 8-K following the Annual Meeting.

What is the date of this Proxy Statement?

The date of this Proxy Statement is March 31, 2010.

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The table below shows certain information, at March 9, 2010 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)	50.4%
Common Stock	Capital World Investors 333 South Hope Street Los Angeles, CA 90071	7,906,000(2)	5.7%

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

(2) This information is based solely on a Schedule 13G filed with the Securities and Exchange Commission, or the Commission, on February 11, 2010 by Capital World Investors, a division of Capital Research and Management Company. This Schedule 13G indicates that Capital World Investors has sole investment power over 7,906,000 shares and sole voting power over 726,000 shares.

Loews Corporation, or Loews, is a holding company. In addition to us, its principal subsidiaries are CNA Financial Corporation, a 90% owned subsidiary engaged in commercial property and casualty insurance; HighMount Exploration & Production LLC, a wholly owned subsidiary engaged in exploration, production and marketing of natural gas and natural gas liquids; Boardwalk Pipeline Partners, LP, a 66% owned subsidiary engaged in the operation of interstate natural gas transmission pipeline systems; and Loews Hotels Holding Corporation, a wholly owned subsidiary engaged in the operation of hotels.

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 nine 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.

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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 28, 2010. All of our directors and executive officers individually and as a group own less than 1% of our common 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 (\$87.32) per share of our common stock on February 28, 2010.

Name of Beneficial Owner	Shares of Our Common Stock	Shares of Loews Common Stock	% of Loews Common Stock
James S. Tisch(1)	34,349	14,866,418	3.5%
Lawrence R. Dickerson(2)	1,724	0	*
John R. Bolton(3)	1,006	0	*
Charles L. Fabrikant(4)	3,316	0	*
Paul G. Gaffney II(5)	3,816	0	*
Edward Grebow(6)	316	1,500	*
Herbert C. Hofmann	0	0	*
Arthur L. Rebell(7)	316	53,181	*
Raymond S. Troubh(8)	10,816	30,000	*
Gary T. Krenek(9)	1,765	0	*
John M. Vecchio(10)	506	0	*
William C. Long(11)	6,971	0	*
Lyndol L. Dew(12)	443	0	*
All Directors and Executive Officers as a Group (15 persons including those listed above)(13)	65,990	14,951,099	3.5%

* Less than 1% of the Loews Common Stock.

- (1) The number of shares of our common stock includes 29,349 shares of common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter. The number of shares of Loews Common Stock includes 306,605 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 13,881,322 shares held by trusts of which Mr. Tisch is the managing trustee (inclusive of 6,733,729 shares held in trust for his benefit), and 270,000 shares held by a charitable foundation as to which Mr. Tisch has shared voting and investment power.
- (2) Includes 1,724 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter.

- (3) Includes 152 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter.
- (4) Includes 3,316 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter.
- (5) Includes 3,816 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter.
- (6) Includes 316 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter.

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- (7) Includes 316 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter. The number of shares of Loews Common Stock includes 49,957 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.
- (8) Includes 5,816 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter.
- (9) Includes 498 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter. Also includes 1,267 shares held by virtue of Mr. Krenek's investment in our common stock pursuant to our Retirement Plan, in which he shares voting and investment power with his spouse.
- (10) Includes 501 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter. Also includes five 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) Includes 5,002 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter. Also includes 1,969 shares held by virtue of Mr. Long's investment in our common stock pursuant to our Retirement Plan.
- (12) Includes 443 shares of our common stock issuable upon the exercise of SARs granted under our Stock Option Plan which are exercisable at February 28, 2010 or within 60 days thereafter.
- (13) The number of shares of our common stock owned by all directors and executive officers as a group includes 3,243 shares held by virtue of investments in our common stock pursuant to our Retirement Plan and 51,894 shares of our common stock issuable upon the exercise of options and SARs granted under our Stock Option Plan, which are exercisable at February 28, 2010 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 Ms. Gordon, our Controller and Chief Accounting Officer, is shared with her 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 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 2009, 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 2009.

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Our Board of Directors currently consists of nine directors. 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, Edward Grebow, Herbert C. Hofmann, Arthur L. Rebell and Raymond S. Troubh. Each of the nine directors to be elected at the Annual Meeting will serve a term of one year to expire at our 2011 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, Grebow, 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 and other background information and individual qualifications, attributes and skills, appears below.

Name	Position	Age as of January 31, 2010	Director Since
James S. Tisch(1)	Chairman of the Board	57	1989
Lawrence R. Dickerson(1)	Director, President and Chief Executive Officer	57	1998
John R. Bolton	Director	61	2007
Charles L. Fabrikant(2)	Director	65	2004
Paul G. Gaffney II(3)	Director	63	2004
Edward Grebow(2)(3)	Director	60	2008
Herbert C. Hofmann(1)	Director	67	1992
Arthur L. Rebell	Director	69	1996
Raymond S. Troubh(2)(3)	Director	83	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 Chairman of the Board since November 1995 and as a director since June 1989. He served as our Chief Executive Officer from March 1998 to May 2008. 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. Mr. Tisch served as a director of BKF Capital Group, Inc. from 2000 to 2006.

Mr. Tisch's experience as our former Chief Executive Officer and his extensive background with our company have provided him with unique knowledge of and insight into our business and operations, and have enabled him to be instrumental in providing us with both strategic direction and operational oversight. Our Board believes that Mr. Tisch's leadership and experience at Loews, together with his direct experience in managing our business and his institutional knowledge of our company, cause his contributions to our Board and its deliberations to be of exceptional value.

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Lawrence R. Dickerson has served as our President and a director since March 1998 and as our Chief Executive Officer since May 2008. Mr. Dickerson served as our Chief Operating Officer from March 1998 to May 2008. Mr. Dickerson has also served as a director of Global Industries, Ltd. since March 2007. Mr. Dickerson served on the United States Commission on Ocean Policy from 2001 to 2004.

Mr. Dickerson has held a variety of senior executive positions with our company, including Chief Financial Officer, Chief Operating Officer and currently Chief Executive Officer, and his extensive understanding of our business and operations enables him to provide valuable input and perspective to our Board. In addition to the breadth and extent of his experience with our company, Mr. Dickerson has played an active role in organizations such as the International Association of Drilling Contractors and the Commission on Ocean Policy, which further contribute to his insight into our industry and his contributions to our Board's strategic and other deliberations.

John R. Bolton has served as a director since January 2007. Mr. Bolton is a Senior Fellow of the American Enterprise Institute and is Of Counsel to Kirkland & Ellis LLP. Mr. Bolton also serves as a director of EMS Technologies, Inc. Mr. Bolton served in the U.S. Department of 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.

Mr. Bolton brings to our Board his breadth of experience in international affairs and governmental service. His wide-ranging public policy experience and background in public affairs are a source of valuable knowledge and skills. Particularly in light of our international operations, Mr. Bolton's unique perspective allows him to make important contributions to the work of our Board.

Charles L. Fabrikant has served as a director since January 2004. Mr. Fabrikant has been 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, for over five years. Mr. Fabrikant is also President of Fabrikant International Corporation, a privately owned corporation engaged in marine investments.

As the Chairman and Chief Executive Officer of SEACOR Holdings Inc., a company that owns, operates, invests in and markets equipment for the offshore oil and gas, industrial aviation, and marine transportation industries worldwide, Mr. Fabrikant has an extensive background and practical, hands-on experience in the offshore energy industry. This background provides Mr. Fabrikant particular insight into many of the business decisions which come before our Board.

Paul G. Gaffney II has served as a director since October 2004. Mr. Gaffney has served as President of Monmouth University since 2003. Mr. Gaffney also serves as a trustee of Meridian Health Systems and as a public trustee for NJ Marine Sciences Consortium. Mr. Gaffney is currently the chair of the Ocean Research & Resources Advisory Panel (ORRAP), a panel created by statute to advise federal agencies regarding ocean science and management matters. In February 2010, Mr. Gaffney was elected to the National Academy of Engineering (NAE), a private, independent, nonprofit institution which advises the federal government and conducts independent studies that examine important topics in engineering and technology. Mr. Gaffney was President of the National Defense University from 2000 to 2003 and served as Commissioner of the U.S. Commission on Ocean Policy from 2001 to 2004. Mr. Gaffney also served as a director of Ocean Design, Inc. from 2003 to 2006.

Mr. Gaffney's leadership experience in academia and background in ocean policy have provided him with valuable knowledge of both the complex management and oversight issues faced by large institutions as well as policy issues affecting the offshore drilling industry. As a result of this knowledge and experience, Mr. Gaffney provides our Board meaningful insights and a unique perspective, which benefit the Board's decision making process.

Edward Grebow has served as a director since July 2008. Mr. Grebow has served as a managing director of J.C. Flowers & Co. LLC since 2007. Mr. Grebow served as President of ULLICO Inc. from 2003 to 2006.

Mr. Grebow's experience as a managing director of J.C. Flowers & Co. LLC, a private equity firm with a focus on financial services companies, and as President of ULLICO Inc., an insurance and financial services firm, enables him to provide our Board the benefit of his extensive knowledge of and background in financial services, investment

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and management. This knowledge and experience qualifies him to serve as the financial expert on our Board's Audit Committee.

Herbert C. Hofmann has served as a director since January 1992. Mr. Hofmann has been a Senior Vice President of Loews for over five years and was the President and Chief Executive Officer of Bulova Corporation, formerly a subsidiary of Loews, from 1989 until January 2008.

Mr. Hofmann has had extensive experience in his positions at Loews and practical, hands-on experience as the former Chief Executive Officer of Bulova Corporation, a company that distributes and sells watches and clocks. He also has a long background with our company, having served as a director since 1992. Mr. Hofmann's management background, combined with his institutional knowledge of our company, provide Mr. Hofmann particular insight into many of the business decisions which come before our Board.

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

Mr. Rebell has significant experience both in the energy sector and as a member of management at Loews. His background and industry experience aid our Board in reviewing decisions and strategy for our company.

Raymond S. Trough has served as a director since November 1995. Mr. Trough has been a financial consultant for over five years, is 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 Wendy's/Arby's Group, Inc. Mr. Trough also served as a director of Sun-Times Media Group, Inc. from 2006 to 2007, a director of Petrie Stores Liquidating Trust (Trustee) from 1994 to 2006, a director of Portland General Electric Company from 2004 to 2006, and a director of WHX Corporation from 1994 to 2005.

Mr. Trough's breadth of experience, having served as a director of a number of companies in a variety of industries, as well as his skills and extensive background in finance and capital markets, enable him to provide valuable insight into business deliberations and judgments that come before our Board.

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. Bolton, Mr. Fabrikant, Mr. Gaffney, Mr. Grebow 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 known to it 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;

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(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 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. Dickerson, Mr. Hofmann and Mr. Tisch. 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 2009, the Executive Committee held three meetings.

Audit Committee

The Audit Committee of the Board of Directors consists of three members, Mr. Fabrikant, Mr. Grebow 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. Grebow qualifies as an audit committee financial expert under the rules of the Commission.

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Compensation Committee

The Compensation Committee of the Board of Directors consists of three members, Mr. Gaffney, Mr. Grebow 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 December 18, 2009, 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. 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 2011 annual meeting of stockholders, means that the nomination must be received no later than February 23, 2011. 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. In identifying, evaluating and nominating individuals to serve as our directors, including those

identified by stockholders, our Board does not have any formal policy with respect to diversity and does not rely on any preconceived diversity guidelines or rules. Rather, our Board believes that our company is best served by directors with a wide range of perspectives, professional experiences, skills and other individual qualities and attributes. The Board retains its full discretion in making all 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.

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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 Raymond S. Troubh to act as the current Lead Director and to serve as the presiding director at these meetings.

Board Leadership Structure

Our Board's leadership structure consists of our Chairman of the Board, James S. Tisch, and our Lead Director, currently Raymond S. Troubh, who is also the Chairman of our Board's Compensation Committee. Currently our Chairman of the Board is not one of our executive officers, although from March 1998 to May 2008, Mr. Tisch also served as our Chief Executive Officer. As provided in our corporate governance guidelines, the Board has no fixed policy with respect to combining or separating the offices of Chairman of the Board and Chief Executive Officer. These have been at times combined and at times separated. The Board has exercised discretion in combining or separating the positions as it has deemed appropriate in light of prevailing circumstances and the Board continues to reserve the right to make this determination. Our Board believes that this structure permits it to obtain input and guidance from both senior management and non-management directors, including through the Lead Director, as well as sufficient flexibility to adapt to changing circumstances, which enable the Board to fulfill its oversight role. From time to time the Board reviews the manner in which the Board and its leadership are configured, with a view toward maintaining a structure that will best serve our company and its stockholders.

Board Oversight of Risk Management

Our Board recognizes the importance of understanding, evaluating and, to the extent practicable, managing risk and its impact on the financial health of our company. Our Board and our Audit Committee receive from our management periodic reports which, among other things, assist in identifying the principal risks facing our company, identifying and evaluating policies and practices which promote a culture that actively balances risk and reward and evaluating risk management practices. These reports enable the non-management directors to conduct meaningful and substantive discussions concerning these issues with senior management during Board and Audit Committee meetings.

Director Attendance at Meetings

During 2009 there were eight meetings of the Board of Directors, eight meetings of the Audit Committee and four meetings of the Compensation Committee. During 2009, 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. 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 of our directors then in office attended our 2009 annual meeting of stockholders.

Director Compensation

Other than Mr. Tisch, each director who is not our employee currently receives a quarterly award of 500 SARs in accordance with the terms of our Stock Option Plan. Our Chairman of the Board, Mr. Tisch, currently receives a quarterly award of 7,500 SARs in accordance with the terms of our Stock Option Plan. These SARs vest immediately and have a term of ten years from the date of grant. 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.

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The following table provides information on our compensation of non-employee directors for 2009:

Director Compensation for 2009

Name	Fees Earned or Paid in Cash(1)	Option Awards(2)	All Other Compensation(3)	Total
James S. Tisch	\$	\$ 754,594	\$ 785,156	\$ 1,539,750
John R. Bolton	37,000	50,306	22,500	109,806
Charles L. Fabrikant	40,000	50,306	58,125	148,431
Paul G. Gaffney II	38,000	50,306	61,875	150,181
Edward Grebow	55,000	50,306	13,125	118,431
Herbert C. Hofmann		50,306	15,938	66,244
Arthur L. Rebell		50,306	31,875	82,181
Raymond S. Troubh	56,000	50,306	76,875	183,181

- (1) These amounts represent all fees earned for service as a director during 2009. The annual retainer fees for the Lead Director and Chairman of the Audit Committee are each paid in quarterly installments of \$2,500. Mr. Troubh received a \$10,000 annual retainer as Lead Director and Mr. Grebow received a \$10,000 annual retainer as Chairman of the Audit Committee.
- (2) These amounts represent the aggregate grant date fair value of these awards pursuant to our Stock Option Plan through December 31, 2009 computed in accordance with the Financial Accounting Standards Board's (FASB) ASC Topic 718. Assumptions used in the calculation of dollar amounts of these awards are included in footnote 2 to our audited financial statements for the fiscal year ended December 31, 2009 included in our Annual Report on Form 10-K filed with the Commission on February 23, 2010. Other than Mr. Tisch, each director who is not our employee received a quarterly award of 500 SARs in accordance with the terms of our Stock Option Plan. Our Chairman of the Board, Mr. Tisch, received a quarterly award of 7,500 SARs in accordance with the terms of our Stock Option Plan. These SARs vested immediately and have terms of ten years from the date of grant. At December 31, 2009, the aggregate number of option awards and SARs outstanding for each non-employee director was as follows: Mr. James S. Tisch, 135,000; Mr. John R. Bolton, 4,000; Mr. Charles L. Fabrikant, 9,000; Mr. Paul G. Gaffney II, 9,500; Mr. Edward Grebow, 3,000; Mr. Herbert C. Hofmann, 2,500; Mr. Arthur L. Rebell, 5,500; and Mr. Raymond S. Troubh, 11,500.
- (3) These amounts represent payments of cash made pursuant to anti-dilution adjustments under the terms of our Stock Option Plan to directors with option and/or SAR awards outstanding in 2009, whose awards vested immediately upon granting. During 2009 we made four such payments, each in the amount of \$1.875 per outstanding and unexercised stock option and/or SAR that was held and vested as of February 13, May 1, August 3 and November 2, 2009. In addition, pursuant to the terms of our Stock Option Plan, anti-dilution adjustments made for outstanding option and/or SAR awards before such awards vest are accrued and paid following the vesting of such awards. Mr. Tisch, who also held option and/or SAR awards subject to vesting, received an additional payment of \$215,625 for such accrued anti-dilution adjustments after awards vested in 2009.

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.

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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, 2009 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 applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has determined that the provision of the 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, 2009, which we have filed with the Commission.

THE AUDIT COMMITTEE

Edward Grebow, 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 three 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. 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.

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 in the energy industry and the executive compensation programs of various companies engaged in businesses similar to ours (although we do not benchmark our compensation to any particular group of companies), as well as applicable tax and accounting impacts of executive compensation. As part of this process, we refer to and consider executive compensation surveys and other information related to executive compensation levels and compensation practices as shown in the surveys that we review.

Elements of Compensation. The principal components of compensation for our Named Executive Officers are:

- base salary;
- incentive compensation awards;
- grants of stock appreciation rights; and
- retirement, life insurance, medical and related benefits.

We do not rely on formula-driven plans when determining the aggregate amount of compensation for each Named Executive Officer. The primary factor in setting compensation is an evaluation of the individual's performance in the context of our performance and our past compensation policies and practices. Accordingly, the Compensation

Committee considers individual performance factors that include the Compensation Committee's view of the performance of the individual, the responsibilities of the individual's position, and the individual's contribution to our company and to our financial and operational performance for the most recently completed fiscal year.

There is no specific weighting given to each factor, but rather the Compensation Committee considers and balances these factors in its business judgment and discretion. In our most recent fiscal year, each of our Named Executive Officers performed favorably in light of each of these factors applicable to the respective individual.

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We also have reviewed and considered compensation levels and practices as shown in the surveys and other materials referred to above. Based on these factors, we determine an overall level of cash compensation a significant portion of which is incentive based and stock-based awards, which are described further below. When compensation for the Named Executive Officers is evaluated, the Compensation Committee will consider, among other things, the following information:

The opportunity for compensation for the prior year, which includes salary, target cash incentive compensation and the potential value of equity-based grants; and

The actual compensation history from previous years, including salary and actual cash incentive compensation earned.

Recommendations regarding compensation of our executive officers are prepared by our Chief Executive Officer. They are reviewed with and are acted upon by the Compensation Committee in accordance with its charter. However, our Chief Executive Officer does not participate in the preparation of recommendations, or the review, modification or approval of recommendations, with respect to his own compensation. The Compensation Committee does not delegate any of its functions in setting executive compensation under its charter to management, although our management and members of our Board provide recommendations to the Compensation Committee and the Executive Committee continues to administer the Diamond Offshore Management Bonus Program, or the Management Bonus Program, discussed below.

Base Salary. Every one of our salaried employees, including our Named Executive Officers, is assigned a salary grade at the commencement of employment, which is subject to periodic review, pursuant to a system that considers objective criteria, such as the employee's level of financial responsibility and supervisory duties, and the education and skills required to perform the employee's functions; however, the assignment of an employee to a particular salary grade, or promotion to another salary grade, necessarily involves subjective judgments. Within each grade, salaries are determined within a range based primarily on subjective factors such as the employee's contribution to our company and individual performance. No fixed, relative weights are assigned to these subjective factors. On occasion, an officer's compensation may be fixed at a level above the maximum level for his or her salary grade in response to a subjective determination that the officer's compensation, if set at the maximum level for his or her grade, would be below the level merited by his or her contributions to our company. In 2009, the annual base salary of each of our Named Executive Officers was determined by our Compensation Committee, in light of performance reviews and the other factors described above, as well as the impact of limits on the deductibility of compensation under the Internal Revenue Code of 1986, as amended, which (together with the regulations promulgated thereunder, as each may be amended) we refer to as the Code, as discussed below.

Incentive Compensation Awards. Annual cash bonus incentives may be awarded under the Management Bonus Program and, for our executive officers, under our Incentive Compensation Plan, each of which is intended to provide a means whereby certain of our selected officers and key employees may develop a sense of proprietorship and personal involvement in our development and financial success, and encourage the participants to remain with and devote their best efforts to our business, thereby advancing our interests and the interests of our stockholders.

Incentive Compensation Plan. A significant portion of compensation of our Named Executive Officers comes from awards under our Incentive Compensation Plan. This element of our compensation program makes a significant portion of the participating executive officer's annual compensation a function of our attainment of a pre-determined level of EBITDA. It thereby helps align their interests with those of our stockholders. Under our Incentive Compensation Plan, the Compensation Committee employs factors that are both quantitative (our attainment of the performance goal discussed below) and qualitative (the Compensation Committee's assessment of the individual participant's performance).

Solely for purposes of this calculation, EBITDA is defined, for us and our consolidated subsidiaries on a consolidated basis, as an amount equal to consolidated net income (excluding extraordinary gains and extraordinary losses), determined in accordance with United States generally accepted accounting principles, or GAAP, for the

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applicable period plus or minus, as applicable, the following to the extent deducted in calculating such consolidated net income:

plus an amount equal to the sum of all interest, premium payments, debt discount, fees, charges and related expenses of our company and our consolidated subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, for such period;

plus or minus the provision for taxes based on income or revenues payable by us and our consolidated subsidiaries for such period;

plus the amount of depreciation and amortization expense for such period;

minus, without duplication, interest income for such period, as determined in accordance with GAAP; and

plus or minus, without duplication, the amount of non-operating income or expenses for such period, all as determined in accordance with GAAP.

Under the Incentive Compensation Plan, our Compensation Committee establishes an annual performance goal expressed as an amount of budgeted EBITDA for the performance period. For 2009, the Compensation Committee set this amount, in consultation with management, at \$2.26 billion. Performance awards for 2009 were determined using a formula established by the Compensation Committee based on the ratio of actual EBITDA for 2009 compared to the average of 2009 budgeted EBITDA and 2008 actual EBITDA. The Compensation Committee determined the amount available for the performance award to each participant by fixing an incentive target for each participant expressed as a specified percentage (100%) of the participant's eligible base salary. The amount available for each participant's performance award was also capped at this target amount. The performance award is based upon the product of the EBITDA ratio and the incentive target amount, but cannot exceed the specified percentage of the participant's eligible base salary. Although the amount of a performance award is a function of the actual EBITDA achieved for the performance period, failure to achieve the budgeted EBITDA target does not preclude the payment of an award, but rather has the effect generally of reducing (subject to the cap) the amount that would have been payable if the target had been achieved.

The establishment of a cap, or maximum award, which limits the amount an individual may earn under the Incentive Compensation Plan, is an integral part of the determination of the executive's overall potential cash compensation, based on the factors described above. Our Incentive Compensation Plan specifies an overall cap which limits the maximum amount payable under this plan to any participant during any performance period to \$1,000,000 per year. The potential for excessive compensation is limited by setting incentive targets for each participant and further by this absolute maximum award amount. In addition, the Compensation Committee retains the ability under the Incentive Compensation Plan to reduce an award, a concept called negative discretion, when the Compensation Committee deems appropriate. This allows the Compensation Committee to review and evaluate each participant's performance in light of the year end results which, we believe, serves to discourage excessive risk taking.

The annual performance goal and the cap on each participant's award are established before the end of the first 90 days of the performance year and the decision as to whether to exercise negative discretion and authorize the payment of an award is generally made in the first quarter of the following year, after actual EBITDA for the performance period has been established. In determining whether or not to exercise negative discretion, the Compensation Committee has the ability to reassess the individual's performance during the performance year or to consider other factors the Compensation Committee deems relevant, such as the provisions of the individual's employment agreement.

Following determination of our actual EBITDA for 2009, which approximated but was slightly less than the budgeted EBITDA for the performance period, the Compensation Committee authorized the incentive compensation awards under the Incentive Compensation Plan. In determining the amounts of these awards for 2009, the Compensation Committee also took into consideration the terms of the officers' respective employment agreements. As discussed below, each of our Named Executive Officers is party to an employment agreement which, until September 30, 2009, provided that the desired (but not guaranteed) target bonus amount for the executive was

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equal to a range of between 60% to 65% of his base salary, subject to a maximum annual bonus amount equal to 100% of base salary. In the exercise of its business judgment, the Compensation Committee exercised its negative discretion to authorize incentive compensation awards under the Incentive Compensation Plan for 2009 in amounts that were less than the maximum amounts available for awards under the terms of the Incentive Compensation Plan. Awards authorized under the Incentive Compensation Plan for 2009 were paid in full in February 2010. Awards paid to the Named Executive Officers under the Incentive Compensation Plan for 2009 are included in the column entitled Non-Equity Incentive Plan Compensation on the Summary Compensation Table below.

If any participant under the Incentive Compensation Plan ceases to be employed by us before the end of a performance period (other than due to Retirement, as defined in the plan, death or Disability, as defined in the plan), that participant will not be eligible to receive a bonus award for that performance period unless the Compensation Committee determines that payment of the award is in our best interest. Participants who cease to be employed by us before the end of a performance period due to Retirement, death or Disability will receive an award prorated to the date of cessation of employment.

Management Bonus Program. Under our Management Bonus Program, our Board's Executive Committee is authorized to establish an annual bonus pool based on the Executive Committee's evaluation of our company during the year relative to peer companies, the performance of our share price and extraordinary events during the year. The Executive Committee generally establishes the bonus payouts from the bonus pool based upon corporate, group or individual performance, or a combination thereof, or such other subjective criteria as the committee considers appropriate. None of our Named Executive Officers earned awards under the Management Bonus Program for services performed in 2009 and instead earned awards under our Incentive Compensation Plan. Under our current practice, if the Executive Committee were to recommend an award to an executive officer under the Management Bonus Program, the Compensation Committee would review and, in its discretion, approve any such award prior to its payment.

Stock-Based Awards. The third principal element of our compensation policy for Named Executive Officers is stock-based awards under our Stock Option Plan. Unlike base salary, bonuses and incentive compensation awards, which are earned and paid based on the annual performance of the individual and our company, awards under the Stock Option Plan generally vest over a period of four years and have a term of ten years. Stock-based awards to the Named Executive Officers are designed to reward them for taking actions that benefit the long-term performance of our company. These awards are also designed to retain the services of executives during the vesting period because the awards will be forfeited in most circumstances if an executive voluntarily leaves our company before the awards vest. As a result, these awards recognize performance over a longer term, encourage executives to continue their employment with us and directly link the value of the awards to appreciation in the price of our common stock. All of these elements further serve to align the executive's interest with those of our stockholders.

Our current practice is to consider the establishment and granting of stock-based awards to executive officers and other eligible participants in the first quarter of each year. We currently establish an annual award in the first quarter but grant the award in four quarterly increments over the year, the first grant being made in April, and the remaining three grants being made in the following July, October and December. Each grant is made at an exercise or strike price equal to fair market value on the date of grant, which is defined in the Stock Option Plan as the mean between the highest and lowest reported sales price per share of our common stock on the New York Stock Exchange on the trading day immediately preceding the date of grant.

The Stock Option Plan is administered with respect to our employees by our Board's Executive Committee, except for any participant under the plan who is then a participant in our Incentive Compensation Plan or is, with respect to our company, a covered employee within the meaning of Section 1.162-27(c)(2) of the regulations under the Code or an officer of our company as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended. For those

participants, including all of our executive officers (including all Named Executive Officers), the authority to control and manage the operation and administration of the Stock Option Plan is vested in the Compensation Committee. Our Board of Directors has retained the authority to administer the Stock Option Plan with respect to our non-employee directors and any other eligible grantee under the Stock Option Plan for whom such authority has not been delegated to the Compensation Committee or the Executive Committee. The Board of Directors has also retained plenary authority to amend or terminate the Stock Option Plan.

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In 2005, we amended our Stock Option Plan to provide for the grant of SARs, which constitute the right to receive stock or cash, or a combination of stock and cash, equal in value to the difference between the exercise price of the SAR and the market price of the corresponding amount of common stock on the exercise date. Under our current practice, we award only SARs to all participants in the Stock Option Plan (including Named Executive Officers). We made this change to reduce the potential for dilution as the maximum number of shares issuable upon the exercise of SARs is less than the number of shares issuable upon the exercise of an equivalent number of stock options. Because SARs offer the recipient the same economic opportunity as stock options, the value of the award to the executive was not affected by this change. The number of SARs (and previously stock options) granted to each of our Named Executive Officers has either remained consistent, or in some cases gradually increased, over the past three years.

In 2007, we amended our Stock Option Plan to require an anti-dilution adjustment upon the occurrence of certain corporate transactions including, among others, an extraordinary cash dividend. Following our declaration of a special cash dividend in October 2007, under the terms of our Stock Option Plan the Compensation Committee approved the payment of cash in the amount of \$1.25 per outstanding and unexercised stock option and/or SAR as an anti-dilution adjustment to all participants in the Stock Option Plan (including Named Executive Officers) who held stock options and/or SARs that were outstanding as of November 2, 2007. We paid this anti-dilution adjustment payment on December 3, 2007 with respect to stock options and SARs that were held and vested as of November 2, 2007.

During 2008 we made three such anti-dilution adjustment payments, each in the amount of \$1.25 per outstanding and unexercised stock option and/or SAR that was held and vested as of February 18, May 2 and August 1, and one such anti-dilution adjustment payment in the amount of \$1.875 per outstanding and unexercised stock option and/or SAR that was held and vested as of November 3. During 2009 we made four such anti-dilution adjustment payments, each in the amount of \$1.875 per outstanding and unexercised stock option and/or SAR that was held and vested as of February 13, May 1, August 3 and November 2. In each case, the anti-dilution adjustment payment was made on the payment date of the related special cash dividend.

Employment Agreements and Severance Arrangements. We have entered into employment agreements with each of our Named Executive Officers. Each agreement specifies a base salary level and provides that the executive will be entitled to participate in our employee benefit and compensation programs, plans and policies (such as bonus compensation, retirement plans and stock plans, among others) on the same basis as other executive employees. Until September 30, 2009, each agreement also provided that the individual executive would be eligible to participate in our bonus plans made available to executives in a commensurate position and that the desired (but not guaranteed) target bonus amount for the executive was equal to a range of between 60% to 65% of his or her base salary, subject to a maximum annual bonus amount equal to 100% of base salary (although the amount of any award granted to any Named Executive Officer under the Incentive Compensation Plan remained subject to the discretion of the Compensation Committee). These provisions, which also required that any such bonus would be paid in full each February, expired on September 30, 2009 and are no longer in effect. The employment agreements with our Named Executive Officers contain no provision for payment upon a change in control, nor do such agreements require us to provide any perquisites.

We recognize that it may be difficult upon termination for senior management to find comparable employment within a short period of time. Accordingly, each Named Executive Officer party to an employment agreement with us is entitled to certain severance payments if his employment agreement is terminated under specified circumstances. Specifically, if during the term of the employment agreement we terminate the executive without Cause, or as a result of his death or Disability, or if the executive terminates the employment agreement for Good Reason, in addition to the benefits executive employees receive generally, including all accrued but unpaid base salary, accrued and unpaid expense reimbursements and other cash entitlements and, except as otherwise previously requested by the executive, the amount of any accrued and unpaid compensation, as well as unpaid amounts under applicable plans, policies and programs, the executive generally is entitled to continuation of his base salary for the remaining term of the

employment agreement or 24 months, whichever is greater (payable as a lump sum in the event of his death); continuation of insurance benefits (medical, dental, life and disability) for him and his family for the remaining term of the employment agreement or two years, whichever is greater, or until he becomes eligible for comparable coverage by a subsequent employer; any unexercised and/or unvested stock option grant or equivalent

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(SARs paid in stock) held by the executive upon termination of employment will be fully vested on the date of termination and be eligible for exercise as provided for in the applicable plan; and we will provide the executive with customary outplacement services commensurate with his position, which will not exceed 12 months or \$25,000. The terms Cause, Good Reason and Disability are defined in each executive's employment agreement.

Employee Benefits. Our Named Executive Officers also participate in benefit programs available to salaried employees generally, including our Retirement Plan described below and medical, dental, life and disability insurance plans. Additional benefits paid to the Named Executive Officers are discussed below.

We maintain a defined contribution plan, which we refer to as the Retirement Plan, designed to qualify under Section 401(k) of the Code. In 2009, pursuant to the Retirement Plan we contributed 5% of the participant's defined compensation and we matched 100% of the first 6% of each participant's compensation contributed. Our contributions to the Retirement Plan are subject to annual review and adjustment, and beginning in 2010, our contribution pursuant to the Retirement Plan was reduced to 4% of the participant's defined compensation, while our matching contribution continued unchanged. Participants are fully vested immediately upon enrollment in the plan. Participants may use up to 25% of the amount of such contributions to the Retirement Plan to purchase shares of our common stock. In addition, under our Amended and Restated Supplemental Executive Retirement Plan, or the Supplemental Executive Retirement Plan, we contribute to participants any portion of the 5% of the base salary contribution and the matching contribution to the Retirement Plan that cannot be contributed because of the limitations within the Code. Participants in this plan are a select group of our management or highly compensated employees, including the Named Executive Officers, and are fully vested in all amounts paid into the plan. We also make contributions for group term life insurance, spouse/dependent life insurance, and long-term disability insurance for executive officers, including our Named Executive Officers, as indicated in the Summary Compensation Table below.

Deductibility of Compensation for Tax Purposes. Under the Code, the amount of compensation paid to or accrued for our Named Executive Officers which may be deductible by us for federal income tax purposes is limited to \$1.0 million per person per year, except that compensation which is considered to be performance-based under the Code and the applicable regulations is excluded for purposes of calculating the amount of compensation. To the extent that our compensation policy can be implemented in a manner which maximizes the deductibility of the compensation we pay, our policy has been to seek to do so. Accordingly, we have designed both our Stock Option Plan and the Incentive Compensation Plan so that compensation in the form of awards or grants made under either plan will be considered to be performance-based under the applicable provisions of the Code.

COMPENSATION COMMITTEE REPORT

In fulfilling its responsibilities, our Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with our management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Raymond S. Troubh, Chairman
Paul G. Gaffney II
Edward Grebow

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Paul G. Gaffney II, Edward Grebow and Raymond S. Troubh, each of whom is an Independent Director and, consequently, none of whom is or has been an officer or employee of our company. During 2009, none of our executive officers served as a member of the compensation committee (or other board committee performing equivalent functions) or as a member of the board of directors of another entity, one of whose executive officers served on our Compensation Committee. In addition, during 2009

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none of our executive officers served as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the board of directors) of another entity, one of whose executive officers served on our Board of Directors.

Equity Compensation Plan Information

The following table provides information regarding securities authorized for issuance under our equity compensation plan as of December 31, 2009:

Plan Category	Equity Compensation Plan Information		
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1) (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	119,247	\$ 94.82	576,803
Equity compensation plans not approved by security holders			
Total	119,247	\$ 94.82	576,803

(1) The number of shares included with respect to stock options and SARs granted under our Stock Option Plan is the number of shares of our common stock that would have been issued had the stock options and SARs been exercised, based on the closing price of \$98.42 per share of our common stock on December 31, 2009.

Table of Contents**EXECUTIVE COMPENSATION**

The following table shows information for the years ended December 31, 2009, 2008 and 2007 regarding the compensation of our Chief Executive Officer, Chief Financial Officer and each of our three other most highly compensated executive officers as of December 31, 2009, whom we refer to collectively as the Named Executive Officers, for service in all capacities with our company and our subsidiaries.

Summary Compensation Table

Name and Position	Year	Salary	Option Awards(1)	Non-Equity Incentive	All Other	Total
				Plan Compensation(2)	Compensation (3)	
Lawrence R. Dickerson	2009	\$ 782,500	\$ 662,340	\$ 555,000	\$ 663,030	\$ 2,662,870
President and	2008	732,500	736,031	555,000	409,863	2,433,394
Chief Executive Officer	2007	686,250	830,025	520,000	165,944	2,202,219
Gary T. Krenek	2009	365,000	235,499	240,000	203,195	1,043,694
Chief Financial Officer and	2008	344,250	261,700	250,000	128,267	984,217
Senior Vice President	2007	324,750	295,120	230,000	57,931	907,801
Lyndol L. Dew	2009	370,000	235,499	240,000	199,687	1,045,186
Senior Vice President						
Worldwide Operations						
William C. Long	2009	367,500	235,499	240,000	259,998	1,102,997
Senior Vice President,						
General	2008	345,375	261,700	255,000	152,319	1,014,394
Counsel & Secretary						
John M. Vecchio	2009	442,500	235,499	305,000	223,648	1,206,647
Executive Vice President	2008	385,500	261,700	295,000	146,880	1,089,080
	2007	356,000	295,120	262,000	66,845	979,965

(1) These amounts represent the aggregate grant date fair value of these awards pursuant to our Stock Option Plan through December 31, 2009 computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of dollar amounts of the 2009 awards are included in footnote 2 to our audited financial statements for the fiscal year ended December 31, 2009 included in our Annual Report on Form 10-K filed with the Commission on February 23, 2010.

(2) These amounts represent amounts paid under our Incentive Compensation Plan.

(3) The amounts shown in the All Other Compensation column for 2009 represent company contributions and are detailed in the following table.

Table of Contents**All Other Compensation Table for 2009**

Name and Position	Retirement Plan	Retirement Plan		Supplemental Executive Retirement Plan	Anti-Dilution Adjustment for Special Dividends	Total
		Matching	Insurance			
Lawrence R. Dickerson President and Chief Executive Officer	\$ 12,250	\$ 14,700	\$ 9,647	\$ 80,605	\$ 545,828	\$ 663,030
Gary T. Krenek Chief Financial Officer and Senior Vice President	12,250	14,700	3,559	15,574	157,112	203,195
Lyndol L. Dew Senior Vice President Worldwide Operations	12,250	14,700	3,559	15,763	153,415	199,687
William C. Long Senior Vice President, General Counsel & Secretary	12,250	14,700	3,559	15,705	213,784	259,998
John M. Vecchio Executive Vice President	12,250	14,700	3,559	25,325	167,814	223,648

Employment Agreements

As discussed further under "Compensation Discussion and Analysis" above, we maintain employment agreements with each of our Named Executive Officers. The employment agreements establish the following current annual base salary for the Named Executive Officers:

Named Executive Officer	Current Base Salary
Lawrence R. Dickerson	\$ 820,000
Gary T. Krenek	380,000
Lyndol L. Dew	390,000
William C. Long	390,000
John M. Vecchio	480,000

The base salary under each employment agreement is subject to upward adjustment from time to time in accordance with its terms and subject to our compensation policies. Each employment agreement provided for an initial term through December 31, 2009 (or, in the case of Mr. Dickerson, through September 30, 2009) and is automatically extended for successive one-year periods thereafter. Until September 30, 2009, each agreement also provided that the individual executive would be eligible to participate in our bonus plans made available to executives in a commensurate position and that the desired (but not guaranteed) target bonus amount for the executive was equal to a

range of between 60% to 65% of his base salary, subject to a maximum annual bonus amount equal to 100% of base salary (although the amount of any award granted to any Named Executive Officer under the Incentive Compensation Plan remained subject to the discretion of the Compensation Committee). These provisions, which also required that any such bonus would be paid in full each February, expired on September 30, 2009 and are no longer in effect. The employment agreements with our Named Executive Officers contain no provision for payment upon a change in control, nor do such agreements require us to provide any perquisites. Additional terms of the employment agreements are discussed above in our Compensation Discussion and Analysis under the heading Employment Agreements and Severance Arrangements.

Table of Contents**Nonqualified Deferred Compensation**

The following table sets forth certain information for the Named Executive Officers as of December 31, 2009 and for the year then ended with respect to nonqualified deferred compensation.

Nonqualified Deferred Compensation for 2009

Name	Registrant Contributions in 2009(1)	Aggregate Earnings in 2009(2)	Aggregate Withdrawals/ Distributions in 2009(3)	Aggregate Balance at December 31, 2009(4)
Lawrence R. Dickerson	\$ 604,953	\$ 27,869	\$ 479,887	\$ 991,196
Gary T. Krenek	170,312	4,559	127,916	255,120
Lyndol L. Dew	167,165	3,944	118,093	242,187
William C. Long	227,259	4,245	179,217	249,055
John M. Vecchio	189,539	6,127	149,502	297,770

- (1) These amounts include contributions under our Supplemental Executive Retirement Plan in the following amounts: Mr. Dickerson, \$59,125; Mr. Krenek, \$13,200; Mr. Dew, \$13,750; Mr. Long, \$13,475; and Mr. Vecchio, \$21,725. Our contributions under this plan are further described in our Compensation Discussion and Analysis above under the heading Employee Benefits. These amounts also include amounts payable pursuant to anti-dilution adjustments under the terms of our Stock Option Plan based on unexercised vested and unvested option and/or SAR awards outstanding as of February 13, May 1, August 3 and November 2, 2009, in the following amounts: Mr. Dickerson, \$545,828; Mr. Krenek, \$157,112; Mr. Dew, \$153,415; Mr. Long, \$213,784; and Mr. Vecchio, \$167,814. These contributions are also reported in the All Other Compensation column of the Summary Compensation Table and in the Supplemental Executive Retirement Plan and Anti-Dilution Adjustment for Special Dividends columns, respectively, of the All Other Compensation Table for 2009.
- (2) These amounts include interest earned on contributions under our Supplemental Executive Retirement Plan in the following amounts: Mr. Dickerson, \$21,480; Mr. Krenek, \$2,374; Mr. Dew, \$2,013; Mr. Long, \$2,230; and Mr. Vecchio, \$3,600. These amounts are also reported in the All Other Compensation column of the Summary Compensation Table. These earnings were calculated by applying an interest rate based on Moody's Aa daily long-term corporate bond yield average to current year and deferred contributions. These amounts also include interest earned on aggregate deferred cash bonus incentives under our Management Bonus Program in the following amounts: Mr. Dickerson, \$6,389; Mr. Krenek, \$2,185; Mr. Dew, \$1,931; Mr. Long, \$2,015; and Mr. Vecchio, \$2,527. Pursuant to the Management Bonus Program, to determine the interest rates used to calculate earnings we apply the Treasury rate in effect on January 31 immediately preceding the initial payout date for each award being deferred. The applicable Treasury rate is the rate for Treasury bills, bonds or notes with a term closest to the midpoint of the deferral term. The interest rates used to calculate the earnings in 2009 were 2.2%, 3.4% and 4.5% applied to the deferred bonus award amounts for the years 2003, 2004 and 2005, respectively.
- (3) These amounts include payments of deferred cash bonus incentives and interest earned thereon in the following amounts: Mr. Dickerson, \$123,038; Mr. Krenek, \$41,891; Mr. Dew, \$36,544; Mr. Long, \$36,492; and Mr. Vecchio, \$48,875. These amounts also include payments made in 2009 pursuant to anti-dilution adjustments under the terms of our Stock Option Plan on unexercised vested option and/or SAR awards outstanding as of

February 13, May 1, August 3 and November 2, 2009 and payments for accrued anti-dilution adjustments after awards vested in 2009 in the following amounts: Mr. Dickerson, \$356,849; Mr. Krenek, \$86,025; Mr. Dew, \$81,549; Mr. Long, \$142,725; and Mr. Vecchio, \$100,627.

- (4) These amounts represent the aggregate balances as of December 31, 2009 for each of the Named Executive Officers pursuant to our Supplemental Executive Retirement Plan, Management Bonus Program and the amount payable pursuant to anti-dilution adjustments under the terms of our Stock Option Plan. The balances related to our Management Bonus Program represent the deferred portion of bonus awards for calendar years 2003 through 2005 and were reported in the Summary Compensation Tables for those respective years. Before the awards for the 2006 performance year, which we paid in full in 2007 to the Named Executive Officers who received such awards, cash bonus incentive awards to the Named Executive Officers under the Management Bonus Program were paid in annual

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installments (25%, 15%, 15%, 15%, 15% and 15%) over a six calendar year period. The deferred balances related to our Supplemental Executive Retirement Plan were reported in the Summary Compensation Table in each contribution year. The deferred balances related to the amounts payable pursuant to the anti-dilution adjustments under the terms of our Stock Option Plan are reported in the All Other Compensation column of the Summary Compensation Table and in the Anti-Dilution Adjustment for Special Dividends column of the All Other Compensation Table in the year in which such anti-dilution adjustments are made, irrespective of when they are paid.

Potential Payments Upon Termination

We recognize that it may be difficult upon termination for senior management to find comparable employment within a short period of time. We structured the material terms and payment provisions of these termination arrangements in a manner consistent with our compensation philosophy and the objectives of our executive compensation program, which 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. In determining these termination arrangements, we have considered our historical compensation policies and practices as they have developed over time, national surveys of executive compensation at comparable sized companies in the energy industry and the executive compensation programs of various companies engaged in businesses similar to ours (although we do not benchmark our compensation to any particular group of companies), as well as applicable tax and accounting impacts of executive compensation. See Compensation Discussion and Analysis.

As discussed further under Employment Agreements above, we maintain employment agreements with each of our Named Executive Officers. If during the term of his employment agreement we terminate a Named Executive Officer without Cause, or as a result of his death or Disability, or if the Named Executive Officer terminates the employment agreement for Good Reason, in addition to the benefits executive employees receive generally, as well as unpaid amounts under applicable plans, policies and programs, the Named Executive Officer generally is entitled to:

continuation of his base salary for the remaining term of the employment agreement or 24 months, whichever is greater (payable as a lump sum in the event of his death);

continuation of insurance benefits (medical, dental, life and disability) for him and his family for the remaining term of the employment agreement or two years, whichever is greater, or until he becomes eligible for comparable coverage by a subsequent employer;

accelerated vesting of any unvested stock option grant or equivalent (SARs paid in stock) held by the Named Executive Officer upon termination of employment; and

we will provide the Named Executive Officer with customary outplacement services commensurate with his position, which will not exceed 12 months or \$25,000.

The terms Cause, Good Reason and Disability are defined in each Named Executive Officer's employment agreement. The employment agreements with our Named Executive Officers contain no provision for payment upon a change in control.

Each employment agreement also contains a covenant with respect to confidentiality applicable at any time during or after the term of the employment agreement and a covenant not to solicit certain of our officers or employees for a period of two years after the termination of the Named Executive Officer's employment. In addition, as a condition to receiving the severance payments and benefits described below, the Named Executive Officer (or, if deceased or disabled, his estate or legal guardian) must execute a release of claims relating to or arising out of his employment

with, and termination of employment from, our company.

The tables below reflect the amount of compensation payable to each of our Named Executive Officers who is party to an employment agreement with us in the event of termination of such executive's employment. The amount of compensation payable to each Named Executive Officer upon involuntary termination without Cause, death or Disability of the executive, voluntary termination for Good Reason, voluntary termination without Good Reason, and involuntary termination for Cause is shown below. The amounts shown assume that such termination took place on December 31, 2009. Under all these circumstances, each Named Executive Officer is entitled to receive, to the extent not previously paid, his base salary through the date of termination, the amount of any compensation accrued

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as of the date of termination (except as otherwise previously requested by the Named Executive Officer) and any expense reimbursements and any other cash entitlements accrued as of the date of termination. The amount of any unpaid base salary through the date of termination is not included in the total amounts shown below.

The following table describes the potential payments upon termination for Mr. Lawrence R. Dickerson, our President and Chief Executive Officer.

Executive Benefits & Payments Upon Termination	Involuntary Termination Without Cause	Death or Disability	Voluntary Termination for Good Reason	Voluntary Termination Without Good Reason	Involuntary Termination for Cause
Compensation:					
Base Salary (\$820,000)(1)	\$ 1,640,000	\$ 1,640,000	\$ 1,640,000	\$	\$
Annual Incentive Compensation	141,258(2)	696,258(3)			
Unvested & Accelerated SARs(4)	596,177	596,177	596,177		
Benefits:					
Post-Termination Health Care(5)	31,048	31,048	31,048		
Life and Disability Insurance Coverages	19,295	19,295	19,295		
Supplemental Executive Retirement Plan	381,435	381,435	381,435	381,435	381,435
Anti-Dilution Adjustments for Special Dividends(6)	468,503	468,503	468,503		
Outplacement Services(7)	25,000	25,000	25,000		
Total:	\$ 3,302,716	\$ 3,857,716	\$ 3,161,458	\$ 381,435	\$ 381,435

(1) This severance is payable not less frequently than in equal monthly installments following termination or, in the case of the Named Executive Officer's death, in a lump sum.

(2) This represents amounts payable under our Management Bonus Program, which generally provides for a lump sum payment in the event of any involuntary termination not for Cause (as defined in the Management Bonus Program), or due to death, Disability (as defined in the Management Bonus Program) or Retirement (as defined in the Management Bonus Program) at or after age 60.

(3) This represents \$141,258 payable under our Management Bonus Program and \$555,000 payable under our Incentive Compensation Plan (based on the actual performance award paid for 2009). Participants in the Incentive Compensation Plan who cease to be employed by us before the end of a performance period, other than due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan), generally are not eligible to receive a performance award for the performance period in which such termination of employment occurs. Participants who cease to be employed by us before the end of a performance period due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan) will receive a performance award which is prorated to the date of cessation of employment but based upon the Performance-Based Amount (as defined in the plan) for the entire performance period.

(4)

Any unvested stock option grant or equivalent (SARs paid in stock) held by the Named Executive Officer upon involuntary termination without Cause, death or Disability of the Named Executive Officer or voluntary termination for Good Reason will be fully vested on the date of termination and be eligible for exercise as provided for in the Stock Option Plan. The amounts shown represent the value of newly vested SARs, calculated by multiplying the number of accelerated in-the-money SARs by the difference between the exercise price and the closing price (\$98.42) per share of our common stock on December 31, 2009.

- (5) This value is based on the Consolidated Omnibus Budget Reconciliation Act of 1985, or COBRA, rate and assumes that coverage continues for 24 months.
- (6) This is the amount payable pursuant to anti-dilution adjustments under the terms of our Stock Option Plan based on unvested option and/or SAR awards outstanding, assuming all such awards become fully vested on the date of termination.
- (7) This assumes the maximum payment under this obligation.

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The following table describes the potential payments upon termination for Mr. Gary T. Krenek, our Chief Financial Officer and Senior Vice President.

Executive Benefits & Payments Upon Termination	Involuntary Termination Without Cause	Death or Disability	Voluntary Termination for Good Reason	Voluntary Termination Without Good Reason	Involuntary Termination for Cause
Compensation:					
Base Salary (\$380,000)(1)	\$ 760,000	\$ 760,000	\$ 760,000	\$	\$
Annual Incentive Compensation	48,128(2)	288,128(3)			
Unvested & Accelerated SARs(4)	201,665	201,665	201,665		
Benefits:					
Post-Termination Health Care(5)	31,048	31,048	31,048		
Life and Disability Insurance Coverages	7,118	7,118	7,118		
Supplemental Executive Retirement Plan	49,399	49,399	49,399	49,399	49,399
Anti-Dilution Adjustments for Special Dividends(6)	157,593	157,593	157,593		
Outplacement Services(7)	25,000	25,000	25,000		
Total:	\$ 1,279,951	\$ 1,519,951	\$ 1,231,823	\$ 49,399	\$ 49,399

- (1) This severance is payable not less frequently than in equal monthly installments following termination or, in the case of the Named Executive Officer's death, in a lump sum.
- (2) This represents amounts payable under our Management Bonus Program, which generally provides for a lump sum payment in the event of any involuntary termination not for Cause (as defined in the Management Bonus Program), or due to death, Disability (as defined in the Management Bonus Program) or Retirement (as defined in the Management Bonus Program) at or after age 60.
- (3) This represents \$48,128 payable under our Management Bonus Program and \$240,000 payable under our Incentive Compensation Plan (based on the actual performance award paid for 2009). Participants in the Incentive Compensation Plan who cease to be employed by us before the end of a performance period, other than due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan), generally are not eligible to receive a performance award for the performance period in which such termination of employment occurs. Participants who cease to be employed by us before the end of a performance period due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan) will receive a performance award which is prorated to the date of cessation of employment but based upon the Performance-Based Amount (as defined in the plan) for the entire performance period.
- (4) Any unvested stock option grant or equivalent (SARs paid in stock) held by the Named Executive Officer upon involuntary termination without Cause, death or Disability of the Named Executive Officer or voluntary termination for Good Reason will be fully vested on the date of termination and be eligible for exercise as provided for in the Stock Option Plan. The amounts shown represent the value of newly vested SARs, calculated

by multiplying the number of accelerated in-the-money SARs by the difference between the exercise price and the closing price (\$98.42) per share of our common stock on December 31, 2009.

- (5) This value is based on the COBRA rate and assumes that coverage continues for 24 months.
- (6) This is the amount payable pursuant to anti-dilution adjustments under the terms of our Stock Option Plan based on unvested option and/or SAR awards outstanding, assuming all such awards become fully vested on the date of termination.
- (7) This assumes the maximum payment under this obligation.

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The following table describes the potential payments upon termination for Mr. Lyndol L. Dew, our Senior Vice President Worldwide Operations.

Executive Benefits & Payments Upon Termination	Involuntary Termination Without Cause	Death or Disability	Voluntary Termination for Good Reason	Voluntary Termination Without Good Reason	Involuntary Termination for Cause
Compensation:					
Base Salary (\$390,000)(1)	\$ 780,000	\$ 780,000	\$ 780,000	\$	\$
Annual Incentive Compensation	42,540(2)	282,540(3)			
Unvested & Accelerated SARs(4)	199,621	199,621	199,621		
Benefits:					
Post-Termination Health Care(5)	23,206	23,206	23,206		
Life and Disability Insurance Coverages	7,118	7,118	7,118		
Supplemental Executive Retirement Plan	43,862	43,862	43,862	43,862	43,862
Anti-Dilution Adjustments for Special Dividends(6)	155,785	155,785	155,785		
Outplacement Services(7)	25,000	25,000	25,000		
Total:	\$ 1,277,132	\$ 1,517,132	\$ 1,234,592	\$ 43,862	\$ 43,862

- (1) This severance is payable not less frequently than in equal monthly installments following termination or, in the case of the Named Executive Officer's death, in a lump sum.
- (2) This represents amounts payable under our Management Bonus Program, which generally provides for a lump sum payment in the event of any involuntary termination not for Cause (as defined in the Management Bonus Program), or due to death, Disability (as defined in the Management Bonus Program) or Retirement (as defined in the Management Bonus Program) at or after age 60.
- (3) This represents \$42,540 payable under our Management Bonus Program and \$240,000 payable under our Incentive Compensation Plan (based on the actual performance award paid for 2009). Participants in the Incentive Compensation Plan who cease to be employed by us before the end of a performance period, other than due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan), generally are not eligible to receive a performance award for the performance period in which such termination of employment occurs. Participants who cease to be employed by us before the end of a performance period due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan) will receive a performance award which is prorated to the date of cessation of employment but based upon the Performance-Based Amount (as defined in the plan) for the entire performance period.
- (4) Any unvested stock option grant or equivalent (SARs paid in stock) held by the Named Executive Officer upon involuntary termination without Cause, death or Disability of the Named Executive Officer or voluntary termination for Good Reason will be fully vested on the date of termination and be eligible for exercise as provided for in the Stock Option Plan. The amounts shown represent the value of newly vested SARs, calculated

by multiplying the number of accelerated in-the-money SARs by the difference between the exercise price and the closing price (\$98.42) per share of our common stock on December 31, 2009.

- (5) This value is based on the COBRA rate and assumes that coverage continues for 24 months.
- (6) This is the amount payable pursuant to anti-dilution adjustments under the terms of our Stock Option Plan based on unvested option and/or SAR awards outstanding, assuming all such awards become fully vested on the date of termination.
- (7) This assumes the maximum payment under this obligation.

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The following table describes the potential payments upon termination for Mr. William C. Long, our Senior Vice President, General Counsel & Secretary.

Executive Benefits & Payments Upon Termination	Involuntary Termination Without Cause	Death or Disability	Voluntary Termination for Good Reason	Voluntary Termination Without Good Reason	Involuntary Termination for Cause
Compensation:					
Base Salary (\$390,000)(1)	\$ 780,000	\$ 780,000	\$ 780,000	\$	\$
Annual Incentive Compensation	44,258(2)	284,258(3)			
Unvested & Accelerated SARs(4)	201,599	201,599	201,599		
Benefits:					
Post-Termination Health Care(5)	31,048	31,048	31,048		
Life and Disability Insurance Coverages	7,118	7,118	7,118		
Supplemental Executive Retirement Plan	47,262	47,262	47,262	47,262	47,262
Anti-Dilution Adjustments for Special Dividends(6)	157,535	157,535	157,535		
Outplacement Services(7)	25,000	25,000	25,000		
Total:	\$ 1,293,820	\$ 1,533,820	\$ 1,249,562	\$ 47,262	\$ 47,262

- (1) This severance is payable not less frequently than in equal monthly installments following termination or, in the case of the Named Executive Officer's death, in a lump sum.
- (2) This represents amounts payable under our Management Bonus Program, which generally provides for a lump sum payment in the event of any involuntary termination not for Cause (as defined in the Management Bonus Program), or due to death, Disability (as defined in the Management Bonus Program) or Retirement (as defined in the Management Bonus Program) at or after age 60.
- (3) This represents \$44,258 payable under our Management Bonus Program and \$240,000 payable under our Incentive Compensation Plan (based on the actual performance award paid for 2009). Participants in the Incentive Compensation Plan who cease to be employed by us before the end of a performance period, other than due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan), generally are not eligible to receive a performance award for the performance period in which such termination of employment occurs. Participants who cease to be employed by us before the end of a performance period due to Retirement (as defined in the plan) at or after age 60, death or Disability (as defined in the plan) will receive a performance award which is prorated to the date of cessation of employment but based upon the Performance-Based Amount (as defined in the plan) for the entire performance period.
- (4) Any unvested stock option grant or equivalent (SARs paid in stock) held by the Named Executive Officer upon involuntary termination without Cause, death or Disability of the Named Executive Officer or voluntary termination for Good Reason will be fully vested on the date of termination and be eligible for exercise as provided for in the Stock Option Plan. The amounts shown represent the value of newly vested SARs, calculated

by multiplying the number of accelerated in-the-money SARs by the difference between the exercise price and the closing price (\$98.42) per share of our common stock on December 31, 2009.

- (5) This value is based on the COBRA rate and assumes that coverage continues for 24 months.
- (6) This is the amount payable pursuant to anti-dilution adjustments under the terms of our Stock Option Plan based on unvested option and/or SAR awards outstanding, assuming all such awards become fully vested on the date of termination.
- (7) This assumes the maximum payment under this obligation.

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The following table describes the potential payments upon termination for Mr. John M. Vecchio, our Executive Vice President.

Executive Benefits & Payments Upon Termination	Involuntary Termination Without Cause	Death or Disability	Voluntary Termination for Good Reason	Voluntary Termination Without Good Reason	Involuntary Termination for Cause
Compensation:					
Base Salary (\$480,000)(1)	\$ 960,000	\$ 960,000	\$ 960,000	\$	\$
Annual Incentive Compensation	55,881(2)	360,881(3)			
Unvested & Accelerated SARs(4)	211,950	211,950	211,950		
Benefits:					
Post-Termination Health Care(5)	23,206	23,206	23,206		
Life and Disability Insurance Coverages	7,118	7,118	7,118		
Supplemental Executive Retirement Plan	75,326	75,326	75,326	75,326	75,326
Anti-Dilution Adjustments for Special Dividends(6)	166,563	166,563	166,563		
Outplacement Services(7)	25,000	25,000	25,000		
Total:	\$ 1,525,044	\$ 1,830,044	\$ 1,469,163	\$ 75,326	\$ 75,326

(1) This severance is payable not less frequently than in equal monthly installments following termination or, in the case of the Named Executive Officer's death, in a lump sum.

(2) This represents amounts payable under our Management Bonus Program, which generally provides for a lump sum payment in the event of any involuntary termination not for Cause (as defined in the Management Bonus Program), or due to death, Disability (as defined in the Management Bonus Program) or Retirement (as defined in the Management B;8-K dated December 2, 2004, is incorporated herein by reference.

10.10 Control Agreement, dated as of December 8, 2004, by and among the Registrant and Wells Fargo Bank, N.A., in its capacity as trustee, and Wells Fargo Bank, N.A., in its capacity as securities intermediary and depository bank, filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference.

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- *10.11 Form of Employment Agreement between the Registrant and certain executives of the Registrant, filed as Exhibit 10.8.1 to the Registrant's Registration Statement on Form 10 (File No. 1-31650), is incorporated herein by reference.
- *10.12 Schedule identifying parties to and terms of agreements with the Registrant substantially identical to the Employment Agreement constituting Exhibit 10.11 hereto.
- *10.13 Form of Indemnification Agreement entered into between the Registrant and the Chief Executive Officer, Chief Financial Officer and each of the directors of the Registrant, filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, is incorporated herein by reference.
- *10.14 Schedule identifying parties to agreements with the Registrant substantially identical to the Form of Indemnification Agreement constituting Exhibit 10.13 hereto, filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2005, is incorporated herein by reference.
- *10.15 Mindspeed Technologies, Inc. 2003 Employee Stock Purchase Plan, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.16 Mindspeed Technologies, Inc. 2003 Non-Qualified Employee Stock Purchase Plan, filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.17 Mindspeed Technologies, Inc. 2003 Stock Option Plan, filed as Exhibit 4.5 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-106146), is incorporated herein by reference.
- *10.18 Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, as amended and restated, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 5, 2007 is incorporated herein by reference.
- *10.19 Form of Stock Option Award under the Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.20 Stock Option Terms and Conditions under the Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.21 Form of Restricted Stock Award under the Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, filed as Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.22 Restricted Stock Award Terms and Conditions under the Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2004, is incorporated herein by reference.
- *10.23 Mindspeed Technologies, Inc. Directors Stock Plan, as amended and restated, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 17, 2007, is incorporated herein by reference.
- *10.24 Form of Stock Option Award under the Mindspeed Technologies, Inc. Directors Stock Plan, filed as Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.

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- *10.25 Stock Option Terms and Conditions under the Mindspeed Technologies, Inc. Directors Stock Plan, filed as Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.26 Mindspeed Technologies, Inc. Retirement Savings Plan, filed as Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.27 Mindspeed Technologies, Inc. Deferred Compensation Plan, filed as Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated herein by reference.
- *10.28 Amendment No. 1 to Mindspeed Technologies, Inc. Deferred Compensation Plan, filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, is incorporated herein by reference.
- *10.29 Form of Restricted Shares Award under the Mindspeed Technologies, Inc. Directors Stock Plan, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, is incorporated herein by reference.
- *10.30 Restricted Shares Award Terms and Conditions under the Mindspeed Technologies, Inc. Directors Stock Plan, filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, is incorporated herein by reference.
- *+10.31 Confidential Severance Agreement and General Release, dated June 26, 2006, by and between Danny Shamlou and the Registrant, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, is incorporated herein by reference.
- *10.32 Agreement and General Release, dated August 27, 2006, by and between Dave Carroll and the Registrant, filed as Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2006, is incorporated herein by reference.
- *10.33 Agreement, dated January 31, 2007, by and between Bradley W. Yates and the Registrant, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2006, is incorporated herein by reference.
- *10.34 Summary of Director Compensation Arrangements, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, is incorporated herein by reference.
- **12.1 Statement re: Computation of Ratios.
- **21 List of subsidiaries of the Registrant.
- **23 Consent of independent registered public accounting firm.
- **24 Power of attorney, authorizing certain persons to sign this Annual Report on Form 10-K on behalf of certain directors and officers of the Registrant.

- **31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - **31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.3 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, required to be filed as an exhibit to this Amendment.
 - 31.4 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, required to be filed as an exhibit to this Amendment.
 - **32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - **32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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Management contract or compensatory plan or arrangement.

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Certain confidential portions of this exhibit have been omitted pursuant to a grant of confidential treatment. Omitted portions have been filed separately with the SEC.

**
Previously filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007, filed with the SEC on November 30, 2007.

(b) Exhibits

See subsection (a) (3) above.

(c) Financial Statement Schedules

The financial statement schedule for Mindspeed Technologies, Inc. is set forth in (a) (2) of Item 15 above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this Amendment No. 1 to the Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newport Beach, State of California, on this 25th day of January, 2008.

MINDSPEED TECHNOLOGIES, INC.

By: /s/ RAOUF Y. HALIM

Raouf Y. Halim
Chief Executive Officer

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EXHIBIT INDEX

- 10.12 Schedule identifying parties to and terms of agreements with the Registrant substantially identical to the Employment Agreement constituting Exhibit 10.11 hereto.
 - 31.3 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, required to be filed as an exhibit to this Amendment.
 - 31.4 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, required to be filed as an exhibit to this Amendment.
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